[JOINT COMMITTEE PRINT]

ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 1990-1994

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

[T]his report [1] on tax expenditures for fiscal years 1990-1994 is [pr]epared for the House Committee on Ways and Means and the [Se]nate Committee on Finance. The report also is submitted by the [sta]ff of the Joint Committee on Taxation to the House and Senate [Co]mmittees on the Budget.

[A]s in the case of earlier reports,[2] the estimates in this report [we]re prepared with the cooperation of the staff of the Office of Tax [An]alysis in the Treasury Department. With the exception of the [fir]st two reports which were prepared at the request of the confer[ee]s on the Revenue Act of 1971, these reports have been prepared [for] the Joint Committee's report under the budget process.

[T]he Administration published its estimates of tax expenditures [for] fiscal years 1988-1990 in Special Analysis G of the Budget for [Fi]scal Year 1990.[3] The tax expenditure items included in this pam[ph]let and in Special Analysis G overlap considerably, and the dif[fer]ences are discussed below in Part II under the heading "Com[pa]risons with Special Analysis G".

[T]he staff of the Joint Committee has made its estimates (as [sh]own in Table 1) based on the provisions in tax law as enacted [th]rough December 31, 1988, including relevant provisions of the [Te]chnical and Miscellaneous Revenue Act of 1988. Expired or re[pe]aled provisions are not listed if their effects on revenue result [on]ly from taxpayer activity in years before 1989. Some of the provi[sio]ns repealed in the Tax Reform Act of 1986 may continue to [ap]pear as tax expenditures because they are phased out over peri[od]s as long as five years. Extensions or modifications of expiring [pro]visions are not included until they have been enacted into law.

[P]art I of this report contains a discussion of the concept of tax [ex]penditures, and it is followed in Part II by a discussion of the [me]asurement of tax expenditures. Estimates of tax expenditures [for] fiscal years 1990-1994 are presented in Table 1 in Part III. [Ta]ble 2 shows the distribution of tax returns by income class, and [Ta]ble 3 presents distributions of selected individual tax expendi[tu]re items by income class.

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[1] This report may be cited as follows: Joint Committee on Taxation, *Estimates of Federal Tax [Ex]penditures for Fiscal Years 1990-1994* (JCS-4-89), February 28, 1989.

[2] Joint Committee on Taxation, *Estimates of Federal Tax Expenditures*, October 4, 1972, June [1]973, July 8, 1975, March 15, 1976, March 16, 1977, March 14, 1978, March 15, 1979, March 6, [198]0, March 16, 1981, March 8, 1982, March 7, 1983, November 9, 1984, April 12, 1985, March 1, [198]6, February 27, 1987, and March 8, 1988.

[3] Office of Management and Budget, "*Tax Expenditures*," Special Analysis G, *The Budget of [the] United States Government for Fiscal Year 1990*, pp. G1-59.

I. THE CONCEPT OF TAX EXPENDITURES

rview

'ax expenditure estimates measure the decreases in individual l corporate income tax liabilities that result from provisions in ome tax laws and regulations that provide economic incentives ;ax relief to particular kinds of taxpayers. These tax provisions e the form of exclusions, credits, deductions, preferential tax es, or deferrals of tax liability. (Tax disincentives or penalties not shown as negative tax expenditures.)

'he term tax expenditure is based on the assumption that the ectives of these tax provisions could be accomplished by direct enditure programs. Tax expenditures, in this view, are analo-s to those direct expenditures which have no program spending its, and which are available as entitlements to individuals and porations who meet the statutory and regulatory criteria estab-ed for the programs. Tax expenditure provisions, like all tax visions but unlike direct spending programs, are administered the Internal Revenue Service. Tax expenditures require no fur-r action by the Federal Government; direct expenditure pro-ms require at least approval of an application form. Like enti-nent programs, tax expenditures usually do not have expiration es.

