[JOINT COMMITTEE PRINT]

# ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 1982–1987

PREPARED FOR THE

COMMITTEE ON WAYS AND MEANS

AND THE

COMMITTEE ON FINANCE

BY THE STAFF

OF THE

JOINT COMMITTEE ON TAXATION

MARCH 8, 1982

U.S. GOVERNMENT PRINTING OFFICE

90–779 O WASHINGTON : 1982 JCS–4–82

# CONTENTS

# ESTIMATES OF TAX EXPENDITURES

## I. Introduction

This report on tax expenditures is prepared for the House Committee on Ways and Means and the Senate Committee on Finance, and it also is submitted as the report of the Joint Committee on Taxation to the House and Senate Committees on the Budget. As in the case of earlier reports,[1] the estimates in this report were prepared with the extensive assistance of the staff of the Office of Tax Analysis in the Treasury Department. The first two reports were prepared on the request of the conferees on the Revenue Act of 1971 that tax expenditure data be submitted regularly to Congress by the Joint Committee staff. The last report was published one year ago for submission to the Committees on the Budget.

In February, the Administration published its estimates of tax expenditures for fiscal years 1981–1983 in Special Analysis G of the Budget for fiscal year 1983.[2]

This report covers estimates of tax expenditures for fiscal years 1982–1987. The tax expenditure items included in this pamphlet and in Special Analysis G overlap to a considerable extent. Comments on some of the differences appear in Part II of this report. The tax expenditure report by the Congressional Budget Office (CBO), which will be published later this year, will contain the same listings as this publication. The staff of the Joint Committee has made its estimates in terms of the provisions in present law (as enacted by December 31, 1981) and has assumed that the expiration dates which apply to some provisions will not be extended or otherwise modified and that no other changes will be made in the present law. However, provisions are not listed if their effect on revenue results only from taxpayer activity in prior years. For example, although taxpayers are currently entitled to carryovers of the general jobs credit, it is not listed as a tax expenditure because only wages paid in 1977 and 1978 were eligible for the credit.

Part II of this report contains a discussion of the concept of tax expenditures, and it is followed in Part III by a discussion of the measurement of tax expenditures. Estimates of tax expenditures are presented in tables 1 and 2 in Part IV.

---

[1] *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, and March 16, 1981.

[2] "Tax Expenditures," Special Analysis G, *The Budget of the United States Government for Fiscal Year 1983*.

## II. The Concept of Tax Expenditures

### *Overview*

Tax expenditures estimates are prepared in order to measure the decrease in individual and corporate income tax liabilities that result from provisions in income tax laws and regulations that have been enacted either to provide economic incentives to the private sector or tax relief to particular kinds of taxpayers, or which have those effects now even though enacted initially to achieve a different objective. These tax provisions take the form of exclusions, credits, deductions, preferential tax rates, or deferrals of tax liability. The derivation of the term tax expenditure is based on the assumption that the goals of these favorable tax provisions could be accomplished by replacing them with direct expenditure programs. Tax expenditures, in this view, are analogous to those direct expenditures which have no program spending limits, and which are available as entitlements to individuals and corporations who meet the criteria established for the programs. Like an entitlement program, any taxpayer who meets the criteria specified in the Internal Revenue Code may use the provision without any further action by the Federal Government. Tax expenditures, unlike most spending programs, are administered by the Internal Revenue Service.

From the viewpoint of the budget process, fiscal policy and the allocation of resources, uncontrollable outlays or revenue losses restrict the range of adjustments that can be made in public policy. Budget documents present details about current and proposed spending programs, and tables of Federal tax receipts simply present the amount of revenue derived from specific taxes, e.g., the individual income tax, corporation income tax, social security taxes, without any information about revenues foregone because of tax expenditure items. One of the initial purposes of the listing of tax expenditures was to provide Congress with the information it would need to select between a tax or an outlay approach to accomplish a given goal of public policy.

In this report, the staff followed the definition of tax expenditures that appears in the Congressional Budget Act: ". . . 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." The legislative history of the Act indicates that tax expenditures are to be defined with reference to a "normal" tax structure. and also refers to the first 2 tax expenditure pamphlets prepared by the Joint Committee in which the "normal" tax structure was used as the reference point. Under the individual income tax, this normal tax structure includes a single personal exemption for each taxpayer and one for each dependent; the zero bracket amount, which serves as a general minimum standard deduction for all taxpayers; the progressive rate structure; the exclusions for various types of imputed income, such as the rental value of owner-occupied homes; and deductions for costs incurred in producing net income, e.g., the cost of the tool that a mechanic uses or investment expenses. Analogously, the normal tax structure of the corporation income tax includes deductions for the costs incurred in producing income, including depreciation. However, it does not include the graduated tax rate structure on the grounds that those provisions are intended as a way of providing tax relief to small corporations.

The staff acknowledges that its concept of a normal tax structure may err on the side of being too narrow and that its definition of tax expenditures may err on the side of being too broad. The staff's approach traditionally has been to list any item as a tax expenditure for which there is a reasonable basis for such classification and a revenue loss above a *de minimis* amount. The staff emphasizes, however, that in the process of listing tax expenditure items no judgment is made, nor any inference intended, about the desirability of any special provision as public policy, or about the effectiveness of the tax approach relative to other methods available to the Federal Government for achieving the particular public policy goals intended.

