Congressional Budget Office

NOVEMBER 7, 2016

Monthly Budget Review: Summary for Fiscal Year 2016

In fiscal year 2016, which ended on September 30, the federal budget deficit totaled $587 billion—$148 billion more than the shortfall recorded in 2015. Measured as a share of the nation's gross domestic product (GDP), the deficit increased to 3.2 percent in 2016, up from 2.5 percent in 2015. About $41 billion of that increase resulted from a shift in the timing of some payments that the government ordinarily would have made in fiscal year 2017; those payments were made instead in fiscal year 2016 because October 1, 2016 (the first day of fiscal year 2017), fell on a weekend. If not for that shift, the deficit in 2016 would have been about $546 billion, or 3.0 percent of GDP—still considerably higher than the deficit recorded for 2015.

Fiscal Year Totals
(Billions of dollars)

	2011	2012	2013	2014	2015	2016
Receipts	2,303	2,450	2,775	3,021	3,249	3,267
Outlays	3,603	3,537	3,455	3,506	3,688	3,854
Deficit (-)						
Amount	-1,300	-1,087	-680	-485	-439	-587
Percentage of GDP	-8.5	-6.8	-4.1	-2.8	-2.5	-3.2

Sources: Congressional Budget Office; Office of Management and Budget; Department of the Treasury.

In 2016, the government's revenues amounted to $3.3 trillion—$18 billion (or less than 1 percent) greater than receipts recorded in 2015. As a percentage of GDP, revenues fell from 18.1 percent in 2015 to 17.8 percent in 2016; but, for the third year in a row, they remained higher than the average (17.4 percent) over the past 50 years.

Net spending by the government was $3.9 trillion in 2016—$166 billion (or about 5 percent) more than outlays in 2015. Outlays amounted to 20.9 percent of GDP in 2016, compared with 20.6 percent in 2015. The percentage in 2016 was well below the recent peak of 24.4 percent in 2009 but above the 50-year average of 20.3 percent.

Total Receipts: Up by Less Than 1 Percent in Fiscal Year 2016

The small increase in receipts resulted from offsetting movements in the major sources of revenues compared with the amounts recorded in 2015:

- Receipts from **individual income taxes**, the largest source of revenues, rose by just $5 billion (or less than 1 percent). As a share of the economy, those receipts fell from 8.6 percent of GDP in 2015 to 8.4 percent of GDP in 2016. However, that percentage of GDP is still higher than in any year since 2001, except for 2015.
  - Total amounts withheld from workers' paychecks, including both income and payroll taxes, increased by $83 billion (or 4 percent), probably because of growth in wages and salaries. However, the growth reported for withheld individual income taxes (2 percent) was lower than the growth for withheld payroll taxes (6 percent). 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

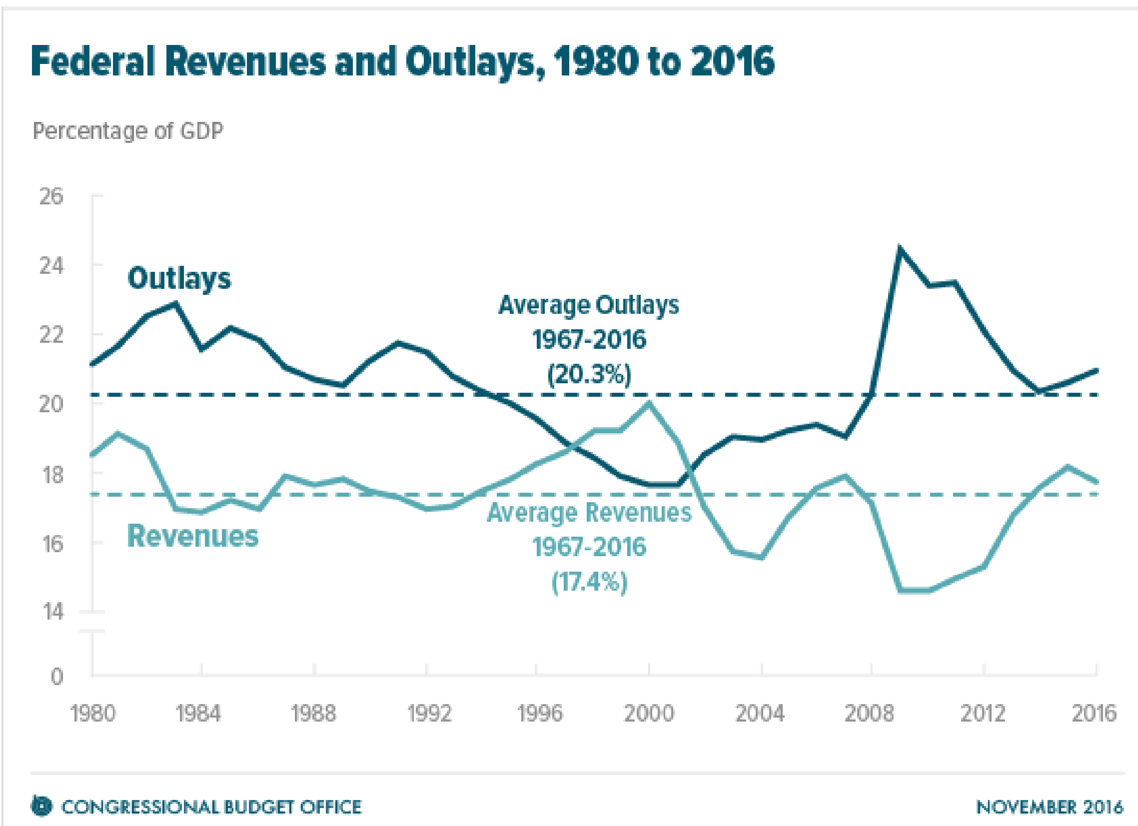
may reallocate the 2016 receipts from those two sources by adjusting the amounts recorded for 2017 (or some subsequent year).