'ax expenditure estimates have been prepared for use in public icy analysis to determine the relative merits of providing direct lays or tax benefits to achieve specified public goals. To provide s capability, the Congressional Budget Act of 1974 requires that eport on tax expenditures be submitted to the House and Senate dget Committees. These committees include tax expenditure esti-tes in their reports that accompany the annual budget resolu-ns.

n this report, the Joint Committee staff follows the definition of expenditures that appears in the Congressional Budget Act: . . those revenue losses attributable to provision of the Federal laws which allow a special exclusion, exemption or deduction m gross income or which provide a special credit, a preferential e of tax or a deferral of tax liability." [4] The legislative history of s Act indicates that tax expenditures are to be defined with ref-nce to a normal income tax structure as was the case in the st two tax expenditure pamphlets prepared by the Joint Commit-staff.

The normal income tax structure of the individual income tax in-des one personal exemption for each taxpayer and one for each endent; the standard deduction,[5] which serves as a general min-

Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344), sec. 3(a)(3).
Beginning in 1987, the zero bracket amount was replaced by the standard deduction.

imum deduction for all taxpayers; the existing tax rate schedu the limit on using passive losses to offset other income; and ded tions for costs incurred in producing net income, e.g., investme expenses or the cost of the tools that a mechanic purchases for use on the job.

The normal tax structure of the corporate income tax incluc deductions for the costs, including depreciation, incurred in prod ing income. It does not include the graduated tax rate schedule the grounds that it is intended to provide tax relief to small cor rations.

The staff acknowledges that its concept of the normal tax str ture may err on the side of being too narrow and its definition tax expenditures may err on the side of being too broad. The sta approach traditionally has been to list any item as a tax expen ture for which there is a reasonable basis for such classificati and a revenue loss above a de minimis amount. In this context de minimis revenue amount means a revenue loss of less than $ million in each of the five fiscal years 1990–1994. The staff emp sizes, however, that in the process of listing tax expenditure iter no judgment is made, nor any inference intended, above the des ability of any special provision as public policy.

As defined in the Congressional Budget Act, the concept of t expenditure refers to the corporate and individual income tax Other parts of the Internal Revenue Code—excise taxes, empl ment taxes, estate and gift taxes—also have exceptions, exclusio refunds and credits, but they are not included in this report cause they are not parts of the income tax. Thus, the income t credit for producing ethanol for use in blending gasohol is includ while the equivalent exemption for the excise tax on gasohol sa is not treated here as a tax expenditure.

Individual Income Tax

The staff does not include as tax expenditures either the sta ard deduction or the personal exemption for the taxpayer and pendents because Congress believes these amounts approximate t level of income below which it would be difficult for an individ or a family to obtain minimal amounts of food, clothing, and sh ter. Thus, itemized deductions are classified as tax expenditu only to the extent they exceed the standard deduction.

Deductions for costs incurred in producing income are conside part of the normal tax structure and, therefore, are not listed tax expenditures. These include deductions for job-related movi expenses and, subject to certain limitations, employee business penses, investment expenses, and business-related travel expens In addition, deductible interest expenses, which include such ite as interest paid or accrued on indebtedness incurred in connecti with a trade or business, investment interest to the extent of vestment income, or interest payable on any unpaid portion of t due on an estate when an extension of time for payment is effect, are not tax expenditure items. Tax expenditure items clude mortgage interest on a principal or second residence, the duction for personal interest and the permanent exemption fr imputed interest rules.

The exclusion from income of a portion of capital gains for indi-
luals and the alternative rate for corporations was repealed by
e Tax Reform Act of 1986. Beginning in 1987, capital gains
come of individual taxpayers is taxed as ordinary income. The ex-
ısion of capital gains from income at death, the deferral of cap-
ıl gains on home sales rollovers, and the exclusion of capital
ins up to $125,000 on home sales for individuals age 55 or over
ere not changed by the Tax Reform Act of 1986.

