



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

August 2007

Note

Numbers in the tables in this report may not sum to totals because of rounding.



Preface

This 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 reported 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 the requirement of section 202(e) of the Congressional Budget Act of 1974 for 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, CBO issued *The Budget and Economic Outlook: An Update* (August 2007).

Frank Russek of CBO's Macroeconomic Analysis Division and Luis Serna of CBO's Budget Analysis Division wrote the report under the supervision of Robert Dennis and Peter Fontaine. Leah Mazade edited the report, and Maureen Costantino prepared it 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).



Peter R. Orszag
Director

August 2007



Contents

Conceptual Differences Between the NIPAs' Federal Sector and the Federal Budget	1
Differences in Accounting for Major Transactions	2
The Measurement of National Saving	2
Capital Transfers and Exchanges of Existing Assets	3
Credit Programs	6
Geographic Coverage	6
Universal Service Fund	6
Interest Receipts	6
Surpluses of Government Enterprises	6
Military Sales and Assistance in Kind	6
National Flood Insurance Program	7
Timing Differences	7
Business Activities	8
Presentation of the Federal Government's Receipts and Expenditures in the NIPAs	8
Tables	
1. Relationship of the Budget to the Federal Sector of the National Income and Product Accounts	4
2. Baseline Receipts and Expenditures as Measured by the National Income and Product Accounts	9



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

The fiscal transactions of the federal government are recorded in two major sets of accounts that are conceptually quite different. The presentation generally used by executive branch agencies and the Congress and typically discussed in the press (and the one followed in this report) is the *Budget of the United States Government*, as reported by the Office of Management and Budget. The budget focuses on cash flows—revenues and outlays, or the collection of taxes and fees and the disbursement of cash 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 Department of the Treasury manage its cash balances and determine its borrowing needs.

The national income and product accounts (NIPAs) also record the federal government's transactions, but with different objectives. The NIPAs, which are produced by the Bureau of Economic Analysis (BEA), an agency within the Department of Commerce, are intended to provide a comprehensive measure of current production and related income generated by the U.S. economy.¹ A well-known measure of current production in the NIPAs is gross domestic product (GDP). The accounts, which are used extensively in macroeconomic analysis, divide the economy into four major sectors—business, govern-

ment, household, and the rest of the world (the foreign sector), each with its own set of accounts.² The federal sector, which is the focus of this report, is one component of the government sector (the state and local sector is the other component).³ Because the aims of the NIPAs differ from those of the budget, the two accounting systems treat some government transactions very differently. On average, the differences cause receipts and expenditures in the NIPAs, as projected by the Congressional Budget Office (CBO), to be about 2 percent higher, respectively, than the corresponding budget totals for the 2008–2017 period.

Conceptual Differences Between the NIPAs' Federal Sector and the Federal Budget

The budget of the federal government is best understood as an information and management tool. It focuses primarily on cash flows, recording for each fiscal period the inflow of revenues and the outflow of spending. The period of foremost interest in the budget is the federal fiscal year, which runs from October 1 through September 30. There are a few exceptions to the general rule of recording transactions on a cash basis, but they are designed to improve the usefulness of the budget as a

1. The discussion of the national income and product accounts 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 budget. For other discussions of the NIPAs, see Department of Commerce, Bureau of Economic Analysis, "Federal Budget Estimates for Fiscal Year 2008," *Survey of Current Business* (March 2007); and *Budget of the United States Government, Fiscal Year 2008: Analytical Perspectives*.

2. Some accounts in the NIPAs, such as the domestic capital account (which shows saving and investment), focus on components of gross domestic product or income rather than on a specific sector, and they bring together relevant information from all four sectors.

3. 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 that of the federal government's transactions.

decisionmaking tool. For example, when the federal government makes direct loans or provides loan guarantees (as with student loans), tracking cash flows gives a misleading view of current costs; therefore, under what is termed credit reform, the budget records the estimated subsidy costs at the time the loans are made.

