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ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 1997-2001

PREPARED FOR THE

COMMITTEE ON WAYS AND MEANS

AND THE

COMMITTEE ON FINANCE

BY THE STAFF

OF THE

JOINT COMMITTEE ON TAXATION

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INTRODUCTION

This report[1] on tax expenditures for fiscal years 1997–2001 is prepared by the staff of the Joint Committee on Taxation ("Joint Committee staff") for the House Committee on Ways and Means and the Senate Committee on Finance. The report also is submitted to the House and Senate Committees on the Budget.

As in the case of earlier reports,[2] the estimates of tax expenditures in this report were prepared in cooperation with the staff of the Office of Tax Analysis in the Treasury Department ("the Treasury"). The Treasury published its estimates of tax expenditures for fiscal years 1995–2001 in the Administration's budgetary statement of February 1996.[3] The lists of tax expenditures in this Joint Committee staff report and the Administration's budgetary statement overlap considerably; the differences are discussed in Part I under the heading "Comparisons with Treasury."

The Joint Committee staff has made its estimates (as shown in Table 1) based on the provisions in tax law as enacted through October 4, 1996 (through the 104th Congress). Expired or repealed provisions are not listed unless they have continuing revenue effects that are associated with ongoing taxpayer activity. Proposed extensions or modifications of expiring provisions are not included until they have been enacted into law.

Part I of this report contains a discussion of the concept of tax expenditures. Part II is a discussion of the measurement of tax expenditures. Estimates of tax expenditures for fiscal years 1997–2001 are presented in Table 1 in Part III. Table 2 shows the distribution of tax returns by income class, and Table 3 presents distributions of selected individual tax expenditures by income class.

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[1] This report may be cited as follows: Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 1997–2001* (JCS-11-96), November 26, 1996.

[2] Joint Committee on Taxation, *Estimates of Federal Tax Expenditures*, October 4, 1972, June 1, 1973, July 8, 1975, March 15, 1976, March 16, 1977, March 14, 1978, March 15, 1979, March 6, 1980, March 16, 1981, March 8, 1982, March 7, 1983, November 9, 1984, April 12, 1985, March 1, 1986, February 27, 1987, March 8, 1988, February 28, 1989, March 9, 1990, March 11, 1991, April 24, 1992, April 22, 1993, November 9, 1994, and September 1, 1995.

[3] Office of Management and Budget, "Tax Expenditures," *Budget of the United States Government: Analytical Perspectives, Fiscal Year 1997*, February 5, 1996, pp. 61–87.

I. THE CONCEPT OF TAX EXPENDITURES

Overview

"Tax expenditures" are defined under the Congressional Budget and Impoundment Control Act of 1974 as reductions in individual and corporate income tax liabilities that result from special tax provisions or regulations that provide tax benefits to particular taxpayers. These special tax provisions can take the form of exclusions, credits, deductions, preferential tax rates, or deferrals of tax liability.

Special income tax provisions are referred to as tax expenditures because they are considered to be analogous to direct outlay programs, and the two can be considered as alternative means of accomplishing similar budget policy objectives. Tax expenditures are most similar to those direct spending programs that have no spending limits, and that are available as entitlements to those who meet the statutory criteria established for the programs.[4]

Estimates of tax expenditures are prepared for use in budget analysis. They are a measure of the economic benefits that are provided through the tax laws to various groups of taxpayers and sectors of the economy. The estimates also may be useful in determining the relative merits of achieving specified public goals through tax benefits or direct outlays.

In this report, the Joint Committee staff follows the definition of tax expenditures that appears in the Congressional Budget and Impoundment Control Act of 1974: ". . . those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability."[5] The legislative history of the Act indicates that tax expenditures are to be defined with reference to a normal income tax structure (referred to here as "normal tax law").

The Joint Committee staff has used its judgment in distinguishing between those income tax provisions (and regulations) that can be viewed as a part of normal tax law and those special provisions that result in tax expenditures. A provision traditionally has been listed as a tax expenditure by the Joint Committee staff if there is a reasonable basis for such classification and the provision results in more than a de minimis revenue loss-which in this context means a total revenue loss of at least $50 million over the five fiscal years 1997–2001. The Joint Committee staff emphasizes, however, that in the process of listing tax expenditures, no judgment

[4] There are a few tax expenditures that have spending limits. One example is the tax credit for low-income rental housing. This credit is available only to those who have received credit allocations from State housing authorities. There are statutory limits on the total amounts of credit allocations that can be issued in any given year.

[5] Congressional Budget and Impoundment Control Act of 1974 (P.L. 93–344), sec. 3(a)(3).

is made, nor any implication intended, about the desirability of any special tax provision as a matter of public policy.

If a tax expenditure provision were eliminated, Congress might choose to continue financial assistance through other means rather than terminate all Federal assistance for the activity. If a replacement spending program were enacted, the higher revenues received as a result of the elimination of a tax expenditure might not represent a net budget gain. A replacement program could involve direct expenditures, direct loans or loan guarantees, a different form of tax expenditure, or a general reduction in tax rates. Joint Committee staff estimates of tax expenditures do not anticipate such policy responses.

The Congressional Budget and Impoundment Control Act of 1974 uses the term tax expenditure to refer to the special tax provisions that are contained in the individual and corporate income tax structure. Other Federal taxes such as excise taxes, employment taxes, and estate and gift taxes also have exceptions, exclusions, and credits, but those special tax provisions are not included in this report because they are not part of the income tax. Thus, for example, the income tax exclusion for employer-paid health insurance is included, but the Federal Insurance Contributions Act (FICA) tax exclusion for employer-paid health insurance is not treated here as a tax expenditure.[6]

Some provisions in the Internal Revenue Code provide for special tax treatment that is less favorable than normal tax law. Examples include (1) the denial of deductions for certain lobbying expenses, (2) the denial of deductions for certain executive compensation, and (3) the 2-percent floor on itemized deductions for unreimbursed employee expenses. Tax provisions that provide treatment less favorable than normal law are not shown in this report.

Individual Income Tax

Under the Joint Committee staff methodology, the normal structure of the individual income tax includes the following major components: one personal exemption for each taxpayer and one for each dependent, the standard deduction, the existing tax rate schedule, and deductions for investment and employee business expenses. Most other tax provisions can be classified as exceptions to "normal tax law."

Personal exemptions and the standard deduction are treated as part of normal tax law because one may consider these amounts as approximating the level of income below which it would be difficult for an individual or a family to obtain minimal amounts of food, clothing, and shelter. Those itemized deductions that are not necessary for the generation of income are classified as tax expenditures, but only to the extent that they exceed the standard deduction level.

[6] In its budget statement, the Treasury Department identifies tax expenditures in the Unified Transfer Tax (the estate and gift tax and the generation-skipping transfer tax). See, Office of Management and Budget, "Tax Expenditures," pp. 83–85. Other analysts have explored applying the concept of tax expenditures to the payroll and excise taxes. See, Jonathan Barry Forman, "Would a Social Security Tax Expenditure Budget Make Sense?" *Public Budgeting and Financial Management*, 5, 1993, pp. 311–335, and Bruce F. Davie, "Tax Expenditures in the Federal Excise Tax System," *National Tax Journal*, XLVII, March, 1994, pp. 39–62.

