Monthly Budget Review for September 2014

The federal government ran a budget deficit of $486 billion in fiscal year 2014, the Congressional Budget Office (CBO) estimates—$195 billion less than the shortfall recorded in fiscal year 2013, and the smallest deficit recorded since 2008. Relative to the size of the economy, that deficit—at an estimated 2.8 percent of gross domestic product (GDP)—was slightly below the average experienced over the past 40 years, and 2014 was the fifth consecutive year in which the deficit declined as a percentage of GDP since peaking at 9.8 percent in 2009. By CBO's estimate, revenues were about 9 percent higher and outlays were about 1 percent higher in 2014 than they were in the previous fiscal year. CBO's deficit estimate is based on data from the *Daily Treasury Statements*; the Treasury Department will report the actual deficit for fiscal year 2014 later this month.

A deficit of $486 billion for 2014 would be $20 billion smaller than the shortfall that CBO projected in its August 2014 report *An Update to the Budget and Economic Outlook: 2014 to 2024*. Revenues exceeded the August projection by $7 billion and outlays fell short by $13 billion, according to CBO's current estimates.

Fiscal Year Totals
(Billions of dollars)

	Actual, FY 2013	Preliminary, FY 2014	Estimated Change
Receipts	2,774	3,013	239
Outlays	3,454	3,499	44
Deficit (-)	-680	-486	195

Sources: Congressional Budget Office; Department of the Treasury. Based on the *Monthly Treasury Statement* for August 2014 and the *Daily Treasury Statements* for September 2014.

Note: FY = fiscal year.

Total Receipts: Up by 9 Percent in Fiscal Year 2014

Receipts for fiscal year 2014 totaled $3,013 billion, CBO estimates—$239 billion more than receipts in fiscal year 2013. The largest increases were the following:

- **Individual income taxes and payroll (social insurance) taxes** together rose by $154 billion, or 7 percent.
  - Accounting for the bulk of that gain were amounts withheld from workers' paychecks, which increased by $114 billion (or 6 percent). Growth in wages and salaries explains most of the increase in withheld receipts, but almost one-third of it stemmed from changes in law. In particular, the tax rates in effect from October 2013 through December 2013 were higher than those in effect during the same span the year before because of two changes that took effect in January 2013: the expiration of the 2 percentage-point cut in payroll taxes and an increase in tax rates for income above certain thresholds.
  - Nonwithheld receipts rose by $43 billion (or 9 percent), largely reflecting the difference between estimated tax payments made in fiscal years 2013 and 2014. Most of those higher payments were for the 2014 tax year, but some were for the 2013 tax year. The increase in nonwithheld receipts was slightly offset by income tax refunds that were up

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.

by $2 billion (or 1 percent) and by receipts of unemployment insurance taxes that were down by $2 billion (or 3 percent).

- **Receipts from corporate income taxes** rose by $48 billion (or 18 percent). That increase mainly reflects growth in taxable profits in calendar years 2013 and 2014, CBO estimates. Taxable profits were boosted in large part by the expiration at the end of December 2013 of various tax provisions, most significantly the rules that allowed firms with large amounts of investment to expense—that is, immediately deduct from taxable income—50 percent of their investment in equipment.

- **Receipts from the Federal Reserve** (included in “Other Receipts” in the table below) rose by $23 billion (or 31 percent). The increase was attributable mostly to the larger size of the central bank’s portfolio of securities and to a higher yield on that portfolio.

In August, CBO projected receipts totaling $3,006 billion, about $7 billion less than the amount now anticipated. Corporate and individual income taxes were each greater than CBO projected in August, by $7 billion and $5 billion, respectively. All other receipts were slightly lower than CBO projected, on net.

Total Receipts
(Billions of dollars)

Major Program or Category	Actual, FY 2013	Preliminary, FY 2014	Estimated Change: Billions of Dollars	Estimated Change: Percent
Individual Income Taxes	1,316	1,394	78	5.9
Payroll Taxes	948	1,023	76	8.0
Corporate Income Taxes	274	321	48	17.5
Other Receipts	236	274	38	15.9
Total	**2,774**	**3,013**	**239**	**8.6**
Memorandum: Combined Individual Income and Payroll Taxes				
Withheld taxes	1,939	2,053	114	5.9
Other, net of refunds	325	364	39	12.1
Total	**2,264**	**2,418**	**154**	**6.8**

Sources: Congressional Budget Office; Department of the Treasury.

