[JOINT COMMITTEE PRINT]

ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 1987-1991

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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CONTENTS

INTRODUCTION

This report [1] on tax expenditures for fiscal years 1987–1991 is prepared by the staff of the Joint Committee on Taxation for the House Committee on Ways and Means and the Senate Committee on Finance. The report also is submitted by 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. The first two reports were prepared at 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 in April 1985.

On February 5, 1986, the Administration published its estimates of tax expenditures for fiscal years 1985–1987 in Special Analysis G of the Budget for Fiscal Year 1987.[3] The tax expenditure items included in this pamphlet and in Special Analysis G overlap considerably. (Differences are discussed in Part II under the heading "Comparisons with Special Analysis G".) The tax expenditure report by the Congressional Budget Office (CBO), which has been published early in the Fall, generally contains the same listings as this pamphlet.

The staff of the Joint Committee has made its estimates (as shown in table 1) in terms of the provisions in tax law as enacted through December 31, 1985, under the assumption that the expiration dates which apply to some provisions would not be extended or otherwise modified. Expired provisions are not listed if their effect on revenue results only from taxpayer activity in prior years. 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 1987–1991, under tax law enacted through December 31, 1985, 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 1987–1991* (JCS–7–86), March 1, 1986.

[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, and April 12, 1985.

[3] "*Tax Expenditures,*" Special Analysis G, *The Budget of the United States Government for Fiscal Year 1987.*

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 to the private sector or tax relief to particular kinds of taxpayers. These tax provisions take the form of exclusions, credits, deductions, preferential tax rates, or deferrals of tax liability. The term tax expenditure is derived from 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. As in 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 expenditure provisions, like all tax provisions but unlike direct spending programs, are administered by the Internal Revenue Service.

From the viewpoint of the budget process, fiscal policy and the allocation of resources, entitlements that provide outlays or revenue losses with no annual limits on their budget effects restrict the scope of adjustments in public policy that can be made currently. Initially, the Joint Committee published the pamphlets on tax expenditures in order to provide Congress with some of the information it would need to select between a tax or an outlay approach to a given goal of public policy. Now, however, this information also is provided in the President's budget which contains a list of the tax expenditures in Special Analysis G that are grouped by budget outlay function, and each functional group is part of the discussion of the President's proposals for that function. In addition, Special Analysis G of the budget contains an essay on tax expenditures and presents two tables related to the subject—estimates of the outlay equivalent of, and the revenue loss from, each tax expenditure. The House and Senate Budget Committees publish tax expenditure revenue loss estimates in their reports that accompany budget resolutions reported to their respective houses. The Congressional Budget Office annually has published a report on tax expenditures which includes descriptive and analytical material in addition to revenue loss estimates.

Revenue loss estimates only are presented in this report, since this conforms to 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, as reported in Special Analysis G, is the size of the outlay which would be needed to produce the after-tax 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 the cost of alternative outlay and tax approaches to carry out specific public policy programs.

In this report, the staff followed the definition of tax expenditures that appear's 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 income tax structure, and it also refers to the first two tax expenditure pamphlets prepared by the Joint Committee staff in which the normal income tax structure was used as the reference point. Under the individual income tax, this normal income 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 graduated tax 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., investment expenses or the cost of the tools that a mechanic purchases for use on his job. 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 income 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. In this context, more than a *de minimis* revenue amount means a revenue loss of at least $10 million in at least one of the five years, 1986–1990. 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 particular public policy goals.

As defined in the Congressional Budget Act, the concept of tax expenditure 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, which are not included in this report because they are not parts of the income tax.

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 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 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 tax expenditures only to the extent that those deductions exceed investment income. This treatment of interest represents a change from years prior to 1983, 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 or the type of loan; 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 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 its 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, that used 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 as 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; among the others are the income that could be imputed to household furniture and applicances, 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. Thus, in affect, the staff's listing of certain interest deductions as a tax expenditure is a substitute for not listing the exclusion of imputed income on durable assets.

