Congressional Budget Office

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Monthly Budget Review for August 2016

The federal budget deficit was $622 billion for the first 11 months of fiscal year 2016, the Congressional Budget Office estimates—$92 billion more than the shortfall recorded during the same period last year. Revenues and outlays alike were higher than they were last year, but outlays rose much more.

In its most recent budget projections, CBO estimated that the deficit for fiscal year 2016 (which will end on September 30, 2016) would total $590 billion, about $152 billion more than the shortfall in fiscal year 2015. (See *An Update to the Budget and Economic Outlook: 2016 to 2026*, published in August.)

Budget Totals, October–August
(Billions of dollars)

	Actual, FY 2015	Preliminary, FY 2016	Estimated Change
Receipts	2,883	2,909	26
Outlays	3,413	3,531	118
Deficit	-530	-622	-92

Sources: Congressional Budget Office; Department of the Treasury. Based on the *Monthly Treasury Statement* for July 2016 and the *Daily Treasury Statements* for August 2016.

FY = fiscal year.

Total Receipts: Small Increase in the First 11 Months of Fiscal Year 2016

Receipts for the first 11 months of fiscal year 2016 totaled $2,909 billion, CBO estimates—$26 billion (or 1 percent) more than they did during the same period last year:

- **Payroll (social insurance) taxes** increased by $44 billion and **individual income taxes** increased by $7 billion, yielding a total increase of $52 billion (or 2 percent) from those two sources.
  - Amounts withheld from workers' paychecks increased by $76 billion (or 4 percent), probably because of growth in wages and salaries. The growth of withheld payroll taxes (6 percent) exceeded the growth of withheld individual income taxes (2 percent). However, the amounts currently recorded for those two sources are allocations of total withholding made on the basis of estimates by the Department of the Treasury. When actual tax return data for 2016 become available, the department may reallocate the 2016 receipts from those two sources by adjusting the amounts recorded for 2017 (or some subsequent year).
  - Overall, nonwithheld receipts declined by $6 billion (or 1 percent). That was the case even though those receipts were $12 billion higher during the first half of the fiscal year than they were during the first half of the previous year. Over the more recent period, from April through August, nonwithheld receipts were $18 billion (or 5 percent) lower this year—mostly because final payments for 2015 made during the tax-filing season this year were less than final payments for 2014 made during the same period last year. Payments of estimated taxes for the current year also have declined.
  - Income tax refunds increased by $16 billion (or 7 percent), reducing net receipts.

- Receipts from unemployment insurance taxes (one kind of payroll tax) were down by $3 billion.

■ **Corporate income taxes** in the first 11 months of the fiscal year were $35 billion (or 13 percent) lower than they were during the same period last year. Of that decline, $25 billion occurred from April through August, when most corporations began making tax payments that reflected their taxable profits in 2016. The rest of the decline occurred between October and March, when tax payments largely reflected taxable profits for the 2015 tax year.

The reasons for the decline will become clearer as detailed information from corporate income tax returns becomes available over the next two years. However, the decline since April may partly reflect taxable profits that are lower so far this calendar year than they were during the same period last year. In addition, some of the recent decline in receipts probably stems from the enactment in December of the Consolidated Appropriations Act, 2016 (Public Law 114-113), which extended—retroactively and prospectively—tax rules that allowed businesses with large amounts of investment to more quickly accelerate their deductions for those investments. Because businesses know that those tax rules will be in effect throughout 2016, many are making smaller payments of estimated taxes this year than in 2015, when the rules had temporarily expired.

■ **Other receipts** rose by $9 billion, on net. Remittances from the Federal Reserve to the Treasury increased by $23 billion, largely because of the Fixing America's Surface Transportation Act (P.L. 114-94), which required the Federal Reserve to remit most of its surplus account to the Treasury. The central bank remitted the required additional amount, $19 billion, in late December 2015. Miscellaneous fees and fines, which had been boosted in 2015 by unusually large penalties on financial institutions, decreased by $12 billion, on net.

Receipts, October–August
(Billions of dollars)

Major Program or Category	Actual, FY 2015	Preliminary, FY 2016	Estimated Change: Billions of Dollars	Estimated Change: Percent
Individual Income Taxes	1,379	1,387	7	0.5
Payroll Taxes	978	1,022	44	4.5
Corporate Income Taxes	268	234	-35	-13.0
Other Receipts	258	267	9	3.6
Total	**2,883**	**2,909**	**26**	**0.9**
Memorandum: Combined Individual Income and Payroll Taxes				
Withheld taxes	2,003	2,079	76	3.8
Other, net of refunds	354	329	-25	-6.9
Total	**2,357**	**2,408**	**52**	**2.2**

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

Total Outlays: Up by 3 Percent in the First 11 Months of Fiscal Year 2016

At $3,531 billion, outlays for the first 11 months of this fiscal year were $118 billion (or 3 percent) higher than they were during the same period last year, CBO estimates.

