[JOINT COMMITTEE PRINT]

ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 1999–2003

PREPARED FOR THE

COMMITTEE ON WAYS AND MEANS

AND THE

COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

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INTRODUCTION

This report[1] on tax expenditures for fiscal years 1999–2003 is prepared by the staff of the Joint Committee on Taxation ("Joint Committee staff") for the House Committee on Ways and Means and the Senate Committee on Finance. The report also is submitted to the House and Senate Committees on the Budget.

As in the case of earlier reports,[2] the estimates of tax expenditures in this report were prepared in consultation with the staff of the Office of Tax Analysis in the Treasury Department ("the Treasury"). The Treasury published its estimates of tax expenditures for fiscal years 1997–2003 in the Administration's budgetary statement of February 1998.[3] The lists of tax expenditures in this Joint Committee staff report and the Administration's budgetary statement overlap considerably; the differences are discussed in Part I of this report under the heading "Comparisons with Treasury."

The Joint Committee staff has made its estimates (as shown in Table 1) based on the provisions in tax law as enacted through December 1, 1998. Expired or repealed provisions are not listed unless they have continuing revenue effects that are associated with ongoing taxpayer activity. Proposed extensions or modifications of expiring provisions are not included until they have been enacted into law.

Part I of this report contains a discussion of the concept of tax expenditures. Part II is a discussion of the measurement of tax expenditures. Estimates of tax expenditures for fiscal years 1999–2003 are presented in Table 1 in Part III. Table 2 shows the distribution of tax returns by income class, and Table 3 presents distributions of selected individual tax expenditures by income class.

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[1] This report may be cited as follows: Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 1999–2003* (JCS–7–98), December 14, 1998.

[2] Joint Committee on Taxation, *Estimates of Federal Tax Expenditures*, October 4, 1972, June 1, 1973, July 8, 1975, March 15, 1976, March 16, 1977, March 14, 1978, March 15, 1979, March 6, 1980, March 16, 1981, March 8, 1982, March 7, 1983, November 9, 1984, April 12, 1985, March 1, 1986, February 27, 1987, March 8, 1988, February 28, 1989, March 9, 1990, March 11, 1991, April 24, 1992, April 22, 1993, November 9, 1994, September 1, 1995, November 26, 1996, and December 15, 1997.

[3] Office of Management and Budget, "Tax Expenditures," *Budget of the United States Government: Analytical Perspectives, Fiscal Year 1999*, February 2, 1998, pp. 89–120.

I. THE CONCEPT OF TAX EXPENDITURES

Overview

"Tax expenditures" are defined under the Congressional Budget and Impoundment Control Act of 1974 ("the Budget Act") as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.[4] Thus, tax expenditures include any reductions in individual and corporate income tax liabilities that result from special tax provisions or regulations that provide tax benefits to particular taxpayers.

Special income tax provisions are referred to as tax expenditures because they may be considered to be analogous to direct outlay programs, and the two can be considered as alternative means of accomplishing similar budget policy objectives. Tax expenditures are most similar to those direct spending programs that have no spending limits, and that are available as entitlements to those who meet the statutory criteria established for the programs.[5]

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

The legislative history of the Budget Act indicates that tax expenditures are to be defined with reference to a normal income tax structure (referred to here as "normal income tax law"). The Joint Committee staff has used its judgment in distinguishing between those income tax provisions (and regulations) that can be viewed as a part of normal income tax law and those special provisions that result in tax expenditures. A provision traditionally has been listed as a tax expenditure by the Joint Committee staff if there is a reasonable basis for such classification and the provision results in more than a de minimis revenue loss, which solely for this purpose means a total revenue loss of at least $50 million over the five fiscal years, 1999–2003. The Joint Committee staff emphasizes, however, that in the process of listing tax expenditures, no judgment is made, nor any implication intended, about the desirability of any special tax provision as a matter of public policy.

If a tax expenditure provision were eliminated, Congress might choose to continue financial assistance through other means rather than terminate all Federal assistance for the activity. If a replace-

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

[5] There are a few tax expenditures that have statutorily imposed limits. One example is the tax credit for low-income rental housing. This credit is available only to those who have received credit allocations from State housing authorities. There are statutory limits on the total amounts of credit allocations that the States can make each year.

ment spending program were enacted, the higher revenues received as a result of the elimination of a tax expenditure might not represent a net budget gain. A replacement program could involve direct expenditures, direct loans or loan guarantees, regulatory activity, a different form of tax expenditure, or a general reduction in tax rates. Joint Committee staff estimates of tax expenditures do not anticipate such policy responses.

