October 8, 2020

Monthly Budget Review for September 2020

The federal budget deficit was $3.1 trillion in fiscal year 2020, the Congressional Budget Office estimates. CBO's estimate is 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 2020 later this month.

Relative to the size of the economy, the deficit—at an estimated 15.2 percent of gross domestic product (GDP)—was the largest since 1945, and 2020 was the fifth consecutive year in which the deficit increased as a percentage of GDP. The estimated deficit is more than triple the shortfall recorded in fiscal year 2019. Revenues were 1 percent lower and outlays were 47 percent higher in 2020 than they were in 2019, CBO estimates.

The deficit of $3.1 trillion is $180 billion smaller than the shortfall that CBO projected in September.[1] Revenues were $123 billion more and outlays were $56 billion less than projected, according to CBO's estimates.*

Fiscal Year Totals

Billions of Dollars

	Actual, FY 2019	Preliminary, FY 2020	Estimated Change
Receipts	3,462	3,419	–44
Outlays	4,447	6,550	2,103
Deficit (–)	–984	–3,131	–2,147

Sources: Congressional Budget Office; Department of the Treasury. Based on the *Monthly Treasury Statement* for August 2020 and the *Daily Treasury Statements* for September 2020.

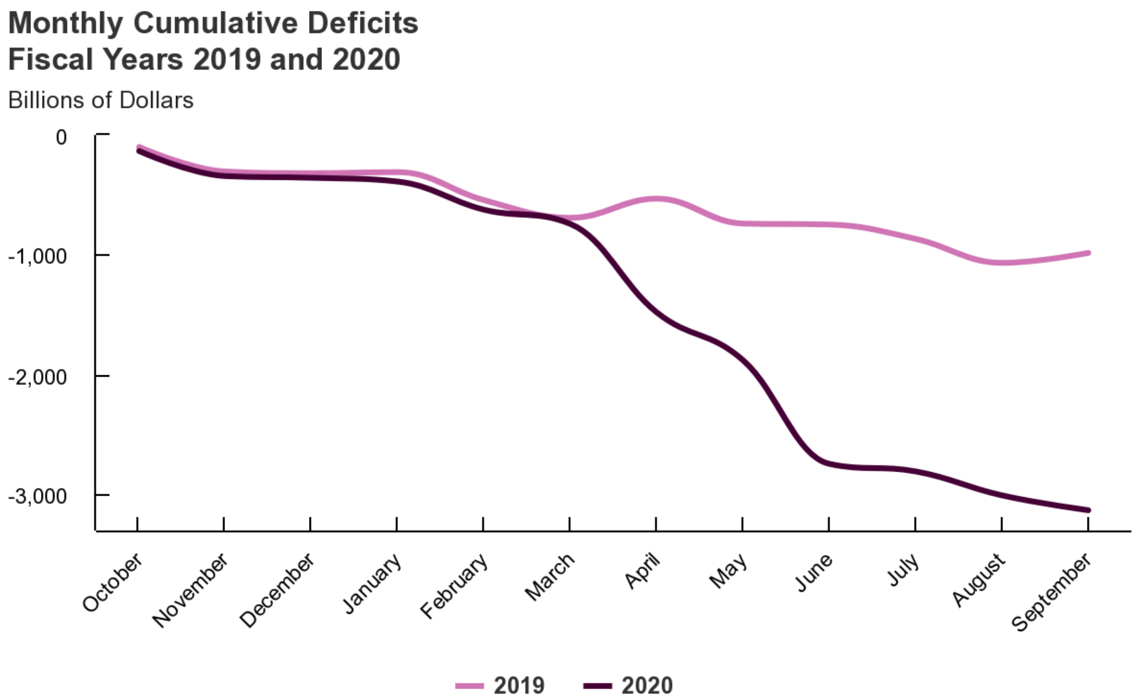
FY = fiscal year.