The largest increases in outlays were in the following categories:

- Spending for **Social Security benefits** rose by $26 billion (or 3 percent), reflecting typical growth in the number of beneficiaries and in the average payment.
- Outlays for **net interest on the public debt** increased by $24 billion (or 10 percent), mostly because of differences in the rate of inflation. Each month, to account for inflation, the Treasury adjusts the principal of Treasury inflation-protected securities, using the change in the consumer price index for all urban consumers that was recorded two months earlier. That adjustment was negative in 2015 but positive in 2016.
- **Medicare** spending climbed by $24 billion (or 5 percent) because of increases in the number of beneficiaries and growth in the number and cost of services for those beneficiaries.
- Outlays increased by $22 billion because payments to the **Federal Communications Commission** from auctions of licenses to use the electromagnetic spectrum, which totaled roughly $30 billion through August 2015, amounted to only $8 billion during the same period in 2016. Because proceeds from those auctions are recorded in the budget as offsetting receipts (that is, as reductions in outlays), the lower payments in 2016 resulted in higher outlays. Those effects are included in the “Other” category in the table below.
- Outlays for **Medicaid** grew by $13 billion (or 4 percent), largely because of new enrollees added through expansions of coverage authorized by the Affordable Care Act.
- Spending by the **Department of Veterans Affairs,** which is included in the “Other” category below, increased by $8 billion (or 5 percent), mostly because of increases in the number of veterans receiving disability payments and in the average amount of those payments.

Outlays in some areas of the budget declined:

- Outlays for the **Department of Housing and Urban Development,** which are included in the “Other” category below, decreased by $10 billion because the department made downward revisions in April 2016, but upward revisions in April 2015, to the estimated net subsidy costs of loans and loan guarantees issued in prior years. If not for those revisions, the department’s outlays would have risen by $7 billion.
- Outlays for **student loans,** which are included in the “Other” category below, fell by $8 billion because the Department of Education revised upward by roughly $7 billion the estimated net subsidy costs of loans and loan guarantees issued in prior years—a change much smaller than last year’s $18 billion upward revision. If the effects of those revisions were excluded, net outlays for student loans for the first 11 months of fiscal year 2016 would have increased by $3 billion.

For other programs and activities, spending increased or decreased by smaller amounts.

Outlays, October–August
(Billions of dollars)

Major Program or Category	Actual, FY 2015	Preliminary, FY 2016	Estimated Change: Billions of Dollars	Estimated Change: Percent
Social Security Benefits	803	829	26	3.3
Medicare[a]	499	523	24	4.8
Medicaid	324	337	13	4.0
Subtotal, Largest Mandatory Programs	**1,626**	**1,690**	**63**	**3.9**
DoD—Military[b]	510	507	-3	-0.5
Net Interest on the Public Debt	240	264	24	10.2
Marketplace Subsidies[c]	24	28	3	13.0
Other	1,013	1,042	29	2.9
Total	**3,413**	**3,531**	**118**	**3.4**

Sources: Congressional Budget Office; Department of the Treasury.

Note: DoD = Department of Defense; FY = fiscal year.

a. Medicare outlays are net of offsetting receipts.

b. Excludes a small amount of spending by DoD on civil programs.

c. Subsidies for health insurance purchased through marketplaces established under the Affordable Care Act.

Estimated Deficit in August 2016: $108 Billion

The federal government realized a deficit of $108 billion in August 2016, CBO estimates—$44 billion more than the deficit in August 2015. Because August 1 fell on a weekend last year, certain payments scheduled for that date were instead made in July. If not for that shift, the deficit in August 2016 would have been about the same as the one in August 2015.

CBO estimates that receipts totaled $230 billion in August 2016—$20 billion (or 9 percent) more than they did in the same month last year. Larger amounts withheld from workers' paychecks for individual income and payroll taxes account for most of the total increase. Withheld taxes for those sources rose by $17 billion, partly because August 2016 had two more business days than August 2015 did.

Budget Totals for August
(Billions of dollars)

	Actual, FY 2015	Preliminary, FY 2016	Estimated Change	Estimated Change With Adjustments for Timing Shifts[a]: Billions of Dollars	Estimated Change With Adjustments for Timing Shifts[a]: Percent
Receipts	211	230	20	20	9.3
Outlays	275	338	63	20	6.2
Deficit	-64	-108	-44	0	0.2

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

a. Adjusted amounts exclude the effects of shifting payments that otherwise would have been made on a weekend or holiday. If not for those timing shifts, the budget would have shown a deficit of $108 billion in August 2015.

Total spending was $338 billion in August 2016, CBO estimates—$63 billion more than it was in August 2015. If not for the shift in the timing of payments from August to July last year, outlays would have increased by $20 billion (or 6 percent). Among the largest changes in outlays were the following (with amounts adjusted to account for the timing shift):

- Outlays for **Medicare** increased by $6 billion (or 13 percent).
- Outlays for military activities of the **Department of Defense** increased by $2 billion (or 6 percent).
- Spending rose for **Social Security** and **Medicaid** by $2 billion each.
- Outlays for **transitional reinsurance** for payments to insurers for enrollees with high medical costs decreased by $4 billion, primarily because those payments were spread over several months in 2016 but were paid only in August 2015.

Spending for other programs and activities increased or decreased by smaller amounts.

Actual Deficit in July 2016: $113 Billion

The Treasury reported a deficit of $113 billion for July—the same as CBO estimated, on the basis of the *Daily Treasury Statements*, in its *Monthly Budget Review for July 2016*.

This document was prepared by Elizabeth Cove Delisle, Nathaniel Frentz, and Joshua Shakin. It is available at www.cbo.gov/publication/51978.