[JOINT COMMITTEE PRINT]

ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 1992-1996

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 1992–1996 is prepared by the staff of the Joint Committee on Taxation ("Joint Committee staff") for the House Committee on Ways and Means and the Senate Committee on Finance. The report is also submitted to the House and Senate Committees on the Budget as required by the Budget Act of 1974, as amended. The Budget Committees include estimates of tax expenditures in their reports that accompany the annual budget resolutions.

As in the case of earlier reports,[2] the estimates of tax expenditures in this report were prepared in cooperation with the staff of the Office of Tax Analysis in the Treasury Department. The Treasury published its estimates of tax expenditures for fiscal years 1990–1992 in the President's Budget for Fiscal Year 1992.[3] The lists of tax expenditures in this Joint Committee staff report and the budget report overlap considerably, and the differences are discussed below in Part I under the heading "Comparisons with Treasury".

The Joint Committee staff has made its estimates (as shown in Table 1) based on the provisions in tax law as enacted through December 31, 1990, including relevant provisions in the Omnibus Budget Reconciliation Act of 1990. Expired or repealed provisions are not listed if their effects on revenue result only from taxpayer activity in years before 1990. Extensions or modifications of expiring provisions are not included until they have been enacted into law.

Part I of this report contains a discussion of the concept of tax expenditures and is followed in Part II by a discussion of the measurement of tax expenditures. Estimates of tax expenditures for fiscal years 1992–1996 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 1992–1996* (JCS-4-91), March 11, 1991.

[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, and March 9, 1990.

[3] Office of Management and Budget, "Tax Expenditures," Section XI, Part Three, *Budget of the United States Government, Fiscal Year 1992*, pp. 17-41.

I. THE CONCEPT OF TAX EXPENDITURES

Overview

Tax expenditures are defined as reductions in individual and corporate income tax liabilities that result from special tax provisions or regulations that provide tax benefits to particular taxpayers. These special tax provisions can take the form of exclusions, credits, deductions, preferential tax rates, or deferrals of tax liability.

Special income tax provisions are referred to as tax expenditures because they are considered to be analogous to direct expenditure programs, and the two can be viewed as alternative means of accomplishing similar policy objectives. Tax expenditures are most similar to those direct spending programs which have no spending limits, and which are available as entitlements to those who meet the statutory criteria established for the programs. Direct expenditure programs normally require the approval of an application from a potential beneficiary. Most tax expenditures require no action other than the filing of a tax return.[4]

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

In this report, the Joint Committee staff follows the definition of tax expenditures that appears in the Congressional Budget and Impoundment Control Act of 1974 ("Budget Act of 1974"): ". . . those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability." [5] The legislative history of the Act indicates that tax expenditures are to be defined with reference to a normal income tax structure.

The Joint Committee staff has used its judgment in distinguishing between those income tax provisions (and regulations) that can be viewed as a part of normal tax law, and those special provisions that result in tax expenditures. A special provision might be classified as a tax expenditure on the basis of one of these two criteria: (1) the provision represents a departure from the taxation of economic income that is made for reasons other than administrative feasibility; or (2) the provision offers special tax relief to a narrow group of taxpayers.

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[4] There are a few tax expenditures that have application requirements and spending limits. One example is the tax credit for low-income rental housing. This credit is available only to those who have received credit allocations from State housing authorities. There are statutory limits on the total amount of credit allocations that can be issued in any given year.

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

A provision traditionally has been listed as a tax expenditure by the Joint Committee staff if there is a reasonable basis for such classification and the provision results in more than a de minimis revenue loss—which in this context means a revenue loss of at least $10 million in each of the five fiscal years 1992–1996. The Joint Committee staff emphasizes, however, that in the process of listing tax expenditures, no judgment is made, nor any inference intended, about the desirability of any special tax provision as a matter of public policy.

If a tax expenditure were eliminated, Congress might choose to continue financial assistance through another means rather than terminate all Federal assistance for the activity. For example, the Tax Reform Act of 1986 repealed the itemized deduction for certain adoption expenses and in its place authorized a direct spending program for such expenses. To the extent that a replacement spending program would be enacted, the higher revenues received as a result of the elimination of a tax expenditure might not represent a net budget gain. The nature of any alternative program cannot be anticipated—it could involve direct expenditures, direct loans or loan guarantees, a different form of a tax expenditure, or a general reduction in tax rates. Joint Committee staff estimates of tax expenditures do not anticipate such policy responses.

