Congressional Budget Office

November 7, 2018

Monthly Budget Review: Summary for Fiscal Year 2018

In fiscal year 2018, which ended on September 30, the federal budget deficit totaled $779 billion—$113 billion more than the shortfall recorded in 2017. The deficit increased to 3.8 percent of the nation's gross domestic product (GDP) in 2018, up from 3.5 percent in 2017 and 3.2 percent in 2016. Outlays in 2018 were reduced by a shift in the timing of certain payments; those payments were instead made in fiscal year 2017 because October 1, 2017 (the first day of fiscal year 2018), fell on a weekend. If not for that shift, the deficit in 2018 would have been $823 billion, or 4.1 percent of GDP.

Fiscal Year Totals

Billions of Dollars

	2013	2014	2015	2016	2017	2018
Receipts	2,775	3,021	3,250	3,268	3,315	3,329
Outlays	3,455	3,506	3,688	3,853	3,981	4,108
Deficit (–)						
Amount	–680	–485	–438	–585	–666	–779
Percentage of GDP	–4.1	–2.8	–2.4	–3.2	–3.5	–3.8

Sources: Congressional Budget Office; Office of Management and Budget; Department of the Treasury.

GDP = gross domestic product.

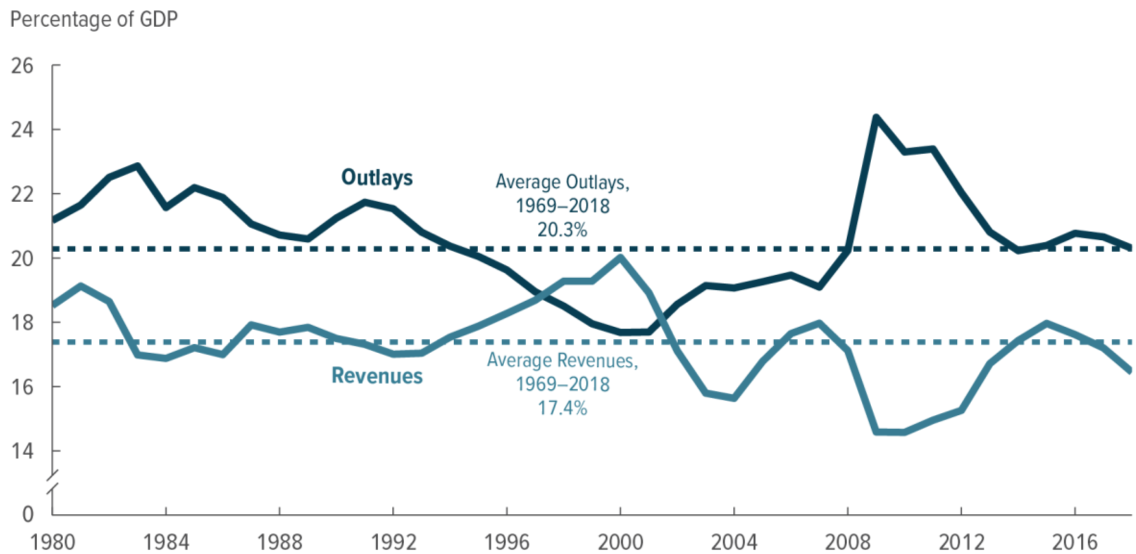
In 2018, the government's revenues amounted to $3.3 trillion—$14 billion (or less than 1 percent) more than in 2017. As a percentage of GDP, revenues fell from 17.2 percent in 2017 to 16.4 percent in 2018, dropping below the average (17.4 percent) for the past 50 years.

Net spending by the government was $4.1 trillion in 2018—$127 billion (or 3.2 percent) more than in 2017. Outlays amounted to 20.3 percent of GDP in 2018, compared with 20.7 percent in 2017, and were equal to the 50-year average. If not for the shift in the timing of certain payments, outlays in 2018 would have equaled 20.5 percent of GDP.

Total Receipts: Up by Less Than 1 Percent in Fiscal Year 2018

Total receipts in 2018 were similar to those in 2017 because of offsetting changes in different sources of revenues, which stemmed in part from provisions in last year's major tax legislation (Public Law 115-97):

- Receipts from **individual income taxes,** the largest source of revenues, increased by $96 billion (or 6 percent). As a share of the economy, those receipts rose from 8.2 percent of GDP in 2017 to 8.3 percent of GDP in 2018, remaining above the average (8.0 percent) over the past 50 years.
  - Nonwithheld payments of income taxes rose by $87 billion (or 16 percent). Most of that increase occurred in April, when taxpayers made their final payments of taxes for 2017.



- Income taxes withheld from workers' paychecks increased by $16 billion (or 1 percent). That change reflects several offsetting factors, two of which boosted withheld individual income taxes: Salaries and wages increased over the year, and the Treasury Department recategorized as income taxes $21 billion that had been recorded in previous years as payroll taxes. Amounts collected through withholding initially are allocated between the two types of taxes on the basis of the department's estimates. As detailed information from tax returns becomes available, reallocations are made between those two sources.

