13. TAX EXPENDITURES

The Congressional Budget Act of 1974 (P.L. 93–344) requires that a list of "tax expenditures" be included in the Budget. Tax expenditures are defined in the law 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." These exceptions may be viewed as alternatives to other policy instruments, such as spending or regulatory programs.

Identification and measurement of tax expenditures depends crucially on the baseline tax system against which the actual tax system is compared. The tax expenditure estimates presented in this document are patterned on a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time.

An important assumption underlying each tax expenditure estimate reported below is that other parts of the Tax Code remain unchanged. The estimates would be different if tax expenditures were changed simultaneously because of potential interactions among provisions. For that reason, this document does not present a grand total for the estimated tax expenditures.

Tax expenditures relating to the individual and corporate income taxes are estimated for 2019–2029 using two methods of accounting: current tax receipt effects and present value effects. The present value approach provides estimates of the receipt effects for tax expenditures that generally involve deferrals of tax payments into the future.

TAX EXPENDITURES IN THE INCOME TAX

Tax Expenditure Estimates

All tax expenditure estimates and descriptions presented here are based upon current tax law enacted as of July 1, 2019, and reflect the economic assumptions from the Mid-Session Review of the 2020 Budget. In some cases, expired or repealed provisions are listed if their tax receipt effects occur in 2019 or later.

The total receipt effects for tax expenditures for 2019–2029 are displayed according to the Budget's functional categories in Table 13-1. Descriptions of the specific tax expenditure provisions follow the discussion of general features of the tax expenditure concept.

Two baseline concepts—the normal tax baseline and the reference tax law baseline—are used to identify and estimate tax expenditures.[1] For the most part, the two concepts coincide. However, items treated as tax expenditures under the normal tax baseline, but not the reference tax law baseline, are indicated by the designation "normal tax method" in the tables. The receipt effects for these items are zero using the reference tax law. The alternative baseline concepts are discussed in detail below.

Tables 13-2A and 13-2B report separately the respective portions of the total receipt effects that arise under the individual and corporate income taxes. The location of the estimates under the individual and corporate headings does not imply that these categories of filers benefit from the special tax provisions in proportion to the respective tax expenditure amounts shown. Rather, these breakdowns show the form of tax liability that the various provisions affect. The ultimate beneficiaries of corporate tax expenditures could be shareholders, employees, customers, or other providers of capital, depending on economic forces.

Table 13-3 ranks the major tax expenditures by the size of their 2020–2029 receipt effect. The first column provides the number of the provision in order to cross reference this table to Tables 13-1, 13-2A, and 13-2B, as well as to the descriptions below.

Interpreting Tax Expenditure Estimates

The estimates shown for individual tax expenditures in Tables 13-1 through 13-3 do not necessarily equal the increase in Federal receipts (or the change in the budget balance) that would result from repealing these special provisions, for the following reasons.

First, eliminating a tax expenditure may have incentive effects that alter economic behavior. These incentives can affect the resulting magnitudes of the activity, or the consequences of other tax provisions or Government programs. For example, if capital gains were taxed at higher ordinary income tax rates, capital gain realizations would be expected to decline, which could result in lower tax receipts depending on the elasticity of the capital gains tax rates. Such behavioral effects are not reflected in the estimates.

Second, tax expenditures are interdependent even without incentive effects. Repeal of a tax expenditure provision can increase or decrease the tax receipts associated with other provisions. For example, even if behavior does not change, repeal of an itemized deduction could increase the receipt costs from other deductions because

[1] These baseline concepts are thoroughly discussed in Special Analysis G of the 1985 Budget, where the former is referred to as the pre-1983 method and the latter the post-1982 method.

some taxpayers would be moved into higher tax brackets. Alternatively, repeal of an itemized deduction could lower the receipt cost from other deductions if taxpayers are led to claim the standard deduction instead of itemizing. Similarly, if two provisions were repealed simultaneously, the increase in tax liability could be greater or less than the sum of the two separate tax expenditures, because each is estimated assuming that the other remains in force. In addition, the estimates reported in Table 13-1 are the totals of individual and corporate income tax receipt effects reported in Tables 13-2A and 13-2B, and do not reflect any possible interactions between individual and corporate income tax receipts. For this reason, the estimates in Table 13-1 should be regarded as approximations.

Present-Value Estimates

The annual value of tax expenditures for tax deferrals is reported on a cash basis in all tables except Table 13-4. Cash-based estimates reflect the difference between taxes deferred in the current year and incoming receipts that are received due to deferrals of taxes from prior years. Although such estimates are useful as a measure of cash flows into the Government, they do not accurately reflect the true economic cost of these provisions. For example, for a provision where activity levels have changed over time, so that incoming tax receipts from past deferrals are greater than deferred receipts from new activity, the cash-basis tax expenditure estimate can be negative, despite the fact that in present-value terms current deferrals have a real cost to the Government (i.e., taxpayers). Alternatively, in the case of a newly enacted deferral provision, a cash-based estimate can overstate the real effect on receipts to the Government because the newly deferred taxes will ultimately be received.

Discounted present-value estimates of receipt effects are presented in Table 13-4 for certain provisions that involve tax deferrals or other long-term receipt effects. These estimates complement the cash-based tax expenditure estimates presented in the other tables.

The present-value estimates represent the receipt effects, net of future tax payments that follow from activities undertaken during calendar year 2019 which cause the deferrals or other long-term receipt effects. For instance, a pension contribution in 2019 would cause a deferral of tax payments on wages in 2019 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2019 pension contribution and accrued earnings will be paid out and taxes will be due; these receipts are included in the present-value estimate. In general, this conceptual approach is similar to the one used for reporting the budgetary effects of credit programs, where direct loans and guarantees in a given year affect future cash flows.

Tax Expenditure Baselines

A tax expenditure is an exception to baseline provisions of the tax structure that usually results in a reduction in the amount of tax owed. The Congressional Budget Act of 1974, which mandated the tax expenditure budget, did not specify the baseline provisions of the tax law. As noted previously, deciding whether provisions are exceptions, therefore, is a matter of judgment. As in prior years, most of this year's tax expenditure estimates are presented using two baselines: the normal tax baseline and the reference tax law baseline. Tax expenditures may take the form of credits, deductions, special exceptions and allowances.

The normal tax baseline is patterned on a practical variant of a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time. The normal tax baseline allows personal exemptions, a standard deduction, and deduction of expenses incurred in earning income. It is not limited to a particular structure of tax rates, or by a specific definition of the taxpaying unit.

The reference tax law baseline is also patterned on a comprehensive income tax, but it is closer to existing law. Reference law tax expenditures are limited to special exceptions from a generally provided tax rule that serves programmatic functions in a way that is analogous to spending programs. Provisions under the reference tax law baseline are generally tax expenditures under the normal tax baseline, but the reverse is not always true.

Both the normal tax and reference tax law baselines allow several major departures from a pure comprehensive income tax. For example, under the normal tax and reference tax law baselines:

- Income is taxable only when it is realized in exchange. Thus, the deferral of tax on unrealized capital gains is not regarded as a tax expenditure. Accrued income would be taxed under a comprehensive income tax.
- There is a separate corporate income tax.
- Tax rates on noncorporate business income vary by level of income.
- Individual tax rates, including brackets, standard deduction, and personal exemptions, are allowed to vary with marital status.
- Values of assets and debt are not generally adjusted for inflation. A comprehensive income tax would adjust the cost basis of capital assets and debt for changes in the general price level. Thus, under a comprehensive income tax baseline, the failure to take account of inflation in measuring depreciation, capital gains, and interest income would be regarded as a negative tax expenditure (i.e., a tax penalty), and failure to take account of inflation in measuring interest costs would be regarded as a positive tax expenditure (i.e., a tax subsidy).
- The Base Erosion and Anti-Abuse Tax (BEAT) for multinational corporations is treated as a minimum tax and considered part of the rate structure.

Although the reference tax law and normal tax baselines are generally similar, areas of difference include:

Tax rates. The separate schedules applying to the various taxpaying units and the Alternative Minimum Tax are treated as part of the baseline rate structure under both the reference tax law and normal tax methods.

Income subject to the tax. Income subject to tax is defined as gross income less the costs of earning that income. Under the reference tax law, gross income does not include gifts defined as receipts of money or property that are not consideration in an exchange nor does gross income include most transfer payments from the Government.[2] The normal tax baseline also excludes gifts between individuals from gross income. Under the normal tax baseline, however, all cash transfer payments from the Government to private individuals are counted in gross income, and exemptions of such transfers from tax are identified as tax expenditures. The costs of earning income are generally deductible in determining taxable income under both the reference tax law and normal tax baselines.[3]

Capital recovery. Under the reference tax law baseline no tax expenditures arise from accelerated depreciation. Under the normal tax baseline, the depreciation allowance for property is computed using estimates of economic depreciation.

As previously illustrated in the 2020 Tax Expenditure Budget, provisions defined as tax expenditures in the Budget would be different if a pure comprehensive income tax were employed as the baseline. Similarly, they would also look quite different if a consumption tax were employed; the current income tax can be considered as a hybrid tax with income and consumption tax features. Comprehensive income, also called Haig-Simons income, is the real, inflation-adjusted accretions to wealth, accrued or realized. Using a comprehensive income tax baseline, the tax base can be larger than that considered here. A broad-based consumption tax is a combination of an income tax plus a deduction for net saving, or just consumption plus the change in net worth. Under this baseline, some of the current tax provisions would no longer be considered as tax expenditures (e.g., deductions for retirement savings). These alternative baselines are further discussed in the *Appendix*.

Descriptions of Income Tax Provisions

Descriptions of the individual and corporate income tax expenditures reported on in this document follow. These descriptions relate to current law as of July 1, 2019.

[2] Gross income does, however, include transfer payments associated with past employment, such as Social Security benefits.

[3] In the case of individuals who hold "passive" equity interests in businesses, the pro rata shares of sales and expense deductions reportable in a year are limited. A passive business activity is defined generally to be one in which the holder of the interest, usually a partnership interest, does not actively perform managerial or other participatory functions. The taxpayer may generally report no larger deductions for a year than will reduce taxable income from such activities to zero. Deductions in excess of the limitation may be taken in subsequent years, or when the interest is liquidated. In addition, costs of earning income may be limited under the Alternative Minimum Tax.

National Defense

1. ***Exclusion of benefits and allowances to Armed Forces personnel.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. As an example, a rental voucher of $100 is (approximately) equal in value to $100 of cash income. In contrast to this treatment, certain housing and meals, in addition to other benefits provided military personnel, either in cash or in kind, as well as certain amounts of pay related to combat service, are excluded from income subject to tax.

International Affairs

2. ***Exclusion of income earned abroad by U.S. citizens.***—Under the baseline tax system, all compensation received by U.S. citizens and residents is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as a housing allowance. In contrast to this treatment, U.S. tax law allows U.S. citizens and residents who live abroad, work in the private sector, and satisfy a foreign residency requirement to exclude up to $80,000, plus adjustments for inflation since 2004, in foreign earned income from U.S. taxes. In addition, if these taxpayers are provided housing by their employers, then they may also exclude the cost of such housing from their income to the extent that it exceeds 16 percent of the earned income exclusion limit. This housing exclusion is capped at 30 percent of the earned income exclusion limit, with geographical adjustments. If taxpayers do not receive a specific allowance for housing expenses, they may deduct housing expenses up to the amount by which foreign earned income exceeds their foreign earned income exclusion.

3. ***Exclusion of certain allowances for Federal employees abroad.***—In general, all compensation received by U.S. citizens and residents is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as an allowance for the high cost of living abroad. In contrast to this treatment, U.S. Federal civilian employees and Peace Corps members who work outside the continental United States are allowed to exclude from U.S. taxable income certain special allowances they receive to compensate them for the relatively high costs associated with living overseas. The allowances supplement wage income and cover expenses such as rent, education, and the cost of travel to and from the United States.

4. ***Inventory property sales source rules exception.***—The United States generally taxes the worldwide income of U.S. persons and business entities. Under the baseline tax system, worldwide income forms the tax base of U.S. corporations. For foreign source income taxed by the United States, taxpayers receive a credit for foreign taxes paid which is limited to the pre-credit U.S. tax on

TABLE 13–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2019–2029

(In millions of dollars)

	Total from corporations and individuals											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–29
National Defense												
1 Exclusion of benefits and allowances to Armed Forces personnel	12,460	12,910	11,660	11,700	12,080	12,560	13,090	13,660	14,270	14,910	15,600	132,440
International affairs:												
2 Exclusion of income earned abroad by U.S. citizens	6,930	7,280	7,640	8,020	8,420	8,840	9,290	9,750	10,240	10,750	11,290	91,520
3 Exclusion of certain allowances for Federal employees abroad	240	250	260	280	290	300	320	330	350	370	390	3,140
4 Inventory property sales source rules exception	0	0	0	0	0	0	0	0	0	0	0	0
5 Reduced tax rate on active income of controlled foreign corporations (normal tax method)	35,470	40,000	42,980	44,660	35,220	21,760	10,720	46,840	75,840	79,250	82,810	480,080
6 Deduction for foreign-derived intangible income dervied from trade or business within the United States	7,530	8,100	9,880	11,150	11,610	12,130	12,670	9,240	7,000	7,340	7,700	96,820
7 Interest Charge Domestic International Sales Corporations (IC-DISCs)	1,280	1,340	1,410	1,480	1,560	1,630	1,720	1,800	1,890	1,990	2,090	16,910
General science, space, and technology:												
8 Expensing of research and experimentation expenditures (normal tax method)	5,520	5,740	6,330	–19,090	–34,990	–25,630	–15,640	–4,940	0	0	0	–88,220
9 Credit for increasing research activities	15,300	16,810	18,380	19,890	21,370	22,900	24,450	26,040	27,650	29,310	31,030	237,830
Energy:												
10 Expensing of exploration and development costs, fuels	930	1,060	890	630	500	510	600	740	790	730	640	7,090
11 Excess of percentage over cost depletion, fuels	670	760	820	870	920	980	1,050	1,180	1,280	1,350	1,400	10,610
12 Exception from passive loss limitation for working interests in oil and gas properties	10	10	10	10	10	10	10	10	10	10	10	100
13 Capital gains treatment of royalties on coal	150	140	140	140	140	150	160	170	190	200	210	1,640
14 Exclusion of interest on energy facility bonds	10	10	10	10	10	10	10	10	10	10	10	100
15 Enhanced oil recovery credit	510	440	320	270	330	430	560	650	650	630	630	4,910
16 Energy production credit [1]	4,230	4,310	4,290	4,250	4,200	4,070	3,920	3,290	2,590	1,760	1,070	33,750
17 Marginal wells credit	110	80	100	100	80	40	10	0	0	0	0	410
18 Energy investment credit [1]	3,710	4,510	4,820	4,490	3,700	2,690	2,010	1,540	1,220	1,020	920	26,920
19 Alcohol fuel credits [2]	0	0	0	0	0	0	0	0	0	0	0	0
20 Bio-Diesel and small agri-biodiesel producer tax credits [3]	0	0	0	0	0	0	0	0	0	0	0	0
21 Tax credits for clean-fuel burning vehicles and refueling property	940	580	380	380	380	310	220	200	200	190	140	2,980
22 Exclusion of utility conservation subsidies	450	470	490	510	540	570	590	620	650	680	710	5,830
23 Credit for holding clean renewable energy bonds [4]	70	70	70	70	70	70	70	70	70	70	70	700
24 Credit for investment in clean coal facilities	20	10	20	40	80	100	90	80	90	50	50	610
25 Natural gas distribution pipelines treated as 15-year property	70	70	50	30	–10	–50	–80	–120	–140	–140	–140	–530
26 Amortize all geological and geophysical expenditures over 2 years	230	250	260	270	290	310	310	350	370	380	380	3,170
27 Allowance of deduction for certain energy efficient commercial building property	10	0	0	0	0	0	0	0	0	0	0	0
28 Credit for construction of new energy efficient homes	50	10	10	0	0	0	0	0	0	0	0	20
29 Credit for residential energy efficient property	1,980	1,740	1,410	360	70	0	0	0	0	0	0	3,580
30 Qualified energy conservation bonds [5]	30	30	30	30	30	30	30	30	30	30	30	300
31 Advanced Energy Property Credit	10	10	10	10	10	10	10	10	10	10	10	100
32 Advanced nuclear power production credit	0	0	0	100	190	240	270	280	280	280	270	1,910
33 Reduced tax rate for nuclear decommissioning funds	100	100	110	110	120	120	130	130	140	150	150	1,260
Natural resources and environment:												
34 Expensing of exploration and development costs, nonfuel minerals	170	180	160	110	90	90	100	130	140	120	110	1,230
35 Excess of percentage over cost depletion, nonfuel minerals	120	130	140	160	160	170	190	210	220	240	240	1,860
36 Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	300	320	310	320	340	340	350	380	380	390	390	3,520
37 Capital gains treatment of certain timber income	150	140	140	140	140	150	160	170	190	200	210	1,640

Table 13–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2019–2029—Continued

(In millions of dollars)

		Total from corporations and individuals											
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–29
38	Expensing of multiperiod timber growing costs	40	40	60	60	70	70	70	80	90	90	90	720
39	Tax incentives for preservation of historic structures	830	730	690	680	790	970	1,100	1,200	1,250	1,270	1,300	9,980
40	Carbon oxide sequestration credit	70	90	120	140	170	220	270	310	320	340	350	2,330
41	Deduction for endangered species recovery expenditures	30	30	30	30	30	40	40	40	60	60	60	420
Agriculture:													
42	Expensing of certain capital outlays	40	90	110	130	140	140	150	180	200	210	220	1,570
43	Expensing of certain multiperiod production costs	250	270	280	290	310	320	340	420	460	480	490	3,660
44	Treatment of loans forgiven for solvent farmers	50	50	50	60	60	60	70	70	70	70	70	630
45	Capital gains treatment of certain agriculture income	1,490	1,410	1,390	1,400	1,440	1,490	1,560	1,730	1,920	2,010	2,100	16,450
46	Income averaging for farmers	170	180	190	190	200	210	220	230	230	230	230	2,110
47	Deferral of gain on sale of farm refiners	15	15	15	15	15	20	20	20	20	20	25	185
48	Expensing of reforestation expenditures	40	40	60	60	70	70	70	80	90	90	90	720
Commerce and housing:													
	Financial institutions and insurance:												
49	Exemption of credit union income	1,911	1,764	1,587	1,756	1,935	2,019	2,191	2,494	2,661	2,761	2,710	21,878
50	Exclusion of life insurance death benefits	13,210	13,760	14,340	14,870	15,470	16,090	16,680	17,550	18,590	19,200	19,690	166,240
51	Exemption or special alternative tax for small property and casualty insurance companies	110	120	130	130	140	140	150	160	160	170	170	1,470
52	Tax exemption of insurance income earned by tax-exempt organizations	330	330	340	350	360	380	390	400	410	420	430	3,810
53	Exclusion of interest spread of financial institutions	2,190	1,120	1,160	1,200	1,240	1,280	1,330	1,400	1,470	1,510	1,560	13,270
	Housing:												
54	Exclusion of interest on owner-occupied mortgage subsidy bonds	790	840	840	860	910	940	950	1,020	1,050	1,050	1,060	9,520
55	Exclusion of interest on rental housing bonds	1,030	1,090	1,080	1,110	1,180	1,210	1,210	1,310	1,360	1,360	1,370	12,280
56	Deductibility of mortgage interest on owner-occupied homes	25,130	27,090	29,580	32,290	34,960	37,510	40,110	85,520	112,580	119,280	125,820	644,740
57	Deductibility of State and local property tax on owner-occupied homes [17]	6,010	6,270	6,650	7,030	7,400	7,740	8,090	39,930	58,030	61,630	65,340	268,110
58	Deferral of income from installment sales	1,460	1,480	1,520	1,560	1,620	1,700	1,780	1,860	1,960	2,050	2,150	17,680
59	Capital gains exclusion on home sales	43,610	45,750	48,040	50,330	52,670	55,090	57,650	64,840	70,000	73,110	76,230	593,710
60	Exclusion of net imputed rental income	121,320	125,990	130,430	134,570	138,710	142,840	147,500	189,930	200,620	211,550	212,650	1,634,790
61	Exception from passive loss rules for $25,000 of rental loss	6,070	6,430	6,780	7,110	7,470	7,860	8,500	9,410	9,780	10,140	10,490	83,970
62	Credit for low-income housing investments	8,760	9,110	9,360	9,580	9,790	10,010	10,240	10,520	10,800	11,100	11,390	101,900
63	Accelerated depreciation on rental housing (normal tax method)	8,000	8,370	8,800	9,290	9,870	10,550	11,310	14,300	16,500	17,650	18,800	125,440
	Commerce:												
64	Discharge of business indebtedness	10	40	40	30	20	20	20	40	50	50	50	360
65	Exceptions from imputed interest rules	50	60	60	70	70	70	80	90	100	110	120	830
66	Treatment of qualified dividends	31,100	31,530	32,410	33,700	35,470	37,640	40,160	45,540	51,160	54,430	57,970	420,010
67	Capital gains (except agriculture, timber, iron ore, and coal)	111,470	104,920	103,790	104,580	107,170	111,200	116,250	129,410	143,110	149,840	157,060	1,227,330
68	Capital gains exclusion of small corporation stock	1,240	1,410	1,530	1,640	1,750	1,850	1,930	2,000	2,080	2,160	2,250	18,600
69	Step-up basis of capital gains at death	49,980	51,750	53,640	56,200	59,130	62,650	66,360	70,340	74,740	79,640	84,860	659,310
70	Carryover basis of capital gains on gifts	3,650	3,150	3,010	2,940	2,870	2,830	2,780	2,770	2,600	2,460	2,480	27,890
71	Ordinary income treatment of loss from small business corporation stock sale	70	70	70	70	70	80	80	80	80	90	90	780
72	Deferral of gains from like-kind exchanges	2,850	2,980	3,140	3,290	3,460	3,630	3,810	4,000	4,190	4,400	4,660	37,560
73	Depreciation of buildings other than rental housing (normal tax method)	–1,510	–1,870	–2,340	–2,890	–3,460	–4,040	–4,510	–5,570	–6,450	–7,080	–7,760	–45,970
74	Accelerated depreciation of machinery and equipment (normal tax method)	49,280	43,460	40,610	38,030	22,830	4,660	–9,700	–24,360	–40,690	–32,810	–16,970	25,060
75	Expensing of certain small investments (normal tax method)	–1,950	–710	–10	440	3,200	6,540	9,370	14,490	18,870	18,080	16,130	86,400
76	Exclusion of interest on small issue bonds	100	110	110	120	120	130	130	130	140	140	140	1,270
77	Special rules for certain film and TV production	30	10	0	0	0	0	0	0	0	0	0	10

Table 13–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2019–2029—Continued
(In millions of dollars)

	Total from corporations and individuals											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–29
78 Allow 20-percent deduction to certain pass-through income	34,923	53,132	54,698	56,499	59,037	62,065	65,730	22,119	0	0	0	373,280
Transportation:												
79 Tonnage tax	80	90	90	90	100	100	110	110	120	130	130	1,070
80 Deferral of tax on shipping companies	10	10	10	10	10	10	10	10	10	10	10	100
81 Exclusion of reimbursed employee parking expenses	2,250	2,270	2,400	2,510	2,560	2,610	2,700	2,780	2,860	2,940	3,020	26,650
82 Exclusion for employer-provided transit passes	380	380	420	440	450	480	510	540	570	600	640	5,030
83 Tax credit for certain expenditures for maintaining railroad tracks	40	30	20	20	10	10	0	0	0	0	0	90
84 Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	170	170	160	160	140	140	130	130	120	110	110	1,370
Community and regional development:												
85 Investment credit for rehabilitation of structures (other than historic)	10	10	0	0	0	0	0	0	0	0	0	10
86 Exclusion of interest for airport, dock, and similar bonds	610	650	640	660	700	720	720	780	800	810	810	7,290
87 Exemption of certain mutuals' and cooperatives' income	90	90	100	100	100	100	110	110	110	110	120	1,050
88 Empowerment zones	60	40	20	10	10	10	10	10	10	10	0	130
89 New markets tax credit	1,320	1,280	1,210	1,090	880	570	290	80	–120	–250	–300	4,730
90 Credit to holders of Gulf Tax Credit Bonds.	150	150	140	140	140	130	120	120	110	90	80	1,220
91 Recovery Zone Bonds [6]	90	90	80	80	80	70	60	70	60	50	50	690
92 Tribal Economic Development Bonds	10	10	10	10	10	10	10	10	10	10	10	100
93 Opportunity Zones	2,720	3,620	2,650	2,450	1,870	1,920	1,780	–5,850	–8,700	520	700	960
94 Employee retention credit	350	70	50	50	40	40	30	30	30	10	10	360
Education, training, employment, and social services:												
Education:												
95 Exclusion of scholarship and fellowship income (normal tax method)	3,040	3,220	3,390	3,580	3,800	4,020	4,260	4,780	5,550	5,860	6,180	44,640
96 Tax credits and deductions for postsecondary education expenses [7]	17,380	16,390	16,310	16,290	16,340	16,280	16,230	16,270	17,000	16,950	16,930	164,990
97 Education Individual Retirement Accounts	40	40	40	40	40	40	40	40	40	40	40	400
98 Deductibility of student-loan interest	1,920	2,040	2,060	2,100	2,130	2,250	2,300	2,330	2,950	2,960	3,020	24,140
99 Qualified tuition programs	2,200	2,410	2,650	2,920	3,240	3,640	4,130	5,070	6,080	7,230	8,750	46,120
100 Exclusion of interest on student-loan bonds	190	200	200	200	220	220	220	240	260	250	250	2,260
101 Exclusion of interest on bonds for private nonprofit educational facilities	1,850	1,950	1,940	1,990	2,120	2,170	2,180	2,350	2,430	2,440	2,450	22,020
102 Credit for holders of zone academy bonds [8]	170	150	130	110	90	80	60	50	50	40	40	800
103 Exclusion of interest on savings bonds redeemed to finance educational expenses	30	30	40	40	40	40	40	50	50	50	50	430
104 Parental personal exemption for students age 19 or over	0	0	0	0	0	0	0	5,630	8,520	8,690	8,930	31,770
105 Deductibility of charitable contributions (education)	4,140	4,450	4,790	5,100	5,410	5,720	6,020	7,160	9,200	9,620	10,070	67,540
106 Exclusion of employer-provided educational assistance	880	930	980	1,040	1,090	1,150	1,210	1,420	1,560	1,630	1,710	12,720
107 Special deduction for teacher expenses	180	180	180	190	180	180	180	190	220	220	220	1,940
108 Discharge of student loan indebtedness	80	90	90	100	100	110	120	130	150	160	170	1,220
109 Qualified school construction bonds [9]	600	570	540	520	490	470	440	410	390	360	330	4,520
Training, employment, and social services:												
110 Work opportunity tax credit	1,760	1,280	560	340	250	190	150	110	90	60	50	3,080
111 Employer-provided child care exclusion	570	610	660	710	770	830	900	1,230	1,430	1,510	1,590	10,240
112 Employer-provided child care credit	20	20	20	20	20	20	20	20	20	20	30	210
113 Assistance for adopted foster children	590	620	660	700	750	800	850	900	960	1,020	1,080	8,340
114 Adoption credit and exclusion	700	770	790	830	860	880	900	910	920	930	940	8,730
115 Exclusion of employee meals and lodging (other than military)	5,100	5,240	5,420	5,620	5,830	6,070	6,450	7,580	8,270	8,620	9,010	68,110
116 Credit for child and dependent care expenses	4,260	4,360	4,440	4,540	4,690	4,780	4,890	5,100	5,320	5,390	5,400	48,910
117 Credit for disabled access expenditures	10	10	10	10	10	10	10	10	10	10	10	100