The Budget Act of 1974 uses the term tax expenditure to refer to the special tax provisions that are contained in the individual and corporate income tax structure. Other Federal taxes such as excise taxes, employment taxes, and estate and gift taxes also have exceptions, exclusions, and credits, but those special tax provisions are not included in this report because they are not part of the income tax. Thus, for example, the income tax credit for producing ethanol for use in gasohol is included, but the equivalent exemption from the excise tax on gasohol sales is not treated here as a tax expenditure.

Individual Income Tax

Under the Joint Committee staff view, 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. Nearly all other tax provisions can be viewed as exceptions to normal law.[6]

Personal exemptions and the standard deduction are viewed as part of normal tax law because Congress believes these amounts approximate 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. Itemized deductions (other than employee business expenses) are classified as tax expenditures, but only to the extent they exceed the standard deduction level.

Interest deductions that are viewed as part of normal tax law include interest paid or accrued on indebtedness incurred in connection with a trade or business, investment interest to the extent of

[6] Some of the exceptions to normal law are tax disincentives which result in higher tax liabilities. Tax disincentives are not shown in this report.

investment income, and interest payable on any unpaid portion of tax due on an estate when an extension of time for payment is in effect. Interest provisions that are viewed as tax expenditures include the deduction for mortgage interest on a principal or second residence, and the permanent exemption from the imputed interest rules.

A new tax expenditure for 1991 and beyond is the maximum 28-percent tax rate on capital gains of individuals. This maximum rate was enacted in the Tax Reform Act of 1986, but it had no effect from 1988 through 1990 because in those years, all taxable income of individuals was subject to the same 28-percent maximum statutory rate. This year (1991), the maximum statutory rate on individual income rises from 28 percent to 31 percent, and the exception for capital gains becomes effective. Thus, the special capital gains maximum tax rate is once again a tax expenditure. Other capital gains provisions that remain as tax expenditures are: the exclusion of capital gains from income at death; the deferral of capital gains on personal residence sales rollovers; and the exclusion of capital gains up to $125,000 on sales of personal residences for individuals age 55 or over.

The Omnibus Budget Reconciliation Act of 1990 created several additional tax expenditures: (1) a tax credit for health insurance expenses for children of taxpayers eligible for the earned income credit; (2) a business tax credit for the cost of providing access for disabled individuals; and (3) a tax credit for enhanced oil recovery costs.

The National Income and Product Accounts [7] include estimates of the imputed income that individuals receive from the services provided by owner-occupied homes and other durables. The individual income tax provides a complete exception for this imputed income, but the Joint Committee staff does not view this exception as a tax expenditure. The measurement of imputed income for tax purposes presents severe administrative problems, and its exclusion from taxable income may be regarded as an administrative necessity. If all imputed income were included in adjusted gross income, it would be proper to include all interest deductions as part of the normal tax structure, since interest deductions would be allowable as a cost of producing imputed income.

Business Income Taxation

Business income is generally subject to the same tax rules, regardless of whether it is earned by sole proprietors, partnerships, or corporations. Sole proprietorship and partnership income is taxed at the individual level, whereas corporate income is subject to a separate tax.

The corporate income tax includes a graduated tax rate schedule. The lower tax rates in the schedule are classified as a tax expenditure (as opposed to normal tax law) because they are intended to provide tax benefits to small business and are unrelated to concerns about ability of individuals to pay taxes.

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[7] The accounts appear in U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, published monthly.

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

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

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

Comparisons with Treasury

The Joint Committee staff lists and the Treasury Department lists of tax expenditures differ for two reasons. First, the Treasury takes a broader view of those provisions that can be considered a part of normal tax law under both the individual and business income taxes. The Joint Committee staff takes a narrower view of normal tax law, and thus has a longer list of tax expenditures. Use of the cash method of accounting rather than the accrual method provides an example. The Treasury views the cash accounting option as a part of normal tax law, but the Joint Committee staff views it as a departure from normal law that constitutes a tax expenditure.

