



MONTHLY BUDGET REVIEW

Fiscal Year 2005

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for April and the *Daily Treasury Statements* for May

June 6, 2005

The federal government incurred a deficit of about \$273 billion during the first eight months of fiscal year 2005, CBO estimates, \$73 billion less than the shortfall recorded through May of last year. Revenues have risen by 15 percent compared with receipts in the same period of 2004, more than double the 7 percent growth in outlays.

APRIL RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	277	278	1
Outlays	217	220	3
Surplus	60	58	-2

Sources: Department of the Treasury; CBO.

The Treasury reported a surplus of about \$58 billion in April, \$2 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. Outlays were \$3 billion more than expected, largely due to spending for student loans. The higher-than-expected spending was partially offset by greater-than-projected individual income receipts.

ESTIMATES FOR MAY (Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	115	152	37
Outlays	178	188	10
Deficit (-)	-62	-36	26

Sources: Department of the Treasury; CBO.

CBO estimates that the federal government recorded a deficit of \$36 billion in May, about \$26 billion less than the deficit recorded in May 2004. Receipts grew by about \$37 billion compared with the same month last year, while outlays grew by \$10 billion.

Individual income and payroll tax receipts constituted over 90 percent (or \$34 billion) of the revenue gain. Withheld individual income and payroll taxes were about \$14 billion, or 13 percent, higher than they were last May.

About half of that growth resulted from an extra business day in May of this year. The remaining growth is consistent with continued increases in wages and salaries in the economy. In addition, nonwithheld income and payroll taxes were about \$12 billion higher than in May 2004. Most of that increase occurred because more of the payments made with filings of individual income tax returns were tabulated in May than normally occurs. Revenues this May were also greater because receipts going to state unemployment trust funds from unemployment taxes—which are recorded on the federal budget—were higher (by \$4 billion) and refunds of individual income taxes were lower (by \$3 billion).

Spending in May grew by about \$10 billion compared with the same month last year. However, outlays last May were unusually high because they included \$6 billion in adjustments to the estimated subsidy costs of loans and loan guarantees made in previous years. Excluding the effect of those adjustments, outlays were about \$16 billion, or 10 percent, higher than in May 2004. Spending for defense, interest on the public debt, and Medicare grew by about \$3 billion each. Higher outlays for Social Security, Medicaid, and the Departments of Agriculture and Homeland Security account for much of the remaining increase.

BUDGET TOTALS THROUGH MAY (Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	1,186	1,369	183
Outlays	1,532	1,642	110
Deficit (-)	-346	-273	73

Sources: Department of the Treasury; CBO.

The federal government recorded a deficit of \$273 billion for the first eight months of fiscal year 2005, CBO estimates, about \$73 billion less than for the same period last year. Outlays have grown by \$110 billion, but revenues grew more, rising by \$183 billion.

Note: Unless otherwise indicated, the figures in this report include the Social Security trust funds and the Postal Service fund, which are off-budget. Numbers may not add up to totals because of rounding.

RECEIPTS THROUGH MAY
(Billions of dollars)

Major Source	Actual FY2004	Preliminary FY2005	Percentage Change
Individual Income	502	605	20.5
Corporate Income	96	142	47.5
Social Insurance	493	525	6.4
Other	<u>94</u>	<u>97</u>	3.1
Total	1,186	1,369	15.4

Sources: Department of the Treasury; CBO.

Receipts for the first eight months of this fiscal year were about \$183 billion, or 15.4 percent, higher than those in the comparable period in 2004. More than half of the gains came from individual income tax receipts, which are up by about \$103 billion, or roughly 20 percent. Strong receipts in April and May, mainly from amounts due with individuals' tax returns for 2004, boosted nonwithheld income taxes by \$53 billion, or 32 percent, over the eight-month period. In addition, refunds from filings of individual tax returns were smaller this fiscal year by about \$7 billion, or 4 percent, which also boosted receipts compared with the same period last year. A portion of the increase in net payments with tax returns occurred because last year's payments were temporarily held down by provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003. The strong growth in those payments also suggests that certain types of income grew very strongly in 2004, or were more concentrated among high-tax-rate taxpayers. It normally takes about a year for full information from the tax returns to become available for analysis.

Withholding from paychecks has also pushed up both individual income and social insurance (payroll) taxes this year. Withholding for those two sources combined has increased by about \$69 billion, or 7 percent. About \$43 billion of that growth is allocated to income taxes and the remaining \$26 billion to social insurance taxes. Withholding growth indicates that wages and salaries in the national economy are growing. Because withheld taxes account for a large portion of the remaining receipts in fiscal year 2005, growth in total receipts for the full year should be less than the 15.4 percent recorded so far.

Social insurance taxes are higher by \$31 billion, or 6.4 percent, in the first eight months of the fiscal year. Besides the gains from withholding, social insurance receipts have increased by about \$4 billion as a result of replenishment of the states' unemployment insurance trust

funds. Those amounts were depleted in the 2001 recession and have been growing rapidly since 2002.

Corporate income taxes in the first eight months of the fiscal year are about \$46 billion, or 48 percent, higher than in the comparable period last year. At this point in the year, they primarily reflect growth in profits in calendar year 2004. The estimated payments due on June 15 will provide the first gauge of taxable corporate profits for 2005, and thus a better indication of corporate receipts for the full fiscal year.

OUTLAYS THROUGH MAY
(Billions of dollars)

Major Category	Actual FY2004	Preliminary FY2005	Percentage Change
Defense—Military	285	307	7.5
Social Security			
Benefits	323	340	5.2
Medicare	195	214	10.1
Medicaid	116	120	3.5
Other Programs			
and Activities	<u>503</u>	<u>537</u>	6.8
Subtotal	1,422	1,518	6.8
Net Interest on the			
Public Debt	<u>110</u>	<u>123</u>	12.2
Total	1,532	1,642	7.2

Sources: Department of the Treasury; CBO.

CBO estimates that outlays through May were about 7 percent higher than in the first eight months of fiscal year 2004, roughly the rate of growth expected for the year as a whole. The year-to-year growth in cumulative outlays has changed little in recent months for most major categories of spending. The one exception is outlays for net interest on the public debt, which have surged in the past few months. Interest outlays through May were \$13 billion, or 12 percent, higher than in the first eight months of 2004 as a result of growing debt, rising short-term interest rates, and higher inflation (which affects the cost of inflation-indexed notes).

Medicare spending continues to grow rapidly—up by more than 10 percent so far this year. Significant increases in spending have also been recorded for farm income-support and nutrition programs of the Department of Agriculture, education programs, disaster relief activities of the Department of Homeland Security, and refundable tax credits.