



MONTHLY BUDGET REVIEW

Fiscal Year 2000

A Congressional Budget Office Analysis

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

May 12, 2000

With continued strong growth in the economy, CBO estimates that the government recorded a total surplus of \$163 billion in April, bringing the surplus for the first seven months of fiscal year 2000 to about \$127 billion. It now appears likely that the total surplus for the year will exceed \$200 billion and the on-budget surplus will exceed \$40 billion. CBO will update its budget projections for 2000 through 2010 and report the results to the Congress early this summer.

ESTIMATES FOR APRIL

(In billions of dollars)

	Actual FY1999	Preliminary FY2000	Estimated Change
Receipts	266	295	29
Outlays	152	132	-20
Surplus	113	163	49

SOURCES: Department of the Treasury; Congressional Budget Office.

Receipts in April and early May were unexpectedly strong. Total receipts were almost 11 percent higher this April than in April 1999, and that growth would have been even larger were it not for the effects of the calendar. The later-than-usual deadline for filing income tax returns (April 17) shifted the normal timing of receipts of nonwithheld income and employment taxes. Since the Internal Revenue Service takes about two weeks to process and deposit all of the checks, an unusually large amount of nonwithheld receipts will be reported in the *Monthly Treasury Statement* for May. If those payments had been counted in April, total receipts would have risen by more than 15 percent from the level of last April.

Outlays in April 2000 were about \$20 billion less than they were last April, CBO estimates. However, that comparison is distorted for two reasons. First, outlays last year were unusually high because May 1 fell on a Saturday, and about \$10 billion in payments usually made on the first of the month were instead made at the end of April. Second, outlays this year were unusually low because April 1 fell on a Saturday, and about \$11 billion in payments were shifted into March. After accounting for those shifts in timing, spending this April was very close to spending in the same month last year.

BUDGET TOTALS THROUGH APRIL

(In billions of dollars)

	October-April		Estimated Change
	FY1999	FY2000	
Receipts	1,080	1,172	92
Outlays	1,016	1,045	29
Surplus	65	127	62

SOURCES: Department of the Treasury; Congressional Budget Office.

The surplus for the first seven months of fiscal year 2000 was \$127 billion, CBO estimates, \$62 billion more than for the same period last year. Revenues have grown by \$92 billion—even without the significant receipts in early May—and outlays are up by about \$29 billion.

RECEIPTS THROUGH APRIL

(In billions of dollars)

Major Source	October-April		Percentage Change
	FY1999	FY2000	
Individual Income	546	602	10.3
Corporate Income	94	107	13.8
Social Insurance	352	374	6.3
Other	89	89	0.6
Total	1,080	1,172	8.5

SOURCES: Department of the Treasury; Congressional Budget Office.

Total receipts through April of this fiscal year are 8.5 percent greater than in the same period last year. Including the nonwithheld receipts from early May would make that increase more than 1 percentage point higher. As a result, total receipts through the first few days of May are \$35 billion to \$40 billion greater than CBO projected. All of the major sources of revenue have contributed to that increase: individuals' nonwithheld income and employment (social insurance) taxes are up by between \$15 billion and \$20 billion, withheld income and employment taxes are up by between \$10 billion and \$15 billion, and corporate income taxes are up by about \$8 billion.

Much of the additional revenue results from stronger-than-projected economic growth. Nominal gross domestic product exceeded CBO's projections by more than \$80 billion in the fourth quarter of 1999 and \$175 billion in the first quarter of 2000. Stronger economic growth is likely to continue through much of the rest of this year, so it is very likely that withheld taxes will continue to be higher than expected and will cause total receipts for fiscal year 2000 to surpass CBO's projections by more than the \$35 billion to \$40 billion increase that has occurred so far. Beyond 2000, however, the outlook for economic growth will reflect a number of factors, such as tightening monetary policy, whose effects are not yet clear.

NOTE: The figures in this report include the Social Security trust funds and the Postal Service fund, which are off-budget.

