

[JOINT COMMITTEE PRINT]

**ESTIMATES OF FEDERAL TAX
EXPENDITURES FOR
FISCAL YEARS 2000-2004**

PREPARED FOR THE
COMMITTEE ON WAYS AND MEANS
AND THE
COMMITTEE ON FINANCE

BY THE STAFF OF THE
JOINT COMMITTEE ON TAXATION



DECEMBER 22, 1999

U.S. GOVERNMENT PRINTING OFFICE

61-287

WASHINGTON : 1999

JCS-13-99

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106TH CONGRESS, 1ST SESSION

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INTRODUCTION

This report¹ on tax expenditures for fiscal years 2000–2004 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 consultation 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 1998–2004 in the Administration’s budgetary statement of February 1999.³ 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 of this report 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 December 17, 1999. Expired or repealed provisions are not listed unless they have continuing revenue effects that are associated with ongoing taxpayer activity.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 2000–2004 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.

¹ This report may be cited as follows: Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2000–2004* (JCS–13–99), December 22, 1999.

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, September 1, 1995, November 26, 1996, December 15, 1997, and December 14, 1998.

³ Office of Management and Budget, “Tax Expenditures,” *Budget of the United States Government: Analytical Perspectives, Fiscal Year 2000*, February 1, 1999, pp. 105–136.

I. THE CONCEPT OF TAX EXPENDITURES

Overview

"Tax expenditures" are defined under the Congressional Budget and Impoundment Control Act of 1974 ("the Budget Act") as "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."⁴ Thus, tax expenditures include any reductions in income tax liabilities that result from special tax provisions or regulations that provide tax benefits to particular taxpayers.

Special income tax provisions are referred to as tax expenditures because they may be 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.⁵

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.

The legislative history of the Budget Act indicates that tax expenditures are to be defined with reference to a normal income tax structure (referred to here as "normal income 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 income 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 solely for this purpose means a total revenue loss of at least \$50 million over the five fiscal years 2000-2004. The Joint Committee staff emphasizes, however, that in the process of listing tax expenditures, no judgment 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 replace-

⁴ Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344), sec. 3(3).

⁵ There are a few tax expenditures that have statutorily imposed 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 the States can make each year.

ment 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, regulatory activity, 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 Budget Act uses the term tax expenditure to refer to the special tax provisions that are contained in the Federal income taxes on individuals and corporations.⁶ Other Federal taxes such as excise taxes, employment taxes, and estate and gift taxes may 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 as a tax expenditure.⁷

Some provisions in the Internal Revenue Code provide for special tax treatment that is less favorable than normal income tax law. Examples of such provisions 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 income tax law are not shown in this report because they are not included in the statutory definition of a tax expenditure.

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 benefits to individual taxpayers can be classified as exceptions to "normal income tax law."

Personal exemptions and the standard deduction are treated as part of normal income 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.

⁶The Federal income tax on individuals also applies to estates and trusts, which are subject to a separate income tax rate schedule (Internal Revenue Code section 1(e)). Estates and trusts may benefit from some of the same tax expenditure provisions that apply to individuals. In Table 1 of this report, the tax expenditures that apply to estates and trusts have been included in the estimates of tax expenditures for individual taxpayers.

⁷In 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," February 1, 1999, pp. 135-136. 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-provided benefits: coverage under accident and health plans,⁸ accident and disability insurance, group term life insurance, educational assistance, transportation benefits (parking, van pools, and transit passes), child care, meals and lodging (furnished for the convenience of the employer), employee awards, 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 income 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 contributions to qualified pension plans and employee contributions made at the election of the employee through salary reduction are not taxed until distributed to the employee during retirement, and income earned on pension assets is not taxed until distributed during retirement. The tax expenditure for "net exclusion of pension contributions and earnings" is computed as the income taxes forgone on current tax-excluded pension contributions and earnings less the income taxes paid on current pension distributions to retirees.

Under present law, social security retirement benefits are fully or partially excluded from gross income.⁹ Under normal income 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 social security tax payments 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 gross income 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 Temporary Assistance for Needy Families ("TANF") benefits).

⁸ Present law contains an exclusion for employer-provided coverage under accident and health plans (sec. 106 of the Internal Revenue Code of 1986, the "Code") and an exclusion for benefits received by employees under employer-provided accident and health plans (Code sec. 105(b)). These two exclusions are viewed as a single tax expenditure. Under normal income tax law, the value of employer-provided accident and health coverage would be includable in the income of employees, but employees would not be subject to tax on the accident and health insurance benefits (reimbursements) that they might receive.