Table 13–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2019–2029—Continued
(In millions of dollars)

		Total from corporations and individuals											
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–29
118	Deductibility of charitable contributions, other than education and health	36,660	39,540	42,760	45,510	48,270	51,040	53,750	64,790	84,810	88,800	92,980	612,250
119	Exclusion of certain foster care payments	480	490	510	510	520	530	540	540	540	540	560	5,280
120	Exclusion of parsonage allowances	870	920	970	1,020	1,080	1,130	1,190	1,260	1,320	1,390	1,470	11,750
121	Indian employment credit	30	20	20	20	20	10	10	10	10	10	10	140
122	Credit for employer differential wage payments	0	10	10	10	10	10	10	20	20	20	20	140
Health:													
123	Exclusion of employer contributions for medical insurance premiums and medical care [10]	202,290	214,420	227,880	242,230	258,730	276,820	295,050	348,700	389,240	413,090	438,240	3,104,400
124	Self-employed medical insurance premiums	7,050	7,320	7,780	8,320	8,870	9,420	10,120	11,730	13,080	13,900	14,670	105,210
125	Medical Savings Accounts / Health Savings Accounts	7,880	8,510	9,110	9,800	10,380	10,900	11,410	12,970	14,100	14,680	15,350	117,210
126	Deductibility of medical expenses	6,500	6,640	7,310	8,140	9,050	10,030	11,090	17,270	21,690	23,780	25,990	140,990
127	Exclusion of interest on hospital construction bonds	2,660	2,820	2,790	2,870	3,060	3,120	3,150	3,390	3,500	3,520	3,540	31,760
128	Refundable Premium Assistance Tax Credit [11]	7,040	3,910	4,110	3,690	3,590	3,370	3,740	4,810	5,380	5,660	5,980	44,240
129	Credit for employee health insurance expenses of small business [12]	70	50	40	30	10	10	10	0	0	0	0	150
130	Deductibility of charitable contributions (health)	7,540	8,080	8,650	9,180	9,690	10,200	10,710	12,150	14,590	15,260	15,950	114,460
131	Tax credit for orphan drug research	1,550	1,870	2,280	2,770	3,370	4,090	4,970	6,040	7,340	8,920	10,860	52,510
132	Special Blue Cross/Blue Shield tax benefits	200	230	260	300	330	370	400	430	470	510	550	3,850
133	Tax credit for health insurance purchased by certain displaced and retired individuals [13]	10	0	0	0	0	0	0	0	0	0	0	0
134	Distributions from retirement plans for premiums for health and long-term care insurance	420	430	450	460	470	490	500	590	630	650	660	5,330
Income security:													
135	Child credit [14]	74,880	75,770	76,530	77,100	77,740	78,300	78,990	55,850	20,650	20,450	20,240	581,620
136	Exclusion of railroad retirement (Social Security equivalent) benefits	230	220	210	200	190	180	170	170	180	180	170	1,870
137	Exclusion of workers' compensation benefits	9,680	9,770	9,870	9,970	10,070	10,170	10,270	10,370	10,470	10,570	10,680	102,210
138	Exclusion of public assistance benefits (normal tax method)	660	680	690	710	730	760	780	790	810	820	750	7,520
139	Exclusion of special benefits for disabled coal miners	20	20	20	10	10	10	10	10	10	10	10	120
140	Exclusion of military disability pensions	150	160	160	160	160	170	170	190	200	200	210	1,780
	Net exclusion of pension contributions and earnings:												
141	Defined benefit employer plans	71,653	73,831	75,807	78,012	79,560	80,979	81,129	83,516	84,065	85,124	86,795	808,818
142	Defined contribution employer plans	75,680	83,520	90,680	100,410	109,170	117,650	125,990	149,560	162,650	173,070	184,180	1,296,880
143	Individual Retirement Accounts	20,520	21,650	22,760	23,990	25,490	27,220	29,300	33,310	36,390	39,840	43,430	303,380
144	Low and moderate income savers credit	1,180	1,180	1,180	1,220	1,220	1,210	1,240	1,350	1,350	1,340	1,330	12,620
145	Self-Employed plans	24,150	26,580	29,250	32,070	34,900	38,560	42,770	50,570	62,750	69,180	75,380	462,010
	Exclusion of other employee benefits:												
146	Premiums on group term life insurance	2,960	3,080	3,200	3,320	3,450	3,580	3,710	4,210	4,480	4,640	4,790	38,460
147	Premiums on accident and disability insurance	330	330	340	340	340	350	350	350	350	350	350	3,450
148	Income of trusts to finance supplementary unemployment benefits	30	30	40	40	50	50	50	60	60	60	60	500
149	Income of trusts to finance voluntary employee benefits associations	990	1,060	1,130	1,210	1,280	1,360	1,440	1,610	1,700	1,800	1,900	14,490
150	Special ESOP rules	2,100	2,150	2,210	2,260	2,320	2,370	2,430	2,480	2,550	2,600	2,670	24,040
151	Additional deduction for the blind	40	40	40	40	40	50	50	50	60	60	70	500
152	Additional deduction for the elderly	4,990	5,290	5,680	6,150	6,490	6,910	7,340	6,950	7,030	7,480	8,010	67,330
153	Tax credit for the elderly and disabled	0	0	0	0	0	0	0	0	0	0	0	0
154	Deductibility of casualty losses	0	0	0	0	0	0	0	380	600	640	680	2,300
155	Earned income tax credit [15]	2,700	2,660	2,700	2,770	2,840	2,920	3,010	3,080	10,490	10,730	11,070	52,270
Social Security:													
	Exclusion of Social Security benefits:												
156	Social Security benefits for retired and disabled workers and spouses, dependents and survivors	29,100	30,900	32,490	33,990	35,640	36,330	36,430	41,480	48,460	50,590	52,670	398,980
157	Credit for certain employer contributions to Social Security	1,420	1,480	1,540	1,610	1,680	1,730	1,800	1,870	1,930	1,990	2,060	17,690

Table 13–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2019–2029—Continued

(In millions of dollars)

	Total from corporations and individuals											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–29
Veterans benefits and services:												
158 Exclusion of veterans death benefits and disability compensation	7,590	8,340	8,910	9,200	9,500	9,820	10,150	10,950	12,380	12,790	13,230	105,270
159 Exclusion of veterans pensions	240	240	250	250	260	260	260	280	310	320	320	2,750
160 Exclusion of G.I. bill benefits	1,460	1,530	1,590	1,650	1,720	1,780	1,850	2,010	2,290	2,370	2,470	19,260
161 Exclusion of interest on veterans housing bonds	50	60	50	50	50	50	50	60	60	60	60	550
General purpose fiscal assistance:												
162 Exclusion of interest on public purpose State and local bonds	23,210	24,580	24,340	25,010	26,710	27,270	27,480	29,560	30,560	30,710	30,840	277,060
163 Build America Bonds [16]	0	0	0	0	0	0	0	0	0	0	0	0
164 Deductibility of nonbusiness State and local taxes other than on owner-occupied homes [17]	4,430	7,110	7,510	7,920	8,310	8,660	8,990	78,340	117,330	124,170	131,130	499,470
Interest:												
165 Deferral of interest on U.S. savings bonds	850	840	840	830	820	810	800	790	840	860	880	8,310
Addendum: Aid to State and local governments:												
Deductibility of:												
Property taxes on owner-occupied homes	6,010	6,270	6,650	7,030	7,400	7,740	8,090	39,930	58,030	61,630	65,340	268,110
Nonbusiness State and local taxes other than on owner-occupied homes	4,430	7,110	7,510	7,920	8,310	8,660	8,990	78,340	117,330	124,170	131,130	499,470
Exclusion of interest on State and local bonds for:												
Public purposes	23,210	24,580	24,340	25,010	26,710	27,270	27,480	29,560	30,560	30,710	30,840	277,060
Energy facilities	10	10	10	10	10	10	10	10	10	10	10	100
Water, sewage, and hazardous waste disposal facilities	300	320	310	320	340	340	350	380	380	390	390	3,520
Small-issues	100	110	110	120	120	130	130	130	140	140	140	1,270
Owner-occupied mortgage subsidies	790	840	840	860	910	940	950	1,020	1,050	1,050	1,060	9,520
Rental housing	1,030	1,090	1,080	1,110	1,180	1,210	1,210	1,310	1,360	1,360	1,370	12,280
Airports, docks, and similar facilities	610	650	640	660	700	720	720	780	800	810	810	7,290
Student loans	190	200	200	200	220	220	220	240	260	250	250	2,260
Private nonprofit educational facilities	1,850	1,950	1,940	1,990	2,120	2,170	2,180	2,350	2,430	2,440	2,450	22,020
Hospital construction	2,660	2,820	2,790	2,870	3,060	3,120	3,150	3,390	3,500	3,520	3,540	31,760
Veterans' housing	50	60	50	50	50	50	50	60	60	60	60	550

[1] Firms can take an energy grant in lieu of the energy production credit or the energy investment credit for facilities whose construction began in 2009, 2010, or 2011. The effect of the grant on outlays (in millions of dollars) is as follows: $0 in 2019 and thereafter.

[2] The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2019 $500 and $0 thereafter.

[3] In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2019 $2,130 and $0 thereafter.

[4] In addition, the credit for holding clean renewable energy bonds has outlay effects of (in millions of dollars): 2019 $50; 2020 $50; 2021 $50; 2022 $50; 2023 $50; 2024 $50; 2025, $50; 2026 $50; 2017 $50; 2028 $50; and 2029 $50.

[5] In addition, the qualified energy conservation bonds have outlay effects of (in millions of dollars): 2019 $40; 2020 $40; 2021 $40; 2022 $40; 2023 $40; 2024 $40; 2025, $40; 2026 $40; 2027 $40; 2028 $40; and 2029 $40.

[6] In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2019 $290; 2020 $290; 2021 $290; 2022 $290; 2023 $290; 2024 $290; 2025, $290; 2026 $290; 2027 $290; 2028 $290; and 2029 $290.

[7] In addition, the tax credits for postsecondary education expenses have outlay effects of (in millions of dollars): 2019 $2,860; 2020 $3,990; 2021 $3,970; 2022 $3,960; 2023 $3,940; 2024 $3,920; 2025 $3,900; 2026 $3,870; 2027 $3,560; 2028 $3,540; and 2029 $3,530.

[8] In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2019 $60; 2020 $60; 2021 $60; 2022 $60; 2023 $60; 2024 $60; 2025 $60; 2026 $60; 2027 $60; 2028 $60; and 2029 $60.

[9] In addition, the provision for school construction bonds has outlay effects of (in millions of dollars): 2019 $690; 2020 $730; 2021 $730; 2022 $730; 2023 $730; 2024 $730; 2025 $730; 2026 $730; 2027 $730; 2028 $730; and 2029 $730.

[10] In addition, the employer contributions for health have effects on payroll tax receipts (in millions of dollars) as follows: 2019 $136,720; 2020 $143,440; 2021 $150,600; 2022 $158,700; 2023 $168,530; 2024 $179,380; 2025 $189,830; 2026 $200,370; 2027 $211,510; 2028 $223,270; and 2029 $235,650.

[11] In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2019 $44,320; 2020 $42,430; 2021 $42,400; 2022 $43,590; 2023 $44,600; 2024 $45,730; 2025 $47,310; 2026 $48,400; 2027 $50,020; 2028 $52,180; and 2029 $54,640.

[12] In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: The outlays round down to zero.

[13] In addition, the effect of the health coverage tax credit on receipts has outlay effects of (in millions of dollars) 2019 $30; 2020 $10; and $0 thereafter.

[14] In addition, the effect of the child tax credit on receipts has outlay effects of (in millions of dollars): 2019 $40,110; 2020 $41,410; 2021 $45,190; 2022 $45,270; 2023 $46,460; 2024 $46,670; 2025 $46,870; 2026 $47,850; 2027 $29,900; 2028 $29,890; and 2029 $30,290.

TABLE 13–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2019–2029—CONTINUED

(In millions of dollars)

The child tax credit line also includes the credit for other dependents (in millions of dollars): 2019 $9,520; 2020 $9,690; 2021 $9,820; 2022 $9,920; 2023 $10,100; 2024 $10,160; 2025 $10,180; 2026 $6,000; 2027 $0; 2028 $0; and 2029 $0.

[15] In addition, the earned income tax credit on receipts has outlay effects of (in millions of dollars): 2019 $ 65,600; 2020 $66,420; 2021 $66,940; 2022 $68,220; 2023 $69,460; 2024 $70,910; 2025 $72,240; 2026 $73,290; 2027 $66,960; 2028 $67,930; and 2029 $69,910.

[16] In addition, the Build America Bonds have outlay effects of (in millions of dollars): 2019 $3,160; 2020 $3,390; 2021 $3,390; 2022 $3,390; 2023 $3,390; 2024 $3,390; 2025 $3,390; 2026 $3,390; 2027 $3,390; 2028 $3,390; and 2029 $3,390.

[17] Because of interactions with the $10,000 cap on State and local tax deductions for the years 2018 through 2025, these estimates understate the combined effects of repealing deductions for both property taxes on owner occupied housing and other non-business taxes. The estimate of repealing both is (in millions of dollars): 2019 $16,340; 2020 $19,870; 2021 $21,400; 2022 $23,040; 2023 $24,650; 2024 $26,220; 2025 $27,830; 2026 $121,680; 2027 $175,210; 2028 $185,920; and 2029 $196,870.

Note: Provisions with estimates denoted normal tax method have no revenue loss under the reference tax law method.

All estimates have been rounded to the nearest $10 million. Provisions with estimates that rounded to zero in each year are not included in the table.

TABLE 13–2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2019–2029

(In millions of dollars)

	Total from corporations											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–29
National Defense												
1 Exclusion of benefits and allowances to Armed Forces personnel	0	0	0	0	0	0	0	0	0	0	0	0
International affairs:												
2 Exclusion of income earned abroad by U.S. citizens	0	0	0	0	0	0	0	0	0	0	0	0
3 Exclusion of certain allowances for Federal employees abroad	0	0	0	0	0	0	0	0	0	0	0	0
4 Inventory property sales source rules exception	0	0	0	0	0	0	0	0	0	0	0	0
5 Reduced tax rate on active income of controlled foreign corporations (normal tax method)	35,470	40,000	42,980	44,660	35,220	21,760	10,720	46,840	75,840	79,250	82,810	480,080
6 Deduction for foreign-derived intangible income dervied from trade or business within the United States	7,530	8,100	9,880	11,150	11,610	12,130	12,670	9,240	7,000	7,340	7,700	96,820
7 Interest Charge Domestic International Sales Corporations (IC-DISCs)	0	0	0	0	0	0	0	0	0	0	0	0
General science, space, and technology:												
8 Expensing of research and experimentation expenditures (normal tax method)	4,310	4,650	5,240	–17,550	–28,450	–20,720	–12,470	–3,630	0	0	0	–72,930
9 Credit for increasing research activities	13,440	14,780	16,170	17,510	18,820	20,160	21,520	22,900	24,290	25,720	27,190	209,060
Energy:												
10 Expensing of exploration and development costs, fuels	210	240	200	140	110	110	130	150	150	140	120	1,490
11 Excess of percentage over cost depletion, fuels	430	480	520	550	580	620	660	710	750	790	820	6,480
12 Exception from passive loss limitation for working interests in oil and gas properties	0	0	0	0	0	0	0	0	0	0	0	0
13 Capital gains treatment of royalties on coal	0	0	0	0	0	0	0	0	0	0	0	0
14 Exclusion of interest on energy facility bonds	0	0	0	0	0	0	0	0	0	0	0	0
15 Enhanced oil recovery credit	480	420	300	260	310	410	530	610	620	600	590	4,650
16 Energy production credit [1]	3,170	3,230	3,220	3,190	3,150	3,050	2,940	2,470	1,940	1,320	800	25,310
17 Marginal wells credit	30	20	30	30	20	10	0	0	0	0	0	110
18 Energy investment credit [1]	2,820	3,430	3,670	3,420	2,820	2,050	1,530	1,170	930	780	700	20,500
19 Alcohol fuel credits [2]	0	0	0	0	0	0	0	0	0	0	0	0
20 Bio-Diesel and small agri-biodiesel producer tax credits [3]	0	0	0	0	0	0	0	0	0	0	0	0
21 Tax credits for clean-fuel burning vehicles and refueling property	280	160	120	120	110	80	50	50	50	40	30	810
22 Exclusion of utility conservation subsidies	20	20	20	20	20	20	20	20	20	20	20	200
23 Credit for holding clean renewable energy bonds [4]	20	20	20	20	20	20	20	20	20	20	20	200
24 Credit for investment in clean coal facilities	20	10	20	40	70	90	80	70	80	50	50	560
25 Natural gas distribution pipelines treated as 15-year property	70	70	50	30	–10	–50	–80	–120	–140	–140	–140	–530
26 Amortize all geological and geophysical expenditures over 2 years	120	130	130	140	150	160	160	170	180	180	180	1,580
27 Allowance of deduction for certain energy efficient commercial building property	0	0	0	0	0	0	0	0	0	0	0	0
28 Credit for construction of new energy efficient homes	10	0	0	0	0	0	0	0	0	0	0	0
29 Credit for residential energy efficient property	0	0	0	0	0	0	0	0	0	0	0	0
30 Qualified energy conservation bonds [5]	10	10	10	10	10	10	10	10	10	10	10	100
31 Advanced Energy Property Credit	10	10	10	10	10	10	10	10	10	10	10	100
32 Advanced nuclear power production credit	0	0	0	100	190	240	270	280	280	280	270	1,910
33 Reduced tax rate for nuclear decommissioning funds	100	100	110	110	120	120	130	130	140	150	150	1,260
Natural resources and environment:												
34 Expensing of exploration and development costs, nonfuel minerals	40	40	40	20	20	20	20	30	30	20	20	260
35 Excess of percentage over cost depletion, nonfuel minerals	80	80	90	100	100	110	120	130	130	140	140	1,140
36 Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	40	40	30	20	20	20	20	30	20	20	20	240
37 Capital gains treatment of certain timber income	0	0	0	0	0	0	0	0	0	0	0	0

Table 13–2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2019–2029—Continued

(In millions of dollars)

		Total from corporations											
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–29
38	Expensing of multiperiod timber growing costs	0	0	10	10	10	10	10	10	10	10	10	90
39	Tax incentives for preservation of historic structures	650	580	550	540	640	780	880	960	990	1,010	1,030	7,960
40	Carbon oxide sequestration credit	70	90	120	140	170	220	270	310	320	340	350	2,330
41	Deduction for endangered species recovery expenditures	10	10	10	10	10	10	10	10	20	20	20	130
Agriculture:													
42	Expensing of certain capital outlays	20	20	10	10	10	10	10	10	10	10	10	110
43	Expensing of certain multiperiod production costs	10	10	10	10	10	10	10	10	10	10	10	100
44	Treatment of loans forgiven for solvent farmers	0	0	0	0	0	0	0	0	0	0	0	0
45	Capital gains treatment of certain agriculture income	0	0	0	0	0	0	0	0	0	0	0	0
46	Income averaging for farmers	0	0	0	0	0	0	0	0	0	0	0	0
47	Deferral of gain on sale of farm refiners	15	15	15	15	15	20	20	20	20	20	25	185
48	Expensing of reforestation expenditures	0	0	10	10	10	10	10	10	10	10	10	90
Commerce and housing:													
	Financial institutions and insurance:												
49	Exemption of credit union income	1,911	1,764	1,587	1,756	1,935	2,019	2,191	2,494	2,661	2,761	2,710	21,878
50	Exclusion of life insurance death benefits	1,240	1,280	1,320	1,360	1,410	1,450	1,490	1,540	1,580	1,630	1,680	14,740
51	Exemption or special alternative tax for small property and casualty insurance companies	110	120	130	130	140	140	150	160	160	170	170	1,470
52	Tax exemption of insurance income earned by tax-exempt organizations	330	330	340	350	360	380	390	400	410	420	430	3,810
53	Exclusion of interest spread of financial institutions	0	0	0	0	0	0	0	0	0	0	0	0
	Housing:												
54	Exclusion of interest on owner-occupied mortgage subsidy bonds	100	100	80	60	60	60	60	80	70	50	50	670
55	Exclusion of interest on rental housing bonds	130	130	100	80	80	80	70	100	90	70	70	870
56	Deductibility of mortgage interest on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
57	Deductibility of State and local property tax on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
58	Deferral of income from installment sales	0	0	0	0	0	0	0	0	0	0	0	0
59	Capital gains exclusion on home sales	0	0	0	0	0	0	0	0	0	0	0	0
60	Exclusion of net imputed rental income	0	0	0	0	0	0	0	0	0	0	0	0
61	Exception from passive loss rules for $25,000 of rental loss	0	0	0	0	0	0	0	0	0	0	0	0
62	Credit for low-income housing investments	8,320	8,650	8,890	9,100	9,300	9,510	9,730	9,990	10,260	10,540	10,820	96,790
63	Accelerated depreciation on rental housing (normal tax method)	1,190	1,280	1,380	1,480	1,590	1,720	1,850	2,000	2,160	2,320	2,480	18,260
	Commerce:												
64	Discharge of business indebtedness	0	0	0	0	0	0	0	0	0	0	0	0
65	Exceptions from imputed interest rules	0	0	0	0	0	0	0	0	0	0	0	0
66	Treatment of qualified dividends	0	0	0	0	0	0	0	0	0	0	0	0
67	Capital gains (except agriculture, timber, iron ore, and coal)	0	0	0	0	0	0	0	0	0	0	0	0
68	Capital gains exclusion of small corporation stock	0	0	0	0	0	0	0	0	0	0	0	0
69	Step-up basis of capital gains at death	0	0	0	0	0	0	0	0	0	0	0	0
70	Carryover basis of capital gains on gifts	0	0	0	0	0	0	0	0	0	0	0	0
71	Ordinary income treatment of loss from small business corporation stock sale	0	0	0	0	0	0	0	0	0	0	0	0
72	Deferral of gains from like-kind exchanges	1,000	1,040	1,100	1,150	1,210	1,270	1,330	1,400	1,460	1,530	1,650	13,140
73	Depreciation of buildings other than rental housing (normal tax method)	–490	–650	–850	–1,080	–1,310	–1,530	–1,690	–1,810	–1,950	–2,110	–2,290	–15,270
74	Accelerated depreciation of machinery and equipment (normal tax method)	27,120	23,290	21,200	19,440	11,200	–80	–9,460	–17,350	–24,470	–19,490	–10,820	–6,540
75	Expensing of certain small investments (normal tax method)	–180	–50	40	80	260	710	1,170	1,500	1,930	1,840	1,540	9,020
76	Exclusion of interest on small issue bonds	10	10	10	10	10	10	10	10	10	10	10	100
77	Special rules for certain film and TV production	20	10	0	0	0	0	0	0	0	0	0	10

Table 13–2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2019–2029—Continued

(In millions of dollars)

	Total from corporations											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–29
78 Allow 20-percent deduction to certain pass-through income	0	0	0	0	0	0	0	0	0	0	0	0
Transportation:												
79 Tonnage tax	80	90	90	90	100	100	110	110	120	130	130	1,070
80 Deferral of tax on shipping companies	10	10	10	10	10	10	10	10	10	10	10	100
81 Exclusion of reimbursed employee parking expenses	–1,100	–1,190	–1,220	–1,280	–1,300	–1,340	–1,380	–1,420	–1,460	–1,500	–1,550	–13,640
82 Exclusion for employer-provided transit passes	–360	–400	–420	–460	–480	–500	–530	–560	–590	–620	–650	–5,210
83 Tax credit for certain expenditures for maintaining railroad tracks	30	20	10	10	10	10	0	0	0	0	0	60
84 Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	40	40	40	40	30	30	30	30	30	20	20	310
Community and regional development:												
85 Investment credit for rehabilitation of structures (other than historic)	0	0	0	0	0	0	0	0	0	0	0	0
86 Exclusion of interest for airport, dock, and similar bonds	80	80	60	50	50	50	40	60	50	40	40	520
87 Exemption of certain mutuals' and cooperatives' income	90	90	100	100	100	100	110	110	110	110	120	1,050
88 Empowerment zones	50	30	20	10	10	10	10	10	10	10	0	120
89 New markets tax credit	1,290	1,250	1,180	1,070	860	550	280	70	–120	–250	–300	4,590
90 Credit to holders of Gulf Tax Credit Bonds.	20	20	10	10	10	10	10	10	10	0	0	90
91 Recovery Zone Bonds [6]	10	10	10	10	10	0	0	10	0	0	0	50
92 Tribal Economic Development Bonds	0	0	0	0	0	0	0	0	0	0	0	0
93 Opportunity Zones	1,270	1,270	1,070	870	740	730	690	–3,400	–2,340	210	290	130
94 Employee retention credit	250	50	40	40	30	30	20	20	20	10	10	270
Education, training, employment, and social services:												
Education:												
95 Exclusion of scholarship and fellowship income (normal tax method)	40	40	30	20	20	20	20	30	20	20	20	240
96 Tax credits and deductions for postsecondary education expenses [7]	0	0	0	0	0	0	0	0	0	0	0	0
97 Education Individual Retirement Accounts	0	0	0	0	0	0	0	0	0	0	0	0
98 Deductibility of student-loan interest	0	0	0	0	0	0	0	0	0	0	0	0
99 Qualified tuition programs	0	0	0	0	0	0	0	0	0	0	0	0
100 Exclusion of interest on student-loan bonds	20	20	20	10	20	10	10	20	20	10	10	150
101 Exclusion of interest on bonds for private nonprofit educational facilities	240	230	180	140	150	140	130	180	150	120	120	1,540
102 Credit for holders of zone academy bonds [8]	170	150	130	110	90	80	60	50	50	40	40	800
103 Exclusion of interest on savings bonds redeemed to finance educational expenses	0	0	0	0	0	0	0	0	0	0	0	0
104 Parental personal exemption for students age 19 or over	0	0	0	0	0	0	0	0	0	0	0	0
105 Deductibility of charitable contributions (education)	570	600	620	660	690	730	760	800	830	860	890	7,440
106 Exclusion of employer-provided educational assistance	0	0	0	0	0	0	0	0	0	0	0	0
107 Special deduction for teacher expenses	0	0	0	0	0	0	0	0	0	0	0	0
108 Discharge of student loan indebtedness	0	0	0	0	0	0	0	0	0	0	0	0
109 Qualified school construction bonds [9]	150	140	130	130	120	120	110	100	100	90	80	1,120
Training, employment, and social services:												
110 Work opportunity tax credit	1,310	910	420	270	200	150	120	90	70	50	40	2,320
111 Employer-provided child care exclusion	0	0	0	0	0	0	0	0	0	0	0	0
112 Employer-provided child care credit	20	20	20	20	20	20	20	20	20	20	30	210
113 Assistance for adopted foster children	0	0	0	0	0	0	0	0	0	0	0	0
114 Adoption credit and exclusion	0	0	0	0	0	0	0	0	0	0	0	0
115 Exclusion of employee meals and lodging (other than military)	–310	–330	–340	–360	–380	–400	–420	–440	–460	–480	–510	–4,120
116 Credit for child and dependent care expenses	0	0	0	0	0	0	0	0	0	0	0	0
117 Credit for disabled access expenditures	0	0	0	0	0	0	0	0	0	0	0	0