The failure to include in gross income imputed income received
individuals from the services of their own durable assets is not
eated as a tax expenditure. Such imputations are often consid-
ed as income under other concepts of income, such as, that used
measuring gross national product. Measurement of imputed
come for inclusion for income tax purposes would present severe
ministrative problems, and its exclusion from taxable income is
garded as an administrative necessity rather than as a specific
centive to encourage certain kinds of consumption. The imputed
come from an owner-occupied home is the most prominent of
ese omitted items; among the others are the income that could be
iputed to household furniture and appliances, books, art collec-
ons, and automobiles. If all the imputed income items were in-
ıded in adjusted gross income, however, it would be proper to in-
ıde all interest deductions as part of the normal tax structure,
ıce interest deductions would be allowable as a cost of producing
iputed income.

ısiness Income Taxation

The most difficult issues in defining tax expenditures for busi-
ss income of individuals and corporations relate to capital costs,
ıich are costs not properly allocable to income earned in a single
ar. The staff assumes, for example, that the normal tax structure
ould permit straight-line cost recovery deductions on structures
ıd equipment over the asset's estimated useful life, as used for
e alternative minimum tax.

The measurement of income from capital under the normal tax
ructure does not take account of the effects of inflation on depre-
ation, capital gains, and interest payments. Thus, certain tax ex-
nditure estimates may be larger or smaller than would be the
se if the normal tax structure were indexed. For example, the
finition of depreciation in the tax expenditure estimates does not
ke into account the effect of inflation in eroding the real value of
preciation deductions and therefore tends to overstate the tax ex-
nditures. Fixed accelerated depreciation schedules do not always
ovide deductions whose real value corresponds to the amount
iginally paid for the asset. Because annual rates of inflation vary
nsiderably, fixed accelerated depreciation schedules will over-
ate or understate in any given year the real value of depreciation
assets.

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

Comparisons with Special Analysis G

The Joint Committee and Treasury Department lists of tax e penditures differ for several reasons. First, the Joint Committ uses as its measure of tax expenditures the definition of tax e penditure in the Congressional Budget Act of 1974. The Treasu Department uses a reference law concept, which is based on the I ternal Revenue Code, as amended by the Economic Recovery T Act of 1981 and the Tax Reform Act of 1986, in determining whi items to include for purposes of Special Analysis G. Second, t Joint Committee in 1985 expanded its list of tax expenditures to i clude several of the tax provisions recommended for repeal und the principles employed in developing both the President's and t Treasury Department's tax simplification and reform proposals Third, Special Analysis G covers the usual three-year period of budget submission—the most recent fiscal year, the current fisc year, and the fiscal year to which the budget proposals apply, i. fiscal years 1988–1990. The Joint Committee estimates apply to t next fiscal year and the succeeding four fiscal years, i.e., fisc years 1990–1994. In addition, the Joint Committee estimates cov provisions in the Internal Revenue Code of 1986, as in effect on D cember 31, 1988, and may include in this year's report several e pired or repealed provisions for which lengthy transition perio have been provided and which involve substantial amounts of rev nue foregone.

Special Analysis G this year contains a new section that presen a review and revenue loss estimates of several estate and gift t provisions which Treasury considers to be tax expenditures. T Joint Committee staff, as indicated above, usually has treat estate and gift tax provisions as being outside of the Internal Rev nue Code and therefore has omitted them from the list of tax e penditures. However, because of the new Treasury section, the sta plans to examine whether adding estate and gift taxes to the t expenditure list will provide useful information to the tax commi tees and Congress.

Tax expenditure items in the Joint Committee list which ha not been included separately, or within another item, in the listi in Special Analysis G are shown below.

Energy

—Expensing tertiary injectants

Agriculture

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

[6] The White House, *The President's Tax Proposals to the Congress for Fairness, Growth a Simplicity,* Washington, D.C., May 1985, and Office of the Secretary of the Treasury, *T Reform for Fairness, Simplification, and Economic Growth: The Treasury Department Report the President,* vols. 1 and 2, Washington, D.C., Department of the Treasury, November 1984.