Revenue collections and outlays in fiscal year 2020 can be divided into two periods: before and after the start of the economic disruption caused by the novel coronavirus pandemic. For the first six months, the 2020 deficit was about 8 percent larger than the 2019 shortfall. But for the final six months, from April through September, the deficit in 2020 was eight times the deficit in the same period the previous year.

1. See Congressional Budget Office, *An Update to the Budget Outlook: 2020 to 2030* (September 2020), www.cbo.gov/publication/56517.

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 sum to totals because of rounding.

*On October 9, 2020, CBO reposted this report to correct a value.



Sources: Congressional Budget Office; Department of the Treasury.
The value shown for September 2020 is CBO's estimate.

Total Receipts: Down by 1 Percent for Fiscal Year 2020

Receipts totaled $3,419 billion during fiscal year 2020, CBO estimates—$44 billion (or 1 percent) less than during the same period last fiscal year. Through March, receipts were running 6 percent above last year's amounts; from April through September, they were 7 percent below last year's amounts.

Budget Totals Before and Since April
Billions of Dollars

	Actual, FY 2019		Preliminary, FY 2020		Estimated Change	
	Oct-March	April-Sep	Oct-March	April-Sep	Oct-March	April-Sep
Receipts	1,507	1,955	1,604	1,815	96	–140
Outlays	2,198	2,248	2,347	4,203	149	1,955
Deficit (–)	–691	–293	–743	–2,388	–52	–2,095

Sources: Congressional Budget Office; Department of the Treasury. Based on the *Monthly Treasury Statement* for August 2020 and the *Daily Treasury Statements* for September 2020.

FY = fiscal year.

October Through March. The increase in revenues stemmed primarily from increases in individual income and payroll tax collections, which were driven by higher wages and salaries. An increase in corporate income tax collections reflected quarterly estimated payments for tax year 2019. For other sources of revenue, increases in Federal Reserve remittances and customs duties were partly offset by a decline in excise taxes.

Receipts From April Through September

Billions of Dollars

Major Program or Category	Actual, FY 2019	Preliminary, FY 2020	Estimated Change: Billions of Dollars	Estimated Change: Percent
Individual Income Taxes	994	837 [a]	–157	–15.8
Payroll Taxes	656	690 [a]	34	5.2
Corporate Income Taxes	162	128	–34	–20.9
Other Receipts	142	160	17	12.1
Total	**1,955**	**1,815**	**–140**	**–7.1**
Memorandum:				
Combined Individual Income and Payroll Taxes				
Withheld taxes	1,198	1,100	–97	–8.1
Other, net of refunds	453	427	–26	–5.7
Total	**1,650**	**1,527**	**–123**	**–7.5**

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

a. Provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Families First Coronavirus Response Act reduce payroll taxes. The CARES Act allows most employers to defer payment of their portion of the Social Security payroll tax and certain Railroad Retirement taxes on wages paid from March 27, 2020, through December 31, 2020. Although those provisions affect payroll taxes, at least initially the effects are more likely to be recorded as reductions in individual income tax collections. The Treasury Department does not initially observe a difference between payroll taxes and withheld individual income taxes. Instead, it first allocates withheld taxes to one source or the other on the basis of estimates made in advance. As additional information becomes available, including detailed tax return information, periodic reallocations are made to revise past allocations.

April Through September. The 7 percent decrease in receipts reflects the combined effects of declines in wages and in other economic activity as well as legislation enacted in response to the pandemic.[2]

- **Individual income** and **payroll (social insurance) taxes** together decreased by $123 billion (or 7 percent).
  - Amounts withheld from workers' paychecks decreased by $97 billion (or 8 percent) as a result of legislative actions and a decline in wages. The CARES Act allows most employers to defer payment of their portion of the Social Security payroll tax and certain Railroad Retirement taxes on wages paid from March 27, 2020, through December 31, 2020. In addition, FFCRA provides refundable credits against payroll taxes to compensate employers for paid sick leave and for family and medical leave, and the CARES Act provides a refundable credit against payroll taxes for employee retention.
  - Nonwithheld payments of income and payroll taxes fell by $37 billion (or 7 percent). That drop is attributable both to a decline in economic activity and to legislative actions. The CARES Act included several provisions expected to reduce estimated payments of individual income taxes this year, in particular one that temporarily allows taxpayers to offset more nonbusiness income with business losses.
  - Individual income tax refunds, largely for 2019 taxes, decreased by $10 billion (or 11 percent).

