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**The Treatment of Federal  
Receipts and Expenditures in the  
National Income and Product Accounts**

**June 2009**



CONGRESSIONAL BUDGET OFFICE  
SECOND AND D STREETS, S.W.  
WASHINGTON, D.C. 20515





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## **Notes**

Numbers in the text and tables may not add up to totals because of rounding.

Unless otherwise indicated, all years are fiscal years.

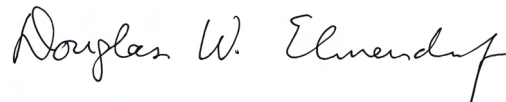
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# Preface

**T**his report describes how the treatment of federal receipts and expenditures in the national income and product accounts differs from the recording of federal revenues and outlays in the federal budget, as prepared by the Office of Management and Budget. It is one of a series of reports that the Congressional Budget Office (CBO) issues each year to fulfill section 202(e) of the Congressional Budget Act of 1974, which requires CBO to submit to the Committees on the Budget periodic reports about fiscal policy and to provide baseline projections of the federal budget. Most recently, in response to that requirement, the agency issued *An Analysis of the President's Budgetary Proposals for Fiscal Year 2010* (June 2009).

Frank Russek of CBO's Macroeconomic Analysis Division and Jared Brewster of CBO's Budget Analysis Division wrote the report under the supervision of Robert Dennis and Peter Fontaine. Christian Howlett edited the report, and Kate Kelly proofread it. Maureen Costantino prepared the report for publication, Lenny Skutnik printed copies of the report, Linda Schimmel handled the print distribution, and Simone Thomas prepared the electronic version for CBO's Web site ([www.cbo.gov](http://www.cbo.gov)).



Douglas W. Elmendorf  
Director

June 2009





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# The Treatment of Federal Receipts and Expenditures in the National Income and Product Accounts

**T**he fiscal transactions of the federal government are recorded in two major sets of accounts that conceptually are quite different from one another. The *Budget of the United States Government*, which is prepared by the Office of Management and Budget, is the framework generally used by executive branch agencies and the Congress and typically discussed in the press. It focuses on cash flows—revenues (funds generated from taxes and fees) and outlays (cash disbursed for the various federal functions). The objectives of the budget are to provide information that can assist lawmakers in their policy deliberations, facilitate the management and control of federal activities, and help the Treasury manage its cash balances and determine its borrowing needs.

The second major set of accounts is the national income and product accounts (NIPAs), which are produced by the Department of Commerce’s Bureau of Economic Analysis (BEA). Like the budget, the NIPAs record the federal government’s fiscal transactions, but as an accounting device, they have different objectives. The NIPAs are intended to provide a comprehensive measure of activity in the U.S. economy, and as such, they are used extensively in macroeconomic analysis. Specifically, they measure current production (the process by which goods and services are provided for consumption) and the income generated by current production.<sup>1</sup> A well-known measure of production in the NIPAs is gross domestic product (GDP). The accounts divide the economy into four major sectors—business, government, household, and the “rest of the world” (the foreign sector)—each with its own set of accounts.<sup>2</sup> This report focuses on the federal sector, which is one component of the government sector.<sup>3</sup> Because the aims of the NIPAs differ from those of the federal budget, the two accounting systems treat some government transactions very differently.

## Conceptual Differences Between the Federal Budget and the Federal Sector in the NIPAs

The budget of the federal government is best understood as an information and management tool. It focuses primarily on cash flows, recording the inflow of revenues and the outflow of spending over a given period. The main period of interest in the budget is the federal fiscal year, which runs from October 1 through September 30. Although the budget generally records transactions on a cash basis, a few exceptions exist, but they are designed to improve the budget’s usefulness as a decisionmaking tool. For example, when the federal government makes direct loans or provides loan guarantees (as with student loans and recent loans to aid some automobile companies), tracking cash flows gives a misleading view of true costs. Therefore, under what is termed credit reform, the

1. The discussion of the NIPAs in this report generally refers to Table 3.2 in the accounts, “Federal Government Current Receipts and Expenditures,” which most closely resembles the presentation in the federal budget. For other discussions of the NIPAs, see Department of Commerce, Bureau of Economic Analysis, “NIPA Translation of the Fiscal Year 2009 Federal Budget” and “A Primer on Government Accounts,” *Survey of Current Business* (March 2008); and *Budget of the United States Government, Fiscal Year 2009: Analytical Perspectives*.
2. Some accounts in the NIPAs—such as the domestic capital account, which shows saving and investment—focus on components of GDP or income rather than on a specific sector. Those accounts bring together relevant information from all four sectors.
3. The state and local sector is the other component of the government sector. More formally, BEA regards the federal government and state and local governments as subsectors. The treatment of state and local governments’ transactions in the NIPAs closely resembles the treatment of the federal government’s transactions.

budget records the estimated subsidy costs at the time the loans are made.

