



MONTHLY BUDGET REVIEW

Fiscal Year 2006

A Congressional Budget Office Analysis

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

May 4, 2006

In the first seven months of fiscal year 2006, the federal government ran a deficit of \$183 billion, CBO estimates, \$53 billion less than for the same period last year. Robust growth in revenues and calendar-related shifts in the timing of certain payments account for much of that improvement. CBO now expects that the 2006 deficit will be significantly less than \$350 billion, perhaps as low as \$300 billion, assuming enactment of the pending supplemental appropriations and tax reconciliation legislation.

MARCH RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	166	165	-2
Outlays	254	250	-3
Deficit (-)	-87	-85	2

Sources: Department of the Treasury; CBO.

The Treasury reported a deficit of \$85 billion in March, about \$2 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. The composition of tax refunds was slightly different than projected, resulting in lower outlays for refundable tax credits and more tax refunds (recorded as reductions in revenues) than CBO had anticipated. Other revenues were about \$1 billion higher than expected.

ESTIMATES FOR APRIL (Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	278	316	38
Outlays	220	196	-24
Surplus	58	120	62

Sources: Department of the Treasury; CBO.

The surplus in April was \$120 billion, CBO estimates, \$62 billion more than the surplus recorded in the same month last year. About half of that increase is due to the effect of the calendar on the timing of certain payments.

Receipts in April totaled \$316 billion, CBO estimates, \$38 billion (or 14 percent) higher than receipts in April 2005. Nonwithheld receipts of individual income and payroll taxes, mostly amounts paid with income tax filings, climbed by \$21 billion (or 14 percent). The percentage increase in nonwithheld receipts might be

closer to 20 percent for April and May combined because more receipts are being recorded in early May this year than were tallied by this time last year. Corporate receipts rose by about \$9 billion (or 27 percent) in April, when the first quarterly estimated payment for most firms was due. Refunds of individual income taxes were lower by \$7 billion in April because, compared with last April, the month contained one fewer Friday, the day on which almost all refunds are disbursed.

Outlays in April were \$24 billion lower than in the same month last year, largely because of shifts in the timing of certain payments. Calendar-related adjustments reduced outlays by about \$30 billion relative to their level in April 2005. Outlays in April 2006 were unusually low because the first day of the month fell on a weekend, shifting roughly \$17 billion in payments from April to the end of March. In contrast, outlays were unusually high last year because May 1 fell on a weekend, which shifted about \$13 billion from May to April. In addition, adjustments to the estimated subsidy costs of loans and loan guarantees made in previous years increased outlays in April 2005 by about \$2 billion. In the absence of those calendar and subsidy adjustments, outlays in April would have grown by about \$9 billion (or 4 percent), largely because of increased spending on Social Security, Medicare, and defense.

BUDGET TOTALS THROUGH APRIL (Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	1,217	1,353	137
Outlays	1,454	1,537	83
Deficit (-)	-237	-183	53

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$183 billion in the first seven months of fiscal year 2006, about \$53 billion less than the shortfall for the same period last year. Receipts in that period rose by about \$137 billion, or more than 11 percent.

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 APRIL
(Billions of dollars)

Major Source	Actual FY2005	Preliminary FY2006	Percentage Change
Individual Income	547	603	10.2
Corporate Income	134	174	29.5
Social Insurance	449	482	7.2
Other	<u>86</u>	<u>95</u>	10.8
Total	1,217	1,353	11.2

Sources: Department of the Treasury; CBO.

Receipts of corporate income taxes have grown the most rapidly so far this year—by about \$40 billion, or almost 30 percent. Receipts of individual income taxes have increased by more than \$55 billion, or 10.2 percent, and receipts of social insurance taxes have risen by \$32 billion, or 7.2 percent.

Payments of corporate income taxes through April have risen more than CBO expected at the beginning of the year. CBO expected receipts for the entire year to increase by \$24 billion—or about 9 percent. But in the first seven months of the year, they have already increased by \$40 billion. Data from the national income and product accounts suggest that profits in the January-March quarter of 2006 were higher than CBO anticipated, possibly explaining a large share of the unexpectedly strong receipts. It is very likely that corporate receipts will end the year well above CBO's previous projection, with the amount depending on corporate profitability in future months.

Growth in individual income and payroll taxes has stemmed in part from withheld receipts, which have increased by \$59 billion, or about 6.5 percent, so far this year. That result reflects continued growth in wages and salaries in the economy.

Nonwithheld receipts have increased more rapidly—by about \$35 billion, or 17 percent. About one-quarter of the increase was recorded in January, when taxpayers made their last quarterly estimated payment of taxes for 2005. Most of the remainder of the increase occurred in April, when taxpayers filed their tax returns for 2005. Those final payments for April were about what CBO projected earlier this year, but substantial receipts in the first few days of May suggest that final payments will run roughly \$20 billion to \$25 billion higher than CBO expected.

A number of factors may be playing a role in the strength of final payments transmitted with income tax returns. Various types of personal income not automatically

subject to tax withholding may have increased faster than expected in 2005. Sources of such income could include capital gains, noncorporate business income, interest, and dividends. In addition, growth in incomes in 2005 may have been concentrated more than expected among higher-income taxpayers, who face the highest tax rates. Additional data from tax returns for 2005, which will start to become available later this year, will help CBO identify more clearly the sources of growth in taxable income.

OUTLAYS THROUGH APRIL
(Billions of dollars)

Major Category	Actual FY2005	Preliminary FY2006	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	273	286	5.1	6.4
Social Security				
Benefits	297	314	5.8	5.8
Medicare	191	209	9.2	13.7
Medicaid	105	103	-1.8	-1.8
Other Programs				
and Activities	<u>483</u>	<u>496</u>	2.5	5.7
Subtotal	1,349	1,408	4.4	6.4
Net Interest on the				
Public Debt	<u>105</u>	<u>129</u>	23.2	23.2
Total	1,454	1,537	5.7	7.6

Sources: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends, holidays, or changes in the accounting of certain health payments of the Department of Defense.

Outlays through April were 7.6 percent higher than in the same period last year, CBO estimates, excluding calendar-related shifts in the timing of certain payments. That rate of growth is consistent with CBO's current projection for the fiscal year as a whole, assuming enactment of proposed supplemental appropriations.

Outlays for both defense and nondefense activities (excluding net interest) increased by about 6 percent through April, after adjusting for timing shifts. Medicare spending (adjusted) rose by \$26 billion, or about 14 percent, during this period, with nearly half of that increase resulting from the new prescription drug benefit that took effect in January. Medicaid spending, by contrast, is slightly below last year's figure, in part because of that program's lower spending for prescription drugs, some of which has been shifted to Medicare. Payments for flood insurance and disaster relief also rose substantially because of costs associated with Hurricanes Katrina and Rita. Outlays for net interest on the public debt were 23 percent higher than in the first seven months of 2005.