⁹ For taxpayers with modified adjusted gross incomes above certain levels, up to 85 percent of social security retirement benefits are includable in income.

The individual income tax does not include in gross income the imputed income that individuals receive from the services provided by owner-occupied homes and durable goods.¹⁰ However, the Joint Committee staff does not classify this exclusion 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.¹¹

Under normal income 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 income 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 certain capital gains are classified as tax expenditures.

It also is assumed that normal income tax law would not provide for any indexing of the basis of capital assets for changes in the general price level. Thus, under normal income 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 income 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 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

¹⁰The National Income and Product Accounts include estimates of this imputed income. The accounts appear in U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, published monthly.

¹¹If 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 income 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.

depreciation system (sec. 168(g)), which provides for straight-line recovery over tax lives that are longer than those permitted under the accelerated system.

As indicated above, the Joint Committee staff assumes that normal income tax law would not provide for any indexing of the basis of capital assets. Thus, normal income 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 income tax law provided for inflation adjustments in the basis of assets for tax depreciation purposes.

The Joint Committee staff uses several accounting standards in evaluating the provisions in the Code that govern the recognition of business receipts and expenses. Under the Joint Committee staff view, normal income tax law is assumed to require the accrual method of accounting, the standard of "economic performance" (used in the Code to test whether liabilities are deductible), and the general concept of matching income and expenses. In general, tax provisions that do not satisfy all three standards are viewed as tax expenditures. For example, the deduction for contributions to taxpayer-controlled mining reclamation reserve accounts is viewed as a tax expenditure because the contributions do not satisfy the economic performance standard. (Adherence to the standard would require that the taxpayer make an irrevocable contribution toward future reclamation, involving a trust fund or similar mechanism, as occurs in a number of areas in the Code.) The deduction for contributions to nuclear decommissioning trust accounts is not viewed as a tax expenditure because the contributions are irrevocable (i.e., they satisfy the economic performance standard). However, present law provides for a reduced rate of tax on the income of nuclear decommissioning trust accounts, and this reduced rate of tax is viewed as a tax expenditure.

The alternative minimum tax ("AMT") and the passive activity loss rules are not viewed by the Joint Committee staff as a part of normal income tax law. Instead, they are viewed as provisions that reduce 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 the 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 already are 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 by the Joint Committee staff as a tax expenditure (as opposed to normal income 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 only 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 corporate income 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 income tax base. However, the ability of donors to such nonprofit 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 of income granted to holders of tax-exempt financing issued by charities.

Recent Legislation

The Ticket to Work and Work Incentives Improvement Act of 1999 (H.R. 1180, the "Ticket to Work Act"), enacted on December 17, 1999, extended and modified a number of tax expenditures, as follows:

—The work opportunity tax credit, which expired after June 30, 1999, was extended through December 31, 2001.

—The welfare-to-work tax credit, which expired after June 30, 1999, was extended through December 31, 2001.

—The exclusion for employer-provided assistance for undergraduate education, which was scheduled to expire for courses of instruction beginning after June 1, 2000, was extended to include courses beginning before January 1, 2002.

—The tax credit for first-time homebuyers of a principal residence in the District of Columbia, which was effective for property purchased after August 6, 1997, and prior to January 1, 2001, was extended to include property purchased prior to January 1, 2002.

—The exemption from Subpart F for the active financing income of controlled foreign corporations, which was scheduled to expire for taxable years beginning after December 31, 1999, was extended for taxable years beginning before January 1, 2002. (This tax expenditure is referred to in Table 1 as "deferral of certain financing income.")

—The tax credit for qualified research expenditures (Code sec. 41), which expired after June 30, 1999, was extended for the period July 1, 1999, through June 30, 2004, with modifications.

—The suspension of the 100-percent net income limitation for marginal oil and gas properties, which was scheduled to expire for taxable years beginning after December 31, 1999, was extended for taxable years beginning before January 1, 2002. This suspension increases the tax expenditure for “excess of percentage over cost depletion for oil and gas properties.”

—The tax credit for electricity produced from wind and closed-loop biomass facilities, which was scheduled to expire for facilities placed in service after June 30, 1999, was extended to include facilities placed in service before January 1, 2002, and was modified to include electricity produced from poultry waste, effective for facilities placed in service after December 31, 1999, and before January 1, 2002.