The federal sector in the NIPAs reflects none of the planning and management goals that underlie the budget. Instead, it illustrates how the federal government fits into a general economic framework, detailing current production and income over specific periods, the major sources of that production, and recipients of income resulting from output. The NIPAs primarily deal with calendar years and calendar quarters, but approximate totals for fiscal years can be derived from the quarterly estimates. (The tables in this report show fiscal year numbers.)

From the perspective of the NIPAs, the federal government is both a producer and a consumer. Its workforce uses purchased goods and services and government-owned capital (buildings, equipment, and software) to produce services for the public at large. Because those services are consumed by the public, that consumption, by convention, is regarded as a federal expenditure in the NIPAs. In addition, through its taxes and transfers, the federal government affects the resources available to the private sector. The purpose of the NIPAs is to record all of those activities consistently.

The federal sector in the NIPAs tracks how much the government spends on the consumption of goods and services. It also records the transfer of resources that occurs through taxation, payments to the beneficiaries of federal programs, and federal interest payments. The federal sector's contribution to GDP is presented elsewhere in the NIPAs (Table 1.1.5 in the accounts).

## Differences in Recording Major Transactions

The conceptual differences that distinguish the NIPAs from the federal budget lead to accounting differences as well. In attempting to properly incorporate federal transactions into the framework used to determine GDP, the NIPAs reflect judgments about how to best treat transactions such as government investment, the sale and purchase of existing assets, federal credit programs, and federal activities that resemble those of businesses, as well as transactions involving U.S. territories. In some cases, the appropriate treatment may be to move a transaction from the federal sector to another section of the NIPAs or to exclude the transaction from the NIPAs entirely. In other cases, the appropriate treatment may involve

recording as a receipt in the NIPAs an item that the federal budget reports as an offsetting (negative) outlay or adjusting the timing of a federal transaction to better match the timing of the related production or income flow.<sup>4</sup> The differences between the Congressional Budget Office's (CBO's) most recent baseline budget projections and its corresponding estimates for the federal sector in the NIPAs are detailed in Table 1.<sup>5</sup>

### The Measurement of National Saving

Several conventions used in the NIPAs are intended to show the federal government's contribution to national saving—specifically, net federal government saving (current receipts minus current expenditures). Two major departures from the federal budget are the NIPAs' treatment of spending for federal investment (for things such as ships, computers, and office buildings) and the treatment of spending for federal employees' retirement programs. As a result, the concept of net federal saving (or "dissaving") in the NIPAs is akin to, but not the same as, the federal budget surplus (or deficit).

**Federal Investment.** In the federal budget, outlays for investment are treated like other cash outlays; thus, to determine the size of the federal deficit or surplus, they are subtracted from budget revenues. In the NIPAs, by contrast, federal investment is not counted as a current expenditure—and therefore does not affect net federal government saving—because new purchases of federal capital (investments) do not measure the current capital inputs used to produce government services.<sup>6</sup> To approximate the cost of those capital inputs, the NIPAs include

4. The resulting differences between the numbers reported in the NIPAs and the budget are sometimes divided into three groups: coverage differences, timing differences, and netting differences. Although all three types can affect total revenues or outlays, netting differences have no impact on the federal deficit or surplus because they affect revenues and outlays equally.
5. The estimates and the presentation of the reconciliation between the budget and the NIPAs in Table 1 are based on CBO's interpretation of the methodology used for the NIPAs, as detailed in Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business* (June 2003), and in BEA's reconciliation of the President's budget for fiscal year 2009 and the NIPAs, as published in the *Survey of Current Business* (March 2008).
6. Federal investment, along with private investment spending, is shown in the NIPAs in the domestic capital account, which displays saving and investment (Table 5.1 in the accounts; see also Table 3.9.5, which shows both federal investment and consumption).

in current federal expenditures an estimate of the depreciation (consumption) of the government's stock of fixed capital. The treatment is conceptually similar to that applied to the corporate business sector, which uses depreciation rather than investment purchases to compute net corporate saving (retained earnings). In the federal budget, depreciation is not tracked. That difference in coverage is shown in Table 1 under "Expenditures" in the row labeled "Treatment of investment and depreciation."

**Federal Retirement.** Transactions involving federal employees' retirement programs are also handled differently in the budget than in the NIPAs. Federal employees' contributions to their retirement accounts are recorded in the budget as revenues. However, agencies' contributions on behalf of their employees (as well as interest payments from the Treasury to the retirement trust funds) have no overall budgetary effect because they are simply transfers of funds between two government accounts.<sup>7</sup> When benefits are paid to federal retirees, they are recorded in the budget as outlays.

In the NIPAs, by contrast, the aim is to make the measurement of saving by the federal government consistent with the measurement of saving by the private sector. Therefore, the NIPAs treat some transactions related to federal retirement plans as part of the household sector of the economy.<sup>8</sup> The receipts from federal employers' retirement contributions (and the interest earned by retirement accounts) are considered part of workers' personal income and thus are not recorded as federal transactions (receipts or negative expenditures). Employees' contributions are not recorded as income in either the federal or the household sector but are considered transfers within the household sector.