Under present law, all employee compensation is subject to tax unless the tax code contains a specific exclusion for the income. There are specific exclusions for the following employer-paid benefits: health insurance and medical care,[7] accident and disability insurance, term life insurance, educational assistance, transportation benefits (parking, van pools, and transit passes, up to certain limits), child care, meals and lodging (furnished for the convenience of the employer), employee awards, death benefits, and other miscellaneous fringe benefits (e.g., employee discounts, services provided to employees at no additional cost to employers, tuition reductions, and de minimis fringe benefits). Each of these exclusions is classified as a tax expenditure in this report.

Under normal tax law, employer contributions to pension plans and income earned on pension assets would be taxable to employees as the contributions are made and as the income is earned, and employees would not receive any deduction or exclusion for their pension contributions. Under present law, employer and employee contributions to qualified pension plans and income earned on pension assets generally are not taxed until distributed to the employee during retirement. The tax expenditure is computed as the taxes forgone on current tax-excluded pension contributions and earnings less the taxes paid on current pension distributions to retirees.

Under present law, with certain exceptions, social security retirement benefits are excluded from taxation. Under normal tax law, retirees would be entitled to an exclusion for only the portion of social security retirement benefits that represents a return of the social security taxes that they paid during their working years. Thus, the exclusion of social security retirement benefits in excess of tax contributions is classified as a tax expenditure.

All Medicare benefits are excluded from taxation. The value of Medicare Part A insurance generally is greater than the Health Insurance (HI) tax contributions that enrollees made during their working years, and the value of Medicare Part B insurance generally is greater than the Part B premium that enrollees must pay. The exclusion of the value of Medicare Part A insurance in excess of HI tax contributions is classified as a tax expenditure, and the exclusion of the value of Medicare Part B insurance in excess of premiums paid also is classified as a tax expenditure.

Public assistance benefits are excluded from taxation by law or by Internal Revenue Service regulations. Table 1 contains tax expenditure estimates for workers' compensation benefits, special benefits for disabled coal miners, and cash public assistance benefits (which include Supplemental Security Income (SSI) benefits and Aid to Families with Dependent Children (AFDC) benefits).

The National Income and Product Accounts[8] include estimates of the imputed income that individuals receive from the services pro-

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[7] Present law contains an exclusion for employer contributions toward health insurance (sec. 106) and an exclusion for benefits received under an employer-subsidized health insurance policy (sec. 105(b)). These two exclusions are viewed as a single tax expenditure. Under normal tax law, employer contributions toward health insurance would be includable in the income of employees, but employees would not be subject to tax on any health insurance benefits (reimbursements) that they might receive from such insurance.

[8] The accounts appear in U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, published monthly.

vided by owner-occupied homes and durable goods. The individual income tax provides a complete exception for this imputed income, but the Joint Committee staff does not classify this exception as a tax expenditure. The measurement of imputed income for tax purposes presents administrative problems, and its exclusion from taxable income may be regarded as an administrative necessity.[9]

Under normal tax law, individuals would be allowed to deduct only the interest on indebtedness incurred in connection with a trade or business or an investment. Thus, the deduction for mortgage interest on a principal or second residence is classified as a tax expenditure.

The Joint Committee staff assumes that, for administrative feasibility, normal tax law would tax capital gains in full in the year the gains are realized through sale or exchange. Thus, the deferral of tax until realization is not classified as a tax expenditure, but reduced rates of tax, further deferrals of tax (beyond the year of sale or exchange), and exclusions of capital gains are classified as tax expenditures.

The maximum 28-percent tax rate on capital gains of individuals is a tax expenditure because other income is subject to a maximum rate of 39.6 percent. Other capital gains tax expenditure provisions include the deferral of gain on non-dealer installment sales, the deferral of gain on like-kind exchanges, the deferral of gain on personal residence sales rollovers, the exclusion of up to $125,000 of gain on sales of personal residences for individuals age 55 or over, and the exclusion of unrealized capital gains from income at death.

The Joint Committee staff assumes that normal tax law would not provide for any indexing of the basis of capital assets for changes in the general price level. Thus, under normal tax law (as under present law), the income tax would be levied on nominal gains as opposed to real gains in asset values. If, as an alternative, normal tax law were defined to include full indexing of the basis of capital assets, the capital gains tax expenditure estimates in Table 1 generally would be much lower than those shown.

There are many types of State and local government bonds and private purpose bonds that qualify for tax-exempt status for Federal income tax purposes. Table 1 contains a separate tax expenditure listing for each type of bond.

Business Income Taxation

Regardless of the legal form of organization (sole proprietorship, partnership, or S or C corporation), the same general principles are used in the computation of taxable business income. Thus, most business tax expenditures apply equally to unincorporated and incorporated businesses.

One of the most difficult issues in defining tax expenditures for business income relates to the tax treatment of capital costs. Under present law, capital costs may be recovered under a variety of alternative methods, depending upon the nature of the costs and the

[9] If the imputed income from owner-occupied homes were included in adjusted gross income, it would be proper to include all mortgage interest deductions and related property tax deductions as part of the normal tax structure, since interest and property tax deductions would be allowable as a cost of producing imputed income. It also would be appropriate to allow deductions for depreciation and maintenance expenses for owner-occupied homes.

status of the taxpayer. For example, investments in equipment and structures may qualify for tax credits, expensing, accelerated depreciation, or straight-line depreciation. The Joint Committee staff generally classifies as tax expenditures cost recovery allowances that are more favorable than those provided under the alternative depreciation system (sec. 168(g)).

As indicated above, the Joint Committee staff assumes that normal tax law would not provide for any indexing of the basis of capital assets. Thus, normal tax law would not take into account the effects of inflation on tax depreciation. The expensing and depreciation tax expenditure estimates in Table 1 are larger than would be the case if normal tax law provided for inflation adjustments in the basis of assets for tax depreciation purposes.

The alternative minimum tax ("AMT") and the passive activity loss rules have the effect of reducing the magnitude of the tax expenditures to which they apply. For example, the AMT reduces the value of business tax credits (for those taxpayers subject to the AMT) by not allowing the tax credits to be claimed in calculation of AMT liability. Similarly, the passive loss rules defer otherwise allowable deductions and credits from passive activities until a time when the taxpayer has passive income or disposes of the assets associated with the passive activity. Exceptions to the AMT and the passive loss rules are not classified as tax expenditures by the Joint Committee staff because the effects of the exceptions are already incorporated in the estimates of related tax expenditures.

Corporate Income Tax

The income of corporations (other than S corporations) generally is subject to the corporate income tax. The corporate income tax includes a graduated tax rate schedule. The lower tax rates in the schedule are classified as a tax expenditure (as opposed to normal tax law) because they are intended to provide tax benefits to small business and, unlike the graduated individual income tax rates, are unrelated to concerns about ability of individuals to pay taxes.

