JOINT COMMITTEE ON TAXATION
September 22, 2011
JCX-49-11

**TESTIMONY OF THE STAFF OF THE JOINT COMMITTEE ON TAXATION BEFORE THE JOINT SELECT COMMITTEE ON DEFICIT REDUCTION**

**SEPTEMBER 22, 2011**

My name is Thomas A. Barthold. I am the Chief of Staff of the Joint Committee on Taxation. It is my pleasure this morning to provide a brief overview of the Federal tax system. You asked if I could emphasize the income taxation of individuals and corporations. My written testimony provides additional details and includes an appendix with further information. Members have separately been provided with several charts and tables to which I will refer during my oral testimony.

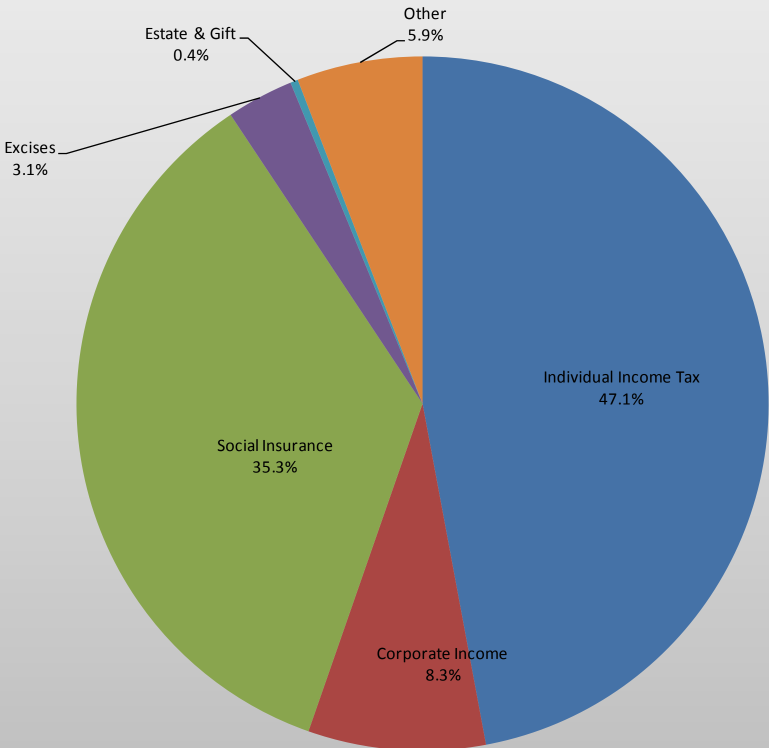
The staff of the Joint Committee on Taxation is nonpartisan and serves the entire Congress. The staff of the Joint Committee on Taxation includes experienced professional economists, attorneys, and accountants, who assist Members of the majority and minority parties in both houses of Congress on tax legislation.

# I. OVERVIEW OF THE FEDERAL INCOME TAX SYSTEM

## A. Historical Federal Receipts by Source

Figure 1 below shows aggregate Federal receipts by source for 2011. The individual income tax is the largest source of Federal revenue, comprising 47.1 percent of the total Federal revenues, while social insurance (employment) taxes[1] are the second largest source of revenue at just over 35.3 percent. No other single source constitutes more than ten percent of Federal revenue.

[1] The principal social insurance (employment) taxes are the Federal Insurance Contributions Act (FICA) and Self-Employment Contributions Act (SECA) taxes that fund the Social Security and Medicare systems.




Source: Congressional Budget Office, August 2011 baseline.

Figure 2 below shows Federal receipts by source as a percentage of all Federal receipts from 1950 to 2010. The individual income tax has always been the largest source of Federal revenue, oscillating around its average share of 44.8 percent over this period. The corporate and excise taxes have declined as a percentage of all revenues, and social insurance taxes have risen substantially from around 10 percent of the total in the early 1950s to levels generally varying between 35 and 40 percent in recent years.

