

**[JOINT COMMITTEE PRINT]**

**ESTIMATES OF  
FEDERAL TAX EXPENDITURES  
FOR FISCAL YEARS 1994-1998**

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

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BY THE STAFF  
OF THE  
**JOINT COMMITTEE ON TAXATION**



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(II)

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## INTRODUCTION

This report<sup>1</sup> on tax expenditures for fiscal years 1994–1998 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 is also submitted to the House and Senate Committees on the Budget.

As in the case of earlier reports,<sup>2</sup> 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 published its estimates of tax expenditures for fiscal years 1992–1994 in the Bush administration’s budgetary statement of January 1993.<sup>3</sup> The lists of tax expenditures in this Joint Committee staff report and the budgetary statement overlap considerably, and the differences are discussed below 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 December 31, 1992. Expired or repealed provisions are not listed unless they have continuing revenue effects that are associated with ongoing taxpayer activity.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, and is followed in Part II by a discussion of the measurement of tax expenditures. Estimates of tax expenditures for fiscal years 1994–1998 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.

<sup>1</sup> This report may be cited as follows: Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 1994–1998* (JCS–6–93), April 22, 1993.

<sup>2</sup> 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, and April 24, 1992.

<sup>3</sup> Office of Management and Budget, “Tax Expenditures,” Appendix Two, *Budget Baselines, Historical Data, and Alternatives for the Future*, January 1993, pp. 543–562.

## I. THE CONCEPT OF TAX EXPENDITURES

### Overview

"Tax expenditures" are defined under the Budget Act (see below) 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 viewed as alternative means of accomplishing similar budget policy objectives. Tax expenditures are most similar to those direct spending programs which have no spending limits, and which are available as entitlements to those who meet the statutory criteria established for the programs.<sup>4</sup>

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 may also be useful in determining the relative merits of achieving specified public goals through tax benefits versus 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 ("Budget 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."<sup>5</sup> The legislative history of the Act indicates that tax expenditures are to be defined with reference to a normal income tax structure.

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. In general, a special provision is classified as a tax expenditure because the provision represents a departure from the taxation of economic income that is made for reasons other than administrative feasibility.

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 1994–1998. The Joint

<sup>4</sup>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.

<sup>5</sup>Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344), sec. 3(a)(3).

Committee staff emphasizes, however, that in the process of listing tax expenditures, no judgment is made, nor any inference intended, about the desirability of any special tax provision as a matter of public policy.

If a tax expenditure were eliminated, Congress might choose to continue financial assistance through other means rather than terminate all Federal assistance for the activity. For example, the Tax Reform Act of 1986 repealed the itemized deduction for certain adoption expenses and in its place authorized a direct spending program for such expenses. 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 a 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 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 credit for selling ethanol-blended motor fuel is included, but the equivalent exemption from the motor fuels excise tax is not treated here as 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 provisions can be viewed as exceptions to normal law.<sup>6</sup>

Personal exemptions and the standard deduction are treated as part of normal tax law because one may view 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.

General economic principles of income measurement would treat capital gains as income upon accrual, and hence their deferral under the realization doctrine as a tax expenditure. Because of the difficulties involved in making this calculation, however, the current Joint Committee staff methodology accepts the full taxation of capital gains upon realization as part of the normal tax structure.

Interest provisions that are treated as tax expenditures include the deduction for mortgage interest on a principal or second resi-

<sup>6</sup>Some of the exceptions to normal law are tax disincentives which result in higher tax liabilities (e.g., the phase-out of the personal exemption for taxpayers above certain income levels). Tax disincentives are not shown in this report.

dence and the permanent exemption from the imputed interest rules for certain purchases of a residence, small business or farm. Interest deductions that are treated as part of normal tax law include interest paid or accrued on indebtedness incurred in connection with a trade or business and investment interest to the extent of investment income.

The maximum 28-percent tax rate on capital gains of individuals has been treated as a tax expenditure since 1991. This maximum 28-percent rate was enacted in the Tax Reform Act of 1986, but it had no effect from 1988 through 1990 because in those years all taxable income of individuals was subject to the same 28-percent maximum statutory rate. In 1991, the maximum statutory rate on individual income was increased from 28 percent to 31 percent, and the exception for capital gains became effective. Other capital gains tax expenditure provisions include: the exclusion of capital gains from income at death; the deferral of capital gains on personal residence sales rollovers; and the exclusion of capital gains up to \$125,000 on sales of personal residences for individuals age 55 or over.