Comparison with Special Analysis G.—The major differences beween the tax expenditure lists in Special Analysis G, Table G–2, ınd the list in table 1 of this publication are the additional items ıdded by the staff in this publication (see discussion next page). Vith regard to the other listed items, the Joint Committee report ists as a tax expenditure the deductibility of patronage dividends ınd certain other items of cooperatives; this item appears in the Agriculture function.

The staff analysis also differs from Special Analysis G in its reatment of capital gains at death. The estimate in this report is omputed as the tax that would be paid if the excess of the fair narket value of property owned by decedents over the purchase rice were included in the decedent's taxable income. The estimate n Special Analysis G is the tax that would be paid, if the heir caried over the current basis of the decedent.

Business income taxation

For business income, taxed under both the individual and corpoate income taxes, the most difficult issues in defining tax expendiures relate to capital costs, which are not properly allocable to ncome earned in a single year. The staff assumes for example, hat the normal tax structure would permit cost recovery deducions on equipment under some form of accelerated depreciation ver the estimated useful life of the asset. For structures, it is asumed that the normal tax structure would involve straight-line lepreciation over the estimated useful life. The tax law applicable o pre-1981 depreciable equipment permitted taxpayers to shorten ax lives by up to 20 percent for purposes of computing depreciaion deductions 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 ives under ACRS and ADR are treated as a tax expenditure in this report to the extent that these systems provide cost recovery deducions in excess of what is assumed to be the normal tax structure.

One of the problems with the 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 valuation problem arises in the definition of the tax expenditure for capital gains.

The foreign tax credit is not classified here as a tax expenditure because it is considered a way of taking into account the interrelaionship of domestic and foreign tax systems and avoiding double axation. In addition, this analysis does not attempt to go behind he treatment 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.

Comparison with Special Analysis G.—Besides the additional tax expenditures (discussed in the next paragraph), the staff list carries two business items that have not been included among the items in table G–2 because of different interpretations of how to draw the boundaries. These two items are (1) deductibility of patronage dividends and certain other items of cooperatives and (2) exclusion of payments in aid of construction of water, sewage, gas, and electric utilities.

Additional tax expenditure estimates

Estimates of additional tax expenditure items are provided in this report. These items have appeared frequently on the lists of tax provisions that could be repealed in order to broaden the tax base and simplify the Internal Revenue Code. Some of these items appear on the list of tax provisions that have been recommended for repeal under the principles employed to develop the President's and the Treasury Department's tax simplification and reform proposals.[1] Some of these provisions also have appeared on the lists of items proposed to be repealed in tax simplification and reform legislation introduced by Members of Congress.

Expiring tax expenditures

Several tax expenditures expired on December 31, 1985. As is the Joint Committee practice, expired tax expenditure provisions are deleted from the list when they will not be applicable during the budget period covered, fiscal years 1987 through 1991 in this case.

A list of the tax expenditures which expired in 1985 follows. Many of these items may be extended, with or without modification, under provisions of pending legislation, but they have not been included in this tax expenditure list because they are not yet part of present law.

- Suspend allocation of research and experimentation expenditures
- Expensing architectural barriers for the handicapped
- Restriction on net operating loss trafficking
- Expenses relating to parsonage allowances
- Targeted jobs credit
- Residential energy credits
- Credit for increasing research and experimentation expenditures
- Business energy credits
- Exclusion for employer-provided transportation (vanpooling)
- Dividend reinvestment exclusion
- Exclusion for employer-provided educational assistance
- Exclusion for employer-provided group legal services
- Foreign earnings and profits.

[1] 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.

II. 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 the 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 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. 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; or it could involve a different form of tax expenditure, or a general reduction in tax rates. If any of these provisions would be repealed, adjustments might be made through fiscal or monetary policy to offset the effects of higher tax liabilities on the economy, but the estimates of tax expenditures do not anticipate such policy responses.

Year-to-year difference in the estimates for each tax expenditure may be explained by changes in tax law, e.g., the indexing provision enacted in the Economic Recovery Tax Act of 1981, which affect the estimates for successive years. Some of the estimates in this tax expenditure report 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.

III. 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.

Several of the tax expenditure items involve small revenue loss each, and those estimates are indicated in table 1 by footnote 1. For each of the items, the footnote means that the revenue loss is an amount less than $50 million a year.