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

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

Individual Income Tax

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

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

Under present law, all employee compensation is subject to tax unless the tax code contains a specific exclusion for the income. There are specific exclusions for the following employer-provided

[6] In its budget statement, the Treasury Department identifies tax expenditures in the unified transfer tax (the estate and gift tax and the generation-skipping transfer tax). See, Office of Management and Budget, "Tax Expenditures," February 2, 1998, pp. 119–120. Other analysts have explored applying the concept of tax expenditures to the payroll and excise taxes. See, Jonathan Barry Forman, "Would a Social Security Tax Expenditure Budget Make Sense?" *Public Budgeting and Financial Management*, 5, 1993, pp. 311–335, and Bruce F. Davie, "Tax Expenditures in the Federal Excise Tax System," *National Tax Journal*, XLVII, March 1994, pp. 39–62.

benefits: coverage under accident and health plans,[7] accident and disability insurance, group term life insurance, educational assistance, transportation benefits (parking, van pools, and transit passes), child care, meals and lodging (furnished for the convenience of the employer), employee awards, and other miscellaneous fringe benefits (e.g., employee discounts, services provided to employees at no additional cost to employers, tuition reductions, and de minimis fringe benefits). Each of these exclusions is classified as a tax expenditure in this report.

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

Under present law, social security retirement benefits are fully or partially excluded from gross income.[8] Under normal income tax law, retirees would be entitled to an exclusion for only the portion of social security retirement benefits that represents a return of the social security taxes that they paid during their working years. Thus, the exclusion of social security retirement benefits in excess of social security tax payments is classified as a tax expenditure.

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

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

The individual income tax does not include in gross income the imputed income that individuals receive from the services provided

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

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

by owner-occupied homes and durable goods.[9] However, the Joint Committee staff does not classify this exclusion as a tax expenditure. The measurement of imputed income for tax purposes presents administrative problems and its exclusion from taxable income may be regarded as an administrative necessity.[10]

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

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

It also is assumed that normal income tax law would not provide for any indexing of the basis of capital assets for changes in the general price level. Thus, under normal income tax law (as under present law), the income tax would be levied on nominal gains as opposed to real gains in asset values. If, as an alternative, normal income tax law were defined to include full indexing of the basis of capital assets, the capital gains tax expenditure estimates in Table 1 generally would be much lower than those shown. For consistency, if there were indexation of the basis of capital assets, it should be coupled with a general indexation of the income and expenses associated with capital assets and the indexation of interest. If normal income tax law were defined to include the indexation of interest paid and received, the tax expenditure estimates for exclusion of interest on State and local government debt would be much lower than those shown in Table 1.

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

Business Income Taxation

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

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

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

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

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

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

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

Corporate Income Tax

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

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

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

Recent Legislation

Surface Transportation Revenue Act of 1998

The Surface Transportation Revenue Act of 1998, enacted on June 9, 1998, as part of the Transportation Equity Act for the 21st Century (Title IX of H.R. 2400) (P.L. 105–178), modified two existing tax expenditures:

—The excise tax exemptions and income tax credits for alcohol fuels were extended through September 30, 2007 (excise tax exemptions), and December 31, 2007 (income tax credits), and the tax incentives will be reduced from 54 cents per gallon to 51 cents per gallon over a five-year period beginning on January 1, 2001. (The income tax credits are classified as a tax expenditure, but not the excise tax exemptions.)

—The exclusion for employer-provided parking and transit benefits was modified as follows: (1) no parking or transportation benefit is includible in gross income or wages of an employee merely because the employee is offered the choice of cash in lieu of one or more qualified transportation benefits, effective for taxable years beginning after December 31, 1997; (2) there is no indexing of the dollar limits on the exclusions for qualified transportation benefits in 1999; and (3) the exclusion for employer-provided transit passes and vanpooling is increased to $100 per month effective for taxable years beginning after December 31, 2001.

Internal Revenue Service Restructuring and Reform Act of 1998

The Internal Revenue Service Restructuring and Reform Act of 1998 ("IRS Reform Act") (H.R. 2676), enacted on July 22, 1998 (P.L. 105–206), modified two existing tax expenditures:

—Property held more than one year (rather than more than 18 months) is eligible for reduced capital gains tax rates, effective January 1, 1998.

—All of the meals provided to employees on the business premises of an employer are generally treated as being provided for the convenience of the employer (and are thus excludable under section 119) if more than one-half of the employees who are provided meals are being provided meals for the convenience of the employer, effective for taxable years beginning before, on, or after July 22, 1998.

Tax and Trade Relief Extension Act of 1998

The Tax and Trade Relief Extension Act of 1998 ("the Tax Extension Act"), enacted on October 21, 1998, as part of the Omnibus

Consolidated and Emergency Supplemental Appropriations Act, 1999 (Division J of H.R. 4328) (P.L. 105–277), extended and modified some existing tax expenditures and added a new tax expenditure to the Internal Revenue Code.