—The deduction for certain environmental remediation expenditures that would otherwise be chargeable to a capital account (“brownfields”), which was effective for eligible expenditures incurred in taxable years ending after August 5, 1997, and before January 1, 2001, was extended to include expenditures incurred in taxable years ending before January 1, 2002.

—The definition of an eligible foster child was modified for purposes of the earned income tax credit, effective for taxable years beginning after December 31, 1999. This modification reduces the earned income tax credit tax expenditure.

—The installment method of accounting was repealed for most accrual basis taxpayers. This reduces the tax expenditure associated with the “deferral of gain on non-dealer installment sales.”

—Present law provides a tax credit to certain financial institutions holding “qualified zone academy bonds” that are issued by State and local governments to finance improvements at qualifying public schools in empowerment zones, enterprise communities, and other areas. A total of \$400 million in qualified zone academy bonds were authorized to be issued in each of the years 1998 and 1999. The Ticket to Work Act authorizes up to \$400 million of these bonds to be issued in each of the years 2000 and 2001, and limits the extent to which unused bond authorizations can be carried forward by the States to subsequent calendar years.

The Ticket to Work Act also contained a provision that allows nonrefundable personal credits to offset the regular tax for taxable years beginning in 1999, and allows nonrefundable personal credits to offset both the regular tax and the alternative minimum tax in taxable years beginning in 2000 and 2001. This provision will allow taxpayers to receive greater benefits from the nonrefundable personal credits. Thus, in Table 1, the tax expenditure estimates for these credits are larger than would otherwise be the case.

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 income tax law under both the individual and business income taxes. In general, the Joint Committee staff methodology involves a narrower concept of normal income tax law. Thus, the Joint Committee list of tax expenditures includes some provisions that are not contained in the Treasury list. The cash method of accounting

provides an example. The Treasury considers the cash accounting option for certain businesses as a part of normal income tax law, but the Joint Committee staff methodology treats it as a departure from normal income tax law that constitutes a tax expenditure.

Second, the Joint Committee staff list excludes those provisions that are estimated to result in revenue losses below the de minimis amount, i.e., less than \$50 million over the five fiscal years 2000–2004. The Treasury does not have a de minimis exception. Thus, the Treasury list of tax expenditures includes some provisions that are not contained in the Joint Committee staff list.

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 when the President's budget is submitted, and the next five fiscal years, i.e., fiscal years 1998–2004. The Joint Committee staff estimates cover the current fiscal year and the succeeding four fiscal years, i.e., fiscal years 2000–2004.

For the past eight years, the President's budget has contained a section that reviews and tabulates the estate and gift tax provisions that the 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.

The following is a list of tax expenditure provisions in the Joint Committee staff list that are not classified as tax expenditures by the Treasury:¹²

Natural resources and environment

- Exclusion of contributions in aid of construction for water and sewer utilities
- Special rules for mining reclamation reserves
- Special tax rate for nuclear decommissioning reserve funds

Agriculture

- Exclusion of cost-sharing payments
- Cash accounting for agriculture
- Five-year carryback period for net operating losses attributable to farming

Insurance companies

- Special treatment of life insurance company reserves
- Deduction of unpaid property loss reserves of property and casualty companies

¹²There are two additional tax expenditure provisions in the Joint Committee staff list that are not classified as tax expenditures by the Treasury: the expensing of tertiary injectants and the exclusion of investment income from structured settlement amounts. These provisions are not listed in Table 1 because the estimated revenue losses are below the de minimis amount (\$50 million over the five fiscal years 2000–2004).

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
- Deferral of gain on like-kind exchanges
- Exception from net operating loss limitations for corporations in bankruptcy
- Tax credit for employer-paid FICA taxes on tips
- Deferral of gain on involuntary conversions resulting from Presidentially-declared disasters

Employment

- Exclusion of miscellaneous fringe benefits
- Exclusion of employee awards
- Exclusion of income earned by voluntary employee beneficiary associations

Medicare

- Exclusion of untaxed Medicare benefits for Hospital Insurance
- Exclusion of untaxed Medicare benefits for Supplementary Medical Insurance

The following is a list of the tax expenditure provisions that are included in the Treasury list but are excluded from the Joint Committee staff list because the estimated revenue losses are below the de minimis amount (less than \$50 million over the five fiscal years 2000–2004):

Energy

- Tax credit for electric vehicles
- Deductions for clean-fuel vehicles and refueling property

Natural resources and environment

- Tax credit and seven-year amortization for reforestation expenditures

Agriculture

- Deferral of tax on gains from the sale of stock in a qualified refiner or processor to an eligible farmer's cooperative

