[JOINT COMMITTEE PRINT]

ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 1991–1995

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 1991–1995 is prepared for the House Committee on Ways and Means and the Senate Committee on Finance. The report also is submitted by the staff of the Joint Committee on Taxation to the House and Senate Committees on the Budget.

As in the case of earlier reports,[2] the estimates in this report were prepared with the cooperation of the staff of the Office of Tax Analysis in the Treasury Department. With the exception of the first two reports which were prepared at the request of the conferees on the Revenue Act of 1971, these reports have been prepared as the Joint Committee on Taxation's report under the budget process.

The Administration published its estimates of tax expenditures for fiscal years 1989–1991 in an analysis of tax expenditures in the Budget for Fiscal Year 1991.[3] The tax expenditure items included in this pamphlet and in that analysis overlap considerably, and the differences are discussed below in Part II under the heading "Comparisons with Budget Analysis".

The staff of the Joint Committee has made its estimates (as shown in Table 1) based on the provisions in tax law as enacted through December 31, 1989, including relevant tax provisions in the Omnibus Budget Reconciliation Act of 1989. Expired or repealed provisions are not listed if their effects on revenue result only from taxpayer activity in years before 1989. Some of the provisions repealed in the Tax Reform Act of 1986 may continue to appear as tax expenditures because a statutory phase out period has not been completed. 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 it is followed in Part II by a discussion of the measurement of tax expenditures. Estimates of tax expenditures for fiscal years 1991–1995, 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 expenditure items 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 1991–1995* (JCS-7-90), March 9, 1990.

[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, and February 28, 1989.

[3] Office of Management and Budget, "*Tax Expenditures*," Sec. 2, IV. C., *The Budget of the United States Government for Fiscal Year 1991*, pp. A59–76.

I. THE CONCEPT OF TAX EXPENDITURES

Overview

Tax expenditure estimates measure the decreases in individual and corporate income tax liabilities that result from provisions in income tax laws and regulations that provide economic incentives or tax relief to particular kinds of taxpayers. In other words, tax expenditures result in a taxpayer paying less tax than would be paid on economic income. These tax provisions take the form of exclusions, credits, deductions, preferential tax rates, or deferrals of tax liability. (Tax disincentives or penalties are not shown as negative tax expenditures.)

The term tax expenditure is based on the assumption that the objectives of these tax provisions could be accomplished by 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 statutory and regulatory criteria established for the programs. Tax expenditure provisions, like all tax provisions but unlike direct spending programs, are administered by the Internal Revenue Service. Tax expenditures require no further action by the Federal Government; direct expenditure programs require at least approval of an application form submitted by a potential beneficiary. Like entitlement programs, tax expenditures usually do not have expiration dates.

Tax expenditure estimates have been prepared for use in public policy analysis to determine the relative merits of providing direct outlays or tax benefits to achieve specified public goals. To provide this capability, the Congressional Budget Act of 1974 requires that a report on tax expenditures be submitted to the House and Senate Budget Committees. These committees include tax expenditure estimates in their reports that accompany the annual budget resolutions.

In this report, the Joint Committee on Taxation staff follows 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." [4] The legislative history of this Act indicates that tax expenditures are to be defined with reference to a normal income tax structure as was the case in the first two tax expenditure pamphlets prepared by the Joint Committee staff.

The normal income tax structure of the individual income tax includes one personal exemption for each taxpayer and one for each

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

dependent; the standard deduction, which serves as a general minimum deduction for all taxpayers; the existing tax rate schedule; the limit on using passive losses to offset other income; [5] and deductions for costs incurred in producing net income, e.g., investment expenses or the cost of the tools that a mechanic purchases for use on the job.

The Joint Committee staff acknowledges that its concept of the normal tax structure may err on the side of being too narrow and its application of the definition of tax expenditures may err on the side of being too broad. An item traditionally has been listed as a tax expenditure for which there is a reasonable basis for such classification and 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 1991–1995. 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 a matter of public policy.

As defined in the Congressional Budget Act, the concept of tax expenditure refers to the corporate 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, but they are not included in this report because they are not parts of the income tax. Thus, the income tax credit for producing ethanol for use in blending gasohol is included, while the equivalent exemption from the excise tax on gasohol sales is not treated here as a tax expenditure.