Extensions of expiring tax provisions.—The Tax Extension Act extended a number of tax expenditure provisions that had recently expired or were scheduled to expire. The tax credit for qualified research expenditures (Code sec. 41), which expired after June 30, 1998, was extended for the period July 1, 1998, through June 30, 1999. The work opportunity tax credit, which expired after June 30, 1998, was extended through June 30, 1999. The welfare-to-work tax credit, which was scheduled to expire after April 30, 1999, was extended through June 30, 1999. The deduction equal to the fair market value of "qualified appreciated stock" contributed to a private foundation, which expired after June 30, 1998, was permanently extended. (The effects of this provision are reflected in the tax expenditure estimates for "deduction for charitable contributions" in Table 1.) Income averaging for farmers, which was scheduled to expire for taxable years beginning after December 31, 2000, was permanently extended.

Modifications to existing tax expenditures.—The Tax Extension Act also modified two existing tax expenditures:

—The rates of deduction for health insurance expenses of self-employed individuals are increased as follows: the deduction is 45 percent in 1998, 60 percent in 1999 through 2001, 70 percent in 2002, and 100 percent in 2003 and thereafter.

—The limit on State private activity tax-exempt bonds is increased to $75 per resident of each State or $225 million (if greater) beginning in calendar year 2007. The increase is phased in, beginning with $55 per resident or $165 million (if greater) in calendar year 2003.

New tax expenditure.—The Tax Extension Act provided a special five-year carryback period for net operating losses attributable to farming businesses. The provision is effective for net operating losses arising in taxable years beginning after December 31, 1997.

Alternative minimum tax effects on personal credits.—The Tax Extension Act contained a provision that allows nonrefundable personal credits to offset the regular tax in full for taxable years beginning in 1998, thereby reducing or eliminating the alternative minimum tax liabilities of some taxpayers. This provision will allow taxpayers to receive greater benefits from the nonrefundable personal credits. Thus, in Table 1, the tax expenditure estimates for these credits are larger than would otherwise be the case.

Cancelled Tax Provisions

The Taxpayer Relief Act of 1997 contained two tax expenditure provisions that were cancelled by the President pursuant to the Line Item Veto Act of 1996. In June 1998, the Supreme Court held that the provisions of the Line Item Veto Act were unconstitutional. Thus, the two cancelled tax provisions are now present law. The first provision provides a temporary exception from foreign personal holding company income (for subpart F purposes) for certain income that is derived in the active conduct of an insurance, banking, financing, or similar business, for taxable years beginning in 1998. The Tax Extension Act modified and extended this provision through taxable years beginning in 1999. The provision is listed in Table 1. The second cancelled tax provision provides for a deferral of tax on gains from the sale of stock in a qualified refiner or processor to an eligible farmer's cooperative, effective for sales after December 31, 1997. This provision is not listed in Table 1 because the associated revenue loss is less than the de minimis amount required for inclusion in the table.

Comparisons with Treasury Department

The Joint Committee staff and Treasury lists of tax expenditures differ in two respects. First, the Treasury uses a different classification of those provisions that can be considered a part of normal income tax law under both the individual and business income taxes. In general, the Joint Committee staff methodology involves a narrower concept of normal income tax law. Thus, the Joint Committee list of tax expenditures includes some provisions that are not contained in the Treasury list. The cash method of accounting provides an example. The Treasury considers the cash accounting option for certain businesses as a part of normal income tax law, but the Joint Committee staff methodology treats it as a departure from normal income tax law that constitutes a tax expenditure.

Second, the Joint Committee staff list excludes those provisions that are estimated to result in revenue losses below the de minimis amount, i.e., less than $50 million over the five fiscal years, 1999–2003. The Treasury does not have a de minimis exception. Thus, the Treasury list of tax expenditures includes some provisions that are not contained in the Joint Committee staff list.

The Joint Committee staff and Treasury estimates of tax expenditures span slightly different sets of years. The Treasury's estimates cover a seven-year period—the last fiscal year, the current fiscal year when the President's budget is submitted, and the next five fiscal years, i.e., fiscal years 1997–2003. The Joint Committee staff estimates cover the current fiscal year and the succeeding four fiscal years, i.e., fiscal years 1999–2003.

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

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

The following is a list of tax expenditure provisions in the Joint Committee staff list that are not classified as tax expenditures by the Treasury: [11]

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[11] There are two additional tax expenditure provisions in the Joint Committee staff list that are not classified a tax expenditures by the Treasury: the expensing of tertiary injectants and the exclusion of investment income from structured settlement amounts. These provisions are not listed in Table 1 because the estimated revenue losses are below the de minimis amount ($50 million over the five fiscal years, 1999–2003).

