



# MONTHLY BUDGET REVIEW

## Fiscal Year 2008

### A Congressional Budget Office Analysis

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

July 7, 2008

The federal government incurred a deficit of \$268 billion for the first nine months of fiscal year 2008, CBO estimates, \$148 billion more than the shortfall recorded during the same period in 2007. About \$79 billion of that change is due to the distribution to individuals of the tax rebates enacted in the Economic Stimulus Act of 2008. Compared with their level in 2007, outlays have risen by more than 6 percent, whereas revenues have declined by about 1 percent.

#### MAY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	125	124	-1
Outlays	290	290	*
Deficit (-)	-165	-166	-1

Sources: Department of the Treasury; CBO.

\* = between zero and \$500 million.

The Treasury reported a deficit of \$166 billion for May, about \$1 billion more than CBO had projected on the basis of the *Daily Treasury Statements*.

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

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	277	255	-21
Outlays	249	205	-44
Surplus	27	51	23

Sources: Department of the Treasury; CBO.

Quarterly payments of individual income taxes and corporate income taxes typically result in budget surpluses in June. The surplus for the month this year was about \$51 billion, CBO estimates, \$23 billion more than the corresponding figure last year. The increase in the June surplus is largely attributable to certain one-time receipts and to differences in the timing of some payments. Adjusted for those factors, the surplus would have been lower than it was last June, even in the absence of rebate payments, which totaled \$28 billion this June.

CBO estimates that net receipts were about \$21 billion (or 8 percent) lower this June than they were in June 2007. Nearly all of the decline—\$19 billion—can be attributed to payments to individuals of the tax rebates (in addition, an estimated \$9 billion of those rebates was recorded as outlays). Net corporate income tax receipts in June were \$8 billion (or 12 percent) lower than in June 2007, the 12th consecutive month in which such receipts were lower

than those in the same month of the previous year. Increases in individual income and payroll tax receipts largely offset the decline in corporate tax receipts. Withholding for income and payroll (social insurance) taxes was about \$6 billion (5 percent) higher than such collections in June of last year. CBO estimates that about one-third of that gain was due to the calendar—the net effect of one additional Monday and one fewer Friday than in June 2007. Nonwithheld receipts of individual income and payroll taxes, mainly representing the second quarterly payment for calendar year 2008 of individuals' estimated income taxes, rose by about \$1 billion (or 2 percent).

Outlays in June were \$44 billion lower than those in the same month last year because of calendar-related shifts and certain one-time receipts, which together reduced outlays by about \$62 billion. Outlays this June were unusually low because the first day of the month fell on a weekend, shifting about \$22 billion in payments from June to May. By contrast, outlays were unusually high in June 2007 because July 1 fell on a weekend, which shifted about \$21 billion from July to June. Outlays this June were also reduced by the receipt of \$19 billion from the 2008 auction of licenses to use the electromagnetic spectrum. Those reductions were partially offset by the estimated \$9 billion in outlays for stimulus rebates to individuals whose rebate exceeded their federal income tax liability. In the absence of the timing shifts, spectrum receipts, and rebate payments, spending in June would have grown by about \$9 billion (or 4 percent).

#### BUDGET TOTALS THROUGH JUNE (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	1,945	1,929	-16
Outlays	2,066	2,198	132
Deficit (-)	-121	-268	-148

Sources: Department of the Treasury; CBO.

CBO estimates that the federal government incurred a deficit of \$268 billion for the first three-quarters of fiscal year 2008, more than twice the deficit recorded for 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 JUNE**  
(Billions of dollars)

Major Source	Actual FY2007	Preliminary FY2008	Percentage Change
Individual Income	885	872	-1.5
Corporate Income	280	238	-14.7
Social Insurance	663	690	4.1
Other	<u>118</u>	<u>129</u>	9.5
Total	1,945	1,929	-0.8

Sources: Department of the Treasury; CBO.

Total receipts are about \$16 billion (or almost 1 percent) lower for the fiscal year through June than those in the first nine months of fiscal year 2007. Excluding the effects of the tax rebates, total receipts rose by about \$35 billion (or roughly 2 percent).

Net receipts from individual income and payroll taxes for the first nine months of the fiscal year showed gains relative to last year. Withholding for individual income and payroll tax receipts increased by about \$59 billion (or 4.5 percent), indicating continued increases in wages and salaries. In the April-June quarter, withholding rose by about 3 percent. Nonwithheld receipts of income and payroll taxes increased by \$21.5 billion (or 5 percent) in the first nine months of the fiscal year. Most of that increase occurred during the February-May tax filing season and stemmed from economic activity in 2007. Refunds of individual income tax receipts rose by \$65 billion; about \$51 billion of that gain resulted from rebate payments.

Net corporate receipts declined by about \$41 billion (or 15 percent) during the first three-quarters of the fiscal year. Receipts fell by 13 percent in the April-June quarter, when most firms made their first two quarterly payments for tax year 2008, indicating continued weakness in corporate earnings. Some of that quarterly decline probably also represents the effects of enhanced business depreciation provisions enacted in the Economic Stimulus Act of 2008.

The other, smaller sources of receipts—from the Federal Reserve, excise taxes, customs duties, estate and gift taxes, and miscellaneous fees and fines—all increased during the first half of the fiscal year, with overall gains of about \$11 billion (or 9.5 percent). Almost half of that increase came from payments to the Treasury by the Federal Reserve, primarily due to increases earlier this year in the yields on its portfolio of securities and gains on its holdings of assets denominated in foreign currencies as the dollar has depreciated.

**OUTLAYS THROUGH JUNE**  
(Billions of dollars)

Major Category	Actual FY2007	Preliminary FY2008	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Defense—Military	397	438	10.3	10.3
Social Security				
Benefits	430	453	5.3	5.3
Medicare <sup>b</sup>	290	285	-1.8	3.4
Medicaid	144	152	5.6	5.6
Other Programs				
and Activities	<u>620</u>	<u>679</u>	9.5	9.6
Subtotal	1,882	2,007	6.6	7.5
Net Interest on the				
Public Debt	<u>185</u>	<u>191</u>	3.5	3.5
Total	2,066	2,198	6.4	7.2

Sources: Department of the Treasury; CBO.

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

b. Medicare outlays are net of proprietary receipts.

Adjusted for shifts in the timing of certain payments, spending through June was about 7 percent higher than in the first nine months of 2007, CBO estimates. In the absence of rebate payments, which added an estimated \$28 billion to the outlay total through June, spending would have increased by about 6 percent. Defense outlays were up by 10 percent over this period; nondefense spending, excluding rebate payments, rose by 5 percent on an adjusted basis.

Total spending for the three major entitlement programs—Social Security, Medicare, and Medicaid—grew more slowly in the first nine months of 2008 than in fiscal year 2007 as a whole, increasing by an average of 5 percent through June compared with 7 percent last year. This year's slower pace is partly due to smaller cost-of-living adjustments for Social Security benefits and reductions in Medicare payments to prescription drug providers to correct for overpayments made in 2006.

Excluding rebate payments, outlays for other programs and activities rose by about 5 percent through June. Several programs have experienced much faster growth, particularly veterans' medical care, unemployment benefits, and food and nutrition programs, each of which posted double-digit gains relative to the first nine months of 2007. Those increases have been partially offset, however, by higher receipts from federal oil and gas leases and by proceeds from the 2008 spectrum auction.

Outlays for net interest on the public debt were up by 3.5 percent relative to those outlays in the first nine months of 2007, primarily because of the rising cost of inflation-indexed securities.