



MONTHLY BUDGET REVIEW

Fiscal Year 2005

A Congressional Budget Office Analysis

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

September 7, 2005

The federal government ran a deficit of about \$352 billion in the first 11 months of this fiscal year, CBO estimates, \$85 billion less than in the same period last year. In mid-August, CBO predicted that the government would run a surplus in September (stemming from quarterly payments of estimated income taxes) that would bring the deficit for fiscal year 2005 down to \$331 billion. Hurricane Katrina will affect that outcome—but with only one month left in the fiscal year, the net impact on the 2005 deficit is not likely to exceed a few billion dollars. Substantially greater costs will be incurred in fiscal year 2006.

JULY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	141	142	1
Outlays	199	195	-4
Deficit (-)	-58	-53	5

Sources: Department of the Treasury; CBO.

The deficit in July was \$53 billion, \$5 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. The difference was primarily on the spending side of the budget. Outlays were lower than expected for a number of agencies, including the Departments of Agriculture, Defense, Education, Energy, and Homeland Security.

ESTIMATES FOR AUGUST (Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	138	156	19
Outlays	179	206	27
Deficit (-)	-41	-50	-9

Sources: Department of the Treasury; CBO.

The deficit in August was about \$50 billion, CBO estimates, \$9 billion more than the shortfall incurred in the same month last year. Adjusted for certain effects of the calendar on both revenues and outlays, however, the August deficits in the two years were very similar.

Receipts in August exceeded the total in August 2004 by about \$19 billion, or 13 percent, CBO estimates.

Withheld income and payroll taxes rose by about \$14 billion, or 12 percent. Had there not been an extra business day this August, however, the increase in withheld receipts would have been \$9 billion to \$10 billion, or more than 8 percent, CBO estimates. That increase largely reflects gains in income, especially wages and salaries, over the past year. Other receipts rose by about \$4 billion, or 18 percent, mainly because of increases in nonwithheld income and payroll taxes, Federal Reserve System earnings, and corporate income taxes.

Outlays were \$27 billion higher this August than in the same month last year because of growth in spending and the effects of the calendar. August 1, 2004, fell on a weekend, which shifted about \$12 billion in outlays from August into July of that year. Without that timing shift, the increase in outlays this August would have amounted to about 8 percent. Spending for defense, Medicare, education, and Social Security accounted for much of that increase.

BUDGET TOTALS THROUGH AUGUST (Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	1,672	1,903	230
Outlays	2,110	2,255	145
Deficit (-)	-437	-352	85

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of about \$352 billion for the first 11 months of fiscal year 2005, about 20 percent less than the shortfall recorded for the same period last year. Growth in spending was more than offset by a substantial increase in receipts, which rose by an estimated \$230 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 AUGUST
(Billions of dollars)

Major Source	Actual FY2004	Preliminary FY2005	Percentage Change
Individual Income	720	830	15.3
Corporate Income	147	208	41.6
Social Insurance	672	727	8.1
Other	<u>133</u>	<u>138</u>	3.1
Total	1,672	1,903	13.8

Sources: Department of the Treasury; CBO.

Receipts were almost 14 percent higher through the first 11 months of fiscal year 2005 than they were during the same period a year ago. Individual income tax receipts rose by \$110 billion, or 15.3 percent, and receipts from social insurance taxes increased by \$54 billion, or 8.1 percent. Receipts from corporate income taxes grew by \$61 billion, or 42 percent.

Withheld receipts of income and payroll taxes rose by \$84 billion, or 6.5 percent, through August, with \$49 billion of the increase attributed to social insurance taxes and \$35 billion to individual income taxes. Those receipts typically result from wage and salary income, which grew by 7.3 percent in the first nine months of fiscal year 2005, according to estimates from the national income and product accounts.

Nonwithheld receipts of income and payroll taxes rose by about \$70 billion, or 29 percent, in the first 11 months of the year; almost all of that increase resulted from receipts of individual income taxes. About \$53 billion of the increase occurred in April and May after taxpayers filed their tax returns for 2004. Some of the year-over-year growth resulted from changes in tax law that caused a one-time reduction in receipts in 2004. Strong growth during 2004 in personal income from sources other than wages and salaries probably also played a role.

The strength in corporate receipts so far this year reflects economic activity in both calendar year 2004 and the first half of 2005. The growth of those receipts also reflects tax-law changes enacted in 2002 and 2003. With the effects of law changes excluded, receipts have grown faster than profits as measured in the national income and product accounts. CBO should be better able to determine the reasons why next year when the first data from 2004 tax returns become available.

OUTLAYS THROUGH AUGUST
(Billions of dollars)

Major Category	Actual FY2004	Preliminary FY2005	Percentage Change
Defense—Military	398	428	7.4
Social Security			
Benefits	446	471	5.5
Medicare	274	301	9.9
Medicaid	161	167	3.4
Other Programs			
and Activities	<u>675</u>	<u>714</u>	5.9
Subtotal	1,955	2,081	6.4
Net Interest on the			
Public Debt	<u>155</u>	<u>174</u>	12.2
Total	2,110	2,255	6.9

Sources: Department of the Treasury; CBO.

Outlays through August were about 7 percent higher than in the same period last year, CBO estimates. Programmatic spending (which excludes outlays for net interest on the public debt) rose by 6.4 percent—virtually the same rate of growth recorded in fiscal year 2004. The growth of such spending has been driven by increases for a broad range of programs and agencies, especially Medicare and the Departments of Agriculture, Defense, Education, Homeland Security, and Veterans Affairs.

BUDGET PROJECTIONS FOR 2005

In mid-August, CBO updated its estimate of the deficit for fiscal year 2005 to reflect legislative actions, economic developments, and other new information. At that time, CBO reduced its estimate of the 2005 deficit to \$331 billion, largely because revenues were substantially higher than had been projected in March. The devastation wrought by Hurricane Katrina will affect federal spending and revenues in September, but with only one month left in the fiscal year, the net impact on the 2005 deficit is likely to be small. Although additional funds have been appropriated and the Federal Emergency Management Agency is providing substantial aid to victims of the storm, many of the bills will be paid in October or later. Other effects in September will include delays in the collection of estimated taxes and reduced spending for some federal benefit programs because of delays in submitting or processing claims.

