Congressional Budget Office

NOVEMBER 10, 2014

Monthly Budget Review: Summary for Fiscal Year 2014

In fiscal year 2014, which ended on September 30, the federal budget deficit totaled $483 billion—$197 billion less than the shortfall in 2013. Fiscal year 2014 was the fifth consecutive year in which the deficit declined as a share of the nation's gross domestic product (GDP): The deficit peaked at 9.8 percent of GDP in 2009; it fell to 4.1 percent in 2013 and to 2.8 percent in 2014.

Fiscal Year Totals
(Billions of dollars)

	2009	2010	2011	2012	2013	2014
Receipts	2,105	2,163	2,303	2,450	2,774	3,021
Outlays	3,518	3,457	3,603	3,537	3,454	3,504
Deficit						
Amount	-1,413	-1,294	-1,300	-1,087	-680	-483
Percentage of GDP	-9.8	-8.7	-8.5	-6.8	-4.1	-2.8

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

In 2014, the government's revenues increased, in nominal terms, for the fifth consecutive year, reaching $3.0 trillion, which was $247 billion, or almost 9 percent, more than revenues in 2013. In dollar terms, revenues have increased by 44 percent since 2009. As a percentage of GDP, revenues rose from 16.7 percent in 2013 to 17.5 percent in 2014, exceeding the average over the past 40 years (17.3 percent) for the first time since 2007 (see the figure below).

Net spending by the government was $50 billion more in 2014 than in 2013, but it was less, in nominal terms, than outlays in 2009, 2011, and 2012. Spending amounted to 20.3 percent of GDP in 2014— slightly more than the percentage in 2008, lower than the percentage in any other year since then, and slightly less than the 40-year average of 20.5 percent.

Revenues

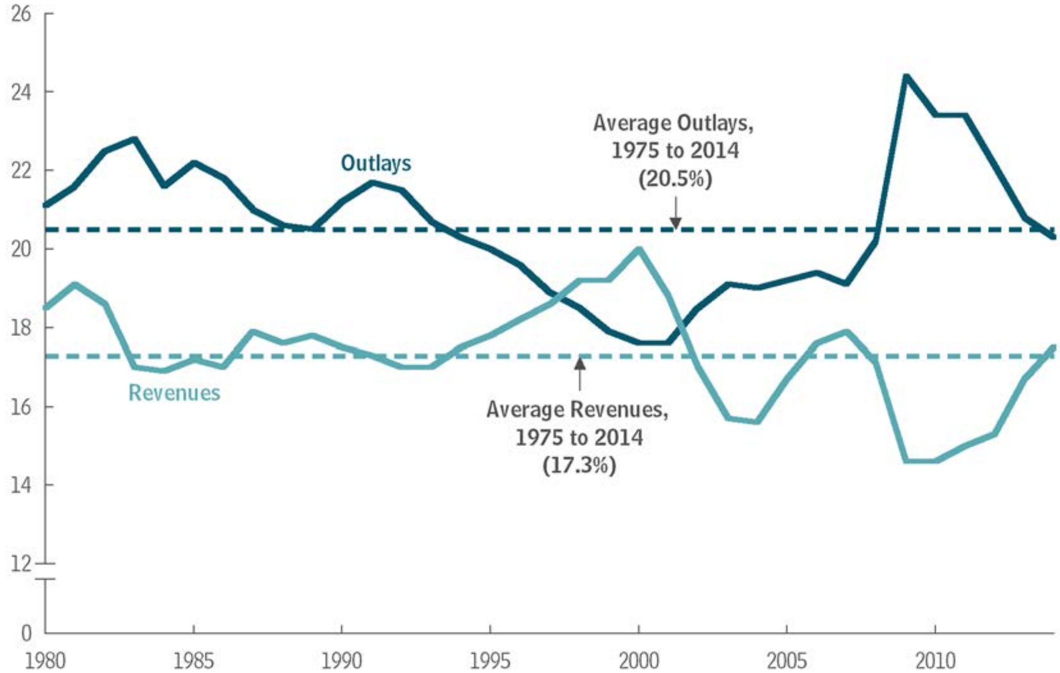
Receipts from all major sources increased more than GDP in 2014:

- **Individual income taxes**, the largest revenue source, rose by $78 billion (or 6 percent), from 7.9 percent of GDP in 2013 to 8.1 percent in 2014. That percentage of GDP is the highest since 2007 and is larger than the percentage in any other year since 2001.