The federal sector of the NIPAs has none of the planning and management goals of the budget. Instead, it focuses on displaying how the federal government fits into a general economic framework that describes current production and income within specific periods, the major sources of that production, and recipients of income by type. The main periods of interest for the NIPAs are calendar years and calendar quarters, although 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 federal consumption expenditures 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 in a consistent manner.

The federal sector of the NIPAs tracks how much the government spends on its consumption of goods and services, and it records the transfer of resources that occurs through taxes, payments to 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 Accounting for Major Transactions

The accounting differences between the NIPAs and the federal budget stem from the conceptual differences discussed above. In attempting to properly incorporate federal transactions into the framework used to determine GDP, the NIPAs reflect judgments about the best treatment of such transactions as government investment, sales and purchases of existing assets, federal credit, and federal activities that resemble those of businesses, along

with transactions involving U.S. territories. In some cases, the appropriate treatment may be to move a transaction from the federal sector to another place in 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) budget outlay, or adjusting the timing of a federal transaction to better match the timing of related production or income flow.⁴

The Measurement of National Saving

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

Federal Investment. In the federal budget, outlays for investment purchases are treated like other cash outlays and thus are subtracted from budget revenues in determining the size of the federal deficit or surplus. By contrast, in the NIPAs, federal investment is not counted as federal spending for the purpose of measuring net federal government saving, because new purchases of federal capital (investments) do not measure the current inputs from the existing stock of capital that are used to provide government services.⁵ To approximate the cost of those capital inputs, the NIPAs include in current federal expenditures an estimate of the depreciation (consumption of fixed capital) of the stock of federal capital. The treatment is conceptually similar to that applied to the corporate business sector, which uses depreciation rather

4. The resulting differences between the numbers in the NIPAs and the budget are sometimes divided into three groups: coverage, timing, and netting. Although all three types of differences 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. 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).

than investment purchases to compute net corporate saving (retained earnings). In the federal budget, depreciation is not tracked. Table 1, which provides a crosswalk between the budget and the NIPAs, shows that difference in coverage under “Treatment of investment and depreciation.”⁶

Federal Retirement. The transactions of federal employees’ retirement programs are also handled differently in the budget and in the NIPAs. In the budget, federal employees’ contributions for their retirement are recorded as revenues, whereas agencies’ contributions on behalf of their employees (as well as interest payments from the Treasury to trust funds) have no overall budgetary effect because they are simply transfers of funds between two government accounts.⁷ Benefit payments to federal retirees are recorded as outlays in the budget. By contrast, in the NIPAs, the aim is to make the measurement of saving by the federal government consistent with that of the private sector. Therefore, the NIPAs treat some of the transactions of federal retirement plans as part of the household sector.⁸ 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.

6. 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 for the accounts as detailed in Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business* (June 2003), and in BEA’s reconciliation of the Administration’s budget for fiscal year 2008 and the accounts, published in the *Survey of Current Business* (March 2007).

7. In the budget, contributions by an agency for its employees’ retirement are considered outlays for that agency and offsetting receipts (negative outlays) for the trust funds. 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. 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 both private and government employees are recorded in the federal sector as receipts and expenditures rather than moved to the household sector.

On the outlay side, pension benefit payments 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 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 shows up in Table 1 under “Receipts”; the different treatment of contributions by federal employers, interest earnings, and benefit payments is shown under “Expenditures.”

Capital Transfers and Exchanges of Existing Assets

The NIPAs’ measure of current production and income is not affected by transactions that involve existing assets. 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. The NIPAs define as capital transfers—and thus exclude—estate and gift taxes (which are taxes on private-capital transfers), investment subsidies to businesses other than through the tax system (such as the program to help fund the replacement of aircraft cockpit doors), and investment grants to state and local governments (for air transportation, highways, transit, and water treatment plants).⁹ Exchanges of existing assets include federal transactions for deposit insurance and sales and purchases of government assets (including assets that are not produced, such as land and the radio spectrum). In Table 1, those differences between the NIPAs’ federal sector and the budget accounts show up on the revenue side as estate and gift taxes and on the outlay side as capital transfers and lending and financial adjustments.