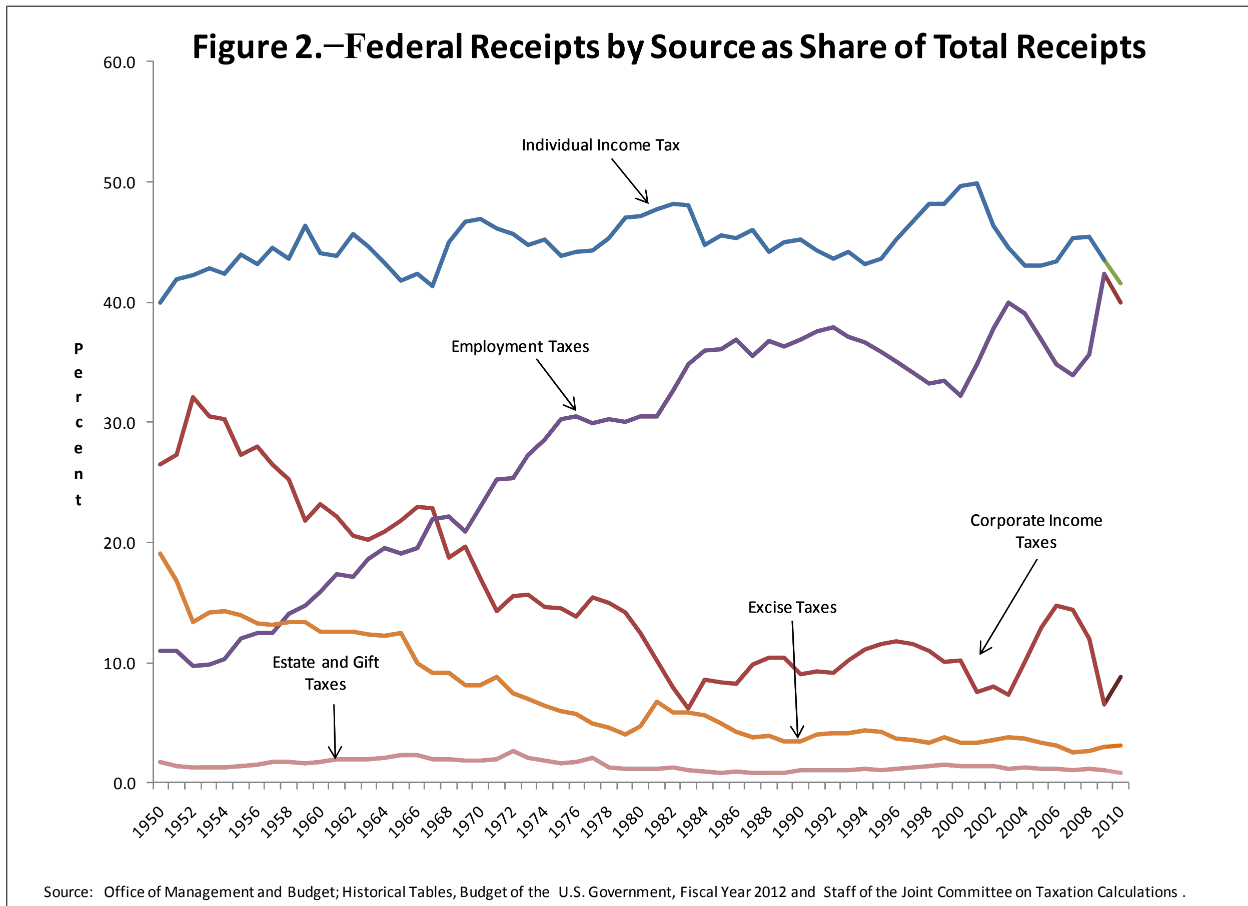