Table 2 presents tax return information for each of 9 income classes on the number of all returns and taxable returns filed, the amount of all returns and taxable returns with itemized deductions, and for each class 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 distribution of items which do not appear on tax returns under present law. Tables 1, 2 and 3 assumes the tax laws as enacted through December 31, 1985.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1987-1991

[Billions of dollars]

Function	Corporations					Individuals					Total 1987-91
	1987	1988	1989	1990	1991	1987	1988	1989	1990	1991	
National defense											
Exclusion of benefits and allowances to Armed Forces personnel	....	....	....	....	....	2.3	2.4	2.6	2.7	2.7	12.7
Exclusion of military disability pensions	....	....	....	....	....	0.1	0.1	0.1	0.1	0.2	0.7
International affairs											
Exclusion of income earned abroad by U.S. citizens	....	....	....	....	....	1.6	1.7	1.8	1.9	2.0	8.9
Exclusion of certain allowances for Federal employees abroad	....	....	....	....	....	0.2	0.2	0.2	0.2	0.2	1.0
Exclusion of income of foreign sales corporations (FSCs)	1.0	1.2	1.3	1.4	1.5	....	....	....	....	....	6.4
Deferral of income of controlled foreign corporations	0.4	0.5	0.5	0.5	0.6	....	....	....	....	....	2.5
General science, space, and technology											
Expensing of research and development expenditures	3.3	3.4	3.4	3.5	3.5	0.1	0.2	0.2	0.2	0.2	18.0
Credit for increasing research activities	0.4	0.1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.6
Energy											
Expensing of exploration and development costs:											
Oil and gas	1.6	1.6	1.6	1.7	1.8	1.1	1.1	1.2	1.2	1.3	14.2
Other fuels	0.1	0.1	0.2	0.2	0.2	(1)	(1)	(1)	(1)	(1)	0.8
Excess of percentage over cost depletion:											
Oil and gas	0.1	0.1	0.2	0.2	0.2	0.6	0.6	0.6	0.6	0.7	3.9
Other fuels	0.3	0.3	0.3	0.3	0.3	(1)	(1)	(1)	(1)	(1)	1.5
Capital gains treatment of royalties from coal	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.5
Alternative fuel production credit	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	(0.1)
Alcohol fuel credit[3]	(1)	(1)	0.2	0.3	0.3	(1)	(1)	(1)	(1)	(1)	0.9
Exclusion of interest on State and local government industrial development bonds for energy production facilities	(2)	(2)	(2)	(2)	(2)	0.3	0.3	0.3	0.3	0.3	1.3

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1987-1991—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1987–91
	1987	1988	1989	1990	1991	1987	1988	1989	1990	1991	
Natural resources and environment											
Expensing of exploration and development costs, nonfuel minerals	0.1	0.1	0.2	0.2	0.2	(1)	(1)	(1)	(1)	(1)	0.8
Excess of percentage over cost depletion, nonfuels materials	0.3	0.3	0.3	0.3	0.4	(1)	(1)	(1)	(1)	(1)	1.8
Capital gains treatment of iron ore	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Capital gains treatment of certain timber income	0.5	0.6	0.6	0.6	0.7	0.1	0.2	0.2	0.2	0.2	3.9
Investment credit and 7-year amortization of reforestation expenditures	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.5
Exclusion of interest on State and local government pollution control, sewage, and waste disposal facilities bonds	−0.4	−0.5	−0.5	−0.5	−0.6	2.8	3.2	3.6	4.1	4.7	15.8
Tax incentives for preservation of historic structures	0.1	0.2	0.2	0.2	0.2	1.4	1.5	1.6	1.7	1.8	8.9
Special rules for mining reclamation reserves	(1)	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.5
Agriculture											
Expensing of certain capital outlays	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	1.0
Capital gains treatment of certain income	1.7	1.8	1.9	2.0	2.0	0.8	0.9	1.0	1.1	1.3	14.5
Deductibility of patronage dividends and certain other items of cooperatives	0.8	0.8	0.8	0.9	0.9	−0.2	−0.2	−0.2	−0.2	−0.2	3.1
Cost-sharing payments	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Commerce and housing											
Financial institutions											
Bad debt reserves of financial institutions	0.8	0.6	0.4	0.6	0.8	....	....	....	....	....	3.2
Merger rules for thrift institutions	0.6	0.3	0.3	0.3	0.3	....	....	....	....	....	2.3
Exemption of credit union income	0.4	0.4	0.4	0.4	0.5	....	....	....	....	....	2.1
Insurance companies											
Exclusion of interest on life insurance and annuity savings	0.3	0.3	0.3	0.3	0.4	5.7	6.0	6.3	6.6	6.9	33.2
Special taxable income adjustment for life insurance companies	1.0	1.0	1.1	1.2	1.3	....	....	....	....	....	5.6