2. Those laws include the Coronavirus Preparedness and Response Supplemental Appropriations Act, the Families First Coronavirus Response Act (FFCRA), the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and the Paycheck Protection Program and Health Care Enhancement Act (PPPHCEA).

- **Corporate income taxes** fell by $34 billion (or 21 percent), largely because of the economic disruption caused by the pandemic. Also, the CARES Act included provisions to reduce corporate income tax payments this year—most significant was a provision that temporarily allows expanded use of net operating losses to offset taxable income and generate refunds.
- Receipts from **other sources** increased by $17 billion (or 12 percent), largely as a result of an increase in remittances from the Federal Reserve.
    - Federal Reserve remittances rose by $23 billion (or 86 percent), in part because of lower short-term interest rates, which reduce the central bank's interest expenses and therefore increase its remittances to the Treasury. As part of its efforts to carry out monetary policy in response to the pandemic, the Federal Reserve also has significantly increased its holdings of assets, an action that tends to further increase remittances.
    - Collections of customs duties decreased by $6 billion (or 18 percent).
    - Excise taxes declined by $2 billion (or 4 percent), on net. Declines in those collections resulting from the suspension of certain aviation excise taxes for the rest of the calendar year and a general reduction in economic activity were offset in part by the final payment of a tax on health insurance providers, which was collected in 2020 but was not collected in 2019. That tax has been repealed for all future years.

Total Outlays: Up by 47 Percent in Fiscal Year 2020

Outlays in fiscal year 2020 were $6,550 billion—$2,103 billion (or 47 percent) higher than they were during the same period in 2019, CBO estimates.

October Through March. Outlays in the first six months of the fiscal year were $2,347 billion—$149 billion (or 7 percent) higher than they were during the same period in 2019. The increase reflects greater spending on the largest mandatory programs—Social Security, Medicare, and Medicaid. The Department of Defense and the Department of Veterans Affairs also saw higher costs, and net interest on the public debt increased. In addition, the Treasury received less in payments from Fannie Mae and Freddie Mac, resulting in higher net outlays.

April Through September. Outlays from April through September 2020 were nearly twice the amounts in the same period in 2019: They rose by $2.0 trillion. Large increases were mostly linked to the pandemic and the federal government's response to it. Specifically, from April through September 2020:

- The **Small Business Administration's** outlays were $578 *billion* (mostly for the Paycheck Protection Program), compared with $552 *million* during the same period in 2019.
- Outlays for **unemployment compensation** were $443 billion more than in the same six months in 2019.
- Payments of **refundable tax credits—**including recovery rebates that began in April under the CARES Act—totaled $274 billion more than in the same months in 2019.
- Outlays totaling $149 billion were made from the **Coronavirus Relief Fund,** which provides aid to state, local, tribal, and territorial governments.
- Outlays for the **Public Health and Social Services Emergency Fund** (included in the "Other" category below) were $113 billion, compared with $1 billion during the same six-month period in 2019.
- **Medicare** outlays were $102 billion (or 30 percent) more than in the same six months in 2019, largely because of the expansion of two programs. First, the CARES Act expanded the accelerated payment program for Medicare Part A providers during the public-health emergency. Second, the Centers for Medicare & Medicaid Services expanded the Advance Payment Program to Part B suppliers via regulation; those payments began in April. Both programs provide advance payments of Medicare claims that will be recouped from claims over the next year.