Natural resources and environment

—Exclusion of contributions in aid of construction for water and sewer utilities

Agriculture

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

Insurance companies

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

Business and commerce

—Expensing of magazine circulation expenditures
—Special rules for magazine, paperback book, and record returns
—Completed contract rules
—Cash accounting, other than agriculture
—Deferral of gain on like-kind exchanges
—Exception from net operating loss limitations for corporations in bankruptcy
—Tax credit for employer-paid FICA taxes on tips
—Deferral of gain on involuntary conversions resulting from Presidentially-declared disasters

Employment

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

Medicare

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

The following is a list of the tax expenditure provisions that are included in the Treasury list but are excluded from the Joint Committee staff list because the estimated revenue losses are below the de minimis amount (less than $50 million over the five fiscal years, 1999–2003):

Energy

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

Natural resources and environment

—Tax credit and seven-year amortization for reforestation expenditures

Agriculture

—Deferral of tax on gains from the sale of stock in a qualified refiner or processor to an eligible farmer's cooperative[12]

Financial institutions

—Bad debt reserves of financial institutions

Insurance companies

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

Business and commerce

—Ordinary income treatment of losses from sales of small business corporation stock
—Exclusion of income from discharge of indebtedness incurred in connection with qualified real property

Social services

—Expensing of costs for removing architectural barriers

There are three additional tax expenditure provisions in the Treasury list that are not included in the Joint Committee staff list. Two of the provisions involve exceptions to the passive loss rules: (1) the exception for working interests in oil and gas properties; and (2) the exception for up to $25,000 of rental losses. The Joint Committee staff does not classify these two provisions as tax expenditures; the revenue effects of the passive loss rules (and exceptions to the rules) are included in the estimates of the tax expenditure provisions that are affected by the rules.[13] The third tax expenditure in the Treasury list that is not included in the Joint Committee staff list is the exemption of certain income of telephone and electric cooperatives. The Joint Committee staff does not classify this provision as a tax expenditure because the special tax rules for pass-through entities are assumed to be a part of normal tax law.[14]

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[12] This provision was not included in the Treasury list of tax expenditures that was published as part of the budget statement on February 2, 1998. However, it is expected that the provision will be included in the Treasury list that will accompany the budget statement forthcoming in February 1999.
[13] See discussion of the alternative minimum tax and passive loss rules on p. 6, above.
[14] See discussion of pass-through entities on p. 6, above.

II. MEASUREMENT OF TAX EXPENDITURES

Tax Expenditure Estimates Generally

A tax expenditure is measured by the difference between tax liability under present law and the tax liability that would result from a recomputation of tax without benefit of the tax expenditure provision. Taxpayer behavior is assumed to remain unchanged for tax expenditure estimate purposes.[15]

The tax expenditure estimates in this report are based on Congressional Budget Office and Joint Committee staff projections of the gross income, deductions, and expenditures of individuals and corporations for calendar years 1998–2003. These projections are used to compute tax liabilities for the present-law revenue baseline and tax liabilities for the alternative baseline that assumes that the tax expenditure provision does not exist.

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

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

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

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

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

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

Tax Expenditures versus Revenue Estimates

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

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

III. TAX EXPENDITURE ESTIMATES

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

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

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

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

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1999–2003

[Billions of dollars]

Function	Corporations					Individuals					Total 1999–2003
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	
National Defense											
Exclusion of benefits and allowances to Armed Forces personnel	....	....	....	....	....	2.0	2.0	2.0	2.1	2.1	10.2
Exclusion of military disability benefits	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
International Affairs											
Exclusion of income earned abroad by U.S. citizens	....	....	....	....	....	1.9	2.0	2.2	2.3	2.5	10.9
Exclusion of certain allowances for Federal employees abroad	....	....	....	....	....	0.2	0.2	0.2	0.2	0.2	1.0
Exclusion of income of foreign sales corporations (FSCs)	1.8	1.9	2.0	2.1	2.2	....	....	....	....	....	10.0
Deferral of active income of controlled foreign corporations	1.3	1.4	1.4	1.5	1.6	....	....	....	....	....	7.2
Inventory property sales source rule exception	3.9	4.0	4.1	4.2	4.3	....	....	....	....	....	20.5
Deferral of certain active financing income	0.2	0.3	....	....	....	....	....	....	....	....	0.5
General Science, Space, and Technology											
Tax credit for qualified research expenditures	1.6	0.9	0.5	0.3	0.1	....	....	....	....	....	3.4
Expensing of research and experimental expenditures	1.9	2.4	2.7	2.8	3.0	....	....	....	....	....	12.7
Energy											
Expensing of exploration and development costs:											
Oil and gas	0.4	0.4	0.4	0.5	0.5	(1)	(1)	(1)	(1)	(1)	2.2
Other fuels	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1999–2003—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1999–2003
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	
Excess of percentage over cost depletion:											
Oil and gas	0.4	0.4	0.4	0.4	0.4	0.1	0.1	0.1	0.1	0.1	2.4
Other fuels	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	1.5
Tax credit for enhanced oil recovery costs	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Tax credit for production of non-conventional fuels	1.0	1.0	1.0	1.0	0.8	0.3	0.3	0.3	0.3	0.2	6.2
Tax credits for alcohol fuels (2)	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	(1)
Exclusion of interest on State and local government industrial development bonds for energy production facilities	0.1	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.8
Exclusion of energy conservation subsidies provided by public utilities	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Tax credit for investments in solar and geothermal energy facilities	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Tax credit for electricity production from wind and biomass	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.4
Natural Resources and Environment											
Expensing of exploration and development costs, nonfuel minerals	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Excess of percentage over cost depletion, nonfuel minerals	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	1.5
Expensing of multiperiod timber-growing costs	0.1	0.1	0.2	0.2	0.2	(1)	(1)	(1)	(1)	(1)	0.9
Exclusion of interest on State and local government sewage, water, and hazardous waste facilities bonds	0.2	0.2	0.2	0.2	0.2	0.4	0.5	0.5	0.5	0.5	3.4
Special rules for mining reclamation reserves	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2

