



NOVEMBER 7, 2013

Monthly Budget Review—Summary for Fiscal Year 2013

The federal government incurred a budget deficit of \$680 billion in fiscal year 2013, which was \$409 billion less than the deficit in fiscal year 2012. The fiscal year that just ended marked the first since 2008 that the deficit was under \$1 trillion. As a share of the nation's gross domestic product (GDP), the deficit declined from 6.8 percent in 2012 to 4.1 percent in 2013. (The deficit was 1.1 percent of GDP in 2007, prior to the recent recession.)

	Fiscal Year Totals (Billions of dollars)					
	2008	2009	2010	2011	2012	2013
Receipts	2,524	2,105	2,163	2,303	2,449	2,774
Outlays	2,983	3,518	3,457	3,603	3,538	3,454
Deficit (-)						
Amount	-450	-1,413	-1,294	-1,300	-1,089	-680
Percentage of GDP	-3.1	-9.8	-8.8	-8.4	-6.8	-4.1
Sources: Congressional Budget Office; Office of Management and Budget (OMB); Department of the Treasury.						

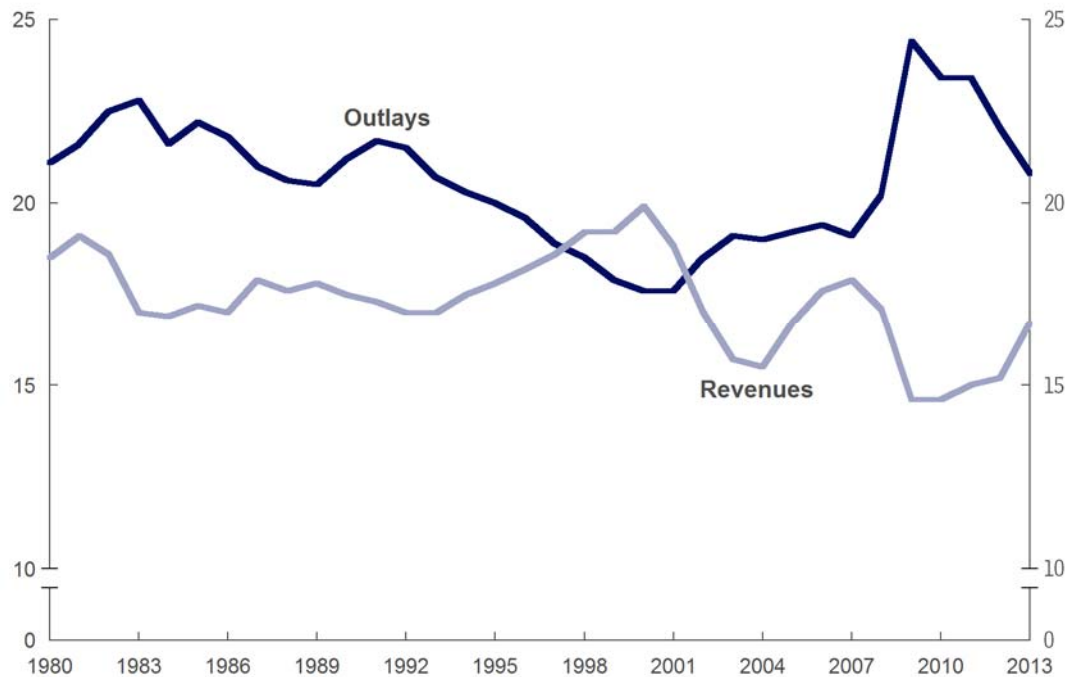
Two unusual factors had large but mostly offsetting effects on the reduction in the deficit from 2012 to 2013. First, a shift in the timing of certain payments reduced the 2012 deficit: About \$31 billion in payments that would ordinarily have been made on October 1, 2011, were made instead in September 2011 because October 1 fell on a weekend. Second, the federal government received a one-time payment of about \$50 billion from Fannie Mae this past summer. Without those two factors, the deficit in both years would have been larger, and the 2013 deficit would have been about \$390 billion less than the shortfall in 2012.

In 2013, the government's revenues increased (in nominal terms) for the fourth consecutive year, reaching \$2.8 trillion, which was \$325 billion, or 13 percent, more than revenues in 2012 and 8 percent above their previous peak in 2007. As a result, 2013 was the first year since the recession in which revenues exceeded the amounts collected in 2007. As a percentage of GDP, revenues rose from 15.2 percent in 2012 to 16.7 percent in 2013, but they remained below the level in 2007 (17.9 percent) and the average over the past 40 years (17.4 percent).

Net spending by the government was \$84 billion less in 2013 than in 2012, and it was lower than outlays in any year since 2008. It amounted to 20.8 percent of GDP in 2013, lower than the 22.0 percent recorded in 2012 but still above the 40-year average of 20.4 percent.

Federal Outlays and Revenues, 1980-2013

(Percentage of gross domestic product)



Revenues

Revenues from each of the three major sources—individual income taxes, social insurance taxes, and corporate income taxes—increased by 12 percent or more in 2013, accounting for nearly all of the \$325 billion increase in total revenues.

- Individual income taxes, the largest revenue source, contributed over half of the total increase in revenues, rising by \$184 billion (or 16 percent). Income taxes withheld from workers' paychecks increased by \$85 billion, the result of higher wages and salaries and increases (beginning in January) in tax rates for income above certain thresholds.