Second, the Joint Committee staff and Treasury estimates of tax expenditures are prepared for different sets of years. The Treasury's estimates cover the usual three-year period of a budget submission—the last fiscal year, the current fiscal year, and the forthcoming fiscal year to which the budget proposals apply, i.e., fiscal years 1990–1992. The Joint Committee staff estimates cover the forthcoming fiscal year and the succeeding four fiscal years, i.e., fiscal years 1992–1996.

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

Tax expenditure items in the Joint Committee staff list which have not been included separately, or within another item, in the Treasury's listing in the budget report are shown below.

International affairs

—Exclusion of certain allowances for Federal employees living abroad

Energy

—Expensing of tertiary injectants

Agriculture

—Deductibility of patronage dividends and certain other items of cooperatives
—Exclusion of cost-sharing payments
—Cash accounting

Insurance companies

—Deduction of unpaid loss reserves of property and casualty companies
—Treatment of life insurance company reserves
—Exclusion of investment income from structured settlement amounts

Business and commerce

—Expensing of up to $10,000 of depreciable business property
—Expensing of magazine circulation expenditures
—Special rules for magazine, paperback book, and record returns
—Completed contract rules
—Cash accounting, other than agriculture
—Exception from net operating loss limitations for corporations in bankruptcy
—Like-kind exchanges
—Gain from sale or exchange to effectuate policies of the FCC

Transportation

—Exclusion of interest on State and local government bonds for high-speed inter-urban rail facilities

Employment

—Exclusion of benefits provided under cafeteria plans
—Exclusion of miscellaneous fringe benefits
—Exclusion of employee awards

II. MEASUREMENT OF TAX EXPENDITURES

The interpretation of tax expenditures is subject to important limitations. The difference between the estimates of tax liabilities under present law, which provides for a particular tax expenditure provision, and the higher level of tax liabilities under the assumption that the provision did not exist, is the amount of the tax expenditure. For this computation, as opposed to revenue estimates provided for legislative purposes, it is assumed that nothing else changes, i.e., these are static estimates that do not anticipate taxpayer behavioral responses to changes in tax law.

Each tax expenditure is measured in isolation. If two or more items were to be eliminated simultaneously, the combination of changes might produce a lesser or greater revenue effect than the sum of the amounts shown for each item separately. This means that the addition of the amounts of various tax expenditure items is of quite limited usefulness, and this is why annual totals for all tax expenditures in Table 1 are shown only as an addendum to Table 1.

Year-to-year differences in the estimates for each tax expenditure reflect changes in tax law, including phaseouts of tax expenditure provisions and changes which alter the definition of the normal tax structure, such as the tax rate schedule, the personal exemption amount, and the standard deduction. Some of the estimates for this tax expenditure budget may differ from estimates made in previous years because of changes in law and economic conditions, the availability of better data, and improved estimating techniques.

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 presents estimates of outlay equivalents in the President's Budget.

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 revenue loss, and those estimates are indicated in Table 1 by footnote 1. For each of these items, the footnote means that the revenue loss 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 estimates by income class for some of the tax expenditures which affect individual taxpayers. Not all tax expenditures which affect individuals are shown in this table because of the difficulty in making reliable estimates of the income distribution of items which do not appear on tax returns under present law.

Tables 1, 2, and 3 are based on the tax laws as they existed on December 31, 1990.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1992–1996

[Billions of Dollars]

