Congressional Budget Office

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Monthly Budget Review for February 2015

The federal government ran a budget deficit of $386 billion for the first five months of fiscal year 2015, CBO estimates—$10 billion more than the shortfall recorded in the same span last year. CBO expects that, if lawmakers enact no further legislation affecting spending or revenues, the deficit in 2015 will end up at about $486 billion, roughly the same as the deficit incurred in 2014. (For more details about CBO's most recent budget projections, see *Updated Budget Projections, 2015 to 2025*.)

Budget Totals, October–February
(Billions of dollars)

	Actual, FY 2014	Preliminary, FY 2015	Estimated Change
Receipts	1,107	1,187	80
Outlays	1,483	1,573	90
Deficit (-)	-376	-386	-10

Sources: Congressional Budget Office; Department of the Treasury. Based on the *Monthly Treasury Statement* for January 2014 and the *Daily Treasury Statements* for February 2015.

Note: FY = fiscal year.

Total Receipts: Up by 7 Percent in the First Five Months of Fiscal Year 2015

Receipts through February totaled $1,187 billion, CBO estimates—$80 billion more than the amount collected in the same period last year. The largest increases in receipts were in the following categories:

- **Individual income taxes and payroll (social insurance) taxes** together rose by $54 billion (or 6 percent).
    - An increase of $45 billion (or 5 percent) in the amounts withheld from workers' paychecks accounted for the bulk of that gain. Growth in wages and salaries probably explains that increase.
    - Nonwithheld receipts rose by $16 billion (or 14 percent). Those receipts included the last quarterly payment of estimated taxes for 2014, which was due in January; most taxpayers will not make final payments of taxes due for 2014 until April.
    - Partially offsetting those changes, individual income tax refunds increased by $6 billion.
- **Corporate income taxes** rose by $17 billion (or 20 percent), largely reflecting growth in the estimated payments made by most corporations in December. The size of those payments this past December may have been boosted by the expiration of a number of tax provisions that reduced businesses' tax liabilities; those provisions were later retroactively extended for 2014 (by Public Law 113-295, just days after the due date for the estimated payments). CBO expects that many companies will receive larger refunds or make smaller payments when they file their 2014 tax returns, which are due in mid-March for most

Note: The amounts shown in this report include the surplus or deficit in the Social Security trust funds and the net cash flow of the Postal Service, which are off-budget. Numbers may not add up to totals because of rounding.

companies, as they account for the retroactively extended provisions. Those effects might have occurred to some extent in February, when net corporate tax payments fell sharply.

Receipts, October– February
(Billions of dollars)

Major Program or Category	Actual, FY 2014	Preliminary, FY 2015	Estimated Change: Billions of Dollars	Estimated Change: Percent
Individual Income Taxes	514	557	43	8.4
Payroll Taxes	400	411	11	2.7
Corporate Income Taxes	85	102	17	19.7
Other Receipts	108	117	9	8.6
Total	**1,107**	**1,187**	**80**	**7.3**
Memorandum: Combined Individual Income and Payroll Taxes				
Withheld taxes	865	910	45	5.2
Other, net of refunds	49	58	9	18.5
Total	**914**	**968**	**54**	**5.9**

Sources: Congressional Budget Office; Department of the Treasury.

Note: FY = fiscal year.

Total Outlays: Up by 6 Percent in the First Five Months of Fiscal Year 2015

Outlays for the first five months of fiscal year 2015 were $1,573 billion, $90 billion more than they were during the same period last year, CBO estimates. That increase would have been slightly smaller if not for a shift in the timing of certain payments from March to February in both 2014 and 2015 (because March 1 fell on a weekend in both years). Without those timing shifts, CBO estimates, spending would have risen by $87 billion, or 6 percent. (The discussion below reflects adjustments to account for the timing shifts.)

Outlays, October– February
(Billions of dollars)

Major Program or Category	Actual, FY 2014	Preliminary, FY 2015	Estimated Change	Estimated Change With Adjustments for Timing Shifts[a]: Billions of Dollars	Estimated Change With Adjustments for Timing Shifts[a]: Percent
Social Security Benefits	345	360	16	16	4.5
Medicare[b]	221	242	21	19	9.3
Medicaid	116	140	24	24	20.6
Subtotal, Largest Mandatory Programs	**682**	**743**	**60**	**59**	**8.8**
DoD – Military[c]	249	237	-12	-12	-4.9
Net Interest on the Public Debt	97	89	-8	-8	-8.5
Exchange Subsidies[d]	1	10	9	9	n.m.
Net Outlays for GSEs	-39	-7	32	32	n.m.
Other	493	502	9	8	1.8
Total	**1,483**	**1,573**	**90**	**87**	**6.0**

Sources: Congressional Budget Office; Department of the Treasury.

Note: FY = fiscal year; DoD = Department of Defense; GSEs = government-sponsored enterprises, Fannie Mae and Freddie Mac; n.m. = not meaningful.

a. Adjusted amounts exclude the effects of shifting payments that were scheduled to be made on weekends or holidays. Without those timing shifts, outlays would have been $1,448 billion through the first five months of fiscal year 2014 and $1,536 billion through the first five months of fiscal year 2015.

b. Medicare outlays are net of offsetting receipts.