Financial institutions

- Bad debt reserves of financial institutions

Insurance companies

- Special alternative tax on small property and casualty insurance companies
- Tax exemption for insurance companies owned by tax-exempt organizations

Business and commerce

- Ordinary income treatment of losses from sales of small business corporation stock

—Exclusion of income from discharge of indebtedness incurred in connection with qualified real property

Social services

—Expensing of costs for removing architectural barriers

There are three additional tax expenditure provisions in the Treasury list that are not included in the Joint Committee staff list. Two of the provisions involve exceptions to the passive loss rules: the exception for working interests in oil and gas properties, and the exception for up to \$25,000 of rental losses. The Joint Committee staff does not classify these two provisions as tax expenditures; the revenue effects of the passive loss rules (and exceptions to the rules) are included in the estimates of the tax expenditure provisions that are affected by the rules.¹³ The third tax expenditure in the Treasury list that is not included in the Joint Committee staff list is the exemption of certain income of telephone and electric cooperatives. The Joint Committee staff does not classify this provision as a tax expenditure because the special tax rules for pass-through entities are assumed to be a part of normal tax law.¹⁴

¹³ See discussion of the alternative minimum tax and passive loss rules, above on page 6.

¹⁴ See discussion on page 7, above.

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.¹⁵

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 1999–2004. These projections are used to compute tax liabilities for the present-law revenue 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 income 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 in-

¹⁵ 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 presenting estimates in the same manner as the Joint Committee staff.

come tax 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.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2000–2004

[Billions of dollars]

Function	Corporations					Individuals					Total 2000– 2004
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004	
National Defense											
Exclusion of benefits and allowances to Armed Forces personnel						2.0	1.9	2.0	2.0	2.0	9.9
Exclusion of military disability benefits						0.1	0.1	0.1	0.1	0.1	0.4
International Affairs											
Exclusion of income earned abroad by U.S. citizens						2.4	2.6	2.8	3.0	3.3	14.1
Exclusion of certain allowances for Federal employees abroad						0.2	0.2	0.3	0.3	0.3	1.3
Exclusion of income of foreign sales corporations (FSCs)	2.7	2.9	3.1	3.3	3.6						15.6
Deferral of active income of controlled foreign corporations	3.4	3.7	4.0	4.2	4.5						19.8
Inventory property sales source rule exception	4.0	4.2	4.4	4.6	4.8						22.0
Deferral of certain financing income ...	0.5	0.9	0.4								1.8
General Science, Space, and Technology											
Tax credit for qualified research expenditures		3.0	6.8	3.7	3.8						17.3
Expensing of research and experimental expenditures	2.9	2.8	2.9	3.1	3.2						14.9
Energy											
Expensing of exploration and development costs:											
Oil and gas	0.4	0.5	0.5	0.5	0.5	(1)	(1)	(1)	(1)	(1)	2.4
Other fuels	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Excess of percentage over cost depletion:											
Oil and gas	0.5	0.5	0.5	0.5	0.5	0.2	0.2	0.2	0.2	0.2	3.5
Other fuels	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	1.5

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2000–2004—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 2000– 2004
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004	
Tax credit for enhanced oil recovery costs	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.3
Tax credit for production of non-conventional fuels	1.1	1.1	1.2	1.2	1.2	0.2	0.3	0.3	0.3	0.3	7.1
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	0.6
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	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Tax credit for electricity production from wind, biomass, and poultry waste	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.4
Natural Resources and Environment											
Expensing of exploration and development costs, nonfuel minerals	(1)	0.1	0.1	0.1	0.1	(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	0.1	0.1	0.1	0.1	0.1	1.5
Expensing of multiperiod timber-growing costs	0.1	0.2	0.2	0.2	0.2	(1)	(1)	(1)	(1)	(1)	0.9
Exclusion of interest on State and local government sewage, water, and hazardous waste facilities bonds	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	2.4
Special rules for mining reclamation reserves	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2