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	0.6	0.7	0.7	0.8						3.4
Deductions of unpaid losses of property and casualty insurance companies	1.7	1.9	2.0	2.1	2.3						10.0
PAL accounts of mutual property and casualty insurance companies	0.1	0.1	0.1	0.1	0.1						0.5
Special exemptions, rates, and deductions of small mutual property and casualty insurance companies	0.2	0.2	0.2	0.3	0.3						1.2
Tax exemption for certain insurance companies	0.4	0.5	0.5	0.6	0.7						2.7
Housing											
Deductibility of mortgage interest on owner-occupied homes						33.0	37.0	41.3	46.1	51.5	208.9
Deductibility of property tax on owner-occupied homes						9.6	10.9	12.4	14.1	16.0	63.0
Deferral of capital gains on home sales						6.4	6.9	7.5	8.0	8.6	37.4
Exclusion of capital gains on home sales for persons age 55 and over						2.1	2.3	2.5	2.7	2.9	12.5
Exclusion of interest on State and local government bonds for owner-occupied housing	0.7	0.8	0.8	0.7	0.7	2.3	2.5	2.5	2.4	2.3	15.8
Accelerated depreciation in excess of straight-line for rental housing	0.3	0.3	0.3	0.4	0.4	1.4	1.4	1.4	1.6	1.7	9.2
Expensing construction period interest and taxes for low-income housing	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.0
Exclusion of interest on State and local government bonds for rental housing	0.3	0.4	0.4	0.4	0.5	1.0	1.1	1.2	1.2	1.3	7.9
Other business and commerce											
Accelerated depreciation in excess of straight-line on buildings other than rental housing	5.1	5.0	5.1	5.5	5.7	5.6	5.5	5.6	5.9	6.1	55.1
Accelerated depreciation on equipment	14.8	13.9	14.2	14.8	15.4	2.1	1.8	1.8	1.8	1.9	82.5
Investment credit other than ESOPs, rehabilitation of structures, reforestation, and energy property	31.2	34.6	38.3	42.3	46.4	5.6	6.2	6.8	7.5	8.2	227.1
Expensing $5,000 depreciable business property	0.1	(1)	(1)	−0.1	−0.3	0.1	0.1	(1)	(1)	(1)	−0.1
Capital gains, other than agriculture, coal, timber, and iron ore						33.5	38.4	43.4	48.9	55.2	219.4
Capital gains at death						4.4	5.0	5.5	6.1	6.8	27.8
Amortization of business startup costs	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.1

