



MONTHLY BUDGET REVIEW

Fiscal Year 2002

A Congressional Budget Office Analysis

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

May 9, 2002

Receipts in April were 29 percent lower than in the same month last year and about \$60 billion less than CBO had projected. So far this year, receipts are 11 percent below last year's level and about \$75 billion less than CBO's baseline projection. The dramatic decline in revenue in April contributed to a deficit of \$66 billion for the first seven months of fiscal year 2002, CBO estimates. That deficit is a sharp contrast to the \$165 billion surplus recorded for the same period last year. CBO will issue revised estimates of the 2002 budget this summer.

MARCH RESULTS

(In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	110	111	1
Outlays	170	175	5
Deficit (-)	-60	-64	-4

SOURCES: Department of the Treasury; CBO.

The Treasury reported a deficit of \$64 billion in March, \$4 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. Spending was \$5 billion higher than projected by CBO, with most of the additional outlays recorded by the Departments of Defense, Agriculture (USDA), and Veterans Affairs. USDA's outlays included a \$1.3 billion adjustment for increased subsidy costs for credit programs. Receipts in March were \$1 billion higher than estimated by CBO.

ESTIMATES FOR APRIL

(In billions of dollars)

	Actual FY2001	Preliminary FY2002	Estimated Change
Receipts	332	236	-95
Outlays	142	169	27
Surplus	190	68	-122

SOURCES: Department of the Treasury; CBO.

CBO estimates that the surplus in April was about \$68 billion—\$122 billion less than in the same month last year and the lowest April surplus since 1995. Receipts were about \$95 billion lower, and outlays \$27 billion higher, than in April 2001.

The sharp decline in receipts occurred mainly in non-withheld income and self-employment (social insurance)

taxes, which shrank by \$67 billion, or 33 percent—the largest percentage decline in decades. In April, those receipts largely represent final payments of individual income taxes for the previous tax year. In addition, individuals received a substantial increase in refunds, which exceeded last April's refunds by \$8 billion, or almost 25 percent. Other receipts were also weak in April. Receipts from corporate income taxes fell by \$14 billion, or more than 40 percent, from last April's level, in large part because of the corporate tax cuts enacted in March 2002. Withholding of income and employment taxes fell by \$7 billion, mostly because of the cuts in individual income taxes enacted last year.

Much of the increase in outlays reflects unusually low spending last April. Because April 1, 2001, fell on a weekend, about \$11 billion in payments were made in March that year instead of in April. In addition, last April the Small Business Administration recorded a \$2 billion offset to outlays to reflect revised estimates of the cost of credit subsidies. Excluding those differences, outlays were about 8 percent higher this April than in April 2001.

BUDGET TOTALS THROUGH APRIL

(In billions of dollars)

	October-April		Estimated Change
	FY2001	FY2002	
Receipts	1,254	1,115	-138
Outlays	1,089	1,181	93
Surplus or Deficit (-)	165	-66	-231

SOURCES: Department of the Treasury; CBO.

The government recorded a deficit of \$66 billion for the first seven months of fiscal year 2002, CBO estimates—a net reversal of \$231 billion from the \$165 billion surplus recorded for the same period last year. Receipts were about \$138 billion lower than last year's figure, and outlays were about \$93 billion higher.

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
(In billions of dollars)

Major Source	October-April		Percentage Change
	FY2001	FY2002	
Individual Income	659	536	-18.7
Corporate Income	103	88	-14.9
Social Insurance	404	409	1.3
Other	<u>87</u>	<u>83</u>	-5.2
Total	1,254	1,115	-11.0

SOURCES: Department of the Treasury; CBO.

Total receipts through April of this fiscal year were 11 percent lower than in the same period last year. About half of that decline resulted from the weak collections of nonwithheld income and self-employment taxes in April. Although CBO had anticipated some of that weakness, the decline was almost \$45 billion more than expected. Furthermore, refunds of individual income taxes were about \$15 billion above CBO's previous estimate. Withholding of income and employment taxes and payments of corporate income taxes also fell short of expectations. As a result, total receipts through April were roughly \$75 billion lower than CBO had projected in March.

It is not possible now to say whether the unexpected weakness in receipts will persist through the rest of the fiscal year. Additional refunds as the Internal Revenue Service finishes processing April tax returns may add to the shortfall. But the economy grew faster in the first quarter of calendar year 2002 than CBO projected in March, which could buttress receipts as the year progresses. But even if the situation improves later in the year, receipts in fiscal year 2002 will still be significantly lower than CBO projected in March.

The unexpected weakness in receipts largely reflects economic activity in 2001, although currently available data are not sufficient to indicate which types of income are responsible for the shortfall. CBO expects that the measures of wages and salaries for 2001 in the national income accounts will be revised downward substantially in July, consistent with lower-than-anticipated taxable income. Changes in the distribution of income may also be playing a role in the revenue decline.

Taxes paid on capital gains realizations are probably another important factor underlying the weak receipts in April. In recent years, individuals' capital gains have

accounted for only about 5 percent of total tax receipts, but they have represented a much larger share of non-withheld receipts in April. CBO cannot isolate the precise contribution of capital gains taxes to April receipts because taxpayers do not pay taxes separately on different types of income, and taxes on gains can be paid to the Treasury through withholding, estimated payments, or final payments. However, mutual funds, which in recent years have distributed roughly 10 percent of the capital gains reported on tax returns, sharply reduced their distributions in 2001. That decline is likely to have particularly affected final payments in April. In addition, part of the unexpected revenue surge in the second half of the 1990s resulted from capital gains, and it is likely that a similar phenomenon played a role this April—in reverse.

OUTLAYS THROUGH APRIL
(In billions of dollars)

Major Category	October-April		Percentage Change	
	FY2001	FY2002	Actual	Adjusted ^a
Defense—Military	165	187	13.4	11.5
Social Security				
Benefits	245	259	5.5	5.5
Medicare	134	145	8.4	10.8
Medicaid	74	85	14.6	14.6
Unemployment				
Insurance	18	29	67.2	67.2
Other Programs				
and Activities	<u>322</u>	<u>371</u>	15.1	13.5
Subtotal	958	1,076	12.3	11.8
Net Interest on the				
Public Debt	<u>130</u>	<u>105</u>	-19.6	-19.6
Total	1,089	1,181	8.5	8.1

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of week-ends, holidays, or legislative action.

Outlays were 8.5 percent higher in the first seven months of fiscal year 2002 than in the same period last year, CBO estimates. Adjusted for shifts in the dates of certain payments, that growth rate was about 8.1 percent. CBO projects that for the entire fiscal year, spending will be about 8 percent higher than in 2001. Although net interest on the public debt has declined, other spending is growing at an annual rate of almost 12 percent.