Individual Income Tax

Neither the standard deduction nor the personal exemption for the taxpayer and dependents are included as tax expenditures 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. Thus, itemized deductions are classified as tax expenditures only to the extent they exceed the standard deduction.

Deductions for costs incurred in producing income are considered part of the normal income tax structure and, therefore, are not listed as tax expenditures. These include deductions for job-related moving expenses and, subject to certain limitations, employee business expenses, investment expenses, and business-related travel expenses. In addition, deductible interest expenses, which include such items as interest paid or accrued on indebtedness incurred in connection with a trade or business, investment interest to the extent of investment income, or interest payable on any unpaid portion of tax due on an estate when an extension of time for payment is in effect, are not tax expenditure items. Tax expenditure items include mortgage interest on a principal or second residence, nonmortgage interest in excess of investment income (which in-

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[5] Beginning with this report, exceptions to the limits on the use of passive losses are not treated as tax expenditures; instead they are considered to be part of the statutory limits on passive loss use.

cludes interest on home equity loans and qualified interest on consumer debt under the phaseout), and the permanent exemption from imputed interest rules.

The exclusion from income of a percentage of capital gains for individuals and the alternative rate for corporations was repealed by the Tax Reform Act of 1986 and no longer is a tax expenditure. Other capital gains exclusions and deferrals from income which were not changed by the Tax Reform Act of 1986 continue in the tax expenditure list. The exclusion of capital gains from income at death, the deferral of capital gains on home sales rollovers, and the exclusion of capital gains up to $125,000 on home sales for individuals age 55 or over, which were not changed in the Tax Reform Act of 1986, remain in the tax expenditure list.

Imputed income received by individuals from the services of their own durable assets is not included in gross income and is not treated as a tax expenditure. Such imputations are often considered as income under other concepts of income, e.g., as used in measuring gross national product. Measurement of imputed income for inclusion for income tax purposes presents severe administrative problems, and its exclusion from taxable income is regarded as an administrative necessity rather than 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; among the others are the income that could be imputed to household furniture and appliances, books, art collections, and automobiles. If all the 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.

Business Income Taxation

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 the asset's estimated useful life, as used for the alternative minimum tax.

The measurement of income from capital under the normal tax structure does not take account of the effects of inflation on depreciation, capital gains, and interest payments. Thus, certain tax expenditure estimates may be larger or smaller than would be the case if the normal tax structure were indexed. For example, the definition of depreciation in the tax expenditure estimates does not take into account the effect of inflation in eroding the real value of depreciation deductions and therefore tends to overstate the tax expenditures. Fixed accelerated depreciation schedules do not always provide deductions whose real value corresponds to the amount originally paid for the asset. Because annual rates of inflation vary considerably, fixed accelerated depreciation schedules will overstate or understate in any given year the real value of depreciation of assets.

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 Budget Analysis

The Joint Committee on Taxation and Treasury Department lists of tax expenditures differ for several reasons. First, the Joint Committee uses as its measure of tax expenditures the definition of tax expenditure in the Congressional Budget Act of 1974. A normative concept based on the Internal Revenue Code, as amended by the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986, is used by the Treasury in determining which items to include for purposes of budget analysis. Second, the Joint Committee in 1985 expanded its list of tax expenditures to include several of the tax provisions recommended for repeal under the principles employed in developing both the President's and the Treasury Department's tax simplification and reform proposals.[6] Third, the budget analysis covers the usual three-year period of a budget submission—the most recent fiscal year, the current fiscal year, and the fiscal year to which the budget proposals apply, i.e., fiscal years 1989–1991. The Joint Committee estimates apply to the next fiscal year and the succeeding four fiscal years, i.e., fiscal years 1991–1995. In addition, the Joint Committee estimates which cover provisions in the Internal Revenue Code of 1986, as in effect on December 31, 1989, and may include in this year's report several expired or repealed provisions for which lengthy transition periods have been provided and which involve substantial amounts of revenue foregone.

The budget analysis this year contains a new section that presents a review and revenue loss estimates of several estate and gift tax provisions which Treasury considers to be tax expenditures. The Joint Committee staff, as indicated above, has treated estate and gift tax provisions as being outside of the normal income tax structure and therefore has omitted them from the list of tax expenditures.