Function	Corporations					Individuals					Total 1992–96
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996	
National defense											
Exclusion of benefits and allowances to Armed Forces personnel	....	....	....	....	....	2.0	2.1	2.2	2.3	2.3	10.9
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	....	....	....	....	....	1.5	1.5	1.6	1.6	1.7	7.9
Exclusion of certain allowances for Federal employees abroad	....	....	....	....	....	0.2	0.2	0.2	0.2	0.2	1.0
Exclusion of income of foreign sales corporations (FSCs)	0.9	1.0	1.1	1.1	1.2	....	....	....	....	....	5.3
Deferral of income of controlled foreign corporations	0.2	0.2	0.3	0.3	0.3	....	....	....	....	....	1.2
Inventory property sales source rule exception	3.2	3.4	3.7	3.8	3.9	....	....	....	....	....	18.0
Interest allocation rules exception for certain nonfinancial institutions	0.2	0.2	0.2	0.2	0.2	....	....	....	....	....	0.9
General science, space, and technology											
Expensing of research and development expenditures	1.6	1.7	1.9	2.0	2.1	....	....	....	....	....	9.3
Credit for increasing research activities	0.7	0.8	0.8	0.8	0.9	....	....	....	....	....	4.0
Energy											
Expensing of exploration and development costs:											
Oil and gas	(2)	0.1	0.1	0.2	0.2	0.6	0.7	0.7	0.8	0.8	4.2
Other fuels	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Excess of percentage over cost depletion:											
Oil and gas	0.1	0.1	0.1	0.2	0.2	0.4	0.4	0.5	0.5	0.6	3.1
Other fuels	0.2	0.2	0.2	0.2	0.2	(1)	(1)	(1)	(1)	(1)	1.1
Credit for enhanced oil recovery costs	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Alternative fuel production credit	0.3	0.4	0.4	0.4	0.3	0.1	0.1	0.1	0.1	0.1	2.4
Alcohol fuel credits (3)	0.1	0.1	0.2	0.2	0.3	....	....	....	....	....	1.0

Exclusion of interest on State and local government industrial development bonds for energy production facilities	(2)	(2)	(2)	(2)	(2)	0.2	0.2	0.2	0.2	0.2	1.0
Expensing of tertiary injectants	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Business energy tax credits	(1)	(2)	(2)	....	....	....	....	....	....	....	(1)
Natural resources and environment											
Expensing of exploration and development costs, nonfuel minerals	(1)	(1)	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.4
Excess of percentage over cost depletion, nonfuel minerals	0.3	0.3	0.3	0.3	0.3	(1)	(1)	(1)	(1)	(1)	1.6
Investment credit and 7-year amortization for reforestation expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Expensing multiperiod timber-growing costs	0.4	0.4	0.4	0.4	0.5	(1)	(1)	(1)	(1)	(1)	2.2
Exclusion of interest on State and local government sewage, water, and hazardous waste facilities bonds	−0.4	−0.4	−0.4	−0.5	−0.5	1.8	1.9	2.0	2.0	2.1	7.6
Investment tax credit for rehabilitation of historic structures	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.5
Special rules for mining reclamation reserves	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Agriculture											
Expensing certain multiperiod production costs	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.2
Deductibility of patronage dividends and certain other items of cooperatives	0.3	0.3	0.3	0.4	0.4	−0.1	−0.1	−0.1	−0.1	−0.1	1.4
Exclusion of cost-sharing payments	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of cancellation of indebtedness income of farmers	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
Cash accounting for agriculture	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	1.5
Commerce and housing											
Financial institutions:											
Bad-debt reserves of financial institutions	0.1	0.1	0.2	0.2	0.2	....	....	....	....	....	0.8
Merger rules for banks and thrift institutions	2.6	1.7	1.2	0.9	0.6	....	....	....	....	....	7.0
Exemption of credit union income	0.6	0.7	0.8	0.9	0.9	....	....	....	....	....	3.9
Insurance companies:											
Exclusion of investment income on life insurance and annuity contracts	7.8	8.5	9.3	10.2	11.2	0.1	0.1	0.1	0.1	0.1	47.4
Exclusion of investment income from structured settlement amounts	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	0.1
Small life insurance company taxable income adjustment	0.1	0.1	0.1	0.1	0.1	....	....	....	....	....	0.5
Treatment of life insurance company reserves	0.7	0.7	0.8	0.8	0.9	....	....	....	....	....	3.8

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1992–1996—Continued

[Billions of Dollars]

