Monthly Budget Review for February 2016

The federal budget deficit was $352 billion for the first five months of fiscal year 2016, the Congressional Budget Office estimates—$34 billion less than the shortfall recorded in the same span last year. Receipts were 5 percent higher than they were at this time a year ago, and outlays were 2 percent higher. If not for shifts in the timing of certain payments (which otherwise would have fallen on a weekend), the deficit for the first five months of fiscal year 2016 would have been about the same as it was last year.

Budget Totals, October–February
(Billions of dollars)

	Actual, FY 2015	Preliminary, FY 2016	Estimated Change
Receipts	1,186	1,247	62
Outlays	1,572	1,599	27
Deficit	–387	–352	34

Sources: Congressional Budget Office; Department of the Treasury. Based on the *Monthly Treasury Statement* for January 2016 and the *Daily Treasury Statements* for February 2016.

FY = fiscal year.

Total Receipts: Up by 5 Percent in the First Five Months of Fiscal Year 2016

Receipts through February totaled $1,247 billion, CBO estimates—$62 billion more than the amount for the same period last year. The changes between last year and this year were as follows:

- **Individual income taxes and payroll (social insurance) taxes** together rose by $57 billion (or 6 percent).
  - An increase of $43 billion (or 5 percent) in amounts withheld from workers' paychecks accounted for most of that gain. Growth in wages and salaries probably explains that increase.
  - Nonwithheld receipts, largely reflecting payments for the 2015 tax year, rose by $12 billion (or 9 percent). Almost half of the increase occurred in January, when individuals made their last quarterly payment of estimated taxes for 2015.
  - Income tax refunds decreased by $3 billion (or 3 percent).

- **Corporate income taxes** declined by about $11 billion (or 11 percent). About two-thirds of that decline occurred in December, when most corporations made their first quarterly estimated payment of those taxes in the current fiscal year. That decline may not indicate, however, that corporate profits have dropped. Comparing last year's tax payments with this year's has been complicated by the enactment in December 2015 of the Consolidated Appropriations Act, 2016 (Public Law 114-113), and by the enactment in December 2014 of the Tax Increase Prevention Act of 2014 (Division A of P.L. 113-295). Each of those laws retroactively extended, to the beginning of the calendar year in which it was enacted, various provisions that reduced tax liabilities, and they may have affected the timing of tax payments for each calendar year to different degrees. Most corporations must make their

Note: The amounts shown 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.

final payment of taxes for 2015 by March 15, and that payment—in combination with earlier quarterly estimated payments—should better indicate that year's underlying tax liability.

- **Other receipts** rose by $16 billion, on net. That increase is more than explained by remittances from the Federal Reserve to the Treasury, which increased by about $21 billion, largely because of the Fixing America's Surface Transportation Act (the FAST Act; P.L. 114-94). That law required the Federal Reserve to remit most of its surplus account to the Treasury, and the central bank remitted that additional amount ($19 billion) in late December. Partially offsetting the Federal Reserve's larger remittances was a $7 billion decline in receipts from miscellaneous fees and fines, CBO estimates. Those receipts were unusually high in the previous year.

Receipts, October–February
(Billions of dollars)

			Estimated Change	
Major Program or Category	Actual, FY 2015	Preliminary, FY 2016	Billions of Dollars	Percent
Individual Income Taxes	555	595	40	7.1
Payroll Taxes	411	428	17	4.2
Corporate Income Taxes	102	91	–11	–10.6
Other Receipts	117	133	16	13.3
Total	**1,186**	**1,247**	**62**	**5.2**
Memorandum: Combined Individual Income and Payroll Taxes				
Withheld taxes	910	953	43	4.8
Other, net of refunds	57	70	14	23.8
Total	**967**	**1,023**	**57**	**5.9**

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

Total Outlays: Up by $27 billion in the First Five Months of Fiscal Year 2016

At $1,599 billion, outlays for the first five months of this fiscal year were about $27 billion (or 2 percent) more than they were during the same period last year, CBO estimates. The increase in outlays would have been even larger—$65 billion (or 4 percent)—if not for the shift of certain payments from March 2015 to February 2015 because March 1 fell on a weekend. The discussion below reflects adjustments to account for those timing shifts.