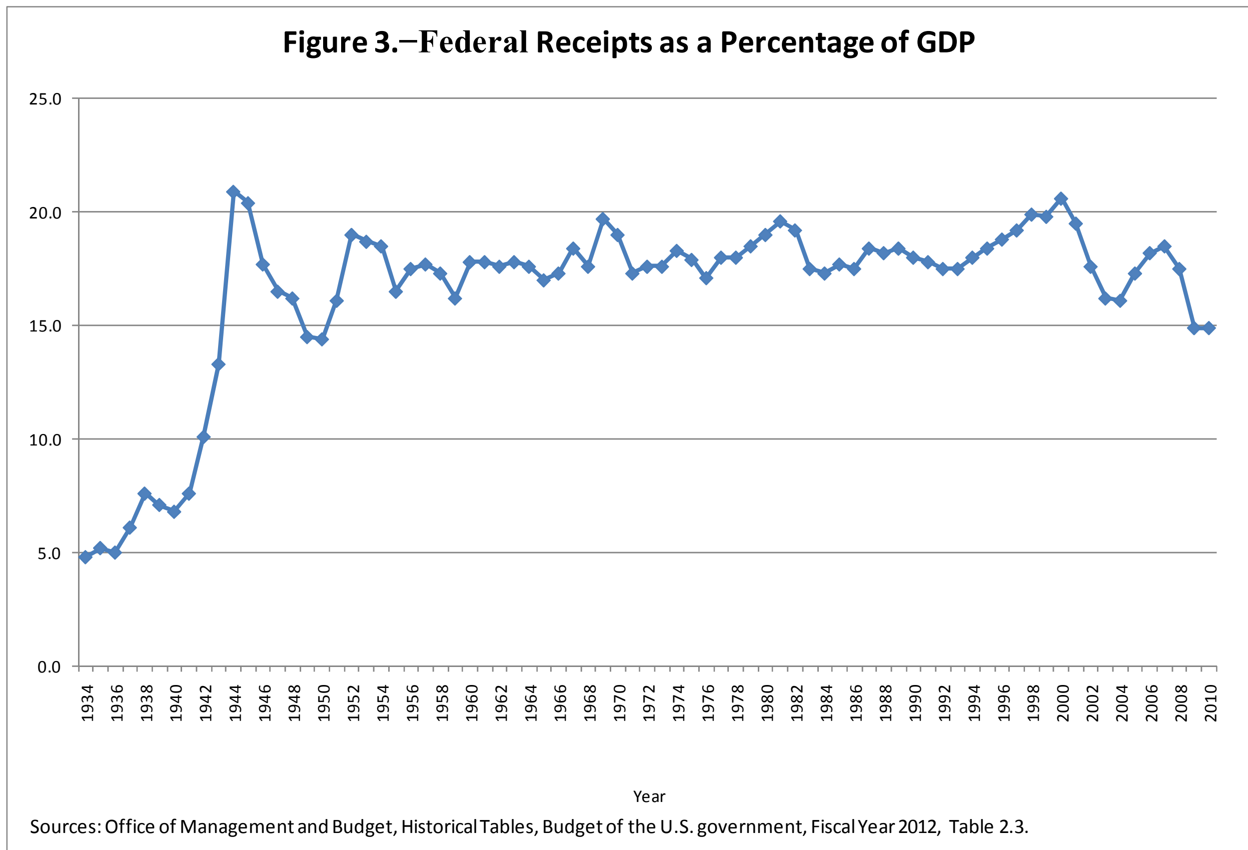