7. In the budget, contributions by an agency to its employees' retirement accounts are considered outlays for that agency and offsetting receipts (negative outlays) elsewhere in the budget. Thus, those intragovernmental transfers result in no net outlays or receipts for the total budget. That treatment is the same as the treatment of the federal government's contributions for Social Security and Medicare for its employees.

8. Among the exceptions, transactions of the National Railroad Retirement Investment Trust are part of the federal sector in the NIPAs. In addition, Social Security contributions and benefit payments for private and government employees alike are recorded in the federal sector as receipts and expenditures rather than moved to the household sector.

On the outlay side, payments of pension benefits to retirees are not recorded as federal expenditures in the NIPAs because they are treated as transfers from pension funds within the household sector. Some transactions, however, are treated as part of federal expenditures even though the corresponding receipts are recorded in the household sector. The government's contributions to its workers' retirement accounts are counted as federal expenditures (as part of employees' compensation), as is the interest paid to federal retirement accounts. The different treatment of retirement contributions by federal employees is shown in the top section of Table 1 under "Receipts"; the different treatment of federal employers' contributions, interest earnings, and benefit payments is shown below that, under "Expenditures."

### Capital Transfers and Exchanges of Existing Assets

Transactions that involve existing assets do not affect the way current production and income are measured in the NIPAs. Therefore, the NIPAs do not count capital transfers or asset exchanges as part of current federal receipts or expenditures, although the budget generally does include those transactions. From the perspective of the NIPAs, capital transfers include estate and gift taxes (which are taxes on private-capital transfers) and investment grants to state and local governments for such things as air transportation, highways, transit, and water treatment plants.<sup>9</sup> Exchanges of existing assets include federal transactions for deposit insurance and the sale and purchase of government assets (including assets that are not "produced," such as land and licenses to use the radio spectrum). In Table 1, those differences between the NIPAs' federal sector and the budget appear as "Estate and gift taxes" under "Receipts" and as "Capital transfers"

9. Another type of capital transfer that is excluded from the NIPAs' measures of current receipts and current expenditures is the annual lump-sum payment that the Treasury makes to the Department of Defense Medicare-Eligible Retiree Health Care Fund. Since October 2002, that trust fund has paid for benefits to retired members of the armed forces (and their dependents) who are eligible for Medicare. The Treasury's payments to the trust fund are for accrued but unfunded liabilities for benefits attributable to work performed before 2003; BEA excludes those payments from federal expenditures because they are not related to current production. In the budget, those annual payments by the Treasury are recorded as outlays. However, the Treasury also records offsetting receipts (negative outlays) elsewhere in the budget. Because those annual payments have no net effect on federal spending either in the NIPAs or in the budget, they are not included among the reconciliation items in Table 1.

**Table 1.****Relationship of the Budget to the Federal Sector of the National Income and Product Accounts**

(Billions of dollars)

	Actual											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	<b>Receipts</b>											
Revenues (Budget)	2,524	2,186	2,334	2,783	3,086	3,281	3,436	3,610	3,761	3,927	4,083	4,247
Differences												
Coverage												
Contributions for government												
employees' retirement	-4	-3	-3	-3	-3	-3	-3	-3	-2	-2	-2	-3
Estate and gift taxes	-29	-22	-13	-17	-37	-43	-48	-52	-56	-61	-65	-69
Geographic adjustments	-5	-5	-5	-5	-5	-6	-6	-6	-6	-7	-7	-7
Universal Service Fund receipts	-8	-9	-9	-9	-9	-9	-9	-9	-9	-9	-10	-10
Subtotal, coverage	-46	-38	-31	-34	-54	-60	-65	-70	-74	-80	-83	-88
Netting												
Medicare premiums	54	57	62	64	69	73	80	83	87	93	99	106
Deposit insurance premiums	1	7	12	15	17	16	7	3	3	3	3	3
Government contributions for												
OASDI and HI for employees	17	18	19	20	21	22	23	25	26	27	28	29
Income receipts on assets	21	19	21	24	25	26	25	25	26	25	26	27
Surpluses of government enterprises	-1	-5	-6	-11	-6	-8	-9	-9	-10	-11	-11	-12
Other	32	33	33	33	34	35	36	37	37	38	37	36
Subtotal, netting	126	129	140	146	160	165	163	163	169	175	182	189
Timing shift of corporate estimated												
tax payments	0	0	7	3	-15	-6	12	0	0	0	0	0
Other adjustments <sup>a</sup>	3	29	-1	-31	2	-6	6	-2	2	-2	2	-1
<b>Total Differences</b>	<b>82</b>	<b>119</b>	<b>115</b>	<b>83</b>	<b>93</b>	<b>93</b>	<b>116</b>	<b>91</b>	<b>96</b>	<b>93</b>	<b>100</b>	<b>100</b>
Receipts in the NIPAs	2,607	2,305	2,449	2,867	3,179	3,374	3,551	3,700	3,857	4,020	4,183	4,347
	<b>Expenditures</b>											
Outlays (Budget)	2,983	3,853	3,473	3,476	3,417	3,581	3,746	3,892	4,088	4,239	4,408	4,671
Differences												
Coverage												
Treatment of investment and												
depreciation	-24	-33	-33	-35	-37	-39	-40	-41	-42	-42	-43	-43
Contributions for government												
employees' retirement	58	24	33	35	38	42	47	53	59	65	72	79
Capital transfers	-52	-264	-89	-80	-74	-69	-68	-67	-66	-66	-65	-66
Lending and financial												
adjustments	13	-220	-4	-5	9	-4	1	1	0	0	3	0
Geographic adjustments	-15	-19	-20	-20	-20	-21	-21	-22	-23	-24	-25	-26
Universal Service Fund payments	-8	-8	-9	-9	-9	-9	-9	-9	-9	-9	-10	-10
Subtotal, coverage	-29	-521	-123	-114	-93	-100	-91	-87	-81	-75	-67	-65

