June 7, 2016

Monthly Budget Review for May 2016

The federal budget deficit was $408 billion for the first eight months of fiscal year 2016, the Congressional Budget Office estimates—$41 billion more than the shortfall recorded during the same period last year. Outlays were 3 percent higher than they were at this time last year, and receipts were 2 percent higher.

Budget Totals, October–May
(Billions of dollars)

	Actual, FY 2015	Preliminary, FY 2016	Estimated Change
Receipts	2,104	2,137	33
Outlays	2,471	2,545	75
Deficit	-367	-408	-41

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

FY = fiscal year.

Total Receipts: Up by 2 Percent in the First Eight Months of Fiscal Year 2016

Receipts totaled $2,137 billion during the first eight months of fiscal year 2016, CBO estimates—$33 billion more than they did during the same period last year. The changes were as follows:

- **Individual income taxes and payroll (social insurance) taxes** together rose by $41 billion (or 2 percent).
    - Amounts withheld from workers' paychecks accounted for an increase of $61 billion (or 4 percent). Growth in wages and salaries probably explains that increase.
    - Nonwithheld receipts declined by $4 billion (or 1 percent). That decline stemmed from two partially offsetting changes: a drop of $16 billion (or 5 percent), mostly in people's final tax payments for 2015, during the tax-filing season from February through April; and an increase of $11 billion during the other months covered in this report.
    - Income tax refunds increased by $13 billion (or 6 percent), reducing net receipts.
    - Receipts from unemployment insurance taxes (one kind of payroll tax) fell by $2 billion.

- **Corporate income taxes** declined by $21 billion (or 11 percent). About half of the decline occurred between October and March, when firms paid taxes that were largely on their taxable profits in the 2015 tax year. The other half of the decline occurred in April and May, when most firms began paying taxes on their taxable profits in 2016. Part of the decline in receipts in the past two months probably stems from the enactment in December of the Consolidated Appropriations Act, 2016 (Public Law 114-113), which extended—retroactively and prospectively—tax rules that allow businesses with large amounts of investment to accelerate their deductions for that investment. Because of the timely enactment of that law, many businesses will make lower payments of estimated taxes in 2016 than they made in 2015, when the rules had temporarily expired.

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.

- **Other receipts** rose by $13 billion, on net. Remittances from the Federal Reserve to the Treasury increased by $22 billion, largely because of the Fixing America's Surface Transportation Act (P.L. 114-94), which required the Federal Reserve to remit most of its surplus account to the Treasury. The central bank remitted that additional amount, $19 billion, in late December. All other receipts decreased by $9 billion, on net.

Receipts, October–May
(Billions of dollars)

Major Program or Category	Actual, FY 2015	Preliminary, FY 2016	Estimated Change: Billions of Dollars	Estimated Change: Percent
Individual Income Taxes	1,015	1,036	22	2.1
Payroll Taxes	720	739	19	2.7
Corporate Income Taxes	183	162	-21	-11.2
Other Receipts	187	200	13	7.0
Total	**2,104**	**2,137**	**33**	**1.6**
Memorandum: Combined Individual Income and Payroll Taxes				
Withheld taxes	1,472	1,533	61	4.1
Other, net of refunds	263	243	-20	-7.6
Total	**1,734**	**1,775**	**41**	**2.4**

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

Total Outlays: Up by 3 Percent in the First Eight Months of Fiscal Year 2016

At $2,545 billion, outlays for the first eight months of this fiscal year were $75 billion (or 3 percent) more than they were during the same period last year, CBO estimates. The largest increases were in the following categories:

- Spending for **Social Security benefits** rose by $20 billion (or 3 percent), reflecting typical growth in the number of beneficiaries and in the average payment.
- Outlays for **net interest on the public debt** increased by $17 billion (or 11 percent). Most of that increase resulted from differences in the rate of inflation. The principal of Treasury inflation-protected securities is adjusted to account for inflation using the change in the consumer price index for all urban consumers that was recorded two months earlier. That adjustment was negative in both 2015 and 2016—that is, it reduced outlays in both years—but the reduction in 2016 was smaller than the one in 2015.
- **Medicare** spending climbed by $16 billion (or 4 percent), partly because the payments made to prescription drug plans each autumn to account for unanticipated increases in spending in the preceding calendar year were larger in fiscal year 2016 than in fiscal year 2015. Without that change, Medicare outlays would have increased by $10 billion (or 3 percent).
- Outlays for **Medicaid** grew by $13 billion (or 6 percent), largely because of new enrollees added through expansions of coverage authorized by the Affordable Care Act.
- Spending by the **Department of Veterans Affairs** increased by $6 billion (or 6 percent), mostly because of increases in the number of veterans receiving disability payments and in the average amount of those payments.