Table 13–2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2019–2029—Continued
(In millions of dollars)

		Total from corporations											
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–29
118	Deductibility of charitable contributions, other than education and health	1,160	1,210	1,250	1,300	1,350	1,400	1,460	1,520	1,580	1,640	1,700	14,410
119	Exclusion of certain foster care payments	0	0	0	0	0	0	0	0	0	0	0	0
120	Exclusion of parsonage allowances	0	0	0	0	0	0	0	0	0	0	0	0
121	Indian employment credit	10	10	10	10	10	0	0	0	0	0	0	40
122	Credit for employer differential wage payments	0	10	10	10	10	10	10	10	10	10	10	100
Health:													
123	Exclusion of employer contributions for medical insurance premiums and medical care [10]	0	0	0	0	0	0	0	0	0	0	0	0
124	Self-employed medical insurance premiums	0	0	0	0	0	0	0	0	0	0	0	0
125	Medical Savings Accounts / Health Savings Accounts	0	0	0	0	0	0	0	0	0	0	0	0
126	Deductibility of medical expenses	0	0	0	0	0	0	0	0	0	0	0	0
127	Exclusion of interest on hospital construction bonds	340	340	260	210	210	200	190	270	220	170	180	2,250
128	Refundable Premium Assistance Tax Credit [11]	0	0	0	0	0	0	0	0	0	0	0	0
129	Credit for employee health insurance expenses of small business [12]	20	10	10	10	0	0	0	0	0	0	0	30
130	Deductibility of charitable contributions (health)	3,580	3,810	4,030	4,250	4,460	4,670	4,890	5,100	5,320	5,550	5,780	47,860
131	Tax credit for orphan drug research	1,530	1,850	2,250	2,740	3,330	4,040	4,920	5,980	7,270	8,840	10,760	51,980
132	Special Blue Cross/Blue Shield tax benefits	200	230	260	300	330	370	400	430	470	510	550	3,850
133	Tax credit for health insurance purchased by certain displaced and retired individuals [13]	0	0	0	0	0	0	0	0	0	0	0	0
134	Distributions from retirement plans for premiums for health and long-term care insurance	0	0	0	0	0	0	0	0	0	0	0	0
Income security:													
135	Child credit [14]	0	0	0	0	0	0	0	0	0	0	0	0
136	Exclusion of railroad retirement (Social Security equivalent) benefits	0	0	0	0	0	0	0	0	0	0	0	0
137	Exclusion of workers' compensation benefits	0	0	0	0	0	0	0	0	0	0	0	0
138	Exclusion of public assistance benefits (normal tax method)	0	0	0	0	0	0	0	0	0	0	0	0
139	Exclusion of special benefits for disabled coal miners	0	0	0	0	0	0	0	0	0	0	0	0
140	Exclusion of military disability pensions	0	0	0	0	0	0	0	0	0	0	0	0
	Net exclusion of pension contributions and earnings:												
141	Defined benefit employer plans	0	0	0	0	0	0	0	0	0	0	0	0
142	Defined contribution employer plans	0	0	0	0	0	0	0	0	0	0	0	0
143	Individual Retirement Accounts	0	0	0	0	0	0	0	0	0	0	0	0
144	Low and moderate income savers credit	0	0	0	0	0	0	0	0	0	0	0	0
145	Self-Employed plans	0	0	0	0	0	0	0	0	0	0	0	0
	Exclusion of other employee benefits:												
146	Premiums on group term life insurance	0	0	0	0	0	0	0	0	0	0	0	0
147	Premiums on accident and disability insurance	0	0	0	0	0	0	0	0	0	0	0	0
148	Income of trusts to finance supplementary unemployment benefits	0	0	0	0	0	0	0	0	0	0	0	0
149	Income of trusts to finance voluntary employee benefits associations	0	0	0	0	0	0	0	0	0	0	0	0
150	Special ESOP rules	1,970	2,020	2,070	2,120	2,170	2,220	2,270	2,320	2,380	2,430	2,490	22,490
151	Additional deduction for the blind	0	0	0	0	0	0	0	0	0	0	0	0
152	Additional deduction for the elderly	0	0	0	0	0	0	0	0	0	0	0	0
153	Tax credit for the elderly and disabled	0	0	0	0	0	0	0	0	0	0	0	0
154	Deductibility of casualty losses	0	0	0	0	0	0	0	0	0	0	0	0
155	Earned income tax credit [15]	0	0	0	0	0	0	0	0	0	0	0	0
Social Security:													
	Exclusion of Social Security benefits:												
156	Social Security benefits for retired and disabled workers and spouses, dependents and survivors	0	0	0	0	0	0	0	0	0	0	0	0
157	Credit for certain employer contributions to Social Security	500	530	570	610	650	680	720	760	790	830	870	7,010

Table 13–2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2019–2029—Continued

(In millions of dollars)

		Total from corporations											
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–29
Veterans benefits and services:													
158	Exclusion of veterans death benefits and disability compensation	0	0	0	0	0	0	0	0	0	0	0	0
159	Exclusion of veterans pensions	0	0	0	0	0	0	0	0	0	0	0	0
160	Exclusion of G.I. bill benefits	0	0	0	0	0	0	0	0	0	0	0	0
161	Exclusion of interest on veterans housing bonds	10	10	0	0	0	0	0	0	0	0	0	10
General purpose fiscal assistance:													
162	Exclusion of interest on public purpose State and local bonds	2,990	2,930	2,240	1,790	1,870	1,780	1,650	2,320	1,930	1,500	1,530	19,540
163	Build America Bonds [16]	0	0	0	0	0	0	0	0	0	0	0	0
164	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
Interest:													
165	Deferral of interest on U.S. savings bonds	0	0	0	0	0	0	0	0	0	0	0	0
Addendum: Aid to State and local governments:													
	Deductibility of:												
	Property taxes on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
	Nonbusiness State and local taxes other than on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
	Exclusion of interest on State and local bonds for:												
	Public purposes	2,990	2,930	2,240	1,790	1,870	1,780	1,650	2,320	1,930	1,500	1,530	19,540
	Energy facilities	0	0	0	0	0	0	0	0	0	0	0	0
	Water, sewage, and hazardous waste disposal facilities	40	40	30	20	20	20	20	30	20	20	20	240
	Small-issues	10	10	10	10	10	10	10	10	10	10	10	100
	Owner-occupied mortgage subsidies	100	100	80	60	60	60	60	80	70	50	50	670
	Rental housing	130	130	100	80	80	80	70	100	90	70	70	870
	Airports, docks, and similar facilities	80	80	60	50	50	50	40	60	50	40	40	520
	Student loans	20	20	20	10	20	10	10	20	20	10	10	150
	Private nonprofit educational facilities	240	230	180	140	150	140	130	180	150	120	120	1,540
	Hospital construction	340	340	260	210	210	200	190	270	220	170	180	2,250
	Veterans' housing	10	10	0	0	0	0	0	0	0	0	0	10

See Table 13-1 footnotes for specific table information

TABLE 13–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2019–2029

(In millions of dollars)

	Total from individuals											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–29
National Defense												
1 Exclusion of benefits and allowances to Armed Forces personnel	12,460	12,910	11,660	11,700	12,080	12,560	13,090	13,660	14,270	14,910	15,600	132,440
International affairs:												
2 Exclusion of income earned abroad by U.S. citizens	6,930	7,280	7,640	8,020	8,420	8,840	9,290	9,750	10,240	10,750	11,290	91,520
3 Exclusion of certain allowances for Federal employees abroad	240	250	260	280	290	300	320	330	350	370	390	3,140
4 Inventory property sales source rules exception	0	0	0	0	0	0	0	0	0	0	0	0
5 Reduced tax rate on active income of controlled foreign corporations (normal tax method)	0	0	0	0	0	0	0	0	0	0	0	0
6 Deduction for foreign-derived intangible income dervied from trade or business within the United States	0	0	0	0	0	0	0	0	0	0	0	0
7 Interest Charge Domestic International Sales Corporations (IC-DISCs)	1,280	1,340	1,410	1,480	1,560	1,630	1,720	1,800	1,890	1,990	2,090	16,910
General science, space, and technology:												
8 Expensing of research and experimentation expenditures (normal tax method)	1,210	1,090	1,090	–1,540	–6,540	–4,910	–3,170	–1,310	0	0	0	–15,290
9 Credit for increasing research activities	1,860	2,030	2,210	2,380	2,550	2,740	2,930	3,140	3,360	3,590	3,840	28,770
Energy:												
10 Expensing of exploration and development costs, fuels	720	820	690	490	390	400	470	590	640	590	520	5,600
11 Excess of percentage over cost depletion, fuels	240	280	300	320	340	360	390	470	530	560	580	4,130
12 Exception from passive loss limitation for working interests in oil and gas properties	10	10	10	10	10	10	10	10	10	10	10	100
13 Capital gains treatment of royalties on coal	150	140	140	140	140	150	160	170	190	200	210	1,640
14 Exclusion of interest on energy facility bonds	10	10	10	10	10	10	10	10	10	10	10	100
15 Enhanced oil recovery credit	30	20	20	10	20	20	30	40	30	30	40	260
16 Energy production credit [1]	1,060	1,080	1,070	1,060	1,050	1,020	980	820	650	440	270	8,440
17 Marginal wells credit	80	60	70	70	60	30	10	0	0	0	0	300
18 Energy investment credit [1]	890	1,080	1,150	1,070	880	640	480	370	290	240	220	6,420
19 Alcohol fuel credits [2]	0	0	0	0	0	0	0	0	0	0	0	0
20 Bio-Diesel and small agri-biodiesel producer tax credits [3]	0	0	0	0	0	0	0	0	0	0	0	0
21 Tax credits for clean-fuel burning vehicles and refueling property	660	420	260	260	270	230	170	150	150	150	110	2,170
22 Exclusion of utility conservation subsidies	430	450	470	490	520	550	570	600	630	660	690	5,630
23 Credit for holding clean renewable energy bonds [4]	50	50	50	50	50	50	50	50	50	50	50	500
24 Credit for investment in clean coal facilities	0	0	0	0	10	10	10	10	10	0	0	50
25 Natural gas distribution pipelines treated as 15-year property	0	0	0	0	0	0	0	0	0	0	0	0
26 Amortize all geological and geophysical expenditures over 2 years	110	120	130	130	140	150	150	180	190	200	200	1,590
27 Allowance of deduction for certain energy efficient commercial building property	10	0	0	0	0	0	0	0	0	0	0	0
28 Credit for construction of new energy efficient homes	40	10	10	0	0	0	0	0	0	0	0	20
29 Credit for residential energy efficient property	1,980	1,740	1,410	360	70	0	0	0	0	0	0	3,580
30 Qualified energy conservation bonds [5]	20	20	20	20	20	20	20	20	20	20	20	200
31 Advanced Energy Property Credit	0	0	0	0	0	0	0	0	0	0	0	0
32 Advanced nuclear power production credit	0	0	0	0	0	0	0	0	0	0	0	0
33 Reduced tax rate for nuclear decommissioning funds	0	0	0	0	0	0	0	0	0	0	0	0
Natural resources and environment:												
34 Expensing of exploration and development costs, nonfuel minerals	130	140	120	90	70	70	80	100	110	100	90	970
35 Excess of percentage over cost depletion, nonfuel minerals	40	50	50	60	60	60	70	80	90	100	100	720
36 Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	260	280	280	300	320	320	330	350	360	370	370	3,280
37 Capital gains treatment of certain timber income	150	140	140	140	140	150	160	170	190	200	210	1,640

Table 13–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2019–2029—Continued

(In millions of dollars)

		Total from individuals											
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–29
38	Expensing of multiperiod timber growing costs	40	40	50	50	60	60	60	70	80	80	80	630
39	Tax incentives for preservation of historic structures	180	150	140	140	150	190	220	240	260	260	270	2,020
40	Carbon oxide sequestration credit	0	0	0	0	0	0	0	0	0	0	0	0
41	Deduction for endangered species recovery expenditures	20	20	20	20	20	30	30	30	40	40	40	290
Agriculture:													
42	Expensing of certain capital outlays	20	70	100	120	130	130	140	170	190	200	210	1,460
43	Expensing of certain multiperiod production costs	240	260	270	280	300	310	330	410	450	470	480	3,560
44	Treatment of loans forgiven for solvent farmers	50	50	50	60	60	60	70	70	70	70	70	630
45	Capital gains treatment of certain agriculture income	1,490	1,410	1,390	1,400	1,440	1,490	1,560	1,730	1,920	2,010	2,100	16,450
46	Income averaging for farmers	170	180	190	190	200	210	220	230	230	230	230	2,110
47	Deferral of gain on sale of farm refiners	0	0	0	0	0	0	0	0	0	0	0	0
48	Expensing of reforestation expenditures	40	40	50	50	60	60	60	70	80	80	80	630
Commerce and housing:													
	Financial institutions and insurance:												
49	Exemption of credit union income	0	0	0	0	0	0	0	0	0	0	0	0
50	Exclusion of life insurance death benefits	11,970	12,480	13,020	13,510	14,060	14,640	15,190	16,010	17,010	17,570	18,010	151,500
51	Exemption or special alternative tax for small property and casualty insurance companies	0	0	0	0	0	0	0	0	0	0	0	0
52	Tax exemption of insurance income earned by tax-exempt organizations	0	0	0	0	0	0	0	0	0	0	0	0
53	Exclusion of interest spread of financial institutions	2,190	1,120	1,160	1,200	1,240	1,280	1,330	1,400	1,470	1,510	1,560	13,270
	Housing:												
54	Exclusion of interest on owner-occupied mortgage subsidy bonds	690	740	760	800	850	880	890	940	980	1,000	1,010	8,850
55	Exclusion of interest on rental housing bonds	900	960	980	1,030	1,100	1,130	1,140	1,210	1,270	1,290	1,300	11,410
56	Deductibility of mortgage interest on owner-occupied homes	25,130	27,090	29,580	32,290	34,960	37,510	40,110	85,520	112,580	119,280	125,820	644,740
57	Deductibility of State and local property tax on owner-occupied homes	6,010	6,270	6,650	7,030	7,400	7,740	8,090	39,930	58,030	61,630	65,340	268,110
58	Deferral of income from installment sales	1,460	1,480	1,520	1,560	1,620	1,700	1,780	1,860	1,960	2,050	2,150	17,680
59	Capital gains exclusion on home sales	43,610	45,750	48,040	50,330	52,670	55,090	57,650	64,840	70,000	73,110	76,230	593,710
60	Exclusion of net imputed rental income	121,320	125,990	130,430	134,570	138,710	142,840	147,500	189,930	200,620	211,550	212,650	1,634,790
61	Exception from passive loss rules for $25,000 of rental loss	6,070	6,430	6,780	7,110	7,470	7,860	8,500	9,410	9,780	10,140	10,490	83,970
62	Credit for low-income housing investments	440	460	470	480	490	500	510	530	540	560	570	5,110
63	Accelerated depreciation on rental housing (normal tax method)	6,810	7,090	7,420	7,810	8,280	8,830	9,460	12,300	14,340	15,330	16,320	107,180
	Commerce:												
64	Discharge of business indebtedness	10	40	40	30	20	20	20	40	50	50	50	360
65	Exceptions from imputed interest rules	50	60	60	70	70	70	80	90	100	110	120	830
66	Treatment of qualified dividends	31,100	31,530	32,410	33,700	35,470	37,640	40,160	45,540	51,160	54,430	57,970	420,010
67	Capital gains (except agriculture, timber, iron ore, and coal)	111,470	104,920	103,790	104,580	107,170	111,200	116,250	129,410	143,110	149,840	157,060	1,227,330
68	Capital gains exclusion of small corporation stock	1,240	1,410	1,530	1,640	1,750	1,850	1,930	2,000	2,080	2,160	2,250	18,600
69	Step-up basis of capital gains at death	49,980	51,750	53,640	56,200	59,130	62,650	66,360	70,340	74,740	79,640	84,860	659,310
70	Carryover basis of capital gains on gifts	3,650	3,150	3,010	2,940	2,870	2,830	2,780	2,770	2,600	2,460	2,480	27,890
71	Ordinary income treatment of loss from small business corporation stock sale	70	70	70	70	70	80	80	80	80	90	90	780
72	Deferral of gains from like-kind exchanges	1,850	1,940	2,040	2,140	2,250	2,360	2,480	2,600	2,730	2,870	3,010	24,420
73	Depreciation of buildings other than rental housing (normal tax method)	–1,020	–1,220	–1,490	–1,810	–2,150	–2,510	–2,820	–3,760	–4,500	–4,970	–5,470	–30,700
74	Accelerated depreciation of machinery and equipment (normal tax method)	22,160	20,170	19,410	18,590	11,630	4,740	–240	–7,010	–16,220	–13,320	–6,150	31,600
75	Expensing of certain small investments (normal tax method)	–1,770	–660	–50	360	2,940	5,830	8,200	12,990	16,940	16,240	14,590	77,380
76	Exclusion of interest on small issue bonds	90	100	100	110	110	120	120	120	130	130	130	1,170
77	Special rules for certain film and TV production	10	0	0	0	0	0	0	0	0	0	0	0

Table 13–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2019–2029—Continued

(In millions of dollars)

		Total from individuals											
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–29
78	Allow 20-percent deduction to certain pass-through income	34,923	53,132	54,698	56,499	59,037	62,065	65,730	22,119	0	0	0	373,280
Transportation:													
79	Tonnage tax	0	0	0	0	0	0	0	0	0	0	0	0
80	Deferral of tax on shipping companies	0	0	0	0	0	0	0	0	0	0	0	0
81	Exclusion of reimbursed employee parking expenses	3,350	3,460	3,620	3,790	3,860	3,950	4,080	4,200	4,320	4,440	4,570	40,290
82	Exclusion for employer-provided transit passes	740	780	840	900	930	980	1,040	1,100	1,160	1,220	1,290	10,240
83	Tax credit for certain expenditures for maintaining railroad tracks	10	10	10	10	0	0	0	0	0	0	0	30
84	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	130	130	120	120	110	110	100	100	90	90	90	1,060
Community and regional development:													
85	Investment credit for rehabilitation of structures (other than historic)	10	10	0	0	0	0	0	0	0	0	0	10
86	Exclusion of interest for airport, dock, and similar bonds	530	570	580	610	650	670	680	720	750	770	770	6,770
87	Exemption of certain mutuals' and cooperatives' income	0	0	0	0	0	0	0	0	0	0	0	0
88	Empowerment zones	10	10	0	0	0	0	0	0	0	0	0	10
89	New markets tax credit	30	30	30	20	20	20	10	10	0	0	0	140
90	Credit to holders of Gulf Tax Credit Bonds.	130	130	130	130	130	120	110	110	100	90	80	1,130
91	Recovery Zone Bonds [6]	80	80	70	70	70	70	60	60	60	50	50	640
92	Tribal Economic Development Bonds	10	10	10	10	10	10	10	10	10	10	10	100
93	Opportunity Zones	1,450	2,350	1,580	1,580	1,130	1,190	1,090	–2,450	–6,360	310	410	830
94	Employee retention credit	100	20	10	10	10	10	10	10	10	0	0	90
Education, training, employment, and social services:													
	Education:												
95	Exclusion of scholarship and fellowship income (normal tax method)	3,000	3,180	3,360	3,560	3,780	4,000	4,240	4,750	5,530	5,840	6,160	44,400
96	Tax credits and deductions for postsecondary education expenses [7]	17,380	16,390	16,310	16,290	16,340	16,280	16,230	16,270	17,000	16,950	16,930	164,990
97	Education Individual Retirement Accounts	40	40	40	40	40	40	40	40	40	40	40	400
98	Deductibility of student-loan interest	1,920	2,040	2,060	2,100	2,130	2,250	2,300	2,330	2,950	2,960	3,020	24,140
99	Qualified tuition programs	2,200	2,410	2,650	2,920	3,240	3,640	4,130	5,070	6,080	7,230	8,750	46,120
100	Exclusion of interest on student-loan bonds	170	180	180	190	200	210	210	220	240	240	240	2,110
101	Exclusion of interest on bonds for private nonprofit educational facilities	1,610	1,720	1,760	1,850	1,970	2,030	2,050	2,170	2,280	2,320	2,330	20,480
102	Credit for holders of zone academy bonds [8]	0	0	0	0	0	0	0	0	0	0	0	0
103	Exclusion of interest on savings bonds redeemed to finance educational expenses	30	30	40	40	40	40	40	50	50	50	50	430
104	Parental personal exemption for students age 19 or over	0	0	0	0	0	0	0	5,630	8,520	8,690	8,930	31,770
105	Deductibility of charitable contributions (education)	3,570	3,850	4,170	4,440	4,720	4,990	5,260	6,360	8,370	8,760	9,180	60,100
106	Exclusion of employer-provided educational assistance	880	930	980	1,040	1,090	1,150	1,210	1,420	1,560	1,630	1,710	12,720
107	Special deduction for teacher expenses	180	180	180	190	180	180	180	190	220	220	220	1,940
108	Discharge of student loan indebtedness	80	90	90	100	100	110	120	130	150	160	170	1,220
109	Qualified school construction bonds [9]	450	430	410	390	370	350	330	310	290	270	250	3,400
	Training, employment, and social services:												
110	Work opportunity tax credit	450	370	140	70	50	40	30	20	20	10	10	760
111	Employer-provided child care exclusion	570	610	660	710	770	830	900	1,230	1,430	1,510	1,590	10,240
112	Employer-provided child care credit	0	0	0	0	0	0	0	0	0	0	0	0
113	Assistance for adopted foster children	590	620	660	700	750	800	850	900	960	1,020	1,080	8,340
114	Adoption credit and exclusion	700	770	790	830	860	880	900	910	920	930	940	8,730
115	Exclusion of employee meals and lodging (other than military)	5,410	5,570	5,760	5,980	6,210	6,470	6,870	8,020	8,730	9,100	9,520	72,230
116	Credit for child and dependent care expenses	4,260	4,360	4,440	4,540	4,690	4,780	4,890	5,100	5,320	5,390	5,400	48,910
117	Credit for disabled access expenditures	10	10	10	10	10	10	10	10	10	10	10	100

Table 13–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2019–2029—Continued

(In millions of dollars)