As defined in the Congressional Budget Act, the concept of tax expenditures refers to the corporation and individual income taxes. Other parts of the Internal Revenue Code—excise taxes, employment taxes, estate and gift taxes—also have exceptions, exclusions, refunds, and credits, such as gasoline tax exemptions for nonhighway uses. The staff is studying whether it would be useful to expand the coverage of tax expenditures to types of taxes other than income taxes.

Special Analysis G (in the Budget for fiscal year 1983) has reported two estimates of tax expenditures—revenue loss and outlay equivalents. In this report, only revenue loss estimates are reported, since this conforms with the requirement in the Congressional Budget Act that the Joint Committee is to report revenue losses from tax expenditures. The outlay equivalent of a tax expenditure is the size of the outlay which would be needed to produce the equivalent of the benefits obtained from the tax expenditure. Often the outlay equivalent is greater than the revenue loss, because in many cases outlays would have to be included in the taxable income of the beneficiaries of the program. The outlay equivalent measure is useful in comparing tax expenditures with outlay programs, and the staff plans to study it to determine if it should be added to future tax expenditure reports.

### *Individual income tax*

The staff does not include as tax expenditures either the zero bracket amount or the personal exemption for the taxpayer and dependents because Congress believes these amounts approximate the level of income below which it would be difficult for a family to obtain minimal amounts of food, clothing and shelter. Thus, itemized deductions are classified as tax expenditures only to the extent they exceed the zero bracket amount.

Deductions for costs incurred in producing income are considered part of the normal tax structure and, therefore, are not listed as tax expenditures. These include deductions for moving expenses, employee business expenses, investment expenses, and business-related travel expenses. Itemized deductions for nonmortgage interest are listed as a tax expenditure only to the extent that those deductions exceed investment income. This treatment of interest represents a change from previous years, when a separate tax expenditure was listed for consumer interest, defined as interest incurred on installment loans, credit card loans and other consumer loans. Because money is fungible, the staff believes that it is improper to classify interest based solely on the character of the lender; therefore, this report, in effect, assumes that all nonmortgage interest is investment interest (and, hence, not a tax expenditure) to the extent it does not exceed investment income and that all remaining itemized interest is classified as a tax expenditure.

The new provisions for capital gains treatment on incentive stock options, which were enacted in the Economic Recovery Tax Act of 1981, are not treated as a tax expenditure. Even though these represent deviations from a normal individual income tax structure, the revenue loss from capital gains treatment is offset by the revenue gain resulting from the fact that the employer loses his deduction when employee compensation is paid in the form of incentive stock options.

The failure to tax imputed income received by individuals from the services of their own durable assets is not treated as a tax expenditure. Such imputations are often considered as income under other concepts of income, such as in measuring gross national product. However, measurement of the imputed income for income tax purposes would present severe administrative problems, and its exclusion from taxable income is as much an administrative necessity as a specific incentive to encourage certain kinds of consumption. The imputed income from an owner-occupied home is the most prominent of these omitted items; and among the others are the income that could be imputed to household furniture and appliances, books and art collections, and automobiles. If all of these imputed income items were included in adjusted gross income, however, 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. Thus, in effect, the staff's listing of certain interest deductions as a tax expenditure is a substitute for failing to list the exclusion of imputed income on durable assets.

The new deduction for two-earner couples, added by the 1981 tax Act, is included as a tax expenditure on the grounds that it applies to only one type of income—earned income. The Administration excluded it from Special Analysis G, presumably because it considered this deduction to be part of the basic structure of the income tax, along with the other provisions for differentiating tax liabilities between different types of tax units.

The staff analysis does not agree with the special analysis on two other tax expenditures affecting the individual income tax. The estimate of capital gains at death in this report is computed as the excess of the sales price of a capital asset over the value at the time of acquisition by the original owner. The revenue loss of the credit for child and dependent care expenses includes as a tax expenditure the amount attributed by the Administration to deductible employee business expenses.

***Business income taxation***

For business income, as taxed under both the individual and corporate income taxes, the most difficult issues in defining tax expenditures relate to capital costs, which are costs not properly allocated to income earned in a single year. The staff assumes, for example, that the normal tax structure would permit cost recovery deductions on equipment under some form of accelerated depreciation over the estimated useful life of the asset. For structures, it is assumed that the normal tax structure would involve straight-line depreciation over the estimated useful life. The tax law applicable to pre-1981 depreciable equipment permitted taxpayers to shorten tax lives for purposes of computing depreciation deductions by up to 20 percent under the Asset Depreciation Range (ADR) system. This ADR variance is considered a tax expenditure. Providing investment incentives through allowing investors to depreciate property over periods shorter than the expected useful lives was carried further with enactment of the accelerated cost recovery system (ACRS). Under this provision, statutory cost recovery periods were established for both equipment and structures, generally without regard to the expected useful life of the property. Shortened useful lives under ACRS and ADR are treated as a tax expenditure in this report to the extent that it provides cost recovery deductions in excess of what is assumed to be the normal tax structure. Special Analysis G omits this as a tax expenditure.

One of the problems with the staff's definition of the depreciation tax expenditure is that it neglects the effect of inflation in eroding the real value of depreciation deductions. Even with accelerated depreciation, taxpayers will not always receive deductions whose real value corresponds to the amount they originally paid for the asset. A similar problem arises in the definition of the tax expenditure for capital gains. The staff is studying whether to alter the definitions of these and other tax expenditures to take account of the distortions caused by inflation.

