CBO reports $1.7 trillion budget deficit for FY2023 on account of falling revenues

The nonpartisan Congressional Budget Office (CBO) this week estimated that the budget deficit for the federal fiscal year that ended on September 30, 2023, totaled $1.7 trillion—about $300 billion more than the prior fiscal year—a result the agency attributed to the net effect of both falling revenues and, to a lesser extent, lower outlays on federal spending programs.

Big dip in revenues

CBO's report—published October 10 in the form of a "monthly budget review" for September 2023—projects that federal revenues fell by $455 billion (or 9 percent) over the course of fiscal 2023 as compared to the prior fiscal year. The biggest driver of this drop relates to nonwithheld payments of income and payroll taxes (down $296 billion), which CBO states could be attributable to lower capital gains receipts as well as the fact that the Internal Revenue Service postponed the filing and payment deadlines for certain taxpayers affected by natural disasters until mid-October (thus pushing those receipts into fiscal year 2024).
URL: https://www.cbo.gov/system/files/2023-10/59544.pdf

Receipts from other sources—such as remittances from the Federal Reserve, customs duties, excise taxes, and miscellaneous fees and fines—also fell by a considerable $124 billion compared to last year. Most of this drop ($107 billion), however, relates to Fed remittances, which the CBO notes stem from higher short-term interest rates, which have served to eliminate net interest income at many Federal Reserve banks.

As for corporate income taxes, CBO projects a drop of $5 billion from fiscal year 2022, an outcome the agency predicts could also be linked to disaster-related extensions of payment deadlines.

It is important to note that the figures published by CBO this week are somewhat preliminary and the official fiscal metrics for the just-concluded fiscal year will be released in the near future, likely when the agency publishes its next 10-year economic and budget outlook—the so-called budget "baseline" that serves as the benchmark against which Congress measures the fiscal impact of tax and spending proposals on a prospective basis.

"The reasons for the difference [in revenues] will be better understood as additional information becomes available," CBO states in this week's report.

Partial offset due to drop in spending: The report also estimates that federal spending, on net, fell by $141 billion (or 2 percent) in fiscal year 2023 relative to the prior fiscal year. A sizable part of that drop, however—$54 billion—was attributable to a simple timing shift: October 1 fell on a Saturday in 2022, which meant that outlays that otherwise would have been made in fiscal year 2023 were pulled into fiscal year 2022 instead.

Another large component of the spending drop ($120 billion) relates to refundable tax credits (which are accounted for as outlays), specifically the expiration of the expanded child tax credit Democrats enacted for

tax year 2021 in the American Rescue Plan (P.L. 117-2). Advance payments of the expanded credit were made between July and December of 2021, and thus spanned fiscal years 2021 and 2022.
URL: https://www.congress.gov/117/plaws/publ2/PLAW-117publ2.pdf

Fodder for both sides

This week's CBO report will surely become fodder for both Democrats and Republicans in the coming weeks as lawmakers again face a potential partial government shutdown on November 17. Congress narrowly averted a shutdown on September 30 when then-House Speaker Kevin McCarthy, R-Calif., bucked many conservative members of his party and moved a so-called "clean" continuing resolution that received broad support from both Democrats and moderate Republicans and served to keep the government's doors open for seven weeks into current fiscal year 2024, but at the same time contributed to his ouster as speaker. (For prior coverage, see *Tax News & Views*, Vol. 24, No. 33, Oct. 6, 2023; see related coverage in this issue for the current dynamics surrounding the House GOP's selection of a new speaker.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2023/TNV/231006_1.html

Over the longer term, large and growing budget deficits—such as the one for fiscal 2023 highlighted by the CBO this week—are sure to play an enormous role in upcoming debates over fiscal policy, including the pending sunset of much of the Tax Cuts and Jobs Act of 2017 (P.L. 115-97) and the looming insolvencies of the Social Security and Medicare trust funds, all of which are on the horizon at the same time that budget forecasters have been ratcheting up their estimates of the government's debt service costs on account of higher interest rates.
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf

In its most recent 10-year budget outlook published in May, the agency predicted that budget deficits will climb consistently until they reach almost $2.9 trillion in fiscal year 2033 and that, over the next decade, cumulative deficits would top $20 trillion.
URL: https://www.cbo.gov/publication/59096

But, at least for now, we can expect that lawmakers will continue to talk past one another when it comes to their views of the root of the fiscal mismatch and what should be done to address it, with Democrats generally arguing it is problem driven primarily by insufficient revenues, especially in light of structural factors like an aging population that is driving up the costs of broadly popular programs like Social Security and Medicare, and Republicans laying the blame mainly on the spending side of the ledger.

— Alex Brosseau
Tax Policy Group
Deloitte Tax LLP