Outlays in several major categories increased:

- Spending for **Social Security benefits** rose by $14 billion (or 4 percent), reflecting typical growth in the number of beneficiaries and the average payment.
- Outlays for **net interest on the public debt** increased by $11 billion (or 12 percent). Most of that increase stems from differences in the rate of inflation, which changes the principal of Treasury Inflation-Protected Securities. (Those adjustments, which are based on the change in the consumer price index for all urban consumers recorded two months earlier, were negative in both 2015 and 2016.)
- Outlays for **Medicaid** grew by $8 billion (or 6 percent), largely because of new enrollees added through expansions of coverage authorized by the Affordable Care Act.
- **Medicare** spending climbed by $8 billion (or 4 percent), partly because the payment made to prescription drug plans each fall to account for unanticipated increases in spending in the preceding calendar year was larger in fiscal year 2016 than in fiscal year 2015. If not for the large

difference in such payments, outlays for Medicare would have increased by $3 billion (or 1 percent).

- Payments to the Treasury from the government-sponsored enterprises (GSEs) **Fannie Mae and Freddie Mac** decreased by $4 billion, primarily because the GSEs were less profitable in the first five months of fiscal year 2016 than in the same period a year earlier. Because those payments are recorded in the budget as offsetting receipts, which are treated as reductions in outlays, that decrease in payments has resulted in higher outlays.

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

Outlays, October–February
(Billions of dollars)

Major Program or Category	Actual, FY 2015	Preliminary, FY 2016	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	360	374	14	14	3.9
Medicare[b]	242	232	–10	8	3.6
Medicaid	140	149	8	8	6.0
Subtotal, Largest Mandatory Programs	**742**	**754**	**12**	**30**	**4.2**
DoD—Military[c]	238	233	–5	–1	–0.3
Net Interest on the Public Debt	89	100	11	11	12.4
Exchange Subsidies[d]	9	12	3	3	32.6
Net Outlays for GSEs	–7	–3	4	4	n.m.
Other	501	503	2	17	3.4
Total	**1,572**	**1,599**	**27**	**65**	**4.2**

Sources: Congressional Budget Office; Department of the Treasury.

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

a. Adjusted amounts exclude the effects of shifting payments that otherwise would have been made on a weekend or holiday. If not for those timing shifts, outlays would have been $1,535 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.

Estimated Deficit in February 2016: $192 Billion

The federal government recorded a deficit of $192 billion in February 2016, CBO estimates—the same as the deficit in February 2015.

CBO estimates that receipts in February 2016 totaled $168 billion—$29 billion (or 21 percent) more than those in the same month last year. Individual income taxes and payroll taxes together rose by $23 billion (or 18 percent). Those taxes were boosted in part by the extra business day this February. Receipts from all other sources rose by $6 billion, on net.

Budget Totals for February
(Billions of dollars)

				Estimated Change With Adjustments for Timing Shifts[a]	
	Actual, FY 2015	Preliminary, FY 2016	Estimated Change	Billions of Dollars	Percent
Receipts	139	168	29	29	20.5
Outlays	332	360	28	27	8.0
Deficit	–192	–192	0	2	–1.0

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year

a. Adjusted amounts exclude the effects of shifting payments that otherwise would have been made on a weekend or holiday. Without those timing shifts, the budget would have shown a deficit of $194 billion in February 2015.

Total spending in February 2016 was $360 billion, CBO estimates—$28 billion more than it was in February 2015. Adjusted for timing shifts, outlays increased by $27 billion (or 8 percent). (The changes discussed below reflect adjustments to account for those shifts.)

Spending in several major categories of the budget increased:

- Payments for **refundable tax credits** were $12 billion (or 28 percent) higher than those outlays last year. The share of those annual payments made in February varies greatly from year to year; almost all those payments are usually made from February through April.
- Outlays for **net interest on the public debt** increased by $4 billion (or 32 percent), mainly as a result of differences in the rate of inflation, which causes changes in the principal of Treasury Inflation-Protected Securities.
- Spending for **Social Security benefits, Medicare,** and **Medicaid** rose by $2 billion each (or 4 percent, collectively).
- Outlays for the **Department of Veterans Affairs** increased by $1 billion.

The largest spending decrease, relative to outlays in February 2015, was a reduction in spending for international assistance of $2 billion (or 67 percent). That decrease occurred because the Treasury made several payments to international organizations in February 2015 but has not made those payments yet this year. For other programs and activities, spending increased or decreased by smaller amounts.

Actual Surplus in January 2016: $55 Billion

The Treasury reported a surplus of $55 billion for January—$5 billion more than CBO estimated last month, on the basis of the *Daily Treasury Statements*. The difference occurred because outlays were lower than CBO expected, particularly for the Department of Agriculture, the Department of Homeland Security, and the Department of Defense (see the *Monthly Budget Review for January 2016*).

This document was prepared by Elizabeth Cove Delisle, Nathaniel Frentz, Dawn Sauter Regan, and Joshua Shakin. It is available at www.cbo.gov/publication/51352.