ESTIMATES OF FEDERAL TAX EXPENDITURES

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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TAX EXPENDITURES

Introduction

This report on tax expenditures is published as part of the report by the Joint Committee on Taxation to the Committees on the Budget. As in the case of earlier reports,[1] the estimates in this report also were prepared with the extensive assistance to the staff of the Office of Tax Analysis in the Treasury Department. The first two reports were prepared in compliance with the request by 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 January, the Administration published its estimates of tax expenditures for fiscal years 1976–1978 in Special Analysis F of the Budget for fiscal year 1978.[2]

This report covers the fiscal years 1977–1982. It also differs in some other respects from the special analysis presented in the budget. Four tax expenditure items, included in this report (as well as in the CBO report [3]) were omitted from the Administration's special analysis—asset depreciation range, deferral of tax on income of controlled foreign subsidiaries, capital gains at death, and the refundable portion of the earned income credit. (The Administration treats the refundable credit as an outlay. The Committees on the Budget intend to resolve the issue of how to properly treat the refundable credit in the first concurrent budget resolution for fiscal year 1978.) The staff of the Joint Committee generally has made its estimates in terms of the provisions in present law (as of January 1, 1977) and assumed that the expiration dates will not be extended or otherwise modified and no other changes will be made in the present law.

The concept of tax expenditures

Tax expenditure data are intended to show the cost to the Federal Government, in terms of revenues it has foregone, from tax provisions that either have been enacted as incentives for the private sector of the economy or have that effect even though initially having a different objective. The tax incentives usually are designed to encourage certain kinds of economic behavior as an alternative to employing direct expenditures or loan programs to achieve the same or similar objectives. These provisions take the form of exclusions, deductions, credits, preferential tax rates, or deferrals of tax liability. Tax expenditures also are analogous to uncontrolled expenditures made through individual entitlement programs because the taxpayer who can meet the criteria specified in the Internal Revenue Code may

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[1] Committees on Ways and Means and Finance, *Estimates of Federal Tax Expenditures*, October 4, 1972, June 1, 1973, July 8, 1975, and March 15, 1976.

[2] "Tax Expenditures," Special Analysis F, *Special Analysis of the Budget of the United States Government for Fiscal Year 1978*, pp. 119–142.

[3] The Congressional Budget Office published tax expenditures estimates for fiscal years 1976–81 (prepared by the Joint Committee staff) in *Five-Year Budget Projections*, fiscal years 1977–81, January 26, 1976. CBO estimates through fiscal year 1982 will be published shortly.

use the provision indefinitely without any further action by the Federal Government because provisions in the Internal Revenue Code rarely have expiration dates that would require specific congressional action to continue the availability of the tax provision. For many provisions, the revenue loss is determined by the taxpayer's level of income and his tax rate bracket. From the viewpoint of the budget process, fiscal policy and the allocation of resources, uncontrollable outlays or receipts restrict the range of adjustments that can be made in public policy. One for the initial objectives for the enumeration 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 goal of public policy.

The staff followed the definition of tax expenditures developed in the legislative process that produced the Budget Control Act. Included in this report as tax expenditures are virtually all tax provisions which have been characterized as tax expenditures under almost any of the prior listings by other sources. As a result, listing an item as a tax expenditure in this report is a part of a process of providing information, and the listing becomes a catalog of past public policy decisions accompanied by estimates of their effects upon budget receipts. No judgment is made, nor any inference intended, about the desirability of any specific provision as public policy or about the effectiveness of the tax approach relative to other methods of achieving the particular public policy goals desired.

In this report, a tax expenditure is described as a tax incentive that departs from simply allowing as deductions from gross income the costs incurred in earning net income. This allows deductions for current expenditures directly related to the process of earning income, and therefore these expenditures are not treated as tax expenditures. These deductions are treated as business costs, and they are deducted on returns filed by corporations, partnerships and individual proprietorships. Capital costs by their nature are not incurred entirely in one year. The basic tax provision allows depreciation ratably (i.e., straight-line depreciation) over the useful life of the capital asset, but tax law also permits accelerated depreciation to allow faster capital recovery through shorter lives and/or faster rates of depreciation. Such faster tax treatment of capital costs is classified as a tax expenditure; in this report, those items appear as various types of accelerated depreciation: asset depreciation range (ADR), depreciation in excess of straight-line, percentage depletion allowances (in excess of cost depletion), and current expensing of costs that otherwise would be capitalized.