Special tax rate for nuclear decommissioning reserve fund	0.1	0.1	0.1	0.2	0.2	.....	.....	.....	.....	.....	.....	0.8
Exclusion of contributions in aid of construction for water and sewer utilities	(1)	(1)	(1)	(1)	(1)	.....	.....	.....	.....	.....	.....	0.1
Agriculture												
Expensing of soil and water conservation expenditures	(1)	(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)	0.1	0.1	0.1	0.1	0.1	0.3
Expensing of the costs of raising dairy and breeding cattle	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	0.2	0.9
Exclusion of cost-sharing payments	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of cancellation of indebtedness income of farmers .....	.....	.....	.....	.....	.....	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Cash accounting for agriculture	(1)	(1)	(1)	(1)	(1)	0.5	0.6	0.6	0.6	0.6	0.6	3.0
Income averaging for farmers .....	.....	.....	.....	.....	.....	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Five-year carryback period for net operating losses attributable to farming	(1)	(1)	(1)	(1)	(1)	0.1	0.1	(1)	(1)	(1)	(1)	0.3
Commerce and Housing												
<i>Financial institutions:</i>												
Exemption of credit union income ...	0.8	0.9	0.9	0.9	1.0	.....	.....	.....	.....	.....	.....	4.5
<i>Insurance companies:</i>												
Exclusion of investment income on life insurance and annuity contracts	1.3	1.3	1.4	1.4	1.5	22.9	23.6	24.3	25.1	25.9	128.7	
Small life insurance company taxable income adjustment	0.1	0.1	0.1	0.1	0.1	.....	.....	.....	.....	.....	.....	0.6
Special treatment of life insurance company reserves	1.1	1.2	1.2	1.3	1.3	.....	.....	.....	.....	.....	.....	6.1
Deduction of unpaid property loss reserves for property and casualty insurance companies	2.8	2.9	2.9	3.0	3.1	.....	.....	.....	.....	.....	.....	14.7
Special deduction for Blue Cross and Blue Shield companies	0.1	0.1	0.1	0.1	0.1	.....	.....	.....	.....	.....	.....	0.6
<i>Housing:</i>												
Deduction for mortgage interest on owner-occupied residences .....	.....	.....	.....	.....	.....	55.2	57.7	60.2	62.8	65.5	301.4	

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2000–2004—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 2000– 2004
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004	
Deduction for property taxes on owner-occupied residences						18.9	19.6	20.3	20.9	21.6	101.3
Exclusion of capital gains on sales of principal residences						12.9	12.9	13.0	13.1	13.2	65.1
Exclusion of interest on State and local government bonds for owner-occupied housing	0.2	0.2	0.2	0.2	0.3	0.6	0.6	0.6	0.6	0.6	4.3
Exclusion of interest on State and local government bonds for rental housing	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.9
Depreciation of rental housing in excess of alternative depreciation system	0.2	0.2	0.2	0.2	0.2	1.5	1.5	1.6	1.7	1.9	9.2
Tax credit for low-income housing ...	1.3	1.4	1.4	1.4	1.4	2.5	2.6	2.6	2.7	2.7	20.0
Tax credit for first-time homebuyers in the District of Columbia						(1)	(1)	(1)	(1)	(1)	0.1
Tax credit for rehabilitation of historic structures	0.3	0.4	0.4	0.4	0.4	0.1	0.1	0.1	0.1	0.1	2.3
<i>Other business and commerce:</i>											
Reduced rates of tax on long-term capital gains						36.0	37.8	38.9	40.1	41.8	194.6
Exclusion of capital gains at death						23.7	25.2	26.9	28.2	32.1	136.1
Carryover basis of capital gains on gifts						2.3	2.5	2.7	3.0	3.3	13.8
Deferral of gain on non-dealer installment sales	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	2.5
Deferral of gain on like-kind exchanges	1.0	1.1	1.2	1.2	1.3	0.4	0.4	0.4	0.4	0.4	7.8
Deferral of gain on involuntary conversions resulting from Presidentially-declared disasters						(1)	(1)	(1)	(1)	(1)	0.1

Depreciation of buildings other than rental housing in excess of alternative depreciation system	1.5	1.2	1.2	1.1	0.9	0.7	0.5	0.5	0.4	0.3	8.3
Depreciation of equipment in excess of alternative depreciation system	24.9	24.3	23.7	23.3	22.8	6.8	6.6	6.2	5.9	5.6	150.2
Expensing of depreciable business property	0.2	0.2	0.2	0.1	0.1	0.5	0.6	0.6	0.4	0.2	3.1
Amortization of business startup costs	(1)	(1)	(1)	(1)	(1)	0.3	0.3	0.4	0.4	0.4	1.8
Reduced rates on first \$10,000,000 of corporate taxable income	4.3	4.2	4.4	4.5	4.6	.....	.....	.....	.....	.....	22.0
Permanent exemption from imputed interest rules	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.3	1.2
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
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	0.2	0.2	0.2	0.2	0.2	1.6
Exception from net operating loss limitations for corporations in bankruptcy proceedings	0.5	0.5	0.5	0.5	0.5	.....	.....	.....	.....	.....	2.5
Tax credit for employer-paid FICA taxes on tips	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	1.8
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 .....	.....	.....	.....	.....	.....	3.6	3.6	3.7	3.7	3.8	18.4
Exclusion of interest on State and local government bonds for high-speed rail	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.4
Community and Regional Development											
Empowerment zone tax incentives	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	1.2
District of Columbia tax incentives	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.4