Exclusion of contributions in aid of construction for water and sewer utilities	([1])	([1])	([1])	([1])	([1])	....	....	....	....	....	0.1
Agriculture											
Expensing of soil and water conservation expenditures	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	0.2
Expensing of fertilizer and soil conditioner costs	([1])	([1])	([1])	([1])	([1])	([1])	([1])	0.1	0.1	0.1	0.3
Expensing of the costs of raising dairy and breeding cattle	([1])	([1])	([1])	([1])	([1])	0.1	0.2	0.2	0.2	0.2	0.9
Exclusion of cost-sharing payments	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	0.1
Exclusion of cancellation of indebtedness income of farmers	....	....	....	....	....	0.1	0.1	0.1	([1])	([1])	0.3
Cash accounting for agriculture	([1])	([1])	([1])	([1])	([1])	0.4	0.5	0.6	0.6	0.6	3.0
Income averaging for farmers	....	....	....	....	....	([1])	([1])	([1])	([1])	([1])	0.1
Five-year carryback period for net operating losses attributable to farming	([1])	([1])	([1])	([1])	([1])	0.1	0.1	0.1	([1])	([1])	0.3
Commerce and Housing											
Financial institutions:											
Exemption of credit union income	0.9	0.9	1.0	1.0	1.1	....	....	....	....	....	4.8
Insurance companies:											
Exclusion of investment income on life insurance and annuity contracts	22.6	23.3	24.0	24.8	25.6	1.3	1.3	1.4	1.4	1.5	127.1
Small life insurance company taxable income adjustment	0.1	0.1	0.1	0.1	0.1	....	....	....	....	....	0.7
Special treatment of life insurance company reserves	1.3	1.4	1.4	1.5	1.5	....	....	....	....	....	7.1
Deduction of unpaid property loss reserves for property and casualty insurance companies	3.3	3.4	3.4	3.5	3.5	....	....	....	....	....	17.1
Special deduction for Blue Cross and Blue Shield companies	0.4	0.4	0.4	0.4	0.3	....	....	....	....	....	1.9
Housing:											
Deduction for mortgage interest on owner-occupied residences	....	....	....	....	....	48.5	50.4	52.4	54.5	56.8	262.6

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1999–2003—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1999–2003
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	
Deduction for property taxes on owner-occupied residences	....	....	....	....	....	17.8	18.4	19.1	19.7	20.3	95.3
Exclusion of capital gains on sales of principal residences	....	....	....	....	....	5.8	6.0	6.2	6.4	6.6	31.0
Exclusion of interest on State and local government bonds for owner-occupied housing	0.6	0.6	0.6	0.7	0.7	1.4	1.5	1.5	1.6	1.7	10.9
Exclusion of interest on State and local government bonds for rental housing	0.3	0.3	0.3	0.3	0.3	0.7	0.8	0.8	0.8	0.8	5.4
Depreciation of rental housing in excess of alternative depreciation system	0.2	0.2	0.2	0.2	0.2	1.6	1.5	1.5	1.6	1.7	8.6
Tax credit for low-income housing	1.2	1.4	1.5	1.7	1.9	2.3	2.6	2.8	3.1	3.4	22.0
Tax credit for first-time homebuyers in the District of Columbia	....	....	....	....	....	(1)	(1)	(1)	....	....	0.1
Tax credit for rehabilitation of historic structures	0.3	0.4	0.4	0.4	0.4	0.1	0.1	0.1	0.1	0.1	2.3
Other business and commerce:											
Reduced rates of tax on long-term capital gains	....	....	....	....	....	35.1	32.0	33.8	34.9	36.1	171.9
Exclusion of capital gains at death	....	....	....	....	....	19.2	20.7	22.2	23.9	25.2	111.2
Carryover basis of capital gains on gifts	....	....	....	....	....	1.9	2.1	2.3	2.5	2.7	11.5
Deferral of gain on non-dealer installment sales	0.5	0.5	0.5	0.5	0.6	0.4	0.4	0.4	0.4	0.4	4.7
Deferral of gain on like-kind exchanges	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	3.5
Deferral of gain on involuntary conversions resulting from Presidentially-declared disasters	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1

