



MONTHLY BUDGET REVIEW

Fiscal Year 2002

A Congressional Budget Office Analysis

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

June 14, 2002

The total budget deficit for the first eight months of fiscal year 2002 was \$149 billion, CBO estimates—a sharp reversal from the \$137 billion surplus recorded for the same period in 2001. So far this year, receipts are more than \$80 billion below CBO's baseline projections, and CBO now expects the deficit for the entire fiscal year to end up well above \$100 billion.

APRIL RESULTS (In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	236	237	1
Outlays	169	170	2
Surplus	68	67	-1

SOURCES: Department of the Treasury; CBO.

The Treasury reported a surplus of \$67 billion in April, \$1 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. Both revenues and outlays were slightly higher than CBO had anticipated.

ESTIMATES FOR MAY (In billions of dollars)

	Actual FY2001	Preliminary FY2002	Estimated Change
Receipts	126	101	-24
Outlays	154	184	30
Deficit (-)	-28	-83	-55

SOURCES: Department of the Treasury; CBO.

The Treasury recorded a deficit of about \$83 billion in May 2002, CBO estimates—\$55 billion more than in May 2001. Revenues were \$24 billion lower, and outlays about \$30 billion higher, than the levels of last May.

Receipts from individual income taxes accounted for \$21 billion of the \$24 billion decline in revenues. Non-withheld payments of individual income taxes fell by about \$10 billion, largely because more tax returns were processed in April this year than last year. In addition, refunds of individual income taxes were \$9 billion higher this May than a year ago, continuing their strength of recent months.

Receipts from corporate income taxes declined by almost \$5 billion in May, largely because of increased refunds, which were boosted substantially by corporate tax cuts enacted in March 2002. Other sources of receipts this May were near last May's levels.

Of the \$30 billion increase in outlays, about half reflected differences from last year in the timing of certain payments as well as accounting adjustments made last May. This May's outlays included about \$11.5 billion normally paid in June (because the first day of June 2002 fell on a weekend). In addition, approximately \$4 billion of the difference from last May resulted from outlay reductions recorded in May 2001 to reflect revised subsidy estimates for credit programs of the Department of Veterans Affairs and the Export-Import Bank. Increased spending for defense, unemployment benefits, Medicare, Medicaid, and Social Security accounted for most of the rest of the growth in outlays this May.

BUDGET TOTALS THROUGH MAY (In billions of dollars)

	October-May		
	FY2001	FY2002	Estimated Change
Receipts	1,379	1,218	-161
Outlays	1,242	1,367	125
Surplus or Deficit (-)	137	-149	-286

SOURCES: Department of the Treasury; CBO.

The budget deficit for fiscal year 2002 totaled \$149 billion through May, CBO estimates. In contrast, the government recorded a surplus of \$137 billion for the first eight months of fiscal year 2001. That \$286 billion change from last year resulted both from lower receipts (down by about \$161 billion) and from higher outlays (up by about \$125 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 MAY
(In billions of dollars)

Major Source	October-May		Percentage Change
	FY2001	FY2002	
Individual Income	707	563	-20.3
Corporate Income	108	88	-18.3
Social Insurance	465	472	1.4
Other	99	94	-4.9
Total	1,379	1,218	-11.7

SOURCES: Department of the Treasury; CBO.

Total receipts through May of this fiscal year fell by \$161 billion, or almost 12 percent, compared with the same period a year ago. Individual income tax receipts accounted for most of that decline, dropping by \$144 billion, or 20 percent. About \$105 billion of the decline occurred in nonwithheld receipts and refunds between February and May, when most tax returns for 2001 were filed by taxpayers and processed by the Internal Revenue Service. During that period, nonwithheld income taxes were down by \$78 billion, compared with the same period last year, and refunds of individual income taxes were about \$27 billion higher. Most of the drop-off in receipts during that tax-filing season reflects economic activity in 2001. However, current information is insufficient to isolate the specific sources of income responsible for the substantial declines.

Withheld income and employment (payroll) taxes fell by \$27 billion in the first eight months of fiscal year 2002, compared with the same period last year. CBO estimates that almost all of that drop was caused by the income tax cuts enacted in June 2001. Receipts from social insurance taxes (which consist largely of withholding and were not directly affected by the tax cuts) rose by about 1 percent through May 2002.

Corporate tax receipts declined by about \$20 billion, or 18 percent, during the same period. Tax-law changes enacted in both 2001 and 2002 have affected corporate receipts this year, but CBO estimates that even without those changes, corporate receipts would still have fallen substantially. The quarterly estimated payment of corporate income taxes due on June 17 should provide an important indicator of receipts for the rest of the fiscal year.

The tax cuts enacted in 2001 and 2002 have complicated the analysis of current receipts. It is difficult to estimate accurately the degree to which those cuts have reduced receipts month by month. Nevertheless, CBO estimates that between \$35 billion and \$40 billion of the \$161 bil-

lion decline in total receipts through May 2002 resulted from the changes in tax law.

OUTLAYS THROUGH MAY
(In billions of dollars)

Major Category	October-May		Percentage Change	
	FY2001	FY2002	Actual	Adjusted ^a
Defense—Military	190	219	15.4	12.2
Social Security				
Benefits	281	297	5.6	5.6
Medicare	156	171	10.2	10.3
Medicaid	86	97	13.7	13.7
Unemployment Insurance	20	35	72.6	72.6
Other Programs and Activities	361	426	18.1	15.2
Subtotal	1,093	1,246	14.0	12.5
Net Interest on the Public Debt	149	121	-18.6	-18.6
Total	1,242	1,367	10.1	8.8

SOURCES: Department of the Treasury; CBO.

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

Outlays were about 10 percent higher in the first eight months of fiscal year 2002 than in the same period last year, CBO estimates. Adjusted for payments that were shifted because of weekends, holidays, or legislative action, the growth rate this year was slightly smaller than that—about 8.8 percent.

Spending continues to grow at a double-digit pace for all major categories except Social Security and net interest. Unemployment insurance has shown the fastest growth—almost 73 percent (\$15 billion) so far this year. That sharp increase reflects higher unemployment rates and the 13-week extension of unemployment benefits enacted in March.

Outlays for Medicare and Medicaid combined rose by almost 11 percent through May. Spending for a variety of other programs and activities also grew rapidly, fueled in part by significant increases in nondefense discretionary appropriations, which rose by 17 percent in fiscal year 2001 and by another 9 percent so far in 2002 (with a supplemental appropriation bill still pending). In addition, outlays for refundable tax credits were 24 percent higher through May than in the same period last year, primarily because of tax changes enacted in 2001.