ısurance companies

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

usiness and commerce

—Expensing 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

mployment

—Exclusion of miscellaneous fringe benefits
—Exclusion of employee awards

II. MEASUREMENT OF TAX EXPENDITURES

Estimates of tax expenditures as revenue losses are subject to im
portant limitations. The difference between the estimates of tax l
abilities under present law, which provides for a particular tax ex
penditure provision, and the higher level of tax liabilities unde
the assumption that the provision did not exist, is the amount c
the tax expenditure. For this computation, as opposed to revenu
estimates provided for legislative purposes, it is assumed that noth
ing else changes, i.e., these are static estimates that do not antic
pate taxpayer behavioral responses to changes in tax law.

Each tax expenditure is measured in isolation. If two or mor
items were to be eliminated simultaneously, the result of the com
bination of changes might produce a lesser or greater revenu
effect than the sum of the amounts shown for each item separatel
This means that the addition of the amounts of various tax expend
iture items is of quite limited usefulness, and this is why annua
totals for all tax expenditures in Table 1 are shown only as an ad
dendum to Table 1.

If a tax expenditure item were to be eliminated, it is possibl
that Congress would deal with the underlying reason for enactin
the tax expenditure in another way, rather than simply terminat
ing federal assistance of any kind. For example, the Tax Reform
Act of 1986 repealed the itemized deduction for certain adoption ex
penses and in its place authorized a direct spending program fo
such expenses. To the extent that a replacement program would b
enacted, the higher revenues received as a result of the eliminatio
of a tax expenditure might not represent a net budget gain. Th
nature of any alternative program cannot be anticipated—it coul
involve direct expenditures, direct loans or loan guarantees, a di
ferent form of a tax expenditure, or a general reduction in ta
rates. If any tax expenditures were repealed, adjustments might b
made through fiscal or monetary policy to offset the effects c
higher tax liabilities on the economy; the estimates of tax expend
tures do not anticipate such policy responses.

Year-to-year differences in the estimates for each tax expend
ture reflect changes in tax law, including phaseouts of tax expend
ture provisions and changes which alter the definition of th
normal tax structure, such as: the tax rate schedule; the persona
exemption amount; and the standard deduction. Some of the esti
mates for this tax expenditure budget may differ from estimate
made in previous years because of changes in law and economi
conditions, the availability of better data, and improved estimatin
techniques. Similar differences also occur in the budget estimate
for direct outlays.

An alternative way to measure tax expenditures is to expres
their values in terms of outlay equivalents, i.e., how large direc
outlays would have to be for a program in order to place the tax

ayer in the same after-tax position he would be under a tax ex-
enditure regime; the administration presents such estimates in
pecial Analysis G. Often the outlay equivalent is greater than the
evenue loss, because in many cases outlays would have to be in-
uded in the taxable income of the beneficiaries of the program.

III. TAX EXPENDITURE ESTIMATES

To aid analysis of the economic benefits provided through the ta laws to various sectors of the economy, tax expenditures ar grouped in Table 1 in the same functional categories as outlays i the Federal budget. Estimates are shown separately for individual and corporations. Those tax expenditures that do not fit clearl into any of the budget functional categories have been placed i the most appropriate functional category.

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

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

Table 3 provides estimates by income class for some of the ta expenditures which affect individual taxpayers. Not all tax expend itures which affect individuals are shown in this table because o the difficulty in making reliable estimates of the income distribu tion of items which do not appear on tax returns under presen law.

Tables 1, 2, and 3 assume the tax laws as enacted through De cember 31, 1988.

[Billions of dollars]