Safe-harbor leasing, as enacted in the 1981 tax Act, is classified as a separate tax expenditure. This provision departs from normal tax rules by allowing taxpayers to use paper transactions, without economic substance, to transfer tax benefits among themselves.

The staff estimated the tax expenditure for expensing of research and development expenditures with reference to a longer useful life than the 3 years provided under ACRS.

The foreign tax credit is not classified here as a tax expenditure because it is considered a way of taking into account the interrelationship of domestic and foreign tax systems and avoiding double taxation. In addition, this analysis does not attempt to go behind the treatment as income taxes by U.S. taxpayers of payments to foreign governments as income taxes, i.e., it does not attempt to determine whether such payments claimed as foreign tax credits satisfy the requirements of creditability.

***Other comparisons with Special Analysis G***

There are other differences in the estimates of the revenue loss from some tax expenditures between this report and the special analysis. Aside from conceptual differences that have been noted in the text above, the Joint Committee staff prepared its estimates at a later date and thereby benefited from more current statistics, market prices and interest rates.

Eight items that were omitted from the lists of tax expenditures in Special Analysis G have been included in Table 1, below. Four of the items were included in last year's lists in Special Analysis G, the Congressional Budget Office publication, and in the Joint Committee report. The other four items were enacted last year in the Economic Recovery Tax Act. The 8 items included in this report but not in Special Analysis G are:

Accelerated depreciation on equipment
Net interest exclusion (after 1984)
Allocation of research and development costs to U.S.-source income
Deduction for two-earner couples
Depreciation on rental housing in excess of straightline
Depreciation on buildings other than rental housing in excess of straightline
Amortization of motor carrier operating rights
Exclusion of employer provided child care.

The staff is studying these items to see whether they should be included in future tax expenditures.

## III. Measurement of Tax Expenditures

Estimates of tax expenditures as revenue losses are subject to important limitations. Each tax expenditure is measured in isolation. The amount of a deduction is added back into taxable income, which raises its level. The difference between the estimates of tax liabilities under present law, which provides for the deduction, and the higher level of tax liabilities under the assumption that the provision does not exist is the amount of the tax expenditure. For this computation, it is assumed that nothing else changes.

If two or more items were to be eliminated simultaneously, the result of 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 totals for table 1 are shown only in a footnote.

If a tax expenditure item were to be eliminated, it is possible that Congress would deal with the underlying reason for enacting the tax expenditure in another way, rather than simply terminating federal assistance of any kind. To the extent that a replacement program would be adopted, 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: whether it would involve direct expenditures, direct loans, or loan guarantees, or whether it would involve a different form of tax expenditure, or a general reduction in tax rates. It was not assumed when the estimates were made that, if any of these provisions were repealed, adjustments would be made through fiscal or monetary policy to offset the effects of higher tax liabilities on the economy.

Year to year differences in the estimates for each tax expenditure may be explained by changes in tax law, e.g., the reduction in marginal tax rates and the indexing provision enacted in the Economic Recovery Tax Act of 1981, which affect the estimates for successive years. Some of the estimates for this tax expenditure budget may differ from estimates made in previous years because of inflation, changed economic conditions, the availability of better data, and improved estimating techniques. Similar differences also occur in the budget estimates for direct outlays.

## IV. Tax Expenditure Estimates

To aid analysis of the economic benefits provided through the tax laws to various sectors of the economy, the 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. Some tax expenditures do not fit clearly into any of the budget functional categories, and they have been placed in the functional category which is the most appropriate.

Table 2 provides estimates by expanded 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 distribution. Tables 1 and 2 assume the level of economic activity prevailing in 1981 and the tax law in effect on December 31, 1981.

## Table 1.—The Expenditure Estimates by Function[1]

[Fiscal years, in millions of dollars]

| Function | Corporations | | | | | | Individuals | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
| ***National defense:*** | | | | | | | | | | | | |
| Exclusion of benefits and allowances to Armed Forces personnel | | | | | | | 1, 885 | 1, 940 | 2, 025 | 2, 160 | 2, 310 | 2, 465 |
| Exclusion of military disability pensions | | | | | | | 165 | 170 | 175 | 190 | 200 | 215 |
| ***International affairs:*** | | | | | | | | | | | | |
| Exclusion of income earned abroad by United States citizens | | | | | | | 985 | 1, 285 | 1, 340 | 1, 460 | 1, 600 | 1, 795 |
| Deferral of income of domestic international sales corporations (DISC) | 1, 560 | 1, 665 | 1, 750 | 1, 820 | 1, 885 | 1, 950 | | | | | | |
| Deferral of income of controlled foreign corporations | 520 | 560 | 605 | 655 | 705 | 760 | | | | | | |
| ***General science, space, and technology:*** | | | | | | | | | | | | |
| Expensing of research and development expenditures | 1, 900 | 2, 055 | 2, 245 | 2, 350 | 2, 415 | 2, 475 | 100 | 105 | 120 | 125 | 125 | 130 |
| Credit for increasing research activities | 375 | 545 | 665 | 665 | 390 | 80 | 15 | 30 | 35 | 40 | 30 | 5 |
| Suspension of regulations relating to allocation under section 861 of research and experimental expenditures | 55 | 120 | 60 | (2) | | | (2) | (2) | (2) | | | |

See footnotes at end of table.