Continued

**Table 1.** **Continued****Relationship of the Budget to the Federal Sector of the National Income and Product Accounts**

(Billions of dollars)

	<b>Actual</b>											
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Expenditures (Continued)</b>												
<b>Differences (Continued)</b>												
Netting												
Medicare premiums	54	57	62	64	69	73	80	83	87	93	99	106
Deposit insurance premiums	1	7	12	15	17	16	7	3	3	3	3	3
Government contributions for												
OASDI and HI for employees	17	18	19	20	21	22	23	25	26	27	28	29
Income receipts on assets	21	19	21	24	25	26	25	25	26	25	26	27
Surpluses of government enterprises	-1	-5	-6	-11	-6	-8	-9	-9	-10	-11	-11	-12
Other	32	33	33	33	34	35	36	37	37	38	37	36
Subtotal, netting	126	129	140	146	160	165	163	163	169	175	182	189
Timing adjustments	2	-2	0	-27	27	1	0	0	-36	-3	39	0
Other adjustments <sup>b</sup>	-74	-203	-53	-14	-2	8	24	33	37	31	33	34
<b>Total Differences</b>	<b>25</b>	<b>-597</b>	<b>-35</b>	<b>-9</b>	<b>91</b>	<b>74</b>	<b>95</b>	<b>109</b>	<b>89</b>	<b>127</b>	<b>186</b>	<b>157</b>
Expenditures in the NIPAs	3,047	3,314	3,514	3,539	3,576	3,721	3,907	4,069	4,246	4,437	4,643	4,855
<b>Net Federal Government Saving</b>												
Budget Deficit (-) or Surplus	-459	-1,667	-1,139	-693	-331	-300	-310	-282	-327	-312	-325	-423
<b>Differences</b>												
Coverage												
Treatment of investment and depreciation	24	33	33	35	37	39	40	41	42	42	43	43
Contributions for government employees' retirement	-62	-27	-36	-38	-41	-45	-50	-55	-61	-68	-75	-82
Estate and gift taxes	-29	-22	-13	-17	-37	-43	-48	-52	-56	-61	-65	-69
Capital transfers	52	264	89	80	74	69	68	67	66	66	65	66
Lending and financial adjustments	-13	220	4	5	-9	4	-1	-1	0	0	-3	0
Geographic adjustments	10	14	15	15	15	15	16	16	17	17	18	19
Universal Service Fund	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal, coverage	-17	482	92	79	39	39	26	17	7	-4	-16	-23
Timing adjustments	-2	2	7	30	-42	-7	12	0	36	3	-39	0
Other adjustments <sup>a</sup>	76	232	51	-18	4	-14	-17	-35	-36	-33	-31	-35
<b>Total Differences</b>	<b>58</b>	<b>716</b>	<b>150</b>	<b>92</b>	<b>1</b>	<b>18</b>	<b>21</b>	<b>-19</b>	<b>7</b>	<b>-34</b>	<b>-86</b>	<b>-58</b>
Net Federal Government Saving	-440	-1,010	-1,065	-672	-397	-347	-355	-368	-389	-417	-460	-508

Source: Congressional Budget Office.

Note: OASDI = Old-Age, Survivors, and Disability Insurance; HI = Hospital Insurance.

a. Includes timing differences not shown elsewhere in Table 1, plus discrepancies between figures in the NIPAs and in the budget that may diminish when the Bureau of Economic Analysis makes subsequent revisions to the NIPAs.

b. Includes coverage differences not shown elsewhere above.

and “Lending and financial adjustments” under “Expenditures.”

Recent federal transactions that fall into the general categories of capital transfers and asset exchanges include transactions associated with the Troubled Asset Relief Program (TARP) and the government’s infusions of money into Fannie Mae and Freddie Mac, two large government-sponsored enterprises (GSEs) that help provide financing to mortgage markets.

