

United States Government Supplemental Information (Unaudited) for the Years Ended September 30, 2005, and September 30, 2004

Deferred Maintenance

Deferred maintenance is the estimated cost to bring Government-owned property to an acceptable condition, resulting from not performing maintenance on a timely basis. Deferred maintenance excludes the cost of expanding the capacity of assets or upgrading them to serve needs different from those originally intended. The consequences of not performing regular maintenance could include increased safety hazards, poor service to the public, higher costs in the future, and inefficient operations. Estimated deferred maintenance costs are not accrued in the Statements of Net Cost or recognized as a liability on the balance sheets.

The amounts disclosed for deferred maintenance on the table below have been measured using the following three methods:

- Condition assessment surveys are periodic inspections of the Government-owned property to determine the current condition and estimated cost to bring the property to an acceptable condition.
- Life-cycle cost forecast is an acquisition or procurement technique that considers operation, maintenance, and other costs in addition to the acquisition cost of assets.
- Management analysis method is founded on inflation-adjusted reductions in maintenance funding since the base year.

Some deferred maintenance has been deemed critical. Such amounts and conditions are defined by the individual agencies with responsibility for the safekeeping of these assets. Low and high estimates are based on the materiality of the estimated cost of returning the asset to the acceptable condition versus the total value of the corresponding asset.

Deferred Maintenance as of September 30

	Deferred Maintenance Cost Range				Critical Maintenance	
	Low Estimate		High Estimate			
	2005	2004	2005	2004	2005	2004
(In billions of dollars)						
Asset Category:						
Buildings, structures, and facilities	23.2	13.4	33.7	25.2	11.4	7.6
Furniture, fixtures, and equipment	-	-	0.1	0.1	0.1	0.1
Other general property, plant, and equipment	1.1	-	1.1	-	-	-
Heritage assets.....	1.7	-	2.9	0.1	0.1	-
Total deferred maintenance....	<u>26.0</u>	<u>13.4</u>	<u>37.8</u>	<u>25.4</u>	<u>11.6</u>	<u>7.7</u>

Unexpended Budget Authority

Unexpended budget authority is the sum of the unobligated and obligated, but unliquidated, budget authority. Unobligated budget authority, including amounts for trust funds, is the cumulative amount of budget authority that is not obligated and that remains available for obligation. In 1-year accounts, the unobligated balance is not available for new obligations after the end of the fiscal year. In multiyear accounts, the unobligated balance may be carried forward and remains available for obligation for the period specified. In no-year accounts, the unobligated balance is carried forward until specifically rescinded by law or until the purposes for which it was provided have been accomplished. The total unobligated budget authority amount balance for fiscal years 2005 and 2004 are \$541.1 billion and \$407.3 billion, respectively.

Obligated budget authority is the cumulative amount of budget authority that has been obligated but not liquidated. This balance can be carried forward for a maximum of 5 years after the appropriation has expired. The total obligated budget authority amount balance for fiscal years 2005 and 2004 are \$927.6 billion and \$863.8 billion, respectively.

The President's Budget with fiscal year 2005 actuals is expected to be published in February 2006. The amounts initially reported as balances for unexpended budget authority at the end of fiscal year 2004 were estimates from the President's Budget that was issued in February 2004.

Tax Burden

The Internal Revenue Code provides for progressive tax rates, whereby higher incomes are generally subject to higher tax rates. The tables present the latest available information on income tax and related income, deductions, and credit for individuals by income level and for corporations by size of assets.