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2000–2004—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 2000– 2004
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004	
Indian reservation tax incentives	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	(1)	0.4
Expensing of redevelopment costs in certain environmentally contaminated areas (“Brownfields”)	(1)	0.1	0.1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Tax credit for rehabilitation of structures, other than historic structures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of interest on State and local government bonds for private airports, docks, and mass-commuting facilities	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.4	0.4	2.9
Education, Training, Employment, and Social Services											
<i>Education and training:</i>											
Tax credits for tuition for post-secondary education						5.4	5.4	5.5	5.6	5.6	27.5
Deduction for interest on student loans						0.3	0.4	0.4	0.4	0.4	1.8
Exclusion of earnings of trust accounts for higher education (“education IRAs”)						(1)	(1)	(1)	(1)	(1)	0.2
Exclusion of interest on educational saving bonds						(1)	(1)	(1)	(1)	(1)	0.1
Deferral of tax on earnings of qualified State tuition programs						0.1	0.1	0.1	0.2	0.2	0.7
Exclusion of scholarship and fellowship income						1.1	1.2	1.3	1.4	1.5	6.5
Exclusion of employer-provided education assistance benefits						0.3	0.4	0.1			0.8
Parental personal exemption for students age 19 to 23						0.7	0.8	0.8	0.8	0.8	3.9

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	1.6
Exclusion of interest on State and local government bonds for private nonprofit educational facilities	0.2	0.2	0.2	0.2	0.2	0.5	0.5	0.5	0.5	0.5	3.7
Tax credit for holders of qualified zone academy bonds	0.1	0.1	0.1	0.1	0.1	.....	.....	.....	.....	.....	0.3
Deduction for charitable contributions to educational institutions ..	0.9	1.0	1.0	1.1	1.2	3.9	4.3	4.6	4.9	5.2	28.2
<i>Employment:</i>											
Exclusion of employee meals and lodging (other than military) .....	.....	.....	.....	.....	.....	0.8	0.8	0.8	0.9	0.9	4.2
Exclusion of benefits provided under cafeteria plans ⁽³⁾	6.9	7.3	7.9	8.4	9.0	39.5
Exclusion of housing allowances for ministers .....	.....	.....	.....	.....	.....	0.4	0.4	0.4	0.4	0.4	2.0
Exclusion of miscellaneous fringe benefits .....	.....	.....	.....	.....	.....	6.5	6.9	7.3	7.8	8.2	36.7
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 .....	.....	.....	.....	.....	.....	1.4	1.5	1.6	1.7	1.7	7.9
Special tax provisions for employee stock ownership plans (ESOPs) ...	0.8	0.8	0.8	0.9	0.9	0.2	0.2	0.2	0.2	0.3	5.3
Work opportunity tax credit	0.4	0.4	0.3	0.1	0.1	0.1	0.1	0.1	(1)	(1)	1.4
Welfare-to-work tax credit	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.4
<i>Social services:</i>											
Tax credit for children under age 17 ⁽⁴⁾	17.1	17.1	17.0	16.9	16.4	84.5
Tax credit for child and dependent care expenses .....	.....	.....	.....	.....	.....	2.2	2.2	2.2	2.2	2.1	11.0
Exclusion of employer-provided child care ⁽⁵⁾	0.4	0.4	0.5	0.5	0.5	2.4
Exclusion of certain foster care payments .....	.....	.....	.....	.....	.....	0.5	0.5	0.5	0.6	0.6	2.7
Adoption credit and employee adoption benefits exclusion .....	.....	.....	.....	.....	.....	0.2	0.3	0.2	0.1	0.1	0.8