  Income taxes withheld from workers' paychecks rose by $47 billion (or 4 percent), largely the result of higher wages and salaries. A small share of that increase in withheld taxes occurred because the tax rates in effect from October 2013 through December 2013 (the first quarter of fiscal year 2014) were higher for income above certain thresholds than the rates in effect during the same span the year before.

  Nonwithheld payments of income taxes rose by $33 billion (or 7 percent), mainly reflecting larger estimated tax payments made in fiscal year 2014. Most of those additional payments were for the 2014 tax year, but some were for 2013. The increase in nonwithheld receipts was slightly offset by income tax refunds that were up by $2 billion (or 1 percent).

Federal Outlays and Revenues, 1980 to 2014
(Percentage of gross domestic product)



Sources: Congressional Budget Office; Bureau of Economic Analysis, Office of Management and Budget, Department of the Treasury.

- **Payroll (social insurance) taxes**, the second-largest revenue source, increased by $76 billion (or 8 percent), from 5.7 percent of GDP to 5.9 percent. That percentage of GDP is the highest since 2009 but still lower than the percentage in every year between 1984 and 2009.

  The increase in payroll tax receipts was mostly the result of higher wages and salaries. However, more than one-third of the increase resulted from the fact that the payroll tax rates in effect from October 2013 through December 2013 were higher than those in effect during the same span the year before, following the expiration of the 2 percentage-point cut in payroll taxes at the end of calendar year 2012.

- **Corporate income taxes** rose by $47 billion (or 17 percent) in 2014, from 1.6 percent to 1.9 percent of GDP. That percentage of GDP is the highest since 2008 but still lower than the 2.6 percent reached in 2006 and 2007.

  The increase in 2014 mainly reflects substantial growth in taxable profits in calendar years 2013 and 2014, in the Congressional Budget Office's (CBO's) judgment. Taxable profits were boosted in large part by the expiration at the end of December 2013 of various tax provisions, most significantly the rules that allowed firms with large amounts of investment to expense—that is, immediately deduct from taxable income—50 percent of their investment in equipment.

- **Receipts from other sources** rose by $45 billion (or 19 percent), from 1.4 percent to 1.6 percent of GDP, a level last reached in 2000.

  Remittances to the Treasury from the Federal Reserve rose by $23 billion (or 31 percent), attributable mostly to the larger size of the central bank's portfolio of securities and to a higher yield on that portfolio. Those remittances are the highest ever both in nominal terms and as a share of GDP. Miscellaneous fees and fines increased by $10 billion (or 39 percent), largely reflecting penalties assessed on financial firms and other businesses, CBO estimates. Excise taxes rose by $9 billion; that increase probably stemmed largely from payments of a new excise tax on health insurance providers that was enacted in the Affordable Care Act and due for the first time in September 2014. In addition, customs duties increased by $2 billion (or 7 percent).

Total Revenues
(Billions of dollars)

Major Category	2012	2013	2014	Percentage Change, 2013 to 2014
Individual Income Taxes	1,132	1,316	1,395	5.9
Payroll Taxes	845	948	1,024	8.0
Corporate Income Taxes	242	274	321	17.3
Other	230	236	282	19.2
Total	**2,450**	**2,774**	**3,021**	**8.9**
Percentage of GDP	15.3	16.7	17.5	n.a.

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

Note: n.a. = not applicable.

Outlays

Overall, the government's net outlays increased by 1.4 percent from 2013 to 2014. If not for prepayments of deposit insurance premiums that otherwise would have been paid in 2013, the outlay increase would have been slightly greater. (The year-over-year changes discussed below reflect adjustments for those prepayments.) Outlays increased for several major categories but declined for others.