The federal budget records the net subsidy costs of TARP transactions as outlays. That treatment, which is mandated by the Emergency Economic Stabilization Act of 2008, is consistent with the budgetary treatment of government loans and loan guarantees under credit reform, but with adjustments for market risk.<sup>10</sup>

The government’s new conservatorship of Fannie Mae and Freddie Mac has led to disagreement about how those GSEs should be treated in the federal budget. The official *Budget of the United States Government* published by the Administration treats them as entities separate from the government and records the Treasury’s purchases of their preferred stock on a cash basis. In CBO’s view, however, the management and financial control that the federal government now exercises over Fannie Mae and Freddie Mac indicates that they should be included in the federal budget. Consequently, CBO’s baseline budget projections reflect the estimated subsidy costs of the two GSEs’ transactions, adjusted for market risk in the same way that TARP transactions are. At the same time, CBO considers federal purchases of the GSEs’ preferred stock to be intragovernmental and thus does not include them in its baseline projections.<sup>11</sup>

In the NIPAs, neither the subsidy costs nor the underlying purchases of securities associated with the TARP and the activities of Fannie Mae and Freddie Mac are included in federal current expenditures because they are considered capital transfers or exchanges of existing assets.<sup>12</sup> However, stock dividends are recorded as federal receipts, and administrative costs as part of federal expenditures. Loans made through the TARP, such as those to

troubled automakers, are viewed as financial transactions and thus excluded (as are most of the transactions of other federal credit programs).

### Credit Programs

For federal programs that make or guarantee loans, only estimated subsidy costs and administrative costs are included as outlays in the budget. Cash flows from loan disbursements, repayments, and interest are reported in what are termed financing accounts, which have no effect on budget outlays.

As with the budget, the NIPAs record administrative costs and generally exclude loan disbursements, repayments, and other cash flows that are considered exchanges of existing assets or financial and lending transactions unrelated to current production. But unlike the budget, the NIPAs include the interest receipts from credit programs as part of federal receipts and do not record subsidy costs. In Table 1, those differences in the treatment of credit programs are recorded in two places: Under “Receipts,” the difference in the treatment of loan interest is included as part of “Income receipts on assets”; under “Expenditures,” the row labeled “Lending and financial adjustments” shows the differences in the way loan subsidies are handled.

### Geographic Coverage

The NIPAs currently exclude all government transactions with Puerto Rico and other U.S. territories; their current production is not part of the nation’s GDP as defined in the NIPAs.<sup>13</sup> Federal transfers dominate those transactions, so excluding them tends to increase the NIPAs’ measure of net federal government saving relative to the budget’s measure of saving, the federal deficit or surplus. That difference in coverage is shown in Table 1 as “Geographic adjustments.”

### Universal Service Fund

The business activity of the Universal Service Fund, which provides resources to promote access to

10. More specifically, the present value of future cash flows in the TARP is computed using an appropriate discount factor that recognizes the riskiness of those cash flows.

11. See Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2009 to 2019* (January 2009), p. 26.

12. See “The 2008 Financial Crisis and the National Accounts” in Department of Commerce, Bureau of Economic Analysis, *GDP and the Economy: Advance Estimates for the Fourth Quarter of 2008* (February 2009).

13. In July 2009, this treatment will be changed to include some transactions with U.S. territories in federal current receipts and expenditures. See “Preview of the 2009 Comprehensive Revision of the NIPAs,” *Survey of Current Business* (March 2009).

telecommunications, is recorded in the budget but not in the NIPAs' federal sector. The Universal Service Fund receives federally required payments from providers of interstate and international telecommunications services and disburses those funds to local providers that serve high-cost areas, low-income households, libraries, and schools, as well as to rural health care providers. The fund is administered by the Universal Service Administrative Company, an independent nonprofit corporation regulated by the Federal Communications Commission.

Although the Universal Service Fund's revenues and outlays appear in the federal budget, they have little net effect on the deficit or surplus. In the NIPAs, the fund's receipts and payments are classified as intracorporate transfers (from one business to another within the corporate sector).

### Interest Receipts

In the NIPAs, federal interest income is grouped with other types of federal receipts (in the category "Income receipts on assets") rather than netted against federal interest payments, as it is in the federal budget.<sup>14</sup> BEA's treatment is consistent with international accounting practices, in which interest receipts and payments are reported separately. The difference in how the NIPAs and the federal budget treat interest receipts increases the NIPAs' measure of government receipts relative to federal budget revenues and also increases the NIPAs' measure of government expenditures relative to budget outlays. However, because the difference in treatment affects receipts and expenditures in the NIPAs by exactly the same amount, it has no impact on the NIPAs' measure of net federal government saving.

### Surpluses of Government Enterprises

In the NIPAs, the surpluses recorded by certain government enterprises, such as the Postal Service, are shown on a separate line as current receipts of the federal government. That treatment follows international accounting standards, which generally advocate reporting spending on a gross, rather than a net, basis. In the federal budget, by contrast, surpluses of government enterprises are treated as offsetting receipts.