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1987-1991—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1987-91
	1987	1988	1989	1990	1991	1987	1988	1989	1990	1991	
Nonrecognition of gain on property distributions in liquidation	4.5	5.3	5.9	6.3	6.6	−0.4	−0.5	−0.5	−0.6	−0.6	26.1
Reduced rates on first $100,000 of corporate taxable income	9.3	9.6	9.9	10.4	10.9	...	...	...	...	...	50.1
Dividend exclusion	...	...	...	...	...	0.6	0.7	0.7	0.7	0.7	3.4
Deductibility of nonmortgage interest in excess of investment income	...	...	...	...	...	9.5	10.6	11.6	12.7	13.9	58.3
Finance leasing	0.1	0.2	0.8	1.6	2.3	...	...	...	...	...	5.0
Permanent exemption from imputed interest rules	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.2
Exclusion of income from discharge of indebtedness	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Expensing magazine circulation expenditures	(1)	(1)	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.3
Special rules for magazine, paperback, and record returns	(1)	(1)	(1)	(1)	(1)	...	...	...	...	...	(1)
Deferral of gain on installment sales	0.2	0.2	0.2	0.3	0.3	(1)	(1)	(1)	(1)	(1)	1.3
Completed contract rules	4.4	4.8	5.1	5.3	5.5	0.4	0.4	0.4	0.5	0.5	27.2
Cash accounting, other than agriculture	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.6
Bad debt reserves, other than financial institutions	0.5	0.5	0.6	0.6	0.6	(1)	(1)	(1)	(1)	(1)	3.0
Amortization of trademark expenses	(1)	(1)	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.4
Special rules for discount coupon redemptions	(1)	(1)	(1)	(1)	(1)	...	...	...	...	...	(1)
Exclusion of interest on State and local government industrial development bonds	−0.6	−0.5	−0.4	−0.2	(2)	4.2	4.4	4.3	4.2	4.0	19.5
Transportation											
Deferral of tax on shipping companies	0.1	0.1	0.1	0.1	(1)	...	...	...	...	...	0.4
Exclusion of interest on State and local government mass transit bonds	(2)	(2)	(2)	(2)	(2)	0.1	(1)	(1)	(1)	(1)	0.2
Amortization of railroad grading and tunnel bores	(1)	(1)	(1)	(1)	(1)	...	...	...	...	...	(1)

Community and regional development											
Investment credit for rehabilitation of structures, other than historic structures	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.3	0.3	2.5
Exclusion of interest on State and local government bonds for private airports, docks, and convention facilities	−0.1	−0.1	−0.1	−0.1	−0.1	1.0	1.1	1.3	1.4	1.6	5.9
Exclusion of payment in aid of construction of water, sewage, gas, and electric utilities	0.1	0.1	0.1	(1)	(1)	....	....	....	....	....	0.3
Education, training, employment, and social services											
Education and training											
Exclusion of scholarship and fellowship income	....	....	....	....	....	0.9	0.9	1.0	1.1	1.1	5.0
Parental personal exemption for students age 19 or over	....	....	....	....	....	1.2	1.3	1.3	1.4	1.5	6.7
Exclusion of interest on State and local government student loan bonds	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	2.0
Exclusion of interest on State and local government bonds for private educational facilities	(1)	(1)	(1)	(1)	(1)	0.3	0.3	0.4	0.4	0.5	1.9
Deductibility of charitable contributions for education	0.6	0.7	0.7	0.7	0.8	0.8	0.7	0.8	0.9	0.9	7.6
Employment											
Targeted jobs credit	0.1	0.1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Exclusion of employee meals and lodging (other than military)	....	....	....	....	....	1.0	1.0	1.1	1.2	1.3	5.6
Employee stock ownership plans (ESOPs):											
Tax credit	2.6	1.7	0.7	0.2	(1)	....	....	....	....	....	5.2
Dividend deduction	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	(1)
Nonrecognition of gain on stock sales	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	(1)
Exclusion of interest on ESOP loans	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	(1)
Cafeteria plans	....	....	....	....	....	1.0	1.6	2.3	3.0	3.7	11.6
Exclusion of rental allowances of minister's home	....	....	....	....	....	0.1	0.2	0.2	0.2	0.2	0.9
Exclusion of miscellaneous fringe benefits	....	....	....	....	....	3.6	3.8	4.1	4.5	4.8	20.8
Deduction for two-earner married couples	....	....	....	....	....	6.9	7.4	7.9	8.5	9.2	39.9
Exclusion of income earned by benefit organizations:											
Supplemental unemployment benefit trusts	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.2
Voluntary employee benefit associations	....	....	....	....	....	0.4	0.4	0.5	0.5	0.5	2.3
Reserves for vacation pay	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.4

