



# MONTHLY BUDGET REVIEW

## Fiscal Year 2005

### A Congressional Budget Office Analysis

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

April 6, 2005

The federal government recorded a deficit of \$291 billion in the first six months of fiscal year 2005, according to CBO estimates, \$10 billion less than that incurred during the same period in 2004. Although outlays are almost 7 percent higher than they were in the first half of last year, revenues have grown more quickly, increasing by over 10 percent.

#### FEBRUARY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	100	101	*
Outlays	216	215	-1
Deficit (-)	-115	-114	1

Sources: Department of the Treasury; CBO.

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

The Treasury reported a deficit of \$114 billion in February, about \$1 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. Lower-than-expected spending by the Department of Defense accounts for most of that difference.

#### ESTIMATES FOR MARCH (Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	132	148	15
Outlays	205	216	10
Deficit (-)	-73	-68	5

Sources: Department of the Treasury; CBO.

According to CBO estimates, the federal government incurred a deficit of \$68 billion in March, about \$5 billion less than that recorded in March 2004. Revenues were 12 percent above their level in March 2004, and outlays were 5 percent higher.

CBO estimates that the Treasury collected revenues totaling almost \$148 billion in March 2005, about \$15 billion more than it received in March 2004. Continued strong growth in payments of corporate income taxes, which rose by about \$8.5 billion (or 45 percent) over

amounts paid last March, accounts for more than half of the increase. Receipts of withheld income and social insurance taxes increased by \$3 billion, and receipts of nonwithheld income and social insurance taxes increased by approximately \$2 billion.

Outlays were about \$10 billion greater this March than they were last March, CBO estimates. Defense outlays rose by \$3 billion while spending on Social Security and Medicare grew by \$2 billion for each program.

#### BUDGET TOTALS THROUGH MARCH (Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	850	938	88
Outlays	1,152	1,229	78
Deficit (-)	-301	-291	10

Sources: Department of the Treasury; CBO.

The government incurred a deficit of \$291 billion in the first six months of fiscal year 2005, CBO estimates, compared with the \$301 billion deficit registered during the same period in 2004. Revenues grew by \$88 billion, outpacing the \$78 billion increase in outlays.

#### RECEIPTS THROUGH MARCH (Billions of dollars)

Major Source	Actual FY2004	Preliminary FY2005	Percentage Change
Individual Income	368	398	8.2
Corporate Income	67	100	48.9
Social Insurance	344	368	6.8
Other	<u>71</u>	<u>72</u>	1.3
Total	850	938	10.3

Sources: Department of the Treasury; CBO.

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.

In the first half of fiscal year 2005, receipts rose by about \$88 billion, or 10.3 percent, compared with their level in the first half of 2004. Corporate income tax receipts account for about \$33 billion of that growth. So far this year, those receipts have exceeded last year's amounts by almost 50 percent. The March payments, which largely close the books on corporate tax payments for 2004, remained strong. Although data from the national income and product accounts and other sources indicate that calendar year 2004 was another good year for corporate profits, receipts have grown more rapidly than indicated by the profit figures. CBO's March baseline estimate incorporated much of the recent strong growth in corporate receipts. While those receipts are running a few billion dollars higher than expected, they are volatile and constitute a small share—typically about 10 percent—of total revenues.

Individual income tax receipts increased by about \$30 billion, or 8.2 percent, and social insurance receipts grew by \$24 billion, or 6.8 percent, in the first half of the fiscal year. Withholding for income and social insurance receipts rose by \$44 billion, or 6 percent, reflecting growth in wages during the past six months. Nonwithheld receipts have increased by about \$9 billion, or 12 percent. Those receipts largely represent payments of liabilities for tax year 2004 but reflect only the very early filings of the tax returns due by April 15 of this year.

Offsetting the gains in receipts of individual income taxes to a small degree was a \$1 billion, or 1 percent, increase in individual refunds. At this point in the tax filing season, the Internal Revenue Service has typically processed about two-thirds of the returns that will require refunds. The amount of refunds resulting from filings of income tax returns has increased by almost 5 percent so far this calendar year, CBO estimates, boosted by strong growth in refunds of the earned income and child credits, which are counted as spending in the federal budget.

### OUTLAYS THROUGH MARCH

(Billions of dollars)

Major Category	Actual FY2004	Preliminary FY2005	Percentage Change
Defense—Military	213	230	7.8
Social Security			
Benefits	241	253	5.2
Medicare	145	159	9.9
Medicaid	87	90	3.7
Other Programs and Activities	<u>385</u>	<u>411</u>	6.6
Subtotal	1,070	1,142	6.7
Net Interest on the Public Debt	<u>81</u>	<u>87</u>	6.7
Total	1,152	1,229	6.7

Sources: Department of the Treasury; CBO.

Outlays were about 6.7 percent higher in the first six months of fiscal year 2005 than they were in the same period last year, CBO estimates—close to the 6.9 percent growth estimated for all of fiscal year 2005.

Defense outlays averaged about \$38 billion a month through March, about 8 percent more than the amounts spent in the first half of last year. Expenditures for military personnel and research and development increased by about 10 percent through March, while spending for operations and maintenance—which rose by an average of 16 percent per year in the past two fiscal years—grew by about 7 percent. CBO anticipates that defense outlays will end the year about 9 percent higher than their 2004 level, assuming enactment of the supplemental appropriations requested by the President.

The disparity between the growth in Medicare spending and the increase in Medicaid outlays—Medicare spending rose by nearly 10 percent through March compared with a 3.7 percent increase in Medicaid disbursements—largely reflects the effects of legislation rather than differences in the underlying trends in the two programs. A law enacted in 2003 increased the federal share of Medicaid costs for an 18-month period that extended through June 2004. Excluding the effects of those additional payments, the two programs grew at about the same rate, which is faster than the rate of increase they experienced over the past few years.

Outlays for other programs and activities through March were 6.6 percent higher than in the same period last year. This increase was driven by double-digit gains in several programs that are seasonal in nature—including agricultural income-support programs, disaster assistance related to the 2004 hurricane season, and refundable tax credits—as well as by higher spending for education and food and nutrition programs. The growth in those areas was partially offset by a 28 percent decline in payments for unemployment benefits and the expiration of temporary fiscal assistance to states (which totaled \$5 billion in fiscal year 2004).

Finally, outlays for net interest on the public debt have steadily increased relative to the amounts paid in 2004 as a result of higher debt and rising interest rates. CBO expects that, by the end of the fiscal year, net interest costs will exceed their 2004 level by about 10 percent.