Certain income of pass-through entities is exempt from the corporate income tax. The income of sole proprietorships, S corporations, and most partnerships is taxed at the individual level. The special tax rules for these pass-through entities are not classified as tax expenditures because the tax benefits are available to any entity that chooses to organize itself and operate in the required manner in order to avoid the entity-level tax.

Nonprofit corporations that satisfy the requirements of Code section 501 also generally are exempt from corporate income tax. The tax exemption of certain nonprofit cooperative business organizations, such as trade associations, is not treated as a tax expenditure for the same reason applicable to for-profit pass-through business entities. With respect to other nonprofit organizations, such as charities, tax-exempt status is not classified as a tax expenditure because the nonbusiness activities of such organizations generally must predominate and their unrelated business activities are subject to tax. In general, the imputed income derived from nonbusiness activities conducted by individuals or collectively by certain nonprofit organizations is outside the normal tax base. However, the ability of donors to such organizations to claim a charitable

contribution deduction is a tax expenditure (because such contributions do not generate income to the donor), as is the exclusion from income granted to holders of tax-exempt financing issued by charities.

Recent Legislation

Health Insurance Portability and Accountability Act of 1996

The Health Insurance Portability and Accountability Act of 1996 (H.R. 3103), signed by the President on August 21, 1996 (P.L. 104–191), contained a number of provisions affecting tax expenditures for health:

—Under prior law, self-employed individuals were permitted to deduct 30 percent of their expenditures on health insurance. Under H.R. 3103, the deduction will increase to 40 percent of health insurance expenses in calendar year 1997, 45 percent in 1998 through 2002, 50 percent in 2003, 60 percent in 2004, 70 percent in 2005, and 80 percent in 2006 and all years thereafter.

—Under prior law, the tax treatment of expenditures on long-term care insurance and long-term care services was unclear. In general, H.R. 3103 provides that qualified long-term care insurance will receive the same tax treatment as accident and health insurance, and expenditures on long-term care services and certain long-term care insurance premiums will be deductible under the rules relating to expenditures on medical care, beginning January 1, 1997. The applicable health tax expenditures in Table 1 have been adjusted to reflect the inclusion of tax benefits for long-term care.

—Prior law did not contain any special rules for medical savings accounts. H.R. 3103 provides a number of tax benefits for medical savings accounts established by eligible individuals. First, within limits, contributions to the accounts are deductible if made by an eligible individual and are excludable from income (and wages for payroll tax purposes) if made by the individual's employer. Second, earnings on amounts in the accounts are not currently taxable. Third, distributions from the accounts that are used for medical expenses are not taxable. These provisions are effective for taxable years beginning after December 31, 1996. In Table 1, the provisions have been combined into a single tax expenditure for "medical savings accounts."

—Under present and prior law, withdrawals from an individual retirement arrangement ("IRA") generally are includible in income and subject to an additional 10-percent tax penalty if made prior to age 59–1/2, unless made on account of death or disability. Under H.R. 3103, individuals may make penalty-free withdrawals from IRAs for medical expenses in excess of 7.5 percent of adjusted gross income. In addition, unemployed individuals may make penalty-free withdrawals from IRAs for the purpose of purchasing health insurance. These provisions are effective January 1, 1997. The provisions have the effect of increasing the tax expenditure estimate for "individual retirement plans" in Table 1. (The provisions are not listed separately in Table 1 because they are viewed as modifications to the rules governing the tax expenditure for individual retirement plans.)

H.R. 3103 also repealed an exception to the interest allocation rules used in the computation of foreign tax credits. The repeal is generally effective for taxable years beginning after December 31, 1995. Thus, this tax expenditure is no longer listed in Table 1.

Small Business Job Protection Act of 1996

The Small Business Job Protection Act of 1996 (H.R. 3448), signed by the President on August 20, 1996 (P.L. 104–188), also contained a number of provisions affecting tax expenditures. The following is a list of the new tax expenditures contained in the bill:

—A taxpayer may elect not to recognize gain with respect to property that was involuntarily converted as a result of a Presidentially declared disaster, provided that the property is replaced within an applicable period by any tangible property acquired for productive use in a business. The acquired property need not be similar or related in service or use to the involuntarily converted property. The provision is effective for disasters for which a Presidential declaration is made after December 31, 1994, in taxable years ending after that date.

—Regulated public utilities that provide water or sewer disposal services may treat any amount of money or property received from any person as a tax-free contribution to capital provided that the money or property is a contribution in aid of construction and is not included in the taxpayer's rate base for rate-making purposes. The provision is effective for amounts received after June 12, 1996.

—Taxpayers may claim a nonrefundable credit for expenses incurred in adopting a child, up to a maximum of $5,000 per adoption ($6,000 for a special needs adoption). In addition, taxpayers may exclude from gross income employer contributions toward adoption expenses, up to a maximum of $5,000 per adoption ($6,000 for a special needs adoption). The credit and exclusion are phased out for taxpayers with adjusted gross incomes between $40,000 and $75,000. The credit and exclusion are effective for expenses incurred in taxable years beginning after December 31, 1996, for adoptions finalized before, on, or after that date. The credit and the exclusion are not available for expenses incurred after December 31, 2001, with the exception of the $6,000 special needs adoption credit, which is permanent.

—Taxpayers may defer the recognition of income from earnings on funds deposited in qualified State tuition programs until the taxable year in which the earnings are distributed or educational benefits are provided. The provision is generally effective for taxable years ending after the date of enactment (August 20, 1996), with relief granted for certain earnings in prior years under programs that meet the requirements of a qualified State tuition program within a specified time period.

H.R. 3448 also contained a provision permitting the tax-free transfer of assets from common trust funds to mutual funds. This new tax expenditure is not listed in Table 1 because the effect on Federal budget receipts in fiscal years 1997 through 2001 is below the de minimis amount.

H.R. 3448 also reinstated a number of tax expenditures that had recently expired:

—The targeted jobs tax credit, which expired after December 31, 1994, was reinstated for the period October 1, 1996, through September 30, 1997, and renamed the work opportunity tax credit. The rate of the credit was reduced from 40 percent to 35 percent of the first $6,000 of wages for an eligible employee, but the number of targeted employee groups was expanded.

—The tax credit for qualified research expenditures (sec. 41), which expired after June 30, 1995, was extended for the period July 1, 1996, through May 31, 1997, with modifications.

—The tax credit for producing fuel from a nonconventional source, which expired with respect to fuels produced from coal gasification and biomass pursuant to binding contracts entered into after December 31, 1995, and facilities placed in service after December 31, 1996, was reinstated for coal and biomass fuels produced pursuant to binding contracts entered into before January 1, 1997, and facilities placed in service before July 1, 1998.

—The orphan drug tax credit, which expired after December 31, 1994, was reinstated for the period July 1, 1996, through May 31, 1997, with a modification that allows taxpayers to carry back and carry forward unused credits.

—The exclusion for employer-provided educational assistance, which expired for taxable years beginning after December 31, 1994, was reinstated for taxable years beginning after December 31, 1994, and before January 1, 1997, with certain modifications.