## Table 1.—Tax Expenditure Estimates by Function [1]—Continued

[Fiscal years, in millions of dollars]

| Function | Corporations | | | | | | Individuals | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
| ***Energy:*** | | | | | | | | | | | | |
| *Expensing of exploration and development costs:* | | | | | | | | | | | | |
| Oil and gas | 2, 720 | 3, 060 | 3, 500 | 3, 875 | 4, 205 | 4, 635 | 1, 350 | 1, 470 | 1, 620 | 1, 850 | 2, 125 | 2, 385 |
| Other fuels | 25 | 30 | 30 | 35 | 35 | 40 | | | | | | |
| *Excess of percentage over cost depletion:* | | | | | | | | | | | | |
| Oil and gas | 415 | 390 | 380 | 470 | 530 | 550 | 1, 555 | 1, 305 | 1, 125 | 1, 255 | 1, 490 | 1, 540 |
| Other fuels | 365 | 410 | 450 | 495 | 550 | 615 | 15 | 15 | 20 | 20 | 20 | 25 |
| Capital gains treatment of royalties from coal | 10 | 15 | 15 | 15 | 20 | 20 | 95 | 80 | 90 | 105 | 115 | 130 |
| Alternative fuel production credit | 95 | 70 | 70 | 95 | 140 | 175 | | | | | | |
| Alcohol fuel credit [3] | 15 | 30 | 30 | 30 | 30 | 30 | 5 | 5 | 5 | 5 | 5 | 5 |
| Exclusion of interest on State and local government industrial development bonds for energy production facilities | 5 | 10 | 15 | 20 | 30 | 35 | ([2]) | 5 | 5 | 10 | 15 | 15 |
| *Residential energy credits:* | | | | | | | | | | | | |
| Supply incentives | | | | | | | 205 | 260 | 345 | 500 | 595 | 35 |
| Conservation incentives | | | | | | | 415 | 410 | 400 | 400 | 340 | 10 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Alternative, conservation and new technology credits:* | | | | | | | | | | | | |
| Supply incentives | 180 | 295 | 460 | 610 | 510 | 475 | 20 | 25 | 30 | 30 | 30 | 20 |
| Conservation incentives | 315 | 280 | 180 | 55 | 25 | 10 | (2) | (2) | (2) | (2) | (2) | (2) |
| Energy credit for intercity buses | 5 | 5 | 5 | 5 | (2) | (2) | | | | | | |
| ***Natural resources and environment:*** | | | | | | | | | | | | |
| Expensing of exploration and development costs, nonfuel minerals | 50 | 55 | 60 | 65 | 75 | 80 | (2) | (2) | (2) | (2) | (2) | (2) |
| Excess of percentage over cost depletion, nonfuel materials | 390 | 425 | 450 | 480 | 515 | 550 | 15 | 15 | 20 | 20 | 25 | 25 |
| Capital gains treatment of certain timber income | 460 | 500 | 535 | 585 | 635 | 680 | 140 | 115 | 110 | 125 | 135 | 145 |
| Investment credit and seven-year amortization for reforestation expenditures | (2) | (2) | (2) | (2) | (2) | (2) | 5 | 5 | 10 | 10 | 10 | 10 |
| Capital gains treatment of iron ore | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Exclusion of interest on State and local government pollution control bonds | 565 | 655 | 740 | 820 | 900 | 975 | 275 | 320 | 365 | 405 | 445 | 485 |
| Exclusion of payments in aid of contruction of water, sewage, gas, and electric utilities | 30 | 45 | 70 | 75 | 80 | 75 | | | | | | |
| Tax incentives for preservation of historic structures | 55 | 70 | 85 | 95 | 110 | 130 | 80 | 100 | 125 | 145 | 165 | 190 |
| ***Agriculture*** | | | | | | | | | | | | |
| Expensing of certain capital outlays | 85 | 85 | 90 | 95 | 100 | 100 | 460 | 475 | 495 | 510 | 530 | 545 |
| Capital gains treatment of certain income | 25 | 25 | 30 | 30 | 35 | 35 | 430 | 455 | 475 | 500 | 525 | 550 |
| Deductibility of patronage dividends and certain other items of cooperatives | 920 | 950 | 980 | 1, 010 | 1, 040 | 1, 075 | −375 | −390 | −400 | −410 | −425 | −435 |
| Exclusion of certain cost-sharing payments | | | | | | | 60 | 50 | 45 | 40 | 30 | 25 |

See footnotes at end of table.