Function	Corporations					Individuals					Total 1990–94
	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994	
National defense											
Exclusion of benefits and allowances to Armed Forces personnel	...	...	...	...	...	1.9	2.0	2.1	2.3	2.4	10.8
Exclusion of military disability pensions	...	...	...	...	...	0.1	0.1	0.1	0.1	0.1	0.6
International affairs											
Exclusion of income earned abroad by U.S. citizens	...	...	...	...	...	1.3	1.4	1.5	1.5	1.6	7.3
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)	0.6	0.8	0.9	1.0	1.1	...	...	...	...	...	4.3
Deferral of income of controlled foreign corporations	0.1	0.1	0.1	0.1	0.1	...	...	...	...	...	0.5
Inventory property sales source rule exception	2.6	2.9	3.2	3.4	3.7	...	...	...	...	...	15.9
Interest allocation rules exception for certain nonfinancial institutions	0.1	0.1	0.1	0.1	0.1	...	...	...	...	...	0.4
General science, space, and technology											
Expensing of research and development expenditures	1.2	1.5	1.6	1.8	2.0	...	...	...	...	...	8.1
Credit for increasing research activities	0.8	0.2	(1)	(1)	(1)	...	...	...	...	...	1.0
Energy											
Expensing of exploration and development costs:											
Oil and gas	−0.3	−0.1	(1)	0.2	0.2	0.4	0.4	0.5	0.5	0.6	2.5
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	0.1	0.1	0.2	0.3	0.3	0.3	0.3	1.9
Other fuels	0.2	0.2	0.2	0.2	0.2	(1)	(1)	(1)	(1)	(1)	1.1

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1990-1994—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1990-94
	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994	
Exception from passive loss limitation for working interests in oil and gas properties	...	...	...	...	...	0.2	0.3	0.3	0.3	0.3	1.4
Alternative fuel production credit	(1)	(1)	(1)	(1)	(1)	...	...	...	...	...	(1)
Alcohol fuel credit [3]	(1)	(1)	(1)	(1)	...	(1)	(1)	(1)	(1)	...	0.1
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	0.9
Expensing of tertiary injectants	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Business energy tax credits	(1)	(2)	(2)	(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)	0.3
Excess of percentage over cost depletion, nonfuel minerals	0.2	0.2	0.3	0.3	0.3	(1)	(1)	(1)	(1)	(1)	1.3
Investment credit and 7-year amortization for reforestation expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.4
Expensing multiperiod timber-growing costs	0.3	0.3	0.4	0.4	0.4	(1)	(1)	(1)	(1)	(1)	1.9
Exclusion of interest on State and local government sewage, water, and hazardous waste facilities bonds	−0.3	−0.4	−0.4	−0.4	0.4	1.7	1.8	1.8	1.9	2.0	7.2
Investment tax credit and passive loss exception for rehabilitation of historic structures	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.6
Special rules for mining reclamation reserves	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Agriculture											
Expensing of certain multiperiod production costs	0.1	0.1	(1)	(1)	(1)	0.2	0.2	0.2	0.1	0.1	1.1
Deductibility of patronage dividends and certain other items of cooperatives	0.3	0.3	0.3	0.3	0.3	−0.1	−0.1	−0.1	−0.1	−0.1	1.3

Cash accounting for agriculture	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.2	0.1	1.8
Commerce and housing											
Financial institutions:											
Bad-debt reserves of financial institutions	0.2	0.1	0.1	0.2	0.2	....	....	....	....	....	0.8
Merger rules for banks and thrift institutions [4]	2.5	2.5	2.3	2.4	2.1	....	....	....	....	....	11.7
Exemption of credit union income	0.6	0.6	0.7	0.8	0.9	....	....	....	....	....	3.6
Insurance companies:											
Exclusion of investment income on life insurance and annuity contracts	0.4	0.4	0.4	0.5	0.5	5.8	6.4	7.1	7.8	8.7	38.1
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	0.6	0.7	0.7	0.7	0.8	....	....	....	....	....	3.5
Deduction of unpaid loss reserves for property and casualty insurance companies	2.0	1.9	1.6	1.4	1.3	....	....	....	....	....	8.2
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	....	....	....	....	....	25.4	26.0	26.2	27.4	28.1	133.5
Deductibility of property tax on owner-occupied homes	....	....	....	....	....	8.1	8.4	8.7	9.0	9.4	43.5
Deferral of capital gains on sales of principal residences	....	....	....	....	....	10.3	10.9	11.5	12.1	12.7	57.4
Exclusion of capital gains on sales of principal residences for persons age 55 and over	....	....	....	....	....	3.4	3.6	3.8	4.0	4.2	19.1
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	1.4	1.3	1.2	1.1	7.8
Depreciation of rental housing in excess of alternative depreciation system	0.2	0.2	0.2	0.3	0.3	0.4	0.5	0.5	0.5	0.6	3.6
Credit and exception from passive loss rules for low-income housing	0.1	0.1	0.1	0.1	0.1	0.5	0.6	0.6	0.6	0.6	3.3