Tax expenditure estimates for the first three items in the above list are shown in Table 1. (In some cases, the estimates for fiscal years 1998 and beyond are attributable to unused credits that will be carried forward beyond the scheduled expiration dates.) The last two tax expenditures in the list (orphan drug credit and exclusion for employer-provided educational assistance) are not shown in Table 1 because their effects on Federal budget receipts in fiscal years 1997 through 2001 are below the de minimis amount.

H.R. 3448 also contained a number of provisions that modified or repealed existing tax expenditures:

—The deduction equal to the fair market value of "qualified appreciated stock" contributed to a private foundation, which expired after December 31, 1994, was reinstated for contributions made during the period July 1, 1996, through May 31, 1997. The effects of this provision are reflected in the tax expenditure estimates for "deductibility of charitable contributions" in Table 1.

—The tax credit for employer-paid FICA tax on tips was broadened to include tips received in connection with the delivery or serving of food or beverages, regardless of whether the food or beverages are for consumption on the premises of the establishment, effective for tips received for services performed after December 31, 1996.

—The partial exclusion for interest received with respect to certain loans to employee stock ownership plans ("ESOPs") was repealed, generally effective with respect to loans made after August 20, 1996. Other tax expenditure provisions for ESOPs are still in effect. They appear as a single line item in Table 1.

—The expensing limitation for small businesses was increased from $17,500 per year to $18,000 for 1997, $18,500 for 1998,

$19,000 for 1999, $20,000 for 2000, $24,000 for 2001, $24,000 for 2002, and $25,000 in 2003 and all years thereafter.

—The recovery period for certain retail gasoline stations was clarified. The change is effective for property placed in service before, on, and after the date of enactment. The effects of this provision are reflected in the tax expenditure for "depreciation of buildings other than rental housing in excess of alternative depreciation system" in Table 1.

—The recovery period for water utility property for regular tax purposes was lengthened from 20 years to 25 years. In general, the change is effective for property placed in service after June 12, 1996. The effects of this provision are reflected in the tax expenditure for "depreciation of equipment in excess of alternative depreciation system" in Table 1.

—The Alaska Power Authority was authorized to issue tax-exempt bonds to finance the purchase of a hydroelectric facility. A separate provision in H.R. 3448 modified the rules governing the use of tax-exempt bonds for local furnishers of electricity or gas. The two provisions are generally effective on date of enactment (August 20, 1996). The effects of these provisions are reflected in the tax expenditure estimate for "exclusion of interest on State and local government industrial development bonds for energy production facilities" in Table 1. A third provision in the bill relaxed the related-party and maximum size requirements for purchases of farm assets by first-time farmers who obtain loans financed by the sale of tax-exempt bonds. The effects of this provision are reflected in the tax expenditure estimate in Table 1 for "exclusion of interest on State and local government small-issue industrial development bonds."

—The partial exclusion for the value of housing provided to employees of educational institutions was broadened to include housing provided to the employees of certain medical research institutions and university systems. The effects of the provision are reflected in the tax expenditure estimate for "exclusion of employee meals and lodging (other than military)" in Table 1.

—The exclusion from gross income of damages received on account of personal injury or sickness was modified. Under H.R. 3448, the exclusion is limited to damages received on account of personal physical injury or sickness. Damages for emotional distress not attributable to a physical injury or physical sickness and punitive damages no longer qualify for the exclusion. The change is effective for amounts received after the date of enactment (after August 20, 1996). This tax expenditure is not listed in Table 1 because the effect on Federal budget receipts in fiscal years 1997 through 2001 is below the de minimis amount.

—The exclusion from gross income of energy conservation subsidies provided by public utilities was limited to subsidies for energy conservation in dwelling units, thus repealing the partial exclusion from gross income for subsidies for energy conservation in non-residential property. In general, the change is effective for subsidies received after December 31, 1996.

—The maximum annual IRA deduction for nonworking spouses was increased from $250 to $2,000. Thus, each spouse in a married couple will be able to contribute up to $2,000 to an IRA, as long

as the total compensation of the spouses is at least equal to the total contribution. The change is effective for taxable years beginning after December 31, 1996.

—The eligibility rules for the Puerto Rico and possession tax credit generally were made more restrictive for taxable years beginning after December 31, 1995, and the credit was repealed for taxable years beginning after December 31, 2005. This item is listed in Table 1 because the tax expenditure for fiscal years 1997 through 2001 remains above the de minimis amount.

—The reserve method of accounting for bad debts was repealed for certain thrift institutions, effective for taxable years beginning after December 31, 1995. Small banks and small thrift institutions may continue to use the reserve method of accounting for bad debts. This item is listed in Table 1 because the tax expenditure remains above the de minimis amount.

H.R. 3448 also contained a large number of provisions to simplify the tax treatment of pensions. In the aggregate, these provisions will have a negligible effect on the magnitude of the pensions tax expenditure, which is listed in Table 1 as "net exclusion of pension contributions and earnings."

Welfare Reform Reconciliation Act of 1996

The Welfare Reform Reconciliation Act of 1996 (H.R. 3734), signed by the President on August 22, 1996 (P.L. 104–193), contained several modifications to the earned income tax credit ("EITC") for the purpose of denying benefits to illegal aliens and individuals with certain unearned income. The modifications are effective for taxable years beginning after December 31, 1995.

Comparisons with Treasury Department

The Joint Committee staff and Treasury lists of tax expenditures differ in two respects. First, the Treasury uses a different classification of those provisions that can be considered a part of normal tax law under both the individual and business income taxes. In general, the Joint Committee staff methodology involves a narrower concept of normal tax law. The cash method of accounting provides an example. The Treasury considers the cash accounting option for certain businesses as a part of normal tax law, but the Joint Committee staff methodology treats it as a departure from normal tax law that constitutes a tax expenditure.

Second, the Joint Committee staff and Treasury estimates of tax expenditures span slightly different sets of years. The Treasury's estimates cover a seven-year period-the last fiscal year, the current fiscal year, and the next five fiscal years, i.e., fiscal years 1994–2000. The Joint Committee staff estimates cover the forthcoming fiscal year and the succeeding four fiscal years, i.e., fiscal years 1997–2001.

For the past five years, the President's budget has contained a section that reviews and tabulates the estate and gift tax provisions that Treasury considers as tax expenditures. The Joint Committee staff considers estate and gift tax provisions as being outside of the normal income tax structure and thus omits them from its list of tax expenditures.

In some cases, two or more of the tax expenditure items in the Treasury list have been combined into a single item in the Joint Committee staff list, and vice versa. The Table 1 descriptions of some tax expenditures also may vary from the descriptions used by the Treasury.