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

d. Subsidies for health insurance purchased through exchanges established under the Affordable Care Act.

Outlays increased for several major categories of spending:

- Much of the increase in outlays occurred because payments to the Treasury from the government-sponsored enterprises **Fannie Mae and Freddie Mac** were $32 billion lower in December 2014 than they were in December 2013, when Freddie Mac made a onetime payment of about $24 billion after a revaluation of certain tax assets significantly increased its net worth. (Those payments are recorded in the budget as offsetting receipts, which are treated as reductions in outlays.)

- Outlays for **Medicaid** rose by $24 billion (or 21 percent), largely because most of the provisions of the Affordable Care Act that led to increased enrollment in Medicaid went into effect in January 2014 and therefore did not affect the program's spending in the first few months of fiscal year 2014. CBO estimates that, for fiscal year 2015 as a whole, Medicaid spending will increase by 14 percent.

- Spending for **Medicare** increased by $19 billion (or 9 percent), because of a large payment made to prescription drug plans in October 2014 to account for unanticipated spending increases in calendar year 2014 and incentive payments made to health care providers in December to adopt and use electronic health records. For the year as a whole, CBO anticipates that Medicare spending will rise by 4 percent.

- Spending for **Social Security benefits rose by** $16 billion (or 4 percent).

Increases during the first five months of fiscal year 2015 were partially offset by reductions in spending for some other major programs, including the following:

- Total spending for military activities of the **Department of Defense** fell by $12 billion (or 5 percent).

- Outlays for **unemployment benefits** declined by $8 billion (or 34 percent), mostly because fewer people have received those benefits since the Emergency Unemployment Compensation program expired at the end of December 2013.

For many other programs and activities, spending increased or decreased by smaller amounts.

Estimated Deficit in February 2015: $192 Billion

The federal government incurred a deficit of $192 billion in February 2015, CBO estimates—$2 billion less than the deficit incurred in February 2014. Because March 1 fell on a weekend in 2014 and 2015, certain payments that ordinarily would have been made in March of both years were instead made in February. Similarly, because February 1 also fell on a weekend in both years, certain payments shifted to January. Without those shifts in the timing of payments, CBO estimates, the deficit would have been only $1 billion smaller than it was a year ago.

CBO estimates that receipts in February totaled $141 billion—$3 billion less than last year. Corporate income taxes declined by $10 billion, quite possibly reflecting the retroactive extension of tax provisions mentioned above. In addition, remittances to the Treasury from the Federal Reserve declined by $4 billion. Partially offsetting those changes, receipts from individual income taxes and payroll taxes together rose by $11 billion (or 9 percent), CBO estimates, mainly because of increases in withheld taxes.

Budget Totals for February

(Billions of dollars)

				Estimated Change With Adjustments for Timing Shifts[a]	
	Actual, FY 2014	Preliminary, FY 2015	Estimated Change	Billions of Dollars	Percent
Receipts	144	141	-3	-3	-2.4
Outlays	338	333	-5	-5	-1.4
Surplus or Deficit (-)	-194	-192	2	1	n.m.

Sources: Congressional Budget Office; Department of the Treasury.

Note: n.m. = not meaningful.

a. Adjusted amounts exclude the effects of shifting payments that were scheduled to be made on weekends or holidays. Without those timing shifts, the budget would have shown a $195 billion deficit in February 2014 and a $193 billion deficit in February 2015.

Total spending in February 2015 was $333 billion, CBO estimates—$5 billion less than outlays in the same month in 2014. (The year-over-year changes for February discussed below reflect adjustments to account for the shifting of certain payment from February to January and from March to February.)

Among the larger changes in outlays, compared with those of last year, were the following:

- Spending for the government's three largest entitlement programs increased by a total of $9 billion: **Medicaid**, by $3 billion (or 12 percent); **Medicare**, by $3 billion (or 8 percent); and **Social Security**, by $3 billion (or 5 percent).
- Outlays for **student loans** were up by $5 billion, largely because in February 2014 the Department of Education recorded a reduction of $4 billion in the cost of existing student loans stemming from provisions in the Bipartisan Student Loan Certainty Act of 2013 (P.L. 113-28).
- Subsidy payments for health insurance purchased through exchanges created under the **Affordable Care Act** increased by $2 billion. Those subsidies first began in January 2014; payments in February 2015 were $3 billion, whereas they were only $700 million in February 2014.

- Outlays for **refundable tax credits** were down by $16 billion (or 27 percent). Because the tax-filing season began earlier in 2015, on January 21 (as opposed to January 31 the year before), more of the outlays for those credits were in January and fewer were in February this year.
- Outlays for **interest on the public debt** declined by $6 billion (or 31 percent) largely because adjustments to the principal of inflation-protected securities to account for inflation were an unusually large negative amount. (Those adjustments are based on the consumer price index for all urban consumers.)
- Spending for military activities of the **Department of Defense** decreased by $3 billion (or 6 percent).

Actual Deficit in January 2015: $18 Billion

The Treasury Department reported a deficit of $18 billion for January—about $1 billion less than CBO estimated, on the basis of the *Daily Treasury Statements*, in the *Monthly Budget Review for January 2015*.

This document was prepared by Nathaniel Frentz and Adam Wilson. It is available at www.cbo.gov/publication/50000.