  Those two factors were partly offset beginning in February by a decline in the share of income withheld for taxes. In January, the Internal Revenue Service issued new withholding tables to reflect changes made by P.L. 115-97 that took effect at the beginning of the current calendar year. All employers were required to begin using the new tables by February 15, 2018.

- Individual income tax refunds rose by $6 billion (or 2 percent), reducing net receipts.

■ Receipts from **payroll (social insurance) taxes,** the second-largest revenue source, increased by $9 billion (or 1 percent) but fell as a share of the economy from 6.0 percent in 2017 to 5.8 percent in 2018. The increase in those receipts reflects higher wages and salaries. However, as described above, payroll taxes reported for 2018 were reduced by reallocations made from payroll to individual income taxes.

■ Receipts from **corporate income taxes,** the third-largest source of revenues, fell by $92 billion (or 31 percent) in 2018, dropping from 1.5 percent to 1.0 percent of GDP. That percentage of GDP is the lowest recorded since 2009, and it is half of the 50-year average of 2.0 percent of GDP. The decline reflects payments for both the 2017 and the 2018 tax years; about half of that decline has occurred since June. Collections from June until the end of the fiscal year mostly were in the form of estimated payments for tax year 2018, when several provisions of P.L. 115-97 took effect, including the new lower corporate tax rate. Another provision, which expanded businesses' ability to immediately deduct the full value of equipment purchases, was effective retroactively for the last quarter of 2017.

■ **Receipts from other sources** increased by $1 billion (or less than 1 percent) but declined from 1.4 percent of GDP to 1.3 percent. Declines in revenues from fees and fines and from Federal Reserve remittances were partly offset by larger receipts from excise taxes and customs duties.

  - Remittances from the Federal Reserve to the Treasury fell by $11 billion (or 13 percent), largely because short-term interest rates were higher, leading the central bank to pay depository institutions more interest on reserves. Those larger payments by the Federal Reserve led to smaller remittances to the Treasury.

- Excise taxes increased by $11 billion (or 13 percent). That increase is partly due to payments received for the tax on health insurance providers. In 2017, that tax was subject to a one-year moratorium that was lifted for 2018 but will be in effect again for one year in 2019.
- Customs duties rose by $7 billion (or 19 percent), in part because of new tariffs imposed by the Administration during the year.
- Fees and fines fell by $7 billion (or 14 percent).

Total Receipts

Billions of Dollars

Major Source	2016	2017	2018	Percentage Change, 2017 to 2018
Individual Income Taxes	1,546	1,587	1,684	6.1
Payroll Taxes	1,115	1,162	1,171	0.8
Corporate Income Taxes	300	297	205	–31.1
Other Receipts	307	269	270	0.4
	3,268	**3,315**	**3,329**	**0.4**
Percentage of GDP	17.6	17.2	16.4	n.a.

Sources: Congressional Budget Office; Office of Management and Budget; Department of the Treasury.

n.a. = not applicable.

Total Outlays: Up by About 3 Percent in Fiscal Year 2018

Overall, net outlays increased by 3.2 percent from 2017 to 2018. That increase would have been about $46 billion greater—resulting in an increase of 4.3 percent—if not for the shift of certain payments from October 2017 to September 2017 because October 1 fell on a weekend. The discussion below reflects adjustments to remove the effects of that timing shift.

Outlays increased for all major spending categories and for most federal agencies. Most of the overall increase resulted from greater spending for Social Security, net interest on the public debt, and defense:

- Spending for the three largest entitlement programs—**Social Security, Medicare,** and **Medicaid**—rose by $43 billion (or 5 percent), $16 billion (or 3 percent), and $14 billion (or 4 percent), respectively. Social Security outlays grew because of increases both in the number of beneficiaries (1.6 percent) and in the average benefit payment (2.9 percent). Spending for the retirement portion of Social Security grew by 5.3 percent; in contrast, the disability component grew by less than 1 percent. Medicaid outlays have risen by 47 percent over the past five years, largely because new enrollees were added through expansions of coverage authorized by the Affordable Care Act. The annual rate of growth in Medicaid spending, however, has fallen sharply since 2015, when it was 16 percent. Combined outlays for the three programs equaled 48 percent of federal spending and 9.8 percent of GDP in 2018, slightly below the peak of 10.1 percent of GDP in 2016.
- Outlays for **net interest on the public debt** increased by $62 billion (or 20 percent), partly because the rate of inflation was higher. To account for inflation, the Treasury Department adjusts the principal of its inflation-protected securities each month by using the change in the consumer price index for all urban consumers that was recorded two months earlier. That adjustment was $33 billion in fiscal year 2017 but $60 billion in fiscal year 2018. The remaining increase reflects higher interest rates and greater debt in 2018. As a share of GDP, net interest climbed to 1.8 percent, its highest level since 2001.