Tax expenditure items in the Joint Committee staff list that are not classified as tax expenditures by the Treasury are shown below.[10]

Energy

—Expensing of tertiary injectants
—Credit for enhanced oil recovery costs

Agriculture

—Exclusion of cost-sharing payments
—Cash accounting for agriculture

Insurance companies

—Deduction of unpaid property loss reserves of property and casualty companies
—Special treatment of life insurance company reserves
—Exclusion of investment income from structured settlement amounts

Business and commerce

—Expensing of magazine circulation expenditures
—Special rules for magazine, paperback book, and record returns
—Completed contract rules
—Cash accounting, other than agriculture
—Exception from net operating loss limitations for corporations in bankruptcy
—Deferral of gain on like-kind exchanges

Employment

—Exclusion of miscellaneous fringe benefits
—Exclusion of employee awards

Health

—Exclusion of untaxed Medicare benefits:
—Hospital Insurance, Supplementary Medical Insurance

[10] This list does not include the tax expenditures that were enacted after the February 1996 publication of the Treasury's tax expenditure report (footnote 3).

II. MEASUREMENT OF TAX EXPENDITURES

Tax Expenditure Estimates Generally

A tax expenditure is measured by the difference between tax liability under present law and the tax liability that would result from a recomputation of tax without benefit of the tax expenditure provision. Taxpayer behavior is assumed to remain unchanged for tax expenditure estimate purposes.[11]

The tax expenditure estimates in this report are based on Congressional Budget Office and Joint Committee staff projections of the gross income, deductions, and expenditures of individuals and corporations for calendar years 1996–2001. These projections are used to compute tax liabilities for the present-law baseline and tax liabilities for the alternative baseline that assumes that the tax expenditure provision does not exist.

Internal Revenue Service ("IRS") statistics from recent tax returns are used to develop projections of the tax credits, deductions, and exclusions that will be claimed under the present-law baseline. These IRS statistics show the actual usage of the various tax expenditure provisions. In the case of some tax expenditures, such as the earned income tax credit, there is evidence that some taxpayers are not claiming all of the benefits to which they are entitled, while others are filing claims that exceed their entitlements. The tax expenditure estimates in this report are based on projections of actual claims under the various tax provisions, not the tax benefits to which taxpayers are entitled.

Some tax expenditure estimates are based partly on statistics for income, deductions, and expenses for prior years. Accelerated depreciation is an example. Estimates for this tax expenditure are based on the difference between tax depreciation deductions under present law and the deductions that would have been claimed in the current year if investments in the current year and all prior years had been depreciated using the alternative (normal tax law) depreciation system.

Each tax expenditure is estimated separately, under the assumption that all other tax expenditures remain in the tax code. If two or more tax expenditures were estimated simultaneously, the total change in tax liability could be smaller or larger than the sum of the amounts shown for each item separately, as a result of interactions among the tax expenditure provisions.

Year-to-year differences in the estimates for each tax expenditure reflect changes in tax law, including phaseouts of tax expenditure provisions and changes that alter the definition of the normal tax

[11] An alternative way to measure tax expenditures is to express their values in terms of "outlay equivalents." An outlay equivalent is the dollar size of a direct spending program that would provide taxpayers with net benefits that would equal what they now receive from a tax expenditure. The Treasury Department presents estimates of outlay equivalents in the President's budget in addition to the method used by the Joint Committee staff.

structure, such as the tax rate schedule, the personal exemption amount, and the standard deduction. Some of the estimates for this tax expenditure report may differ from estimates made in previous years because of changes in law and economic conditions, the availability of better data, and improved estimating techniques.

Tax Expenditures versus Revenue Estimates

A tax expenditure estimate is not the same as a revenue estimate for the repeal of the tax expenditure provision for two reasons. First, tax expenditure estimates do not incorporate any changes in taxpayer behavior, whereas revenue estimates incorporate the effects of the behavioral changes that are anticipated to occur in response to the repeal of a tax provision. Second, tax expenditure estimates are concerned with changes in the tax liabilities of taxpayers. Because the tax expenditure focus is on tax liabilities as opposed to Federal government tax receipts, there is no concern for the timing of tax payments. Revenue estimates are concerned with changes in Federal tax receipts, which are affected by the timing of tax payments.

If a tax expenditure provision were repealed, it is likely that the repeal would be made effective at the beginning of a calendar year. In this case, the revenue estimate for repeal would show a smaller revenue gain in the first fiscal year than in subsequent years, because the repeal would be occurring after the start of the government's fiscal year. The revenue estimate might also reflect some delay in the timing of the revenue gains as a result of the taxpayer tendency to postpone or forgo changes in tax withholding and estimated tax payments.

III. TAX EXPENDITURE ESTIMATES

Tax expenditures are grouped in Table 1 in the same functional categories as outlays in the Federal budget. Estimates are shown separately for individuals and corporations. Those tax expenditures that do not fit clearly into any single budget category have been placed in the most appropriate category.

Several of the tax expenditure items involve small amounts of revenue, and those estimates are indicated in Table 1 by footnote 1. For each of these items, the footnote means that the tax expenditure is less than $50 million in the fiscal year.

Table 2 presents tax return information for each of nine income classes on the number of all returns filed, the number of all returns and taxable returns with itemized deductions, and the amount of tax liability.

Table 3 provides distributional estimates by income class for some of the tax expenditures that affect individual taxpayers. Not all tax expenditures that affect individuals are shown in this table because of the difficulty in making reliable estimates of the income distribution of items that do not appear on tax returns under present law.

Tables 1, 2, and 3 are based on the Federal tax laws in effect on October 4, 1996.

Table 1.—Tax Expenditure Estimates by Budget Function, Fiscal Years 1997–2001

[Billions of dollars]

Function	Corporations					Individuals					Total 1997–2001
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001	
National Defense											
Exclusion of benefits and allowances to Armed Forces personnel	....	....	....	....	....	2.1	2.1	2.2	2.2	2.3	10.9
Exclusion of military disability benefits	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
International Affairs											
Exclusion of income earned abroad by U.S. citizens	....	....	....	....	....	1.7	1.8	1.9	1.9	2.0	9.3
Exclusion of certain allowances for Federal employees abroad	....	....	....	....	....	0.2	0.2	0.2	0.2	0.2	1.0
Exclusion of income of foreign sales corporations (FSCs)	1.5	1.5	1.6	1.6	1.7	....	....	....	....	....	7.9
Deferral of income of controlled foreign corporations	1.0	1.1	1.1	1.2	1.2	....	....	....	....	....	5.6
Inventory property sales source rule exception	3.7	3.7	3.8	3.8	3.8	....	....	....	....	....	18.8
General Science, Space, and Technology											
Tax credit for qualified research expenditures	0.3	0.9	0.2	0.1	0.1	(1)	(1)	(1)	(1)	....	1.6
Expensing of research and experimental expenditures	2.4	2.6	2.8	3.0	3.2	(1)	(1)	(1)	(1)	(1)	14.0
Energy											
Expensing of exploration and development costs:											
Oil and gas	0.2	0.2	0.2	0.2	0.2	(1)	(1)	(1)	(1)	(1)	1.0
Other fuels	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Excess of percentage over cost depletion:											
Oil and gas	0.5	0.5	0.5	0.5	0.5	01	0.1	0.1	0.1	0.1	3.0
Other fuels	0.2	0.2	0.2	0.2	0.2	(1)	0.1	0.1	0.1	0.1	1.4
Tax credit for enhanced oil recovery costs	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.4
Tax credit for production of non-conventional fuels	1.0	1.0	1.0	1.0	1.0	0.3	0.3	0.3	0.3	0.3	6.5
Tax credits for alcohol fuels [2]	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	(1)