		Total from individuals											
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–29
118	Deductibility of charitable contributions, other than education and health	35,500	38,330	41,510	44,210	46,920	49,640	52,290	63,270	83,230	87,160	91,280	597,840
119	Exclusion of certain foster care payments	480	490	510	510	520	530	540	540	540	540	560	5,280
120	Exclusion of parsonage allowances	870	920	970	1,020	1,080	1,130	1,190	1,260	1,320	1,390	1,470	11,750
121	Indian employment credit	20	10	10	10	10	10	10	10	10	10	10	100
122	Credit for employer differential wage payments	0	0	0	0	0	0	0	10	10	10	10	40
Health:													
123	Exclusion of employer contributions for medical insurance premiums and medical care [10]	202,290	214,420	227,880	242,230	258,730	276,820	295,050	348,700	389,240	413,090	438,240	3,104,400
124	Self-employed medical insurance premiums	7,050	7,320	7,780	8,320	8,870	9,420	10,120	11,730	13,080	13,900	14,670	105,210
125	Medical Savings Accounts / Health Savings Accounts	7,880	8,510	9,110	9,800	10,380	10,900	11,410	12,970	14,100	14,680	15,350	117,210
126	Deductibility of medical expenses	6,500	6,640	7,310	8,140	9,050	10,030	11,090	17,270	21,690	23,780	25,990	140,990
127	Exclusion of interest on hospital construction bonds	2,320	2,480	2,530	2,660	2,850	2,920	2,960	3,120	3,280	3,350	3,360	29,510
128	Refundable Premium Assistance Tax Credit [11]	7,040	3,910	4,110	3,690	3,590	3,370	3,740	4,810	5,380	5,660	5,980	44,240
129	Credit for employee health insurance expenses of small business [12]	50	40	30	20	10	10	10	0	0	0	0	120
130	Deductibility of charitable contributions (health)	3,960	4,270	4,620	4,930	5,230	5,530	5,820	7,050	9,270	9,710	10,170	66,600
131	Tax credit for orphan drug research	20	20	30	30	40	50	50	60	70	80	100	530
132	Special Blue Cross/Blue Shield tax benefits	0	0	0	0	0	0	0	0	0	0	0	0
133	Tax credit for health insurance purchased by certain displaced and retired individuals [13]	10	0	0	0	0	0	0	0	0	0	0	0
134	Distributions from retirement plans for premiums for health and long-term care insurance	420	430	450	460	470	490	500	590	630	650	660	5,330
Income security:													
135	Child credit [14]	74,880	75,770	76,530	77,100	77,740	78,300	78,990	55,850	20,650	20,450	20,240	581,620
136	Exclusion of railroad retirement (Social Security equivalent) benefits	230	220	210	200	190	180	170	170	180	180	170	1,870
137	Exclusion of workers' compensation benefits	9,680	9,770	9,870	9,970	10,070	10,170	10,270	10,370	10,470	10,570	10,680	102,210
138	Exclusion of public assistance benefits (normal tax method)	660	680	690	710	730	760	780	790	810	820	750	7,520
139	Exclusion of special benefits for disabled coal miners	20	20	20	10	10	10	10	10	10	10	10	120
140	Exclusion of military disability pensions	150	160	160	160	160	170	170	190	200	200	210	1,780
	Net exclusion of pension contributions and earnings:												
141	Defined benefit employer plans	71,653	73,831	75,807	78,012	79,560	80,979	81,129	83,516	84,065	85,124	86,795	808,818
142	Defined contribution employer plans	75,680	83,520	90,680	100,410	109,170	117,650	125,990	149,560	162,650	173,070	184,180	1,296,880
143	Individual Retirement Accounts	20,520	21,650	22,760	23,990	25,490	27,220	29,300	33,310	36,390	39,840	43,430	303,380
144	Low and moderate income savers credit	1,180	1,180	1,180	1,220	1,220	1,210	1,240	1,350	1,350	1,340	1,330	12,620
145	Self-Employed plans	24,150	26,580	29,250	32,070	34,900	38,560	42,770	50,570	62,750	69,180	75,380	462,010
	Exclusion of other employee benefits:												
146	Premiums on group term life insurance	2,960	3,080	3,200	3,320	3,450	3,580	3,710	4,210	4,480	4,640	4,790	38,460
147	Premiums on accident and disability insurance	330	330	340	340	340	350	350	350	350	350	350	3,450
148	Income of trusts to finance supplementary unemployment benefits	30	30	40	40	50	50	50	60	60	60	60	500
149	Income of trusts to finance voluntary employee benefits associations	990	1,060	1,130	1,210	1,280	1,360	1,440	1,610	1,700	1,800	1,900	14,490
150	Special ESOP rules	130	130	140	140	150	150	160	160	170	170	180	1,550
151	Additional deduction for the blind	40	40	40	40	40	50	50	50	60	60	70	500
152	Additional deduction for the elderly	4,990	5,290	5,680	6,150	6,490	6,910	7,340	6,950	7,030	7,480	8,010	67,330
153	Tax credit for the elderly and disabled	0	0	0	0	0	0	0	0	0	0	0	0
154	Deductibility of casualty losses	0	0	0	0	0	0	0	380	600	640	680	2,300
155	Earned income tax credit [15]	2,700	2,660	2,700	2,770	2,840	2,920	3,010	3,080	10,490	10,730	11,070	52,270
Social Security:													
	Exclusion of Social Security benefits:												
156	Social Security benefits for retired and disabled workers and spouses, dependents and survivors	29,100	30,900	32,490	33,990	35,640	36,330	36,430	41,480	48,460	50,590	52,670	398,980
157	Credit for certain employer contributions to Social Security	920	950	970	1,000	1,030	1,050	1,080	1,110	1,140	1,160	1,190	10,680
Veterans benefits and services:													

Table 13–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2019–2029—Continued
(In millions of dollars)

		Total from individuals											
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–29
158	Exclusion of veterans death benefits and disability compensation	7,590	8,340	8,910	9,200	9,500	9,820	10,150	10,950	12,380	12,790	13,230	105,270
159	Exclusion of veterans pensions	240	240	250	250	260	260	260	280	310	320	320	2,750
160	Exclusion of G.I. bill benefits	1,460	1,530	1,590	1,650	1,720	1,780	1,850	2,010	2,290	2,370	2,470	19,260
161	Exclusion of interest on veterans housing bonds	40	50	50	50	50	50	50	60	60	60	60	540
General purpose fiscal assistance:													
162	Exclusion of interest on public purpose State and local bonds	20,220	21,650	22,100	23,220	24,840	25,490	25,830	27,240	28,630	29,210	29,310	257,520
163	Build America Bonds [16]	0	0	0	0	0	0	0	0	0	0	0	0
164	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes [17]	4,430	7,110	7,510	7,920	8,310	8,660	8,990	78,340	117,330	124,170	131,130	499,470
Interest:													
165	Deferral of interest on U.S. savings bonds	850	840	840	830	820	810	800	790	840	860	880	8,310
Addendum: Aid to State and local governments:													
	Deductibility of:												
	Property taxes on owner-occupied homes	6,010	6,270	6,650	7,030	7,400	7,740	8,090	39,930	58,030	61,630	65,340	268,110
	Nonbusiness State and local taxes other than on owner-occupied homes	4,430	7,110	7,510	7,920	8,310	8,660	8,990	78,340	117,330	124,170	131,130	499,470
	Exclusion of interest on State and local bonds for:												
	Public purposes	20,220	21,650	22,100	23,220	24,840	25,490	25,830	27,240	28,630	29,210	29,310	257,520
	Energy facilities	10	10	10	10	10	10	10	10	10	10	10	100
	Water, sewage, and hazardous waste disposal facilities	260	280	280	300	320	320	330	350	360	370	370	3,280
	Small-issues	90	100	100	110	110	120	120	120	130	130	130	1,170
	Owner-occupied mortgage subsidies	690	740	760	800	850	880	890	940	980	1,000	1,010	8,850
	Rental housing	900	960	980	1,030	1,100	1,130	1,140	1,210	1,270	1,290	1,300	11,410
	Airports, docks, and similar facilities	530	570	580	610	650	670	680	720	750	770	770	6,770
	Student loans	170	180	180	190	200	210	210	220	240	240	240	2,110
	Private nonprofit educational facilities	1,610	1,720	1,760	1,850	1,970	2,030	2,050	2,170	2,280	2,320	2,330	20,480
	Hospital construction	2,320	2,480	2,530	2,660	2,850	2,920	2,960	3,120	3,280	3,350	3,360	29,510
	Veterans' housing	40	50	50	50	50	50	50	60	60	60	60	540

See Table 13-1 footnotes for specific table information

TABLE 13–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2020–2029 PROJECTED REVENUE EFFECT

(In millions of dollars)

	Provision	2020	2021	2020–2029
123	Exclusion of employer contributions for medical insurance premiums	214,420	227,880	3,104,400
60	Exclusion of net imputed rental income	125,990	130,430	1,634,790
142	Defined contribution employer plans	83,520	90,680	1,296,880
67	Capital gains (except agriculture, timber, iron ore, and coal)	104,920	103,790	1,227,330
141	Defined benefit employer plans	73,831	75,807	808,818
69	Step-up basis of capital gains at death	51,750	53,640	659,310
56	Deductibility of mortgage interest on owner-occupied homes	27,090	29,580	644,740
118	Deductibility of charitable contributions, other than education and health	39,540	42,760	612,250
59	Capital gains exclusion on home sales	45,750	48,040	593,710
135	Child credit [14]	75,770	76,530	581,620
164	Deductibility of nonbusiness State and local taxes other than	7,110	7,510	499,470
5	Reduced tax rate on active income of controlled	40,000	42,980	480,080
145	Self-Employed plans	26,580	29,250	462,010
66	Treatment of qualified dividends	31,530	32,410	420,010
156	Social Security benefits for retired and disabled workers and spouses, dependents and survivors	30,900	32,490	398,980
78	Allow 20-percent deduction to certain pass-through income	53,132	54,698	373,280
143	Individual Retirement Accounts	21,650	22,760	303,380
162	Exclusion of interest on public purpose State and local bonds	24,580	24,340	277,060
57	Deductibility of State and local property tax on owner-occupied homes [17]	6,270	6,650	268,110
9	Credit for increasing research activities	16,810	18,380	237,830
50	Exclusion of life insurance death benefits	13,760	14,340	166,240
96	Tax credits and deductions for postsecondary education expenses [7]	16,390	16,310	164,990
126	Deductibility of medical expenses	6,640	7,310	140,990
1	Exclusion of benefits and allowances to Armed Forces personnel	12,910	11,660	132,440
63	Accelerated depreciation on rental housing (normal tax method)	8,370	8,800	125,440
125	Medical Savings Accounts / Health Savings Accounts	8,510	9,110	117,210
130	Deductibility of charitable contributions (health)	8,080	8,650	114,460
158	Exclusion of veterans death benefits and disability compensation	8,340	8,910	105,270
124	Self-employed medical insurance premiums	7,320	7,780	105,210
137	Exclusion of workers' compensation benefits	9,770	9,870	102,210
62	Credit for low-income housing investments	9,110	9,360	101,900
6	Deduction for foreign-derived intangible income dervied from	8,100	9,880	96,820
2	Exclusion of income earned abroad by U.S. citizens	7,280	7,640	91,520
75	Expensing of certain small investments (normal tax method)	–710	–10	86,400
61	Exception from passive loss rules for $25,000 of rental loss	6,430	6,780	83,970
115	Exclusion of employee meals and lodging (other than military)	5,240	5,420	68,110
105	Deductibility of charitable contributions (education)	4,450	4,790	67,540
152	Additional deduction for the elderly	5,290	5,680	67,330
131	Tax credit for orphan drug research	1,870	2,280	52,510
72	Deferral of gains from like-kind exchanges	2,980	3,140	37,560
155	Earned income tax credit [15]	2,660	2,700	52,270
116	Credit for child and dependent care expenses	4,360	4,440	48,910
99	Qualified tuition programs	2,410	2,650	46,120
95	Exclusion of scholarship and fellowship income (normal tax method)	3,220	3,390	44,640
128	Refundable Premium Assistance Tax Credit [11]	3,910	4,110	44,240
146	Premiums on group term life insurance	3,080	3,200	38,460
16	Energy production credit [1]	4,310	4,290	33,750
104	Parental personal exemption for students age 19 or over	0	0	31,770
127	Exclusion of interest on hospital construction bonds	2,820	2,790	31,760
70	Carryover basis of capital gains on gifts	3,150	3,010	27,890
18	Energy investment credit [1]	4,510	4,820	26,920
81	Exclusion of reimbursed employee parking expenses	2,270	2,400	26,650
74	Accelerated depreciation of machinery and equipment (normal tax method)	43,460	40,610	25,060
98	Deductibility of student-loan interest	2,040	2,060	24,140
150	Special ESOP rules	2,150	2,210	24,040
101	Exclusion of interest on bonds for private nonprofit educational facilities	1,950	1,940	22,020
49	Exemption of credit union income	1,764	1,587	21,878
160	Exclusion of G.I. bill benefits	1,530	1,590	19,260
68	Capital gains exclusion of small corporation stock	1,410	1,530	18,600

Table 13–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2020–2029 PROJECTED REVENUE EFFECT—Continued
(In millions of dollars)

	Provision	2020	2021	2020–2029
157	Credit for certain employer contributions to Social Security	1,480	1,540	17,690
58	Deferral of income from installment sales	1,480	1,520	17,680
7	Interest Charge Domestic International Sales Corporations (IC-DISCs)	1,340	1,410	16,910
45	Capital gains treatment of certain agriculture income	1,410	1,390	16,450
149	Income of trusts to finance voluntary employee benefits associations	1,060	1,130	14,490
53	Exclusion of interest spread of financial institutions	1,120	1,160	13,270
106	Exclusion of employer-provided educational assistance	930	980	12,720
144	Low and moderate income savers credit	1,180	1,180	12,620
55	Exclusion of interest on rental housing bonds	1,090	1,080	12,280
120	Exclusion of parsonage allowances	920	970	11,750
11	Excess of percentage over cost depletion, fuels	760	820	10,610
111	Employer-provided child care exclusion	610	660	10,240
39	Tax incentives for preservation of historic structures	730	690	9,980
54	Exclusion of interest on owner-occupied mortgage subsidy bonds	840	840	9,520
114	Adoption credit and exclusion	770	790	8,730
113	Assistance for adopted foster children	620	660	8,340
165	Deferral of interest on U.S. savings bonds	840	840	8,310
138	Exclusion of public assistance benefits (normal tax method)	680	690	7,520
86	Exclusion of interest for airport, dock, and similar bonds	650	640	7,290
10	Expensing of exploration and development costs, fuels	1,060	890	7,090
22	Exclusion of utility conservation subsidies	470	490	5,830
134	Distributions from retirement plans for premiums for health	430	450	5,330
119	Exclusion of certain foster care payments	490	510	5,280
82	Exclusion for employer-provided transit passes	380	420	5,030
15	Enhanced oil recovery credit	440	320	4,910
89	New markets tax credit	1,280	1,210	4,730
109	Qualified school construction bonds [9]	570	540	4,520
132	Special Blue Cross/Blue Shield tax benefits	230	260	3,850
52	Tax exemption of insurance income earned by tax-exempt organizations	330	340	3,810
43	Expensing of certain multiperiod production costs	270	280	3,660
29	Credit for residential energy efficient property	1,740	1,410	3,580
36	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	320	310	3,520
147	Premiums on accident and disability insurance	330	340	3,450
26	Amortize all geological and geophysical expenditures over 2 years	250	260	3,170
3	Exclusion of certain allowances for Federal employees abroad	250	260	3,140
110	Work opportunity tax credit	1,280	560	3,080
21	Tax credits for clean-fuel burning vehicles and refueling property	580	380	2,980
159	Exclusion of veterans pensions	240	250	2,750
40	Carbon oxide sequestration credit	90	120	2,330
154	Deductibility of casualty losses	0	0	2,300
100	Exclusion of interest on student-loan bonds	200	200	2,260
46	Income averaging for farmers	180	190	2,110
107	Special deduction for teacher expenses	180	180	1,940
32	Advanced nuclear power production credit	0	0	1,910
136	Exclusion of railroad retirement (Social Security equivalent) benefits	220	210	1,870
35	Excess of percentage over cost depletion, nonfuel minerals	130	140	1,860
140	Exclusion of military disability pensions	160	160	1,780
13	Capital gains treatment of royalties on coal	140	140	1,640
37	Capital gains treatment of certain timber income	140	140	1,640
42	Expensing of certain capital outlays	90	110	1,570
51	Exemption or special alternative tax for small property and casualty	120	130	1,470
84	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	170	160	1,370
76	Exclusion of interest on small issue bonds	110	110	1,270
33	Reduced tax rate for nuclear decommissioning funds	100	110	1,260
34	Expensing of exploration and development costs, nonfuel minerals	180	160	1,230
90	Credit to holders of Gulf Tax Credit Bonds.	150	140	1,220
108	Discharge of student loan indebtedness	90	90	1,220
79	Tonnage tax	90	90	1,070
87	Exemption of certain mutuals' and cooperatives' income	90	100	1,050

Table 13–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2020–2029 PROJECTED REVENUE EFFECT—Continued
(In millions of dollars)

	Provision	2020	2021	2020–2029
93	Opportunity Zones	3,620	2,650	960
65	Exceptions from imputed interest rules	60	60	830
102	Credit for holders of zone academy bonds [8]	150	130	800
71	Ordinary income treatment of loss from small business corporation stock sale	70	70	780
38	Expensing of multiperiod timber growing costs	40	60	720
48	Expensing of reforestation expenditures	40	60	720
23	Credit for holding clean renewable energy bonds [4]	70	70	700
91	Recovery Zone Bonds [6]	90	80	690
44	Treatment of loans forgiven for solvent farmers	50	50	630
24	Credit for investment in clean coal facilities	10	20	610
161	Exclusion of interest on veterans housing bonds	60	50	550
151	Additional deduction for the blind	40	40	500
148	Income of trusts to finance supplementary unemployment benefits	30	40	500
103	Exclusion of interest on savings bonds redeemed to finance educational	30	40	430
41	Deduction for endangered species recovery expenditures	30	30	420
17	Marginal wells credit	80	100	410
97	Education Individual Retirement Accounts	40	40	400
94	Employee retention credit	70	50	360
64	Discharge of business indebtedness	40	40	360
30	Qualified energy conservation bonds [5]	30	30	300
112	Employer-provided child care credit	20	20	210
47	Deferral of gain on sale of farm refiners	15	15	185
129	Credit for employee health insurance expenses of small business [12]	50	40	150
121	Indian employment credit	20	20	140
122	Credit for employer differential wage payments	10	10	140
88	Empowerment zones	40	20	130
139	Exclusion of special benefits for disabled coal miners	20	20	120
31	Advanced Energy Property Credit	10	10	100
14	Exclusion of interest on energy facility bonds	10	10	100
80	Deferral of tax on shipping companies	10	10	100
92	Tribal Economic Development Bonds	10	10	100
117	Credit for disabled access expenditures	10	10	100
12	Exception from passive loss limitation for working interests in oil and gas properties	10	10	100
83	Tax credit for certain expenditures for maintaining railroad tracks	30	20	90
28	Credit for construction of new energy efficient homes	10	10	20
85	Investment credit for rehabilitation of structures (other than historic)	10	0	10
77	Special rules for certain film and TV production	10	0	10
27	Allowance of deduction for certain energy efficient commercial building property	0	0	0
133	Tax credit for health insurance purchased by certain displaced	0	0	0
4	Inventory property sales source rules exception	0	0	0
19	Alcohol fuel credits [2]	0	0	0
20	Bio-Diesel and small agri-biodiesel producer tax credits [3]	0	0	0
153	Tax credit for the elderly and disabled	0	0	0
163	Build America Bonds [16]	0	0	0
25	Natural gas distribution pipelines treated as 15-year property	70	50	–530
73	Depreciation of buildings other than rental housing (normal tax method)	–1,870	–2,340	–45,970
8	Expensing of research and experimentation expenditures (normal tax method)	5,740	6,330	–88,220

See Table 13-1 footnotes for specific table information

TABLE 13–4. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 2019

(In millions of dollars)

	Provision	2019 Present Value of Revenue Loss
8	Expensing of research and experimentation expenditures (normal tax method)	2,280
23	Credit for holding clean renewable energy bonds	0
10	Expensing of exploration and development costs - fuels	840
34	Expensing of exploration and development costs - nonfuels	150
38	Expensing of multiperiod timber growing costs	150
43	Expensing of certain multiperiod production costs - agriculture	–30
42	Expensing of certain capital outlays - agriculture	0
48	Expensing of reforestation expenditures	30
63	Accelerated depreciation on rental housing	9,370
73	Depreciation of buildings other than rental	–3,250
74	Accelerated depreciation of machinery and equipment	22,460
78	Expensing of certain small investments (normal tax method)	500
102	Credit for holders of zone academy bonds	160
62	Credit for low-income housing investments	10,190
99	Qualified tuition programs	4,870
141	Defined benefit employer plans	36,274
142	Defined contribution employer plans	95,050
143	Exclusion of IRA contributions and earnings	2,260
143	Exclusion of Roth earnings and distributions	5,220
143	Exclusion of non-deductible IRA earnings	620
145	Exclusion of contributions and earnings for Self-Employed plans	6,010
162	Exclusion of interest on public-purpose bonds	19,390
	Exclusion of interest on non-public purpose bonds	6,380
165	Deferral of interest on U.S. savings bonds	240

the foreign source income. In contrast, the sales source rules for inventory property under current law allow U.S. exporters to use more foreign tax credits by allowing the exporters to attribute a larger portion of their earnings to foreign sources than would be the case if the allocation of earnings was based on actual economic activity. This exception was repealed for tax years beginning after December 31, 2017. Under the new provision, gains, profits, and income from the sale or exchange of inventory property produced partly in, and partly outside, the United States is allocated and apportioned on the basis of the location of production with respect to the property.

5. ***Reduced tax rate on active income of controlled foreign corporations.***—Under the baseline tax system, worldwide income forms the tax base of U.S. corporations. In contrast, U.S. tax law exempts or preferentially taxes certain portions of this income. Prior to the passage of the Tax Cuts and Jobs Act (TCJA) effective January 1, 2018, active foreign income was generally taxed only upon repatriation. TCJA changed these rules, so that certain active income (called "Global Intangible Low Tax Income" or "GILTI") is taxed currently, even if it is not distributed. However, U.S. corporations generally receive a 50 percent deduction from U.S. tax on their GILTI (the deduction decreases to 37.5 percent in 2026), resulting in a substantially reduced rate of tax. In addition, some active income is excluded from tax, and distributions out of active income are no longer taxed upon repatriation. These reductions and exemptions from U.S. taxation are considered tax expenditures. However, U.S. shareholders of specified foreign corporations must include their pro rata share of accumulated post-1986 deferred foreign income (as of the last taxable year before January 1, 2018) in U.S. taxable income, and this inclusion acts as an offset to the reduced tax rate on CFC income in the years in which the payments are received.

6. ***Deduction for foreign-derived intangible income derived from a trade or business within the United States.***—Under the baseline tax system, the United States taxes income earned by U.S. corporations from serving foreign markets (e.g., exports and royalties) at the full U.S. rate. After the passage of TCJA, domestic corporations are allowed a deduction equal to 37.5 percent of "foreign-derived intangible income," which is essentially income from serving foreign markets (defined on a formulaic basis). The deduction falls to 21.875 percent in 2026.

7. ***Interest Charge Domestic International Sales Corporations (IC-DISCs).***—Under the baseline tax system, taxpayer earnings are subject to tax using the regular tax rates applied to all taxpayers. In contrast, IC-DISCs allow income from exports to be taxed at the qualified dividend rate of 20 percent.

General Science, Space, and Technology

8. ***Expensing of research and experimentation expenditures (normal tax method).***—The baseline tax system allows a deduction for the cost of producing income. It requires taxpayers to capitalize the costs associated with investments over time to better match the streams of income and associated costs. Research and experimentation (R&E) projects can be viewed as investments because, if successful, their benefits accrue for several years. It is often difficult, however, to identify whether a specific R&E project is successful and, if successful, what its expected life will be. Because of this ambiguity, the reference tax law baseline system would allow expensing of R&E expenditures. In contrast, under the normal tax method, the expensing of R&E expenditures is viewed as a tax expenditure. The baseline assumed for the normal tax method is that all R&E expenditures are successful and have an expected life of five years. Current law requires R&E expenditures paid or incurred in taxable years beginning after December 31, 2021, to be capitalized and amortized over 5 years, while allowing R&E expenditures paid or incurred in prior taxable years to be expensed.

9. ***Credit for increasing research activities.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows an R&E credit of up to 20 percent of qualified research expenditures in excess of a base amount. The base amount of the credit is generally determined by multiplying a “fixed-base percentage” by the average amount of the company’s gross receipts for the prior four years. The taxpayer’s fixed base percentage generally is the ratio of its research expenses to gross receipts for 1984 through 1988. Taxpayers can elect the alternative simplified credit regime, which equals 14 percent of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding taxable years.

Energy

10. ***Expensing of exploration and development costs, fuels.***—Under the baseline tax system, the costs of exploring and developing oil and gas wells and coal mines or other natural fuel deposits would be capitalized and then amortized (or depreciated) over an estimate of the economic life of the property. This insures that the net income from the well or mine is measured appropriately each year. In contrast to this treatment, current law allows immediate deduction, i.e., expensing, of intangible drilling costs for successful investments in domestic oil and gas wells (such as wages, the cost of using machinery for grading and drilling, and the cost of unsalvageable materials used in constructing wells). Current law also allows immediate deduction of eligible exploration and development costs for domestic coal mines and other natural fuel deposits. Because expensing allows recovery of costs sooner, it is more advantageous to the taxpayer than amortization. Expensing provisions for exploration expenditures apply only to properties for which a deduction for percentage depletion is allowable. For oil and gas wells, integrated oil companies may expense only 70 percent of intangible drilling costs and must amortize the remaining 30 percent over five years. Non-integrated oil companies may expense all such costs.

11. ***Excess of percentage over cost depletion, fuels.***—The baseline tax system would allow recovery of the costs of developing certain oil, gas, and mineral fuel properties using cost depletion. Cost depletion is similar in concept to depreciation, in that the costs of developing or acquiring the asset are capitalized and then gradually reduced over an estimate of the asset’s economic life, as is appropriate for measuring net income. In contrast, the Tax Code generally allows independent fuel producers and royalty owners to take percentage depletion deductions rather than cost depletion on limited quantities of output. Under percentage depletion, taxpayers deduct a percentage of gross income from fossil fuel production. In certain cases the deduction is limited to a fraction of the asset’s net income. Over the life of an investment, percentage depletion deductions can exceed the cost of the investment. Consequently, percentage depletion may provide more advantageous tax treatment than would cost depletion, which limits deductions to an investment’s cost.

12. ***Exception from passive loss limitation for working interests in oil and gas properties.***—The baseline tax system accepts current law’s general rule limiting taxpayers’ ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as those in which the taxpayer does not materially participate, and there are numerous additional considerations brought to bear on the determination of which activities are passive for a given taxpayer. Losses are limited in an attempt to limit tax sheltering activities. Passive losses that are unused may be carried forward and applied against future passive income. An exception from the passive loss limitation is provided for a working interest in an oil or gas property that the taxpayer holds directly or through an entity that does not limit the liability of the taxpayer with respect to the interest. Thus, taxpayers can deduct losses from such working interests against nonpassive income without regard to whether they materially participate in the activity.

13. ***Capital gains treatment of royalties on coal.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. For individuals, tax rates on regular income vary from 10 percent to 39.6 percent in the budget window (plus a 3.8 percent surtax on high income taxpayers), depending on the taxpayer’s income. In contrast, current law allows capital gains realized by individuals to be taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8 percent surtax). Certain sales of coal under royalty contracts qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 20 percent maximum tax rate on capital gains.

14. ***Exclusion of interest on energy facility bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance construction of certain energy facilities to be exempt from tax. These bonds are generally subject to the State private-activity-bond annual volume cap.

15. ***Enhanced oil recovery credit.***—A credit is provided equal to 15 percent of the taxpayer's costs for enhanced oil recovery on U.S. projects. The credit is reduced in proportion to the ratio of the reference price of oil for the previous calendar year minus $28 (adjusted for inflation from 1990) to $6.

16. ***Energy production credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides a credit for certain electricity produced from wind energy, biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, or qualified hydropower and sold to an unrelated party. Wind facilities must have begun construction before January 1, 2020. Facilities that begin construction in 2017 receive 80 percent of the credit, facilities that begin construction in 2018 receive 60 percent of the credit, and facilities that begin construction in 2019 receive 40 percent of the credit. Qualified facilities producing electricity from sources other than wind must begin construction before January 1, 2018. In addition to the electricity production credit, an income tax credit is allowed for the production of refined coal for facilities placed in service before January 1, 2012. The Tax Code also provided an income tax credit for Indian coal facilities. The Indian coal facilities credit expired on December 31, 2017.