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

International affairs

—Exclusion of certain allowances for Federal employees abroad

Energy

—Expensing tertiary injectants

Agriculture

—Deductibility of patronage dividends and certain other items of cooperatives

—Exclusion of cost-sharing payments

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[6] The White House, *The President's Tax Proposals to the Congress for Fairness, Growth and Simplicity*, Washington, D.C., May 1985, and Office of the Secretary of the Treasury, *Tax Reform for Fairness, Simplification, and Economic Growth: The Treasury Department Report to the President*, vols. 1 and 2, Washington, D.C., Department of the Treasury, November 1984.

—Cash accounting for certain closely-held corporate farms

Insurance companies

—Deduction of unpaid property 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 up to $10,000 depreciable business property

—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

—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

Estimates of tax expenditures as revenue losses are 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 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 annual totals for all tax expenditures in Table 1 are shown only as an addendum to Table 1.

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. For example, the Tax Reform Act of 1986 repealed the itemized deduction for adoption expenses and in its place authorized a direct spending program for such expenses. 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—it could involve direct expenditures, direct loans or loan guarantees, a different form of a tax expenditure, or a general reduction in tax rates. If any tax expenditures were repealed, adjustments might be made through fiscal or monetary policy to offset the effects of higher tax liabilities on the economy; the estimates of tax expenditures do not anticipate such policy responses.

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. Similar differences also occur in the budget estimates for direct outlays.

An alternative way to measure tax expenditures is to express their values in terms of outlay equivalents, i.e., how large direct outlays would have to be for a program in order to place the taxpayer in the same after-tax position as would be attained under a tax expenditure regime; the administration presents such estimates in an analysis in its document. 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.

III. TAX EXPENDITURE ESTIMATES

To aid analysis of the economic benefits provided through the tax laws to various sectors of the economy, 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 of the budget functional categories have been placed in 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. 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 assume the tax laws as enacted through December 31, 1989.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1991–1995

[Billions of dollars]

Function	Corporations					Individuals					Total 1991–95
	1991	1992	1993	1994	1995	1991	1992	1993	1994	1995	
National defense											
Exclusion of benefits and allowances to Armed Forces personnel	...	...	...	...	...	2.0	2.1	2.1	2.2	2.3	10.7
Exclusion of military disability pensions	...	...	...	...	...	0.1	0.1	0.1	0.1	0.1	0.5
International affairs											
Exclusion of income earned abroad by U.S. citizens	...	...	...	...	...	1.4	1.5	1.5	1.6	1.6	7.6
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)	0.8	0.9	1.0	1.1	1.1	...	...	...	...	...	4.8
Deferral of income of controlled foreign corporations	0.2	0.2	0.2	0.3	0.3	...	...	...	...	...	1.1
Inventory property sales source rule exception	2.9	3.2	3.4	3.7	3.8	...	...	...	...	...	17.1
Interest allocation rules exception for certain nonfinancial institutions	0.1	0.1	0.2	0.2	0.2	...	...	...	...	...	0.8
General science, space, and technology											
Expensing of research and development expenditures	1.4	1.5	1.7	1.9	2.0	...	...	...	...	...	8.5
Credit for increasing research activities	0.7	0.2	(1)	(1)	(1)	...	...	...	...	...	0.9
Energy											
Expensing of exploration and development costs:											
Oil and gas	−0.3	−0.1	(1)	0.1	0.2	0.5	0.5	0.6	0.6	0.7	2.8
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	0.3	0.3	0.3	0.3	0.4	2.2
Other fuels	0.2	0.2	0.2	0.2	0.2	(1)	(1)	(1)	(1)	(1)	1.1
Alternative fuel production credit	(1)	(1)	(1)	(1)	(1)	...	...	...	...	...	0.1
Alcohol fuel credit [3]	(1)	(1)	(1)	...	...	(1)	(1)	(1)	...	...	(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	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)	(2)	(2)	....	....	....	....	....	(2)
Natural resources and environment											
Expensing of exploration and development costs, nonfuel minerals	(1)	(1)	(1)	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.3
Excess of percentage over cost depletion, nonfuel minerals	0.2	0.3	0.3	0.3	0.3	(1)	(1)	(1)	(1)	(1)	1.4
Investment credit and 7-year amortization for reforestation, expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Expensing multiperiod timber-growing costs	0.3	0.4	0.4	0.4	0.4	(1)	(1)	(1)	(1)	(1)	2.1
Exclusion of interest on State and local government sewage, water, and hazardous waste facilities bonds	−0.3	−0.4	−0.4	−0.4	−0.5	1.8	1.8	1.9	2.0	2.0	7.5
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	0.1	(1)	(1)	(1)	(1)	0.2	0.2	0.1	0.1	0.1	0.9
Deductibility of patronage dividends and certain other items of cooperatives	0.3	0.3	0.3	0.3	0.4	−0.1	−0.1	−0.1	−0.1	−0.1	1.3
Exclusion of cost-sharing payments	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of cancellation of indebtedness income of farmers	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Cash accounting for agriculture	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.2	0.1	0.1	1.6
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	2.5	2.3	2.3	2.0	1.9	....	....	....	....	....	11.0
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	0.5	0.5	0.5	7.0	7.7	8.4	9.2	10.1	44.7
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	0.7	0.8	0.8	....	....	....	....	....	3.7