Exclusion of interest on State and local government industrial development bonds for energy production facilities	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.9
Expensing of tertiary injectants	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of energy conservation subsidies provided by public utilities	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.2
Tax credit for investments in solar and geothermal energy facilities	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.5
Tax credits for electricity production from wind and biomass	(1)	(1)	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.6
Tax credit for electric vehicles	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Deductions for clean-fuel vehicles and refueling property	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Natural resources and environment											
Expensing of exploration and development costs, nonfuel minerals	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Excess of percentage over cost depletion, nonfuel minerals	0.2	0.2	0.2	0.2	0.2	(1)	0.1	0.1	0.1	0.1	1.5
Tax credit and 7-year amortization for reforestation expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Expensing of multiperiod timber-growing costs	0.2	0.2	0.2	0.2	0.2	(1)	(1)	(1)	(1)	(1)	1.0
Exclusion of interest on State and local government sewage, water, and hazardous waste facilities bonds	0.2	0.2	0.2	0.2	0.2	0.5	0.5	0.5	0.5	0.5	3.2
Tax credit for rehabilitation of historic structures	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.5
Special rules for mining reclamation reserves	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Exclusion of contributions in aid of construction for water and sewer utilities	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	0.2
Agriculture											
Expensing of soil and water conservation expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Expensing of fertilizer and soil conditioner costs	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Expensing of the costs of raising dairy and breeding cattle	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.2	0.2	0.8
Exclusion of cost-sharing payments	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1

Footnotes at the end of table.

Table 1.—Tax Expenditure Estimates by Budget Function, Fiscal Years 1997–2001—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1997–2001
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001	
Exclusion of cancellation of indebtedness income of farmers	....	....	....	....	....	0.1	0.1	0.1	(1)	(1)	0.3
Cash accounting for agriculture	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	1.1
Commerce and Housing											
Financial Institutions:											
Bad-debt reserves of financial institutions	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	0.2
Exemption of credit union income	0.9	0.9	0.9	1.0	1.0	....	....	....	....	....	4.7
Insurance companies:											
Exclusion of investment income on life insurance and annuity contracts	1.2	1.2	1.2	1.3	1.3	20.4	21.1	21.9	22.7	23.4	115.8
Small life insurance company taxable income adjustment	0.1	0.1	0.1	0.1	0.1	....	....	....	....	....	0.5
Special treatment of life insurance company reserves	1.8	1.9	2.0	2.2	2.3	....	....	....	....	....	10.3
Deduction of unpaid property loss reserves for property and casualty insurance companies	2.5	2.8	3.1	3.4	3.7	....	....	....	....	....	15.5
Special deduction for Blue Cross and Blue Shield companies	0.4	0.4	0.4	0.4	0.4	....	....	....	....	....	2.0
Housing:											
Deduction of mortgage interest on owner-occupied residences	....	....	....	....	....	41.3	42.6	43.9	45.4	47.0	220.2
Deduction of property tax on owner-occupied residences	....	....	....	....	....	15.6	16.4	17.2	17.9	18.8	86.0
Deferral of capital gains on sales of principal residences	....	....	....	....	....	18.6	18.8	19.0	19.2	19.4	95.0
Exclusion of capital gains on sales of principal residences for persons age 55 and over ($125,000 exclusion)	....	....	....	....	....	4.9	5.1	5.2	5.4	5.6	26.3
Exclusion of interest on State and local government bonds for owner-occupied housing	0.5	0.5	0.5	0.5	0.5	1.5	1.5	1.5	1.6	1.6	10.4

Exclusion of interest on State and local government bonds for rental housing	0.3	0.3	0.3	0.3	0.3	0.7	0.7	0.8	0.8	0.8	5.1
Depreciation of rental housing in excess of alternative depreciation system	1.2	1.1	1.0	1.0	1.0	0.8	0.8	0.7	0.7	0.7	9.0
Tax credit for low-income housing	1.0	1.1	1.2	1.4	1.6	1.8	2.1	2.3	2.5	2.9	17.9
Other business and commerce:											
Maximum 28% tax rate on long-term capital gains	....	....	....	....	....	10.5	11.5	12.8	14.5	16.2	65.5
Depreciation of buildings other than rental housing in excess of alternative depreciation system	3.2	2.6	1.9	1.5	1.2	1.4	1.1	0.9	.07	0.5	15.0
Depreciation of equipment in excess of alternative depreciation system	22.8	23.2	24.2	25.0	25.3	5.9	6.1	6.5	6.9	7.0	152.9
Expensing of depreciable business property	0.6	0.6	0.6	0.6	0.8	0.4	.03	0.3	0.3	0.4	4.9
Exclusion of capital gains at death	....	....	....	....	....	15.5	17.2	18.4	19.6	20.8	91.5
Carryover basis of capital gains on gifts	....	....	....	....	....	1.5	1.6	1.6	1.7	1.7	8.1
Amortization of business startup costs	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.1
Reduced rates on first $10,000,000 of corporate taxable income	4.1	4.2	4.3	4.4	4.5	....	....	....	....	....	21.5
Permanent exemption from imputed interest rules	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.1
Expensing of magazine circulation expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Special rules for magazine, paperback book, and record returns	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Deferral of gain on non-dealer installment sales	0.4	0.5	0.5	0.5	0.5	0.3	0.4	0.4	0.4	0.4	4.3
Completed contract rules	0.2	0.2	0.2	0.2	0.2	(1)	(1)	(1)	(1)	(1)	1.1
Cash accounting, other than agriculture	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.6
Exclusion of interest on State and local government small-issue industrial development bonds	0.1	0.1	0.1	0.1	0.1	0.3	0.2	0.2	0.2	0.2	1.4
Deferral of gain on like-kind exchanges	0.5	0.5	0.6	0.6	0.6	0.3	0.3	0.4	0.4	0.4	4.6
Exception from net operating loss limitations for corporations in bankruptcy proceedings	0.5	0.5	0.5	0.5	0.5	....	....	....	....	....	2.5

Footnotes at the end of table.