Outlays From April Through September

Billions of Dollars

Major Program or Category	Actual, FY 2019	Preliminary, FY 2020	Estimated Change: Billions of Dollars	Estimated Change: Percent
Social Security Benefits	524	549	24	4.7
Medicare[a]	339	441	102	29.9
Medicaid	211	251	39	18.6
Subtotal, Largest Mandatory Spending Programs	**1,075**	**1,241**	**165**	**15.4**
Refundable Tax Credits	15	288	274	n.m.
Coronavirus Relief Fund	0	149	149	n.a.
Unemployment Compensation	14	457	443	n.m.
DoD—Military[b]	328	342	13	4.1
Small Business Administration	1	578	577	n.m.
Net Interest on the Public Debt	230	184	–46	–20.0
Other	584	964	379	64.9
Total	**2,248**	**4,203**	**1,955**	**87.0**

Sources: Congressional Budget Office; Department of the Treasury.

DoD = Department of Defense; FY = fiscal year; n.a. = not applicable; n.m. = not meaningful.

a. Medicare outlays are net of offsetting receipts.

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

- Outlays for the **Department of Education** (included in “Other”) from April through September this year were $97 billion higher than the same period in 2019. Most of that increase occurred because the Administration recorded a large upward revision to the subsidy costs of student loans made in previous years. That revision was made primarily because of newly available data that showed lower income for borrowers with income-driven repayment plans.
- Spending for **Medicaid** was $39 billion (or 19 percent) higher than in the same period in 2019. (By comparison, spending in the first six months of fiscal year 2020 was $10 billion more than during the first six months of fiscal year 2019.)
- Outlays from the Department of the Treasury’s **Exchange Stabilization Fund** (included in “Other”) were $31 *billion*, compared with –$270 *million* in those months in 2019, almost entirely because of equity investments in certain Federal Reserve facilities, which provide liquidity for a wide range of economic activities. Those facilities are designed to address financial strain caused by the pandemic. CBO expects that the increase in the deficit caused by those outlays will probably be offset in future years by payments to the Treasury from the facilities’ proceeds.
- Spending by the **Department of Homeland Security** was $36 billion higher than in the same period in 2019. Most of that increase was spending from the Disaster Relief Fund, which was used to pay unemployment benefits.
- Spending by the Department of the Treasury for the new **aviation worker relief** program (included in “Other”) totaled $28 billion.
- Outlays for the **Food and Nutrition Service** were $22 billion higher than in the same period in 2019, mostly related to the Supplemental Nutrition Assistance Program.

Net outlays for **interest on the public debt** decreased by $46 billion compared with the same period in 2019; lower interest rates and lower inflation more than offset the effects of a larger federal debt.

Estimated Deficit in September 2020

In September, the government receives substantial revenues from payments of estimated individual and corporate income taxes and typically records a surplus. However, spending related to the pandemic and the federal government's response to it resulted in outlays that were significantly higher than in previous years, CBO estimates. As a result, CBO estimates, the federal government incurred a deficit of $124 billion in September 2020—compared with an $83 billion surplus in September 2019.

Outlays in September 2019 were affected by shifts in the timing of several types of federal payments from September into August because September 1 fell on a weekend. No such shift occurred this September. If not for that shift in the timing of payments, the surplus in September 2019 and the difference between that surplus and the September 2020 deficit would have been $52 billion smaller.

Receipts Down by 1 Percent in September

CBO estimates that receipts in September totaled $372 billion—$2 billion (or 1 percent) less than those in September 2019. Receipts fell primarily because of declines in economic activity and because of legislation enacted in response to the pandemic.

Budget Totals for September

Billions of Dollars

				Estimated Change With Adjustments for Timing Shifts in Outlays[a]	
	Actual, FY 2019	Preliminary, FY 2020	Estimated Change	Billions of Dollars	Percent
Receipts	374	372	–2	–2	–1
Outlays	291	496	205	153	44
Surplus or Deficit (–)	83	–124	–207	–155	n.m.

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year; 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 that shift, the budget would have shown a surplus of $31 billion in September 2019, CBO estimates.