9. Another type of capital transfer that BEA does not include in the NIPAs is the annual lump-sum payment from the Treasury to the Uniformed Services Retiree Health Care Fund—a trust fund begun in 2003 to pay for benefits received by retired members of the armed forces who are eligible for Medicare and by their dependents. Those 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 are recorded as outlays by the Treasury but as offsetting receipts (negative outlays) by the trust fund. Because those annual payments have no net impact on federal spending in either the NIPAs or the budget, there is no corresponding reconciliation item in Table 1.

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

(Billions of dollars, by fiscal year)

	Actual											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Receipts											
Revenues (Budget) ^a	2,407	2,577	2,771	2,855	2,950	3,225	3,477	3,619	3,798	3,981	4,173	4,378
Differences												
Coverage												
Contributions for government employees' retirement	-4	-4	-4	-4	-4	-4	-4	-4	-3	-3	-3	-3
Estate and gift taxes	-28	-25	-27	-28	-22	-23	-54	-60	-67	-73	-78	-85
Geographic adjustments	-5	-5	-5	-5	-5	-6	-6	-6	-6	-7	-7	-7
Universal Service Fund receipts	-8	-8	-9	-9	-9	-10	-10	-10	-10	-10	-10	-10
Subtotal, coverage	-44	-43	-45	-46	-41	-42	-73	-80	-87	-92	-98	-105
Netting												
Medicare premiums	45	51	55	58	62	66	70	74	79	85	92	100
Deposit insurance premiums	1	*	1	2	2	2	2	2	2	2	2	2
Government contributions for OASDI and HI for employees	15	16	17	18	19	20	21	22	23	24	25	27
Income receipts on assets	15	14	13	14	14	14	14	15	15	15	15	15
Surpluses of government enterprises	-4	-6	-7	-8	-9	-9	-10	-10	-11	-12	-12	-13
Other	24	28	29	30	30	31	31	32	33	30	31	31
Subtotal, netting	96	103	108	113	117	123	128	135	140	144	152	161
Timing shift of corporate estimated tax payments	-3	3	0	0	7	3	-19	9	*	0	0	0
Other adjustments ^b	-19	2	-8	4	-2	-3	-6	-1	1	2	2	2
Total Differences	30	65	56	71	81	81	29	62	55	54	56	58
Receipts in the NIPAs	2,437	2,642	2,827	2,927	3,031	3,306	3,507	3,682	3,853	4,035	4,229	4,436
	Expenditures											
Outlays (Budget) ^a	2,655	2,735	2,925	3,071	3,205	3,359	3,415	3,583	3,733	3,896	4,115	4,268
Differences												
Coverage												
Treatment of investment and depreciation	-20	-22	-26	-29	-30	-32	-33	-34	-35	-36	-37	-38
Contributions for government employees' retirement	38	39	36	37	39	42	45	49	54	59	65	72
Capital transfers	-47	-50	-57	-60	-61	-61	-62	-63	-64	-65	-66	-67
Lending and financial adjustments	8	25	18	12	9	10	10	10	10	11	10	11
Geographic adjustments	-15	-16	-17	-18	-19	-20	-20	-22	-23	-24	-25	-26
Universal Service Fund payments	-7	-7	-8	-8	-8	-9	-9	-9	-9	-9	-9	-9
Subtotal, coverage	-42	-31	-54	-66	-70	-70	-69	-68	-67	-64	-61	-58
Netting												
Medicare premiums	45	51	55	58	62	66	70	74	79	85	92	100
Deposit insurance premiums	1	*	1	2	2	2	2	2	2	2	2	2
Government contributions for OASDI and HI for employees	15	16	17	18	19	20	21	22	23	24	25	27