- Spending for military activities of the **Department of Defense** (DoD) rose by $38 billion (7 percent) in 2018, increasing for the second consecutive year (in 2017 such spending rose by 1 percent). The increase in 2018 was fueled by an 11 percent rise in funding that DoD received after lawmakers raised the statutory caps on appropriations set by the Budget Control Act of 2011, as amended. All major categories of defense spending increased: operation and maintenance by $11 billion (or 5 percent), research and development by $9 billion (or 13 percent), procurement by $9 billion (or 8 percent), and military personnel by $7 billion (or 5 percent). As was true in 2017, growth in spending by the Air Force was the fastest (9 percent); growth for both the Army and the Navy was about 6 percent. Military spending by DoD was 3.0 percent of GDP in 2018, about the same level as in both 2016 and 2017, but lower than in any other year since 2001.

Total Outlays

Billions of Dollars

Major Category	2016	2017	2018	Percentage Change, 2017 to 2018: Actual	Percentage Change, 2017 to 2018: Adjusted [a]
Social Security Benefits	905	934	977	4.6	4.6
Medicare [b]	592	595	585	–1.6	2.7
Medicaid	368	375	389	3.9	3.9
Subtotal	**1,865**	**1,903**	**1,951**	2.5	3.9
DoD—Military [c]	565	569	601	5.6	6.6
Net Interest on the Public Debt	284	310	371	19.8	19.8
Other	1,138	1,199	1,185	–1.2	0.0
Total	**3,853**	**3,981**	**4,108**	3.2	4.3
Percentage of GDP	20.8	20.7	20.3	n.a.	n.a.

Sources: Congressional Budget Office; Office of Management and Budget; Department of the Treasury.

DoD = Department of Defense; GDP = gross domestic product; n.a. = not applicable.

a. Adjusted amounts exclude the effects of shifting payments that otherwise would have been made on a weekend. If not for that timing shift, outlays would have been $3,978 billion in fiscal year 2017 and $4,151 billion in fiscal year 2018.

b. Medicare outlays are net of offsetting receipts.

c. Excludes a small amount of spending by DoD on civil programs.

- On net, all other outlays were nearly unchanged (see “Other” in the table) although several categories had significant increases and one saw a significant decrease:
  - The government received $19 billion less in net payments from **Fannie Mae** and **Freddie Mac** than in 2017. The two entities’ smaller quarterly payments to the Treasury (in December, March, June, and September), which are recorded as offsets to spending, have the effect of increasing net outlays. In fiscal year 2017, those payments totaled $29 billion; in fiscal year 2018, they totaled $13 billion. The Treasury also made a cash infusion of $4 billion to Fannie Mae and Freddie Mac in March 2018, which increased outlays. That payment occurred because the entities’ net worth was negative for the quarter as a result of write-downs they took on their tax-deferred assets in response to P.L. 115-97.
  - Spending by the **Department of Homeland Security** increased by $18 billion (or 35 percent), largely because of activities related to disaster relief.
  - Outlays by the **Department of Agriculture** rose by $9 billion (or 7 percent), primarily because the department made downward revisions in August 2017 of nearly $7 billion to the estimated net subsidy costs of loans and loan guarantees issued in prior years.

- Spending by the **Department of Veterans Affairs** rose by $8 billion (or 5 percent), in part because of typical growth in the number of veterans receiving disability compensation and in the amount of those payments, and in part because of continued growth in the number of veterans receiving health benefits at medical facilities not operated by the department.
- Outlays for **subsidies for health insurance** purchased through the marketplaces established under the Affordable Care Act rose by about $7 billion (or 17 percent). Spending climbed largely because the premiums for those plans rose this year.
- In contrast to those increases, outlays by the **Department of Education** fell by $48 billion (or 43 percent) because the department made a downward revision of $9 billion to the estimated net subsidy costs of loans and loan guarantees issued in prior years—a change very different from last year's $39 billion *upward* revision. If the effects of those revisions were excluded, outlays for the department would have been slightly higher than they were in 2017.

For other programs and activities, spending increased or decreased by smaller amounts, reducing outlays by an additional $13 billion, on net.

Estimates for October 2018

The government recorded a deficit of $98 billion in October, CBO estimates, about $35 billion more than the shortfall recorded in the same month last year. A shift in the timing of payments affected the deficit in October 2017; if not for that shift, the deficit last month would have been $9 billion less than it was in October 2017.

Each month, CBO issues an analysis of federal spending and revenues for the previous month and the fiscal year to date. This report is the latest in that series, available at https://go.usa.gov/xnpcA. In keeping with CBO's mandate to provide objective, impartial analysis, it makes no recommendations. Nathaniel Frentz, Stephen Rabent, David Rafferty, and Jennifer Shand prepared the report with guidance from Christina Hawley Anthony, Theresa Gullo, Sam Papenfuss, and Joshua Shakin. It was reviewed by Mark Hadley and Robert Sunshine, edited by Kate Kelly, and prepared for publication by Janice M. Johnson. An electronic version is available on CBO's website (www.cbo.gov/publication/54647).