- Nonwithheld payments of income taxes, net of refunds, fell by $20 billion (or 6 percent). The reasons for that decline will become clearer as data from tax returns become available over the next two years, but the decrease may, in part, reflect weakness in nonwage income in 2015.

- Receipts from **payroll (social insurance) taxes**, the second-largest revenue source, increased by $50 billion (or 5 percent), growing as a share of the economy from 5.9 percent of GDP in 2015 to 6.1 percent in 2016. The increase in payroll tax receipts was mostly the result of the increase in payroll taxes withheld from workers' paychecks, as discussed above.

- Receipts from **corporate income taxes**, the third-largest source of revenues, fell by $44 billion (or 13 percent) in 2016, dropping from 1.9 percent of GDP to 1.6 percent. That percentage of GDP is the lowest amount recorded since 2012 and below the average of 2.1 percent of GDP over the past 50 years.

  The reasons for that 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.



- Receipts from **other sources** rose by $7 billion (or 2 percent), remaining at 1.7 percent of GDP. The largest offsetting changes contributing to that increase were as follows:
  - Remittances to the Treasury from the Federal Reserve rose by $19 billion (or 20 percent), from 0.5 percent of GDP in 2015 to 0.6 percent of GDP in 2016—the highest level ever recorded for that source. The increase occurred largely because the Fixing America's Surface Transportation Act (Public Law 114-94) 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 fell by $11 billion (or 22 percent) to 0.2 percent of GDP. Those receipts were unusually high in the previous year.
  - Excise taxes fell by $3 billion (or 3 percent).
  - Estate and gift taxes rose by $2 billion (or 11 percent).

Total Receipts
(Billions of dollars)

Major Source	2014	2015	2016	Percentage Change, 2015 to 2016
Individual Income Taxes	1,395	1,541	1,546	0.3
Payroll Taxes	1,023	1,065	1,115	4.7
Corporate Income Taxes	321	344	300	-12.9
Other Receipts	283	299	306	2.4
Total	**3,021**	**3,249**	**3,267**	**0.6**
Percentage of GDP	17.5	18.1	17.8	n.a.

Sources: Congressional Budget Office; Office of Management and Budget; Department of the Treasury.

Note: n.a. = not applicable.

Total Outlays: Up by About 5 Percent in Fiscal Year 2016

Overall, the government's net outlays increased by 4.5 percent from 2015 to 2016. That difference would have been about $41 billion smaller—resulting in an increase of 3.4 percent—if not for the shift of certain payments from October 2016 to September 2016 because October 1 fell on a weekend. The discussion below reflects adjustments to account for that timing shift.