Continued

Table 1.**Continued**

(Billions of dollars, by fiscal year)

	Actual											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Expenditures (Continued)											
Differences, Netting (Continued)												
Income receipts on assets	15	14	13	14	14	14	14	15	15	15	15	15
Surpluses of government enterprises	-4	-6	-7	-8	-9	-9	-10	-10	-11	-12	-12	-13
Other	24	28	29	30	30	31	31	32	33	30	31	31
Subtotal, netting	96	103	108	113	117	123	128	135	140	144	152	161
Timing adjustments	15	8	-2	0	0	-30	29	1	0	0	-42	-4
Flood insurance adjustment ^c	-16	*	-1	-1	-1	*	0	0	0	0	0	0
Other adjustments ^d	-23	15	*	*	2	3	4	2	4	4	5	-4
Total Differences	30	94	51	47	48	26	92	69	78	85	55	95
Expenditures in the NIPAs	2,685	2,829	2,977	3,118	3,253	3,385	3,506	3,652	3,811	3,980	4,170	4,363
	Net Federal Government Saving											
Budget Deficit (-) or Surplus ^a	-248	-158	-155	-215	-255	-134	62	36	65	85	58	109
Differences												
Coverage												
Treatment of investment and depreciation	20	22	26	29	30	32	33	34	35	36	37	38
Contributions for government employees' retirement	-42	-43	-40	-42	-43	-46	-49	-52	-57	-62	-68	-74
Estate and gift taxes	-28	-25	-27	-28	-22	-23	-54	-60	-67	-73	-78	-85
Capital transfers	47	50	57	60	61	61	62	63	64	65	66	67
Lending and financial adjustments	-8	-25	-18	-12	-9	-10	-10	-10	-10	-11	-10	-11
Geographic adjustments	10	12	13	13	14	14	15	16	16	17	19	19
Universal Service Fund	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Subtotal, coverage	-2	-12	10	19	29	28	-4	-11	-20	-28	-37	-47
Timing adjustments	-18	-5	2	0	7	33	-48	8	*	*	42	4
Flood insurance adjustment ^c	16	*	1	1	1	*	0	0	0	0	0	0
Other adjustments ^e	4	-13	-7	4	-4	-6	-10	-4	-3	-2	-4	6
Total Differences	0	-29	5	24	33	55	-62	-7	-22	-31	1	-37
Net Federal Government Saving	-248	-187	-150	-191	-221	-79	*	29	42	55	59	72

Source: Congressional Budget Office.

Note: * = between -\$500 million and \$500 million; OASDI = Old-Age, Survivors, and Disability Insurance; HI = Hospital Insurance.

- a. Includes Social Security and the Postal Service.
- b. Includes timing differences not shown elsewhere in the table plus discrepancies between figures in the NIPAs and in the budget that may diminish when the Bureau of Economic Analysis (BEA) makes subsequent revisions. The figure for 2006 reflects netting adjustments for hurricane relief and recovery.
- c. Reflects timing adjustments for hurricane relief and recovery.
- d. Includes coverage differences not shown elsewhere.
- e. On the receipts side, includes timing differences not shown elsewhere in the table plus discrepancies between figures in the NIPAs and in the budget that may diminish when BEA makes subsequent revisions. The figure for 2006 reflects netting adjustments for hurricane relief and recovery. On the expenditure side, numbers include coverage differences not shown elsewhere.

Credit Programs

For federal credit programs (loans and loan guarantees), only the estimated credit subsidy and administrative costs are included in outlays. Cash flows from loan disbursements, repayments, and interest, by contrast, are reported in what are termed financing accounts, which have no effect on outlays.

As in the budget, the NIPAs record administrative costs and generally exclude loan disbursements and repayments and other cash flows considered exchanges of existing assets or financial and lending transactions that are unrelated to current production. By contrast, the NIPAs do not record subsidy costs. In another departure from the budget, the NIPAs include the interest receipts from credit programs (as part of federal receipts). In Table 1, those differences in the treatment of credit programs are recorded in two places: Under “Expenditures,” the lending and financial adjustments show the differences in handling the loan subsidies; and under “Receipts,” the difference in the treatment of loan interest is captured as part of income receipts on assets.