Depreciation of buildings other than rental housing in excess of alternative depreciation system	1.9	1.5	1.2	1.2	1.1	0.9	0.7	0.5	0.5	0.4	9.9
Depreciation of equipment in excess of alternative depreciation system..	23.7	24.8	25.3	25.7	26.1	6.3	6.7	6.9	6.8	6.7	158.9
Expensing of depreciable business property	0.5	0.5	0.7	0.7	0.5	0.3	0.2	0.3	0.4	0.2	4.4
Amortization of business startup costs	(1)	(1)	(1)	(1)	(1)	0.3	0.3	0.3	0.3	0.3	1.6
Reduced rates on first $10,000,000 of corporate taxable income	4.4	4.4	4.4	4.4	4.5	....	....	....	....	....	22.1
Permanent exemption from imputed interest rules	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.1
Expensing of magazine circulation expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Special rules for magazine, paperback book, and record returns	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Completed contract rules	0.2	0.2	0.2	0.2	0.2	(1)	(1)	(1)	(1)	(1)	1.1
Cash accounting, other than agriculture	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.6
Exclusion of interest on State and local government small-issue industrial development bonds	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	1.3
Exception from net operating loss limitations for corporations in bankruptcy proceedings	0.5	0.5	0.5	0.4	0.4	....	....	....	....	....	2.3
Tax credit for employer-paid FICA taxes on tips	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	2.1
Transportation											
Deferral of tax on capital construction funds of shipping companies	0.1	0.1	0.1	0.1	0.1	....	....	....	....	....	0.5
Exclusion of employer-paid transportation benefits	....	....	....	....	....	3.5	3.6	3.6	3.7	3.7	18.1
Exclusion of interest on State and local government bonds for high-speed rail	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.5

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1999–2003—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1999–2003
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	
Community and Regional Development											
Empowerment zone tax incentives	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.1	0.1	1.8
District of Columbia tax incentives	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.7
Indian reservation tax incentives	0.1	0.1	0.1	0.1	(1)	0.1	0.1	0.1	(1)	(1)	0.8
Expensing of redevelopment costs in certain environmentally contaminated areas (“Brownfields”)	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Tax credit for rehabilitation of structures, other than historic structures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of interest on State and local government bonds for private airports, docks, and mass-commuting facilities	0.3	0.3	0.3	0.4	0.4	0.7	0.8	0.9	0.9	1.0	6.1
Education, Training, Employment, and Social Services											
Education and training:											
Tax credits for tuition for post-secondary education	....	....	....	....	....	5.6	6.4	6.2	6.2	6.2	30.6
Deduction for interest on student loans	....	....	....	....	....	0.1	0.2	0.2	0.3	0.3	1.1
Exclusion of earnings of trust accounts for higher education (“education IRAs”)	....	....	....	....	....	0.3	0.5	0.5	0.6	0.7	2.6
Exclusion of interest on educational savings bonds	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Deferral of tax on earnings of qualified State tuition programs	....	....	....	....	....	0.2	0.2	0.2	0.3	0.4	1.2
Exclusion of scholarship and fellowship income	....	....	....	....	....	0.9	1.0	1.0	1.1	1.2	5.3

Exclusion of employer-provided education assistance benefits	....	....	....	....	....	0.2	0.2	0.2	0.2	0.2	1.1
Parental personal exemption for students age 19 to 23	....	....	....	....	....	0.8	0.8	0.8	0.9	0.9	4.2
Exclusion of interest on State and local government student loan bonds	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	1.3
Exclusion of interest on State and local government bonds for private nonprofit educational facilities	0.3	0.3	0.3	0.4	0.4	0.7	0.8	0.8	0.9	0.9	5.9
Tax credit for holders of qualified education bonds	(1)	0.1	0.1	0.1	0.1	....	....	....	....	....	0.3
Deduction for charitable contributions to educational institutions	1.0	1.1	1.2	1.4	1.5	2.8	2.9	3.1	3.3	3.5	21.8
Employment:											
Exclusion of employee meals and lodging (other than military)	....	....	....	....	....	0.7	0.8	0.8	0.8	0.9	4.0
Exclusion of benefits provided under cafeteria plans (3)	....	....	....	....	....	4.3	4.5	4.9	5.3	5.7	24.6
Exclusion of housing allowances for ministers	....	....	....	....	....	0.4	0.4	0.4	0.4	0.4	2.0
Exclusion of miscellaneous fringe benefits	....	....	....	....	....	6.2	6.5	6.9	7.3	7.8	34.7
Exclusion of employee awards	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.7
Exclusion of income earned by voluntary employees' beneficiary associations	....	....	....	....	....	0.5	0.5	0.6	0.6	0.6	2.8
Special tax provisions for employee stock ownership plans (ESOPs)	0.8	0.8	0.9	0.9	0.9	(1)	(1)	(1)	(1)	(1)	4.6
Work opportunity tax credit	0.3	0.2	0.1	(1)	(1)	0.1	(1)	(1)	(1)	....	0.7
Welfare-to-work tax credit	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	....	....	0.1
Social services:											
Tax credit for children under age 17 (4)	....	....	....	....	....	19.1	20.0	20.0	19.8	19.5	98.4
Tax credit for child and dependent care expenses	....	....	....	....	....	2.5	2.5	2.5	2.5	2.5	12.6