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. The authority to issue tax-exempt mortgage bonds and small-issue manufacturing bonds expired after June 30, 1992, but Code section 103 continues to provide a tax exclusion for interest received on outstanding bonds in these categories, so these two items have been retained in Table 1.

There are three other individual tax expenditures that expired after June 30, 1992: (1) the exclusion for employer-provided educational assistance benefits; (2) the exclusion for group legal services benefits; and (3) the above-the-line deduction for 25 percent of the health insurance costs of self-employed individuals. These items are not listed in Table 1. If these provisions are reinstated, they will be included in future Joint Committee staff lists of tax expenditures.

The Energy Policy Act of 1992 placed limits on the tax exclusion for employer-provided parking and broadened the tax exclusion for employer-provided transit passes. These two tax exclusions have been combined in Table 1 under the heading "exclusion of employer-provided transportation benefits."

The National Income and Product Accounts<sup>7</sup> include estimates of the imputed income that individuals receive from the services provided 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 view this exception as a tax expenditure. The measurement of imputed income for tax purposes presents severe administrative problems, and its exclusion from taxable income may be regarded as an administrative necessity. If all imputed income were included in adjusted gross income, it would be proper to include all interest deductions as part of the

<sup>7</sup>The accounts appear in U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, published monthly.

normal tax structure, since interest deductions would be allowable as a cost of producing imputed income.

### ***Business Income Taxation***

The income of sole proprietorships, S corporations, and most partnerships is taxed at the individual level. The income of corporations (other than S corporations) is generally subject to a separate tax, but exceptions are provided for certain pass-through entities. For example, cooperatives are entitled to tax deductions for patronage dividends, and complete tax exemptions are provided to the various non-profit, cooperative, and charitable corporations that satisfy the requirements of Code section 501. The special tax rules for these pass-through entities are not viewed as tax expenditures because the tax benefits are available to any entity that chooses to organize itself and operate in the required manner.

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 are unrelated to concerns about ability of individuals to pay taxes.

The most difficult issues in defining tax expenditures for business income of individuals and corporations relate to capital costs, which are costs not properly allocable to income earned in a single year. It is assumed, for example, that the normal tax structure would permit straight-line cost recovery deductions for structures and equipment over their estimated useful economic lives.

The measurement of income from capital under the normal income tax structure does not take into account the effects of inflation on items such as depreciation, capital gains, and interest payments. As a result, some tax expenditure estimates will generally be larger than would be the case if the normal tax structure provided for inflation adjustments in these items.

The tax credit for low-income housing expired after June 30, 1992. This credit is prorated over 10 years, beginning in the year in which the housing is placed in service, so 1992 investors will continue to claim tax credits through calendar year 2001. This item has been retained in Table 1. The estimate is based on credits resulting from investments in 1992 and earlier years.

Three other business tax expenditures expired after June 30, 1992: (1) the research and experimentation tax credit; (2) the targeted jobs tax credit; and (3) the orphan drug tax credit. Another tax expenditure, the foreign tax credit allocation rules for research and development expenditures, expired generally on August 1, 1992. These expired provisions are not listed in Table 1. If the provisions are reinstated, they will be included in future Joint Committee staff lists of tax expenditures.

The Energy Policy Act of 1992 extended permanently the tax credit for solar and geothermal investments and created three additional tax expenditures: (1) an income exclusion for energy conservation subsidies provided by public utilities; (2) tax credits for electricity production from wind and certain biomass facilities; and (3) tax deductions and tax credits for clean-fuel vehicles and refueling property. These items are all listed in Table 1.



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 passive activity. Exceptions to the AMT and the passive loss rules are not viewed as tax expenditures by the Joint Committee staff because the effects of the exceptions are already incorporated in the estimates of related tax expenditures.

The foreign tax credit is not classified in this report as a tax expenditure because it is intended to prevent double taxation of income earned abroad by U.S. taxpayers.