Geographic Coverage

The NIPAs exclude all government transactions with Puerto Rico and the U.S. territories, whose current production, according to the NIPA definition, is not part of U.S. GDP. Because federal transfers dominate those transactions, their exclusion tends to increase the NIPAs’ depiction of net federal government saving by comparison with the budget’s measure of saving—the federal deficit or surplus. That difference in coverage is shown as geographic adjustments in Table 1.

Universal Service Fund

The business activity of the Universal Service Fund, which provides resources to promote access to 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 an independent nonprofit corporation (the Universal Service Administrative Company), which is regulated by the Federal Communications Commission.

Although the Universal Service Fund’s revenues and outlays appear in the federal budget, they have little net impact on the deficit or surplus. In the NIPAs, the fund’s receipts and payments are classified as intracorporate transfers (from one business to another). The difference in treatment of the Universal Service Fund is so labeled in Table 1.

Interest Receipts

In the NIPAs, federal interest receipts are grouped with other types of federal receipts (in the category designated “Income receipts on assets”) rather than netted against federal interest payments, as they are in the federal budget.¹⁰ BEA’s treatment is consistent with international accounting practices, under which interest receipts and payments are reported separately. That difference in the treatment of interest receipts in the NIPAs and in the federal budget raises the NIPAs’ measure of government receipts relative to federal budget revenues and increases the NIPAs’ measure of federal spending 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’ measurement of net federal government saving.

Surpluses of Government Enterprises

In the NIPAs, the surpluses of government enterprises, such as the Postal Service, are shown on a separate line as current receipts of the federal government. That treatment accords with international accounting standards, which generally advocate reporting spending on a gross, rather than a net, basis. By contrast, surpluses of government enterprises are treated as offsetting receipts (negative outlays) in the federal budget.

Military Sales and Assistance in Kind

The NIPAs attempt to identify contributions to GDP by sector. Therefore, they do not classify as part of federal consumption military purchases of equipment and services that are intended for sale or as gifts to foreign governments. 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 of the NIPAs as a portion of transfers to the rest of the

10. About half of the NIPAs’ interest receipts, mainly from penalties on late tax payments, are recorded as revenues in the federal budget.

world—a classification that parallels their treatment as outlays in the federal budget. By contrast, military sales to foreign governments are recorded in the federal budget as outlays, while the proceeds from those sales are recorded as offsetting receipts (negative outlays).

National Flood Insurance Program

In the federal budget, payments to beneficiaries covered by the National Flood Insurance Program are recorded as outlays. In the NIPAs, though, insurance losses by that federal government enterprise are normally recorded as offsets to current receipts (and thus a reduction in the current surpluses of government enterprises). In Table 1, that difference is included in “Netting” for both receipts and expenditures, and it is usually relatively small.

Timing Differences

As much as is possible, the NIPAs attempt to measure income flows when income is earned (on an accrual basis) rather than when income is received (on a cash basis).¹¹ For example, BEA attributes corporate tax payments to the year in which the liabilities are incurred rather than to the time when the payments are actually made. That approach makes sense in an integrated system of accounts that tracks both production and income because, on an accrual basis, the value of what is produced in a given period should—measurement problems aside—match the total income generated. However, the NIPAs are not entirely consistent in that respect: Personal tax payments are counted as 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 and the NIPAs’ federal sector is recorded largely on an accrual basis, differences exist in a number of areas in the timing of recorded transactions.

Corporate Taxes. Tax 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 are not consistent with accrual accounting. The timing adjustments for the net effects of enacted legislation are

shown as the timing shift of corporate estimated tax payments in Table 1.