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1987-1991—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1987-91
	1987	1988	1989	1990	1991	1987	1988	1989	1990	1991	
Social services											
Deductibility of charitable contributions, other than for education and health	0.6	0.6	0.7	0.7	0.8	11.6	10.2	11.0	11.8	12.9	60.9
Credit for child and dependent care expenses						2.7	3.0	3.4	3.9	4.4	17.4
Exclusion for employer-provided child care						(1)	0.1	0.1	0.1	0.1	0.4
Deduction for adoption expenses						(1)	(1)	(1)	(1)	(1)	0.1
Health											
Exclusion of employer contributions for medical insurance premiums and medical care						26.3	28.9	32.0	35.5	39.2	161.9
Deductibility of medical expenses						3.5	3.9	4.3	4.8	5.3	21.8
Exclusion of interest on State and local government bonds for hospital facilities	0.2	0.2	0.2	0.2	0.2	2.4	2.8	3.2	3.8	4.4	17.4
Deductibility of charitable contributions for health	0.3	0.3	0.3	0.4	0.4	1.7	1.5	1.6	1.7	1.9	10.1
Medicare											
Exclusion of untaxed medicare benefits:											
Hospital insurance						4.5	5.2	6.0	6.9	7.9	30.5
Supplementary medical insurance						1.9	2.2	2.6	3.0	3.6	13.2
Income security											
Exclusion of untaxed railroad retirement system benefits						0.5	0.5	0.5	0.5	0.5	2.4
Exclusion of workmen's compensation benefits						2.4	2.7	3.0	3.3	3.7	15.1
Exclusion of special benefits for disabled coal miners						0.1	0.1	0.1	0.1	0.1	0.7
Exclusion of untaxed unemployment insurance benefits						0.9	0.8	0.8	0.8	0.8	4.1
Exclusion of public assistance benefits						0.6	0.6	0.6	0.6	0.7	3.3
Net exclusion of pension contributions and earnings:											
Employer plans						58.9	64.3	70.3	76.8	83.9	354.2
Plans for self-employed						2.4	2.6	2.8	2.9	3.1	13.8

Exclusion of other employee benefits:											
Premiums on group term life insurance	....	....	....	....	....	2.1	2.3	2.4	2.5	2.6	11.9
Premiums on accident and disability insurance	....	....	....	....	....	0.1	0.1	0.1	0.1	0.2	0.7
Exclusion for employer-provided death benefits	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.4
Additional exemption for the blind	....	....	....	....	....	(3)	(3)	(1)	(3)	(1)	0.3
Additional exemption for the elderly	....	....	....	....	....	3.3	3.5	3.7	3.9	4.2	18.6
Tax credit for the elderly and disabled	....	....	....	....	....	0.2	0.2	0.2	0.2	0.2	1.0
Deductibility of casualty and theft losses	....	....	....	....	....	0.3	0.3	0.3	0.4	0.4	1.7
Earned income credit [4]	....	....	....	....	....	0.3	0.3	0.3	0.3	0.3	1.5
Five-year amortization for housing rehabilitation	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Social Security											
Exclusion of untaxed social security benefits:											
Disability insurance benefit	....	....	....	....	....	1.1	1.2	1.3	1.4	1.4	6.4
OASI benefits for retired workers	....	....	....	....	....	15.9	16.9	18.0	19.1	20.3	90.1
Benefits for dependents and survivors	....	....	....	....	....	1.5	1.6	1.7	1.8	1.9	8.3
Veterans benefits and services											
Exclusion of veterans' disability compensation	....	....	....	....	....	1.8	1.8	1.9	1.9	1.9	9.2
Exclusion of veterans' pensions	....	....	....	....	....	0.2	0.2	0.2	0.2	0.2	1.0
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	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	2.0
General government											
Credit for contributions to political candidates	....	....	....	....	....	0.2	0.3	0.3	0.3	0.3	1.4
General purpose fiscal assistance											
Exclusion of interest on general purpose State and local government debt	2.4	2.6	2.8	3.0	3.3	9.4	10.2	11.0	11.9	13.0	69.6
Deductibility of nonbusiness State and local government taxes other than on owner-occupied homes	....	....	....	....	....	22.7	25.1	27.7	30.6	33.8	139.9
Exclusion and tax credit for corporations with possessions source income	2.0	2.2	2.4	2.7	2.9	....	....	....	....	....	12.3
Interest											
Deferral of interest on savings bonds	....	....	....	....	....	0.7	0.7	0.8	0.8	0.8	3.8

Footnotes to table 1:

[1] Less than $50 million.