Individual Income Tax Returns for Tax Year 2003

Adjusted Gross Income (AGI)	Number of Taxable Returns (In thousands)	AGI (In millions of dollars)	Total Income Tax (In millions of dollars)	Average AGI per Return (In whole dollars)	Average Income Tax per Return (In whole dollars)	Income Tax as a Percentage of AGI
Under \$15,000	37,985	211,227	3,645	5,560	96	1.7%
\$15,000 under \$30,000.....	29,739	653,834	24,728	21,987	832	3.8%
\$30,000 under \$50,000.....	24,469	954,681	64,430	39,015	2,633	6.7%
\$50,000 under \$100,000.....	26,935	1,889,302	178,640	70,142	6,632	9.5%
\$100,000 under \$200,000...	8,902	1,174,675	164,509	131,966	18,481	14.0%
\$200,000 or more.....	2,541	1,329,254	314,073	523,154	123,610	23.6%
Total.....	<u>130,571</u>	<u>6,212,973</u>	<u>750,025</u>	-	-	-

Corporation Income Tax Returns for Tax Year 2002

Total Assets	Income Subject to Tax	Total Income Tax after Credits	Percentage of Income Tax after Credits to Taxable Income
	(In millions of dollars)	(In millions of dollars)	
Zero assets	8,045.0	2,311.0	28.7%
\$1 under \$500.....	8,072.0	1,453.0	18.0%
\$500 under \$1,000.....	3,745.0	843.0	22.5%
\$1,000 under \$5,000.....	11,750.0	3,377.0	28.7%
\$5,000 under \$10,000.....	6,413.0	2,073.0	32.3%
\$10,000 under \$25,000.....	9,358.0	3,007.0	32.1%
\$25,000 under \$50,000.....	8,640.0	2,774.0	32.1%
\$50,000 under \$100,000.....	10,090.0	3,198.0	31.7%
\$100,000 under \$250,000.....	21,072.0	6,524.0	31.0%
\$250,000 or more.....	513,369.0	128,052.0	24.9%
Total.....	600,554.0	153,612.0	25.6%

Tax Gap

The tax gap is the aggregate amount of tax (i.e., excluding interest and penalties) that is imposed by the tax laws for any given tax year but is not paid voluntarily and timely. The Internal Revenue Service (IRS) currently projects that the annual Federal gross tax gap is somewhere between \$312 billion and \$353 billion. This estimate is based on the preliminary results of the National Research Program (NRP). The NRP was a study conducted to measure the compliance rate of the individual filers based on examination of a statistical sample of their filed returns for tax year 2001. The tax gap arises from three types of noncompliance: not filing timely tax returns (the nonfiling gap), underreporting the correct amount of tax on timely-filed returns (the underreporting gap), and not paying on time the full amount reported on timely-filed returns (the underpayment gap). Of these three components, only the underpayment gap is observed; the nonfiling gap and the underreporting gap must be estimated. Each instance of noncompliance by a taxpayer contributes to the tax gap, whether or not the IRS detects it, and whether or not the taxpayer is even aware of the noncompliance. The tax gap does not include underpayments by corporate taxpayers or include taxes that should have been paid on income from the illegal sector of the economy.

Underreporting of income tax, employment taxes, and other taxes represents 80 percent of the tax gap. The single largest subcomponent of underreporting involves individuals understating their income, taking improper deductions, overstating business expenses, and erroneously claiming credits. Individual underreporting represents about half of the total tax gap. Individual income tax also accounts for about half of all tax liabilities.

The collection gap is the cumulative amount of assessed tax, penalties, and interest that the IRS expects to remain uncollectible. In essence, it represents the difference between the total balance of unpaid assessments and the net taxes receivable reported on the IRS's balance sheet. The tax gap and the collection gap are related and overlapping concepts, but they have significant differences. The collection gap is a cumulative balance sheet concept for a particular point in time, while the tax gap is like an income statement item for a single year. Moreover, the tax gap estimates include all noncompliance, while the collection gap includes only amounts that have been assessed (a small portion of all noncompliance).

Other Claims for Refunds

Management has estimated amounts that may be paid out as other claims for tax refunds. This estimate represents an amount (principal and interest) that may be paid for claims pending judicial review by the Federal courts or, internally, by appeals. The total estimated payout (including principal and interest) for claims pending judicial review by the Federal courts is \$12.0 billion and \$1.7 billion for fiscal years 2005 and 2004, respectively. For those under appeal, the estimated payout is \$11.1 billion and \$6.7 billion for fiscal years 2005 and 2004, respectively. There are also unasserted claims for refunds of certain excise taxes. Although these refund claims have been deemed to be probable, they do not meet the criteria in SFFAS No. 5 for reporting the amounts in the balance sheets or for disclosure in the Notes to the Financial Statements. However, they meet the criteria in SFFAS No. 7 for inclusion as supplemental information. To the extent judgments against the Government for these claims prompt other similarly situated taxpayers to file similar refund claims, these amounts could become significantly greater.