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 NIPAs shift those final payments back to the year in which the corporate profits that gave rise to the tax liabilities were actually generated, whereas the budget records them on a cash basis. The results of that difference are difficult to identify for recent history and thus appear in the “Other adjustments” category under “Receipts” in Table 1.¹²

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 evenly spread over the four quarters of the calendar year in which they are paid. (As with accrual accounting, that treatment avoids spikes. Unlike accrual treatment, however, 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 fiscal years because it shifts some receipts into the last quarter of the calendar year and thus into the following fiscal year.¹³

Again, those adjustments are difficult to identify for recent history and thus are not shown separately in Table 1. They appear instead in the “Other adjustments” category 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—for example, veterans’ benefits, Supplemental

11. See United Nations, *System of National Accounts* (1993), paragraph 3.19, which emphasizes reporting transactions on an accrual basis. Many of the conceptual changes over time to the NIPAs 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.

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

13. A change in the relationship between receipts in the budget and in the NIPAs is projected to occur following certain changes in tax laws, such as the changes scheduled to take effect in 2011. CBO’s baseline for revenues incorporates the assumption that those changes do, indeed, occur.

Security Income (SSI) payments, and Medicare's payments to providers—with income that is reported on an accrual basis in the NIPAs. Misalignments can occur because of acceleration in the timing of payments that result from quirks in the calendar or because of legislation designed to delay payments (as was the case for Medicare at the end of 2006).

For example, although SSI payments are usually made on the first day of each month, they are sometimes made a day or more in advance. That situation typically occurs when the first day of the month falls on a weekend or holiday. If it occurs for the October benefits, the payments will be 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.

For military compensation, which is normally paid at the beginning and middle of each month but may sometimes, like SSI, be paid early to avoid weekends, the adjustment in the NIPAs always ensures 24 payments in a year. In the budget, by contrast, there may be 23 payments in some years and 25 in others. The timing adjustments under "Expenditures" in Table 1 reflect that regularizing for transfers and for military pay.

In another contrast with the federal budget, the NIPAs record Medicare payments on an accrual basis rather than on a cash basis. 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. The timing adjustment, however, has only a small effect on the NIPA measure of net federal government saving.

Business Activities

The federal budget and the NIPAs both treat certain revenues as offsetting receipts (negative outlays) when they result from voluntary transactions with the public that resemble business activities, such as 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 transac-

tions in the budget but not in the NIPAs. Consequently, those transactions (negative outlays in the budget) are treated in the NIPAs as government receipts (contributions for government social insurance, current transfers from business—fines and fees, and taxes on production and imports). Those differences are recorded within "Netting" in Table 1. Because they affect total current receipts and total current expenditures by exactly the same amounts, they have no effect on the NIPAs' measure of net federal government saving.

Presentation of the Federal Government's Receipts and Expenditures in the NIPAs

As in the budget, the federal sector of the NIPAs classifies receipts by type, but the categories differ (see Table 2). The NIPAs' classifications help to determine measures such as disposable income and corporate profits after taxes. There are five major categories of current receipts. The largest one, 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 is contributions for government social insurance, which 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).

In the NIPAs, the government's expenditures are classified according to their purpose. The major groups, which are fewer in number than those in the federal budget, are consumption expenditures, or spending on goods and services, including costs of capital depreciation (with separate estimates for defense and nondefense spending); transfer payments (to individuals, state and local governments, and the rest of the world); interest payments; and subsidies to businesses and to government enterprises.