Table 1.—Tax Expenditure Estimates by Budget Function, Fiscal Years 1997–2001—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1997–2001
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001	
Tax credit for employer-paid FICA taxes on tips	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	1.3
Deferral of gain on involuntary conversions resulting from Presidentially-declared disasters	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Transportation											
Deferral of tax on capital construction funds of shipping companies	0.1	0.1	0.1	0.1	0.1	....	....	....	....	....	0.5
Exclusion of employer-paid transportation benefits	....	....	....	....	....	3.1	3.1	3.2	3.2	3.2	15.8
Exclusion of interest on State and local government bonds for high-speed rail	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Community and Regional Development											
Tax credit for rehabilitation of structures, other than historic structures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.4
Exclusion of interest on State and local government bonds for private airports, docks, and mass-commuting facilities	0.3	0.3	0.3	0.3	0.3	0.7	0.8	0.8	0.9	0.9	5.6
Regional economic development tax incentives: empowerment zones, enterprise communities, and Indian investment incentives	0.1	0.2	0.2	0.2	0.3	0.1	0.2	0.2	0.3	0.3	2.1
Education, Training, Employment, and Social Services											
Education and training:											
Exclusion of scholarship and fellowship income	....	....	....	....	....	0.8	0.9	0.9	1.0	1.1	4.6
Parental personal exemption for students age 19 to 23	....	....	....	....	....	0.8	0.8	0.9	0.9	1.0	4.4
Exclusion of interest on State and local government student loan bonds	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	1.4

Exclusion of interest on State and local government bonds for private nonprofit educational facilities	0.2	0.2	0.2	0.3	0.3	0.6	0.7	0.7	0.7	0.8	4.7
Deduction of charitable contributions for educational institutions	0.9	0.9	1.0	1.1	1.2	2.1	2.3	2.4	2.5	2.6	17.0
Exclusion of interest on educational savings bonds	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Deferral of tax on earnings of qualified State tuition programs	....	....	....	....	....	0.1	0.2	0.2	0.2	0.3	1.0
Employment:											
Exclusion of employee meals and lodging (other than military)	....	....	....	....	....	0.7	0.7	0.7	0.8	0.8	3.7
Special tax provisions for employee stock ownership plans (ESOPs)	0.7	0.8	0.9	1.0	1.0	(1)	(1)	(1)	(1)	(1)	4.4
Exclusion of benefits provided under cafeteria plans [3]	....	....	....	....	....	5.0	5.7	6.5	7.2	7.9	32.2
Exclusion of rental allowances for ministers' homes	....	....	....	....	....	0.3	0.3	0.3	0.3	0.4	1.6
Exclusion of miscellaneous fringe benefits	....	....	....	....	....	5.5	5.8	6.2	6.5	6.9	30.9
Exclusion of employee awards	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.7
Exclusion of income earned by voluntary employees' beneficiary associations	....	....	....	....	....	0.5	0.5	0.6	0.6	0.6	2.7
Work opportunity tax credit	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	(1)	....	0.4
Social services:											
Deduction of charitable contributions, other than for education and health	0.8	0.9	1.0	1.1	1.2	15.3	16.0	16.7	17.5	18.4	88.8
Tax credit for child and dependent care expenses	....	....	....	....	....	2.8	2.9	2.9	3.0	3.0	14.5
Exclusion of employer-provided child care (4)	....	....	....	....	....	0.8	0.9	1.0	1.2	1.3	5.2
Exclusion of certain foster care payments	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Adoption tax credit and employee adoption benefits exclusion	(1)	(1)	(1)	(1)	(1)	0.4	0.4	0.4	0.4	0.4	1.5
Expensing of costs for removing architectural barriers	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Tax credit for disabled access expenditures.	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1

Footnotes at the end of table.

Table 1.—Tax Expenditure Estimates by Budget Function, Fiscal Years 1997–2001—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1997–2001
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001	
Health											
Exclusion of employer contributions for medical care, health insurance premiums, and long-term care insurance premiums [5]	....	....	....	....	....	51.5	55.3	59.4	63.6	68.2	298.0
Exclusion of medical care and CHAMPUS medical insurance for military dependents, retirees, and retiree dependents	....	....	....	....	....	0.6	0.6	0.6	0.6	0.6	3.0
Deduction of health insurance premiums and long-term care insurance premiums by the self-employed	....	....	....	....	....	0.7	0.9	1.1	1.2	1.3	5.2
Deduction of medical expenses and long-term care expenses	....	....	....	....	....	4.3	5.0	5.5	6.1	6.7	27.6
Medical savings accounts	....	....	....	....	....	0.1	0.2	0.3	0.3	0.3	1.2
Exclusion of interest on State and local government bonds for private nonprofit hospital facilities	0.4	0.5	0.5	0.5	0.6	1.3	1.3	1.4	1.5	1.6	9.6
Deduction of charitable contributions to health organizations	0.6	0.7	0.7	0.8	0.9	1.6	1.6	1.7	1.8	1.9	12.3
Medicare											
Exclusion of untaxed medicare benefits:											
Hospital insurance	....	....	....	....	....	12.2	13.6	15.2	16.9	18.9	76.8
Supplementary medical insurance	....	....	....	....	....	5.5	6.3	7.2	8.3	9.5	36.8
Income Security											
Exclusion of workers' compensation benefits	....	....	....	....	....	3.8	3.9	4.0	4.1	4.2	20.0
Exclusion of special benefits for disabled coal miners	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
Exclusion of cash public assistance benefits	....	....	....	....	....	0.5	0.5	0.5	0.5	0.5	2.5
Net exclusion of pension contributions and earnings:											
Employer plans	....	....	....	....	....	70.5	73.6	76.7	79.9	80.0	380.7
Individual retirement plans	....	....	....	....	....	9.3	9.8	10.3	10.9	11.5	51.8
Keogh plans	....	....	....	....	....	3.7	3.9	4.2	4.4	4.7	20.9

Exclusion of other employee benefits:											
Premiums on group term life insurance	....	....	....	....	....	1.7	1.7	1.8	1.8	1.9	8.9
Premiums on accident and disability insurance	....	....	....	....	....	0.2	0.2	0.2	0.2	0.2	1.0
Exclusion of employer-provided death benefits	....	....	....	....	....	0.2	0.2	0.2	0.2	0.2	1.0
Additional standard deduction for the blind and the elderly	....	....	....	....	....	1.9	2.0	2.2	2.3	2.5	10.9
Tax credit for the elderly and disabled	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Deduction of casualty and theft losses	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
Earned income credit (EIC)[6]	....	....	....	....	....	3.5	3.7	3.9	3.9	4.5	19.5
Social Security and Railroad Retirement											
Exclusion of untaxed social security and railroad retirement benefits	....	....	....	....	....	25.3	26.5	27.8	29.2	30.6	139.4
Veterans' Benefits and Services											
Exclusion of veterans' disability compensation	....	....	....	....	....	1.8	1.8	1.8	1.8	1.9	9.1
Exclusion of veterans' pensions	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.6
Exclusion of GI bill benefits	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.6
Exclusion of interest on State and local government bonds for veterans' housing	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.4
General Purpose Fiscal Assistance											
Exclusion of interest on public purpose State and local government debt	3.6	3.8	4.0	4.3	4.5	10.5	11.1	11.6	12.4	13.1	78.9
Deduction of nonbusiness State and local government income and personal property taxes	....	....	....	....	....	27.3	28.6	30.0	31.5	33.0	150.4
Tax credit for Puerto Rico and possession income	3.2	3.4	3.7	3.9	4.0	....	....	....	....	....	18.2
Interest											
Deferral of interest on savings bonds	....	....	....	....	....	1.4	1.5	1.6	1.7	1.8	8.0

Footnotes for Table 1:

[1] Positive tax expenditure of less than $50 million.