Individuals who are employees—rather than carrying on their own businesses—have analogous business-type deductions which also are not classified in this report as tax expenditures. The expenses referred to are those which are incurred in earning net income, e.g., the cost of his tools that a mechanic uses. Most other deductions which individuals take on their tax returns represent personal consumption expenditures. These deductions reflect public policy decisions to facilitate specific types of consumption spending and are therefore generally classified here as tax expenditures. An exception to this rule is made for general personal exemptions and the minimum standard deduction which have not been treated as tax expenditures in any analysis of the subject or in the Budget Control Act. Individual tax expenditures also include various kinds of income, e.g., social security payments to the aged, dependents and survivors, which are tax-exempt income but would become components of adjusted gross income from which taxable income is derived in the absence of the provision for tax exemption.

As indicated previously tax expenditures enumerated in this report differ from the items covered in Special Analysis F of the Budget for Fiscal Year 1978 in that this report includes ADR, deferral of income of controlled foreign corporations, taxation of capital gains at death, and the refundable portion of the earned income credits.

Accelerated depreciation allows the taxpayer to recover the costs of his investment more quickly than is possible through straight-line depreciation over the useful life of the asset that is listed in the guideline lives. There are two forms of accelerated depreciation. Asset depreciation range (ADR) permits cost recovery in a shorter period of time than the guideline lives, up to 20 percent shorter. Accelerated depreciation also provides for higher proportionate depreciation in the early years of an asset's useful life through double or 150 percent declining balance or sum-of-the-year's digits.

Usually it is suggested that income of controlled foreign corporations is deferred for tax purposes in order to permit U.S. corporate subsidiaries to compete as tax equals in foreign countries without the disadvantage of having additional taxes imposed by the U.S. Government. The deferment, however, reflects a specific decision on public policy which qualifies it as a tax expenditure. In this way it is treated like the portion of income earned abroad by individuals that is excluded from taxable income, that is, the exclusion is intended as a way to encourage individuals to work abroad in subsidiaries of U.S. corporations. To a substantial extent the income of foreign corporations is taxed currently in subpart F, and in a similar way foreign personal holding companies also are taxed currently. Of course, dividends from foreign subsidiaries generally are also taxed when received by the U.S. shareholder, but this may be much later than when the income is earned. In the meantime, the taxpayer receives the financial benefits of an interest-free loan for the duration of the deferral period. The Tax Reduction Act of 1975 and the Tax Reform Act of 1976 made permanent changes in the foreign tax area which substantially reduced deferral of foreign source income.

Capital gains that accrue on assets up to the time of death are not taxed when the assets are passed on to the estate and then to the heirs. Before the Tax Reform Act of 1976, the heirs would receive the assets with a basis equal to the valuation of the asset used for estate tax purposes. The change in basis, called a step-up in basis, involved a cancellation of changes in asset value from the time it was acquired by the decedent until his death. The prevalent tax practice was to take capital losses as they accrued in order to offset them against capital gains and (to a limited extent) ordinary income, and as a result, a decedent's estate usually contained few assets with capital losses and mostly assets with capital gains which would not be taxed as capital gains because of the step-up in basis. The value of the asset at the time of death (the decedent's basis plus the unrealized capital gain) would be taxed to the extent it would be included in the taxable estate. In the Tax Reform Act of 1976, the step-up in basis was replaced by a provision for carryover of basis under which an heir who receives an asset from an estate acquires the decedent's adjusted basis in the asset increased by the estate and inheritance taxes attributable to appreciation. On grounds of avoiding retroactive application of the new rules, the Act provides a fresh start adjustment for assets which were held by a decedent on December 31, 1976, and which are transferred after that date as a result of his death. Generally, the fresh start adjustment is equal to the excess of the fair market value of the asset on December 31, 1976, over its adjusted basis. The estimate of the tax expenditure involved on the taxation of capital gains at death reflects the revisions made in the Tax Reform Act of 1976.

Since 1975, Congress has interpreted the refundable portion of the earned income credit, i.e., payments of the credit that exceed tax liability, as an overpayment of tax liability in the belief that the taxpayer has incurred Federal tax liability during the tax year that exceeds the refund. The Administration, however, has consistently reported the refundable part of the credit as an outlay. In the conference report on the third concurrent resolution on the budget for fiscal year 1977, the conferees stated that they had disagreed on the appropriate budget treatment of the refundable credit, and they asserted their intention to resolve the issue in the first budget resolution for fiscal year 1978. The House Budget Committee has reached concurrence with the Administration that the credit should be treated as an outlay, and the Senate Budget Committee has disagreed.