[2] Loss of less than $50 million.

[3] In addition, the 6¢ per gallon exemption from excise tax for alcohol fuels results in a reduction in excise tax receipts, net of income tax effect, of $0.2 billion in 1987, $0.2 billion in 1988, and $0.1 billion in 1989.

[4] The figures in the table show the effect of the earned income credit on receipts. The increase in outlays is: $1.6 billion in 1987, $1.5 billion in 1988, $1.4 billion in 1989, $1.3 billion in 1990, and $1.2 billion in 1991

Addendum to Table 1

Sum of Tax Expenditure Items by Type of Taxpayer, Fiscal Years 1987–1991

[In billions of dollars]

Fiscal year	Corporations	Individuals	Total corporations and individuals
1987	97.1	353.4	450.5
1988	101.1	385.1	486.2
1989	107.7	422.1	529.8
1990	116.0	462.3	578.3
1991	124.4	507.1	631.5

Note: These totals represent merely 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.

Source: Joint Committee on Taxation.

1987 Law and 1987 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 [4]
			Total	Taxable	
Below $10	41,781	10,052	952	477	2,057
$10 to $20	26,621	20,772	4,381	3,260	22,319
$20 to $30	23,036	21,435	9,461	8,858	47,292
$30 to $40	16,107	15,642	10,430	10,217	50,967
$40 to $50	9,468	9,344	7,438	7,367	45,513
$50 to $75	7,870	7,778	7,011	6,940	60,470
$75 to $100	1,877	1,853	1,753	1,732	25,185
$100 to $200	1,787	1,759	1,707	1,679	47,875
$200 and over	662	651	646	634	86,089
Total	**129,210**	**89,287**	**43,778**	**41,164**	**387,766**

[1] Tax law as in effect on January 1, 1987, was applied to the 1987 level and sources of income and their distribution among taxpayers. Statistics include all returns and exclude non-filers.

[2] The income concept used to place tax returns into income classes is adjusted gross income 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 unemployment compensation and social security benefits, (6) contributions to individual retirement accounts, (7) the deduction for two-earner married couples, (8) the minimum tax preferences, and (9) net losses, in excess of minimum tax preferences, from rental and royalty activities, subchapter S corporations, and limited partnership interests.

[3] Includes filing and nonfiling units. Filing units include all taxable and nontaxable returns. Nonfiling units include dependents with earned or unearned income and individuals with income that is exempt from Federal income taxation (*e.g.*, transfer payments, interest from tax-exempt bonds, etc.).

[4] Individual income tax liabilities take account of the refundable portion of the earned credit but do not take account of changes made by the Deficit Reduction Act of 1984 to income averaging, the capital gains holding period, and certain other provisions.

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

Table 3.—Distribution of Selected Individual Tax Expenditure Items by Income Class, at 1987 Rates and 1987 Income Levels

[Amounts in millions of dollars, returns in thousands]

Income class (thousands) [1]	Age exemption		Blind exemption		Dividend exclusion	
	Returns	Amount	Returns	Amount	Returns	Amount
Below $10	390	50	21	4	557	6
$10 to $20	2,483	442	15	2	1,775	26
$20 to $30	3,074	780	45	9	3,494	74
$30 to $40	1,942	630	25	5	3,515	99
$40 to $50	905	388	46	11	2,850	102
$50 to $75	872	495	20	5	3,569	172
$75 to $100	298	214	6	2	1,138	69
$100 to $200	325	254	6	3	1,182	86
$200 and over	128	111	2	1	440	37
Total	**10,417**	**3,364**	**186**	**44**	**18,515**	**672**

Footnotes at end of table.

