Congressional Budget Office

October 7, 2016

Monthly Budget Review for September 2016

The federal government ran a budget deficit of $588 billion in fiscal year 2016, the Congressional Budget Office estimates—$149 billion greater than the shortfall recorded in fiscal year 2015. The 2016 deficit equaled an estimated 3.2 percent of gross domestic product (GDP), up from 2.5 percent of GDP in 2015. The increase in the deficit, measured as a share of the nation's output, was the first since 2009.

About $41 billion of the deficit increase resulted from a shift in the timing of some payments that the government would ordinarily have made in fiscal year 2017; those payments were instead made in fiscal year 2016 because October 1, 2016 (the first day of fiscal year 2017), fell on a weekend. If not for that shift, the deficit in 2016 would have been about $547 billion, or 3.0 percent of GDP—still considerably higher than the deficit recorded for 2015.

By CBO's estimate, revenues were less than 1 percent higher and outlays were about 5 percent higher in 2016 than they were in the previous fiscal year. CBO's estimates are based on data from the *Daily Treasury Statements* issued by the Department of the Treasury; the department will report the actual deficit for fiscal year 2016 later this month.

A deficit of $588 billion would be about $2 billion smaller than the shortfall that CBO projected in its August 2016 report *An Update to the Budget and Economic Outlook: 2016 to 2026*. According to CBO's current estimates, revenues and outlays fell short of the projections by $8 billion and $10 billion, respectively.

Fiscal Year Totals
(Billions of dollars)

	Actual, FY 2015	Preliminary, FY 2016	Estimated Change
Receipts	3,249	3,268	19
Outlays	3,688	3,856	168
Deficit (-)	-439	-588	-149

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

FY = fiscal year.

Total Receipts: Up by Less Than 1 Percent in Fiscal Year 2016

Receipts totaled $3,268 billion in fiscal year 2016, CBO estimates—$19 billion (or less than 1 percent) more than they did in fiscal year 2015. That relatively small increase reflects the following changes:

- **Payroll (social insurance) taxes** increased by $50 billion and **individual income taxes** increased by $6 billion, yielding a total increase of $55 billion (or 2 percent) from those two sources.

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.

- o Amounts withheld from workers' paychecks increased by $83 billion (or 4 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 (2 percent). However, the amounts currently recorded for those two sources are allocations of total withholding made on the basis of estimates by the Department of the Treasury. When actual tax return data for 2016 become available, the department may reallocate the 2016 receipts from those two sources by adjusting the amounts recorded for 2017 (or some subsequent year).

- o Overall, nonwithheld receipts declined by $9 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. In the second half, nonwithheld receipts were $21 billion (or 5 percent) lower this year—mostly because final payments for 2015 made during the tax-filing season this year were less than final payments for 2014 made during the same period last year, though lower payments of estimated taxes for the current year also contributed to the decline.

- o Income tax refunds increased by $17 billion (or 7 percent), reducing net receipts.

- o Receipts from unemployment insurance taxes (one kind of payroll tax) were down by $3 billion.

■ **Corporate income taxes** were $44 billion (or 13 percent) lower than they were in fiscal year 2015. Of that decline, $34 billion occurred from April through September, when most corporations began making tax payments on their taxable profits in 2016. The rest of the decline occurred between October and March, when tax payments largely reflected 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 lower taxable profits this 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 this year than in 2015, when the rules had temporarily expired.

■ **Other receipts** rose by $8 billion, on net. Remittances from the Federal Reserve to the Treasury increased by $19 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 2015. Miscellaneous fees and fines, which had been boosted in 2015 by unusually large penalties on financial institutions, decreased by $10 billion, on net.

Total Receipts
(Billions of dollars)

Major Program or Category	Actual, FY 2015	Preliminary, FY 2016	Estimated Change: Billions of Dollars	Estimated Change: Percent
Individual Income Taxes	1,541	1,546	6	0.4
Payroll Taxes	1,065	1,115	50	4.7
Corporate Income Taxes	344	300	-44	-12.9
Other Receipts	299	307	8	2.8
Total	**3,249**	**3,268**	**19**	**0.6**
Memorandum: Combined Individual Income and Payroll Taxes				
Withheld taxes	2,169	2,252	83	3.8
Other, net of refunds	437	409	-28	-6.3
Total	**2,606**	**2,661**	**55**	**2.1**

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

Total Outlays: Up by 5 Percent in Fiscal Year 2016

At $3,856 billion, outlays for fiscal year 2016 were $168 billion (or 5 percent) higher than outlays in fiscal year 2015, CBO estimates. That difference would have been about $41 billion smaller if not for the shift of certain payments from October 2016 to September 2016 because October 1 fell on a weekend. The discussion below reflects adjustments to account for that timing shift.