A number of tax provisions are not treated as tax expenditures. The general tax rate structure is not part of tax expenditure analysis: the structure of graduated tax rates and taxable income brackets in the individual income tax and separate tax structures for single persons, married persons filing separately, heads-of-households and income splitting for married persons. Other such items are the personal exemption—one per taxpayer and each dependent—and the minimum standard deduction. On the other hand, included as tax expenditures are the additional personal exemptions for the aged and blind, itemized personal deductions, and the excess of the percentage standard deduction over the minimum standard deduction.

In the business tax area, the combined corporate normal and surtax tax rate is not classified as a tax expenditure. The surtax exemption is treated as a departure designed to foster small corporations, and therefore it is treated as a tax expenditure.

There is no provision for negative tax expenditures, and no provisions are classified as disincentives. Thus, the corporate surtax rate is treated as the basic provision and not a departure from the normal tax. The limitation on the deduction of a net long-term capital loss is a limit to the incentive made available through the special treatment for capital gains.

Imputations of income in kind received from the services of durable assets are not treated as income in the tax code and are not here classified as tax expenditures. They might be considered as income under other concepts of income for tax purposes. Measurement of the imputed income-in-kind would be a formidable task. The imputed income from an owner-occupied home is the most prominent of these items, and among the others are the income that could be imputed to household furniture and appliances, books and art collections and automobiles. Food stamps are a form of income in kind that also is omitted from this listing.

Foreign tax credits are not classified here as tax expenditures since they are generally considered as the way of taking into account the interrelationship of domestic and foreign tax systems. In addition, this analysis does not attempt to go behind the current legal acceptance and attribution of payments by U.S. corporations to foreign governments as taxes (e.g., it does not attempt to treat any as royalties as in the case of oil income), when the payments are designated in that way by those governments. Treating credits for some of these payments as tax expenditures might be appropriate, but they would be difficult to measure.

Measurement of tax expenditures

Estimates of tax expenditures are difficult to determine and are subject to important limitations.

Each tax expenditure is measured in isolation. The amount of the deduction is added back in the calculation of taxable income, which raises its level. The difference in tax liabilities between the existing structure of tax rates and this new higher level of tax liabilities is taken as the amount of the tax expenditure. For this computation and in keeping with the general practice of revenue estimating, it is assumed that nothing else changes: neither the behavior of the taxpayer, nor the economic variables that might signal an adjustment in business behavior, nor tax, fiscal or monetary policies. The estimates also do not take into account any effects that the removal of one or more of the items might have on investment patterns, consumption, or other aspects of economic activity. In other words, the estimates shown do not take into account the induced effects of changing the provisions. Repeal of a provision, therefore, would not necessarily raise the revenue associated with removal of that provision.

There are other aspects of this kind of analysis.

First, if two or more items were to be eliminated, the result of the combination of changes being made at the same time might produce a lesser or greater revenue effect than the sum of the amounts shown for each item separately. This is why totals are not shown for table 1, except in a footnote.

Second, in some cases if a tax expenditure item were to be eliminated, it is possible that Congress would, at least to some extent, desire to deal with the underlying problem by a direct expenditure or loan program. The effect of any such program is not taken into account in the estimates shown. A direct expenditure could become a tax expenditure if it takes the form of a payment to an individual or business that is not included in income subject to taxation. In addition, if some of these provisions were removed from the tax laws, this removal might be accompanied by revisions in tax rates, personal exemptions or the minimum standard deduction, as has happened in the past. Other fiscal and monetary policies might be adopted to offset a tax change. None of these possibilities has been taken into account in the estimates.

Third, when tax expenditure items have been added to the tax law in the past, they did not become fully effective until the lapse of several years. As a result, the eventual annual cost of some items is not fully reflected until some time in the future. Conversely, if various items now in the law were to be eliminated, it is unlikely, in many cases, that the full revenue effects shown would be realized until an extended period of years had passed.

Fourth, differences in personal income levels and corporate profits can also account for differences in the cost of tax expenditure items from year to year. Thus, some tax expenditure items themselves may be larger or smaller from year to year, wholly independent of tax considerations.

Fifth, in the case of many of the items, especially those for which information is not available on tax returns, it is necessary to obtain information from whatever sources are available and, when sources are limited, to make assumptions on which to base the estimates.