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1991-1995—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1991-95
	1991	1992	1993	1994	1995	1991	1992	1993	1994	1995	
Deduction of unpaid loss reserves for property and causualty insurance companies	1.9	1.6	1.4	1.3	1.1	...	...	...	...	...	7.4
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	...	...	...	...	...	31.9	33.9	36.1	38.4	39.9	180.3
Deductibility of property tax on owner-occupied homes	...	...	...	...	...	8.3	8.7	9.1	9.4	9.8	45.3
Deferral of capital gains on sales of principal residences	...	...	...	...	...	10.9	11.5	12.1	12.7	13.6	60.7
Exclusion of capital gains on sales of principal residences for persons age 55 and over	...	...	...	...	...	3.6	3.8	4.0	4.2	4.5	20.2
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	7.9
Depreciation of rental housing in excess of alternative depreciation system	0.3	0.3	0.3	0.3	0.4	0.5	0.5	.05	0.6	0.6	4.3
Credit for low-income housing	0.1	0.1	0.1	0.1	0.1	0.5	0.6	0.6	0.6	0.6	3.4
Exclusion of interest on State and local government bonds for rental housing	0.2	0.2	0.3	0.3	0.3	0.6	0.6	0.6	0.7	0.7	4.5
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	12.4	14.2	16.0	17.8	19.5	4.0	4.3	4.7	5.2	5.7	103.8

