



MONTHLY BUDGET REVIEW

Fiscal Year 2006

A Congressional Budget Office Analysis

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

April 6, 2006

The federal government ran a deficit of \$305 billion in the first half of fiscal year 2006, CBO estimates, \$10 billion more than for the same period last year. That deficit was boosted, however, by calendar-related shifts in the timing of tax refunds and of certain salary and benefit payments. Adjusted for those shifts, the deficit so far this year would be slightly lower than the shortfall for the same period last year.

FEBRUARY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	111	113	2
Outlays	232	232	*
Deficit (-)	-121	-119	1

Sources: Department of the Treasury; CBO.

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

The Treasury reported a deficit of \$119 billion in February, about \$1 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. The composition of tax refunds was slightly different than projected. Refunds of individual income tax payments (which count as revenue reductions) were \$1.5 billion lower than CBO had anticipated, and refundable tax credits (which count as outlays) were \$1.5 billion higher. Other outlays were about \$1 billion lower than expected.

ESTIMATES FOR MARCH (Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	149	166	17
Outlays	220	254	34
Deficit (-)	-71	-87	-16

Sources: Department of the Treasury; CBO.

The deficit in March was \$87 billion, CBO estimates, \$16 billion more than the deficit in the same month last year. Adjusted for certain effects of the calendar on both revenues and outlays, however, the deficit would have been about \$10 billion lower this March than it was last March.

Receipts totaled about \$166 billion in March, CBO estimates, about \$17 billion (or 12 percent) higher than the sum collected in March 2005. Increases came from withholding of income and payroll (social insurance) taxes (which rose by \$14 billion, or 10 percent), nonwithheld receipts of income and payroll taxes (which

jumped by \$4 billion, or 50 percent), and receipts of corporate income taxes (which grew by \$9 billion, or 33 percent). A portion of the revenue growth was offset by an increase of almost \$11 billion in refunds to individuals. However, all but about \$2 billion of that increase occurred because March 2006 contained five Fridays, the day when almost all refunds are disbursed. The extra Friday also boosted withholding by about \$2 billion. With the effects of calendar differences between March 2006 and March 2005 removed, receipts would have grown by about \$24 billion, or 16 percent.

Outlays were \$34 billion higher this March than they were last March, CBO estimates. About half of that growth resulted from a shift in payment dates. Because April 1, 2006, fell on a weekend, \$17 billion in payments that would ordinarily have been made in April were instead made at the end of March. In addition, the extra Friday this March increased outlays for refundable tax credits by \$2 billion. In the absence of those factors, outlays in March would have grown by about \$14 billion (or 6 percent). Medicare spending, adjusted for payment shifts, would have been about \$5.5 billion higher than in March 2005. Spending for net interest on the public debt, Social Security, and refundable tax credits accounted for much of the remaining increase.

BUDGET TOTALS THROUGH MARCH (Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	939	1,039	100
Outlays	1,234	1,344	110
Deficit (-)	-295	-305	-10

Sources: Department of the Treasury; CBO.

CBO estimates that the government incurred a deficit of \$305 billion in the first half of 2006, about \$10 billion more than the shortfall recorded for the same period last year. Calendar-related shifts in the timing of tax refunds reduced revenues by about \$9 billion, while shifts in military pay and certain benefit payments added about \$4 billion to outlays. Adjusted for those shifts, the deficit would have been slightly lower in the first six months of 2006 than in the same period last year.

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 MARCH

(Billions of dollars)

Major Source	Actual FY2005	Preliminary FY2006	Percentage Change
Individual Income	399	436	9.3
Corporate Income	100	130	30.6
Social Insurance	368	394	7.1
Other	<u>73</u>	<u>79</u>	8.8
Total	939	1,039	10.7

Sources: Department of the Treasury; CBO.

Revenues in the first half of fiscal year 2006 surpassed those in the first half of 2005 by about \$100 billion (or almost 11 percent). (Adjusted for the effects of the extra Friday in March, total receipts would have been up by 11.6 percent for the six-month period.) Individual income tax receipts grew by \$37 billion (or 9 percent); corporate income tax receipts rose by \$31 billion (or 31 percent); and social insurance receipts grew by \$26 billion (or 7 percent).

Withholding of individual income and payroll taxes increased by \$59 billion (or about 7.6 percent) in the first half of the year. That rise indicates continued strength in wage and salary income. Nonwithheld receipts of individual income and payroll taxes increased by about \$15 billion (or 19 percent). They include a relatively small amount from early filings of tax returns for 2005.

Partially offsetting those gains in withheld and nonwithheld receipts was an increase of about \$12 billion (or 12 percent) in refunds of individual income taxes. Most of that increase resulted from the additional Friday in March.

Receipts from corporate income taxes increased by about \$31 billion, or 31 percent, in the first half of 2006. The payments in March largely represented the last major receipts from corporate returns for tax year 2005. Receipts for tax year 2006 are expected to grow much more slowly because of slower growth in profits and the expiration of certain tax provisions that boosted receipts in 2005.

OUTLAYS THROUGH MARCH

(Billions of dollars)

Major Category	Actual FY2005	Preliminary FY2006	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	230	250	8.9	6.5
Social Security				
Benefits	253	269	6.0	6.0
Medicare	160	187	16.7	14.6
Medicaid	90	90	-0.3	-0.3
Other Programs				
and Activities	<u>413</u>	<u>438</u>	6.0	7.1
Subtotal	1,146	1,233	7.6	7.2
Net Interest on the				
Public Debt	<u>87</u>	<u>111</u>	27.1	27.1
Total	1,234	1,344	9.0	8.6

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 were about 9 percent higher in the first six months of 2006 than they were in the same period last year, CBO estimates. Spending for net interest on the public debt—which rose by 27 percent—accounted for roughly one-quarter of the increase.

Medicare spending also grew rapidly. It rose by roughly 22 percent in the second quarter of 2006, driven largely by the new prescription drug benefit, which took effect in January. In the first quarter, Medicare spending rose by about 7 percent, for an average increase of about 15 percent relative to the first six months of 2005. In contrast, Medicaid spending was about the same as in the first half of last year, probably because of lower spending for prescription drugs and payment lags in some large states.

Defense outlays grew by 6.5 percent through March (on an adjusted basis) relative to the same period last year. Spending for operations and maintenance increased by about 10 percent through March, while payments for military personnel rose by 4.6 percent, and spending for research and development grew by only 2 percent.

Outlays for other programs and activities were about 7 percent higher than in the first six months of 2005. The additional \$25 billion spent for disaster assistance and flood insurance, primarily as a result of Hurricane Katrina, accounted for most of that increase.