Consumption of goods and services (for both defense and nondefense purposes) consists of spending by the government for its immediate use in production. (The largest portion of such consumption is the compensation of military and civilian federal employees.) Among the government's consumption expenditures, the consumption of fixed capital—depreciation—represents a partial measure

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

(Billions of dollars)

	Actual 2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Receipts												
Current Tax Receipts												
Taxes on personal income	1,020	1,144	1,263	1,313	1,374	1,570	1,711	1,814	1,913	2,018	2,130	2,250
Taxes on corporate income	365	385	408	402	389	404	402	410	418	431	444	458
Taxes on production and imports	99	98	99	103	106	114	119	123	127	129	133	138
Taxes from the rest of the world	11	14	13	14	15	17	18	19	20	22	23	24
Subtotal	1,495	1,641	1,783	1,832	1,885	2,105	2,250	2,366	2,479	2,599	2,729	2,870
Contributions for Government												
Social Insurance ^a	888	945	984	1,033	1,085	1,138	1,192	1,248	1,305	1,364	1,425	1,489
Current Transfer Receipts	34	38	40	42	42	43	45	47	49	52	55	58
Income Receipts on Assets	24	25	27	28	29	29	29	31	31	31	32	32
Current Surpluses of Government												
Enterprises	-4	-6	-7	-8	-9	-9	-10	-10	-11	-12	-12	-13
Total Current Receipts	2,437	2,642	2,827	2,927	3,031	3,306	3,507	3,682	3,853	4,035	4,229	4,436
Expenditures												
Consumption Expenditures												
Defense												
Consumption	462	491	534	567	587	602	616	631	646	661	678	694
Consumption of fixed capital	71	74	75	76	78	80	83	86	89	93	96	99
Nondefense ^b												
Consumption	239	245	255	264	267	272	279	286	295	304	315	324
Consumption of fixed capital	27	27	28	29	29	30	30	31	31	32	33	33
Subtotal	798	837	893	935	961	984	1,008	1,033	1,062	1,090	1,120	1,150
Current Transfer Payments												
Government social benefits												
To persons	1,157	1,249	1,305	1,371	1,443	1,519	1,588	1,683	1,783	1,892	2,015	2,145
To the rest of the world	3	4	4	4	4	4	5	5	5	6	6	6
Subtotal	1,160	1,253	1,309	1,375	1,447	1,524	1,593	1,687	1,788	1,898	2,021	2,151
Other transfer payments												
Grants-in-aid to state and local governments ^b	361	369	385	400	419	438	460	485	512	541	572	605
To the rest of the world	33	32	36	39	41	43	44	45	45	46	47	48
Subtotal	394	401	421	439	460	481	504	530	557	587	619	653
Interest Payments ^b	280	291	307	324	340	352	357	357	359	360	362	360
Subsidies	53	47	47	45	44	44	44	45	45	45	47	50
Total Current Expenditures	2,685	2,829	2,977	3,118	3,253	3,385	3,506	3,652	3,811	3,980	4,170	4,363
Net Federal Government Saving												
Net Federal Government Saving	-248	-187	-150	-191	-221	-79	*	29	42	55	59	72

Source: Congressional Budget Office.

Note: * = between -\$500 million and \$500 million.

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

b. Includes Social Security and the Postal Service.

of the services that the government receives from its stock of fixed assets, such as buildings or equipment.

Transfer payments (cash payments made directly to individuals and the rest of the world as well as grants to state and local governments or foreign nations) constitute another grouping. Social benefits make up most of the transfers to individuals. Grants-in-aid are payments that the federal government makes to state or local governments, which generally use them for transfers (such as benefits provided by the Medicaid program) and consumption (such as the hiring of additional police officers). Current transfers to the rest of the world include federal purchases of military equipment for delivery to foreign governments.

The NIPAs' category for federal interest payments shows only payments and thus differs from the budget category labeled "Net interest." In the NIPAs, federal interest receipts are classified with other federal receipts.

The NIPAs' category labeled "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.

Net federal government saving in the NIPAs is the difference between the current receipts and the current expenditures of the federal sector.¹⁴ It is a component of net

national saving (which also includes net saving by the state and local government sector, personal saving, and corporate retained earnings) and thus is a partial measure of how much of the nation's income earned from current production is not consumed in the current period. 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.¹⁵

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

15. 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 as well as capital transfer receipts (for example, estate and gift taxes) and capital transfer payments (for example, 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 Table 1 presented here.