[2] In addtion, the 54-cents-per-gallon exemption from excise tax for alcohol fuels results in a reduction in excise tax receipts, not of income tax effect, of $0.5 billion per year in fiscal years 1997 through 2000, and $0.6 billion in fiscal year 2001.

[3] Estimate includes amounts of employer-provided health insurance purchased through cafeteria plans and employer-provided child care purchased dependent care flexible spending accounts. These amounts are also included in other line items in this table.

[4] Extimate includes employer-provided child care purchased through dependent care flexible spending accounts.

[5] Extimate includes employer-provided health insurance purchased through cafeteria plans.

[6] The figures in the table show the effect of the EIC on receipts. The increase in outlays is: $21.6 billion in 1997, $22.4 billion in 1998, $23.2 billion in 1999, $24.4 billion in 2000, and $25.4 billion in 2001.

NOTE: Details may not add to totals due to rounding.

Source: Joint Committee on Taxation.

Table 2.—Distribution by Income Class of All Returns, Taxable Returns, Itemized Returns, and Tax Liability at 1996 Rates and 1996 Law and 1996 Income Levels [1]

[Money amounts in millions of dollars, returns in thousands]

Income class [thousands] [2]	All returns [3]	Taxable returns	Itemized returns	Tax liability
Below $10	23,697	1,830	169	−$5,729
$10 to $20	25,354	9,464	899	−2,579
$20 to $30	19,238	13,062	1,954	17,525
$30 to $40	16,289	13,999	3,617	34,543
$40 to $50	12,058	11,295	4,054	40,291
$50 to $75	18,544	18,393	10,137	104,779
$75 to $100	8,631	8,610	6,802	88,259
$100 to $200	6,791	6,773	6,072	134,800
$200 and over	1,583	1,579	1,479	186,280
Total	**132,185**	**85,005**	**35,183**	**$598,167**

[1] Tax law as in effect on January 1, 1996, is applied to the 1996 level and sources of income and their distribution among taxpayers. Excludes individuals who are dependents of other taxpayers and taxpayers with negative income.

[2] The income concept used to place tax returns into classes is adjusted gross income (AGI) plus: (a) tax-exempt interest, (b) employer contributions for health plans and life insurance, (c) employer share of FICA tax, (d) workers' compensation, (e) nontaxable Social Security benefits, (f) insurance value of Medicare benefits, (g) alternative minimum tax preference items, and (h) excluded income of U.S. citizens living abroad.

[3] Includes filing and nonfiling units. Filing units include all taxable and nontaxable returns. Nonfiling units include individuals with income that is exempt from Federal income taxation (e.g., transfer payments, interest from tax-exempt bonds, etc.).

NOTE.—Details may not add to totals due to rounding.

Source: Joint Committee on Taxation.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1996 Rates and 1996 Income Levels [1]

[Money amounts in millions of dollars, returns in thousands]

Income class [thousands] [2]	Medical deduction [3]		Real estate tax deduction	
	Returns	Amount	Returns	Amount
Below $10	12	$2	17	$1
$10 to $20	213	64	404	67
$20 to $30	708	241	1,320	224
$30 to $40	1,077	482	2,846	571
$40 to $50	847	444	3,437	877
$50 to $75	1,417	1,000	9,118	3,027
$75 to $100	498	717	6,284	3,351
$100 to $200	252	674	5,632	4,531
$200 and over	28	290	1,270	2,477
Total	**5,052**	**$3,914**	**30,327**	**$15,126**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1996 Rates and 1996 Income Levels [1]—Continued

[Money amounts in millions of dollars, returns in thousands]

Income class [thousands] [2]	State and local income and personal property tax deduction		Charitable contributions deduction	
	Returns	Amount	Returns	Amount
Below $10	31	(6)	19	$1
$10 to $20	468	$12	373	35
$20 to $30	1,565	89	1,327	179
$30 to $40	3,321	382	2,945	479
$40 to $50	3,872	849	3,524	764
$50 to $75	9,856	3,352	9,284	2,673
$75 to $100	6,346	4,564	6,476	3,170
$100 to $200	5,554	7,529	5,834	4,791
$200 and over	1,294	9,804	1,425	6,337
Total	**32,308**	**$26,582**	**31,207**	**$18,429**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1996 Rates and 1996 Income Levels [1]—Continued

[Money amounts in millions of dollars, returns in thousands]

Income class [thousands] [2]	Child care credit		Earned income credit [4]	
	Returns	Amount	Returns	Amount
Below $10	(5)	(6)	5,573	$6,147
$10 to $20	418	$155	6,287	12,051
$20 to $30	700	324	4,496	5,589
$30 to $40	999	449	1,326	1,084
$40 to $50	740	310	105	95
$50 to $75	1,603	686	26	34
$75 to $100	1,023	478	(5)	(6)
$100 to $200	659	325	....	....
$200 and over	77	40	....	....
Total	**6,220**	**$2,766**	**17,811**	**$25,000**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1996 Rates and 1996 Income Levels [1]—Continued

[Money amounts in millions of dollars, returns in thousands]

Income class [thousands] [2]	Untaxed Social Security and Railroad Retirement benefits		Additional standard deduction for the elderly and blind	
	Returns	Amount	Returns	Amount
Below $10	255	$54	10	$1
$10 to $20	4,810	2,118	333	39
$20 to $30	5,135	5,089	1,788	250
$30 to $40	4,581	6,149	1,995	310
$40 to $50	3,399	5,436	2,115	417
$50 to $75	3,524	4,453	2,291	524
$75 to $100	1,124	451	548	192
$100 to $200	977	224	325	123
$200 and over	255	82	31	12
Total	**24,059**	**$24,056**	**9,437**	**$1,867**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1995 Rates and 1995 Income Levels [1]—Continued

[Money amounts in millions of dollars, returns in thousands]

Income class [thousands] [2]	Mortgage interest deduction	
	Returns	Amount
Below $10	30	$5
$10 to $20	433	167
$20 to $30	1,299	501
$30 to $40	2,780	1,360
$40 to $50	3,334	2,197
$50 to $75	8,946	7,687
$75 to $100	6,117	8,900
$100 to $200	5,326	12,564
$200 and over	1,181	6,962
Total	**29,446**	**$40,345**

Footnotes to Table 3:

[1] Excludes individuals who are dependents of other taxpayers.

[2] The income concept used to place tax returns into classes is adjusted gross income (AGI) plus: (a) tax-exempt interest, (b) employer contributions for health plans and life insurance, (c) employer share of FICA tax, (d) workers' compensation, (e) nontaxable Social Security benefits, (f) insurance value of Medicare benefits, (g) alternative minimum tax preference items, and (h) excluded income of U.S. citizens living abroad.

[3] Tax expenditure estimate does not include revenue losses attributable to deductions for long-term care and long-term care insurance premiums.

[4] Includes the refundable portion of the earned income credit. Excludes the credit for child medical insurance premiums.

[5] Less than 500 returns.

[6] Less than $500,000

NOTE.—Details may not add to totals due to rounding.

SOURCE: Joint Committee on Taxation.

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