The estimated changes in September relative to last year were as follows:

- **Individual income** and **payroll (social insurance) taxes** fell by $14 billion (or 5 percent).
    - Amounts withheld decreased by $12 billion (or 6 percent). Those collections are affected by changes in wages, the recently enacted legislation, and actions by the Administration.
    - Individual income tax refunds were about $3 billion larger (or 68 percent) than what they were last September, further decreasing net receipts.
    - Nonwithheld taxes increased by $1 billion (or 1 percent), slightly offsetting those changes.
- Receipts of **corporate income taxes** fell by $10 billion (or 16 percent) compared with last September, probably reflecting recent declines in economic activity and the effects of recently enacted legislation.

- Receipts from **other sources** increased by $21 billion (or 78 percent).
  - Excise taxes increased by $15 billion (or 124 percent) largely from the final payment of a tax on health insurance providers, which was collected in September 2020 but was not collected in 2019. That tax has been repealed for all future years.
  - Remittances from the Federal Reserve increased by $6 billion (or 148 percent), reflecting both reduced interest expenses because short-term interest rates have dropped and additional earnings because the central bank holds more assets.

Spending Up by 70 Percent in September

Total spending in September 2020 was $496 billion, CBO estimates—$205 billion (or 70 percent) more than outlays in September 2019. However, if not for the shift of some federal payments from September to August in 2019, total spending would have been $153 billion (or 44 percent) more than in September 2019. That increase is largely because of the government's response to the pandemic.

Major pandemic-related changes in outlays in September were as follows (the amounts reflect adjustments to exclude the effects of the timing shifts):

- Outlays for **unemployment compensation** increased from $2 billion in September 2019 to $35 billion in September 2020. That rise is attributable both to increased regular unemployment compensation and to enhanced benefits authorized by the CARES Act.
- Spending for the **Department of Homeland Security** was $27 billion higher this September than last September. That increase is almost entirely the result of spending from the Disaster Relief Fund to pay for unemployment benefits under the provisions of a memorandum issued by the Administration in August.[3]
- Outlays by the **Small Business Administration** increased from $85 *million* to $1.8 *billion*, primarily because of loans and loan guarantees to small businesses through the Paycheck Protection Program authorized by the CARES Act and PPPHCEA.
- Outlays for the **Public Health and Social Services Emergency Fund** totaled about $7 *billion* this September, compared with $192 *million* last September. Funding was increased by recent legislation to reimburse health care providers (such as hospitals) for health care costs or for revenues lost as a result of the pandemic. That fund also provides money for testing for and treatment of COVID-19, the disease caused by the coronavirus.
- Spending for **Medicaid** was $5 billion higher this September than last September for three reasons: the 6.2 percentage-point increase in federal matching rates enacted in FFCRA, increased enrollment because of FFCRA's requirement that states retain enrollees on Medicaid until the end of the public-health emergency, and increased enrollment because of higher unemployment.

Other major changes in outlays in September were as follows:

- Outlays for the **Department of Education** were $46 billion higher this September than last September primarily because the Administration recorded a large upward revision to the subsidy costs of student loans made in previous years, as described above.
- **Social Security** benefits rose by $4 billion (or 5 percent) because of increases both in the number of beneficiaries and in the average benefit payment.

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

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3. See the White House, Presidential Memoranda, "Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019" (August 8, 2020), https://go.usa.gov/xGFJr.

Actual Deficit in August 2020: $200 Billion

The Treasury Department reported a deficit of $200 billion for August—$2 billion more than CBO estimated last month, on the basis of the *Daily Treasury Statements*, in the *Monthly Budget Review for August 2020*.

Each month, CBO issues an analysis of federal spending and revenues for the previous month and the fiscal year to date. This report is the latest in that series, found at https://go.usa.gov/xfwBH. In keeping with CBO's mandate to provide objective, impartial analysis, it makes no recommendations. Stephen Rabent and Jennifer Shand prepared the report with assistance from Aaron Feinstein and with guidance from Christina Hawley Anthony, Theresa Gullo, Sam Papenfuss, and Joshua Shakin. It was reviewed by Mark Hadley and Robert Sunshine, edited by Kate Kelly, and prepared for publication by Janice Johnson.
An electronic version is available on CBO's website, www.cbo.gov/publication/56661.