Tax expenditures by functional category

To aid analysis of the economic benefits provided through the tax laws to various sectors of the economy, the costs (tax expenditures) and beneficiaries (in terms of area of activity) are grouped in table 1 in the same functional categories as outlays in the Federal budget. Where possible and relevant, estimates are shown separately for individuals and corporations. Some tax expenditures do not fit clearly into any of the budget functional categories. In the Special Analysis F in the Budget, those tax expenditures have been placed in three functional categories added to those in the budget: business investment, personal investment and other tax expenditures. In this report, however, the tax expenditure items in the three special categories have been placed within the budget functional categories to which they are most closely related so that comparisons will be easier to make between outlays and tax expenditures by functional categories. Table 2 lists each of the items in the three additional categories and shows to which functional category it was transferred.

TABLE 1.—TAX EXPENDITURE ESTIMATES BY FUNCTION AND SUBFUNCTION [1]

[Fiscal years; in millions of dollars]

Function and subfunction	Corporations 1977	1978	1979	1980	1981	1982	Individuals 1977	1978	1979	1980	1981	1982
National defense:												
Military personnel:												
Exclusion of benefits and allowances to Armed Forces personnel							1,095	1,260	1,360	1,470	1,585	1,715
Exclusion of military disability pensions							105	115	120	130	135	145
International affairs:												
International financial programs:												
Exclusion of income earned abroad by U.S. citizens							120	135	150	160	170	185
Deferral of income of domestic international sales corporations (DISC)	1,030	1,190	1,360	1,455	1,475	1,545						
Deferral of income of controlled foreign corporations	410	410	410	410	410	410						
Special rate for Western Hemisphere trade corporations	35	25	15	5								
Natural resources, environment, and energy:												
Conservation and land management: Capital gains treatment of certain timber income	300	325	340	355	375	395	95	100	105	110	115	125
Pollution control and abatement:												
Exclusion of interest on State and local government pollution control bonds	170	220	265	300	330	355	75	100	125	145	160	175
Exclusion of payments in aid of construction of water and sewage utilities	15	10	10	10	10	10						
5-year amortization on pollution control facilities	−80	−130	−45	40	130	180						
Energy:												
Expensing of exploration and development costs	610	600	610	635	675	735	105	150	155	185	200	230
Excess of percentage over cost depletion	1,035	1,060	1,135	1,220	1,295	1,360	275	300	330	360	400	410
Other natural resources: Capital gains treatment of royalties on coal and iron ore	20	20	25	25	30	30	45	50	60	70	80	90
Agriculture:												
Farm income stabilization:												
Capital gains treatment of certain ordinary income	10	15	15	15	15	15	330	350	365	385	405	425
Expensing of certain capital outlays	80	70	75	80	80	85	370	440	460	475	490	510
Deductibility of noncash patronage dividends and certain other items of farm cooperatives	455	490	535	570	610	655	−165	−170	−180	−190	−200	−210

See footnotes at end of table.

TABLE 1.—TAX EXPENDITURE ESTIMATES BY FUNCTION AND SUBFUNCTION [1]—Continued

[Fiscal years; in millions of dollars]