14. About half of the NIPAs' interest receipts, those that derive mainly from penalties on late tax payments, are recorded as revenues in the federal budget.

### Military Sales and Assistance In-Kind

Because the NIPAs try to identify contributions to GDP by sector, the military's purchases of equipment and services that are intended to be sold or given to foreign governments are not included in the category of federal consumption. Instead, those transactions are considered net exports in the NIPAs' foreign-transactions account (Table 14.1 in the accounts). In the case of gifts, the transactions are also recorded in the federal sector in the NIPAs as transfers to the rest of the world—a classification that parallels their treatment in the federal budget, where they are categorized as outlays. By contrast, even though the cost of acquiring military equipment that is then sold to foreign governments is recorded in the federal budget as an outlay, the proceeds from those sales are recorded as offsetting receipts.

### Timing Differences

As much as is possible, the NIPAs attempt to measure the flow of income when it is earned (on an accrual basis) rather than when it is received (on a cash basis).<sup>15</sup> For example, BEA attributes corporate tax payments to the year in which the liabilities are incurred rather than to the year in which the taxes are actually paid. That approach makes sense in an integrated system of accounts that tracks both production and income, because on an accrual basis—measurement problems aside—the value of what is produced in a given period should match the total income generated. However, the NIPAs are not entirely consistent in that respect: Personal tax payments are counted when they are made and are not attributed retroactively to the year in which the liabilities were incurred. Because the budget is recorded mostly on a cash basis whereas the NIPAs' federal sector is recorded largely on an accrual basis, the timing of recorded transactions differs in several areas.

**Corporate Taxes.** Legislation sometimes temporarily shifts the timing of corporate tax payments, usually from the end of one fiscal year to the beginning of the next, or vice versa. The NIPAs exclude such timing shifts, which

15. See United Nations, *System of National Accounts* (1993), paragraph 3.19, which emphasizes reporting transactions on an accrual basis. Many of the conceptual changes made to the NIPAs over the years have been based on guidelines from that U.N. document. See also Department of Commerce, Bureau of Economic Analysis, "The NIPAs and the System of National Accounts," *Survey of Current Business* (December 2004), pp. 17–32.

are not consistent with accrual accounting. Timing adjustments for the net effects of enacted legislation are shown in Table 1 under “Receipts” in the row labeled “Timing shift of corporate estimated tax payments.”

Although corporations make estimated tax payments throughout the year, any shortfalls (or overpayments) are corrected in the form of final payments (or refunds) in subsequent years. The federal budget records those final payments on a cash basis, but the NIPAs shift them back to the year in which the corporate profits that gave rise to the tax liabilities were actually generated. The results of that difference are difficult to identify for recent years; thus, they appear in the “Other adjustments” category under “Receipts” in Table 1.<sup>16</sup>

**Personal Taxes.** Although personal taxes are not recorded on an accrual basis in the NIPAs, BEA nevertheless attempts to avoid large, distorting upward or downward spikes in personal disposable income that result from timing quirks. Such quirks occur each year in April, for example, when most final settlements for the previous year’s personal taxes are paid. In the NIPAs, therefore, those settlements are spread evenly over the four quarters of the calendar year in which they are paid. (Like accrual accounting, that treatment avoids spikes, but unlike accrual accounting, it does not move payments back to the year in which the liabilities were incurred.) Such “smoothing” can alter the relationship of the NIPAs and the budget accounts for various fiscal years because it shifts some receipts into the last quarter of the calendar year and thus into the following fiscal year.<sup>17</sup> Again, those adjustments are difficult to identify for recent years and therefore are not shown separately in Table 1. They appear instead in the category “Other adjustments” under “Receipts.”

**Transfers and Military Compensation.** Timing adjustments are needed on the spending side of the NIPAs to align military compensation and government transfer

payments—such as veterans’ benefits, Supplemental Security Income (SSI) payments, and Medicare’s payments to health care providers—with income that is reported on an accrual basis in the NIPAs. Misalignments can occur because quirks in the calendar (the timing of holidays, weekends, or leap years) can accelerate payments or because legislation can specifically delay payments.

SSI payments and veterans’ benefits are usually disbursed on the first day of each month, but if that day falls on a weekend or holiday, payments are made a day or more in advance. If that occurs in October, payments are pushed into the previous fiscal year in the budget. In such cases, the NIPAs introduce a timing adjustment that effectively moves the payments back to the first day of the month. Hence, the NIPAs’ adjustment always ensures that there are exactly 12 monthly SSI payments in a year, whereas in the budget, there may be 11 in some years and 13 in others.

Military compensation is normally paid at the beginning and middle of each month, but like SSI, it may sometimes be paid early to avoid weekends. The NIPAs include a similar timing adjustment that always ensures 24 military compensation payments in a year, versus the 23 or 25 payments that can occur in the budget in some years. Under “Expenditures” in Table 1, the row labeled “Timing adjustments” reflects such regularizing for transfer payments and military pay.