Outlays in some areas of the budget declined:

- Outlays for the **Department of Housing and Urban Development** decreased by $12 billion, primarily because the department made downward revisions in April 2016, but upward revisions in April 2015, to the estimated net subsidy costs of loans and loan guarantees issued in prior years.
- Spending by the **Department of Defense** dropped by $6 billion (or 2 percent), mostly in the area of operation and maintenance.

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

Outlays, October–May
(Billions of dollars)

Major Program or Category	Actual, FY 2015	Preliminary, FY 2016	Estimated Change: Billions of Dollars	Estimated Change: Percent
Social Security Benefits	581	601	20	3.5
Medicare[a]	358	373	16	4.3
Medicaid	230	242	13	5.6
Subtotal, Largest Mandatory Programs	**1,168**	**1,217**	**48**	**4.1**
DoD—Military[b]	376	369	-6	-1.7
Net Interest on the Public Debt	161	178	17	10.9
Marketplace Subsidies[c]	16	19	3	16.4
Net Outlays for GSEs	-11	-8	3	n.m.
Other	761	771	10	1.3
Total	**2,471**	**2,545**	**75**	**3.0**

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. Medicare outlays are net of offsetting receipts.

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

c. Subsidies for health insurance purchased through marketplaces established under the Affordable Care Act.

Estimated Deficit in May 2016: $53 Billion

The federal government incurred a deficit of $53 billion in May 2016, CBO estimates—$31 billion less than the deficit in May 2015. Because May 1 fell on a weekend this year, certain payments scheduled for that date were instead made in April. If not for that shift, the deficit in May 2016 would have totaled $94 billion, or $10 billion more than in May 2015.

CBO estimates that receipts totaled $223 billion in May 2016—$10 billion (or 5 percent) more than they did last May. Receipts from individual income taxes and payroll taxes combined rose by $17 billion (or 9 percent). That increase was largely explained by taxes withheld from workers' paychecks, which were up by $16 billion (or 10 percent)—May 2016 had one more major payment day for withheld taxes than May 2015 did. All other receipts declined by $7 billion, on net.

Budget Totals for May
(Billions of dollars)

	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
Receipts	212	223	10	10	4.9
Outlays	296	276	-20	20	6.8
Deficit	-84	-53	31	-10	11.7

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. If not for those timing shifts, the budget would have shown a deficit of $94 billion in May 2016.

Total spending was $276 billion in May 2016, CBO estimates—$20 billion less than in May 2015. If not for the shift in the timing of payments from May to April this year, outlays would have increased by $20 billion (or 7 percent). The following discussion reflects adjustments to account for that shift.

Among the largest changes in outlays were the following:

- Outlays increased by $12 billion because this May there were no payments to the **Federal Communications Commission** from auctions of licenses to use the electromagnetic spectrum. Because proceeds from those auctions are recorded in the budget as offsetting receipts (that is, as reductions in outlays), the decrease in payments resulted in higher outlays.
- Spending for the three largest entitlement programs—**Social Security, Medicare,** and **Medicaid**—rose by a combined $5 billion (or 3 percent).
- Spending by the **Department of Defense** dropped by $3 billion (or 6 percent), mostly in the area of procurement.

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

Actual Surplus in April 2016: $106 Billion

The Treasury reported a surplus of $106 billion for April—$3 billion less than CBO estimated, on the basis of the *Daily Treasury Statements*, in its *Monthly Budget Review for April 2016*.

This document was prepared by Nathaniel Frentz, Amy Petz, and Joshua Shakin. It is available at www.cbo.gov/publication/51665.