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1999–2003—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1999–2003
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	
Exclusion of employer-provided child care (5)	....	....	....	....	....	0.4	0.4	0.5	0.5	0.6	2.4
Exclusion of certain foster care payments	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.2
Adoption credit and employee adoption benefits exclusion	....	....	....	....	....	0.4	0.4	0.4	0.2	0.1	1.5
Deduction for charitable contributions, other than for education and health	1.0	1.1	1.2	1.3	1.4	19.8	20.9	22.1	23.3	24.6	116.6
Tax credit for disabled access expenditures	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.3
Health											
Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums (6)	....	....	....	....	....	57.9	61.3	65.1	69.2	73.8	327.3
Exclusion of medical care and CHAMPUS/TRICARE medical insurance for military dependents, retirees, and retiree dependents	....	....	....	....	....	1.5	1.6	1.6	1.6	1.6	7.9
Deduction for health insurance premiums and long-term care insurance premiums by the self-employed	....	....	....	....	....	1.0	1.2	1.2	1.5	2.4	7.3
Deducation for medical expenses and long-term care expenses	....	....	....	....	....	4.2	4.3	4.5	4.7	4.9	22.6
Exclusion of workers' compensation benefits (medical benefits)	....	....	....	....	....	4.3	4.5	4.7	4.9	5.1	23.4
Medical savings accounts	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of interest on State and local government bonds for private nonprofit hospital facilities	0.5	0.6	0.6	0.7	0.7	1.3	1.5	1.5	1.6	1.7	10.8

Deduction for charitable contributions to health organizations	0.7	0.8	0.9	1.0	1.1	2.0	2.1	2.3	2.4	2.5	15.8
Tax credit for orphan drug research	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	0.2
Medicare											
Exclusion of untaxed medicare benefits:											
Hospital insurance	....	....	....	....	....	14.7	15.2	15.9	16.8	17.8	80.4
Supplementary medical insurance	....	....	....	....	....	7.2	8.0	9.1	10.4	11.8	46.5
Income Security											
Exclusion of workers' compensation benefits (disability and survivors payments)	....	....	....	....	....	3.7	3.8	3.9	4.0	4.2	19.7
Exclusion of special benefits for disabled coal miners	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.4
Exclusion of cash public assistance benefits	....	....	....	....	....	0.5	0.5	0.5	0.5	0.5	2.5
Net exclusion of pension contributions and earnings:											
Employer plans	....	....	....	....	....	76.1	78.3	78.2	78.1	78.4	388.9
Individual retirement plans	....	....	....	....	....	11.4	12.4	13.1	14.2	15.5	66.6
Keogh plans	....	....	....	....	....	4.8	5.1	5.2	5.4	5.7	26.1
Exclusion of other employee benefits:											
Premiums on group term life insurance	....	....	....	....	....	2.0	2.0	2.1	2.2	2.3	10.5
Premiums on accident and disability insurance	....	....	....	....	....	0.2	0.2	0.2	0.2	0.2	1.0
Additional standard deduction for the blind and the elderly	....	....	....	....	....	2.0	2.0	2.0	2.1	2.2	10.3
Tax credit for the elderly and disabled	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Deduction for casualty and theft losses	....	....	....	....	....	0.3	0.3	0.3	0.3	0.4	1.6
Earned income credit (EIC) (7)	....	....	....	....	....	4.2	4.3	4.5	4.6	4.7	22.3
Social Security and Railroad Retirement											
Exclusion of untaxed social security and railroad retirement benefits	....	....	....	....	....	25.4	26.1	27.0	28.0	28.9	135.4
Veterans' Benefits and Services											
Exclusion of veterans' disability compensation	....	....	....	....	....	2.0	2.1	2.2	2.2	2.3	10.8

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1999–2003—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1999–2003
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	
Exclusion of veterans' pensions	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.6
Exclusion of GI bill benefits	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
Exclusion of interest on State and local government bonds for veterans' housing	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.4
General Purpose Fiscal Assistance											
Exclusion of interest on public purpose State and local government debt	4.2	4.8	4.9	5.2	5.6	10.4	11.7	11.9	12.8	13.8	85.3
Deduction of nonbusiness State and local government income and personal property taxes	....	....	....	....	....	31.2	32.1	33.0	33.9	34.8	165.0
Tax credit for Puerto Rico and possession income	3.6	3.8	4.0	3.6	3.2	....	....	....	....	....	18.2
Interest											
Deferral of interest on savings bonds	....	....	....	....	....	1.2	1.2	1.2	1.2	1.2	6.0

Footnotes for Table 1:

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

[2] In addition, the exemption from excise tax for alcohol fuels results in a reduction in excise tax receipts, net of income tax effect, of $0.5 billion in fiscal year 1999 and $0.6 billion per year in fiscal years 2000 through 2003.

