Congressional Budget Office

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Monthly Budget Review for July 2016

The federal budget deficit was $514 billion for the first 10 months of fiscal year 2016, the Congressional Budget Office estimates—$49 billion more than the shortfall recorded during the same period last year. Both revenues and outlays were higher than they were last year, but outlays rose much more. If not for shifts in the timing of certain payments (which otherwise would have fallen on a weekend), the deficit for the 10-month period would be $92 billion larger than last year's amount.

The government's revenues and spending so far this fiscal year lead CBO to expect that the annual deficit will total $590 billion—rather than the $534 billion that the agency projected in March, when it released its most recent set of budget projections. In large part, that increase stems from lower-than-expected revenues. Later this August, CBO will publish detailed estimates for this year and new multiyear budget projections.

Budget Totals, October–July
(Billions of dollars)

	Actual, FY 2015	Preliminary, FY 2016	Estimated Change
Receipts	2,672	2,679	7
Outlays	3,138	3,193	55
Deficit	-466	-514	-49

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

FY = fiscal year.

Total Receipts: Slight Increase in the First 10 Months of Fiscal Year 2016

Receipts for the first 10 months of fiscal year 2016 totaled $2,679 billion, CBO estimates—just $7 billion more than they did during the same period last year. Some receipts were higher than they were last year, and others were lower:

- **Payroll (social insurance) taxes** increased by $38 billion and **individual income taxes** declined by $4 billion, yielding a net increase of $34 billion (or 2 percent).
  - Amounts withheld from workers' paychecks increased by $60 billion (or 3 percent), probably because of growth in wages and salaries. The growth of withheld payroll taxes (6 percent) exceeded the growth of withheld individual income taxes (1 percent). However, that difference may not reflect the actual difference between the growth of payments for income taxes and the growth of payments for payroll taxes—because the Treasury Department does not observe that difference when collecting taxes, instead initially allocating withheld taxes to one source or the other on the basis of estimates. As additional information becomes available, including detailed tax return information, periodic reallocations are made to improve past allocations.
  - Overall, nonwithheld receipts declined by $7 billion (or 1 percent). That was the case even though those receipts were $12 billion higher during the first half of the fiscal year than they were during the first half of the previous year. Over the more recent period from April through July, nonwithheld receipts were $19 billion (or 5 percent) lower this year—mostly because final payments for 2015 made during the tax-filing season this year were less than

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.

final payments for 2014 made during the same period last year; payments of estimated taxes for the current year have also declined.

- Income tax refunds increased by $15 billion (or 7 percent), reducing net receipts.

- Receipts from unemployment insurance taxes (one kind of payroll tax) were down by $4 billion.

■ **Corporate income taxes** in the first 10 months of the fiscal year were $36 billion (or 14 percent) lower than they were during the same period last year. Of that decline, $26 billion occurred from April through July, when most firms began making tax payments reflecting their taxable profits in 2016. The rest of the decline occurred between October and March, when firms' tax payments largely reflected their taxable profits for the 2015 tax year.

The reasons for the decline will become clearer as detailed information from corporate income tax returns becomes available over the next two years. However, the decline since April may partly reflect taxable profits that are lower so far this calendar year than they were during the same period last year. In addition, some of the recent decline in receipts 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 allowed businesses with large amounts of investment to more quickly accelerate their deductions for those investments. Because businesses know that those tax rules will be in effect throughout 2016, many are making smaller payments of estimated taxes in 2016 than they made in 2015, when the rules had temporarily expired.

■ **Other receipts** rose by $9 billion, on net. Remittances from the Federal Reserve to the Treasury increased by $21 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 the required additional amount, $19 billion, in late December. Miscellaneous fees and fines, which had been boosted in 2015 by unusually large penalties on financial institutions, decreased by $12 billion, on net.

Receipts, October–July
(Billions of dollars)

Major Program or Category	Actual, FY 2015	Preliminary, FY 2016	Estimated Change: Billions of Dollars	Estimated Change: Percent
Individual Income Taxes	1,277	1,272	-4	-0.4
Payroll Taxes	894	933	38	4.3
Corporate Income Taxes	266	230	-36	-13.6
Other Receipts	235	244	9	3.8
Total	**2,672**	**2,679**	**7**	**0.3**
Memorandum: Combined Individual Income and Payroll Taxes				
Withheld taxes	1,828	1,888	60	3.3
Other, net of refunds	343	317	-26	-7.5
Total	**2,171**	**2,205**	**34**	**1.6**

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

Total Outlays: Up by 2 Percent in the First 10 Months of Fiscal Year 2016

At $3,193 billion, outlays for the first 10 months of this fiscal year were $55 billion (or 2 percent) higher than they were during the same period last year, CBO estimates. If not for the shift of certain payments from August 2015 to July 2015 because August 1 fell on a weekend last year, outlays would have been $99 billion (or 3 percent) larger so far this year. The discussion below reflects adjustments to account for that timing shift.