17. ***Marginal wells credit.***—A credit is provided for crude oil and natural gas produced from a qualified marginal well. A marginal well is one that does not produce more than 1,095 barrel-of-oil equivalents per year, with this limit adjusted proportionately for the number of days the well is in production. The credit is no more than $3.00 per barrel of qualified crude oil production and $0.50 per thousand cubic feet of qualified natural gas production. The credit for natural gas is reduced in proportion to the amount by which the reference price of natural gas at the wellhead for the previous calendar year exceeds $1.67 per thousand cubic feet and is zero for a reference price that exceeds $2.00. The credit for crude oil is reduced in proportion to the amount by which the reference price of oil for the previous calendar year exceeds $15.00 per barrel and is zero for a reference price that exceeds $18.00. All dollar amounts are adjusted for inflation from 2004.

18. ***Energy investment credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code provides credits for investments in solar and geothermal energy property, qualified fuel cell power plants, stationary microturbine power plants, geothermal heat pumps, small wind property and combined heat and power property. The credit is 30 percent for property that begins construction before 2020, 26 percent for property that begins construction in 2020, and 22 percent for property that begins construction in 2021 and in all cases that is placed in service before January 1, 2024. A 10 percent credit is available for geothermal or qualified solar property placed in service after December 31, 2023. Owners of renewable power facilities that qualify for the energy production credit may instead elect to take an energy investment credit at a rate specified by law.

19. ***Alcohol fuel credits.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provided an income tax credit for qualified cellulosic biofuel production which was renamed the Second Generation Biofuel Producer Tax Credit. This provision expired on December 31, 2017.

20. ***Bio-diesel and small agri-biodiesel producer tax credits.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allowed an income tax credit for Bio-diesel and for Bio-diesel derived from virgin sources. In lieu of the Bio-diesel credit, the taxpayer could claim a refundable excise tax credit. In addition, small agri-biodiesel producers were eligible for a separate income tax credit for biodiesel production, and a separate credit was available for qualified renewable diesel fuel mixtures. This provision expired on December 31, 2017.

21. ***Tax credits for clean-fuel burning vehicles and refueling property.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows credits for plug-in electric-drive motor vehicles, alternative fuel vehicle refueling property, two-wheeled plug-in electric vehicles, and fuel cell motor vehicles. These provisions, except for the plug-in electric-drive motor vehicle credit, expired after December 31, 2017.

22. ***Exclusion of utility conservation subsidies.***—The baseline tax system generally takes a comprehensive view of taxable income that includes a wide variety of (measurable) accretions to wealth. In certain circumstances, public utilities offer rate subsidies to non-business customers who invest in energy conservation measures. These rate subsidies are equivalent to payments from the utility to its customer, and so represent accretions to wealth, income that would be taxable to the customer under the baseline tax system. In contrast, the Tax Code exempts these subsidies from the non-business customer's gross income.

23. ***Credit for holding clean renewable energy bonds.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particu-

lar activities, investments, or industries. In contrast, the Tax Code provides for the issuance of Clean Renewable Energy Bonds that entitle the bond holder to a Federal income tax credit in lieu of interest. As of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable.

24. ***Credit for investment in clean coal facilities.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides investment tax credits for clean coal facilities producing electricity and for industrial gasification combined cycle projects.

25. ***Natural gas distribution pipelines treated as 15-year property.***—The baseline tax system allows taxpayers to deduct the decline in the economic value of an investment over its economic life. However, the Tax Code allows depreciation of natural gas distribution pipelines (placed in service between 2005 and 2011) over a 15 year period. These deductions are accelerated relative to deductions based on economic depreciation.

26. ***Amortize all geological and geophysical expenditures over two years.***—The baseline tax system allows taxpayers to deduct the decline in the economic value of an investment over its economic life. However, the Tax Code allows geological and geophysical expenditures incurred in connection with oil and gas exploration in the United States to be amortized over two years for non-integrated oil companies, a span of time that is generally shorter than the economic life of the assets.

27. ***Allowance of deduction for certain energy efficient commercial building property.***—The baseline tax system would not allow deductions in lieu of normal depreciation allowances for particular investments in particular industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a deduction for certain energy efficient commercial building property. The basis of such property is reduced by the amount of the deduction. This provision expired on December 31, 2017.

28. ***Credit for construction of new energy efficient homes.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allowed contractors a tax credit of $2,000 for the construction of a qualified new energy-efficient home that had an annual level of heating and cooling energy consumption at least 50 percent below the annual consumption under the 2006 International Energy Conservation Code. The credit equaled $1,000 in the case of a new manufactured home that met a 30 percent standard or requirements for EPA's Energy Star homes. This provision expired on December 31, 2017.

29. ***Credit for residential energy efficient property.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code provides a credit for the purchase of a qualified photovoltaic property and solar water heating property, as well as for fuel cell power plants, geothermal heat pumps, and small wind property used in or placed on a residence. The credit is 30 percent for property placed in service before January 1, 2020, 26 percent for property placed in service in 2020, and 22 percent for property placed in service in 2021.

30. ***Credit for qualified energy conservation bonds.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code provides for the issuance of energy conservation bonds which entitle the bond holder to a Federal income tax credit in lieu of interest. As of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable.

31. ***Advanced energy property credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code provides a 30 percent investment credit for property used in a qualified advanced energy manufacturing project. The Department of the Treasury may award up to $2.3 billion in tax credits for qualified investments.

32. ***Advanced nuclear power facilities production credit.***—The baseline tax system would not allow credits or deductions for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a tax credit equal to 1.8 cents times the number of kilowatt hours of electricity produced at a qualifying advanced nuclear power facility. A taxpayer may claim no more than $125 million per 1,000 megawatts of capacity. The Department of the Treasury may allocate up to 6,000 megawatts of credit-eligible capacity. Any unutilized national capacity limitation shall be allocated after December 31, 2020, according to prioritization rules set forth by statute.

33. ***Reduced tax rate for nuclear decommissioning funds.***—The baseline tax system would uniformly tax all returns to investments and not allow special rates for particular activities, investments, or industries. In contrast, the Tax Code provides a special 20 percent tax rate for investments made by Nuclear Decommissioning Reserve Funds.

Natural Resources and Environment

34. ***Expensing of exploration and development costs, nonfuel minerals.***—The baseline tax system allows the taxpayer to deduct the depreciation of an asset according to the decline in its economic value over time. However, certain capital outlays associated with exploration and development of nonfuel minerals may be expensed rather than depreciated over the life of the asset.

35. ***Excess of percentage over cost depletion, nonfuel minerals.***—The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over time. Under current law, however,

most nonfuel mineral extractors may use percentage depletion (whereby the deduction is fixed as a percentage of receipts) rather than cost depletion, with percentage depletion rates ranging from 22 percent for sulfur to 5 percent for sand and gravel. Over the life of an investment, percentage depletion deductions can exceed the cost of the investment. Consequently, percentage depletion may provide more advantageous tax treatment than would cost depletion, which limits deductions to an investment's cost.

36. ***Exclusion of interest on bonds for water, sewage, and hazardous waste facilities.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance construction of sewage, water, or hazardous waste facilities to be exempt from tax. These bonds are generally subject to the State private-activity bond annual volume cap.

37. ***Capital gains treatment of certain timber.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. However, under current law certain timber sales can be treated as a capital gain rather than ordinary income and therefore subject to the lower capital-gains tax rate. For individuals, tax rates on regular income vary from 10 percent to 39.6 percent in the budget window (plus a 3.8 percent surtax on high income taxpayers), depending on the taxpayer's income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8 percent surtax).

38. ***Expensing of multi-period timber growing costs.***—The baseline tax system requires the taxpayer to capitalize costs associated with investment property. However, most of the production costs of growing timber may be expensed under current law rather than capitalized and deducted when the timber is sold, thereby accelerating cost recovery.

39. ***Tax incentives for preservation of historic structures.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, expenditures to preserve and restore certified historic structures qualify for an investment tax credit of 20 percent for certified rehabilitation activities. The taxpayer's recoverable basis must be reduced by the amount of the credit. The credit must be claimed ratably over the five years after the property is placed in service, for property placed in service after December 31, 2017.

40. ***Carbon oxide sequestration credit***.—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows a credit for qualified carbon oxide captured at a qualified facility and disposed of in secure geological storage. In addition, the provision allows a credit for qualified carbon oxide that is captured at a qualified facility and used as a tertiary injectant in a qualified enhanced oil or natural gas recovery project. The credit differs according to whether the carbon was captured using equipment which was originally placed in service before February 9, 2018, or thereafter.

41. ***Deduction for endangered species recovery expenditures.***—The baseline tax system would not allow deductions in addition to normal depreciation allowances for particular investments in particular industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, under current law farmers can deduct up to 25 percent of their gross income for expenses incurred as a result of site and habitat improvement activities that will benefit endangered species on their farm land, in accordance with site specific management actions included in species recovery plans approved pursuant to the Endangered Species Act of 1973.

Agriculture

42. ***Expensing of certain capital outlays.***—The baseline tax system requires the taxpayer to capitalize costs associated with investment property. However, farmers may expense certain expenditures for feed and fertilizer, for soil and water conservation measures, and certain other capital improvements under current law.

43. ***Expensing of certain multiperiod production costs.***—The baseline tax system requires the taxpayer to capitalize costs associated with an investment over time. However, the production of livestock and crops with a production period greater than two years is exempt from the uniform cost capitalization rules (e.g., for costs for establishing orchards or structure improvements), thereby accelerating cost recovery.

44. ***Treatment of loans forgiven for solvent farmers.***—Because loan forgiveness increases a debtors net worth the baseline tax system requires debtors to include the amount of loan forgiveness as income or else reduce their recoverable basis in the property related to the loan. If the amount of forgiveness exceeds the basis, the excess forgiveness is taxable if the taxpayer is not insolvent. For bankrupt debtors, the amount of loan forgiveness reduces carryover losses, unused credits, and then basis, with the remainder of the forgiven debt excluded from taxation. Qualified farm debt that is forgiven, however, is excluded from income even when the taxpayer is solvent.

45. ***Capital gains treatment of certain agriculture income.***—For individuals, tax rates on regular income vary from 10 percent to 39.6 percent in the budget window (plus a 3.8 percent surtax on high income taxpayers), depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8 percent surtax). Certain agricultural income, such as unharvested crops, qualify for taxation as capital gains rather than ordinary income, and so benefit from

the preferentially low 20 percent maximum tax rate on capital gains.

46. ***Income averaging for farmers.***—The baseline tax system generally taxes all earned income each year at the rate determined by the income tax. However, taxpayers may average their taxable income from farming and fishing over the previous three years.

47. ***Deferral of gain on sales of farm refiners.***—The baseline tax system generally subjects capital gains to taxes the year that they are realized. However, the Tax Code allows a taxpayer who sells stock in a farm refiner to a farmers' cooperative to defer recognition of the gain if the proceeds are re-invested in a qualified replacement property.

48. ***Expensing of reforestation expenditures***.—The baseline tax system requires the taxpayer to capitalize costs associated with an investment over time. In contrast, the Tax Code provides for the expensing of the first $10,000 in reforestation expenditures with 7-year amortization of the remaining expenses.

Commerce and Housing

This category includes a number of tax expenditure provisions that also affect economic activity in other functional categories. For example, provisions related to investment, such as accelerated depreciation, could be classified under the energy, natural resources and environment, agriculture, or transportation categories.

49. ***Exemption of credit union income.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. However, in the Tax Code the earnings of credit unions not distributed to members as interest or dividends are exempt from the income tax.

50. ***Exclusion of life insurance death benefits.***—Under the baseline tax system, individuals and corporations would pay taxes on their income when it is (actually or constructively) received or accrued. Nevertheless, current law generally excludes from tax amounts received under life insurance contracts if such amounts are paid by reason of the death of the insured.

51. ***Exclusion or special alternative tax for small property and casualty insurance companies.***—The baseline tax system would require corporations to pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, stock non-life insurance companies are generally exempt from tax if their gross receipts for the taxable year do not exceed $600,000 and more than 50 percent of such gross receipts consist of premiums. Mutual non-life insurance companies are generally tax-exempt if their annual gross receipts do not exceed $150,000 and more than 35 percent of gross receipts consist of premiums. Also, non-life insurance companies with no more than a specified level of annual net written premiums generally may elect to pay tax only on their taxable investment income provided certain diversification requirements are met. The underwriting income (premiums, less insurance losses and expenses) of electing companies is excluded from tax. The specified premium limit is indexed for inflation; for 2019, the premium limit was $2.3 million.

52. ***Tax exemption of insurance income earned by tax-exempt organizations.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Generally the income generated by life and property and casualty insurance companies is subject to tax, albeit under special rules. However, income from insurance operations conducted by such exempt organizations as fraternal societies, voluntary employee benefit associations, and others are exempt from tax.

53. ***Exclusion of interest spread of financial institutions.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Consumers pay for some deposit-linked services, such as check cashing, by accepting a below-market interest rate on their demand deposits. If they received a market rate of interest on those deposits and paid explicit fees for the associated services, they would pay taxes on the full market rate and (unlike businesses) could not deduct the fees. The Government thus foregoes tax on the difference between the risk-free market interest rate and below-market interest rates on demand deposits, which under competitive conditions should equal the value of deposit services.

54. ***Exclusion of interest on owner-occupied mortgage subsidy bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance homes purchased by first-time, low-to-moderate-income buyers to be exempt from tax. These bonds are generally subject to the State private-activity-bond annual volume cap.

55. ***Exclusion of interest on rental housing bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local government bonds used to finance multifamily rental housing projects to be tax-exempt.

56. ***Mortgage interest expense on owner-occupied residences.***—Under the baseline tax system, expenses incurred in earning income would be deductible. However, such expenses would not be deductible when the income or the return on an investment is not taxed. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for the value of owner-occupied housing services and also allows the owner-occupant to deduct mortgage interest paid on his or her primary residence and one secondary residence as an itemized non-business deduction. In general, the mortgage interest deduction is limited to interest on debt no greater than the owner's ba-

sis in the residence, and is also limited to interest on debt of no more than $1 million. Interest on up to $100,000 of other debt secured by a lien on a principal or second residence is also deductible, irrespective of the purpose of borrowing, provided the total debt does not exceed the fair market value of the residence. As an alternative to the deduction, holders of qualified Mortgage Credit Certificates issued by State or local governmental units or agencies may claim a tax credit equal to a proportion of their interest expense. In the case of taxable years beginning after December 31, 2017, and before January 1, 2026, (1) the $1 million limit is reduced to $750,000 for indebtedness incurred after December 15, 2017, and (2) the deduction for interest on home equity indebtedness is disallowed.

57. ***Deduction for property taxes on real property.***—Under the baseline tax system, expenses incurred in earning income would be deductible. However, such expenses would not be deductible when the income or the return on an investment is not taxed. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for the value of owner-occupied housing services and also allows the owner-occupant to deduct property taxes paid on real property. In the case of taxable years beginning after December 31, 2017, and before January 1, 2026, (1) the deduction for foreign real property taxes paid is disallowed and (2) the deduction for taxes paid in any taxable year, which includes the deduction for property taxes on real property, is limited to $10,000 ($5,000 in the case of a married individual filing a separate return).

58. ***Deferral of income from installment sales.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates, or deferral of tax, to apply to certain types or sources of income. Dealers in real and personal property (i.e., sellers who regularly hold property for sale or resale) cannot defer taxable income from installment sales until the receipt of the loan repayment. Nondealers (i.e., sellers of real property used in their business) are required to pay interest on deferred taxes attributable to their total installment obligations in excess of $5 million. Only properties with sales prices exceeding $150,000 are includable in the total. The payment of a market rate of interest eliminates the benefit of the tax deferral. The tax exemption for nondealers with total installment obligations of less than $5 million is, therefore, a tax expenditure.

59. ***Capital gains exclusion on home sales.***—The baseline tax system would not allow deductions and exemptions for certain types of income. In contrast, the Tax Code allows homeowners to exclude from gross income up to $250,000 ($500,000 in the case of a married couple filing a joint return) of the capital gains from the sale of a principal residence. To qualify, the taxpayer must have owned and used the property as the taxpayer's principal residence for a total of at least two of the five years preceding the date of sale. In addition, the exclusion may not be used more than once every two years.

60. ***Exclusion of net imputed rental income.***—Under the baseline tax system, the taxable income of a taxpayer who is an owner-occupant would include the implicit value of gross rental income on housing services earned on the investment in owner-occupied housing and would allow a deduction for expenses, such as interest, depreciation, property taxes, and other costs, associated with earning such rental income. In contrast, the Tax Code allows an exclusion from taxable income for the implicit gross rental income on housing services, while in certain circumstances allows a deduction for some costs associated with such income, such as for mortgage interest and property taxes.

61. ***Exception from passive loss rules for $25,000 of rental loss.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as those in which the taxpayer does not materially participate, and there are numerous additional considerations brought to bear on the determination of which activities are passive for a given taxpayer. Losses are limited in an attempt to limit tax sheltering activities. Passive losses that are unused may be carried forward and applied against future passive income. In contrast to the general restrictions on passive losses, the Tax Code exempts certain owners of rental real estate activities from "passive income" limitations. The exemption is limited to $25,000 in losses and phases out for taxpayers with income between $100,000 and $150,000.

62. ***Credit for low-income housing investments.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, under current law taxpayers who invest in certain low-income housing are eligible for a tax credit. The credit rate is set so that the present value of the credit is equal to at least 70 percent of the building's qualified basis for new construction and 30 percent for (1) housing receiving other Federal benefits (such as tax-exempt bond financing) or (2) substantially rehabilitated existing housing. The credit can exceed these levels in certain statutorily defined and State designated areas where project development costs are higher. The credit is allowed in equal amounts over 10 years and is generally subject to a volume cap.

63. ***Accelerated depreciation on rental housing.***—Under a comprehensive economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the rental property is measured appropriately each year. Current law allows depreciation that is accelerated relative to economic depreciation. However, the depreciation provisions of the Tax Code are part of the reference tax law, and thus do not give rise to tax expenditures under reference tax law. Under normal tax baseline, in contrast, depreciation allowances reflect estimates of economic depreciation.

64. ***Discharge of business indebtedness.***—Under the baseline tax system, all income would generally be taxed under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income.

In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for any discharge of qualified real property business indebtedness by taxpayers other than a C corporation. If the canceled debt is not reported as current income, however, the basis of the underlying property must be reduced by the amount canceled.

65. ***Exceptions from imputed interest rules.***—Under the baseline tax system, holders (issuers) of debt instruments are generally required to report interest earned (paid) in the period it accrues, not when received. In addition, the amount of interest accrued is determined by the actual price paid, not by the stated principal and interest stipulated in the instrument. But under current law, any debt associated with the sale of property worth less than $250,000 is exempted from the general interest accounting rules. This general $250,000 exception is not a tax expenditure under reference tax law but is under normal tax baseline. Current law also includes exceptions for certain property worth more than $250,000. These are tax expenditure under reference tax law and normal tax baselines. These exceptions include, sales of personal residences worth more than $250,000, and sales of farms and small businesses worth between $250,000 and $1 million.

66. ***Treatment of qualified dividends.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. For individuals, tax rates on regular income vary from 10 percent to 39.6 percent in the budget window (plus a 3.8 percent surtax on high income taxpayers), depending on the taxpayer's income. In contrast, under current law, qualified dividends are taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8 percent surtax).

67. ***Capital gains (except agriculture, timber, iron ore, and coal).***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. For individuals, tax rates on regular income vary from 10 percent to 39.6 percent in the budget window (plus a 3.8 percent surtax on high income taxpayers), depending on the taxpayer's income. In contrast, under current law, capital gains on assets held for more than one year are taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8 percent surtax).

68. ***Capital gains exclusion of small corporation stock.***—The baseline tax system would not allow deductions and exemptions or provide preferential treatment of certain sources of income or types of activities. In contrast, the Tax Code provided an exclusion of 50 percent, applied to ordinary rates with a maximum of a 28 percent tax rate, for capital gains from qualified small business stock held by individuals for more than 5 years; 75 percent for stock issued after February 17, 2009 and before September 28, 2010; and 100 percent for stock issued after September 27, 2010. A qualified small business is a corporation whose gross assets do not exceed $50 million as of the date of issuance of the stock.

69. ***Step-up basis of capital gains at death.***—Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred at death. It would not allow for exempting gains upon transfer of the underlying assets to the heirs. In contrast, capital gains on assets held at the owner's death are not subject to capital gains tax under current law. The cost basis of the appreciated assets is adjusted to the market value at the owner's date of death which becomes the basis for the heirs.

70. ***Carryover basis of capital gains on gifts.***—Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred by gift. In contrast, when a gift of appreciated asset is made under current law, the donor's basis in the transferred property (the cost that was incurred when the transferred property was first acquired) carries over to the donee. The carryover of the donor's basis allows a continued deferral of unrealized capital gains.

71. ***Deferral of capital gains from like-kind exchanges.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates, or deferral of tax, to apply to certain types or sources of income. In contrast, current law allows the deferral of accrued gains on assets transferred in qualified like-kind exchanges.

72. ***Ordinary income treatment of loss from small business corporation stock sale.***—The baseline tax system limits to $3,000 the write-off of losses from capital assets, with carryover of the excess to future years. In contrast, the Tax Code allows up to $100,000 in losses from the sale of small business corporate stock (capitalization less than $1 million) to be treated as ordinary losses and fully deducted.

73. ***Depreciation of buildings other than rental housing.***—Under a comprehensive economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the property is measured appropriately each year. Current law allows depreciation deductions that differ from those under economic depreciation. However, the depreciation provisions of the Tax Code are part of the reference tax law, and thus do not give rise to tax expenditures under reference tax law. Under normal tax baseline, in contrast, depreciation allowances reflect estimates of economic depreciation.

74. ***Accelerated depreciation of machinery and equipment.***—Under a comprehensive economic income tax, the costs of acquiring machinery and equipment are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the property is measured appropriately each year. Current law allows depreciation deductions that are accelerated relative to economic depreciation. In particular, through 2022, 100 percent of the purchase cost of qualified property is eligible to be expensed immediately; this percentage phases out to zero through 2027. The depreciation provisions of the Tax Code are part of the reference tax law, and thus do not give rise to tax expenditures un-

der reference tax law. Under the normal tax baseline, in contrast, depreciation allowances reflect estimates of economic depreciation.

75. ***Expensing of certain small investments.***—Under the reference tax law baseline, the costs of acquiring tangible property and computer software would be depreciated using the Tax Code's depreciation provisions. Under the normal tax baseline, depreciation allowances are estimates of economic depreciation. However, subject to investment limitations, the Tax Code allows up to $1 million (indexed for inflation) in qualifying investments in tangible property and certain computer software to be expensed rather than depreciated over time.

76. ***Exclusion of interest on small issue bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on small issue industrial development bonds (IDBs) issued by State and local governments to finance manufacturing facilities to be tax exempt. Depreciable property financed with small issue IDBs must be depreciated, however, using the straight-line method. The annual volume of small issue IDBs is subject to the unified volume cap discussed in the mortgage housing bond section above.

77. ***Special rules for certain film and TV production.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow deductions and exemptions or preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allowed taxpayers to deduct up to $15 million per production ($20 million in certain distressed areas) in non-capital expenditures incurred during the year. This provision expired at the end of 2016.

78. ***Allow 20-percent deduction to certain pass-through income.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow deductions and exemptions or preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, for tax years 2018 to 2025, the Tax Code allows for a deduction equal to up to 20 percent of income attributable to domestic pass-through businesses, subject to certain limitations.

Transportation

79. ***Tonnage tax.***—The baseline tax system generally would tax all profits and income under the regular tax rate schedule. U.S. shipping companies may choose to be subject to a tonnage tax based on gross shipping weight in lieu of an income tax, in which case profits would not be subject to tax under the regular tax rate schedule.

80. ***Deferral of tax on shipping companies.***—The baseline tax system generally would tax all profits and income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows certain companies that operate U.S. flag vessels to defer income taxes on that portion of their income used for shipping purposes (e.g., primarily construction, modernization and major repairs to ships, and repayment of loans to finance these investments).

81. ***Exclusion of reimbursed employee parking expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from taxable income for employee parking expenses that are paid for by the employer or that are received by the employee in lieu of wages. In 2018, the maximum amount of the parking exclusion is $260 per month. The tax expenditure estimate does not include any subsidy provided through employer-owned parking facilities. However, beginning in 2018, parking expenses are no longer deductible to employers (except Government).

82. ***Exclusion for employer-provided transit passes.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for passes, tokens, fare cards, and vanpool expenses that are paid for by an employer or that are received by the employee in lieu of wages to defray an employee's commuting costs. Due to a parity to parking provision, the maximum amount of the transit exclusion is $260 per month in 2018. However, beginning in 2018, transit expenses are no longer deductible to employers (except Government).

83. ***Tax credit for certain expenditures for maintaining railroad tracks.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code allowed eligible taxpayers to claim a credit equal to the lesser of 50 percent of maintenance expenditures and the product of $3,500 and the number of miles of railroad track owned or leased. This provision applies to maintenance expenditures in taxable years beginning before January 1, 2017.

84. ***Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code provides for $15 billion of tax-exempt bond authority to finance qualified highway or surface freight transfer facilities.

Community and Regional Development

85. ***Investment credit for rehabilitation of structures.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. Under prior law, the Tax Code allowed a 10 percent investment tax credit for the rehabilitation of buildings that are used for busi-

ness or productive activities and that were erected before 1936 for other than residential purposes. The taxpayer's recoverable basis must be reduced by the amount of the credit. The credit is repealed for rehabilitation expenditures incurred after December 31, 2017.

86. ***Exclusion of interest for airport, dock, and similar bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds issued to finance high-speed rail facilities and Government-owned airports, docks, wharves, and sport and convention facilities to be tax-exempt. These bonds are not subject to a volume cap.

87. ***Exemption of certain mutuals' and cooperatives' income.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. In contrast, the Tax Code provides for the incomes of mutual and cooperative telephone and electric companies to be exempt from tax if at least 85 percent of their receipts are derived from patron service charges.

88. ***Empowerment zones.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income, tax credits, and write-offs faster than economic depreciation. In contrast, the Tax Code allowed qualifying businesses in designated economically depressed areas to receive tax benefits such as an employment credit, increased expensing of investment in equipment, special tax-exempt financing, and certain capital gains incentives. A taxpayer's ability to accrue new tax benefits for empowerment zones expired on December 31, 2017.

89. ***New markets tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code allows taxpayers who make qualified equity investments in a Community Development Entity (CDE), which then make qualified investments in low-income communities, to be eligible for a tax credit that is received over 7 years. The total equity investment available for the credit across all CDEs is generally $3.5 billion for each calendar year 2010 through 2019, the last year for which credit allocations are authorized.

90. ***Credit to holders of Gulf and Midwest Tax Credit Bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, under current law taxpayers that own Gulf and Midwest Tax Credit bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income.