The additional revenue comes from a mix of tax years, and detailed information about the types of income generating the revenue will not be available until later in the year. Of the additional \$15 billion to \$20 billion in nonwithheld taxes, all but \$2 billion resulted from the strong receipts recorded in April and early May. CBO does not yet know how much of those receipts are final payments on income tax liabilities for tax year 1999, estimated payments on expected income tax liabilities for tax year 2000, and payroll taxes paid by self-employed workers for both tax years. However, for the past few Aprils, final payments of income and employment tax liabilities have represented about 80 percent of total nonwithheld receipts. Thus, the additional nonwithheld receipts of this April probably represent mainly 1999 liabilities.

Unexpectedly strong final payments in recent years have reflected a number of factors, including surprising strength in taxes paid by individuals on capital gains. Although such capital gains have accounted for only about 5 percent of total federal taxes in the past several years, they may have accounted for as much as one-third of nonwithheld income tax payments made by individuals. Since taxpayers do not pay taxes separately on different types of income, and since capital gains taxes may be paid through withholding, estimated payments, or final payments, CBO cannot isolate the contribution of capital gains to April tax payments. Nonetheless, they may well have contributed to the extra nonwithheld receipts this year.

Withheld taxes largely depend on current wages, so the additional \$10 billion to \$15 billion in those receipts almost certainly reflects higher-than-expected economic growth during calendar year 2000. That makes it highly probable that total revenues will continue to exceed CBO's projections for the rest of the fiscal year, since it is very unlikely that wage growth will slow quickly enough to offset earlier gains.

Of the additional \$8 billion in corporate income taxes, more than half was collected in March, when most corporations made their final payments on 1999 liabilities. Thus, most of that amount does not reflect current-year economic activity. Nonetheless, the surprisingly strong economy could cause corporate tax payments to grow faster than expected during the remainder of the fiscal year. Corporations' estimated payments, however, are quite volatile and do not always clearly relate to reported profits in the short term.

OUTLAYS THROUGH APRIL

(In billions of dollars)

Major Category	October-April		Percentage Change	
	FY1999	FY2000	Actual	Adjusted ^a
Defense—Military	153	160	4.7	6.4
Social Security				
Benefits	222	230	3.7	3.7
Medicare	125	125	0.3	2.9
Medicaid	62	67	7.3	7.3
Other Programs and Activities	<u>315</u>	<u>326</u>	3.2	4.7
Subtotal	878	909	3.5	4.7
Net Interest on the Public Debt	<u>138</u>	<u>136</u>	-1.0	-1.0
Total	1,016	1,045	2.9	3.9

SOURCES: Department of the Treasury; Congressional Budget Office.

a. Excludes the effects of payments that were shifted from May 1999 into April 1999 because May 1 was a Saturday.

By CBO's estimate, outlays were 2.9 percent higher in the first seven months of fiscal year 2000 than in the same period last year. After adjusting for shifts in payment dates, the increase was almost 4 percent. (By comparison, outlays grew by about 3 percent a year during the 1995-1999 period.)

Medicaid is the fastest-growing major spending category—up by more than 7 percent so far this year. Defense spending has risen by more than 6 percent, and outlays for a broad array of other programs and activities have grown by close to 5 percent. Payments of Social Security benefits have increased by less than 4 percent, and Medicare outlays, which fell by 1 percent last year, are growing at a rate of almost 3 percent thus far this year. Net interest, which fell by 6 percent in 1999, is down by just 1 percent so far this year because higher interest rates have offset much of the effect of the decline in federal debt. In total, spending other than for interest has grown at a rate of about 4.7 percent over the first seven months of the fiscal year—the same growth rate experienced for all of fiscal year 1999.

To date, total outlays are close to CBO's expectations, but Congressional action could still have a noticeable effect on spending for this fiscal year. The recent elimination of the Social Security earnings test will add \$4 billion to 2000 outlays. Legislation could also add significant sums to this year's spending by providing additional funding and by shifting the dates for paying some salaries, benefits, and other disbursements from October to September 2000.