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Tax Receipts Exceed Treasury Predictions

Early Surge Lowers Deficit Projections

By Jonathan Weisman
Washington Post Staff Writer
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After three years of rising federal budget deficits, a surge of April tax receipts brought unexpected good news to fiscal policymakers -- the tide of government red ink appears to be receding.

The Treasury Department this week reported there would be a \$54 billion swing from projected deficit to surplus in the April-to-June quarter, after an unanticipated gush of tax payments poured into the Treasury before the April 15 deadline. That prompted private forecasters to lower their deficit projections for the fiscal year that ends in September.

Budget analysts inside and outside the government said the positive turn is likely to be short-lived. Indeed, after a four-year absence, the Treasury Department announced yesterday it is considering reissuing its 30-year Treasury bond to help finance long-term government debt, jolting the bond markets and pushing down the price of existing 30-year securities.

But in the short term, many forecasters said the budget deficit appears to have crested.

"I think it has turned the corner," said David Wyss, chief economist at Standard & Poor's, the credit rating agency. "My guess is 2004 will have been the worst year."

For that fiscal year, the government recorded a \$412 billion deficit, the largest ever in nominal dollar terms, although not as large as some of the deficits of the 1980s when measured against the size of the economy. The 2004 mark was up from 2003's \$378 billion deficit, which topped 2002's \$158 billion deficit.

In January, Bush administration officials projected that the streak would continue, with a deficit of \$427 billion for the fiscal year that ends Sept. 30. But that estimate was widely regarded as inflated and many forecasters believed the total would be more like \$400 billion.

Graphic

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April, however, turned out to be a far better month than anticipated. Taxpayers were confronted with unexpected tax bills, many from capital gains and the alternative minimum tax, a parallel income tax system designed to hit the rich but that is increasingly pinching the middle class. The Treasury announced this week that it will repay \$42 billion in federal debt in the third April-to-June quarter, instead of borrowing \$12 billion.

Wall Street analysts reduced their deficit forecasts this week, from around \$400 billion to around \$370 billion. In nominal dollar terms, that would still be the third-highest deficit on record. Even measured against the size of the economy, "it's still a high number," said Brian Bethune, director of financial economics at Global Insight Inc., a Massachusetts forecasting firm. "It needs to come down."

One factor should help in the short term: Seven months into the fiscal year, Congress is only now passing the \$82 billion emergency war spending bill for fiscal 2005, which means that much of the money will be spent in 2006. That should reduce the 2005 deficit while bringing down war costs next year. Wyss said the deficit should continue to fall in 2006 and 2007.

"A month ago, I would have told you the budget numbers were on track for \$400 billion. To get an adjustment this quickly would suggest a huge surprise," said Edward F. McKelvey, an economist and federal budget analyst at Goldman Sachs & Co.

Few economists say the U.S. government is out of the woods. One of the reasons for the turnaround, the alternative minimum tax, should be reduced or eliminated before it starts impinging on economic growth, Bethune said.

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