Note: FY = fiscal year.

Total Outlays: Up by 1 Percent in Fiscal Year 2014

Outlays during fiscal year 2014 were $3,499 billion, by CBO’s estimate—$44 billion (or 1 percent) more than they were in fiscal year 2013. That increase would have been slightly larger if not for prepayments of some of the deposit insurance premiums that would otherwise have been due in 2013. Without those prepayments, spending would have increased by $48 billion (still about 1 percent).

Outlays increased for several major programs or categories of spending, CBO estimates:

- Outlays for two low-income health care programs—**Medicaid** and the **subsidies for health insurance** purchased through the exchanges created under the Affordable Care Act, which are included in “Other Activities” in the table below—were $49 billion (or 19 percent) higher in 2014 than in 2013, largely because key provisions of the Affordable Care Act took effect in January 2014. Outlays for those subsidies amounted to $13 billion in 2014, CBO estimates.

- Spending for **Social Security** benefits rose by $37 billion (or 5 percent).

- Net outlays also increased because payments made by **Fannie Mae and Freddie Mac** to the U.S. Treasury were $23 billion less than they were in fiscal year 2013. (Such payments are recorded in the budget as offsetting receipts—that is, as reductions in outlays.) Because of a revaluation of certain tax assets that significantly increased the net worth of Fannie Mae, that government-sponsored enterprise made a onetime payment of roughly $50 billion to the Treasury in fiscal year 2013. Freddie Mac made a payment for a similar reason early in fiscal year 2014, but that payment was only half the amount that Fannie Mae had paid in the previous fiscal year. The difference in net receipts from those two payments was partially offset by the larger quarterly payments made by Fannie Mae and Freddie Mac in fiscal year 2014.
- The net cost of the programs of the **Department of Education** (also included in "Other Activities") increased by $19 billion (or 46 percent) because the department made upward revisions this June, and downward revisions last June, to its estimates of the cost of student loans and loan guarantees issued in prior years.

By CBO's estimates, decreases in spending for some other programs and agencies during 2014 partially offset the increases highlighted above:

- Total spending for military activities of the **Department of Defense** fell by $30 billion (or 5 percent).
- Outlays for **unemployment benefits** declined by $24 billion (or 34 percent), mostly because fewer people have received those benefits since the Emergency Unemployment Compensation program expired at the end of December 2013.
- Outlays by the **Department of Housing and Urban Development** (included in "Other Activities" in the table below) fell by $18 billion (or 31 percent) because the department made only a small net upward revision in 2014 to the estimated costs of mortgage insurance provided in prior years, compared with a much larger upward revision in 2013.
- Spending by the **Department of Homeland Security** (also included in "Other Activities") fell by $15 billion (or 26 percent), mostly because outlays for flood insurance and disaster relief were lower than they were in fiscal year 2013.
- Net outlays of the **Federal Deposit Insurance Corporation** (FDIC, also included in "Other Activities") declined by $13 billion for two reasons. The first involved the premiums that insured financial institutions pay to FDIC, which are recorded in the budget as offsetting receipts. The institutions paid the premiums throughout fiscal year 2014—but not during the first half of fiscal year 2013, because they had prepaid the premiums for that period in fiscal year 2010. The second reason for the decline in outlays was that in fiscal year 2013, FDIC refunded excess insurance premiums that had previously been paid by certain institutions, whereas no such refunds were paid in 2014.

CBO's current estimate of outlays in 2014 is $13 billion smaller than the amount that the agency projected in August. Spending for Medicaid, the Department of Education, and interest on the public debt was less than CBO had projected.