The largest increases in outlays were in the following categories:

- **Medicare** spending climbed by $30 billion (or 5 percent) because of an increase in the number of beneficiaries and growth in the number and cost of services for those beneficiaries.
- Spending for **Social Security benefits** rose by $29 billion (or 3 percent), reflecting typical growth in the number of beneficiaries and in the average benefit payment.
- Outlays for **net interest on the public debt** increased by $23 billion (or 9 percent), largely because of higher inflation in 2016. (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.) Outlays also increased because of higher debt and higher average interest rates in fiscal year 2016 than in fiscal year 2015.
- 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 in 2015, amounted to only $8 billion in 2016. Because proceeds from those auctions are recorded in the budget as offsetting receipts (that is, as reductions in outlays), the smaller payments in 2016 resulted in higher outlays. Those effects are included in the “Other” category in the table below.
- Outlays for **Medicaid** grew by $18 billion (or 5 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 $10 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,** which are included in the "Other" category below, decreased by $8 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, the department's outlays would have risen by $7 billion.
- Outlays for **student loans,** which are included in the "Other" category below, fell by $13 billion 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, net outlays for student loans for fiscal year 2016 would have decreased by $1 billion.

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

Total Outlays
(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	877	905	29	29	3.3
Medicare[b]	544	595	51	30	5.4
Medicaid	350	368	18	18	5.3
Subtotal, Largest Mandatory Programs	**1,770**	**1,868**	**98**	**77**	**4.3**
DoD—Military[c]	563	564	2	-3	-0.5
Net Interest on the Public Debt	260	284	23	23	9.0
Marketplace Subsidies[d]	27	31	4	4	13.6
Net Outlays for GSEs	-23	-14	8	8	n.m.
Other	1,090	1,123	33	17	1.6
Total	**3,668**	**3,856**	**168**	**127**	**3.4**

Sources: Congressional Budget Office; Department of the Treasury.

Note: 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. If not for those timing shifts, outlays would have been $3,815 billion in fiscal year 2016.

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 Surplus in September 2016: $33 Billion

The federal government realized a surplus of $33 billion in September 2016, CBO estimates—$58 billion less than the surplus in September 2015. Because October 1 fell on a weekend this year, certain payments scheduled for that date were instead made in September. If not for that shift, the surplus in September 2016 would have been $17 billion less than the one in September 2015.

CBO estimates that receipts totaled $358 billion in September 2016—$8 billion (or 2 percent) less than they did in the same month last year. Receipts of corporate income taxes and remittances from the Federal Reserve fell by $9 billion and $3 billion, respectively. Those declines were partially offset by receipts from other sources, which rose by $4 billion, on net.

Budget Totals for September
(Billions of dollars)

				Estimated Change With Adjustments for Timing Shifts[a]	
	Actual, FY 2015	Preliminary, FY 2016	Estimated Change	Billions of Dollars	Percent
Receipts	365	358	-8	-8	-2.1
Outlays	275	325	50	9	3.3
Surplus	91	33	-58	-17	-18.3

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. If not for those timing shifts, the budget would have shown a surplus of $74 billion in September 2016.

Total spending was $325 billion in September 2016, CBO estimates—$50 billion more than it was in September 2015. If not for the shift in the timing of payments from October to September this year, outlays would have increased by about $9 billion (or 3 percent). Among the largest changes in outlays were the following (which have been adjusted to account for the timing shift):

- Outlays for **Medicaid** increased by $5 billion.
- Outlays for **Medicare** increased by $5 billion.
- Payments to the Treasury from the government-sponsored enterprises **Fannie Mae and Freddie Mac** were lower by $4 billion.
- Spending by the **Department of Education** dropped by $3 billion.
- Spending for **Social Security** rose by $2 billion.

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

Actual Deficit in August 2016: $107 Billion

The Treasury reported a deficit of $107 billion for August—$1 billion less than the amount that CBO estimated, on the basis of the *Daily Treasury Statements*, in its *Monthly Budget Review for August 2016*.

This document was prepared by Amber Marcellino, Nathaniel Frentz, and Joshua Shakin. It is available at www.cbo.gov/publication/52086.