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1990-1994—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1990-94
	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994	
Exclusion of interest on State and local government bonds for rental housing	0.2	0.2	0.2	0.2	0.2	0.6	0.6	0.6	0.6	0.6	4.2
Other business and commerce:											
Depreciation on buildings other than rental housing in excess of alternative depreciation system	0.5	0.5	0.5	0.5	0.5	0.2	0.2	0.2	0.2	0.2	3.5
Depreciation on equipment in excess of alternative depreciation system	10.9	12.3	14.1	15.9	17.7	3.7	4.0	4.2	4.6	5.1	92.5
Investment credit other than ESOPs, rehabilitation of structures, reforestation, and energy property	3.4	1.9	1.2	0.4	0.2	0.4	0.2	0.1	(1)	(1)	7.8
Expensing up to $10,000 depreciable business property	0.6	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	1.7
Exclusion of capital gains at death:											
Capital gains at death	....	....	....	....	....	5.4	5.5	5.6	5.8	6.0	28.3
Carryover basis on gifts	....	....	....	....	....	0.3	0.4	0.4	0.5	0.6	2.2
Amortization of business startup costs	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.0
Reduced rates on first $75,000 of corporate taxable income	5.2	5.5	5.7	6.0	6.2	....	....	....	....	....	28.6
Deduction of personal interest	....	....	....	....	....	1.9	0.9	....	....	....	2.8
Permanent exemption from imputed interest rules	(1)	(1)	(1)	(1)	(1)	0.1	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)	0.2
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	−1.1	−0.3	0.3	0.5	0.5	−0.1	(2)	(1)	(1)	(1)	−0.1
Cash accounting, other than agriculture	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Exclusion of interest on State and local government											

Deferral of gain on like-kind exchanges	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	2.5
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	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.5
Treatment of Alaska Native Corporations	(1)	(1)	....	....	....	....	....	....	....	....	(1)
Exemption of RIC expenses from miscellaneous deduction floor	....	....	....	....	....	0.3	0.4	0.5	0.6	0.7	2.4
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)	(1)	(1)	0.1	0.1	0.1	0.2
Community and regional development											
Investment credit and passive loss exception for rehabilitation of structures, other than historic structures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Exclusion of interest on State and local government bonds for private airports and docks	−0.1	−0.1	−0.1	−0.1	−0.2	0.7	0.7	0.8	0.8	0.9	3.3
Education, training, employment, and social services											
Education and training:											
Exclusion of scholarship and fellowship income	....	....	....	....	....	0.5	0.5	0.6	0.6	0.7	2.9
Parental personal exemption for students age 19 to 23	....	....	....	....	....	0.3	0.3	0.3	0.4	0.4	1.7
Exclusion of interest on State and local government student loan bonds	(1)	(1)	(1)	(1)	(1)	0.3	0.3	0.4	0.4	0.4	1.8
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	1.6
Deductibility of charitable contributions for education	0.5	0.5	0.6	0.6	0.6	1.3	1.4	1.5	1.5	1.6	10.1
Educational savings bonds	....	....	....	....	....	(1)	0.1	0.2	0.2	0.3	0.8
Employment:											
Targeted jobs credit	0.3	0.3	0.1	0.1	(1)	0.1	(1)	(1)	(1)	....	0.9