Income Levels—Continued

Income class (thousands) [1]	Medical deduction		Real estate tax deduction	
	Returns	Amount	Returns	Amount
Below $10	205	36	160	11
$10 to $20	1,752	312	2,440	228
$20 to $30	3,252	661	7,058	890
$30 to $40	2,817	751	8,780	1,564
$40 to $50	1,392	568	6,639	1,586
$50 to $75	1,069	466	6,417	2,450
$75 to $100	200	270	1,567	1,013
$100 to $200	169	345	1,431	1,438
$200 and over	33	242	465	845
Total	**10,890**	**3,652**	**34,958**	**10,025**

Footnotes at end of table.

Table 3.—Distribution of Selected Individual Tax Expenditure Items by Income Class, at 1987 Rates and 1987 Income Levels—Continued

Income class (thousands) [1]	State and local income tax deduction		State and local sales tax deduction		Home mortgage interest deduction	
	Returns	Amounts	Returns	Amounts	Returns	Amounts
Below $10	258	7	334	7	236	44
$10 to $20	2,692	194	3,175	107	2,688	943
$20 to $30	7,439	1,055	8,372	441	6,914	3,612
$30 to $40	8,743	2,139	9,838	740	8,197	5,977
$40 to $50	6,392	2,469	7,127	764	5,956	5,923
$50 to $75	5,833	4,026	6,743	1,065	5,523	8,426
$75 to $100	1,435	1,896	1,615	408	1,310	3,443
$100 to $200	1,315	3,548	1,493	542	1,164	3,977
$200 and over	425	4,751	482	291	383	2,076
Total	**34,531**	**20,085**	**39,179**	**4,363**	**32,370**	**34,412**

Footnote at end of table.

Table 3.—Distribution of Selected Individual Tax Expenditure Items by Income Class, at 1987 Rates and 1987 Income Levels—Continued

Income class (thousands)[1]	Deductibility of nonmortgage interest in excess of investment income		Charitable contributions deduction		Casualty loss deduction	
	Returns	Amount	Returns	Amount	Returns	Amount
Below $10	167	15	230	5	34	2
$10 to $20	2,199	281	2,620	141	86	44
$20 to $30	5,900	1,139	7,748	670	82	124
$30 to $40	6,584	1,854	9,515	1,228	39	57
$40 to $50	4,660	1,661	6,942	1,281	22	22
$50 to $75	3,575	2,222	6,761	2,250	7	25
$75 to $100	641	822	1,681	956	3	9
$100 to $200	462	1,136	1,651	2,116	3	12
$200 and over	142	916	616	4,334	1	4
Total	**24,331**	**10,044**	**37,765**	**12,982**	277	298

Footnotes at end of table.

Table 3.—Distribution of Selected Individual Tax Expenditure Items by Income Class, at 1987 Rates and 1987 Income Levels—Continued

Income class (thousands)[1]	Child care credit		Earned income credit [2]	
	Returns	Amount	Returns	Amount
Below $10	138	43	4,479	1,684
$10 to $20	841	448	936	121
$20 to $30	1,539	661	0	0
$30 to $40	1,650	703	0	0
$40 to $50	1,248	486	0	0
$50 to $75	839	345	0	0
$75 to $100	120	50	0	0
$100 to $200	85	32	0	0
$200 and over	15	6	0	0
Total	**6,474**	**2,775**	**5,415**	**1,805**

Footnotes at end of table.

Income Levels—Continued

Income class (thousands) [1]	Political contribution credit		Capital gains exclusion	
	Returns	Amount	Returns	Amount
Below $10	291	10	219	36
$10 to $20	835	41	641	102
$20 to $30	773	38	1,163	327
$30 to $40	985	58	1,383	600
$40 to $50	736	41	1,049	780
$50 to $75	846	52	1,661	2,239
$75 to $100	283	17	605	1,648
$100 to $200	260	17	792	5,219
$200 and over	126	10	374	27,594
Total	**5,135**	**284**	**7,887**	**38,444**

Footnotes to Table 3:

*Less than $500,000 or 500 returns.

[1] The income concept used to place tax returns into income classes is adjusted gross income 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 unemployment compensation and social security benefits, (6) contributions to individual retirement accounts, (7) the deduction for two-earner married couples, (8) the minimum tax preferences, and (9) net losses, in excess of minimum tax preferences, from rental and royalty activities, subchapter S corporations, and limited partnership interests.

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

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