



# MONTHLY BUDGET REVIEW

## Fiscal Year 2010

### A Congressional Budget Office Analysis

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

October 7, 2010

CBO estimates that the federal budget deficit was slightly less than \$1.3 trillion in fiscal year 2010 and \$125 billion less than the shortfall recorded in 2009. The 2010 deficit was equal to 8.9 percent of gross domestic product (GDP), CBO estimates, down from 10.0 percent in 2009 (based on the most current estimate of GDP). The 2010 deficit was the second-highest shortfall—and 2009 the highest—since 1945, relative to the size of the economy. CBO’s deficit estimate is based on data from the *Daily Treasury Statements* and CBO’s projections; the Treasury Department will report the actual deficit for fiscal year 2010 later this month.

#### AUGUST RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	162	164	2
Outlays	258	255	-3
Deficit (-)	-95	-91	5

Sources: Department of the Treasury; CBO.

The Treasury recorded a deficit of \$91 billion for August, about \$5 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. That difference occurred largely because spending for defense and education was lower than expected.

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

	Actual FY 2009	Preliminary FY 2010	Estimated Change
Receipts	219	245	26
Outlays	264	277	13
Deficit (-)	-45	-32	14

Sources: Department of the Treasury; CBO.

The deficit in September 2010 was \$32 billion, CBO estimates, \$14 billion less than the shortfall recorded a year ago. Quarterly payments of estimated individual and corporate income taxes typically result in a surplus for September; however, revenues remain relatively low and spending was relatively high, resulting in the 24th consecutive month of budget deficits.

CBO estimates that receipts in September were about \$26 billion (or 12 percent) higher than receipts in September 2009. Corporate income tax receipts, which rose by about \$20 billion, account for most of the increase; gross corporate income tax receipts grew by \$17 billion (or 45 percent), and corporate refunds fell by

\$4 billion (or 44 percent). Withholding for income and payroll taxes increased by \$6 billion (or 5 percent). Nonwithheld individual income and payroll taxes, mainly from quarterly estimated payments of 2010 income taxes, rose by \$2 billion (or 3 percent). Other receipts fell by \$2 billion, on net.

Outlays were \$13 billion (or 5 percent) higher in September than in the same month last year, CBO estimates. The estimated net cost of the Troubled Asset Relief Program (TARP) was about \$13 billion higher this September than last September; that difference occurred almost entirely because a reduction in the previously estimated subsidy costs for the program was recorded in September 2009. Spending for the Department of Education was up by \$8 billion from last September. Expenditures for the Federal Deposit Insurance Corporation and net interest on the public debt rose by \$3 billion each, and spending for Social Security and Medicaid increased by \$2 billion each. Those increases were partially offset by a \$9 billion reduction in net payments to Fannie Mae and Freddie Mac and by an increase of \$9 billion in the Treasury’s interest earnings from credit programs.

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

	Actual FY 2009	Preliminary FY 2010	Estimated Change
Receipts	2,104	2,162	57
Outlays	3,520	3,453	-67
Deficit (-)	-1,416	-1,291	125

Sources: Department of the Treasury; CBO.

CBO estimates that the federal deficit was slightly less than \$1.3 trillion in 2010, down from slightly more than \$1.4 trillion in 2009. Outlays declined by \$67 billion, and revenues increased by \$57 billion. The estimated deficit is about \$51 billion lower than CBO projected in August. Outlays were lower and revenues were higher than previously 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 REVENUES**  
(Billions of dollars)

Major Source	Actual FY 2009	Preliminary FY 2010	Percentage Change
Individual Income	915	901	-1.6
Corporate Income	138	192	38.6
Social Insurance	891	863	-3.2
Federal Reserve	34	76	121.0
Other	<u>126</u>	<u>131</u>	4.2
<b>Total</b>	<b>2,104</b>	<b>2,162</b>	<b>2.7</b>

Sources: Department of the Treasury; CBO.