Function	Corporations					Individuals					Total 1992–96
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996	
Deduction of unpaid loss reserves for property and casualty insurance companies	1.6	1.4	1.3	1.1	1.0	....	....	....	....	....	6.4
Special alternative tax on small property and casualty insurance companies	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	0.1
Tax exemption for certain insurance companies	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	0.1
Special deduction for Blue Cross and Blue Shield companies	0.1	0.1	(1)	(1)	(1)	....	....	....	....	....	0.2
Housing:											
Deductibility of mortgage interest on owner-occupied residences	....	....	....	....	....	38.8	42.2	45.9	50.0	54.4	231.2
Deductibility of property tax on owner-occupied residences	....	....	....	....	....	11.0	12.3	13.6	15.2	16.9	69.0
Deferral of capital gains on sales of principal residences	....	....	....	....	....	11.5	12.1	12.7	13.6	15.5	65.3
Exclusion of capital gains on sales of principal residences for persons age 55 and over ($125,000 exclusion)	....	....	....	....	....	3.8	4.0	4.2	4.5	5.2	21.8
Exclusion of interest on State and local government bonds for owner-occupied housing	0.3	0.3	0.3	0.3	0.3	1.4	1.3	1.2	1.1	1.0	7.5
Depreciation of rental housing in excess of alternative depreciation system	1.1	1.1	1.1	1.2	1.2	0.5	0.5	0.6	0.6	0.6	8.5
Low-income housing tax credit	0.1	0.1	0.1	0.1	0.1	1.0	1.0	1.0	1.0	1.0	5.6
Exclusion of interest on State and local government bonds for rental housing	0.2	0.3	0.3	0.3	0.3	0.6	0.6	0.7	0.7	0.7	4.7
Other business and commerce:											
Maximum 28% tax rate on long-term capital gains	....	....	....	....	....	4.5	5.1	5.6	6.0	6.5	27.7
Depreciation on buildings other than rental housing in excess of alternative depreciation system	5.1	5.3	5.5	5.7	5.9	1.9	2.0	2.0	2.1	2.2	37.7

tive depreciation system	14.1	14.6	15.1	15.6	16.2	4.0	4.1	4.3	4.4	4.6	97.0
Investment credit other than ESOPs, rehabilitation of structures, reforestation, and energy property	0.9	0.3	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	1.6
Expensing up to $10,000 depreciable business property	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.0
Exclusion of capital gains at death:											
Capital gains at death	....	....	....	....	....	10.5	11.6	12.7	14.0	15.4	64.2
Carryover basis on gifts	....	....	....	....	....	1.1	1.3	1.4	1.4	1.5	6.7
Amortization of business startup costs	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.0
Reduced rates on first $75,000 of corporate taxable income	3.0	3.1	3.2	3.3	3.5	....	....	....	....	....	16.1
Permanent exemption from imputed interest rules	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.0
Expensing of magazine circulation expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Special rules for magazine, paperback, and record returns	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Deferral of gain on non-dealer installment sales	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.8
Completed contract rules	0.2	0.3	0.3	0.3	0.3	(1)	(1)	(1)	(1)	(1)	1.2
Cash accounting, other than agriculture	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Exclusion of interest on State and local government small-issue bonds	−0.1	−0.1	−0.1	−0.1	−0.1	2.4	2.4	2.4	2.4	2.4	11.5
Deferral of gain on like-kind exchanges	0.3	0.3	0.3	0.4	0.4	0.2	0.2	0.2	0.2	0.2	2.7
Exception from net operating loss limitations for corporations in bankruptcy proceedings	0.2	0.2	0.2	0.2	0.2	....	....	....	....	....	1.0
Gain from sale or exchange to effectuate policies of the FCC	0.2	0.2	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.7
Exemption of RIC expenses from miscellaneous deduction floor	....	....	....	....	....	0.5	0.6	0.7	0.8	0.8	3.4
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 interest on State and local government bonds for mass transit commuting vehicles	(2)	(2)	(2)	(2)	(2)	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of interest on State and local government bonds for high-speed inter-urban rail facilities	(2)	(2)	(2)	(2)	(2)	0.1	0.1	0.2	0.2	0.2	0.8

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1992-1996—Continued

[Billions of Dollars]