The largest increases in outlays were in the following categories:

- Spending for **Social Security benefits** rose by $24 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 $23 billion (or 11 percent), mostly because of differences in the rate of inflation. Each month, to account for inflation, the Treasury adjusts the principal of Treasury inflation-protected securities, using the change in the consumer price index for all urban consumers that was recorded two months earlier. That adjustment was negative in 2015 but positive in 2016.
- Outlays increased by $22 billion because payments to the **Federal Communications Commission** from auctions of licenses to use the electromagnetic spectrum, which totaled roughly $30 billion through July 2015, came to only $8 billion during the same period in 2016. Because proceeds from those auctions are recorded in the budget as offsetting receipts (that is, as reductions in outlays), the lower payments in 2016 resulted in higher outlays. Those effects are included in the “Other” category in the table below.
- **Medicare** spending climbed by $18 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 $13 billion (or 3 percent).
- Outlays for **Medicaid** grew by $11 billion (or 4 percent), largely because of new enrollees added through expansions of coverage authorized by the Affordable Care Act.
- Spending by the **Department of Veterans Affairs**, which is included in the “Other” category below, increased by $7 billion (or 5 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**, which are included in the “Other” category below, decreased by $10 billion, 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. If not for those revisions, outlays would have risen by $6 billion.
- Outlays for **student loans**, which are included in the “Other” category below, fell by $10 billion (or 14 percent), because the Department of Education revised upward by roughly $7 billion the estimated net subsidy costs of loans and loan guarantees issued in prior years—a change much smaller than last year’s $18 billion upward revision. If the effects of those revisions were excluded, outlays for student loans for the first 10 months of fiscal year 2016 would have increased by just over $1 billion (or 2 percent).
- Spending by the **Department of Defense** dropped by $7 billion (or 1 percent), mostly because of a decline in spending by the Army.

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

Outlays, October–July
(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	728	753	24	24	3.3
Medicare[b]	475	469	-6	18	4.0
Medicaid	296	306	11	11	3.6
Subtotal, Largest Mandatory Programs	**1,499**	**1,528**	**28**	**53**	**3.6**
DoD—Military[c]	472	460	-12	-7	-1.5
Net Interest on the Public Debt	213	236	23	23	10.9
Marketplace Subsidies[d]	22	26	4	4	17.8
Other	932	944	11	26	2.8
Total	**3,138**	**3,193**	**55**	**99**	**3.2**

Sources: Congressional Budget Office; Department of the Treasury.

Note: DoD = Department of Defense; 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, outlays would have been $3,095 billion through the first 10 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 marketplaces established under the Affordable Care Act.

Estimated Deficit in July 2016: $113 Billion

The federal government realized a deficit of $113 billion in July 2016, CBO estimates—$36 billion less than the deficit in July 2015. However, the timing shift more than accounts for that difference. Without that shift, the deficit in July 2015 would have totaled $106 billion, making the deficit this July $8 billion *larger* than it was last year.

CBO estimates that receipts totaled $210 billion in July 2016—$15 billion (or 7 percent) less than they did in the same month last year. The decline, which took place in all of the major revenue sources, partly reflects the fact that July 2016 had two fewer business days than July 2015 did.

Budget Totals for July
(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	225	210	-15	-15	-6.7
Outlays	375	324	-51	-8	-2.3
Deficit	-149	-113	36	-8	7.1

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 $106 billion in July 2015.

Total spending was $324 billion in July 2016, CBO estimates—$51 billion less than it was in July 2015. Adjusted for timing shifts, outlays were only $8 billion (or 2 percent) less than they were last July. (The changes discussed below reflect adjustments to account for those shifts.) Among the largest changes in outlays were the following:

- Outlays for **student loans** dropped by $9 billion (or 69 percent), almost entirely because last July, the Department of Education revised upward by about $9 billion the estimated net subsidy costs of loans and loan guarantees issued in earlier years. The department did not make a similar adjustment this July. If the effect of last July's revision were excluded, July outlays for student loans would have decreased by less than $1 billion.
- Spending rose by $2 billion (or 3 percent) for **Social Security**.

Spending for other programs and activities increased or decreased by smaller amounts.

Actual Surplus in June 2016: $6 Billion

The Treasury reported a surplus of $6 billion for June—about $4 billion less than CBO estimated, on the basis of the *Daily Treasury Statements*, in its *Monthly Budget Review for June 2016*. CBO's estimate of revenues was $1 billion too high, and its estimate of outlays was $3 billion too low.

This document was prepared by Nathaniel Frentz, David Rafferty, Dawn Sauter Regan, and Joshua Shakin. It is available at www.cbo.gov/publication/51861.