CBO estimates that total receipts rose by 3 percent in 2010, following declines in each of the prior two years. Growth in receipts of corporate income taxes and remittances from the Federal Reserve more than offset reduced collections of individual income and payroll taxes in 2010.

Corporate income tax receipts rose by \$53 billion (or 39 percent) in 2010; improved economic conditions and the expiration of legislation that allowed taxpayers to take higher depreciation charges in 2009 has resulted in higher taxable profits in 2010. (The Small Business Jobs Act of 2010, which became law in late September, extended through tax year 2010 the allowance for higher depreciation charges; that retroactive change will reduce revenues in fiscal year 2011.) Receipts from the Federal Reserve increased by \$42 billion this year, to more than double the amount received in 2009. The central bank's increased profits resulted from an enlarged portfolio and a shift to riskier and thus higher-yielding investments in support of the housing market and the broader economy.

Those increases were partially offset by a drop in the total of individual income and payroll taxes, which were about \$43 billion (or 2 percent) lower than those receipts in 2009. Withheld income and payroll taxes declined by about \$13 billion (or 1 percent), and nonwithheld receipts fell by about \$35 billion (or 10 percent). In both instances, the declines occurred early in the fiscal year and were largely attributable to lower collections of tax liabilities incurred in 2009. In the past five months, collections of withheld and nonwithheld taxes, which were based on income in 2010, were 4 percent higher than in the same period last year. The overall reduction in withheld and nonwithheld receipts was partially offset by a \$7 billion increase in collections of unemployment insurance taxes, resulting primarily from the efforts of states to replenish their unemployment trust funds. Other tax receipts rose by \$4 billion, on net, compared with such revenues last year.

**TOTAL OUTLAYS**  
(Billions of dollars)

Major Category	Actual FY 2009	Preliminary FY 2010	Percentage Change
Defense—Military	637	667	4.7
Social Security			
Benefits	660	696	5.4
Medicare <sup>a</sup>	429	450	4.9
Medicaid	251	273	8.7
Unemployment			
Benefits	120	160	34.3
Other Activities	<u>977</u>	<u>1,047</u>	7.1
<b>Subtotal</b>	<b>3,073</b>	<b>3,292</b>	<b>7.1</b>
Net Interest on the			
Public Debt	202	228	13.2
TARP	154	-108	-170.0
Payments to GSEs	<u>91</u>	<u>40</u>	-55.7
<b>Total</b>	<b>3,520</b>	<b>3,453</b>	<b>-1.9</b>

Sources: Department of the Treasury; CBO.

Note: TARP = Troubled Asset Relief Program; GSE = government-sponsored enterprise.

a. Medicare outlays are net of proprietary receipts.

Outlays ended the year about 2 percent below those in 2009, CBO estimates. That decline resulted primarily from a net reduction in outlays for three items related to the financial crisis: the costs of the TARP (\$262 billion lower than in 2009), payments to Fannie Mae and Freddie Mac (\$51 billion lower), and federal deposit insurance (\$55 billion lower). Excluding those three programs, spending rose by about 9 percent in 2010, somewhat faster than in recent years.

Payments for unemployment benefits rose by 34 percent in 2010 because of high unemployment and increased benefits provided by various laws, including the American Recovery and Reinvestment Act (ARRA). Other ARRA provisions led to double-digit growth in spending for programs in the "Other Activities" category—particularly the State Fiscal Stabilization Fund, refundable tax credits, and certain education programs. Apart from deposit insurance, outlays for that broad category were 13 percent higher than in 2009.

In contrast, defense spending grew more slowly than in recent years, increasing by about 5 percent in 2010 after rising by an average of 8 percent annually from 2005 through 2009. Medicare and Social Security outlays rose by about 5 percent this year, somewhat less than in most recent years. The 9 percent increase in Medicaid outlays partly reflects a temporary increase in the federal share of Medicaid assistance authorized in ARRA; excluding ARRA-related expenditures, Medicaid outlays rose by about 6 percent.