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2000–2004—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 2000– 2004
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004	
Deduction for charitable contributions, other than for education and health	1.5	1.6	1.8	1.9	2.1	21.4	23.1	24.8	26.6	28.4	133.1
Tax credit for disabled access expenditures	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.4
Health											
Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums ⁽⁶⁾						58.0	61.1	64.4	68.2	72.5	324.1
Exclusion of medical care and CHAMPUS/TRICARE medical insurance for military dependents, retirees, and retiree dependents						1.6	1.6	1.6	1.6	1.6	8.0
Deduction for health insurance premiums and long-term care insurance premiums by the self-employed						1.2	1.3	1.6	2.4	2.8	9.3
Deduction for medical expenses and long-term care expenses						4.4	4.8	5.1	5.4	5.8	25.4
Exclusion of workers' compensation benefits (medical benefits)						4.5	4.7	4.9	5.1	5.4	24.6
Medical savings accounts						(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of interest on State and local government bonds for private nonprofit hospital facilities	0.3	0.3	0.3	0.3	0.3	0.8	0.8	0.9	0.9	0.9	5.9
Deduction for charitable contributions to health organizations	0.8	0.8	0.9	1.0	1.1	2.7	2.9	3.1	3.4	3.6	20.4
Tax credit for orphan drug research ...	0.1	0.1	0.1	0.1	0.1						0.5

Medicare													
Exclusion of untaxed Medicare benefits:													
Hospital insurance							16.1	16.8	17.7	18.8	20.3	89.7	
Supplementary medical insurance ..							8.8	9.8	11.1	12.5	14.1	56.3	
Income Security													
Exclusion of workers' compensation benefits (disability and survivors payments)							5.0	5.3	5.5	5.8	6.0	27.6	
Exclusion of special benefits for disabled coal miners							0.1	0.1	0.1	0.1	0.1	0.4	
Exclusion of cash public assistance benefits							0.7	0.7	0.7	0.8	0.8	3.7	
Net exclusion of pension contributions and earnings:													
Employer plans							76.0	80.7	83.6	86.5	89.3	416.0	
Individual retirement plans							12.2	12.7	14.0	15.3	16.5	70.7	
Keogh plans							5.0	5.1	5.2	5.3	5.4	26.1	
Exclusion of other employee benefits:													
Premiums on group term life insurance							2.0	2.1	2.2	2.3	2.4	11.0	
Premiums on accident and disability insurance							0.2	0.2	0.2	0.2	0.2	1.0	
Additional standard deduction for the blind and the elderly							2.0	2.1	2.2	2.2	2.3	10.8	
Tax credit for the elderly and disabled							(¹)	(¹)	(¹)	(¹)	(¹)	0.1	
Deduction for casualty and theft losses							0.2	0.2	0.3	0.3	0.3	1.3	
Earned income credit (EIC) (?)							4.0	4.1	4.1	4.4	4.4	21.1	
Social Security and Railroad Retirement													
Exclusion of untaxed social security and railroad retirement benefits							24.4	25.4	26.4	27.4	28.3	131.9	
Veterans' Benefits and Services													
Exclusion of veterans' disability compensation							2.1	2.2	2.3	2.4	2.4	11.4	
Exclusion of veterans' pensions							0.1	0.1	0.1	0.1	0.1	0.6	
Exclusion of veterans' readjustment benefits							0.1	0.1	0.1	0.1	0.1	0.6	

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2000–2004—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 2000– 2004
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004	
Exclusion of interest on State and local government bonds for veterans' housing	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
General Purpose Fiscal Assistance											
Exclusion of interest on public purpose State and local government debt	5.1	5.3	5.4	5.6	5.8	13.0	13.6	14.0	14.4	14.9	96.9
Deduction of nonbusiness State and local government income and personal property taxes						35.5	36.8	38.1	39.2	40.4	190.0
Tax credit for Puerto Rico and possession income, and Puerto Rico economic activity	3.8	4.0	3.6	3.2	3.0						17.6
Interest											
Deferral of interest on savings bonds						1.2	1.2	1.2	1.2	1.2	6.0

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¹ Positive tax expenditure of less than \$50 million.

² In addition, the exemption from excise tax for alcohol fuels results in a reduction in excise tax receipts, net of income tax effect, of \$0.5 billion per year in fiscal years 2000 through 2004.

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 The figures in the table show the effect of the child credit on receipts. The increase in outlays is: \$0.8 billion in 2000, \$0.8 billion in 2001, \$0.8 billion in 2002, \$0.8 billion in 2003, and \$0.8 billion in 2004.

⁵ Estimate includes employer-provided child care purchased through dependent care flexible spending accounts.

⁶ Estimate includes employer-provided health insurance purchased through cafeteria plans.