In another contrast with the federal budget, the NIPAs record Medicare payments on an accrual basis rather than on a cash basis.<sup>18</sup> That treatment better illustrates the link between the underlying economic activity (the medical services provided) and the associated federal transactions (payment for those services), which can be several months apart. However, that timing adjustment has only a small effect on the NIPAs’ measure of net federal government saving.

16. “Other adjustments” include timing differences not shown elsewhere in Table 1, plus discrepancies between numbers in the NIPAs and the budget that may diminish when BEA makes later revisions to the NIPAs.

17. A change in the relationship between receipts in the budget and in the NIPAs is projected to occur after certain changes in tax laws, such as the changes scheduled to take effect in 2011. CBO’s baseline revenue projections incorporate the assumption that those changes do occur as scheduled.

18. Beginning with its July 2008 annual revisions to the NIPAs, BEA has changed the way it reports Medicare prescription drug benefits. Previously, because of data limitations, BEA reported those federal expenditures on a cash basis. Now, newly available data on “incurred benefits” from the Centers for Medicare and Medicaid Services enable BEA to show federal expenditures for Medicare prescription drug benefits on an accrual basis. That treatment is now consistent with the treatment of other Medicare benefits in the federal sector in the NIPAs.



### Business Activities

Both the federal budget and the NIPAs treat certain revenues as offsetting receipts when they result from voluntary transactions with the public that resemble business activities—for instance, proceeds from the sale of government publications. However, the NIPAs generally have a stricter view of what resembles a business transaction. In particular, Medicare premiums, deposit insurance premiums, rents, royalties, and regulatory or inspection fees are deemed equivalent to business transactions in the budget but not in the NIPAs. Consequently, those transactions, which are negative outlays in the budget, are treated in the NIPAs as government receipts (contributions for government social insurance and current transfers from business—for example, fines and fees, and taxes on production and imports). Those differences are shown in Table 1 in the category “Netting.” Because they affect total current receipts and total current expenditures by exactly the same amounts, they have no impact on the NIPAs’ measure of net federal government saving.

## Presentation of the Federal Government’s Receipts and Expenditures in the NIPAs

Like the budget, the federal sector in the NIPAs classifies receipts by type, but the types differ (see Table 2). The NIPAs record five major categories of current receipts. The largest category—current tax receipts—includes taxes on personal income, corporate income, and production and imports (excise taxes and customs duties), as well as taxes from the rest of the world. The next-largest category—contributions for government social insurance—consists of Social Security taxes, Medicare taxes and premiums, and unemployment insurance taxes. The remaining categories are current transfer receipts (fines and fees), income receipts on assets (interest, rents, and royalties), and current surpluses of government enterprises (such as the Postal Service). Some of those receipt classifications help determine NIPA measures such as disposable income and corporate profits after taxes.

Similarly, the government’s expenditures are classified in the NIPAs according to their purpose. The major categories, which are fewer than in the federal budget, are consumption expenditures (spending on goods and services, including the costs of capital depreciation, with separate estimates for defense and nondefense spending), current

transfer payments (to individuals, state and local governments, and the rest of the world), interest payments, and subsidies (to businesses and government enterprises).

Consumption of goods and services for defense and non-defense purposes consists of spending by the government for immediate use in production. The largest share of such consumption is compensation for military and civilian federal employees. Among the government’s other consumption expenditures, the consumption of fixed capital (depreciation) represents a partial measure of the services the government receives from its stock of fixed assets (buildings, equipment, and software).

Current transfer payments comprise cash payments that the federal government makes directly to individuals and the rest of the world, as well as grants to state and local governments or foreign nations. Most of the transfer payments to individuals are for social benefits. Grants-in-aid consist of payments to state or local governments, which the recipient governments generally use for transfer payments themselves (such as Medicaid benefits) and for consumption (such as the hiring of police officers). Current transfers to the rest of the world include payments of federal foreign aid.

The NIPAs’ category for federal interest payments shows only payments and thus differs from the budget category labeled “net interest,” in which such payments are offset by federal interest receipts. In the NIPAs, federal interest receipts are classified with other federal receipts.

The NIPAs’ final category of government expenditures, “subsidies,” primarily consists of payments by the federal government to businesses, including state and local government enterprises, such as public housing authorities. Federal housing and agricultural assistance have long dominated that category.

The bottom-line measure in the NIPAs’ federal sector is net federal government saving, which is the difference between the sector’s current receipts and current expenditures.<sup>19</sup> It is a component of net national saving and thus

19. Gross federal saving—a component of gross national saving—equals net federal saving plus depreciation (consumption of fixed capital).