Function	Corporations					Individuals					Total 1992–96
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996	
Community and regional development											
Investment credit for rehabilitation of structures, other than historic structures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.4
Exclusion of interest on State and local government bonds for private airports and docks	−0.1	−0.1	−0.2	−0.2	−0.2	0.8	0.8	0.8	0.9	0.9	3.4
Education, training, employment, and social services											
Education and training:											
Exclusion of scholarship and fellowship income	...	...	...	...	...	0.6	0.6	0.6	0.7	0.7	3.2
Parental personal exemption for students age 19 to 23	...	...	...	...	...	0.3	0.3	0.4	0.5	0.5	2.0
Exclusion of interest on State and local government student loan bonds	(1)	(1)	(1)	(1)	(1)	0.4	0.4	0.4	0.4	0.4	2.0
Exclusion of interest on State and local government bonds for private educational facilities	(1)	(1)	(1)	(1)	(1)	0.3	0.3	0.3	0.3	0.3	1.5
Deductibility of charitable contributions for education	0.5	0.6	0.6	0.6	0.6	1.6	1.7	1.9	2.0	2.1	12.2
Educational savings bonds	...	...	...	...	...	0.1	0.2	0.2	0.3	0.3	1.1
Employment:											
Targeted jobs tax credit	0.2	0.1	(1)	(1)	(1)	(1)	(1)	(1)	...	...	0.4
Exclusion of employee meals and lodging (other than military)	...	...	...	...	...	0.8	0.8	0.9	0.9	0.9	4.3
Employee stock ownership plans (ESOPs)	0.9	1.0	1.1	1.2	1.2	(1)	(1)	(1)	(1)	(1)	5.3
Exclusion for benefits provided under cafeteria plans	...	...	...	...	...	2.6	2.9	3.1	3.2	3.3	15.1
Exclusion of rental allowances for ministers' homes	...	...	...	...	...	0.2	0.2	0.2	0.2	0.3	1.1
Exclusion of miscellaneous fringe benefits	...	...	...	...	...	4.1	4.3	4.6	4.9	5.2	23.1
Exclusion of employee awards	...	...	...	...	...	0.1	0.1	0.1	0.1	0.1	0.6

zations:											
Supplemental unemployment benefits trusts	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Voluntary employees' beneficiary associations	....	....	....	....	....	0.5	0.5	0.5	0.5	0.6	2.7
Social services:											
Deductibility of charitable contributions, other than for education and health	0.5	0.6	0.6	0.6	0.6	12.5	13.3	14.2	15.1	16.1	74.1
Credit for child and dependent care expenses	....	....	....	....	....	3.1	3.3	3.4	3.5	3.7	17.0
Exclusion for employer-provided child care	....	....	....	....	....	0.3	0.4	0.5	0.5	0.6	2.3
Exclusion for certain foster care payments	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Expensing costs of removing architectural barriers	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.3
Tax credit for disabled access expenditures	0.1	0.1	0.1	0.1	0.1	....	....	....	....	....	0.5
Health											
Exclusion of employer contributions for medical insurance premiums and medical care	....	....	....	....	....	37.7	41.3	45.1	49.0	53.2	226.4
Deductibility of medical insurance premiums by the self employed	....	....	....	....	....	0.1	....	....	....	....	0.1
Credit for child medical insurance premiums (4)	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
Deductibility of medical expenses	....	....	....	....	....	2.9	3.3	3.8	4.4	5.0	19.4
Exclusion of interest on State and local government bonds for private hospital facilities	0.1	0.1	0.1	0.1	0.1	2.6	2.9	3.2	3.5	3.7	16.4
Deductibility of charitable contributions for health	0.2	0.2	0.2	0.2	0.2	1.6	1.7	1.8	1.9	2.0	10.0
Tax credit for orphan drug research	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	(1)
Medicare											
Exclusion of untaxed medicare benefits:											
Hospital insurance	....	....	....	....	....	7.1	7.7	8.3	9.0	9.8	41.8
Supplementary medical insurance	....	....	....	....	....	4.0	4.5	5.0	5.7	6.4	25.5
Income security											
Exclusion of workers' compensation benefits	....	....	....	....	....	2.9	3.1	3.2	3.4	3.6	16.1
Exclusion of special benefits for disabled coal miners	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.6
Exclusion of cash public assistance benefits	....	....	....	....	....	0.4	0.4	0.4	0.4	0.5	2.1
Net exclusion of pension contributions and earnings	....	....	....	....	....	54.0	57.0	59.0	61.0	64.0	295.0
Individual retirement plans	....	....	....	....	....	6.2	6.5	6.9	7.3	7.8	34.7
Keogh plans	....	....	....	....	....	2.9	3.0	3.2	3.4	3.6	16.1
Exclusion of other employee benefits:											
Premiums on group term life insurance	....	....	....	....	....	2.2	2.3	2.5	2.6	2.7	12.4