Nonwithheld payments of income taxes rose by \$91 billion (or 26 percent), most of which occurred during the tax-filing season (February through April) and presumably resulted from gains in taxable income in calendar year 2012. Some of the increase probably occurred because some businesses and people accelerated wages and salaries, capital gains realizations, and dividends so that they would be income in calendar year 2012, to avoid the higher tax rates due to go into effect in 2013.

- Collections of social insurance (payroll) taxes, the second largest revenue source, increased on net by \$103 billion (or 12 percent) in 2013. Receipts from Social Security and Medicare taxes increased by \$112 billion, largely because the 2 percentage-point reduction in employees' share of the Social Security tax expired (having been in effect in calendar years 2011 and 2012). Those gains were partially offset by a decline of \$10 billion (or 15 percent) in revenues from unemployment insurance taxes, as states—whose unemployment insurance revenues are included in the federal budget—did not need to replenish their recession-depleted unemployment trust funds as much in 2013 as they did in 2012.
- Receipts from corporate income taxes rose by \$31 billion (or 13 percent) in 2013. More than three-quarters of that increase occurred in the first seven months of the fiscal year, probably reflecting increases in taxable profits in calendar year 2012 and in the first part of calendar year 2013.
- Receipts from other sources rose by \$7 billion (or 3 percent). Increases of \$5 billion in revenues from both excise taxes and estate and gift taxes and of \$2 billion in customs duties were partially offset by a decline of \$6 billion in remittances to the Treasury by the Federal Reserve.

Total Revenues (Billions of dollars)				
Major Category	2011	2012	2013	Percentage Change, 2012–2013
Individual Income Taxes	1,091	1,132	1,316	16.3
Corporate Income Taxes	181	242	274	12.9
Social Insurance Taxes	819	845	948	12.1
Other	<u>212</u>	<u>229</u>	<u>236</u>	3.0
Total	2,303	2,449	2,774	13.3
Percentage of GDP	15.0	15.2	16.7	n.a.
Sources: Congressional Budget Office; OMB; Department of the Treasury.				
Note: n.a. = not applicable.				

Outlays

Overall, the government's net outlays decreased by 2.4 percent, from 2012 to 2013. If not for the shift to September 2011 of certain payments that ordinarily would have been made in October of that year and prepayments of deposit insurance premiums that otherwise would have been made in 2012 and 2013, outlays would have decreased by 3.0 percent. (The year-over-year changes discussed below reflect adjustments for those shifts.) Outlays declined for several major categories but increased for others.

- Net outlays for the government's activities related to Fannie Mae and Freddie Mac were \$97 billion less than outlays recorded last year for two reasons: First, Fannie Mae made a one-time payment to the Treasury of around \$50 billion resulting from a revaluation of certain tax assets that significantly increased its net worth. Second, because both Fannie Mae and Freddie Mac were profitable in 2013, the companies were required to make quarterly payments to the Treasury in amounts related to the increase in their net worth.
- Spending for defense fell by \$47 billion (or 7.2 percent) in 2013, the second year of decline, after growing at an annual rate of 6.2 percent over the previous five years. Spending was down across all major categories and for all branches of the armed services. Measured as a share of GDP, defense spending was 3.7 percent in 2013, down from 4.1 percent in 2012.
- Outlays for the Troubled Asset Relief Program were \$33 billion lower than in 2012 primarily because the estimated costs of federal credit transactions made in earlier years were revised upward by \$21 billion in 2012 but downward by \$13 billion in 2013.
- Spending for unemployment benefits declined by \$24 billion (or 25 percent) from the amount paid in 2012, as fewer people received benefits in 2013.
- In contrast, outlays for the three largest entitlement programs—Social Security, Medicare, and Medicaid—rose by \$40 billion (or 5 percent), \$11 billion (or 2 percent), and \$15 billion (or 6 percent), respectively. The growth rates for Social Security and Medicaid were similar to those of recent years, whereas Medicare's growth rate was significantly lower than the roughly 5 percent average annual rate over the previous five years. Combined outlays for the three programs were equal to more than 9 percent of GDP in 2013.
- Outlays for the broad category "Other Activities" increased by \$26 billion (or about 3 percent). That increase occurred in part because outlays for the Department of Agriculture were \$16 billion higher, as crop insurance payments increased significantly in fiscal year 2013, following the serious drought in the summer of 2012. Spending on disaster assistance also increased, by \$10 billion, largely because of Hurricane Sandy, which occurred in October 2013.

Total Outlays (Billions of dollars)					
Major Category	2011	2012	2013	Percentage Change, 2012–2013	
				Actual	Adjusted
Defense-Military	678	651	608	-6.6	-7.2
Social Security Benefits	720	762	803	5.3	5.3
Medicare	483	469	495	5.6	2.3
Medicaid	275	251	265	5.9	5.9
Unemployment Benefits	126	96	72	-24.7	-24.7
Other Activities	<u>1,088</u>	<u>1,027</u>	<u>1,058</u>	3.0	2.5
Subtotal	3,370	3,256	3,300	1.4	0.7
Net Interest on the Public Debt	266	258	259	0.4	0.4
TARP	-38	24	-9	n.m.	n.m.
Net Payments to GSEs	<u>5</u>	<u>0</u>	<u>-97</u>	n.m.	n.m.
Total	3,603	3,538	3,454	-2.4	-3.0
Percentage of GDP	23.4	22.0	20.8	n.a.	n.a.
Sources: Congressional Budget Office; OMB; Department of the Treasury.					
Note: n.m. = not meaningful; n.a. = not applicable. TARP = Troubled Asset Relief Program; GSEs = government-sponsored enterprises, Fannie Mae and Freddie Mac.					

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