91. ***Recovery Zone Bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In addition, it would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allowed local governments to issue up $10 billion in taxable Recovery Zone Economic Development Bonds in 2009 and 2010 and receive a direct payment from Treasury equal to 45 percent of interest expenses. In addition, local governments could issue up to $15 billion in tax exempt Recovery Zone Facility Bonds. These bonds financed certain kinds of business development in areas of economic distress.

92. ***Tribal Economic Development Bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code was modified in 2009 to allow Indian tribal governments to issue tax exempt "tribal economic development bonds." There is a national bond limitation of $2 billion on such bonds.

93. ***Opportunity Zones.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow deferral or exclusion from income for investments made within certain geographic regions. In contrast, the Tax Code allows the temporary deferral of the recognition of capital gain if reinvested prior to December 31, 2026, in a qualifying opportunity fund which in turn invests in qualifying low-income communities designated as opportunity zones. For qualifying investments held at least 5 years, 10 percent of the deferred gain is excluded from income; this exclusion increases to 15 percent for investments held for at least 7 years. In addition, capital gains from the sale or exchange of an investment in a qualified opportunity fund held for at least 10 years are excluded from gross income. Opportunity zone designations expire on December 31, 2028.

94. ***Employee Retention Credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides employers located in certain presidentially declared disaster areas a 40 percent credit for up to $6,000 in wages paid to each eligible employee while the business was inoperable as a result of the disaster. Only wages paid after the disaster occurred and before January 1, 2018 are eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed.

Education, Training, Employment, and Social Services

95. ***Exclusion of scholarship and fellowship income.***—Scholarships and fellowships are excluded from taxable income to the extent they pay for tuition and course-related expenses of the grantee. Similarly, tuition reductions for employees of educational institutions and their families are not included in taxable income. From an economic point of view, scholarships and fellowships are either gifts not conditioned on the performance of services, or they are rebates of educational costs. Thus, under the baseline tax system of the reference tax law method, this exclusion is not a tax expenditure because this method does not include either gifts or price reductions in a taxpayer's gross income. The exclusion, however, is considered a tax expenditure under the normal tax method,

which includes gift-like transfers of Government funds in gross income. (Many scholarships are derived directly or indirectly from Government funding.)

96. ***Tax credits for post-secondary education expenses.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law in 2019, however, there were two credits for certain post-secondary education expenses. The American Opportunity Tax Credit allows a partially refundable credit of up to $2,500 per eligible student for qualified tuition and related expenses paid during each of the first four years of the student's post-secondary education. The credit is phased out for taxpayers with modified adjusted gross income between $160,000 and $180,000 if married filing jointly ($80,000 and $90,000 for other taxpayers), not indexed. The Lifetime Learning Credit allows a non-refundable credit for 20 percent of an eligible student's qualified tuition and fees, up to a maximum credit per return of $2,000. In 2019, the credit is phased out ratably for taxpayers with modified AGI between $116,000 and $136,000 if married filing jointly ($58,000 and $68,000 for other taxpayers), indexed. The Lifetime Learning credit can be claimed in any year in which post-secondary education expenses are incurred. Only one credit can be claimed per qualifying student. Married individuals filing separate returns cannot claim either credit.

97. ***Education Individual Retirement Accounts (IRA).***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. While contributions to an education IRA are not tax-deductible under current law, investment income earned by education IRAs is not taxed when earned, and investment income from an education IRA is tax-exempt when withdrawn to pay for a student's education expenses. The maximum annual contribution to an education IRA is $2,000 per beneficiary. In 2019, the maximum contribution is phased down ratably for taxpayers with modified AGI between $190,000 and $220,000 if married filing jointly ($95,000 and $110,000 for other taxpayers).

98. ***Deductibility of student loan interest.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct non-business interest expenses. In contrast, taxpayers may claim an above-the-line deduction of up to $2,500 on interest paid on an education loan. In 2019, the maximum deduction is phased down ratably for taxpayers with modified AGI between $140,000 and $170,000 if married filing jointly ($70,000 and $85,000 for other taxpayers). Married individuals filing separate returns cannot claim the deduction.

99. ***Qualified tuition programs.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Some States have adopted prepaid tuition plans, prepaid room and board plans, and college savings plans, which allow persons to pay in advance or save for college expenses for designated beneficiaries. Under current law, investment income, or the return on prepayments, is not taxed when earned, and is tax-exempt when withdrawn to pay for qualified expenses. Beginning in 2018, the definition of a qualified expense was expanded to include up to $10,000 per child per year of expenses for primary or secondary education, including tuition at religious schools.

100. ***Exclusion of interest on student-loan bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, interest earned on State and local bonds issued to finance student loans is tax-exempt under current law. The volume of all such private activity bonds that each State may issue annually is limited.

101. ***Exclusion of interest on bonds for private nonprofit educational facilities.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local government bonds issued to finance the construction of facilities used by private nonprofit educational institutions is not taxed.

102. ***Credit for holders of zone academy bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, financial institutions that own zone academy bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income. Proceeds from zone academy bonds may only be used to renovate, but not construct, qualifying schools and for certain other school purposes. The total amount of zone academy bonds that may be issued was limited to $1.4 billion in 2009 and 2010. As of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable. An additional $0.4 billion of these bonds with a tax credit was authorized to be issued each year in 2011 through 2016.

103. ***Exclusion of interest on savings bonds redeemed to finance educational expenses.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, interest earned on U.S. savings bonds issued after December 31, 1989, is tax-exempt if the bonds are transferred to an educational institution to pay for educational expenses. The tax exemption is phased out for taxpayers with AGI between $121,600 and $151,600 if married filing jointly ($81,100 and $96,100 for other taxpayers) in 2019.

104. ***Parental personal exemption for students age 19 or over.***—Under the baseline tax system, a personal exemption would be allowed for the taxpayer, as well as for the taxpayer's spouse and dependents who do not claim a personal exemption on their own tax returns. These exemptions are repealed for taxable years beginning after December 31, 2017, and before January 1, 2026. However, the definitions regarding eligibility for dependent exemptions for children (and qualifying relatives), which determine eligibility for a number of family-related

provisions, remain in place. These provisions include the new $500 credit for dependents other than qualifying children (Other Dependent Credit, or ODC). In general, to be considered a dependent child, a child would have to be under age 19. In contrast, the Tax Code allows taxpayers to consider their children aged 19 to 23 as dependents, as long as the children are full-time students and reside with the taxpayer for over half the year (with exceptions for temporary absences from home, such as for school attendance). Absent this provision, children over 18 would need to meet the more stringent rules for qualified relatives in order to qualify the taxpayer for certain benefits, including the ODC.

105. ***Charitable contributions to educational institutions.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides taxpayers a deduction for contributions to nonprofit educational institutions that are similar to personal expenditures. Moreover, taxpayers who donate capital assets to educational institutions can deduct the asset's current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent (60 percent for tax years 2018 and 2025) of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

106. ***Exclusion of employer-provided educational assistance.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because it represent accretions to wealth that do not materially differ from cash wages. Under current law, however, employer-provided educational assistance is excluded from an employee's gross income, even though the employer's costs for this assistance are a deductible business expense. The maximum exclusion is $5,250 per taxpayer.

107. ***Special deduction for teacher expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code allowed educators in both public and private elementary and secondary schools, who worked at least 900 hours during a school year as a teacher, instructor, counselor, principal, or aide, to subtract up to $250 of qualified expenses, indexed to 2014, when determining their adjusted gross income (AGI).

108. ***Discharge of student loan indebtedness.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, the Tax Code allows certain professionals who perform in underserved areas or specific fields, and as a consequence have their student loans discharged, not to recognize such discharge as income.

109. ***Qualified school construction bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code was modified in 2009 to provide a tax credit in lieu of interest to holders of qualified school construction bonds. The national volume limit is $22.4 billion over 2009 and 2010. As of March 2010, issuers of such bonds could opt to receive direct payment with the yield becoming fully taxable.

110. ***Work opportunity tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides employers with a tax credit for qualified wages paid to individuals. The credit applies to employees who began work on or before December 31, 2019 and who are certified as members of various targeted groups. The amount of the credit that can be claimed is 25 percent of qualified wages for employment less than 400 hours and 40 percent for employment of 400 hours or more. Generally, the maximum credit per employee is $2,400 and can only be claimed on the first year of wages an individual earns from an employer. However, the credit for long-term welfare recipients can be claimed on second year wages as well and has a $9,000 maximum. Also, certain categories of veterans are eligible for a higher maximum credit of up to $9,600. Employers must reduce their deduction for wages paid by the amount of the credit claimed.

111. ***Employer-provided child care exclusion.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law up to $5,000 of employer-provided child care is excluded from an employee's gross income even though the employer's costs for the child care are a deductible business expense.

112. ***Employer-provided child care credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, current law provides a credit equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services. Employer deductions for such expenses are reduced by the amount of the credit. The maximum total credit is limited to $150,000 per taxable year.

113. ***Assistance for adopted foster children.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Taxpayers who adopt eligible children from the public foster care system can receive monthly payments for the children's significant and varied needs and a reimbursement of up to $2,000 for nonrecurring adoption expenses; special needs adoptions receive the maximum benefit even if that amount is not spent. These payments are excluded from gross income under current law.

114. ***Adoption credit and exclusion.***—The baseline tax system would not allow credits for particular activities. In contrast, taxpayers can receive a tax credit for qualified adoption expenses under current law. Taxpayers may also exclude qualified adoption expenses provided or reimbursed by an employer from income, subject to the same maximum amounts and phase-out as the credit. The same expenses cannot qualify for tax benefits under both programs; however, a taxpayer may use the

benefits of the exclusion and the tax credit for different expenses.

115. ***Exclusion of employee meals and lodging.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Furthermore, all compensation would generally be deductible by the employer. In contrast, under current law employer-provided meals and lodging are excluded from an employee's gross income. Additionally, beginning in 2018, employers are allowed a deduction for 50 percent of the expenses of employer-provided meals. Employer-provided lodging is fully deductible by the employer, in general.

116. ***Credit for child and dependent care expenses.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides a tax credit to parents who work or attend school and who have child and dependent care expenses. Expenditures up to a maximum $3,000 for one dependent and $6,000 for two or more dependents are eligible for the credit. The credit is equal to 35 percent of qualified expenditures for taxpayers with incomes of up to $15,000. The credit is reduced to a minimum of 20 percent by one percentage point for each $2,000 of income in excess of $15,000.

117. ***Credit for disabled access expenditures.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides small businesses (less than $1 million in gross receipts or fewer than 31 full-time employees) a 50 percent credit for expenditures in excess of $250 to remove access barriers for disabled persons. The credit is limited to $5,000.

118. ***Deductibility of charitable contributions, other than education and health.***—The baseline tax system would not allow a deduction for personal expenditures including charitable contributions. In contrast, the Tax Code provides taxpayers a deduction for contributions to charitable, religious, and certain other nonprofit organizations. Taxpayers who donate capital assets to charitable organizations can deduct the assets' current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent (60 percent between 2018 and 2025) of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

119. ***Exclusion of certain foster care payments.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Foster parents provide a home and care for children who are wards of the State, under contract with the State. Under current law, compensation received for this service is excluded from the gross incomes of foster parents; the expenses they incur are nondeductible.

120. ***Exclusion of parsonage allowances.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a clergyman's taxable income for the value of the clergyman's housing allowance or the rental value of the clergyman's parsonage.

121. ***Indian employment credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides employers with a tax credit for qualified wages paid to employees who are enrolled members of Indian tribes. The amount of the credit that could be claimed is 20 percent of the excess of qualified wages and health insurance costs paid by the employer in the current tax year over the amount of such wages and costs paid by the employer in 1993. Qualified wages and health insurance costs with respect to any employee for the taxable year could not exceed $20,000. Employees have to live on or near the reservation where they work to be eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed. The credit does not apply to taxable years beginning after December 31, 2017.

122. ***Credit for employer differential wage payments.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides employers with a 20 percent tax credit for eligible differential wages paid to employees who are members of the uniformed services while on active duty for more than 30 days. The amount of eligible differential wage payments made to a qualified employee in a taxable year is capped at $20,000. Employers must reduce their deduction for wages paid by the amount of the credit claimed.

Health

123. ***Exclusion of employer contributions for medical insurance premiums and medical care.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law, employer-paid health insurance premiums and other medical expenses (including long-term care or Health Reimbursement Accounts) are not included in employee gross income even though they are deducted as a business expense by the employee.

124. ***Self-employed medical insurance premiums.***—Under the baseline tax system, all compensation and remuneration, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law self-employed taxpayers may deduct their family health insurance premiums. Taxpayers without self-employment income are not eligible for this special deduction. The deduction is not available for any month in which the self-employed individual is eligible to participate in an employer-subsidized health plan and the deduction may not exceed the self-employed individual's earned income from self-employment.

125. ***Medical Savings Accounts and Health Savings Accounts.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Also, the baseline tax system would not allow a deduction for personal expenditures and generally would tax investment earnings. In contrast, individual contributions to Archer Medical Savings Accounts (Archer MSAs) and Health Savings Accounts (HSAs) are allowed as a deduction in determining adjusted gross income whether or not the individual itemizes deductions. Employer contributions to Archer MSAs and HSAs are excluded from income and employment taxes. Archer MSAs and HSAs require that the individual have coverage by a qualifying high deductible health plan. Earnings from the accounts are excluded from taxable income. Distributions from the accounts used for medical expenses are not taxable. The rules for HSAs are generally more flexible than for Archer MSAs and the deductible contribution amounts are greater (in 2019, $3,350 for taxpayers with individual coverage and $6,750 for taxpayers with family coverage). Thus, HSAs have largely replaced MSAs.

126. ***Deductibility of medical expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law personal expenditures for medical care (including the costs of prescription drugs) exceeding 7.5 percent of the taxpayer's adjusted gross income are deductible. For tax years beginning after 2012, only medical expenditures exceeding 10 percent of the taxpayer's adjusted gross income are deductible. However, for the years 2013, 2014, 2015 and 2016, if either the taxpayer or the taxpayer's spouse turned 65 before the end of the taxable year, the threshold remained at 7.5 percent of adjusted income. Beginning in 2017, the 10 percent threshold applied to all taxpayers, including those over 65.

127. ***Exclusion of interest on hospital construction bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local government debt issued to finance hospital construction is excluded from income subject to tax.

128. ***Refundable Premium Assistance Tax Credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, for taxable years ending after 2013, the Tax Code provides a premium assistance credit to any eligible taxpayer for any qualified health insurance purchased through a Health Insurance Exchange. In general, an eligible taxpayer is a taxpayer with annual household income between 100 percent and 400 percent of the Federal poverty level for a family of the taxpayer's size and that does not have access to affordable minimum essential healthcare coverage. The amount of the credit equals the lesser of (1) the actual premiums paid by the taxpayer for such coverage or (2) the difference between the cost of a statutorily-identified benchmark plan offered on the exchange and a required payment by the taxpayer that increases with income.

129. ***Credit for employee health insurance expenses of small business.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides a tax credit to qualified small employers that make a certain level of non-elective contributions towards the purchase of certain health insurance coverage for its employees. To receive a credit, an employer must have fewer than 25 full-time-equivalent employees whose average annual full-time-equivalent wages from the employer are less than $50,000 (indexed for taxable years after 2013). However, to receive a full credit, an employer must have no more than 10 full-time employees, and the average wage paid to these employees must be no more than $25,000 (indexed for taxable years after 2013). A qualifying employer may claim the credit for any taxable year beginning in 2010, 2011, 2012, and 2013 and for up to two years for insurance purchased through a Health Insurance Exchange thereafter. For taxable years beginning in 2010, 2011, 2012, and 2013, the maximum credit is 35 percent of premiums paid by qualified taxable employers and 25 percent of premiums paid by qualified tax-exempt organizations. For taxable years beginning in 2014 and later years, the maximum tax credit increases to 50 percent of premiums paid by qualified taxable employers and 35 percent of premiums paid by qualified tax-exempt organizations.

130. ***Deductibility of charitable contributions to health institutions.***—The baseline tax system would not allow a deduction for personal expenditures including charitable contributions. In contrast, the Tax Code provides individuals and corporations a deduction for contributions to nonprofit health institutions. Tax expenditures resulting from the deductibility of contributions to other charitable institutions are listed under the education, training, employment, and social services function.

131. ***Tax credit for orphan drug research.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, under current law drug firms can claim a tax credit of 50 percent of the costs for clinical testing required by the Food and Drug Administration for drugs that treat rare physical conditions or rare diseases. This rate is modified to 25 percent by TCJA for expenditures incurred or paid in tax years beginning after December 31, 2017.

132. ***Special Blue Cross/Blue Shield tax benefits.***—The baseline tax system generally would tax all profits under the regular tax rate schedule using broadly applicable measures of baseline income. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, certain Blue Cross and Blue Shield (BC/BS) health insurance providers and certain other health insurers are provided with special tax benefits, provided that their percentage of total premium revenue expended on reimbursement for clinical services provided to enrollees or for activities that improve healthcare quality is not less than 85 percent for the taxable year. A qualifying insurer may take as a deduction 100 percent

of any net increase in its unearned premium reserves, instead of the 80 percent allowed other insurers. A qualifying insurer is also allowed a special deduction equal to the amount by which 25 percent of its health-claim expenses exceeds its beginning-of-the-year accounting surplus. The deduction is limited to the insurer's taxable income determined without the special deduction.

133. ***Tax credit for health insurance purchased by certain displaced and retired individuals.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides a refundable tax credit of 72.5 percent for the purchase of health insurance coverage by individuals eligible for Trade Adjustment Assistance and certain Pension Benefit Guarantee Corporation pension recipients. This provision will expire on December 31, 2020.

134. ***Distributions from retirement plans for premiums for health and long-term care insurance.***—Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, the Tax Code provides for tax-free distributions of up to $3,000 from governmental retirement plans for premiums for health and long term care premiums of public safety officers.

Income Security

135. ***Child credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. Under current law, however, taxpayers with children under age 17 can qualify for a $2,000 per child partially refundable child credit. Up to $1,400 per child of unclaimed credit due to insufficient tax liability may be refundable—taxpayers may claim a refund for 15 percent of earnings in excess of a $2,500 floor, up to the lesser of the amount of unused credit or $1,400 per child. To be eligible for the child credit, the child must have a Social Security Number (SSN). A taxpayer may also claim a nonrefundable credit of $500 for each qualifying child not eligible for the $2,000 credit (those over sixteen and those without SSNs) and for each dependent relative. The total combined child and other dependent credit is phased out for taxpayers at the rate of $50 per $1,000 of modified AGI above $400,000 ($200,000 for single or head of household filers and $200,000 for married taxpayers filing separately). For tax years beginning after December 31, 2025, the credit returns to its pre-TCJA value of $1,000. At that time, up to the full value of the credit (subject to a phase-in of 15 percent of earnings in excess of $3,000) will be refundable and the $500 other dependent credit will expire. The credit will once again phase out at the rate of $50 per $1,000 of modified AGI above $110,000 ($75,000 for single or head of household filers and $55,000 for married taxpayers filing separately). The social security requirement will remain in place.

136. ***Exclusion of railroad Social Security equivalent benefits.***—Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, the Social Security Equivalent Benefit paid to railroad retirees is not generally subject to the income tax unless the recipient's gross income reaches a certain threshold under current law. See provision number 156, Social Security benefits for retired workers, for discussion of the threshold.

137. ***Exclusion of workers' compensation benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. However, workers compensation is not subject to the income tax under current law.

138. ***Exclusion of public assistance benefits.***—Under the reference tax law baseline, gifts and transfers are not treated as income to the recipients. In contrast, the normal tax method considers cash transfers from the Government as part of the recipients' income, and thus, treats the exclusion for public assistance benefits under current law as a tax expenditure.

139. ***Exclusion of special benefits for disabled coal miners.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. However, disability payments to former coal miners out of the Black Lung Trust Fund, although income to the recipient, are not subject to the income tax.

140. ***Exclusion of military disability pensions.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, most of the military disability pension income received by current disabled military retirees is excluded from their income subject to tax.

141. ***Defined benefit employer plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under current law certain contributions to defined benefit pension plans are excluded from an employee's gross income even though employers can deduct their contributions. In addition, the tax on the investment income earned by defined benefit pension plans is deferred until the money is withdrawn.

142. ***Defined contribution employer plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under current law individual taxpayers and employers can make tax-preferred contributions to employer-provided 401(k) and similar plans (e.g. 403(b) plans and the Federal Government's Thrift Savings Plan). In 2019, an employee could exclude up to $19,000 of wages from AGI under a qualified arrangement with an employer's 401(k) plan. Employees age 50 or over could exclude up to $25,000 in contributions. The defined contribution plan limit, including both employee and employer contributions, is $56,000 in 2019. The tax on contributions made by both employees and employers and the investment income earned by these plans is deferred until withdrawn.

143. ***Individual Retirement Accounts (IRAs).***—Under the baseline tax system, all compensation, including

deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under current law individual taxpayers can take advantage of traditional and Roth IRAs to defer or otherwise reduce the tax on the return to their retirement savings. The IRA contribution limit is $6,000 in 2019; taxpayers age 50 or over are allowed to make additional "catch-up" contributions of $1,000. Contributions to a traditional IRA are generally deductible but the deduction is phased out for workers with incomes above certain levels who, or whose spouses, are active participants in an employer-provided retirement plan. Contributions and account earnings are includible in income when withdrawn from traditional IRAs. Roth IRA contributions are not deductible, but earnings and withdrawals are exempt from taxation. Income limits also apply to Roth IRA contributions.

144. ***Low and moderate-income savers' credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides an additional incentive for lower-income taxpayers to save through a nonrefundable credit of up to 50 percent on IRA and other retirement contributions of up to $2,000. This credit is in addition to any deduction or exclusion. The credit is completely phased out by $64,000 for joint filers, $48,000 for head of household filers, and $32,000 for other filers in 2019.

145. ***Self-employed plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under current law self-employed individuals can make deductible contributions to their own retirement plans equal to 25 percent of their income, up to a maximum of $56,000 in 2019. Total plan contributions are limited to 25 percent of a firm's total wages. The tax on the investment income earned by self-employed SEP, SIMPLE, and qualified plans is deferred until withdrawn.

146. ***Premiums on group term life insurance.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law employer-provided life insurance benefits are excluded from an employee's gross income (to the extent that the employer's share of the total costs does not exceed the cost of $50,000 of such insurance) even though the employer's costs for the insurance are a deductible business expense.

147. ***Premiums on accident and disability insurance.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law employer-provided accident and disability benefits are excluded from an employee's gross income even though the employer's costs for the benefits are a deductible business expense.

148. ***Exclusion of investment income from Supplementary Unemployment Benefit Trusts.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In addition, investment income would be taxed as earned. Under current law, employers may establish trusts to pay supplemental unemployment benefits to employees separated from employment. Investment income earned by such trusts is exempt from taxation.

149. ***Exclusion of investment income from Voluntary Employee Benefit Associations trusts.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Under current law, employers may establish associations, or VEBAs, to pay employee benefits, which may include health benefit plans, life insurance, and disability insurance, among other employee benefits. Investment income earned by such trusts is exempt from taxation.

150. ***Special Employee Stock Ownership Plan (ESOP) rules.***—ESOPs are a special type of tax-exempt employee benefit plan. Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, employer-paid contributions (the value of stock issued to the ESOP) are deductible by the employer as part of employee compensation costs. They are not included in the employees' gross income for tax purposes, however, until they are paid out as benefits. In addition, the following special income tax provisions for ESOPs are intended to increase ownership of corporations by their employees: (1) annual employer contributions are subject to less restrictive limitations than other qualified retirement plans; (2) ESOPs may borrow to purchase employer stock, guaranteed by their agreement with the employer that the debt will be serviced by his payment (deductible by him) of a portion of wages (excludable by the employees) to service the loan; (3) employees who sell appreciated company stock to the ESOP may defer any taxes due until they withdraw benefits; (4) dividends paid to ESOP-held stock are deductible by the employer; and (5) earnings are not taxed as they accrue.

151. ***Additional deduction for the blind.***—Under the baseline tax system, the standard deduction is allowed. An additional standard deduction for a targeted group within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are blind to claim an additional $1,650 standard deduction if single, or $1,300 if married in 2019.

152. ***Additional deduction for the elderly.***—Under the baseline tax system, the standard deduction is allowed. An additional standard deduction for a targeted group within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years or older to claim an additional $1,650 standard deduction if single, or $1,300 if married in 2019.

153. ***Tax credit for the elderly and disabled.***—Under the baseline tax system, a credit targeted at a specific group within a given filing status or for particular activities would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years of age or older, or who are permanently disabled, to claim a non-refundable tax credit equal to 15 percent of the sum of their earned and

retirement income. The amount to which the 15 percent rate is applied is limited to no more than $5,000 for single individuals or married couples filing a joint return where only one spouse is 65 years of age or older or disabled, and up to $7,500 for joint returns where both spouses are 65 years of age or older or disabled. These limits are reduced by one-half of the taxpayer's adjusted gross income over $7,500 for single individuals and $10,000 for married couples filing a joint return.

154. ***Deductibility of casualty losses.***—Under the baseline tax system, neither the purchase of property nor insurance premiums to protect the property's value are deductible as costs of earning income. Therefore, reimbursement for insured loss of such property is not included as a part of gross income, and uninsured losses are not deductible. In contrast, the Tax Code provides a deduction for uninsured casualty and theft losses of more than $100 each, to the extent that total losses during the year exceed 10 percent of the taxpayer's adjusted gross income. In the case of taxable years beginning after December 31, 2017, and before January 1, 2026, personal casualty losses are deductible only to the extent they are attributable to a federally declared disaster area.

155. ***Earned income tax credit (EITC).***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides an EITC to low-income workers at a maximum rate of 45 percent of income. In 2019, for a family with one qualifying child, the credit is 34 percent of the first $10,370 of earned income. The credit is 40 percent of the first $14,570 of income for a family with two qualifying children, and it is 45 percent of the first $14,570 of income for a family with three or more qualifying children. Low-income workers with no qualifying children are eligible for a 7.65 percent credit on the first $6,920 of earned income. The credit plateaus and then phases out with the greater of AGI or earnings at income levels and rates which depend upon how many qualifying children are eligible and marital status. In 2018, the phase-down for married filers begins at incomes $5,790 ($5,800 for filers without children) greater than for otherwise similar unmarried filers. Earned income tax credits in excess of tax liabilities owed through the individual income tax system are refundable to individuals. Beginning in 2018, the parameters of the EITC are indexed by the chained CPI, which results in a smaller inflation adjustment. This change is permanent.