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1992–1996—Continued

[Billions of Dollars]

Function	Corporations					Individuals					Total 1992–96
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996	
Premiums on accident and disability insurance						0.1	0.1	0.1	0.1	0.1	0.6
Exclusion for employer-provided death benefits						(1)	(1)	(1)	(1)	(1)	0.1
Additional standard deduction for the blind and the elderly						1.7	1.8	1.9	1.9	2.0	9.3
Tax credit for the elderly and disabled						.1	.1	.1	.1	.1	.5
Deductibility of casualty and theft losses						.3	.4	.5	.6	.7	2.5
Earned income credit (5)						.9	.9	1.2	1.4	1.5	5.9
Social security and railroad retirement											
Exclusion of untaxed social security-railroad retirement benefits						25.6	27.0	28.4	29.9	31.4	142.3
Veterans' benefits and services											
Exclusion of veterans' disability compensation						1.4	1.5	1.5	1.6	1.7	7.7
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	0.4
Exclusion of interest on State and local government veterans' housing bonds	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.1
General purpose fiscal assistance											
Exclusion of interest on public purpose State and local government debt	1.5	1.4	1.4	1.3	1.3	10.0	10.9	11.8	13.0	13.7	66.3
Deduction of nonbusiness State and local government income and personal property taxes						23.8	25.5	27.4	29.5	31.7	137.9
Tax credit for corporations with possessions source income	2.9	3.0	3.1	3.2	3.3						15.5
Interest											
Deferral of interest on savings bonds						1.0	1.0	1.0	1.0	1.0	5.0

Footnotes to Table 1:

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

[2] Negative tax expenditure of less than $50 million.

[3] In addition, the 5.4-cents-per-gallon exemption from excise tax for alcohol fuels results in a reduction in excise tax receipts, net of income tax effect, of $0.4 billion per year for 1992 and 1993, $0.5 billion per year for 1994 and 1995, and $0.6 billion in 1996.

[4] The figures in the table show the effect of the child medical insurance credit on receipts. The increase in outlays is $0.5 billion in 1992, $0.6 billion per year in 1993 and 1994, and $0.7 billion per year in 1995 and 1996.

[5] The figures in the table show the effect of the earned income credit on receipts. The increase in outlays is: $7.8 billion in 1992, $8.5 billion in 1993, $10.6 billion in 1994, $12.3 billion in 1995, and $13.2 billion in 1996.

Source: Joint Committee on Taxation.

ADDENDUM TO TABLE 1.—SUM OF TAX EXPENDITURE ITEMS BY TYPE OF TAXPAYER, FISCAL YEARS 1992–1996

[Billions of dollars]

Fiscal year	Corporations	Individuals	Total
1992	54.6	320.3	374.9
1993	55.6	343.3	398.9
1994	57.4	367.1	424.5
1995	59.4	392.4	451.8
1996	61.7	421.1	482.8

NOTE.—These totals represent the mathematical sum of the estimated fiscal year effect of each of the tax expenditure items included in Table 1. The limitations on the use of the totals is explained in the text.

Table 2.—Distribution by Income Class of All Returns, Taxable Returns, Itemized Returns, and Tax Liability, at 1991 Rates and 1991 Law and 1991 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
			Total	Taxable	
Below $10	24,652	5,258	414	79	−$1,173
$10 to $20	22,896	14,227	1,366	648	10,401
$20 to $30	18,308	16,251	3,195	2,725	28,790
$30 to $40	13,636	13,364	4,306	4,197	40,599
$40 to $50	10,163	10,102	4,716	4,683	44,601
$50 to $75	13,709	13,639	9,211	9,191	95,668
$75 to $100	4,696	4,694	4,001	4,000	57,300
$100 to $200	3,117	3,116	2,867	2,866	71,591
$200 and over	1,190	1,189	1,106	1,105	141,727
Total	**112,366**	**81,840**	**31,182**	**29,494**	**$489,505**

[1] Tax law as in effect on January 1, 1991, is applied to the 1991 level and sources of income and their distribution among taxpayers. Excludes individuals who are dependents of other taxpayers.