⁷ The figures in the table show the effect of the earned income credit on receipts. The increase in outlays is: \$25.8 billion in 2000, \$26.2 billion in 2001, \$27.0 billion in 2002, \$27.4 billion in 2003, and \$28.1 billion in 2004.

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 1999 Rates and 1999 Law and 1999 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	22,371	1,463	460	-\$8,300
\$10 to \$20	26,314	8,634	1,236	- 8,519
\$20 to \$30	20,301	13,052	2,356	18,989
\$30 to \$40	15,902	13,532	3,710	34,291
\$40 to \$50	13,082	12,232	4,342	46,655
\$50 to \$75	19,829	19,533	10,219	116,354
\$75 to \$100	10,042	9,993	7,268	102,779
\$100 to \$200	8,461	8,449	7,222	173,919
\$200 and over	2,527	2,524	2,309	319,360
Total	138,829	89,410	39,121	\$795,530

¹ Tax law as in effect on January 1, 1999, is applied to the 1999 level and sources of income and their distribution among 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 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.). Excludes individuals who are dependents of other taxpayers and taxpayers with negative income.

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 1999 Rates and 1999 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	14	\$3	38	\$1
\$10 to \$20	203	64	461	61
\$20 to \$30	568	210	1,270	211
\$30 to \$40	868	442	2,738	562
\$40 to \$50	832	478	3,440	922
\$50 to \$75	1,413	1,134	8,778	3,062
\$75 to \$100	547	785	6,393	3,486
\$100 to \$200	271	768	6,481	5,556
\$200 and over	32	370	1,976	4,490
Total	4,748	\$4,254	31,576	\$18,351

Footnotes at end of table.

**Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items,
at 1999 Rates and 1999 Income Levels¹—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	32	(⁶)	108	\$8
\$10 to \$20	548	\$15	941	128
\$20 to \$30	1,566	97	2,138	370
\$30 to \$40	3,057	396	3,271	673
\$40 to \$50	3,875	917	3,922	1,131
\$50 to \$75	9,391	3,539	9,221	3,910
\$75 to \$100	6,763	4,764	5,735	3,828
\$100 to \$200	6,444	8,725	5,353	5,453
\$200 and over	2,071	16,016	1,758	10,993
Total	33,747	\$34,468	32,447	\$26,494

Footnotes at end of table.

**Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items,
at 1999 Rates and 1999 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	3	(⁶)	6,365	\$7,677
\$10 to \$20	295	\$87	7,149	15,596
\$20 to \$30	869	328	5,036	5,831
\$30 to \$40	749	297	786	615
\$40 to \$50	808	304	98	80
\$50 to \$75	1,309	531	14	19
\$75 to \$100	779	350	(⁵)	(⁶)
\$100 to \$200	563	252	—	—
\$200 and over	105	52	—	—
Total	5,480	\$2,200	19,449	\$29,818

Footnotes at end of table.

**Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items,
at 1999 Rates and 1999 Income Levels ¹—Continued**

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

Income class [thousands] ²	Untaxed Social Security and Rail- road Retirement benefits		Child tax credit ⁴	
	Returns	Amount	Returns	Amount
Below \$10	247	\$38	84	\$23
\$10 to \$20	4,861	1,911	2,054	659
\$20 to \$30	4,585	4,692	4,174	2,363
\$30 to \$40	4,100	5,252	3,357	2,655
\$40 to \$50	3,245	5,161	3,163	2,691
\$50 to \$75	4,631	5,270	5,792	5,005
\$75 to \$100	1,902	663	3,349	2,926
\$100 to \$200	1,474	346	1,927	1,412
\$200 and over	433	138	—	—
Total	25,479	\$23,471	23,901	\$17,733

Footnotes at end of table.

**Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items,
at 1999 Rates and 1999 Income Levels¹—Continued**

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

Income class [thousands] ²	Mortgage interest deduction	
	Returns	Amount
Below \$10	24	\$2
\$10 to \$20	414	166
\$20 to \$30	1,265	537
\$30 to \$40	2,656	1,623
\$40 to \$50	3,394	2,825
\$50 to \$75	8,540	9,449
\$75 to \$100	6,211	11,106
\$100 to \$200	6,048	16,697
\$200 and over	1,773	11,014
Total	30,324	\$53,419

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Footnotes for Table 3:

¹Excludes individuals who are dependents of other taxpayers and taxpayers with negative income.

²The 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.

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

⁴Includes the refundable portion.

⁵Less than 500 returns.

⁶Less than \$500,000.

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

Source: Joint Committee on Taxation.