Outlays increased for most major categories but declined for others:

- Outlays for the three largest entitlement programs—Social Security, Medicare, and Medicaid—rose by $29 billion (or 3 percent), $27 billion (or 5 percent), and $19 billion (or 5 percent), respectively. Spending for Medicaid grew largely because of new enrollees added through expansions of coverage authorized by the Affordable Care Act. With that growth, Medicaid spending has risen by almost 40 percent in the past three years. Combined outlays for the three programs were equal to 48 percent of federal spending and 10.0 percent of GDP in 2016, the highest shares ever recorded.
- Outlays for net interest on the public debt increased by $23 billion (or 9 percent), largely because of higher inflation in 2016. (Each month, to account for the effects of 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.) Outlays also increased because debt and average interest rates were higher in fiscal year 2016 than in fiscal year 2015.
- 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 in 2015—fell to only $8 billion in 2016. Because proceeds from those

auctions are recorded in the budget as offsetting receipts (that is, as reductions in outlays), the smaller payments in 2016 resulted in higher outlays. Those effects are included in the "Other" category in the table below.

- Payments made to the Treasury by the government sponsored enterprises (GSEs) Fannie Mae and Freddie Mac were $8 billion less this year than last year, primarily because the GSEs were less profitable in fiscal year 2016 than in 2015. (Such payments are recorded in the budget as offsetting receipts.)
- 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.
- Subsidy payments for health insurance purchased through marketplaces created under the Affordable Care Act increased by $4 billion (or 13 percent), largely reflecting an increase in the number of people who purchased subsidized coverage through those marketplaces and an increase in premiums for such coverage.

Total Outlays
(Billions of dollars)

				Percentage Change, 2015 to 2016	
Major Category	2014	2015	2016	Actual	Adjusted [a]
Social Security Benefits	840	877	905	3.3	3.3
Medicare [b]	509	544	592	8.9	4.9
Medicaid	301	350	368	5.3	5.3
Subtotal	**1,650**	**1,770**	**1,865**	5.4	4.2
DoD—Military [c]	578	563	565	0.5	-0.2
Net Interest on the Public Debt	271	260	284	9.0	9.0
Marketplace Subsidies [d]	13	27	31	13.3	13.3
Net Outlays for GSEs	-74	-23	-14	n.m.	n.m.
Other	1,067	1,090	1,123	3.0	1.6
Total	**3,506**	**3,688**	**3,854**	4.5	3.4
Percentage of GDP	20.4	20.6	20.9	n.a.	n.a.

Sources: Congressional Budget Office; Office of Management and Budget; Department of the Treasury.

Note: DoD = Department of Defense; GSEs = the government-sponsored enterprises Fannie Mae and Freddie Mac; n.m. = not meaningful; n.a. = not applicable.

a. Adjusted amounts exclude the effects of shifting payments that otherwise would have been made on a weekend. If not for those timing shifts, outlays would have been $3,813 billion in fiscal year 2016.

b. Medicare outlays are net of offsetting receipts.

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

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

- Outlays for the Department of Education (included in the "Other" category in the table above) decreased by $13 billion (or 14 percent), mostly because of a $7 billion upward revision in the estimated net subsidy costs of student loans and loan guarantees issued in past years—a change that was smaller than last year's upward revision of $18 billion. If the effects of those revisions were excluded, the department's outlays for fiscal year 2015 would have fallen by only $1 billion (or 2 percent).
- Outlays for the Department of Housing and Urban Development, which are also included in the "Other" category above, decreased by $9 billion (or 26 percent) because the department made downward revisions in April 2016, following 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 $6 billion (or 17 percent).

- Spending for the military activities of the Department of Defense (DoD) fell by $1 billion (or less than one-half of 1 percent) in 2016, the fifth consecutive year of decline. A $7 billion drop in spending by the Army was largely offset by increases posted by the other military services ($3 billion) and various defense agencies (also $3 billion). Measured as a share of GDP, military spending by DoD was 3.1 percent in 2016, the same as in 2015, and lower than in any other year since 2003.

For other programs and activities, spending increased or decreased by smaller amounts, increasing outlays by an additional $10 billion, on net.

Estimates for October 2016

The government recorded a deficit of $46 billion in October, CBO estimates, about $91 billion less than the shortfall recorded in the same month last year. However, almost all of that difference stems from shifts in the timing of payments because regularly scheduled payment dates fell on a weekend. Approximately $41 billion in payments that normally would have been made in October of this year were instead made in September because October 1 fell on a weekend; consequently, outlays in October of this year were lower than they otherwise would have been. Also, outlays in October of last year were higher than they otherwise would have been because about $39 billion in payments that normally would have been made in November were instead made in October because November 1 fell on a weekend. If not for those timing shifts, the deficit in October 2016 would have been $11 billion less than it was in October 2015.

This document was prepared by Nathaniel Frentz, David Rafferty, and Dawn Sauter Regan. It is available at www.cbo.gov/publication/52152.