## Table 1.—Tax Expenditure Estimates by Function [1]—Continued

[Fiscal years, in millions of dollars]

| Function | Corporations | | | | | | Individuals | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
| ***Commerce and housing*** | | | | | | | | | | | | |
| Dividend and interest exclusion | | | | | | | 2, 185 | 550 | 555 | 580 | 605 | 635 |
| Reinvestment of dividends in stock of public utilities | | | | | | | 130 | 365 | 415 | 450 | 280 | ------ |
| Net interest exclusion | | | | | | | | | | 1, 115 | 3, 090 | 3, 425 |
| Exclusion of interest on State and local industrial development bonds | 1, 295 | 1, 690 | 2, 160 | 2, 670 | 3, 235 | 3, 875 | 315 | 410 | 525 | 650 | 790 | 945 |
| Exclusion of interest on certain savings certificates | | | | | | | 400 | 1, 790 | 1, 140 | | | |
| Exemption of credit union income | 110 | 115 | 120 | 125 | 135 | 140 | | | | | | |
| Exclusion of interest on life insurance savings | | | | | | | 4, 535 | 4, 805 | 5, 165 | 5, 790 | 6, 615 | 7, 245 |
| Excess bad debt reserves of financial institutions | 250 | 515 | 765 | 905 | 1, 005 | 1, 085 | | | | | | |
| Deductibility of nonmortgage interest in excess of investment income | | | | | | | 7, 585 | 7, 690 | 8, 085 | 8, 625 | 9, 220 | 10, 010 |
| Deductibility of mortgage interest on owner-occupied homes | | | | | | | 23, 030 | 25, 490 | 28, 465 | 32, 770 | 37, 830 | 44, 360 |
| Deductibility of property tax on owner-occupied homes | | | | | | | 10, 065 | 10, 635 | 11, 055 | 12, 105 | 13, 280 | 14, 805 |
| Exclusion of interest on State and local housing bonds for owner-occupied housing | 650 | 835 | 980 | 1, 005 | 980 | 960 | 420 | 535 | 645 | 670 | 655 | 640 |
| Exclusion of interest on State and local housing bonds for rental housing | 310 | 345 | 415 | 525 | 655 | 780 | 155 | 170 | 200 | 255 | 320 | 380 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Deferral of capital gains on home sales | | | | | | | 1, 525 | 1, 655 | 2, 020 | 2, 485 | 3, 010 | 3, 530 |
| Exclusion of capital gains on home sales for persons age 55 and over | | | | | | | 510 | 550 | 675 | 830 | 1, 005 | 1, 175 |
| Expensing of construction period interest and taxes | 505 | 610 | 735 | 855 | 975 | 1, 110 | 275 | 320 | 390 | 455 | 515 | 590 |
| Depreciation on rental housing in excess of straightline | 105 | 130 | 155 | 165 | 180 | 195 | 460 | 575 | 665 | 720 | 760 | 795 |
| Depreciation on buildings other than rental housing in excess of straightline | 175 | 210 | 245 | 280 | 315 | 350 | 155 | 190 | 220 | 245 | 275 | 310 |
| Accelerated depreciation on equipment other than leased property | 6, 455 | 10, 705 | 16, 080 | 23, 020 | 33, 140 | 39, 075 | 845 | 1, 695 | 2, 540 | 3, 530 | 5, 140 | 6, 455 |
| Safe harbor leasing: | | | | | | | | | | | | |
| Accelerated depreciation and deferral | 1, 285 | 2, 180 | 3, 285 | 4, 530 | 5, 785 | 6, 860 | | | | | | |
| Investment credit | 1, 365 | 1, 435 | 1, 780 | 2, 200 | 2, 730 | 3, 380 | | | | | | |
| Amortization of business start-up costs | 5 | 10 | 15 | 20 | 25 | 30 | 65 | 95 | 130 | 175 | 230 | 255 |
| Capital gains other than agriculture, timber, iron ore and coal | 1, 495 | 1, 710 | 1, 900 | 2, 100 | 2, 300 | 2, 500 | 18, 315 | 14, 390 | 13, 385 | 14, 225 | 14, 505 | 14, 685 |
| Capital gains at death | | | | | | | 5, 245 | 3, 975 | 3, 565 | 3, 665 | 3, 920 | 4, 195 |
| Reduced rates on the first $100,000 of corporate income | 6, 605 | 7, 125 | 8, 065 | 8, 740 | 8, 660 | 8, 630 | | | | | | |
| Investment credit, other than ESOPs, rehabilitation of structures, reforestation and leasing | 14, 970 | 14, 825 | 19, 775 | 22, 825 | 22, 550 | 23, 555 | 3, 475 | 3, 825 | 4, 205 | 4, 625 | 5, 090 | 5, 595 |
| ***Transportation*** | | | | | | | | | | | | |
| Amortization of motor carrier operating rights | 120 | 70 | 70 | 55 | 20 | (2) | (2) | (2) | (2) | (2) | (2) | (2) |
| Deferral of tax on shipping companies | 65 | 85 | 80 | 50 | 40 | 35 | | | | | | |
| Exclusion of interest on State and local government IDBs for mass transit | 10 | 35 | 65 | 85 | 90 | 90 | 5 | 15 | 30 | 40 | 45 | 45 |

See footnotes at end of table.