Investment credit other than ESOPs, rehabilitation of structures, reforestation, and energy property	1.7	1.0	0.3	0.1	0.1	0.2	0.1	(1)	(1)	(1)	3.5
Expensing up to $10,000 depreciable business property	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.1
Exclusion of capital gains at death:											
Capital gains at death	....	....	....	....	....	5.5	6.0	6.6	7.1	7.6	32.8
Carryover basis on gifts	....	....	....	....	....	0.9	1.1	1.2	1.4	1.7	6.3
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	5.5	5.7	6.0	6.2	6.5	....	....	....	....	....	29.9
Deduction of personal interest	....	....	....	....	....	0.9	....	....	....	....	0.9
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	−0.4	0.2	0.3	0.3	0.3	(2)	(1)	(1)	(1)	(1)	0.4
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	11.6
Deferral of gain on like-kind exchanges	0.3	0.3	0.3	0.3	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	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.5
Exemption of RIC expenses from miscellaneous deduction floor	....	....	....	....	....	0.4	0.5	0.6	0.7	0.8	3.0
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)	0.1	0.1	0.2	0.2	0.6
Community and regional development											
Investment credit for rehabilitation of structures, other than historic structures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1991-1995—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1991-95
	1991	1992	1993	1994	1995	1991	1992	1993	1994	1995	
Exclusion of interest on State and local government bonds for private airports and docks	−0.1	−0.1	−0.1	−0.2	−0.2	0.7	0.8	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	0.6	0.6	0.6	0.7	3.0
Parental personal exemption for students age 19 to 23	....	....	....	....	....	0.3	0.3	0.3	0.4	0.5	1.8
Exclusion of interest on State and local government student loan bonds	(1)	(1)	(1)	(1)	(1)	0.3	0.4	0.4	0.4	0.4	1.9
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	0.5	0.6	0.6	0.6	1.4	1.5	1.5	1.6	1.6	10.4
Educational savings bonds	....	....	....	....	....	(1)	0.1	0.2	0.2	0.3	0.8
Employment:											
Targeted jobs credit	0.2	0.1	0.1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.4
Exclusion of employee meals and lodging (other than military)	....	....	....	....	....	0.8	0.8	0.8	0.9	0.9	4.2
Employee stock ownership plans (ESOPs)	0.8	0.9	1.0	1.1	1.2	(1)	(1)	(1)	(1)	(1)	5.0
Exclusion for benefits provided under cafeteria plans	....	....	....	....	....	2.4	3.1	3.6	4.0	4.5	17.6
Exclusion of rental allowances for minister's home	....	....	....	....	....	0.2	0.2	0.3	0.3	0.3	1.3
Exclusion of miscellaneous fringe benefits	....	....	....	....	....	4.1	4.4	4.8	5.1	5.4	23.9
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	0.5	0.6	2.7
Social services:											
Deductibility of charitable contributions, other than for education and health	0.5	0.5	0.6	0.6	0.6	1.3	1.4	1.5	1.5	1.6	10.1
Credit for child and dependent care expenses						4.1	4.3	4.5	4.6	4.8	22.3
Exclusion for employer-provided child care						0.3	0.3	0.4	0.5	0.5	2.0
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 employed for medical insurance premiums and medical insurance premiums and medical care						33.3	38.0	42.4	46.8	49.5	210.0
Deductibility of medical expenses						2.9	3.1	3.2	3.3	3.4	15.9
Exclusion of interest on State and local government bonds for private hospital facilities	(1)	0.1	0.1	0.1	0.1	2.4	2.6	2.9	3.2	3.5	15.0
Deductibility of charitable contributions for health	0.2	0.2	0.2	0.2	0.2	1.3	1.4	1.5	1.6	1.7	8.5
Tax credit for orphan drug research						(1)	(1)	(1)	(1)	(1)	0.1
Medicare											
Exclusion of untaxed medicare benefits:											
Hospital insurance						5.6	6.4	7.2	8.2	9.2	36.6
Supplementary medical insurance						3.2	4.0	4.8	5.7	6.9	24.6
Income security											
Exclusion of untaxed railroad retirement system benefits						0.4	0.4	0.4	0.4	0.4	2.0
Exclusion of workers' compensation benefits						2.4	2.5	2.6	2.7	2.8	13.0
Exclusion of special benefits for disabled coal miners						0.1	0.1	0.1	0.1	0.1	0.5
Exclusion of cash public assistance benefits						0.3	0.4	0.4	0.4	0.4	1.9
Net exclusion of pension contributions and earnings						52.2	54.3	56.5	58.8	61.3	283.1
Individual retirement plans						6.4	6.7	7.0	7.3	7.5	34.9
Keogh plans						2.7	2.9	3.0	3.2	3.4	15.2
Exclusion of other employee benefits:											
Premiums on group term life insurance						1.9	2.0	2.1	2.2	2.3	10.5
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)	0.5
Additional standard deduction for the blind and the elderly						1.7	1.9	2.1	2.4	2.6	10.7

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1991-1995—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1991-95
	1991	1992	1993	1994	1995	1991	1992	1993	1994	1995	
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 [4]	....	....	....	....	....	1.2	1.3	1.4	1.5	1.6	7.0
Social security											
Exclusion of untaxed social security benefits	....	....	....	....	....	22.6	23.4	24.1	24.9	25.7	120.7
Veterans' benefits and services											
Exclusion of veterans' disability compensation	....	....	....	....	....	1.4	1.4	1.5	1.5	1.6	7.4
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	0.4
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	1.1
General purpose fiscal assistance											
Exclusion of interest on public purpose State and local government debt	1.5	1.5	1.4	1.4	1.3	8.9	10.0	10.9	11.8	13.0	61.7
Deduction of nonbusiness State and local government income and personal property taxes	....	....	....	....	....	20.4	21.8	23.4	25.1	26.9	117.6
Exclusion and tax credit for corporations with possessions source income	2.4	2.6	2.7	2.9	3.0	....	....	....	....	....	13.6
Interest											
Deferral of interest on savings bonds	....	....	....	....	....	1.0	1.0	1.0	1.0	1.0	5.0

[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 per year for 1991 and 1992, $0.3 billion in 1993, and $0.1 billion in 1994.