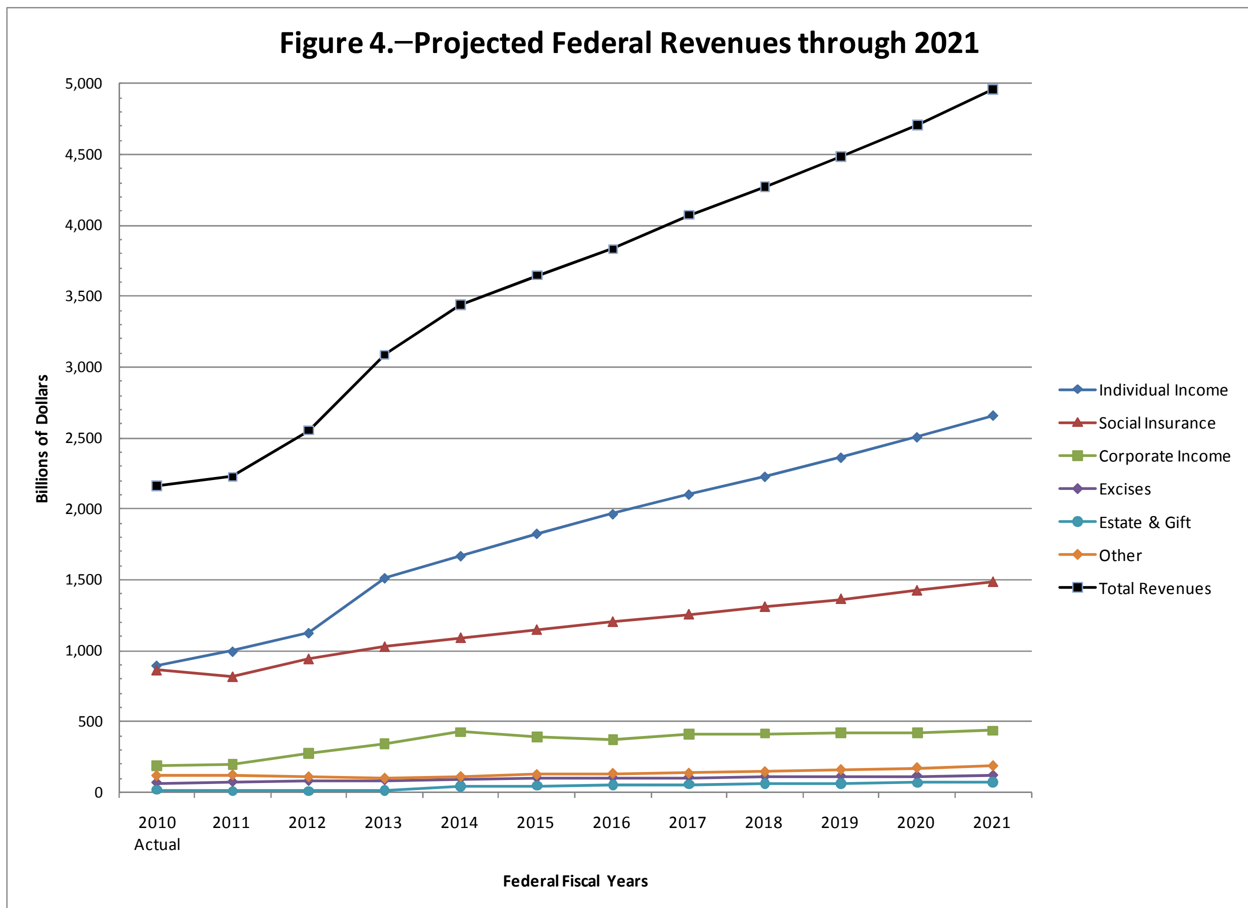
Figure 3 below shows receipts as a percentage of GDP from 1934 to the present. Since 1950, total Federal receipts have averaged 17.9 percent of GDP. The drop in receipts as a percent of GDP in 2009 and 2010 (to 14.9 percent) reflects the impact of both the economic recession and the legislated tax reductions of the American Recovery and Reinvestment Tax Act of 2009.[2] Receipts as a share of GDP have not been this low since 1950.




