



MONTHLY BUDGET REVIEW

Fiscal Year 2001

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for August and the *Daily Treasury Statements* for September

September 26, 2001

Several recent developments have substantially changed the budget outlook for fiscal year 2001. The total budget surplus for the fiscal year will be in the vicinity of \$121 billion, CBO estimates, well below the \$153 billion CBO projected in August.

FISCAL YEAR TOTALS (In billions of dollars)

	Actual FY2000	Estimate FY2001	Estimated Change
Receipts	2,025	1,989	-36
Outlays	1,788	1,868	80
Surplus	237	121	-116

SOURCES: Department of the Treasury; CBO.

Fiscal year 2001 will end with a total surplus of approximately \$121 billion, CBO estimates. This will be the fourth consecutive year in which the federal government has run a surplus, after incurring deficits for 28 consecutive years. The surplus will amount to about 1.2 percent of gross domestic product, less than the 2.4 percent recorded last year and the 1.4 percent seen in fiscal year 1999.

CBO estimates that federal revenues in 2001 will be about \$36 billion less than they were in fiscal year 2000, a decline of 1.8 percent. The year-to-year decrease, the first since 1982-1983, is largely the result of a weakening economy and legislation that provided for advance refunds of 2001 taxes (amounting to about \$35 billion) and a shift of an estimated \$33 billion in corporate income tax payments from September (fiscal year 2001) to October (fiscal year 2002).

Outlays will grow by \$80 billion—or 4.5 percent—from 2000 to 2001, CBO estimates. That increase is lower than the 5.0 percent growth recorded from 1999 to 2000 but greater than the 3.4 percent average growth over the 1995-2000 period. Spending for Medicare and Medicaid will rise by about \$36 billion, an increase of almost 11 percent. Social Security outlays will be about \$24 billion higher than they were last year, an increase of almost 6 percent. In contrast, net interest on the public debt will

fall by about \$17 billion, the result of lower interest rates and a decline in the amount of outstanding debt held by the public.

If a taxpayer's advance refund exceeds the amount of his or her tax liability for 2001, the taxpayer will not be required to repay the difference. CBO believes that the difference should be classified as a government outlay—similar to the refundable portion of the earned income tax credit. About 10 percent of the \$35 billion in advance refunds fall in this category, CBO estimates. The Treasury statements, however, have been treating all of the refunds as reductions in revenue. If CBO's estimates were restated to conform to the Treasury's treatment, revenues for fiscal year 2001 would be \$1,986 billion and outlays would total \$1,864 billion.

AUGUST RESULTS (In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	123	123	*
Outlays	200	203	2
Deficit (-)	-78	-80	-2

SOURCES: Department of the Treasury; CBO.

NOTE: * = between zero and \$500 million.

The Treasury reported a deficit of \$80 billion in August, about \$2 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. The difference was largely attributable to a \$3.4 billion adjustment in the Administration's estimate of the subsidy costs for the single-family mortgage insurance program of the Federal Housing Administration. CBO had expected that adjustment to be made in September.

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.

ESTIMATES FOR SEPTEMBER

(In billions of dollars)

	Actual FY2000	Estimate FY2001	Estimated Change
Receipts	219	155	-64
Outlays	154	126	-28
Surplus	66	29	-37

SOURCES: Department of the Treasury; CBO.

CBO estimates that the surplus in September will be about \$29 billion—less than half the surplus recorded in September 2000. Compared with the same month last year, receipts are expected to decline by \$64 billion, while outlays are anticipated to decrease by about \$28 billion.

With less than a week remaining in fiscal year 2001, CBO now projects that receipts in September will amount to \$155 billion and that total receipts for the year will be \$1,989 billion, or about \$22 billion less than it projected in its August baseline. Receipts through the first three weeks of September are much lower than expected for withheld income and payroll taxes as well as for estimated income tax payments by individuals. Some of the weakness, especially for estimated payments, may represent payment delays related to the September 11 terrorist attack. Since the effect of the delays on tax payments is highly uncertain and withheld taxes are inherently unpredictable on a day-to-day basis, receipts for the fiscal year could vary from this estimate by several billion dollars in either direction.

Withholding from income and payroll taxes has been weaker than expected both before and after the attack. Extrapolating the recent weakness through the final week of September, CBO expects the withholding shortfall to explain over half of its downward revision to receipts for the current fiscal year. It is impossible to disentangle the effects on withholding from the September 11 attack itself and the weakening economy before the attack, but the economic slowdown clearly was reducing withholding below expected levels even before the attack.

Estimated payments by individuals for income taxes in September have also been much weaker than CBO expected. CBO estimates that those payments will fall close to \$10 billion short of its August baseline estimate. However, an unusual amount of uncertainty surrounds that estimate—even with less than a week left in the fiscal year—because of delays allowed to taxpayers in making those payments. As a result of the attack, the Internal Revenue Service (IRS) has allowed all taxpayers nationwide to make their estimated payments by September 24, instead of the prior due date of September 17. Those

checks will arrive at the IRS and be deposited in the final week of September. In addition, taxpayers may delay their payments until January 15, 2002, if they reside in New York City or Arlington County, Virginia; work or have financial records in one of those locations; or participated in relief efforts or were victims of the terrorist attack.

Since the nationwide delays were granted three days before the payments were originally due, some taxpayers may have already made those payments. It is also unclear how many taxpayers qualifying for the January 15, 2002, deadline will actually delay their payments beyond the end of September.

Corporations normally make their estimated tax payments for the third quarter in September, but the recently enacted legislation delayed those payments until October 1, just beyond the end of the current fiscal year. As a result, the effect of the terrorist attack and the weakening economy on receipts from corporate taxes in September should not be significant, although firms could increase their filings for refunds before the fiscal year ends. The economic forces that are weakening withholding and estimated payments should diminish the October 1 corporate payments as well. Those payments may also be smaller than previously expected because corporations located in New York City or Arlington may delay their estimated payments until January 15, 2002.

Outlays will be unusually low this month because the first two days of September fell on a weekend and September 3 was a holiday. As a result, about \$40 billion in payments normally made at the beginning of September were instead made at the end of August. Although the President has signed into law a \$20 billion emergency supplemental appropriation and legislation providing financial aid to airlines in response to the September terrorist attack, very little of those funds will be spent in September.

On the other hand, the Treasury is expected to record an outlay of about \$12 billion in September to reflect the continued uncertainty regarding licenses to use the electromagnetic spectrum that were initially issued to NextWave. Those licenses have been subject to protracted litigation since the company filed for bankruptcy protection in 1998. In January 2001, the Federal Communications Commission reauctioned the disputed licenses, and the Treasury recorded a \$12.5 billion offset against outlays in July in the expectation of retaining the auction proceeds. However, a court decision has cast doubt on the validity of that reauction, and the September adjustment will largely reverse the July transaction. Discussions about a possible settlement are under way, and further budgetary adjustments may be necessary to reflect future developments.