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1990–1994—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1990–94
	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994	
Exclusion of employee meals and lodging (other than military)	....	....	....	....	....	0.8	0.8	0.8	0.9	0.9	4.1
Employee stock ownership plans (ESOPs)	0.3	0.3	0.4	0.4	0.4	(1)	(1)	(1)	(1)	(1)	1.7
Exclusion for benefits provided under cafeteria plans	....	....	....	....	....	2.0	2.8	3.5	4.1	4.7	17.1
Exclusion of rental allowances for minister's home	....	....	....	....	....	0.2	0.2	0.2	0.2	0.2	0.9
Exclusion of miscellaneous fringe benefits	....	....	....	....	....	3.9	4.1	4.4	4.8	5.1	22.3
Exclusion of employee awards	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
Exclusion of income earned by benefit organizations:											
Supplemental unemployment benefits trusts	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Voluntary employees' beneficiary associations	....	....	....	....	....	0.5	0.5	0.5	0.6	0.6	2.7
Social services:											
Deductibility of charitable contributions, other than for education and health	0.5	0.5	0.6	0.6	0.7	10.0	10.6	11.1	11.7	12.3	58.7
Credit for child and dependent care expenses	....	....	....	....	....	3.9	4.1	4.2	4.4	4.6	21.2
Exclusion for employer-provided child care	....	....	....	....	....	0.3	0.5	0.7	0.8	0.9	3.2
Exclusion for certain foster care payments	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Expensing costs of removing architectural barriers	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Health											
Exclusion of contributions by employers and self-employed for medical insurance premiums and medical care						32.6	36.7	40.1	45.3	50.8	205.5

Deductibility of charitable contributions for health	0.2	0.2	0.2	0.2	0.2	1.3	1.3	1.4	1.5	1.6	8.1
Tax credit for orphan drug research	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	0.1
Medicare											
Exclusion of untaxed medicare benefits:											
Hospital insurance	....	....	....	....	....	5.8	6.9	7.8	8.9	9.9	39.3
Supplemental medical insurance	....	....	....	....	....	3.2	3.9	4.6	5.5	6.5	23.6
Income security											
Exclusion of untaxed railroad retirement system benefits	....	....	....	....	....	0.4	0.4	0.4	0.5	0.5	2.1
Exclusion of workers' compensation benefits	....	....	....	....	....	2.2	2.3	2.4	2.5	2.6	12.0
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	....	....	....	....	....	0.3	0.3	0.3	0.4	0.4	1.7
Net exclusion of pension contributions and earnings	....	....	....	....	....	48.5	51.3	54.4	57.6	61.1	272.9
Individual retirement plans	....	....	....	....	....	9.1	9.6	10.3	11.2	12.2	52.5
Keogh plans	....	....	....	....	....	2.2	2.3	2.3	2.3	2.4	11.5
Exclusion of other employee benefits:											
Premiums on group term life insurance	....	....	....	....	....	1.8	1.9	2.0	2.1	2.2	9.8
Premiums on accident and disability insurance	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
Exclusion for employer-provided death benefits	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Additional standard deduction for the blind and the elderly	....	....	....	....	....	1.5	1.7	1.9	2.1	2.4	9.6
Tax credit for the elderly and disabled	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
Deductibility of casualty and theft losses	....	....	....	....	....	0.2	0.2	0.1	0.1	0.1	0.7
Earned income credit [5]	....	....	....	....	....	1.1	1.2	1.2	1.3	1.4	6.2
Social security											
Exclusion of untaxed social security benefits	....	....	....	....	....	21.0	23.0	25.2	27.6	30.2	127.2
Veterans' benefits and services											
Exclusion of veterans' disability compensation	....	....	....	....	....	1.3	1.4	1.4	1.5	1.6	7.2
Exclusion of veterans' pensions	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.7
Exclusion of GI bill benefits	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.3
Exclusion of interest on State and local government veterans' housing bonds	0.1	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.2

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1990-1994—Continued

[Billions of dollars]

Function	Corporations 1990	Corporations 1991	Corporations 1992	Corporations 1993	Corporations 1994	Individuals 1990	Individuals 1991	Individuals 1992	Individuals 1993	Individuals 1994	Total 1990-94
General purpose fiscal assistance											
Exclusion of interest on public purpose State and local government debt	1.4	1.3	1.3	1.3	1.3	8.8	9.9	10.8	11.7	12.9	60.7
Deduction of nonbusiness State and local government income and personal property taxes	....	....	....	....	....	19.0	20.4	21.8	23.3	24.9	109.4
Exclusion and tax credit for corporations with possessions source income	1.9	2.1	2.3	2.5	2.7	....	....	....	....	....	11.5
Interest											
Deferral of interest on savings bonds	....	....	....	....	....	0.9	0.9	1.0	1.0	1.0	4.8

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 6-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 for 1990 through 1992, $0.3 billion in 1993, and $0.1 billion in 1994.