Appendix: Significant Government Entities Included and Excluded from the Financial Statements

This *Financial Report* includes the executive branch with their corresponding departments and entities, the legislative and judicial branches, and other independent establishments and Government corporations. Excluded are privately owned Government-sponsored enterprises such as the Federal Home Loan Banks and the Federal National Mortgage Association. The Federal Reserve System is excluded because organizations and functions pertaining to monetary policy are traditionally separate from, and independent of, other central Government organizations and functions.

Significant Entities Included in these Statements:

(in Statement of Net Cost order):

Department of Defense (DOD) www.defenselink.mil	Federal Communications Commission (FCC) www.fcc.gov
Department of Health and Human Services (HHS) www.hhs.gov	National Science Foundation (NSF) www.nsf.gov
Social Security Administration (SSA) www.ssa.gov	Federal Deposit Insurance Corporation (FDIC) www.fdic.gov
Department of Veterans Affairs (VA) www.va.gov	Small Business Administration (SBA) www.sba.gov
Department of Agriculture (USDA) www.usda.gov	Pension Benefit Guaranty Corporation (PBGC) www.pbgc.gov
Department of the Treasury (Treasury) www.ustreas.gov	Nuclear Regulatory Commission (NRC) www.nrc.gov
Department of Education (ED) www.ed.gov	Tennessee Valley Authority (TVA) www.tva.gov
Department of Homeland Security (DHS) www.dhs.gov	National Credit Union Administration (NCUA) www.ncua.gov
Department of Transportation (DOT) www.dot.gov	General Services Administration (GSA) www.gsa.gov
Department of Labor (DOL) www.dol.gov	Export-Import Bank of the United States (Ex-Im Bank) www.exim.gov
Department of Energy (DOE) www.energy.gov	U.S. Postal Service (USPS) www.usps.gov
Department of Housing and Urban Development (HUD) www.hud.gov	Farm Credit System Insurance Corporation (FCSIC) www.fcsic.gov
Department of Justice (DOJ) www.usdoj.gov	U.S. Securities and Exchange Commission (SEC) www.sec.gov
Office of Personnel Management (OPM) www.opm.gov	Smithsonian Institution www.si.edu
National Aeronautics and Space Administration (NASA) www.nasa.gov	
Department of the Interior (DOI) www.doi.gov	<u>All Other Entities</u>
Department of State (State) www.state.gov	Executive Office of the President
U.S. Agency for International Development (USAID) www.usaid.gov	Federal Trade Commission (FTC) www.ftc.gov
Railroad Retirement Board (RRB) www.rrb.gov	Government Accountability Office (GAO) www.gao.gov
Environmental Protection Agency (EPA) www.epa.gov	Government Printing Office (GPO) www.gpo.gov
Department of Commerce (DOC) www.doc.gov	Library of Congress (LC) www.loc.gov
	National Archives and Records Administration (NARA) www.nara.gov

National Transportation Safety Board (NTSB)

www.nts.gov

Office of Management and Budget (OMB)

www.whitehouse.gov/omb

Significant Entities Excluded from these Statements:

Army and Air Force Exchange Service

Board of Governors of the Federal Reserve System

(Including the Federal Reserve Banks)

Federal National Mortgage Association (Fannie Mae)

Farm Credit System

Federal Home Loan Banks

Federal Retirement Thrift Investment Board

(Including the Thrift Savings Fund)

Financing Corporation

Federal Home Loan Mortgage Corporation

(Freddie Mac)

Marine Corps Exchange

Navy Exchange Service Command

Resolution Funding Corporation

U.S.A. Education Inc. (Sallie Mae)