[2] Pub. L. No. 111-5.

Figure 4 below shows total projected Federal revenues by source over the current budget period, through 2021.

The increase in social insurance receipts in 2012 reflects the expiration of the temporary (for 2011 only) reduction in employee social insurance taxes by 2 percentage points. The increase in individual receipts in 2013 reflects the expiration of numerous provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001,[3] the Jobs and Growth Tax Relief Reconciliation Act of 2003,[4] and the American Recovery and Reinvestment Tax Act of 2009.[5]




Source: Congressional Budget Office, January 2011 baseline.

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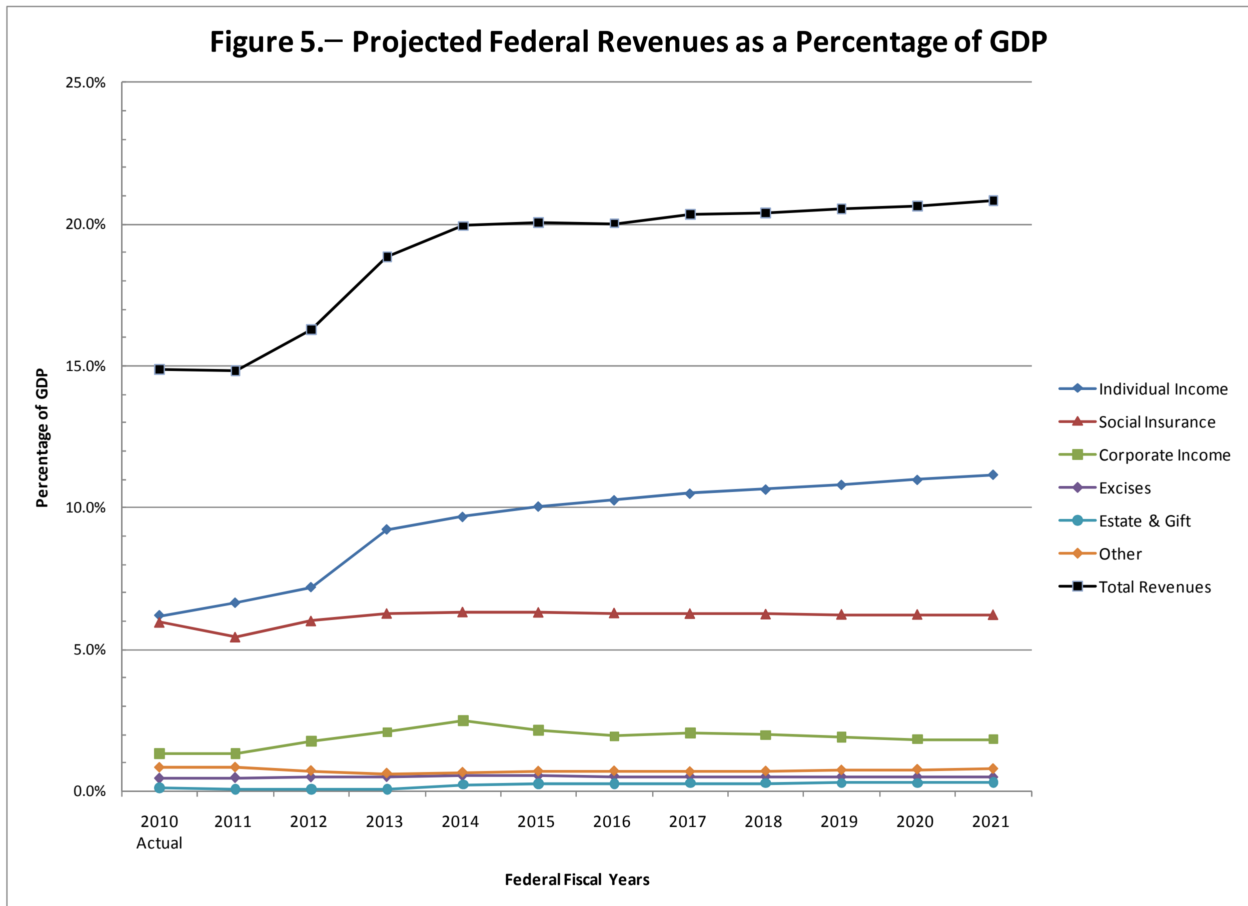
[3] Pub. L. No. 107-16.

[4] Pub. L. No. 108-27.

[5] Pub. L. No. 111-5.

Figure 5 below shows the same projections as Figure 4 above as a percentage of GDP. Total revenues are projected to rise from about 15 percent of GDP currently to about 20 percent of GDP by 2014, rising gradually to about 21 percent of GDP in 2021.




Source: Congressional Budget Office, January 2011 baseline.

## B. Variety of Business Organizations

The preceding figures have showed the importance of the individual income tax and corporate income tax to the Federal tax system. However, it is important to recognize that not all businesses are organized as corporations and, consequently, the taxation of active business income occurs both for taxpayers that file Form 1120 (the corporate income tax return) and for taxpayer who file Form 1040 (the primary individual income tax return).

Businesses may be organized under a number of different legal forms. Owners of a business sometimes conduct their activities as sole proprietorships, which do not involve a legal entity separate from the owner. However, for a variety of business or other reasons, a business often is conducted through a separate legal entity. Common reasons to use a separate legal entity include the ability to pool the capital and other resources of multiple owners, the protection of limited liability accorded by State law to the owners of qualifying entities (but generally not to sole proprietors), and an improved ability to access capital markets for investment capital.

The tax consequences of using a separate entity depend on the type of entity through which the business is conducted. Partnerships, certain closely held corporations that elect to be taxed under subchapter S of the Code (referred to as "S corporations"),[6] and limited liability companies that are treated as partnerships are treated for Federal income tax purposes as passthrough entities whose owners take into account the income (whether or not distributed) or loss of the entity on their own tax returns.

In contrast, the income of a C corporation[7] is taxed directly at the corporate level. Shareholders are taxed on dividend distributions of the corporation's after-tax income. Shareholders are also taxed on any gain (including gain attributable to undistributed corporate income) on the disposition of their shares of stock of the corporation. Thus, the income of a C corporation may be subject to tax at both the corporate and shareholder levels.[8]