Total Outlays
(Billions of dollars)

Major Program or Category	Actual, FY 2013	Preliminary, FY 2014	Estimated Change	Estimated Change With Adjustments for Timing Shifts[a]	
				Billions of Dollars	Percent
DoD—Military[b]	608	578	-30	-30	-4.9
Social Security Benefits	803	840	37	37	4.6
Medicare[c]	495	509	14	14	2.7
Medicaid	265	302	36	36	13.6
Unemployment Insurance	72	47	-24	-24	-34.0
Other Activities	1,057	1,030	-28	-24	-2.3
Subtotal	**3,300**	**3,305**	**5**	**9**	**0.3**
Net Interest on the Public Debt	259	271	12	12	4.8
Troubled Asset Relief Program	-9	-4	5	5	n.m.
Net Outlays for GSEs	-97	-74	23	23	n.m.
Total	**3,454**	**3,499**	**44**	**48**	**1.4**

Sources: Congressional Budget Office; Department of the Treasury.

Note: FY = fiscal year; DoD = Department of Defense; n.m. = not meaningful;
GSEs = the government-sponsored enterprises Fannie Mae and Freddie Mac.

a. Adjusted amounts exclude the effects of prepayments of deposit insurance premiums.

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

c. Medicare outlays are net of offsetting receipts.

Estimated Surplus in September 2014: $106 Billion

By CBO's estimates, the government realized a surplus of $106 billion in September 2014—$31 billion more than the surplus in September 2013. Because September 1, 2013, fell on a weekend and September 1, 2014, was the Labor Day holiday, certain payments that ordinarily would have been made in September were instead made in August in both years. Without those shifts in the timing of payments, the September 2014 surplus would have been $47 billion larger than the September 2013 surplus, CBO estimates.

CBO estimates that receipts totaled $350 billion in September 2014—$48 billion (or 16 percent) more than they did in September 2013. Higher receipts of individual and corporate income taxes accounted for much of that gain; quarterly estimated payments for those taxes are due each September. In addition, the payment of a new excise tax on health insurance providers, which was enacted in the Affordable Care Act, was due for the first time in September 2014.

Total spending amounted to $244 billion in September 2014, CBO estimates—$17 billion (or 8 percent) more than it did in the same month the previous year. However, spending in September 2014 would have been only $1 billion (or 1 percent) more than it was in September 2013 if not for the effects of timing shifts. Among the larger changes in outlays this September, compared with those last September, were the following (with adjustments made, when applicable, to account for the timing shifts):

- Outlays for the **Department of Housing and Urban Development** declined by $21 billion (or 86 percent), mostly because the agency made larger upward revisions in 2013 than it did in 2014 to its estimates of the cost of mortgage insurance provided in prior years.
- Spending for the government's largest benefit programs increased by $14 billion (or 11 percent). That total consisted of $7 billion (a 34 percent increase) for **Medicaid**, $4 billion (a 10 percent increase) for **Medicare**, and $3 billion (a 5 percent increase) for **Social Security**.
- Payments made by **Fannie Mae and Freddie Mac** to the U.S. Treasury were $9 billion (or 58 percent) less than they were in September 2013, increasing net outlays.
- Outlays for military activities by the **Department of Defense** and **unemployment benefits** decreased by $1 billion each.

Budget Totals for September
(Billions of dollars)

				Estimated Change With Adjustments for Timing Shifts[a]	
	Actual, FY 2013	Preliminary, FY 2014	Estimated Change	Billions of Dollars	Percent
Receipts	301	350	48	48	16.0
Outlays	226	244	17	1	0.6
Surplus	75	106	31	47	115.5

Sources: Congressional Budget Office; Department of the Treasury.

Note: FY = fiscal year.

a. Adjusted amounts exclude the effects of shifting payments that otherwise would have fallen on weekends or holidays. Without those timing shifts, the surplus would have been $40 billion in September 2013 and $87 billion in September 2014.

Deficit in August 2014: $129 Billion

The Treasury Department reported a deficit of $129 billion for August—the same amount that CBO estimated in the *Monthly Budget Review for August 2014* on the basis of the *Daily Treasury Statements*.

This document was prepared by David Rafferty, Joshua Shakin, and Adam Wilson. It is available at www.cbo.gov/publication/49450.