[4] This estimate does not reflect possible changes in program activity under the new plan proposed by the Administration.

[5] The figures in the table show the effect of the earned income credit on receipts. The increase in outlays is: $4.4 billion in 1990, $4.8 billion in 1991, $5.2 billion in 1992, $5.5 billion in 1993, and $6.0 billion in 1994.

[Billions of dollars]

Fiscal year	Corporations	Individuals	Total
1990	38.7	273.4	312.1
1991	39.6	292.9	332.5
1992	41.8	311.2	353.0
1993	44.5	334.5	379.0
1994	46.8	359.4	406.2

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 1990 Rates and 1990 Law and 1990 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	27,312	4,150	484	166	–57
$10 to $20	28,311	17,756	2,218	1,402	15,264
$20 to $30	22,275	19,998	4,251	3,807	35,747
$30 to $40	16,535	16,022	5,852	5,608	45,731
$40 to $50	9,123	8,988	4,451	4,310	36,960
$50 to $75	11,428	11,347	7,913	7,807	86,470
$75 to $100	3,034	3,027	2,541	2,550	38,903
$100 to $200	2,873	2,859	2,620	2,609	75,915
$200 and over	986	977	913	893	118,966
Total	**121,877**	**85,124**	**31,242**	**29,152**	**453,899**

[1] Tax law as in effect on January 1, 1990, is applied to the 1990 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 includes 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.

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	77	14	68	3
$10 to $20	803	229	1,055	87
$20 to $30	1,271	354	3,132	358
$30 to $40	1,738	710	4,935	670
$40 to $50	889	328	4,068	645
$50 to $75	845	474	7,452	2,264
$75 to $100	197	243	2,416	1,210
$100 to $200	119	373	2,463	1,884
$200 and over	20	149	817	1,208
Total	**5,959**	**2,873**	**26,405**	**8,330**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1990 Rates and 1990 Income Levels [1]—Continued

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

Income class (thousands) [2]	State and local income tax deduction		Charitable contributions deduction	
	Returns	Amount	Returns	Amount
Below $10	76	3	51	1
$10 to $20	1,129	92	1,104	62
$20 to $30	3,233	434	3,464	307
$30 to $40	4,842	1,017	5,275	826
$40 to $50	3,856	995	4,235	705
$50 to $75	6,812	3,675	7,741	2,041
$75 to $100	2,208	2,150	2,494	1,099
$100 to $200	2,253	4,743	2,558	2,408
$200 and over	741	6,703	886	5,627
Total	**25,149**	**19,812**	**27,809**	**13,077**

Footnotes at end of table.

[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	47	57	2,119	1,466
$10 to $20	1,411	577	6,029	3,804
$20 to $30	2,086	1,012	2,117	593
$30 to $40	1,796	848	144	58
$40 to $50	1,204	548	18	8
$50 to $75	1,533	652	14	7
$75 to $100	406	184	0	0
$100 to $200	239	106	0	0
$200 and over	43	30	0	0
Total	**8,765**	**4,014**	**10,441**	**5,937**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1990 Rates and 1990 Income Levels [1]—Continued

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

Income class (thousands) [2]	Untaxed Social Security benefits		Additional standard deduction for the elderly and blind	
	Returns	Amount	Returns	Amount
Below $5	(4)	(5)	0	0
$5 to $10	3,509	781	10	0
$10 to $15	3,439	2,108	669	83
$15 to $20	3,091	2,738	1,143	169
$20 to $30	5,028	5,971	2,919	506
$30 to $50	5,538	6,753	2,873	574
$50 to $75	1,798	1,619	739	201
$75 to $200	1,023	1,131	225	67
$200 and over	168	287	24	6
Total	**23,594**	**21,389**	**8,603**	**1,606**

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.