Table 1.—Tax Expenditure Estimates by Function [1]—Continued

[Fiscal years, in millions of dollars]

| Function | Corporations 1982 | Corporations 1983 | Corporations 1984 | Corporations 1985 | Corporations 1986 | Corporations 1987 | Individuals 1982 | Individuals 1983 | Individuals 1984 | Individuals 1985 | Individuals 1986 | Individuals 1987 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Community and regional development*** | | | | | | | | | | | | |
| Five-year amortization for housing rehabilitation | 35 | 40 | 45 | 50 | 60 | 65 | 55 | 60 | 70 | 75 | 80 | 85 |
| Investment credit for rehabilitation of structures other than historic structures | 455 | 505 | 570 | 640 | 725 | 825 | 80 | 90 | 100 | 115 | 130 | 145 |
| ***Education, training, employment, and social services*** | | | | | | | | | | | | |
| Exclusion of scholarship and fellowship income | | | | | | | 465 | 415 | 375 | 395 | 410 | 435 |
| Exclusion of interest on State and local student loan bonds | 60 | 95 | 135 | 175 | 220 | 260 | 30 | 45 | 65 | 85 | 105 | 125 |
| Parental personal exemption for students age 19 or over | | | | | | | 995 | 900 | 845 | 835 | 845 | 855 |
| Exclusion of employee meals and lodging (other than military) | | | | | | | 655 | 680 | 725 | 795 | 870 | 945 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Employer educational assistance | | | | | | | 40 | 40 | 20 | | | |
| Exclusion of contributions to prepaid legal services plans | | | | | | | 20 | 25 | 25 | 10 | | |
| Exclusion for employer-provided child care | | | | | | | ([2]) | 10 | 25 | 55 | 85 | 120 |
| Tax credit for ESOPs | 1,005 | 1,095 | 1,245 | 1,830 | 2,320 | 2,460 | | | | | | |
| Deductibility of charitable contributions (education) | 315 | 365 | 445 | 515 | 550 | 575 | 580 | 560 | 570 | 660 | 830 | 860 |
| Deductibility of charitable contributions, other than education and health | 385 | 450 | 555 | 635 | 680 | 710 | 7,960 | 7,635 | 7,840 | 9,045 | 11,335 | 11,790 |
| Credit for child and dependent care expenses | | | | | | | 1,350 | 1,465 | 1,515 | 1,660 | 1,820 | 2,030 |
| Targeted jobs credit | 235 | 75 | 60 | 35 | 10 | 5 | ([2]) | ([2]) | ([2]) | ([2]) | ([2]) | ([2]) |
| Deduction for two-earner married couples | | | | | | | 705 | 3,980 | 7,030 | 7,980 | 8,945 | 10,070 |
| Deduction for adoption expenses | | | | | | | 10 | 10 | 10 | 10 | 10 | 15 |
| ***Health*** | | | | | | | | | | | | |
| Exclusion of employer contributions for medical insurance premiums and medical care | | | | | | | 15,330 | 16,380 | 17,895 | 20,300 | 23,285 | 26,705 |
| Deductibility of medical expenses | | | | | | | 3,925 | 4,175 | 4,190 | 4,495 | 4,840 | 5,305 |
| Exclusion of interest on State and local hospital bonds | 430 | 505 | 590 | 665 | 735 | 805 | 210 | 250 | 290 | 330 | 365 | 395 |
| Deductibility of charitable contributions (health) | 195 | 225 | 275 | 320 | 340 | 355 | 1,165 | 1,120 | 1,150 | 1,325 | 1,660 | 1,725 |

See footnotes at end of table.

## Table 1.—Tax Expenditure Estimates by Function [1]—Continued

[Fiscal years, in millions of dollars]

| Function | Corporations | | | | | | Individuals | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
| ***Income security*** | | | | | | | | | | | | |
| *Exclusion of social security benefits:* | | | | | | | | | | | | |
| Disability insurance benefits | | | | | | | 915 | 910 | 910 | 950 | 1, 000 | 1, 060 |
| OASI benefits for retired workers | | | | | | | 9, 980 | 10, 525 | 10, 955 | 11, 825 | 12, 790 | 13, 765 |
| Benefits for dependents and survivors | | | | | | | 1, 915 | 1, 970 | 2, 040 | 2, 200 | 2, 385 | 2, 565 |
| Exclusion of railroad retirement system benefits | | | | | | | 380 | 370 | 385 | 400 | 415 | 435 |
| Exclusion of workmen's compensation benefits | | | | | | | 3, 100 | 3, 495 | 3, 965 | 4, 665 | 5, 550 | 6, 635 |
| Exclusion of special benefits for disabled coal miners | | | | | | | 95 | 90 | 85 | 85 | 85 | 90 |
| Exclusion of untaxed unemployment insurance benefits | | | | | | | 2, 060 | 2, 710 | 2, 410 | 2, 185 | 2, 200 | 2, 250 |
| Exclusion of public assistance benefits | | | | | | | 445 | 430 | 430 | 440 | 455 | 470 |
| Exclusion of disability pay | | | | | | | 155 | 145 | 135 | 130 | 130 | 130 |
| *Net exclusion of pension contributions and earnings:* | | | | | | | | | | | | |
| Employer plans | | | | | | | 25, 765 | 27, 500 | 30, 545 | 35, 630 | 42, 060 | 48, 540 |
| Plans for self-employed | | | | | | | 1, 005 | 1, 065 | 1, 050 | 1, 075 | 1, 145 | 1, 215 |
| Individual retirement plans | | | | | | | 1, 555 | 2, 695 | 3, 255 | 3, 860 | 4, 310 | 4, 855 |
| *Exclusion of other employee benefits:* | | | | | | | | | | | | |
| Premiums on group term life insurance | | | | | | | 1, 900 | 1, 895 | 1, 965 | 2, 110 | 2, 290 | 2, 480 |
| Premiums on accident and disability insurance | | | | | | | 100 | 100 | 100 | 100 | 105 | 110 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Additional exemption for the blind | | | | | | | 30 | 30 | 30 | 30 | 30 | 30 |
| Additional exemption for elderly | | | | | | | 2,355 | 2,370 | 2,375 | 2,455 | 2,560 | 2,730 |
| Tax credit for the elderly | | | | | | | 135 | 135 | 135 | 135 | 135 | 135 |
| Deductibility of casualty and theft losses | | | | | | | 800 | 850 | 930 | 1,035 | 1,155 | 1,310 |
| Earned income credit [4] | | | | | | | 555 | 550 | 500 | 475 | 440 | 400 |
| ***Veterans benefits and services*** | | | | | | | | | | | | |
| Exclusion of veterans disability compensation | | | | | | | 1,360 | 1,380 | 1,325 | 1,320 | 1,325 | 1,330 |
| Exclusion of veterans pensions | | | | | | | 85 | 90 | 85 | 90 | 95 | 100 |
| Exclusion of GI bill benefits | | | | | | | 175 | 145 | 135 | 120 | 105 | 95 |
| ***General government*** | | | | | | | | | | | | |
| Credits for political contributions | | | | | | | 80 | 80 | 80 | 80 | 80 | 80 |
| ***General purpose fiscal assistance*** | | | | | | | | | | | | |
| Exclusion of interest on general purpose state and local debt | 3,905 | 4,395 | 4,870 | 5,295 | 5,660 | 5,990 | 1,925 | 2,165 | 2,410 | 2,620 | 2,810 | 2,975 |
| Deductibility of nonbusiness state and local taxes other than on owner-occupied homes | | | | | | | 20,395 | 21,530 | 23,810 | 25,570 | 28,060 | 31,280 |
| Tax credit for corporations receiving income from doing business in U.S. possessions | 1,195 | 1,285 | 1,380 | 1,500 | 1,625 | 1,730 | | | | | | |
| ***Interest*** | | | | | | | | | | | | |
| Deferral of interest on savings bonds | | | | | | | −80 | 50 | 160 | 225 | 290 | 355 |