[4] The figures in the table show the effect of the earned income credit on receipts. The increase in outlays is: $4.9 billion in 1991, $5.1 billion in 1992, $5.4 billion in 1993, $5.8 billion in 1994, and $6.3 billion in 1995.

ADDENDUM TO TABLE 1.—SUM OF TAX EXPENDITURE ITEMS BY TYPE OF TAXPAYER, FISCAL YEARS 1991–1995

[Billions of dollars]

Fiscal year	Corporations	Individuals	Total
1991	40.7	277.6	318.3
1992	42.3	297.0	339.3
1993	44.6	316.4	361.0
1994	47.3	337.1	384.4
1995	49.7	357.0	406.7

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	25,592	3,672	422	156	−213
$10 to $20	28,106	17,293	2,035	1,296	14,160
$20 to $30	22,896	20,076	3,816	3,334	34,466
$30 to $40	17,105	16,492	5,431	5,201	44,829
$40 to $50	9,669	9,522	4,275	4,129	37,026
$50 to $75	12,475	12,387	8,009	7,877	90,986
$75 to $100	3,599	3,581	2,948	2,943	45,362
$100 to $200	3,134	3,119	2,818	2,812	82,771
$200 and over	1,142	1,133	1,053	1,034	137,138
Total	**123,717**	**87,273**	**30,807**	**28,781**	**486,523**

[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 build-up 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.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1991 Rates and 1991 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	59	11	43	2
$10 to $20	724	190	892	74
$20 to $30	1,191	351	2,700	297
$30 to $40	1,692	621	4,516	615
$40 to $50	912	338	3,901	594
$50 to $75	869	483	7,543	2,214
$75 to $100	209	271	2,804	1,394
$100 to $200	138	425	2,651	2,026
$200 and over	25	191	942	1,391
Total	**5,819**	**2,881**	**25,993**	**8,606**

Footnotes at end of Table 3.

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 tax deduction		Charitable contributions deduction	
	Returns	Amount	Returns	Amount
Below $10	66	2	53	1
$10 to $20	1,008	83	966	52
$20 to $30	2,809	376	2,970	244
$30 to $40	4,454	934	4,875	738
$40 to $50	3,689	906	4,054	657
$50 to $75	6,915	3,553	7,854	1,951
$75 to $100	2,594	2,451	2,887	1,177
$100 to $200	2,454	5,081	2,764	2,516
$200 and over	866	7,723	1,024	6,297
Total	**24,854**	**21,110**	**27,446**	**13,632**

Footnotes at end of Table 3.

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]	Child care credit		Earned income credit [3]	
	Returns	Amount	Returns	Amount
Below $10	29	5	1,907	1,352
$10 to $20	1,241	508	5,717	4,039
$20 to $30	2,083	1,025	2,848	842
$30 to $40	1,815	932	165	59
$40 to $50	1,222	579	33	15
$50 to $75	1,670	748	19	5
$75 to $100	477	221	4	3
$100 to $200	260	114	0	0
$200 and over	52	28	0	0
Total	**8,848**	**4,159**	**10,693**	**6,316**

Footnotes at end of Table 3.

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 benefits		Additional standard deduction for the elderly and blind	
	Returns	Amount	Returns	Amount
Below $10	(4)	(5)	3	(5)
$10 to $20	3,360	641	1,667	193
$20 to $30	3,190	1,698	3,005	428
$30 to $40	3,158	2,448	2,131	362
$40 to $50	5,245	5,612	1,120	203
$50 to $75	6,062	7,186	842	204
$75 to $100	2,040	1,927	163	47
$100 to $200	1,140	1,399	103	31
$200 and over	204	376	34	9
Total	**24,372**	**21,286**	**9,068**	**1,476**

[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 individuals retirement accounts, (7) the minimum tax preferences, and (8) net losses, in excess of minimum tax preference, from passive business activities.

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

[4] Less than 500.

[5] Less than $500,000.

Note: Detail may not add to total due to rounding.