Function and subfunction	Corporations						Individuals					
	1977	1978	1979	1980	1981	1982	1977	1978	1979	1980	1981	1982
Commerce and transportation:												
Mortgage credit and thrift insurance:												
Exemption of credit union income	165	185	200	225	250	275						
Excess bad debt reserves of financial institutions	560	645	860	875	945	925						
Deductibility of mortgage interest on owner-occupied homes							5, 435	6, 030	6, 695	7, 430	8, 250	9, 160
Deductibility of property tax on owner-occupied homes							4, 500	4, 995	5, 545	6, 155	6, 830	7, 580
Deductibility of interest on consumer credit							2, 310	2, 565	2, 845	3, 160	3, 505	3, 895
Credit for purchase of new homes							100					
Deferral of capital gains on home sales							890	935	980	1, 030	1, 080	1, 135
Other advancement and regulation of commerce:												
Dividend exclusion							410	425	450	470	495	520
Corporate surtax exemption	4, 650	4, 250	3, 655	3, 915	4, 205	4, 485						
Capital gains (other than farming, timber, iron ore and coal)	555	550	550	585	615	650	7, 030	7, 360	7, 710	8, 265	8, 855	9, 495
Capital gains at death							7, 280	8, 120	8, 975	9, 910	10, 945	12, 090
Depreciation on rental housing in excess of straight line	100	100	105	105	105	105	405	425	450	470	490	515
Depreciation on buildings (other than rental housing) in excess of straight line	210	200	190	185	180	175	185	175	170	165	160	155
Expensing of research and development expenditures	1, 395	1, 450	1, 520	1, 610	1, 695	1, 715	30	30	30	30	35	35
Exclusion of interest on State and local industrial development bonds	195	235	270	315	355	400	90	110	130	150	170	190
Excess first-year depreciation	45	45	50	50	55	55	135	145	155	160	170	180
Expensing of construction period interest and taxes	475	500	525	555	585	615	150	140	90	140	160	205
Investment credit	8, 640	9, 670	10, 375	10, 910	9, 380	7, 380	1, 970	2, 205	2, 430	2, 595	2, 595	1, 725
Asset depreciation range	1, 630	1, 825	2, 000	2, 095	2, 115	2, 115	175	195	220	230	235	235
Ground transportation:												
5-year amortization on railroad rolling stock	—35	—40	—40	—40	—40	—40						
Deductibility of nonbusiness State gasoline taxes							795	880	980	1, 085	1, 205	1, 340
Water transportation: Deferral of tax on shipping companies	90	70	60	50	40	35						
Community and regional development:												
Community development:												
5-year amortization for housing rehabilitation	10	5	5	(2)	(2)	—5	20	10	5	(2)	(2)	—5
Tax incentives for preservation of historic structures	(2)	(2)	5	5	5	5	(2)	(2)	5	5	10	10
Education, training, employment, and social services:												
Higher education:												
Exclusion of scholarship and fellowship income							250	285	375	400	420	445
Parental personal exemption for students age 19 or over							750	770	790	815	840	865
Deductibility of charitable contributions (education)	215	240	265	300	335	365	540	565	595	625	655	690
Training and employment:												
Credit for child- and dependent-care expenses							840	870	960	1, 050	1, 155	1, 270
Deduction for eliminating barriers for the handicapped	5	10	10	5	(2)	(2)						
5-year amortization on child-care facilities	(2)	(2)	(2)	(2)	(2)	(2)						
Credit for employment of AFDC recipients and public assistance recipients under work incentive programs	15	15	20	20	20	20						

Other labor services:												
Exclusion of employee meals and lodging (other than military)							330	350	370	395	420	445
Maximum tax on persanal service income							730	855	1, 025	1, 235	1, 480	1, 775
Exclusion of contributions to prepaid legal services plans							5	10	15	20	35	50
Investment credit for ESOP's	245	255	305	330	190							
Social services: Deductibility of charitable contributions to other than education and health	270	295	330	370	415	450	3, 985	4, 510	5, 100	5, 755	6, 490	7, 310
Health:												
Health-care services:												
Exclusion of employer contributions for medical insurance premiums and medical care							5, 195	5, 840	6, 560	7, 375	8, 290	9, 320
Deductibility of medical expenses							2, 585	2, 870	3, 185	3, 535	3, 920	4, 355
Health research and education: Deductibility of charitable contributions (health)	135	150	165	185	205	225	915	965	1, 010	1, 060	1, 115	1, 170
Income security:												
General retirement and disability insurance:												
Exclusion of social security benefits:												
Disability insurance benefits							380	430	485	540	600	665
OASI benefits for retired workers							3, 125	3, 460	3, 795	4, 155	4, 500	4, 870
Benefits for dependents and survivors							730	795	875	955	1, 035	1, 120
Exclusion of railroad retirement system benefits							200	205	215	220	230	235
Exclusion of workmen's compensation benefits							705	810	935	1, 070	1, 235	1, 420
Exclusion of special benefits for disabled coal miners							50	50	50	55	55	55
Net exclusion of pension contributions and earnings:												
Employer plans							8, 715	9, 940	11, 335	12, 925	14, 740	16, 815
Plans for self-employed and others							1, 305	1, 535	1, 760	2, 025	2, 325	2, 670
Exclusion of other employee benefits:												
Premiums on group term life insurance							800	835	870	900	940	975
Premiums on accident and accidental death insurance							70	75	80	85	85	95
Exclusion of capital gains on home sales for persons age 65 and over							40	70	70	70	70	75
Additional exemption for elderly							1, 220	1, 280	1, 345	1, 410	1, 480	1, 555
Tax credit for the elderly							495	440	435	430	425	420
Exclusion of interest on life insurance savings							1, 815	1, 995	2, 185	2, 400	2, 630	2, 885
Exclusion of sick pay							50	55	60	60	65	70
Unemployment insurance:												
Exclsuion of unemployment insurance benefits							2, 745	2, 445	2, 240	2, 125	2, 070	2, 035
Exclusion of income of trusts to finance supplementary unemployment benefits							10	10	10	10	10	10
Public assistance:												
Exclusion of public assistance benefits							100	105	110	115	125	130
Excess of percentage standard deduction over minimum standard deduction							1, 285	1, 410	1, 555	1, 710	1, 880	2, 070
Additional exemption for the blind							20	20	20	20	20	20
Earned income credit:												
Nonrefundable portion							395	380				
Refundable portion							1, 015	970				
Deductibility of casualty losses							345	380	425	470	520	580

See footnotes at end of table.

