



MONTHLY BUDGET REVIEW

Fiscal Year 2007

A Congressional Budget Office Analysis

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

May 4, 2007

In the first seven months of fiscal year 2007, the federal government ran a deficit of \$83 billion, CBO estimates, \$101 billion less than in the same period last year. Revenues have risen by about 11 percent compared with receipts in the same period of 2006, only slightly more than CBO anticipated when it prepared its most recent budget estimates in March; outlays have grown by only 3 percent. CBO now expects that the government will end 2007 with a deficit of between \$150 billion and \$200 billion, assuming enactment of pending supplemental appropriations.

MARCH RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	166	166	*
Outlays	261	263	1
Deficit (-)	-95	-96	-1

Sources: Department of the Treasury; CBO.

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

The Treasury reported a deficit of \$96 billion for March, about \$1 billion more than CBO projected on the basis of the *Daily Treasury Statements*. Revenues were about the same as CBO anticipated, while outlays were \$1 billion more than expected.

ESTIMATES FOR APRIL (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	315	385	70
Outlays	196	209	13
Surplus	119	176	57

Sources: Department of the Treasury; CBO.

Bolstered by the usual large influx of individual tax returns, the surplus in April was \$176 billion, CBO estimates, \$57 billion more than the surplus recorded in the same month last year.

Receipts in April were about \$70 billion higher than receipts in April 2006, CBO estimates. Nonwithheld receipts for individual income and payroll taxes, mainly amounts paid with tax returns filed in April, increased by \$49 billion, or almost 30 percent. The size of that gain is somewhat misleading, however, because the Internal Revenue Service processed more of the tax returns in April this year than it did last year.

The growth of nonwithheld receipts in April and May combined is likely to be closer to 10 percent, much lower than the rate of increase indicated by April's figures alone and approximately what CBO anticipated when it prepared its January and March baseline projections.

Withholding in April increased by about \$17 billion (or 14 percent) compared with receipts in April 2006. A portion of that growth resulted from an additional business day this April. Net corporate receipts showed more modest gains, climbing by about \$3 billion, or 6 percent, CBO estimates.

Outlays were about \$13 billion (or 7 percent) greater this April than they were last April, CBO estimates. After adjusting for shifts in the timing of certain payments, outlays for the three largest entitlement programs—Social Security, Medicare, and Medicaid—grew by \$9 billion compared with outlays in the same month last year; spending for net interest on the public debt was up by \$5 billion. Outlays declined by about \$1 billion each for the Department of Homeland Security and the Export-Import Bank. The latter was due primarily to this April's revision in the estimated subsidy cost of loans and loan guarantees made in previous years.

BUDGET TOTALS THROUGH APRIL (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	1,353	1,506	153
Outlays	1,537	1,589	52
Deficit (-)	-184	-83	101

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$83 billion in the first seven months of fiscal year 2007, \$101 billion less than the shortfall for the same period last year. Receipts in the October-April period rose by about \$153 billion over last year's level, while outlays grew by an estimated \$52 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 APRIL
(Billions of dollars)

Major Source	Actual FY2006	Preliminary FY2007	Percentage Change
Individual Income	602	707	17.5
Corporate Income	174	201	15.2
Social Insurance	482	508	5.5
Other	<u>95</u>	<u>90</u>	-5.3
Total	1,353	1,506	11.3

Sources: Department of the Treasury; CBO.

Receipts in the first seven months of this fiscal year were about 11 percent higher than in the same period last year. But it appears that, on the whole, nonwithheld receipts from payments accompanying tax returns were recorded earlier than last year, effectively shifting some receipts from May to April. If nonwithheld receipts from tax return filings had been recorded consistent with last year's pattern, CBO estimates that total receipts through April would have grown by closer to 9 percent, only slightly more than CBO anticipated when it prepared its budget projections in March. Overall, receipts to date appear to be about 1 percent (approximately \$15 billion) greater than CBO had projected.

About 85 percent of the growth in total receipts through April occurred in receipts from individual income and payroll taxes, the two largest sources of revenues. Receipts from individual income taxes were higher by \$105 billion (or 17.5 percent), and receipts of payroll taxes were higher by \$27 billion (or 5.5 percent). Nonwithheld receipts of income and payroll taxes, consisting mainly of quarterly estimated payments of taxes made in January and April and final payments of taxes for 2006 made during the February-April tax filing season, were higher by \$67 billion (or 25 percent). After adjusting the allocation of those receipts between April and May to follow last year's pattern, CBO estimates that those receipts have risen by about 14 percent through April of this year.

Withheld receipts of income and payroll taxes have increased by about \$74 billion, or nearly 8 percent, in the first seven months of this year compared with collections in the same period last year. After removing the effect of an extra business day so far this year, those receipts are running about 7 percent higher than last year's totals. Refunds of individual income taxes have increased by about \$13 billion (or 8 percent) in the first seven months of this year.

Corporate receipts grew by \$27 billion, or 15.2 percent, in the October-April period. That rate of increase represents a significant slowing in growth compared with the pace of the previous three years, when receipts grew at an average

annual rate of nearly 40 percent. Growth in corporate receipts has slowed steadily during the current fiscal year.

OUTLAYS THROUGH APRIL
(Billions of dollars)

Major Category	Actual FY2006	Preliminary FY2007	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	289	307	6.4	6.4
Social Security				
Benefits	314	332	5.7	5.9
Medicare	211	250	18.5	14.0
Medicaid	103	110	7.4	7.4
Other Programs				
and Activities	<u>492</u>	<u>451</u>	-8.4	-8.2
Subtotal	1,408	1,450	3.0	2.4
Net Interest on the				
Public Debt	<u>129</u>	<u>139</u>	7.8	7.8
Total	1,537	1,589	3.4	2.9

Sources: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends or holidays. Also adjusts 2006 Social Security outlays for corrections to amounts withheld for taxes on Social Security benefits.

Outlays through April were about 3 percent higher than in the first seven months of 2006, CBO estimates. Defense outlays increased by roughly 6 percent, while nondefense spending rose by an average of 2 percent (adjusted for shifts in payment dates).

In total, spending for the government's two largest health care programs, Medicare and Medicaid, has risen at a 12 percent rate so far this year. Spending growth for both programs has been affected by the new prescription drug benefit, which began in the second quarter of 2006. Medicare outlays rose much faster than spending for other nondefense programs through April—up by 14 percent on an adjusted basis; excluding the Part D prescription drug benefits, Medicare outlays increased by about 7 percent relative to their level in the first seven months of 2006. Medicaid spending has accelerated this year, rising by more than 7 percent after growing by a total of only 2.5 percent over the past two years. The growth in Medicaid spending would have been even greater, except for the fact that some costs previously borne by Medicaid are now covered by Medicare's prescription drug program.

Much of the growth in outlays for the major entitlement programs and net interest on the public debt (up by nearly 8 percent through April) was offset by lower spending for flood insurance, disaster relief, and agriculture programs, as well as higher receipts from Medicare premiums and from auctions of licenses for use of the electromagnetic spectrum.