Total Outlays
(Billions of dollars)

				Percentage Change, 2013 to 2014	
Major Category	2012	2013	2014	Actual	Adjusted
Defense—Military	651	608	578	-4.9	-4.9
Social Security Benefits	762	803	840	4.6	4.6
Medicare	469	495	509	2.8	2.8
Medicaid	251	265	301	13.6	13.6
Unemployment Benefits	96	72	48	-33.2	-33.2
Other Activities	1,026	1,057	1,034	-2.2	-1.9
Subtotal	3,255	3,300	3,311	0.3	0.4
Net Interest on the Public Debt	258	259	271	4.8	4.8
Troubled Asset Relief Program	24	-9	-4	n.m.	n.m.
Net Payments to GSEs	0	-97	-74	n.m.	n.m.
Total	**3,537**	**3,454**	**3,504**	**1.4**	**1.6**
Percentage of GDP	22.1	20.8	20.3	n.a.	n.a.

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

Note: n.m. = not meaningful; n.a. = not applicable; GSEs = government-sponsored enterprises, Fannie Mae and Freddie Mac.

- Outlays for the three largest entitlement programs—Social Security, Medicare, and Medicaid—rose by $37 billion (or 5 percent), $14 billion (or 3 percent), and $36 billion (or 14 percent), respectively. Medicaid spending grew significantly in 2014, largely because of the expansion of insurance coverage under the Affordable Care Act. Combined outlays for the three programs were equal to 47 percent of federal spending and 9.6 percent of GDP in 2014 (compared with 38 percent of federal spending and 9.3 percent of GDP in 2009).

- Net outlays also increased because payments made by Fannie Mae and Freddie Mac (referred to as GSEs in the above table) to the Treasury were $23 billion less than outlays recorded last year for two reasons. (Such payments are recorded in the budget as offsetting receipts—that is, as reductions in outlays.) Because of a revaluation of certain tax assets that significantly increased the net worth of Fannie Mae, that government-sponsored enterprise made a onetime payment of roughly $50 billion to the Treasury in fiscal year 2013. Freddie Mac made a payment for a similar reason early in fiscal year 2014, but that payment was only half the amount that Fannie Mae had paid in the previous fiscal year. The difference in net receipts from those two payments was partially offset by the larger quarterly payments made by Fannie Mae and Freddie Mac in fiscal year 2014.
- Net interest on the public debt increased by $12 billion (or 5 percent) because the debt rose and because interest rates for most Treasury securities issued in 2014 were higher than rates for the securities issued in 2013.
- Net outlays recorded for the Troubled Asset Relief Program were negative in 2014, but less negative than in 2013, mainly because the estimated cost of the program was reduced by $8 billion in March 2014, a smaller amount than the $13 billion reduction recorded in March 2013.
- In contrast, spending for the military activities of the Department of Defense (DoD) fell by $30 billion (or 5 percent) in 2014, the third consecutive year of decline, after growing at an average annual rate of 6 percent over the previous five years. Spending was down across all major categories, and almost the entire decline (about $24 billion) was for the Army. Measured as a share of GDP, military spending by DoD was 3.4 percent in 2014, down from 3.7 percent in 2013.
- Spending for unemployment benefits declined by $24 billion (or 33 percent) from the amount paid in 2013, mostly because fewer people received benefits in 2014 once the Emergency Unemployment Compensation program expired at the end of December 2013.
- Outlays for the broad category “Other Activities” decreased by $23 billion (or 2 percent). In particular, spending by the Department of Agriculture dropped by $14 billion because net outlays for crop insurance were abnormally high in 2013 following the serious drought in the summer of 2012; outlays by the Department of Homeland Security also fell by $14 billion because outlays for flood insurance and disaster relief were unusually high in 2013 as a result of Hurricane Sandy. In contrast, some spending in this category increased: The exchanges created under the Affordable Care Act began operating in January 2014, and subsidies for insurance purchased through those exchanges amounted to $13 billion in fiscal year 2014.

Estimates for October 2014

The government recorded a deficit of $122 billion in October, CBO estimates, about $32 billion more than the shortfall recorded in the same month last year. However, approximately $43 billion of payments that normally would have been made in November this year were instead made in October because November 1 fell on a weekend. If not for those timing shifts, the deficit in October 2014 would have been $11 billion less than it was in October 2013.

This document was prepared by David Rafferty, Dawn Sauter Regan, and Joshua Shakin. It is available at www.cbo.gov/publication/49759.