### ***Comparisons with Treasury Department***

The Joint Committee staff and Treasury Department ("the Treasury") lists of tax expenditures differ for two reasons. First, the Treasury takes a different view 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 views the cash accounting option as a part of normal tax law, but the Joint Committee staff methodology treats it as a departure from normal law that constitutes a tax expenditure.

Second, the Joint Committee staff and Treasury estimates of tax expenditures are prepared for different sets of years. The Treasury's estimates cover the usual three-year period of a budget submission—the last fiscal year, the current fiscal year, and the forthcoming fiscal year to which the budget proposals apply, i.e., fiscal years 1992–1994. The Joint Committee staff estimates cover the forthcoming fiscal year and the succeeding four fiscal years, i.e., fiscal years 1994–1998.

For the past four years, the President's Budget has contained a section that reviews and tabulates the estate and gift tax provisions that Treasury views as tax expenditures. The Joint Committee staff views 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 may also vary from the descriptions used by the Treasury. Tax expenditure items in the Joint Committee staff list which are not viewed as tax expenditures by the Treasury are shown below.

### ***International affairs***

—Exclusion of certain allowances for Federal employees living abroad

***Energy***

- Expensing of tertiary injectants
- Credit for enhanced oil recovery costs
- Exclusion of energy conservation subsidies provided by public utilities

***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 up to \$10,000 of depreciable business property
- 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 medical care and CHAMPUS health insurance for military dependents

## II. MEASUREMENT OF TAX EXPENDITURES

### *Tax Expenditure Estimates Generally*

A tax expenditure is measured by the difference between tax liability under current 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.<sup>8</sup>

The tax expenditure estimates in this report are based on Congressional Budget Office and Joint Tax Committee staff projections of the gross income, deductions, and expenditures of individuals and corporations for calendar years 1993-1998. These projections are used to compute tax liabilities for the present-law baseline and tax liabilities for the alternative baseline which 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 taxpayers are not claiming all of the benefits to which they are entitled. In contrast, there may be some tax expenditures for which total claims are greater than entitlements. The tax expenditure estimates in this report are based on projections of actual claims under the various tax provisions, not entitlements.

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 current law and the deductions that would have been claimed in this year if investments in this and all prior years had been depreciated using the alternative ("normal law") depreciation schedule.

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 structure, such as the tax rate schedule, the personal exemption

<sup>8</sup> 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.

amount, and the standard deduction. Some of the estimates for this tax expenditure budget 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 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. Since 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 forego 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<sup>9</sup> 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 estimates by income class for some of the tax expenditures which affect individual taxpayers. Not all tax expenditures which affect individuals are shown in this table because of the difficulty in making reliable estimates of the income distribution of items which do not appear on tax returns under present law.

Tables 1, 2, and 3 are based on the tax laws as they existed on December 31, 1992.

<sup>9</sup>The Joint Committee staff has changed the definition of income that it uses to place tax returns in the various income classes. (See footnote 2 to Table 2.)

**Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1994–1998**

[Billions of dollars]

Function	Corporations					Individuals					Total 1994–98
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	
<b>National defense</b>											
Exclusion of benefits and allowances to Armed Forces personnel .....						2.0	2.1	2.1	2.2	2.2	10.7
Exclusion of military disability benefits .....						0.1	0.1	0.1	0.1	0.1	0.6
<b>International affairs</b>											
Exclusion of income earned abroad by U.S. citizens .....						1.4	1.5	1.6	1.7	1.7	7.9
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 .....	1.1	1.1	1.2	1.2	1.2						5.8
Inventory property sales source rule exception .....	3.9	4.0	4.1	4.2	4.3						20.5
Interest allocation rules exception for certain nonfinancial institutions .....	0.2	0.2	0.2	0.2	0.2						1.0
<b>General science, space, and technology</b>											
Expensing of research and development expenditures .....	2.0	2.1	2.3	2.4	2.6	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	11.4
<b>Energy</b>											
Expensing of exploration and development costs:											
Oil and gas .....	0.5	0.5	0.5	0.5	0.5	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	2.5
Other fuels .....	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	0.2
Excess of percentage over cost depletion:											
Oil and gas .....	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	2.0
Other fuels .....	0.2	0.2	0.2	0.2	0.2	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	0.1	0.1	1.3
Credit for enhanced oil recovery costs .....	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	0.3
Alternative fuel production credit .....	0.7	0.8	0.9	0.9	0.9	0.3	0.3	0.3	0.3	0.3	5.7
Alcohol fuel credits <sup>2</sup> .....	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )						0.2

Footnotes at end of table.

**Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1994–1998—Continued**  
[Billions of dollars]

Function	Corporations					Individuals					Total 1994–98
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	
Exclusion of interest on State and local government industrial development bonds for energy production facilities .....	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	1.2
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 .....			0.1	0.2	0.3	(1)	(1)	(1)	(1)	(1)	0.7
Credits for investments in solar and geothermal energy facilities .....	(1)	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.3
Credits for electricity production from wind and biomass .....	(1)	(1)	(1)	(1)	0.1	(1)	(1)	(1)	(1)	(1)	0.2
Deductions and credits for clean-fuel vehicles and refueling property .....	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
<b>Natural resources and environment</b>											
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)	(1)	0.1	0.1	0.1	1.3
Investment credit and 7-year amortization for reforestation expenditures .....	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Expensing of multiperiod timber-growing costs .....	0.4	0.4	0.4	0.5	0.5	(1)	(1)	(1)	(1)	0.1	2.4
Exclusion of interest on State and local government sewage, water, and hazardous waste facilities bonds .....	0.3	0.3	0.4	0.4	0.4	0.9	0.9	1.0	1.0	1.1	6.8
Investment tax credit for rehabilitation of historic structures .....	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.6
Special rules for mining reclamation reserves .....	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
<b>Agriculture</b>											
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)	0.3

Expensing of the costs of raising dairy and breeding cattle .....	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.6
Exclusion of cost-sharing payments .....	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of cancellation of indebtedness income of farmers .....						0.2	0.1	0.1	0.1	0.1	0.5
Cash accounting for agriculture .....	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	1.2
<b>Commerce and housing</b>											
<i>Financial institutions:</i>											
Bad-debt reserves of financial institutions .....	0.1	0.1	0.1	0.1	0.1						0.6
Exemption of credit union income .....	0.4	0.4	0.5	0.5	0.5						2.3
<i>Insurance companies:</i>											
Exclusion of investment income on life insurance and annuity contracts .....	0.7	0.8	0.9	1.0	1.1	7.4	8.2	9.0	9.9	10.9	49.7
Exclusion of investment income from structured settlement amounts .....	(1)	(1)	(1)	(1)	(1)						0.1
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 .....	2.1	2.3	2.5	2.7	3.0						12.7
Deduction of unpaid property loss reserve for property and casualty insurance companies .....	1.5	1.6	1.8	1.9	2.1						8.9
Special alternative tax on small property and casualty insurance companies .....	(1)	(1)	(1)	(1)	(1)						0.1
Tax exemption for certain insurance companies .....	(1)	(1)	(1)	(1)	(1)						0.1
Special deduction for Blue Cross and Blue Shield companies .....	0.1	0.3	0.3	0.1	0.1						0.8
<i>Housing:</i>											
Deductibility of mortgage interest on owner-occupied residences .....						45.5	47.1	50.3	53.7	57.2	253.9
Deductibility of property tax on owner-occupied homes .....						13.7	14.4	15.4	16.3	17.1	76.8
Deferral of capital gains on sales of principal residences .....						14.3	14.8	15.3	15.9	16.4	76.7
Exclusion of capital gains on sales of principal residences for persons age 55 and over (\$125,000 exclusion) .....						4.7	4.9	5.1	5.3	5.5	25.5

Footnotes at end of table.



**Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1994–1998—Continued**

[Billions of dollars]

Function	Corporations					Individuals					Total 1994–98
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	
Exclusion of interest on State and local governments bonds for owner-occupied housing .....	0.5	0.5	0.5	0.4	0.4	1.2	1.2	1.2	1.2	1.2	8.2
Exclusion of interest on State and local government bonds for rental housing ..	0.3	0.3	0.3	0.4	0.4	0.8	0.8	0.9	1.0	1.0	6.2
Depreciation of rental housing in excess of alternative depreciation system .....	1.0	1.0	1.1	1.1	1.1	0.5	0.5	0.6	0.6	0.6	8.1
Low-income housing tax credit .....	0.6	0.6	0.6	0.6	0.6	0.9	0.9	1.0	1.0	1.0	7.8
<i>Other business and commerce:</i>											
Maximum 28% tax rate on long-term capital gains .....						3.8	3.9	4.2	4.4	4.7	21.0
Depreciation of buildings other than rental housing in excess of alternative depreciation system .....	5.1	5.1	5.2	5.2	5.2	1.9	1.9	2.0	2.0	2.0	35.6
Depreciation of equipment in excess of alternative depreciation system .....	15.2	15.7	16.2	16.7	17.3	4.3	4.5	4.7	4.9	5.1	104.6
Expensing of up to \$10,000 of depreciable business property .....	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.0
Exclusion of capital gains at death .....						12.4	13.5	14.5	15.8	17.0	73.2
Carryover basis of capital gains on gifts ..						1.5	1.6	1.6	1.7	1.8	8.2
Amortization of business startup costs ...	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.0
Reduced rates on first \$75,000 of corporate taxable income .....	3.2	3.3	3.5	3.7	3.9						17.6
Permanent exemption from imputed interest rules .....	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.2
Expensing of magazine circulation expenditures .....	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
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	0.4	0.4	0.5	0.5	0.2	0.2	0.2	0.2	0.3	3.4
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)	(1)	(1)	(1)	(1)	(1)	0.4
Exclusion of interest on State and local government small-issue industrial development bonds .....	0.4	0.3	0.3	0.2	0.1	1.1	1.0	1.0	0.9	0.8	6.1
Deferral of gain on like-kind exchanges .	0.3	0.4	0.4	0.4	0.4	0.2	0.2	0.2	0.2	0.3	3.0
Exception from net operating loss limitations for corporations in bankruptcy proceedings .....	0.4	0.4	0.4	0.4	0.4	.....	.....	.....	.....	.....	2.0
Deferral of gains from sales of broadcasting facilities to minority-owned businesses .....	0.1	0.1	0.1	0.1	0.1	.....	.....	.....	.....	.....	0.5
<b>Transportation</b>											
Deferral of tax on capital construction funds of shipping companies .....	0.1	0.1	0.1	0.1	0.1	.....	.....	.....	.....	.....	0.4
Exclusion of employer-provided transportation benefits .....						3.0	3.1	3.1	3.1	3.2	15.3
<b>Community and regional development</b>											
Investment credit for rehabilitation of structures, other than historic structures .....	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Exclusion of interest on State and local government bonds for private airports, docks, and mass-commuting facilities .....	0.2	0.3	0.3	0.3	0.4	0.7	0.8	0.9	0.9	1.0	5.8
<b>Education, training, employment, and social services</b>											
<i>Education and training:</i>											
Exclusion of scholarship and fellowship income .....						0.7	0.7	0.7	0.8	0.8	3.7
Parental personal exemption for students age 19 to 23 .....						0.8	0.8	0.8	0.9	0.9	4.2
Exclusion of interest on State and local government student loan bonds .....	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.4	0.4	2.4
Exclusion of interest on State and local government bonds for private non-profit educational facilities .....	0.2	0.2	0.3	0.3	0.4	0.8	0.8	0.9	1.0	1.1	5.8
Deductibility of charitable contributions for educational institutions .....	0.4	0.4	0.4	0.5	0.5	1.6	1.6	1.8	1.9	2.0	11.1
Exclusion of interest on educational savings bonds .....						0.1	0.1	0.2	0.2	0.3	0.9

Footnotes at end of table.

**Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1994–1998—Continued**

[Billions of dollars]

Function	Corporations					Individuals					Total 1994–98
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	
<i>Employment:</i>											
Exclusion of employee meals and lodging (other than military) .....						0.6	0.6	0.6	0.7	0.7	3.2
Special tax provisions for employee stock ownership plans (ESOPs) .....	0.8	1.0	1.1	1.2	1.2	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	5.3
Exclusion of benefits provided under cafeteria plans .....						5.4	6.7	8.5	10.6	12.6	43.9
Exclusion of rental allowances for ministers' homes .....						0.2	0.2	0.3	0.3	0.3	1.3
Exclusion of miscellaneous fringe benefits .....						4.6	4.9	5.2	5.5	5.8	25.9
Exclusion of employee awards .....						0.1	0.1	0.1	0.1	0.1	0.6
Exclusion of income earned by benefit organizations:											
Supplemental unemployment benefits trusts .....						( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	0.1
Voluntary employees' beneficiary associations .....						0.5	0.5	0.5	0.6	0.6	2.7
<i>Social services:</i>											
Deductibility of charitable contributions, other than for education and health ....	0.4	0.4	0.4	0.4	0.4	12.9	13.2	14.4	15.5	16.4	74.4
Credit for child and dependent care expenses .....						2.8	2.8	2.8	2.9	3.0	14.3
Exclusion for employer-provided child care .....						0.6	0.6	0.6	0.7	0.7	3.2
Exclusion for certain foster care payments .....						( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	0.1
Expensing of costs for removing architectural barriers .....	0.1	0.1	0.1	0.1	0.1	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	0.5
Credit for disabled access expenditures ..	0.1	0.1	0.1	0.1	0.1						0.5

<b>Health</b>												
Exclusion of employer contributions for medical insurance premiums and medical care							36.7	39.6	42.5	48.7	48.7	213.0
Exclusion of medical care and CHAMPUS health insurance for military dependents							0.4	0.4	0.4	0.5	0.5	2.2
Supplemental health insurance credit component of earned income tax credit (EITC) <sup>3</sup>							0.1	0.1	0.1	0.1	0.1	0.5
Deductibility of medical expenses							3.5	4.1	4.7	5.5	6.4	24.2
Exclusion of interest on State and local government bonds for private nonprofit hospital facilities	0.5	0.5	0.6	0.6	0.7		1.3	1.4	1.6	1.7	1.8	10.7
Deductibility of charitable contributions to health organizations	0.3	0.3	0.3	0.3	0.3		1.3	1.3	1.4	1.5	1.6	8.8
<b>Medicare</b>												
Exclusion of untaxed medical benefits:												
Hospital insurance							8.2	9.0	10.0	11.1	12.2	50.5
Supplementary medical insurance							4.9	5.6	6.5	7.7	9.0	33.7
<b>Income security</b>												
Exclusion of workers' compensation benefits							4.1	4.3	4.5	4.8	5.0	22.7
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							55.3	58.5	62.0	65.7	69.6	311.1
Individual retirement plans							6.2	6.5	7.0	7.5	8.0	35.2
Keogh plans							3.0	3.1	3.3	3.5	3.7	16.6
Exclusion of other employee benefits:												
Premiums on group term life insurance							2.2	2.3	2.5	2.6	2.8	12.5
Premiums on accident and disability insurance							0.1	0.1	0.1	0.1	0.1	0.6
Exclusion of employer-provided death benefits							(1)	(1)	(1)	(1)	(1)	0.2
Additional standard deduction for the blind and the elderly							1.6	1.7	1.8	1.8	1.9	8.8
Tax credit for the elderly and disabled							0.1	0.1	0.1	0.1	0.1	0.5
Deductibility of casualty and theft losses							0.5	0.5	0.5	0.5	0.5	2.5
Earned income tax credit (EITC) <sup>4</sup>							1.3	1.6	1.7	1.8	1.9	8.3
Supplemental young child credit component of EITC <sup>5</sup>							(1)	(1)	(1)	(1)	(1)	0.1

Footnotes at end of table.

**Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1994–1998—Continued**

[Billions of dollars]

Function	Corporations					Individuals					Total 1994–98
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	
<b>Social security and railroad retirement</b>											
Exclusion of untaxed social security and railroad retirement benefits .....						28.0	29.4	30.7	31.9	33.2	153.2
<b>Veterans' benefits and services</b>											
Exclusion of veterans' disability compensation .....						1.6	1.6	1.6	1.7	1.7	8.2
Exclusion of veterans' pensions .....						0.1	0.1	0.1	0.1	0.1	0.5
Exclusion of GI bill benefits .....						0.1	0.1	0.1	0.1	0.1	0.4
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	0.6
<b>General purpose fiscal assistance</b>											
Exclusion of interest on public purpose State and local government debt .....	3.5	4.0	4.5	4.8	5.0	10.5	11.8	12.8	14.9	15.1	86.8
Deduction of nonbusiness State and local government income and personal property taxes .....						25.7	27.6	29.7	31.8	33.3	148.2
Tax credit for corporations with possessions source income .....	3.9	4.1	4.3	4.5	4.7						21.5
<b>Interest</b>											
Deferral of interest on savings bonds .....						1.3	1.3	1.4	1.4	1.5	6.9

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**Footnotes to Table 1:**

<sup>1</sup> Positive tax expenditure of less than \$50 million.

<sup>2</sup> In addition, the 5.4-cents-per-gallon 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 year 1994, and \$0.6 billion per year for fiscal years 1995 through 1998.

<sup>3</sup> The figures in the table show the effect of the supplemental health insurance component of the EITC on receipts. The increase in outlays is \$0.7 billion in each year for 1994, 1995 and 1996, and \$0.8 billion in each year for 1997 and 1998.

<sup>4</sup> The figures in the table show the effect of the EITC on receipts. The increase in outlays is: \$10.9 billion in 1994, \$13.5 billion in 1995, \$14.1 billion in 1996, \$15.1 billion in 1997, and \$15.6 billion in 1998.

<sup>5</sup> The figures in the table show the effect of the supplemental young child credit component of the EITC on receipts. The increase in outlays is: \$0.3 billion in 1994, \$0.4 billion in 1995, and \$0.4 billion in each year from 1996 through 1998.

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 1993 Rates and 1993 Law and 1993 Income Levels <sup>1</sup>**

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

Income class (thousands) <sup>2</sup>	All returns <sup>3</sup>	Taxable re- turns	Itemized returns		Tax liability
			Total	Taxable	
Below \$10 .....	17,642	3,605	242	65	-\$1,902
\$10 to \$20 .....	24,400	11,838	896	344	4,334
\$20 to \$30 .....	19,128	15,098	2,331	1,769	23,706
\$30 to \$40 .....	14,504	13,498	3,871	3,620	34,860
\$40 to \$50 .....	11,205	11,010	4,660	4,615	41,924
\$50 to \$75 .....	16,643	16,509	10,625	10,566	97,884
\$75 to \$100 .....	6,450	6,419	5,357	5,338	67,772
\$100 to \$200 .....	4,608	4,579	4,235	4,212	89,555
\$200 and over .....	1,234	1,227	1,143	1,140	129,889
<b>Total</b> .....	<b>115,814</b>	<b>83,783</b>	<b>33,360</b>	<b>31,668</b>	<b>488,022</b>

<sup>1</sup>Tax law as in effect on January 1, 1993, is applied to the 1993 level and sources of income and their distribution among taxpayers. Excludes individuals who are dependents of other taxpayers.

<sup>2</sup>The income concept used to place tax returns into classes is adjusted gross income (AGI) plus: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) workers' compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) corporate income tax liability attributed to stockholders, (8) alternative minimum tax preference items, and (9) excluded income of U.S. citizens living abroad.

<sup>3</sup>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 1993 Rates and 1993 Income Levels<sup>1</sup>**

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

Income class (thousands) <sup>2</sup>	Medical deduction		Real estate tax deduction	
	Returns	Amount	Returns	Amount
Below \$10 .....	68	\$7	16	\$2
\$10 to \$20 .....	779	322	344	51
\$20 to \$30 .....	1,268	423	1,496	212
\$30 to \$40 .....	1,149	477	2,981	568
\$40 to \$50 .....	807	360	3,927	862
\$50 to \$75 .....	992	715	9,437	3,074
\$75 to \$100 .....	236	351	4,983	2,746
\$100 to \$200 .....	144	356	3,947	3,183
\$200 and over .....	20	170	1,033	1,856
<b>Total</b> .....	<b>5,463</b>	<b>3,180</b>	<b>28,163</b>	<b>12,554</b>

Footnotes at end of table.

**Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1993 Rates and 1993 Income Levels<sup>1</sup>—Continued**

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

Income class (thousands) <sup>2</sup>	State and local income and personal property tax deduction		Charitable contributions deduction	
	Returns	Amount	Returns	Amount
Below \$10 .....	34	\$1	52	\$4
\$10 to \$20 .....	302	18	432	31
\$20 to \$30 .....	1,533	173	1,679	231
\$30 to \$40 .....	3,107	621	3,155	524
\$40 to \$50 .....	4,009	1,143	4,219	733
\$50 to \$75 .....	9,327	4,579	9,845	2,468
\$75 to \$100 .....	4,764	4,369	5,125	2,321
\$100 to \$200 .....	3,666	6,051	4,093	3,198
\$200 and over .....	997	7,461	1,116	5,500
<b>Total</b> .....	<b>27,739</b>	<b>24,417</b>	<b>29,717</b>	<b>15,011</b>

Footnotes at end of table.



**Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1993 Rates and 1993 Income Levels<sup>1</sup>—Continued**

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

Income class (thousands) <sup>2</sup>	Child and dependent care credit		Earned income credit <sup>3</sup>	
	Returns	Amount	Returns	Amount
Below \$10 .....	106	\$48	2,969	\$2,495
\$10 to \$20 .....	844	447	5,888	6,830
\$20 to \$30 .....	1,052	503	4,493	2,420
\$30 to \$40 .....	868	357	472	347
\$40 to \$50 .....	805	329	127	83
\$50 to \$75 .....	1,360	584	49	40
\$75 to \$100 .....	628	293	5	5
\$100 to \$200 .....	347	169	0	0
\$200 and over .....	60	33	0	0
<b>Total</b> .....	<b>6,071</b>	<b>2,763</b>	<b>14,003</b>	<b>12,220</b>

Footnotes at end of table.

**Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1993 Rates and 1993 Income Levels<sup>1</sup>—Continued**

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

Income class (thousands) <sup>2</sup>	Untaxed Social Security and Railroad Retirement benefits		Additional standard deduction for the elderly and blind	
	Returns	Amount	Returns	Amount
Below \$10 .....	293	\$62	11	\$1
\$10 to \$20 .....	5,086	2,624	746	92
\$20 to \$30 .....	4,482	4,891	2,161	285
\$30 to \$40 .....	3,437	5,287	2,256	320
\$40 to \$50 .....	2,341	3,795	1,624	298
\$50 to \$75 .....	2,892	4,566	1,832	384
\$75 to \$100 .....	859	1,259	354	106
\$100 to \$200 .....	608	1,094	171	51
\$200 and over .....	223	503	29	9
<b>Total</b> .....	<b>20,221</b>	<b>24,081</b>	<b>9,184</b>	<b>1,546</b>

Footnotes at end of table.

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**Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1993 Rates and 1993 Income Levels<sup>1</sup>—Continued**

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

Income class (thousands) <sup>2</sup>	Mortgage interest deduction	
	Returns	Amount
Below \$10 .....	26	\$5
\$10 to \$20 .....	432	164
\$20 to \$30 .....	1,666	797
\$30 to \$40 .....	2,963	1,888
\$40 to \$50 .....	3,807	3,232
\$50 to \$75 .....	9,292	10,955
\$75 to \$100 .....	4,697	8,774
\$100 to \$200 .....	3,691	11,401
\$200 and over .....	895	4,436
<b>Total</b> .....	<b>27,470</b>	<b>41,652</b>

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**Footnotes to Table 3:**

<sup>1</sup>Excludes individuals who are dependents of other taxpayers.

<sup>2</sup>The income concept used to place tax returns into classes is adjusted gross income (AGI) plus: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) workers' compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) corporate income tax liability attributed to stockholders, (8) alternative minimum tax preference items, and (9) excluded income of U.S. citizens living abroad.

<sup>3</sup>Includes the refundable portion of the earned income credit. Excludes the supplemental young child credit and the credit for child health insurance premiums.

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

Source: Joint Committee on Taxation.