



# MONTHLY BUDGET REVIEW

## Fiscal Year 2005

### A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for August and the *Daily Treasury Statements* for September

October 6, 2005

The federal budget deficit totaled about \$317 billion in fiscal year 2005, CBO estimates, \$96 billion less than the shortfall recorded in 2004. Relative to the size of the economy, that deficit is equal to about 2.6 percent of the gross domestic product (GDP), down from 3.6 percent in 2004. Growth in revenues—from 16.3 percent of GDP in 2004 to about 17.5 percent in 2005—accounted for the improvement. Federal spending was approximately 20 percent of GDP in 2005, slightly higher than the corresponding percentages in 2003 and 2004. Hurricanes Katrina and Rita had relatively little effect on the 2005 budget results because they occurred so late in the fiscal year.

#### AUGUST RESULTS

The Treasury reported a deficit of \$50 billion in August, about the same as CBO's projection based on the *Daily Treasury Statements*. Both revenues and outlays were slightly lower than projected.

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

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	207	252	45
Outlays	183	216	33
Surplus	25	36	11

Sources: Department of the Treasury; CBO.

The budget surplus was about \$36 billion in September, CBO estimates, \$11 billion higher than in the same month last year. Revenues grew by about \$45 billion, while outlays grew by \$33 billion. If the figures were adjusted for certain calendar effects and one-time financial transactions in 2004, this year's September surplus would have been about \$24 billion higher than last year's.

Net corporate receipts accounted for about \$29 billion of the \$45 billion revenue increase. That outcome was partly the result of legislation that allowed about \$4 billion in payments usually due in September 2004 to be delayed until October 1, 2004. Adjusted for that shift, corporate receipts this September rose by about \$25 billion, or over 50 percent. Nonwithheld individual and payroll taxes grew by \$10 billion (or 24 percent), mainly from estimated payments of taxes for 2005. Withheld individual and payroll taxes rose by about \$4 billion (or 4 percent). Current tax collections do not provide any

clear indication of the effects on federal tax receipts of Hurricanes Katrina and Rita, because the normal variability of receipts is large relative to the likely effects of the hurricanes.

More than half of the \$33 billion increase in outlays occurred because of a shift in payment dates this year and certain financial transactions recorded last September. Because October 1, 2005, fell on a weekend, about \$14 billion in payments that would ordinarily have been made in October were instead made at the end of September. In addition, outlays in September 2004 were reduced by \$3 billion in proceeds from the sale of securities held by the Universal Service Fund. Adjusted for those two factors, outlays in September would have grown by about 9 percent from 2004 to 2005. Increased outlays for net interest on the public debt, the Departments of Defense and Homeland Security, Social Security, and Medicare accounted for much of the spending growth.

#### FISCAL YEAR TOTALS (Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	1,880	2,154	274
Outlays	2,293	2,470	178
Deficit (-)	-413	-317	96

Sources: Department of the Treasury; CBO.

CBO estimates that the federal deficit was about \$317 billion in 2005, \$96 billion less than the deficit recorded last year. The estimated shortfall is about \$14 billion lower than CBO projected this summer, largely because corporate income tax payments were greater than expected.

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.

**TOTAL RECEIPTS**  
(Billions of dollars)

Major Source	Actual FY2004	Preliminary FY2005	Percentage Change
Individual Income	809	929	14.8
Corporate Income	189	279	47.6
Social Insurance	733	793	8.1
Other	<u>148</u>	<u>153</u>	3.2
Total	1,880	2,154	14.6

Sources: Department of the Treasury; CBO.

Receipts in 2005 were about \$274 billion (or 14.6 percent) higher than in 2004, CBO estimates. Because that percentage growth far exceeded the growth in nominal GDP, revenues as a share of GDP rose from 16.3 percent in 2004 to 17.5 percent in 2005, the first increase since 2000. That percentage is close to the postwar average of about 18 percent, but well below the postwar high of 20.9 percent reached in 2000.

Receipts of individual income taxes increased by an estimated \$120 billion (or 14.8 percent) in 2005. Nonwithheld receipts showed the strongest gains—up by about \$77 billion, or 32 percent. Nonwithheld receipts of income and payroll taxes were especially strong in April and May, boosted by amounts due with individuals' tax returns for 2004. The strength probably reflects growth in nonwage incomes in 2004 and changes in tax law that caused a one-time reduction in receipts in 2004.

Amounts withheld from employees' paychecks for income taxes gained \$35 billion, or about 5 percent. Receipts from social insurance (payroll) taxes were up by about \$59 billion, or 8 percent, mostly from withholding. Combined withholding for income and payroll taxes rose by about 6 percent, reflecting growth in wages and salaries over the year.

Receipts in 2005 from corporate income taxes grew sharply—by about \$90 billion (or 48 percent)—to \$279 billion, CBO estimates, far surpassing their previous high of \$207 billion reached in 2000. Corporate receipts were 2.3 percent of GDP, the highest point since 1980. The strength in receipts reflects economic activity in both 2004 and 2005. It also results from the expiration at the end of 2004 of provisions enacted in 2002 and 2003 that allowed additional first-year depreciation deductions for investments in equipment.

**TOTAL OUTLAYS**  
(Billions of dollars)

Major Category	Actual FY2004	Preliminary FY2005	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Defense—Military	437	474	8.5	7.6
Social Security				
Benefits	487	514	5.5	5.5
Medicare	300	335	11.6	10.1
Medicaid	176	182	3.3	3.3
Other Programs				
and Activities	<u>724</u>	<u>773</u>	6.8	6.1
Subtotal	2,125	2,279	7.2	6.6
Net Interest on the				
Public Debt	<u>168</u>	<u>191</u>	14.2	14.2
Total	2,293	2,470	7.8	7.2

Sources: Department of the Treasury; CBO.

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

Total federal outlays grew by close to 8 percent in fiscal year 2005, CBO estimates. Some of that increase resulted from shifts in the timing of certain payments. Adjusted for those shifts, outlays rose by about 7 percent—roughly the same as the average annual growth over the previous three years.

Interest on the public debt grew more rapidly than any other major spending category, rising 14 percent above the 2004 level. Debt held by the public increased by about 7 percent, and rising short-term interest rates also added to debt-service costs.

Outlays for defense grew by an estimated 7.6 percent in 2005 (after adjusting for payment shifts), about half the rate of increase averaged over the prior three years.

Growth in Medicare spending accelerated in 2005. Outlays rose by about 10 percent, compared with increases of 8.5 percent in 2004 and 6.9 percent in 2003. Medicaid outlays in 2004 reflected a temporary increase in the federal share of the program's costs. Excluding those added payments in 2004, Medicaid spending grew at a rate of about 7.4 percent in 2005, CBO estimates.

Outlays for all other programs and activities increased by about 6 percent (on an adjusted basis), CBO estimates. Spending by the Department of Homeland Security for disaster relief grew sharply, mostly because of the hurricanes in the summer of 2004. Agricultural commodity spending has been volatile, falling in 2004 by about \$7 billion (as commodity prices rose) and increasing by almost \$10 billion this year (as commodity prices fell). Spending for unemployment benefits dropped by 19 percent from 2004 to 2005.