**Table 2.****Baseline Receipts and Expenditures as Measured by the National Income and Product Accounts**

(Billions of dollars)

	Actual											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	<b>Receipts</b>											
Current Tax Receipts												
Taxes on personal income	1,134	990	1,001	1,294	1,487	1,617	1,726	1,833	1,937	2,046	2,148	2,255
Taxes on corporate income	327	161	244	305	350	350	369	368	373	373	377	372
Taxes on production and imports	96	100	105	114	121	125	128	131	134	137	139	141
Taxes from the rest of the world	16	14	15	17	18	19	20	21	22	23	24	25
Subtotal	1,574	1,265	1,365	1,729	1,975	2,111	2,244	2,353	2,466	2,579	2,689	2,793
Contributions for Government												
Social Insurance <sup>a</sup>	967	965	1,006	1,057	1,112	1,170	1,221	1,262	1,304	1,351	1,403	1,457
Current Transfer Receipts	35	49	53	58	63	65	58	56	60	62	64	68
Income Receipts on Assets	31	30	31	33	35	37	37	38	38	38	39	40
Current Surpluses of Government												
Enterprises	-1	-5	-6	-11	-6	-8	-9	-9	-10	-11	-11	-12
<b>Total Current Receipts</b>	<b>2,607</b>	<b>2,305</b>	<b>2,449</b>	<b>2,867</b>	<b>3,179</b>	<b>3,374</b>	<b>3,551</b>	<b>3,700</b>	<b>3,857</b>	<b>4,020</b>	<b>4,183</b>	<b>4,347</b>

Continued

is a partial measure of how much of the nation's income from current production is not consumed in the current period.<sup>20</sup> Net federal saving or "dissaving" is akin to the federal surplus or deficit measured in the budget. However, net federal government saving is not a good indicator of federal borrowing requirements because, unlike the budget deficit or surplus, it is not a measure of cash flows.<sup>21</sup>

20. Net national saving also includes net saving by the state and local government sector, personal saving, and corporate retained earnings.

21. As an addendum to the NIPAs' Table 3.2, BEA publishes a measure labeled "Net Lending or Net Borrowing," which is closer to a cash or financial measure in several ways. Like the budget, it includes investment purchases as expenditures because those purchases must be financed from current receipts or from federal borrowing. At the same time, it excludes consumption of fixed capital because those accounting charges are not a drain on current financial resources. In addition, it includes receipts from the sale of existing assets and capital transfer receipts (such as estate and gift taxes) and capital transfer payments (such as investment grants to state and local governments), which are not part of current receipts or expenditures in the NIPAs but do affect cash flows. Despite those adjustments, net federal lending or borrowing in the NIPAs differs from the budget deficit or surplus because of all of the other differences in timing and coverage that distinguish the NIPAs from the budget. BEA presents those differences in Table 3.18, which is similar to the presentation in Table 1 of this report.

Table 2.

Continued

## Baseline Receipts and Expenditures as Measured by the National Income and Product Accounts

(Billions of dollars)

	Actual											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	<b>Expenditures</b>											
Consumption Expenditures (Purchases of goods and services)												
Defense												
Consumption	544	568	573	562	559	561	566	575	587	601	614	629
Consumption of fixed capital	80	85	88	91	94	97	99	102	106	109	112	116
Nondefense <sup>b</sup>												
Consumption	256	291	312	311	311	312	317	320	327	335	343	353
Consumption of fixed capital	30	31	32	33	33	33	34	34	34	34	34	35
Subtotal	910	975	1,005	997	997	1,003	1,016	1,032	1,054	1,079	1,104	1,132
Current Transfer Payments												
Government social benefits												
To persons	1,345	1,510	1,582	1,608	1,621	1,687	1,780	1,853	1,941	2,045	2,169	2,297
To the rest of the world	4	4	4	4	5	5	5	6	6	6	7	7
Subtotal	1,349	1,514	1,586	1,613	1,626	1,692	1,786	1,858	1,947	2,052	2,175	2,304
Other transfer payments												
Grants-in-aid to state and local governments <sup>b</sup>	383	469	546	517	490	496	503	520	542	568	597	628
To the rest of the world	38	36	36	35	35	35	35	35	36	36	37	37
Subtotal	422	505	581	552	525	530	538	555	578	604	634	666
Interest Payments <sup>b</sup>	320	271	291	327	378	446	518	573	616	650	678	700
Subsidies	47	49	50	50	50	50	50	50	51	51	52	53
<b>Total Current Expenditures</b>	<b>3,047</b>	<b>3,314</b>	<b>3,514</b>	<b>3,539</b>	<b>3,576</b>	<b>3,721</b>	<b>3,907</b>	<b>4,069</b>	<b>4,246</b>	<b>4,437</b>	<b>4,643</b>	<b>4,855</b>
	<b>Net Federal Government Saving</b>											
Net Federal Government Saving	-440	-1,010	-1,065	-672	-397	-347	-355	-368	-389	-417	-460	-508

Source: Congressional Budget Office.

a. Includes Social Security taxes, Medicare taxes and premiums, and unemployment insurance taxes.

b. Includes Social Security and the Postal Service.