Social Security

156. ***Social Security benefits for retired and disabled workers and spouses, dependents, and survivors.***—The baseline tax system would tax Social Security benefits to the extent that contributions to Social Security were not previously taxed. Thus, the portion of Social Security benefits that is attributable to employer contributions and to earnings on employer and employee contributions (and not attributable to employee contributions which are taxed at the time of contribution) would be subject to tax. In contrast, the Tax Code may not tax all of the Social Security benefits that exceed the beneficiary's contributions from previously taxed income. Actuarially, previously taxed contributions generally do not exceed 15 percent of benefits, even for retirees receiving the highest levels of benefits. Therefore, up to 85 percent of recipients' Social Security and Railroad Social Security Equivalent retirement benefits are included in (phased into) the income tax base if the recipient's provisional income exceeds certain base amounts. (Provisional income is equal to other items included in adjusted gross income plus foreign or U.S. possession income, tax-exempt interest, and one half of Social Security and Railroad Social Security Equivalent retirement benefits.) The untaxed portion of the benefits received by taxpayers who are below the income amounts at which 85 percent of the benefits are taxable is counted as a tax expenditure. Benefits paid to disabled workers and to spouses, dependents, and survivors are treated in a similar manner. Railroad Social Security Equivalent benefits are treated like Social Security benefits. See also provision number 136, Exclusion of railroad Social Security equivalent benefits.

157. ***Credit for certain employer Social Security contributions.***—Under the baseline tax system, employer contributions to Social Security represent labor cost and are deductible expenses. Under current law, however, certain employers are allowed a tax credit, instead of a deduction, against taxes paid on tips received from customers in connection with the providing, delivering, or serving of food or beverages for consumption. The tip credit equals the full amount of the employer's share of FICA taxes paid on the portion of tips, when added to the employee's non-tip wages, in excess of $5.15 per hour. The credit is available only with respect to FICA taxes paid on tips.

Veterans Benefits and Services

158. ***Exclusion of veterans death benefits and disability compensation.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. In contrast, all compensation due to death or disability paid by the Veterans Administration is excluded from taxable income under current law.

159. ***Exclusion of veterans pensions.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, pension payments made by the Veterans Administration are excluded from gross income.

160. ***Exclusion of G.I. Bill benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages.

Under current law, however, G.I. Bill benefits paid by the Veterans Administration are excluded from gross income.

161. ***Exclusion of interest on veterans housing bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law, interest earned on general obligation bonds issued by State and local governments to finance housing for veterans is excluded from taxable income.

General Government

162. ***Exclusion of interest on public purpose State and local bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local government bonds issued to finance public-purpose construction (e.g., schools, roads, sewers), equipment acquisition, and other public purposes is tax-exempt. Interest on bonds issued by Indian tribal governments for essential governmental purposes is also tax-exempt.

163. ***Build America Bonds.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code in 2009 allowed State and local governments to issue taxable bonds through 2010 and receive a direct payment from Treasury equal to 35 percent of interest expenses. Alternatively, State and local governments could issue taxable bonds and the private lenders receive the 35 percent credit which is included in taxable income.

164. ***Deductibility of nonbusiness State and local taxes other than on owner-occupied homes.***—Under the baseline tax system, a deduction for personal consumption expenditures would not be allowed. In contrast, the Tax Code allows taxpayers who itemize their deductions to claim a deduction for State and local income taxes (or, at the taxpayer's election, State and local sales taxes) and property taxes, even though these taxes primarily pay for services that, if purchased directly by taxpayers, would not be deductible. (The estimates for this tax expenditure do not include the estimates for the deductibility of State and local property tax on owner-occupied homes. See item 57.) In the case of taxable years beginning after December 31, 2017, and before January 1, 2026, (1) the deduction for foreign real property taxes paid is disallowed and (2) the deduction for taxes paid in any taxable year, which includes the deduction for property taxes on real property, is limited to $10,000 ($5,000 in the case of a married individual filing a separate return).

Interest

165. ***Deferral of interest on U.S. savings bonds.***—The baseline tax system would uniformly tax all returns to investments and not allow an exemption or deferral for particular activities, investments, or industries. In contrast, taxpayers may defer paying tax on interest earned on U.S. savings bonds until the bonds are redeemed.

APPENDIX A

Performance Measures and the Economic Effects of Tax Expenditures

The Government Performance and Results Act of 1993 (GPRA) directs Federal Agencies to develop annual and strategic plans for their programs and activities. These plans set out performance objectives to be achieved over a specific time period. Most of these objectives are achieved through direct expenditure programs. Tax expenditures—spending programs implemented through the tax code by reducing tax obligations for certain activities—contribute to achieving these goals in a manner similar to direct expenditure programs.

Tax expenditures by definition work through the tax system and, particularly, the income tax. Thus, they may be relatively advantageous policy approaches when the benefit or incentive is related to income and is intended to be widely available. Because there is an existing public administrative and private compliance structure for the tax system, income-based programs that require little oversight might be efficiently run through the tax system. In addition, some tax expenditures actually simplify the operation of the tax system (for example, the exclusion for up to $500,000 of capital gains on home sales). Tax expenditures also implicitly subsidize certain activities in a manner similar to direct expenditures. For example, exempting employer-sponsored health insurance from income taxation is equivalent to a direct spending subsidy equal to the forgone tax obligations for this type of compensation. Spending, regulatory, or tax-disincentive policies can also modify behavior, but may have different economic effects. Finally, a variety of tax expenditure tools can be used, e.g., deductions, credits, exemptions, deferrals, floors, ceilings, phase-ins, phase-outs, and these can be dependent on income, expenses, or demographic characteristics (age, number of family members, etc.). This wide range of policy instruments means that tax expenditures can be flexible and can have very different economic effects.

Tax expenditures also have limitations. In many cases they add to the complexity of the tax system, which raises both administrative and compliance costs. For example, personal exemptions, deductions, credits, and phase-outs can complicate filing and decision-making. The income tax system may have little or no contact with persons who have no or very low incomes, and does not require information on certain characteristics of individuals used in some spending programs, such as wealth or duration of employment. These features may reduce the effectiveness of tax expenditures for addressing socioeconomic disparities. Tax expenditures also generally do not enable the same degree of agency discretion as an outlay program. For example, grant or direct Federal service delivery programs can prioritize activities to be addressed with specific resources in a way that is difficult to emulate with tax expenditures.

Outlay programs have advantages where the direct provision of Government services is particularly warranted, such as equipping and maintaining the Armed Forces or administering the system of justice. Outlay programs may also be specifically designed to meet the needs of low-income families who would not otherwise be subject to income taxes or need to file a tax return. Outlay programs may also receive more year-to-year oversight and fine tuning through the legislative and executive budget process. In addition, many different types of spending programs include direct Government provision; credit programs; and payments to State and local governments, the private sector, or individuals in the form of grants or contracts, which provide flexibility for policy design. On the other hand, certain outlay programs may rely less directly on economic incentives and private-market provision than tax incentives, thereby reducing the relative efficiency of spending programs for some goals. Finally, spending programs, particularly on the discretionary side, may respond less rapidly to changing activity levels and economic conditions than tax expenditures.

Regulations may have more direct and immediate effects than outlay and tax-expenditure programs because regulations apply directly and immediately to the regulated party (i.e., the intended actor), generally in the private sector. Regulations can also be fine-tuned more quickly than tax expenditures because they can often be changed as needed by the Executive Branch without legislation. Like tax expenditures, regulations often rely largely on voluntary compliance, rather than detailed inspections and policing. As such, the public administrative costs tend to be modest relative to the private resource costs associated with modifying activities. Historically, regulations have tended to rely on proscriptive measures, as opposed to economic incentives. This reliance can diminish their economic efficiency, although this feature can also promote full compliance where (as in certain safety-related cases) policymakers believe that trade-offs with economic considerations are not of paramount importance. Also, regulations generally do not directly affect Federal outlays or receipts. Thus, like tax expenditures, they may escape the degree of scrutiny that outlay programs receive.

A Framework for Evaluating the Effectiveness of Tax Expenditures

Across all major budgetary categories—from housing and health to space, technology, agriculture, and national defense—tax expenditures make up a significant portion of Federal activity and affect every area of the economy. For these reasons, a comprehensive evaluation framework that examines incentives, direct results, and spillover effects will benefit the budgetary process by informing decisions on tax expenditure policy.

As described above, tax expenditures, like spending and regulatory programs, have a variety of objectives and

economic effects. These include encouraging certain types of activities (e.g., saving for retirement or investing in certain sectors); increasing certain types of after-tax income (e.g., favorable tax treatment of Social Security income); and reducing private compliance costs and Government administrative costs (e.g., the exclusion for up to $500,000 of capital gains on home sales). Some of these objectives are well-suited to quantitative measurement and evaluation, while others are less well-suited.

Performance measurement is generally concerned with inputs, outputs, and outcomes. In the case of tax expenditures, the principal input is usually the revenue effect. Outputs are quantitative or qualitative measures of goods and services, or changes in income and investment, directly produced by these inputs. Outcomes, in turn, represent the changes in the economy, society, or environment that are the ultimate goals of programs. Evaluations assess whether programs are meeting intended goals, but may also encompass analyzing whether initiatives are superior to other policy alternatives.

The Administration is working toward examining the objectives and effects of the wide range of tax expenditures in our budget, despite challenges related to data availability, measurement, and analysis. Evaluations include an assessment of whether tax expenditures are achieving intended policy results in an efficient manner, with minimal burdens on individual taxpayers, consumers, and firms, and an examination of possible unintended effects and their consequences.

As an illustration of how evaluations can inform budgetary decisions, consider education and research investment credits.

Education. There are millions of individuals taking advantage of tax credits designed to help pay for educational expenses. There are a number of different credits available as well as other important forms of Federal support for higher education such as subsidized student loans and grants. An evaluation would explore the possible relationships between use of the credits and the use of student loans and grants, seeking to answer, for example, whether the use of credits reduces or increases the likelihood of students applying for loans. Such an evaluation would allow stakeholders to determine the need for programs—whether they involve tax credits, subsidized loans, or grants.

Investment. A series of tax expenditures reduce the cost of investment, both in specific activities such as research and experimentation, extractive industries, and certain financial activities, and more generally throughout the economy, through accelerated depreciation for plant and equipment. These provisions can be evaluated along a number of dimensions. For example, it is useful to consider the strength of the incentives by measuring their effects on the cost of capital (the return which investments must yield to cover their costs) and effective tax rates. The impact of these provisions on the amount of corresponding forms of investment (e.g., research spending, exploration activity, equipment) might also be estimated. In some cases, such as research, there is evidence that this private investment can provide significant positive externalities—that is, economic benefits that are not reflected in the market transactions between private parties. It could be useful to quantify these externalities and compare them with the size of tax expenditures. Measures could also indicate the effects on production from these investments such as numbers or values of patents, energy production and reserves, and industrial production. Issues to be considered include the extent to which the preferences increase production (as opposed to benefiting existing output) and their cost-effectiveness relative to other policies. Analysis could also consider objectives that are more difficult to measure but could be ultimate goals, such as promoting energy security or economic growth. Such an assessment is likely to involve tax analysis as well as consideration of non-tax matters such as market structure, scientific, and other information.

The tax proposals subject to these analyses include items that indirectly affect the estimated value of tax expenditures (such as changes in income tax rates), proposals that make reforms to improve tax compliance and administration, as well as proposals which would change, add, or delete tax expenditures.

Barriers to Evaluation. Developing a framework that is sufficiently comprehensive, accurate, and flexible is a significant challenge. Evaluations are constrained by the availability of appropriate data and challenges in economic modeling:

- Data availability—Data may not exist, or may not exist in an analytically appropriate form, to conduct rigorous evaluations of certain types of expenditures. For example, measuring the effects of tax expenditures designed to achieve tax neutrality for individuals and firms earning income abroad, and foreign firms could require data from foreign governments or firms which are not readily available.

- Analytical constraints—Evaluations of tax expenditures face analytical constraints even when data are available. For example, individuals might have access to several tax expenditures and programs aimed at improving the same outcome. Isolating the effect of a single tax credit is challenging absent a well-specified research design.

- Resources—Tax expenditure analyses are seriously constrained by staffing considerations. Evaluations typically require expert analysts who are often engaged in other areas of work related to the budget.

The Executive Branch is focused on addressing these challenges to lay the foundation for the analysis of tax expenditures comprehensively, alongside evaluations of the effectiveness of direct spending initiatives.

APPENDIX B

TAX EXPENDITURE PRESENTATION UNDER ALTERNATIVE BASELINES

The 2020 Budget provided a presentation of the Department of Treasury review of the tax expenditure budget. This appendix revisits the earlier review with a focus on current tax expenditures identified (1) using comprehensive income as a baseline tax system and (2) using a consumption tax as a baseline tax system.

The first section of this appendix compares major tax expenditures in the current budget to those implied by a comprehensive income baseline. This comparison includes a discussion of negative tax expenditures. The second section compares the major tax expenditures in the current budget to those implied by a consumption tax baseline, and also discusses negative tax expenditures.

DIFFERENCES BETWEEN OFFICIAL TAX EXPENDITURES AND THOSE BASED ONCOMPREHENSIVE INCOME

As discussed in the main body of the this chapter, official tax expenditures are measured relative to normal tax or reference tax law baselines that deviate from a uniform tax on a comprehensive concept of income. Consequently, tax expenditures identified in the budget can differ from those that would be identified if a comprehensive income tax were chosen as the baseline tax system. This appendix addresses this issue by comparing major tax expenditures listed in the current tax expenditure budget with those implied by a comprehensive income baseline. Many large tax expenditures would continue to be tax expenditures were the baseline taken to be comprehensive income, al-

Table 13–5. COMPARISON OF CURRENT TAX EXPENDITURES WITH THOSE IMPLIED BY A COMPREHENSIVE INCOME TAX[1]

Description	Revenue Effect 2029
A. Tax Expenditure Under a Comprehensive Income Tax	
Exclusion of net imputed rental income on owner-occupied housing	212,650
Defined contribution employer plans	184,180
Capital gains (except agriculture, timber, iron ore, and coal)	157,060
Reduced tax rate on active income of controlled foreign corporations	82,810
Capital gains exclusion on home sales	76,230
Defined benefit employer plans	86,795
Self-Employed plans	75,380
Individual Retirement Accounts	43,430
Exclusion of interest on public purpose State and local bonds	30,840
Exclusion of veterans death beenfits and disability compensation	13,230
Credit for low-income housing investments	11,390
Exclusion of workers' compensation benefits	10,680
B. Possibly a Tax Expenditure Under a Comprehensive Income Tax, But With Some Qualifications	
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	131,130
Deductibility of mortgage interest on owner-occupied homes	*125,820*
Step-up basis of capital gains at death	84,860
Deductibility of State and local property tax on owner-occupied homes	65,340
Exclusion of Social Security benefits for retired workers	52,670
Child credit	20,240
Earned income tax credit	11,070
C. Uncertain	
Exclusion of employer contributions for medical insurance premiums and medical care	438,240
Deductibility of charitable contributions, other than education and health	92,980
Deductibility of medical expenses	25,990
Deductibility of self-employed medical insurance premiums	14,670
D. Probably Not a Tax Expenditure Under a Comprehensive Income Tax	
Exception from passive loss rules for $25,000 of rental loss	10,490

[1] The measurement of certain tax expenditures under a comprehensive income tax baseline may differ from the official budget estimate even when the provision would be a tax expenditure under both baselines.

Source: Table 13–1, Tax Expenditure Budget.

Table 13–6. COMPARISON OF CURRENT TAX EXPENDITURES WITH THOSE IMPLIED BY A COMPREHENSIVE CONSUMPTION TAX[1]

Description	Revenue Effect 2029
A. Tax Expenditure Under a Consumption Base	
Exclusion of net imputed rental income on owner-occupied housing	212,650
Exclusion of workers' compensation benefits	10,680
B. Probably a Tax Expenditure Under a Consumption Base	
Deductibility of mortgage interest on owner-occupied homes	125,820
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	131,130
Child credit	20,240
Exclusion of Social Security benefits for retired workers	52,670
Earned income tax credit	11,070
Exclusion of veterans death beenfits and disability compensation	13,230
C. Uncertain	
Exclusion of employer contributions for medical insurance premiums and medical care	438,240
Deductibility of charitable contributions, other than education and health	92,980
Deductibility of State and local property tax on owner-occupied homes	65,340
Deductibility of medical expenses	25,990
Deductibility of self-employed medical insurance premiums	14,670
Credit for low-income housing investments	11,390
D. Not a Tax Expenditure Under a Consumption Base	
Defined benefit employer plans	86,795
Defined contribution employer plans	184,180
Capital gains exclusion on home sales	76,230
Step-up basis of capital gains at death	84,860
Capital gains (except agriculture, timber, iron ore, and coal)	157,060
Exclusion of interest on public purpose State and local bonds	30,840
Self-Employed plans	75,380
Reduced tax rate on active income of controlled foreign corporations (normal tax method)	82,810
Individual Retirement Accounts	43,430
Exception from passive loss rules for $25,000 of rental loss	10,490

[1] The measurement of certain tax expenditures under a consumption tax baseline may differ from the official budget estimate even when the provision would be a tax expenditure under both baselines.
Source: Table 13–1, Tax Expenditure Budget.

though some would be smaller. A comprehensive income baseline would also result in a number of additional tax provisions being counted as tax expenditures.

Current budgetary practice excludes from the list of official tax expenditures those provisions that over-tax certain items of income. This exclusion conforms to the view that tax expenditures are substitutes for direct Government spending programs. However, this treatment gives a one-sided picture of how current law deviates from the baseline tax system. Relative to comprehensive income, a number of current tax provisions would be negative tax expenditures. Some of these also might be negative tax expenditures under the reference law or normal law baselines, expanded to admit negative tax expenditures.

Treatment of Major Tax Expenditures from the Current Budget under a Comprehensive Income Tax Baseline

Comprehensive income, also called Haig-Simons income, is the real, inflation adjusted, accretion to one's economic power arising between two points in time, e.g., the beginning and ending of the year. It includes all accretions to wealth, whether or not realized, whether or not related to a market transaction, and whether a return to capital or labor. Inflation adjusted capital gains (and losses) would be included in comprehensive income as they accrue. Business, investment, and casualty losses, including losses caused by depreciation, would be deducted. Implicit returns, such as those accruing to homeowners, also would be included in comprehensive income. A comprehensive income tax baseline would tax all sources of income once. Thus, it would not include a separate tax

on corporate income that leads to the double taxation of corporate profits.

While comprehensive income can be defined on the sources side of the consumer's balance sheet, it sometimes is instructive to use the identity between the sources of wealth and the uses of wealth to redefine it as the sum of consumption during the period plus the change in net worth between the beginning and the end of the period.

Comprehensive income has some validity[4], but it suffers from a host of problems. These include conceptual ambiguities, some of which are discussed below, as well as practical problems in measurement and tax administration, e.g., how to implement a practicable deduction for economic depreciation or include in income the return earned on consumer durable goods, including housing, automobiles, and major appliances. Furthermore, comprehensive income does not necessarily represent an ideal tax base; efficiency or equity might be improved by deviating from this tax base, e.g., by reducing the tax rate on capital income in order to further spur economic growth. In addition, some elements of comprehensive income would be difficult or impossible to administer in a tax system.

Classifying individual tax provisions relative to a comprehensive income baseline is difficult, in part because of the ambiguity of the baseline. It also is difficult because of interactions between tax provisions (or their absence). These interactions mean that it may not always be appropriate to consider each provision in isolation. Nonetheless, Appendix Table 13-5 attempts such a classification for each of the 25 largest tax expenditures from the Budget.

We classify fifteen of the 25 items as tax expenditures under a comprehensive income base (those in panel A). Most of these give preferential tax treatment to the return on certain types of savings or investment. They are a result of the explicitly hybrid nature of the existing tax system, and arise out of policy decisions that reflect discomfort with the high tax rate on capital income that would otherwise arise under the current structure of the income tax. Even these relatively clear cut items, however, can raise ambiguities particularly in light of the absence of integration of the corporate and individual tax systems. In the presence of a corporate income tax, the reduction or elimination of an individual level tax on income from investment in corporate equities might not be a tax expenditure relative to a comprehensive income baseline. Rather, an individual income tax preference might undo the corporate tax penalty (i.e., the double tax). A similar line of reasoning could be used to argue that in the case of corporations, expensing[5] of R&E is not a tax expenditure because it serves to offset the corporate tax penalty.

The failure to tax net rental income from owner-occupied housing was considered as a tax expenditure for the first time in the 2006 Budget. Because net rental income (gross rents minus depreciation, interest, taxes, and other expenses) would be in the homeowner's tax base under a comprehensive income baseline, this item would be a tax expenditure relative to a comprehensive income baseline.

The exclusion of worker's compensation benefits also would be a tax expenditure under a comprehensive income baseline. For example, if a worker were to buy unemployment insurance himself, he would be able to deduct the premium (since it represents a reduction in net worth) but should include in income the benefit when paid (since it represents an increase in net worth).[6] If the employer pays the premium, the proper treatment would allow the employer a deduction and allow the employee to disregard the premium, but he would take the proceeds, if any, into income. Current law allows the employer to deduct the premium and excludes both the premium and the benefits from the employee's tax base.

Veteran's death and disability benefits may represent a tax expenditure. This is clearly the case to the extent that they are seen as deferred wages or as transfers. It also is the case to the extent that they are seen as insurance benefits, since the premiums, which come in the form of foregone wages, were not included in taxable income. [7]

Panel B deals with items that may be tax expenditures but that raise issues. Current law allows deductions for home mortgage interest and for property taxes on owner-occupied housing. The tax expenditure budget includes both of these deductions. From one perspective, these two deductions would not be considered tax expenditures relative to a comprehensive income base; this base would allow both deductions. However, this perspective ignores current law's failure to impute gross rental income. Conditional on this failure, the deductions for interest and property taxes might be viewed as inappropriate because they move the tax system away from rather than toward a comprehensive income base.[8] Indeed, the sum of the tax expenditure for these two deductions, plus the tax expenditure for the failure to include net rental income, sums to the tax expenditure for owner-occupied housing relative to a comprehensive income base. Consequently, there is an argument for classifying them as tax expenditures relative to a comprehensive income baseline.

The deduction of nonbusiness State and local taxes other than on owner-occupied homes also is included in this section. These taxes include income, sales, and property taxes. The stated justification for this tax expenditure is that, "Taxpayers may deduct State and local income taxes and property taxes even though these taxes primarily pay

[4] See, e.g., David F. Bradford, *Untangling the Income Tax* 15–31 (Harvard University Press 1986) and Richard Goode, *The Economic Definition of Income*, *in Comprehensive Income Taxation* 1–29 (Joseph Pechman ed., The Brookings Institution 1977).

[5] Expensing means immediate deduction. Proper income tax treatment requires capitalization followed by annual depreciation allowances reflecting the decay in value of the associated R&E spending.

[6] Suppose a taxpayer buys a one year term unemployment insurance policy at the beginning of the year. At that time he exchanges one asset, cash, for another, the insurance policy, so there is no change in net worth. But, at the end of the year, the policy expires and so is worthless, hence the taxpayer has a reduction in net worth equal to the premium. If the policy pays off during the year (i.e., the taxpayer has a work-related injury), then the taxpayer would include the proceeds in income because they represent an increase in his net worth.

[7] The treatment of insurance premiums and benefits is discussed more completely below.

[8] If there were no deduction for interest and property taxes, the tax expenditure base (i.e., the proper tax base minus the actual tax base) for owner-occupied housing would equal the homeowner's net rental income: gross rents minus (depreciation+interest+property taxes+other expenses). With the deduction for interest and property taxes, the tax expenditure base rises to gross rents minus (depreciation+other expenses).

for services that, if purchased directly by taxpayers, would not be deductible."[9] The idea is that these taxes represent (or serve as proxies for) consumption expenditures for which current law makes no imputations to income.[10]

In contrast to the view in the official Budget, the deduction for State and local taxes might not be a tax expenditure if the baseline were comprehensive income. Properly measured comprehensive income would include the value of State and local government benefits received, but would allow a deduction for State and local taxes paid.[11] Thus, in this sense the deductibility of State and local taxes may be consistent with the comprehensive income base, meaning it is not a tax expenditure. Nonetheless, imputing the value of State and local services is difficult and is not done under current law. Consequently, a deduction for taxes might sensibly be viewed as a tax expenditure relative to a comprehensive income baseline.[12]

To the extent that the personal and dependent care exemptions and the standard deduction properly remove from taxable income all expenditures that do not yield suitably discretionary consumption value, or otherwise appropriately adjust for differing taxpaying capacity, then the child care credit and the earned income tax credit would be tax expenditures. In contrast, a competing perspective views these credits as appropriate modifications that account for differing taxpaying capacity. Even accepting this competing perspective, however, one might question why these programs come in the form of credits rather than deductions.

The step-up of basis at death lowers the income tax on capital gains for those who inherit assets below what it would be otherwise. From that perspective it would be a tax expenditure under a comprehensive income baseline. Nonetheless, there are ambiguities. Under a comprehensive income baseline, all real inflation-adjusted gains would be taxed as accrued, so there would be no deferred unrealized gains on assets held at death.

The lack of full taxation of Social Security benefits also is listed in panel B. Consider first Social Security retirement benefits. To the extent that Social Security is viewed as a pension, a comprehensive income tax would include in income all contributions to Social Security retirement funds (payroll taxes) and tax accretions to value as they arise (inside build-up).[13] Benefits paid out of prior contributions and the inside build-up, however, would not be included in the tax base because the fall in the value of the individual's Social Security account would be offset by an increase in cash. In contrast, to the extent that Social Security is viewed as a transfer program, all contributions should be deductible from the income tax base and all benefits received should be included in the income tax base.

A similar analysis applies to Social Security benefits paid to dependents and survivors. If these benefits represent Government transfers, then they should be included in the tax base. If the taxpaying unit consists of the worker plus dependents and survivors, then to the extent that Social Security benefits represent payments from a pension, the annual pension earnings should be taxed in the same way that earnings accruing to retirees are taxed. However, benefits paid to dependents and survivors might be viewed as a gift or transfer from the decedent, in which case the dependents and survivors should pay tax on the full amount of the benefit received. (In this case the decedent or his estate should pay tax on the pension income as well, to the extent that the gift represents consumption rather than a reduction in net worth.) In addition, dependents' and survivors' benefits might be viewed in part as providing life insurance. In that case, the annual premiums paid each year, or the portion of Social Security taxes attributable to the premiums, should be deducted from income, since they represent a decline in net worth, while benefits should be included in income. Alternatively, taxing premiums and excluding benefits also would represent appropriate income tax policy. In contrast to any of these treatments, current law excludes one-half of Social Security contributions (employer-paid payroll taxes) from the base of the income tax, makes no attempt to tax accretions, and subjects some, but not all, benefits to taxation. The difference between current law's treatment of Social Security benefits and their treatment under a comprehensive income tax would qualify as a tax expenditure, but such a tax expenditure differs in concept from that included in the official budget. The tax expenditures in the official budget[14] reflect exemptions for lower income beneficiaries from the tax on 85 percent of Social Security benefits.[15] Historically, payroll taxes paid by the employee represented no more than 15 percent of the expected value of the retirement benefits received by a lower-earnings Social Security beneficiary. The 85 percent inclusion rate is intended to tax upon distribution the remaining amount of the retirement benefit payment, the portion arising from the payroll tax contributions made by employers, and the implicit return on the employee and employer contributions. Thus, the tax expenditure conceived and measured in the current budget is not intended to capture the deviation from a comprehensive income baseline, which would additionally account for

[9] Fiscal Year 2003 Budget of the United States Government, *Analytical Perspectives* 127 (U.S. Government Printing Office 2002).