[1] All estimates are based on the tax law enacted as of December 31, 1981.

[2] Less than $2,500,000. All estimates have been rounded to the nearest $5 million.

[3] In addition, the exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts of approximately $50 million annually for 1982 and 1983, and approximately $100 million annually thereafter.

[4] The figures in the table indicate the effect of the earned income credit on receipts. The effect on outlays is: $1,255 million in 1982, $1,180 million in 1983, $920 million in 1984, $850 million in 1985, $780 million in 1986, and $720 million in 1987.

## SUM OF THE EXPENDITURE ITEMS BY TYPE OF TAXPAYER, FISCAL YEARS 1982–87

[In millions of dollars]

| Fiscal year | Corporations and individuals | Corporations | Individuals |
|---|---|---|---|
| 1982 | 253, 515 | 55, 140 | 198, 375 |
| 1983 | 273, 135 | 64, 025 | 209, 110 |
| 1984 | 305, 990 | 80, 370 | 225, 620 |
| 1985 | 347, 775 | 96, 275 | 251, 500 |
| 1986 | 395, 975 | 110, 715 | 285, 260 |
| 1987 | 439, 430 | 121, 990 | 317, 440 |

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

Source: Staffs of the Treasury Department and the Joint Committee on Taxation.

## Table 2.—Distribution of Selected Items of Tax Expenditures Under Individual Income Tax, By Expanded Income Class [1]

[Amounts in millions of dollars; returns in thousands]

| Expanded income class (thousands)[2] | Age exemption: Returns | Age exemption: Amount | Blind exemption: Returns | Blind exemption: Amount | Dividend exclusion: Returns | Dividend exclusion: Amount |
|---|---|---|---|---|---|---|
| Below $5 | 407 | 40 | 1 | (*) | 308 | 4 |
| $5 to $10 | 2, 292 | 368 | 27 | 4 | 1, 285 | 19 |
| $10 to $15 | 1, 787 | 407 | 10 | 1 | 1, 343 | 26 |
| $15 to $20 | 955 | 260 | 48 | 10 | 1, 236 | 29 |
| $20 to $30 | 1, 094 | 360 | 9 | 2 | 2, 849 | 84 |
| $30 to $50 | 765 | 374 | 26 | 8 | 3, 784 | 166 |
| $50 to $100 | 362 | 225 | 4 | 2 | 2, 006 | 130 |
| $100 to $200 | 108 | 76 | 2 | 1 | 457 | 36 |
| $200 and over | 33 | 23 | 1 | (*) | 136 | 11 |
| Total | 7, 804 | 2, 133 | 128 | 28 | 13, 403 | 505 |

| Expanded income class (thousands)[2] | Disability pay exclusion: Returns | Disability pay exclusion: Amount | Medical deduction: Returns | Medical deduction: Amount | Real estate tax deduction: Returns | Real estate tax deduction: Amount |
|---|---|---|---|---|---|---|
| Below $5 | 90 | 52 | 308 | 4 | 325 | 81 |
| $5 to $10 | 81 | 45 | 1, 069 | 79 | 1, 522 | 97 |
| $10 to $15 | 31 | 22 | 1, 653 | 155 | 1, 837 | 191 |
| $15 to $20 | 18 | 2 | 2, 362 | 304 | 2, 710 | 374 |
| $20 to $30 | 22 | 8 | 5, 281 | 834 | 6, 823 | 1, 429 |
| $30 to $50 | | | 6, 715 | 1, 160 | 8, 870 | 3, 252 |
| $50 to $100 | | | 2, 221 | 652 | 2, 849 | 2, 291 |
| $100 to $200 | | | 368 | 189 | 478 | 725 |
| $200 and over | | | 91 | 67 | 109 | 302 |
| Total | 242 | 129 | 20, 069 | 3, 444 | 25, 523 | 8, 679 |

See footnotes at end of table.