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

[4] The figures in the table show the effect of the child credit on receipts. The increase in outlays is: $0.9 billion in 1999, $1.2 billion in 2000, $1.2 billion in 2001, $1.2 billion in 2002, and $1.2 billion in 2003.

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

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

[7] The figures in the table show the effect of the earned income credit on receipts. The increase in outlays is: $25.6 billion in 1999, $26.2 billion in 2000, $26.8 billion in 2001, $27.3 billion in 2002, and $27.9 billion in 2003.

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

Source: Joint Committee on Taxation.

Table 2.—Distribution by Income Class of All Returns, Taxable Returns, Itemized Returns, and Tax Liability at 1998 Rates and 1998 Law and 1998 Income Levels [1]

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

Income class [thousands] [2]	All returns [3]	Taxable returns	Itemized returns	Tax liability
Below $10	19,763	1,388	110	−$5,401
$10 to $20	25,158	8,527	858	−6,186
$20 to $30	20,397	12,446	2,015	14,101
$30 to $40	16,189	12,860	3,258	29,025
$40 to $50	12,434	11,269	3,918	38,022
$50 to $75	19,469	19,167	9,711	99,413
$75 to $100	10,015	9,976	7,322	94,567
$100 to $200	8,383	8,367	7,240	164,726
$200 and over	2,129	2,125	1,936	272,265
Total	**133,938**	**86,125**	**36,367**	**$700,532**

[1] Tax law as in effect on January 1, 1998, is applied to the 1998 level and sources of income and their distribution among taxpayers.

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

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

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

Source: Joint Committee on Taxation.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1998 Rates and 1998 Income Levels [1]

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

Income class [thousands] [2]	Medical deduction [3]		Real estate tax deduction	
	Returns	Amount	Returns	Amount
Below $10	7	$2	9	$1
$10 to $20	170	49	373	59
$20 to $30	556	172	1,257	206
$30 to $40	827	352	2,405	498
$40 to $50	794	406	3,199	825
$50 to $75	1,424	934	8,452	2,803
$75 to $100	578	683	6,616	3,611
$100 to $200	306	830	6,668	5,682
$200 and over	38	319	1,614	3,672
Total	**4,701**	**$3,746**	**30,594**	**$17,358**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1998 Rates and 1998 Income Levels [1]—Continued

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

Income class [thousands] [2]	State and local income and personal property tax deduction		Charitable contributions deduction	
	Returns	Amount	Returns	Amount
Below $10	20	(6)	54	$4
$10 to $20	487	$20	930	113
$20 to $30	1,460	84	2,196	302
$30 to $40	2,833	299	3,187	598
$40 to $50	3,554	775	3,830	955
$50 to $75	9,201	2,925	9,221	3,511
$75 to $100	6,719	4,526	5,593	3,482
$100 to $200	6,594	8,721	5,151	5,223
$200 and over	1,697	13,121	1,617	9,395
Total	**32,565**	**$30,469**	**31,777**	**$23,583**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1998 Rates and 1998 Income Levels [1]—Continued

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

Income class [thousands] [2]	Child care credit		Earned income credit [4]	
	Returns	Amount	Returns	Amount
Below $10	3	(6)	4,976	$5,732
$10 to $20	346	$102	6,683	13,805
$20 to $30	935	389	5,279	7,543
$30 to $40	831	349	2,061	1,722
$40 to $50	718	296	160	145
$50 to $75	1,473	662	41	53
$75 to $100	804	391	(5)	(6)
$100 to $200	531	267	—	—
$200 and over	95	49	—	—
Total	**5,738**	**$2,504**	**19,201**	**$29,000**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1998 Rates and 1998 Income Levels[1]—Continued

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

Income class [thousands][2]	Untaxed Social Security and Railroad Retirement benefits		Child tax credit[4]	
	Returns	Amount	Returns	Amount
Below $10	172	$30	19	$6
$10 to $20	3,977	1,664	1,676	545
$20 to $30	4,902	4,705	3,697	1,802
$30 to $40	4,467	5,783	4,125	2,775
$40 to $50	3,561	5,561	3,396	2,447
$50 to $75	4,228	5,768	7,322	5,339
$75 to $100	1,432	583	4,397	3,223
$100 to $200	1,312	320	2,131	1,369
$200 and over	362	122	3	2
Total	**24,411**	**$24,536**	**26,766**	**$17,508**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1998 Rates and 1998 Income Levels[1]—Continued

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

Income class [thousands][2]	Mortgage interest deduction	
	Returns	Amount
Below $10	14	$3
$10 to $20	345	128
$20 to $30	1,134	466
$30 to $40	2,375	1,238
$40 to $50	3,080	2,270
$50 to $75	8,201	7,667
$75 to $100	6,538	10,029
$100 to $200	6,306	15,739
$200 and over	1,554	9,438
Total	**29,548**	**$46,977**

Footnotes for Table 3:

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

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

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

[4] Includes the refundable portion.

[5] Less than 500 returns.

[6] Less than $500,000.

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

Source: Joint Committee on Taxation.