[2] The income concept used to place tax returns into classes is adjusted gross income (AGI) plus (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) inside buildup on life insurance, (4) workers' compensation, (5) nontaxable social security benefits, (6) deductible contributions to individual retirement accounts, (7) the minimum tax preferences, and (8) net losses, in excess of minimum tax preferences, from passive business activities.

[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.).

NOTE.—Detail may not add to total due to rounding.

Source: Joint Committee on Taxation.

Income Levels [1]

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

Income Class (thousands) [2]	Medical deduction		Real estate tax deduction	
	Returns	Amount	Returns	Amount
Below $10	21	$2	14	$1
$10 to $20	466	132	594	81
$20 to $30	1,080	409	2,088	292
$30 to $40	1,070	404	3,276	614
$40 to $50	746	304	3,828	801
$50 to $75	817	613	8,250	2,861
$75 to $100	233	280	3,632	2,063
$100 to $200	124	371	2,562	2,009
$200 and over	22	143	961	1,557
Total	4,580	$2,657	25,205	$10,278

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1991 Rates and 1991 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	51	$2	75	$5
$10 to $20	579	41	685	88
$20 to $30	2,347	301	2,512	345
$30 to $40	3,541	811	3,822	705
$40 to $50	4,028	1,241	4,344	904
$50 to $75	8,121	4,582	8,704	2,611
$75 to $100	3,552	3,652	3,870	2,081
$100 to $200	2,487	4,480	2,785	2,700
$200 and over	966	7,583	1,082	5,604
Total	**25,672**	**$22,693**	**27,879**	**$15,044**

Footnotes at end of table.

Income Levels [1]—Continued

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

Income Class (thousands) [2]	Child care credit		Earned income credit [3]	
	Returns	Amount	Returns	Amount
Below $10	17	$1	3,610	$2,648
$10 to $20	942	379	5,541	4,729
$20 to $30	1,186	529	1,952	756
$30 to $40	1,122	465	214	105
$40 to $50	1,155	477	37	25
$50 to $75	1,827	793	28	26
$75 to $100	623	283	2	1
$100 to $200	271	121	0	0
$200 and over	48	25	0	0
Total	**7,191**	**$3,073**	**11,384**	**$8,291**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1991 Rates and 1991 Income Levels [1]—Continued

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

Income Class (thousands) [2]	Untaxed Social Security and Railroad Retirement benefits		Additional standard deduction for the elderly and blind	
	Returns	Amount	Returns	Amount
Below $10	1,733	$356	191	$21
$10 to $20	5,175	3,836	1,996	241
$20 to $30	4,737	6,376	3,292	441
$30 to $40	3,308	5,060	2,276	376
$40 to $50	1,950	2,687	1,358	227
$50 to $75	1,866	2,407	1,008	244
$75 to $100	568	753	253	73
$100 to $200	403	632	88	24
$200 and over	184	360	24	7
Total	**19,926**	**$22,467**	**10,486**	**$1,654**

Footnotes at end of table.

Income Levels [1]—Continued

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

Income Class (thousands) [2]	Mortgage interest deduction	
	Returns	Amount
Below $10	27	$9
$10 to $20	742	313
$20 to $30	2,137	1,102
$30 to $40	3,103	2,478
$40 to $50	3,662	2,996
$50 to $75	7,826	11,219
$75 to $100	3,321	7,429
$100 to $200	2,371	7,367
$200 and over	869	3,872
Total	**24,058**	**$36,785**

Footnotes to table 3:

[1] Excludes individuals who are dependents of other taxpayers.

[2] The income concept used to place tax returns into classes is adjusted gross income (AGI) plus (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) inside buildup on life insurance, (4) workers' compensation, (5) nontaxable social security benefits, (6) deductible contributions to individual retirement accounts, (7) the minimum tax preferences, and (8) net losses, in excess of minimum tax preferences, from passive business activities.

[3] Includes the refundable portion of the earned income credit. Excludes the credit for child medical insurance premiums.

NOTE.—Detail may not add to total due to rounding.

Source: Joint Committee on Taxation.