## Table 2.—Distribution of Selected Items of Tax Expenditures Under Individual Income Tax, By Expanded Income Class [1]—Continued

[Amounts in millions of dollars; returns in thousands]

| Expanded income class (thousands)[2] | State and local income tax deduction | | State and local sales, personal property, and other tax deductions | | Home mortgage interest deduction | |
|---|---|---|---|---|---|---|
| | Returns | Amount | Returns | Amount | Returns | Amount |
| Below $5 | 306 | 8 | 429 | 7 | 378 | 21 |
| $5 to 10 | 1, 319 | 59 | 1, 579 | 48 | 1, 468 | 189 |
| $10 to $15 | 1, 968 | 131 | 2, 123 | 97 | 1, 458 | 334 |
| $15 to $20 | 2, 834 | 284 | 3, 232 | 205 | 2, 272 | 863 |
| $20 to $30 | 6, 761 | 1, 313 | 7, 497 | 816 | 5, 759 | 3, 575 |
| $30 to $50 | 8, 731 | 3, 952 | 9, 685 | 1, 927 | 7, 842 | 8, 564 |
| $50 to $100 | 2, 810 | 3, 716 | 3, 202 | 1, 169 | 2, 369 | 4, 697 |
| $100 to $200 | 453 | 1, 682 | 587 | 354 | 343 | 1, 065 |
| $200 and over | 100 | 1, 204 | 155 | 170 | 71 | 279 |
| Total | 25, 280 | 12, 348 | 24, 489 | 4, 793 | 21, 960 | 19, 587 |

| | Deductibility of nonmortgage interest in excess of investment income | | Charitable contributions deduction | | Casualty loss deduction | |
|---|---|---|---|---|---|---|
| | Returns | Amount | Returns | Amount | Returns | Amount |
| Below $5 | 6 | 3 | 328 | 5 | 17 | 1 |
| $5 to $10 | 68 | 7 | 1, 448 | 31 | 111 | 3 |
| $10 to $15 | 492 | 82 | 2, 145 | 129 | 175 | 21 |
| $15 to $20 | 1, 308 | 291 | 3, 078 | 249 | 282 | 40 |
| $20 to $30 | 3, 979 | 1, 297 | 7, 433 | 985 | 608 | 108 |
| $30 to $50 | 5, 829 | 2, 842 | 9, 545 | 2, 550 | 871 | 243 |
| $50 to $100 | 1, 360 | 1, 501 | 3, 081 | 2, 109 | 316 | 173 |
| $100 to $200 | 149 | 509 | 503 | 1, 126 | 56 | 60 |
| $200 and over | 20 | 208 | 113 | 1, 652 | 18 | 43 |
| Total | 13, 211 | 6, 740 | 27, 674 | 8, 836 | 2, 454 | 692 |

See footnotes at end of table.

**Table 2.—Distribution of Selected Items of Tax Expenditures Under Individual Income Tax, By Expanded Income Class [1]—Continued**

[Amounts in millions of dollars; returns in thousands]

| Expanded income class (thousands)[2] | Elderly credit | | Child care credit | | Earned income credit [3] | |
|---|---|---|---|---|---|---|
| | Returns | Amount | Returns | Amount | Returns | Amount |
| Below $5 | | | | | 2, 207 | 658 |
| $5 to $10 | 126 | 21 | 172 | 36 | 3, 690 | 1, 064 |
| $10 to $15 | 235 | 51 | 399 | 94 | 79 | 10 |
| $15 to $20 | 109 | 19 | 566 | 133 | 21 | 4 |
| $20 to $30 | 53 | 17 | 1, 140 | 266 | 4 | 1 |
| $30 to $50 | 53 | 18 | 1, 495 | 431 | | |
| $50 to $100 | 8 | 3 | 221 | 77 | | |
| $100 to $200 | (*) | (*) | 17 | 8 | | |
| $200 and over | (*) | (*) | 2 | 1 | | |
| Total | 585 | 129 | 4, 013 | 1, 045 | 6, 001 | 1, 736 |

| | Capital gains deduction | |
|---|---|---|
| | Returns | Amount |
| Below $5 | 105 | 179 |
| $5 to $10 | 496 | 188 |
| $10 to $15 | 540 | 342 |
| $15 to $20 | 536 | 337 |
| $20 to $30 | 1, 282 | 1, 165 |
| $30 to $50 | 1, 674 | 2, 539 |
| $50 to $100 | 869 | 3, 337 |
| $100 to $200 | 228 | 2, 134 |
| $200 and over | 63 | 2, 762 |
| Total | 5, 793 | 12, 983 |

[1] Estimated for the tax law enacted as of Dec. 31, 1981, and at 1981 income levels.

[2] Expanded income equals adjusted gross income plus minimum tax preferences (mostly excluded capital gains) less investment intrest expense to the extent of investment income.

[3] Includes the refundable portion of the earned income credit.

*Less than $500,000 or 500 returns.