[10] Property taxes on owner-occupied housing also might serve as a proxy for the value of untaxed local services provided to homeowners. As such, they would be listed in the tax expenditure budget (as configured, i.e., building on the estimate for the failure to tax net rents) twice, once because current law does not tax rental income and again as a proxy for Government services received. Property taxes on other consumer durables such as automobiles also might be included twice, owing to current law's exclusion from income of the associated service flow.

[11] U.S. Treasury, Blueprints for Basic Tax Reform (Washington, D.C.: U.S. Government Printing Office, 1977) p. 92.

[12] Under the normal tax method employed by the Joint Committee on Taxation, the value of some public assistance benefits provided by State Governments is included as a tax expenditure, thereby raising a potential double counting issue.

[13] As a practical matter, this may be impossible to do. Valuing claims subject to future contingencies is very difficult, as discussed in Bradford, supra note 4, at 23–24.

[14] This includes the tax expenditure for benefits paid to workers, that for benefits paid to survivors and dependents, and that for benefits paid to dependents.

[15] The current budget does not include as a tax expenditure the absence of income taxation on the employer's contributions (payroll taxes) to Social Security retirement at the time these contributions are made.

the deferral of tax on the employer's contributions and on the rate of return (less an inflation adjustment attributable to the employee's payroll tax contributions). Rather, it is intended to approximate the taxation of private pensions with employee contributions made from after-tax income,[16] on the assumption that Social Security is comparable to such pensions. Hence, the official tax expenditure understates the tax advantage accorded Social Security retirement benefits relative to a comprehensive income baseline. To the extent that the benefits paid to dependents and survivors should be taxed as private pensions, the same conclusion applies: the official tax expenditure understates the tax advantage.

The deduction for U.S. production activities also raises problems. To the extent it is viewed as a tax break for certain qualifying businesses ("manufacturers"), it would be a tax expenditure. In contrast, the deduction may prove to be so broad that it is available to most U.S. businesses, in which case it might not be seen as a tax expenditure. Rather, it would represent a feature of the baseline tax rate system, because the deduction is equivalent to a lower tax rate. In addition, to the extent that it is viewed as providing relief from the double tax on corporate profits, it might not be a tax expenditure.

The next category (panel C) includes items whose treatment is less certain. The proper treatment of some of these items under a comprehensive income tax is ambiguous, while others perhaps serve as proxies for what would be a tax expenditure under a comprehensive income base.[17] Consider, for example, the items relating to charitable contributions. Under existing law, charitable contributions are deductible, and this deduction is considered on its face a tax expenditure in the current budget.[18]

The treatment of charitable donations, however, is ambiguous under a comprehensive income tax. If charitable contributions are a consumption item for the giver, then they are properly included in his taxable income; a deduction for contributions would then be a tax expenditure relative to a comprehensive income baseline. In contrast, charitable contributions could represent a transfer of purchasing power from the giver to the receiver. As such, they would represent a reduction in the giver's net worth, not an item of consumption, and so properly would be deductible, implying that current law's treatment is not a tax expenditure. At the same time, however, the value of the charitable benefits received is income to the recipient. Under current law, such income generally is not taxed, and so represents a tax expenditure whose size might be approximated by the size of the donor's contribution.[19]

Medical expenditures may or may not be an element of income (or consumption). Some argue that medical expenditures don't represent discretionary spending, and so are not really consumption. Instead, they are a reduction of net worth and should be excluded from the tax base. In contrast, others argue that there is no way to logically distinguish medical care from other consumption items. Those who view medical spending as consumption point out that there is choice in many healthcare decisions, e.g., whether to go to the best doctor, whether to have voluntary surgical procedures, and whether to exercise and eat nutritiously so as to improve and maintain one's health and minimize medical expenditures. This element of choice makes it more difficult to argue, at least in many cases, that medical spending is more "necessary" than, or otherwise different from, other consumption spending.

The exemption of full taxation of Social Security benefits paid to the disabled also raises some issues. Social Security benefits for the disabled most closely resemble either Government transfers or insurance. A comprehensive income tax would require the worker to include the benefit fully in his income and would allow him to deduct associated Social Security taxes. If viewed as insurance, he also could include the premium (i.e., tax) and exclude the benefit. The deviation between such treatment and current law's treatment (described above) would be a tax expenditure under a comprehensive income baseline.

In contrast, as described above, the official tax expenditure measures the benefit of exemption for low-income beneficiaries from the tax on 85 percent of Social Security benefits. This measurement does not correspond closely to that required under a comprehensive income base. If the payment of the benefit is viewed as a transfer and divorced from the treatment of Social Security taxes, then the current tax expenditure understates the tax expenditure measured relative to a comprehensive income baseline. If the payment of the benefit is viewed as a transfer but the inability to deduct the employee's share of the Social Security tax is simultaneously considered, then it is less likely that the current tax expenditure overstates the tax expenditure relative to a comprehensive income baseline, and in some cases it may generate a negative tax expenditure. If the benefit is viewed as insurance and the tax as a premium, then the current tax expenditure overstates the tax expenditure relative to a comprehensive income baseline. Indeed, in the insurance model, the ability to exclude from tax only one-half of the premium might suggest that one-half of the payout should be taxed, so that the current tax rules impose a greater tax burden than that implied by a comprehensive income tax, i.e., a negative tax expenditure.[20]

The final category (panel D) includes items that would not be tax expenditures under a comprehensive income

[16] Private pensions allow the employee to defer tax on all inside build-up. They also allow the employee to defer tax on contributions made by the employer, but not on contributions made directly by the employee. Applying these tax rules to Social Security would require the employee to include in his taxable income benefits paid out of inside build-up and out of the employer's contributions, but would allow the employee to exclude from his taxable income benefits paid out of his own contributions.

[17] See, e.g., Goode, supra note 4, at 16–17; Bradford, supra note 4, at 19–21, 30–31.

[18] The item also includes gifts of appreciated property, at least part of which represents a tax expenditure relative to an ideal income tax, even if one assumes that charitable donations are not consumption.

[19] If recipients tend to be in lower tax brackets, then the tax expenditure is smaller than when measured at the donor's tax rates.

[20] In contrast, the passive loss rules themselves, which restrict the deduction of losses, would be a negative tax expenditure when compared to a comprehensive tax base.

tax base. A tax based on comprehensive income would allow all losses to be deducted. Hence, the exception from the passive loss rules would not be a tax expenditure.

Major Tax Expenditures under a Comprehensive Income Baseline That Are Excluded from the Current Budget

While most of the major tax expenditures in the current budget also would be tax expenditures under a comprehensive income base, there also are tax expenditures relative to this base that are not found on the existing tax expenditure list. These additional tax expenditures include the imputed return from certain consumer durables (e.g., automobiles); the imputed return to consumption of financial services (e.g., checking account services received in kind and paid for by accepting a below market interest rate on deposits); the difference between capital gains (and losses) as they accrue and capital gains as they are realized; private gifts and inheritances received; in-kind benefits from such Government programs as food-stamps; Medicaid and public housing; the value of payouts from insurance policies;[21] and benefits received from private charities. Under some ideas of a comprehensive income baseline, the value of leisure and of household production of goods and services also would be included as tax expenditures. The personal exemption and standard deduction also might be considered tax expenditures, although they can be viewed differently, e.g., as elements of the basic tax rate schedule. The foreign tax credit also might be a tax expenditure, since a deduction for foreign taxes, rather than a credit, would seem to measure the income of U.S. residents properly.

Negative Tax Expenditures

Under current budgetary practice, negative tax expenditures—tax provisions that raise rather than lower taxes—are excluded from the official tax expenditure list. This exclusion conforms with the view that tax expenditures are intended to be similar to Government spending programs.

If attention is expanded from a focus on spending-like programs to include any deviation from the baseline tax system, negative tax expenditures would be of interest. Relative to a comprehensive income baseline, there are a number of important negative tax expenditures, some of which also might be viewed as negative tax expenditures under an expanded interpretation of the normal or reference law baseline. The passive loss rules, restrictions on the deductibility of capital losses, and NOL carry-forward requirements each would generate a negative tax expenditure, since a comprehensive income tax would allow full deductibility of losses. If human capital were considered an asset, then its cost (e.g., certain education and training expenses, including perhaps the cost of college and professional school) should be amortizable, but it is not under current law.[22] Some restricted deductions under the individual AMT might be negative tax expenditures as might the phase-out of personal exemptions and of itemized deductions. The inability to deduct consumer interest also might be a negative tax expenditure, as an interest deduction may be required to properly measure income, as seen by the equivalence between borrowing and reduced lending.[23]

Current tax law also fails to index for inflation interest receipts, capital gains, depreciation, and inventories. This failure leads to negative tax expenditures because comprehensive income would be indexed for inflation. Current law, however, also fails to index for inflation the deduction for interest payments; this represents a (positive) tax expenditure.

The issue of indexing also highlights that even if one wished to focus only on tax policies that are similar to spending programs, accounting for some negative tax expenditures may be required. For example, the net subsidy created by accelerated depreciation is properly measured by the difference between depreciation allowances specified under existing tax law and economic depreciation, which is indexed for inflation.[24]

DIFFERENCES BETWEEN OFFICIAL TAX EXPENDITURES AND TAX EXPENDITURES RELATIVE TO A CONSUMPTION BASE

This section compares tax expenditures listed in the official tax expenditure budget with those implied by a comprehensive consumption tax baseline. It first discusses some of the difficulties encountered in trying to compare current tax provisions to those that would be observed under a comprehensive consumption base. Next, it discusses which of the thirty largest official tax expenditures would be tax expenditures under the consumption tax baseline, concluding that about one-half of the top thirty official tax expenditures would remain tax expenditures under this baseline. Most of those that fall off the list are tax incentives for savings and investment.

The section next discusses some major differences between current law and a comprehensive consumption tax baseline that are excluded from the current list of tax expenditures. These differences include the consumption value of owner-occupied housing and other consumer durables, benefits from in-kind Government transfers, and gifts. It concludes with a discussion of negative tax expenditures relative to a consumption tax baseline.

Ambiguities in Determining Tax Expenditures Relative to a Consumption Tax Baseline

A broad-based consumption tax is a combination of an income tax plus a deduction for net savings. This

[21] To the extent that premiums are deductible.

[22] Current law offers favorable treatment to some education costs, thereby creating (positive) tax expenditures. Current law allows expensing of that part of the cost of education and career training that is related to foregone earnings and this would be a tax expenditure under a comprehensive income baseline.

[23] See Bradford, supra note 4, at 41.

[24] Accelerated depreciation can be described as the equivalent of an interest free loan from the Government to the taxpayer. Under Federal budget accounting principles, such a loan would be treated as an outlay equal to the present value of the foregone interest.

follows from the definition of comprehensive income as consumption plus the change in net worth. It therefore seems straightforward to say that the current law's deviations from a consumption base are the sum of (a) tax expenditures on an income baseline associated with exemptions and deductions for certain types of income and (b) overpayments of tax, or negative tax expenditures, to the extent net savings is not deductible from the tax base. In reality, however, the situation is more complicated. A number of issues arise, some of which also are problems in defining a comprehensive income baseline, but seem more severe, or at least only more obvious, for the consumption tax baseline.

It is not always clear how to treat certain items under a consumption tax baseline. One problem is determining whether a particular expenditure is an item of consumption. Spending on medical care and charitable donations are two examples. The classification below suggests that medical spending and charitable contributions might be included in the definition of consumption, but also considers an alternative view.

There may be more than one way to treat various items under a consumption tax baseline. For example, a consumption tax baseline might ignore borrowing and lending by excluding from the borrower's tax base the proceeds from loans, denying the borrower a deduction for payments of interest and principal, and excluding interest and principal payments received from the lender's tax base. On the other hand, a consumption tax baseline might include borrowing and lending in the tax base by requiring the borrower to add the proceeds from loans in his tax base, allowing the lender to deduct loans from his tax base, allowing the borrower to deduct payments of principal and interest, and requiring the lender to include receipt of principal and interest payments. In present value terms, the two approaches are equivalent for both the borrower and the lender; in particular both allow the tax base to measure consumption and both impose a zero effective tax rate on interest income. But which approach is taken obviously has different implications (at least on an annual flow basis) for the treatment of many important items of income and expense, such as the home mortgage interest deduction. The classification below suggests that the deduction for home mortgage interest could be a tax expenditure, but takes note of alternative views.

Some exclusions of income are equivalent in many respects to a consumption tax baseline treatment that immediately deducts the cost of an investment while taxing the future cash-flow. For example, exempting investment income is equivalent to a consumption tax baseline treatment as far as the normal rate of return on new investment is concerned. This is because expensing generates a tax reduction that offsets in present value terms the tax paid on the investment's future normal returns. Expensing gives the income from a marginal investment a zero effective tax rate. However, a yield exemption approach differs from a consumption tax baseline as far as the distribution of income and Government receipts is concerned. Pure profits in excess of the normal rate of return would be taxed under a consumption tax baseline, because they are an element of cash-flow, but would not be taxed under a yield exemption tax system. Should exemption of certain kinds of investment income, and certain investment tax credits, be regarded as the equivalent of a consumption tax baseline treatment? The classification that follows takes a fairly broad view of this equivalence and considers many tax provisions that reduce or eliminate the tax on capital income to be roughly consistent with a broad-based consumption tax.

Looking at provisions one at a time can be misleading. The hybrid character of the existing tax system leads to many provisions that might make good sense in the context of a consumption tax baseline, but that generate inefficiencies because of the problem of the "uneven playing field" when evaluated within the context of the existing tax rules. It is not clear how these should be classified. For example, many saving incentives are targeted to specific tax favored sources of capital income. The inability to save on a similar tax-favored basis irrespective of the ultimate purpose to which the savings is applied potentially distorts economic choices in ways that would not occur under a broad-based consumption tax. As another example, under a consumption value-added tax (VAT) based on the destination principle, there would be a rebate of the VAT on exports and a tax on imports. Does this mean that the extraterritorial income exclusion (the successor of the Foreign Sales Corporation provision) is not a tax expenditure? Resolution comes down to judgments about how broad is broad enough to be considered general, or whether it even matters at all that a provision is targeted in some way. The classification that follows views many savings incentives, even if targeted, as roughly consistent with a broad-based consumption tax.

In addition, provisions can interact even once an appropriate treatment is determined. For example, suppose that it is determined that financial flows are out of the tax base. Then the deduction for home mortgage interest would seem to be a tax expenditure. However, this conclusion is cast into doubt because current law generally taxes interest income. When combined with the homeowners' deduction, this results in a zero tax rate on the interest flow, consistent with a consumption tax baseline treatment.

Capital gains would not be a part of a consumption tax baseline. Proceeds from asset sales and sometimes borrowing would be part of the cash-flow tax base, but, for transactions between domestic investors at a flat tax rate, would cancel out in the economy as a whole. How should existing tax expenditures related to capital gains be classified? The classification below generally views available capital gains tax breaks as consistent with a broad-based consumption tax because they lower the tax rate on capital income toward the zero rate that is consistent with a consumption-based tax.

Such considerations suggest that trying to compute the current tax baseline's deviations from "the" base of a consumption tax is impossible because deviations cannot be uniquely determined, making it very difficult to do a consistent accounting of the differences between the current tax base and a consumption base. Nonetheless, Appendix

Table 13-6 attempts a classification based on the judgments outlined above.

Treatment of Major Tax Expenditures under a Comprehensive Consumption Tax Baseline

As noted above, the major difference between a consumption tax baseline and a comprehensive income baseline is in the treatment of savings, or in the taxation of capital income. Consequently, many current tax expenditures related to preferential taxation of capital income would not be tax expenditures under a consumption tax baseline. However, preferential treatment of items of income that is unrelated to moderately broad-based savings or investment incentives would remain tax expenditures under a consumption tax baseline. In addition, several official tax expenditures relating to items of income and expense are difficult to classify properly, while others may serve as proxies for properly measured tax expenditures.

Appendix Table 13-6 shows 30 large official tax expenditures from the Budget classified according to whether they would be considered a tax expenditure under a consumption tax baseline. Two of the 30 items would likely be a tax expenditure (shown in panel A) under a consumption tax baseline, while an additional seven (those in panel B) probably would be tax expenditures.

A consumption tax baseline would include in the homeowner's tax base the value of the implicit (gross) rental income from owner-occupied housing. Net rental income is a component of this, and so would be included as a tax expenditure, relative to a consumption tax baseline.[25]

The exclusion of workers' compensation benefits allows an exclusion from income that is unrelated to investment, and so would be included in the base of a consumption tax.

Consider next the deductibility of home mortgage interest and of property taxes on owner-occupied housing. Both items would seem to be strong candidates for inclusion as a tax expenditure, given current law's failure to impute the consumption value of housing. That is, focusing on the homeowner's tax base, these deductions move the tax system away from rather than toward the proper treatment of housing services.[26]

However, with respect to the home mortgage interest deduction, some ambiguity is introduced by the taxation of interest income to lenders. In a sense, the homeowner's deduction offsets the lenders inclusion, leaving (for equal tax rates) no net tax due on the interest flow, as would be appropriate under a consumption tax baseline. Hence, from the perspective of the entire tax system, it is less clear that the home mortgage interest deduction represents a tax expenditure.[27]

Some ambiguity also is introduced by the variable treatment of financial flows possible under a consumption tax baseline. That is, the proper treatment of interest under a consumption tax baseline depends on whether financial flows are in or out of the consumption tax baseline. If the loans are taken into income (as they would be under some types of consumption taxes), then the associated interest and principal payments should be deductible, otherwise not.

With respect to property taxes on housing as well as other State and local taxes, some ambiguity arises because the tax might not represent consumption—it might be considered a reduction in net worth. Considered alone, this argument perhaps has some merit. However, there are two problems with this argument when viewed from the context of the entire tax system. First, the deduction for property taxes would seem to be inappropriate when there is no imputation for the associated consumption value, as discussed above. Second, the current tax system does not impute the consumption value of State and local services, and tax payments might serve as a proxy for that value, making their deduction unnecessary for the proper measurement of consumption.

The official tax expenditures for Social Security benefits reflects exceptions for low-income taxpayers from the general rule that 85 percent of Social Security benefits are included in the recipient's tax base. The 85 percent inclusion is intended as a simplified mechanism for taxing Social Security benefits as if the Social Security program were a private pension with employee contributions made from after-tax income. Under these tax rules, income earned on contributions made by both employers and employees benefits from tax deferral, but employer contributions also benefit because the employee may exclude them from his taxable income, while the employee's own contributions are included in his taxable income. These tax rules give the equivalent of consumption tax treatment, a zero effective tax rate on the return, to the extent that the original pension contributions are made by the employer, but give less generous treatment to the extent that the original contributions are made by the employee. Income earned on employee contributions is taxed at a low, but positive, effective tax rate. Based on historical calculations, the 85 percent inclusion reflects roughly the outcome of applying these tax rules to a lower-income earner when one-half of the contributions are from the employer and one-half from the employee.

The current tax expenditure measures a tax benefit relative to a baseline that is somewhere between a comprehensive income tax and a consumption tax. The properly measured tax expenditure relative to a consump-

[25] Suppose that the rental value of a house is $100 per year, and that depreciation is $20, interest is $15, property taxes are $10, and other expenses are $5. Net rental income is $50 (gross rents less all items of expense). Hence, net rental income is a component of the gross rent, which is the consumption value of the housing services. Under a real based cash flow tax, in which financial flows are outside the tax base, the homeowner's net tax base would be $85: gross rents minus (property taxes + other expenses), assuming that property taxes are viewed as a reduction in net worth and that he makes no new investment (which would be deductible).

[26] Using the figures from the example in the previous footnote, the homeowner would pay tax on gross rents minus property taxes minus other expenses, or on $85. If property taxes and mortgage interest were not deducted, then this would be the size of the tax expenditure. However, current law allows these deductions, which raises the tax expenditure base to $110.

[27] One must guard against double counting here, however, to the extent that current law's general taxation of capital income is calculated elsewhere in the tax expenditure budget as a negative tax expenditure.

tion tax baseline would include only those Social Security benefits that are accorded treatment more favorable than that implied by a consumption tax, which would correspond to including 50 percent of Social Security benefits in the recipient's tax base.

A similar analysis would apply to exclusion of Social Security benefits of dependents and retirees.

There is a strong case for viewing the child credit and the earned income tax credit as social welfare programs (transfers). As such, they would be tax expenditures relative to a consumption tax baseline. Nonetheless, these credits could alternatively be viewed as relieving tax on "nondiscretionary" consumption, and so not properly considered a tax expenditure.

The treatment of the items in panel C is less uncertain. Several of these items relate to the costs of medical care or to charitable contributions. As discussed in the previous section of the appendix, there is disagreement within the tax policy community over the extent to which medical care and charitable giving represent consumption items. Medical care is widely held to be consumption, except perhaps the medical care that actually raises, rather than simply sustains the individual's ability to work. Charitable giving, on the other hand, may be considered to be a reduction in net worth that should be excluded from the tax base because it does not yield direct satisfaction to taxpayer who makes the expenditure. In this case, the tax expenditure lies not with the individual making the charitable deduction, but with the exclusion from taxation of the amounts received by the recipient.

There also is the issue of how to tax medical insurance premiums. Under current law, employees do not have to include insurance premiums paid for by employers in their income. The self-employed also may exclude (via a deduction) medical insurance premiums from their taxable income. From some perspectives, these premiums should be in the tax base because they appear to represent consumption. Yet an alternative perspective would support excluding the premium from tax as long as the consumption tax base included the value of any medical services paid for by the insurance policy, because the premium equals the expected value of insurance benefits received. But even from this alternative perspective, the official tax expenditure might continue to be a tax expenditure under a consumption tax baseline because current law excludes the value of medical services paid with insurance benefits from the employee's taxable income.

If medical spending is not consumption, one approach to measuring the consumption base would ignore insurance, but allow the consumer to deduct the value of all medical services obtained. An alternative approach would allow a deduction for the premium but include the value of any insurance benefits received, while continuing to allow a deduction for a value of all medical services obtained. In either case, the official tax expenditure for the exclusion of employer provided medical insurance and expenses would not be a tax expenditure relative to a consumption tax baseline.

The extraterritorial income exclusion replaces the previous Foreign Sales Corporation program. It provides an exclusion from income for certain exports. To the extent that the program is viewed as a component of a destination-based VAT it might not be a tax expenditure. In addition, to the extent that the exclusion reduces the income tax bias against investment it might be consistent with consumption tax principles (i.e., a low tax rate on capital income).

The credit for low-income housing acts to lower the tax burden on qualified investment, and so from one perspective would not be a tax expenditure under a consumption tax baseline. However, in some cases the credit is too generous; it can give a negative tax on income from qualified investment rather than the zero tax called for under consumption tax principles. In addition, the credit is very narrowly targeted. Consequently, it could be considered a tax expenditure relative to a consumption tax baseline.

The final panel (D) shows items that are not likely to be tax expenditures under a consumption base. Most of these relate to tax provisions that eliminate or reduce the tax on various types of capital income because a zero tax on capital income is consistent with consumption tax principles.

The deduction for U.S. production activities is not classified as a tax expenditure. This reflects the view that it represents a widespread reduction in taxes on capital income or an offset to the corporate income tax. In contrast to this classification, however, it would be a tax expenditure to the extent that it is viewed as a targeted tax incentive.

The exception from the passive loss rules probably would not be a tax expenditure because proper measurement of income, and hence of consumption, requires full deduction of losses.

Major Tax Expenditures under a Consumption Tax That Are Excluded from the Current Budget

Several differences between current law and a consumption tax are left off the official tax expenditure list. Additional tax expenditures include the imputed consumption value from consumer durables and financial services received in kind, private gifts and inheritances received, possibly benefits paid by insurance policies, in-kind benefits from such Government programs as food-stamps, Medicaid, and public housing, and benefits received from charities. Under some ideas of a consumption tax baseline, the value of leisure and of household production of goods and services would be included as a tax expenditure.

A consumption tax baseline implemented as a tax on cash flows would tax all proceeds from sales of capital assets when consumed, rather than just capital gains; because of expensing, taxpayers effectively would have a zero basis. The proceeds from borrowing would be in the base of a consumption tax that also allowed a deduction for repayment of principal and interest, but are excluded from the current tax base. The deduction of business interest expense might be a tax expenditure, since under some forms of consumption taxation interest is neither deducted from the borrower's tax base nor included in the

lender's tax base. The personal exemption and standard deduction also might be considered tax expenditures, although they can be viewed differently, e.g., as elements of the basic tax rate schedule.

Negative Tax Expenditures

Importantly, current law also deviates from a consumption tax baseline norm in ways that increase, rather than decrease, tax liability. These could be called negative tax expenditures. The official budget excludes negative tax expenditures on the theory that tax expenditures are intended to substitute for Government spending programs. Yet excluding negative tax expenditures gives a very one-sided look at the differences between the existing tax system and a consumption tax.

A large item on this list would be the inclusion of capital income in the current individual income tax base, including the income earned on inside-build up in Social Security accounts. Depreciation allowances, even if accelerated, would be a negative tax expenditure since consumption tax treatment generally would require expensing. Depending on the treatment of loans, the borrower's inability to deduct payments of principal and the lender's inability to deduct loans might be a negative tax expenditure. The passive loss rules and NOL carry-forward provisions also might generate negative tax expenditures, because the change in net worth requires a deduction for losses (consumption = income – the change in net worth). If human capital were considered an asset, then its cost (e.g., certain education and training expenses, including perhaps costs of college and professional school) should be expensed, but it is not under current law. Certain restrictions under the individual AMT as well as the phase-out of personal exemptions and of itemized deductions also might be considered negative tax expenditures. Under some views, the current tax treatment of Social Security benefits paid to the disabled would be a negative tax expenditure.