TABLE 1.—TAX EXPENDITURE ESTIMATES BY FUNCTION AND SUBFUNCTION [1]—Continued

[Fiscal years; in millions of dollars]

Function and subfunction	Corporations 1977	Corporations 1978	Corporations 1979	Corporations 1980	Corporations 1981	Corporations 1982	Individuals 1977	Individuals 1978	Individuals 1979	Individuals 1980	Individuals 1981	Individuals 1982
Veterans benefits and services:												
Income security for veterans:												
Exclusion of veterans disability compensation							655	690	690	685	685	685
Exclusion of veterans pensions							30	35	35	35	35	35
Veterans education, training, and rehabilitation: Exclusion of GI bill benefits							255	240	220	190	160	135
General government—Other general government: Credits and deductions for political contributions							40	35	40	40	45	45
Revenue sharing and general purpose fiscal assistance:												
Other general purpose fiscal assistance:												
Exclusion of interest on general purpose State and local debt	3,105	3,470	3,865	4,305	4,780	5,310	1,680	1,880	2,095	2,335	2,595	2,880
Tax credit for corporations doing business in U.S. possessions [3]	285	310	330	350	370	390						
Deductibility of nonbusiness State and local taxes (other than on owner-occupied homes and gasoline)							8,095	8,990	9,975	11,075	12,290	13,645
Interest—Interest on the public debt: Deferral of interest on savings bonds							565	625	685	755	820	890

[1] All estimates are based on the Internal Revenue Code as of Jan. 1, 1977.
[2] Less than $2,500,000.
[3] Includes the effect of sec. 931 exclusion for individuals doing business in certain U.S. possessions.

Note: Limitations on the use of totals are explained in the text:

SUM OF THE TAX EXPENDITURE ITEMS BY TYPE OF TAXPAYER AND FISCAL YEAR*

[In millions of dollars]

Fiscal year	Corporations and individuals	Corporations	Individuals
1977	114,470	27,050	87,465
1978	124,395	28,740	95,710
1979	133,865	30,370	103,545
1980	146,285	32,425	113,935
1981	157,460	32,240	125,280
1982	168,465	31,425	137,100

*These totals represent the mathematical sum of the estimated fiscal year effect of each of the 85 tax expenditure items included in this table.

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

Table 2.—Reconciliation Between Tax Expenditures in Table 1 and in Special Analysis F in the Budget for Fiscal Year 1977

Restructuring of table F–1 in Special Analysis F to conform with budget functional categories for outlays by transferring items from personal investment, business investment and other tax expenditures:

Item	Transferred to budget functional category
1. From business investment:	
Exclusion of interest on State and local government industrial revenue bonds	Commerce and transportation.
Excess first-year depreciation	Commerce and transportation.
Depreciation on rental housing in excess of straight line	Commerce and transportation.
Depreciation on buildings (other than rental housing) in excess of straight line	Commerce and transportation.
Expensing research and development expenditures	Commerce and transportation.
Expensing construction period interest and taxes	Commerce and transportation.
Capital gain: corporate (other than farming and timber)	Commerce and transportation.
Investment credit	Commerce and transportation.
2. From personal investment:	
Dividend exclusion	Commerce and transportation.
Capital gain: individual (other than farming and timber)	Commerce and transportation.
Exclusion of interest on life insurance savings	Income security.
Deferral of capital gain on home sales	Commerce and transportation.
Deductibility of mortgage interest on owner-occupied homes	Commerce and transportation.
Deductibility of property taxes on owner-occupied homes	Commerce and transportation.
Deductibility of casualty losses	Income security.
Credit for purchase of new homes	Commerce and transportation.
3. From other tax expenditures:	
Deductibility of charitable contributions (other than education)	Education, training, employment and social services.
Deductibility of interest on consumer credit	Commerce and transportation.
Maximum tax on personal service income	Education, training, employment and social services.

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