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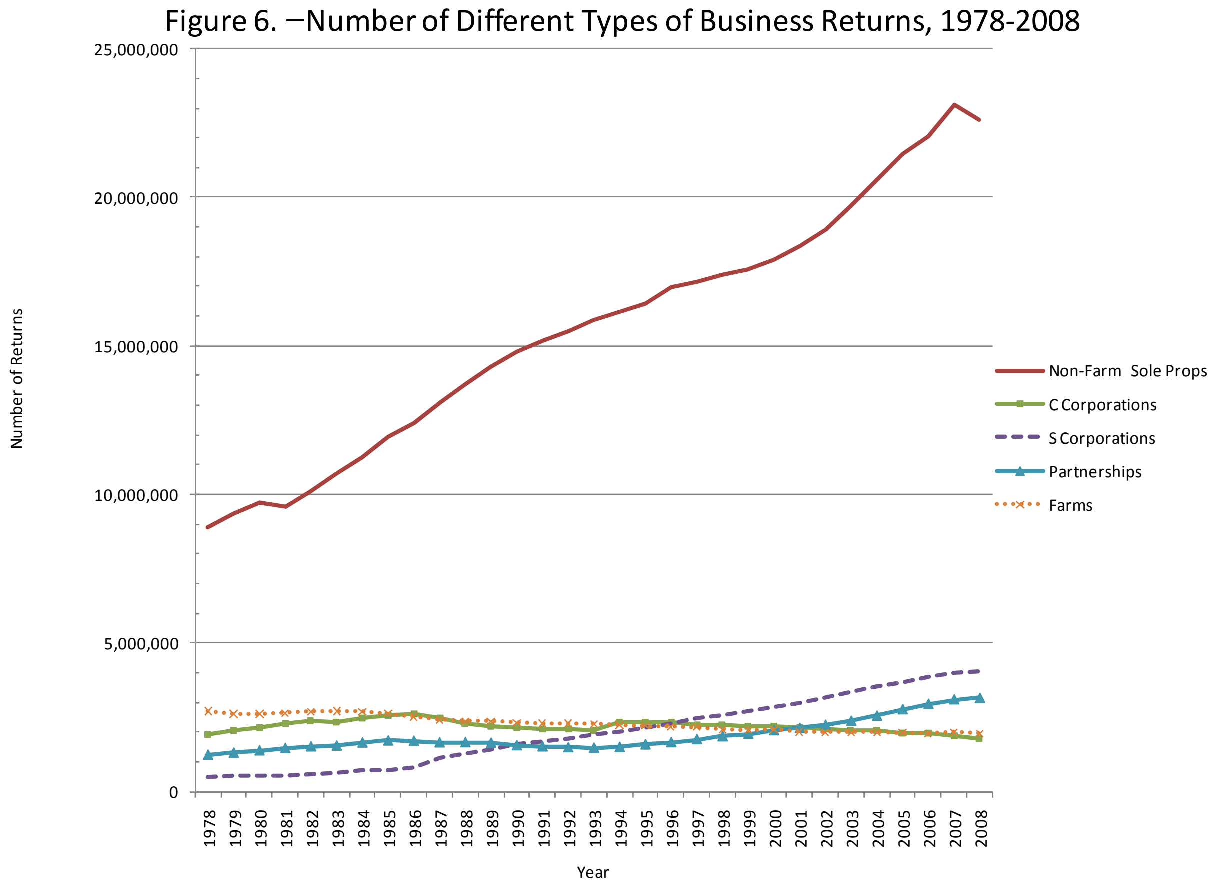
[6] To be eligible to make an election under subchapter S a corporation must generally (1) be an eligible domestic corporation; (2) not have more than 100 shareholders (taking into account applicable attribution rules); (3) have as shareholders only individuals (other than nonresident aliens), estates, certain trusts and certain tax-exempt organizations; and (4) have only one class of stock.

[7] A C corporation is a corporation that is subject to subchapter C of the Code, which provides rules for corporate and shareholder treatment of corporate distributions and adjustments. C corporations generally are subject to the corporate-level tax rate structure set forth in section 11 of the Code.

[8] Business entities also include specialized corporations which are not subject to entity level tax, or which are allowed a deduction for distributions to shareholders, under the Federal income tax rules. Federal tax rules applicable to these entities generally require that they distribute substantially all their income and require that they meet other specified limitations on activities, assets, and types of income, for example. These types of entities include regulated investment companies (RICs) (mutual funds in common parlance), real estate investment trusts (REITs), real estate mortgage investment conduits (REMICs), and cooperatives. In addition, some business activities are conducted through tax-exempt entities, whether as activities subject to unrelated business income tax (UBIT), or as permitted under the Federal tax rules relating to tax-exempt organizations.

Figure 6 below shows the change in number of different types of business returns for the period 1978 through 2008.

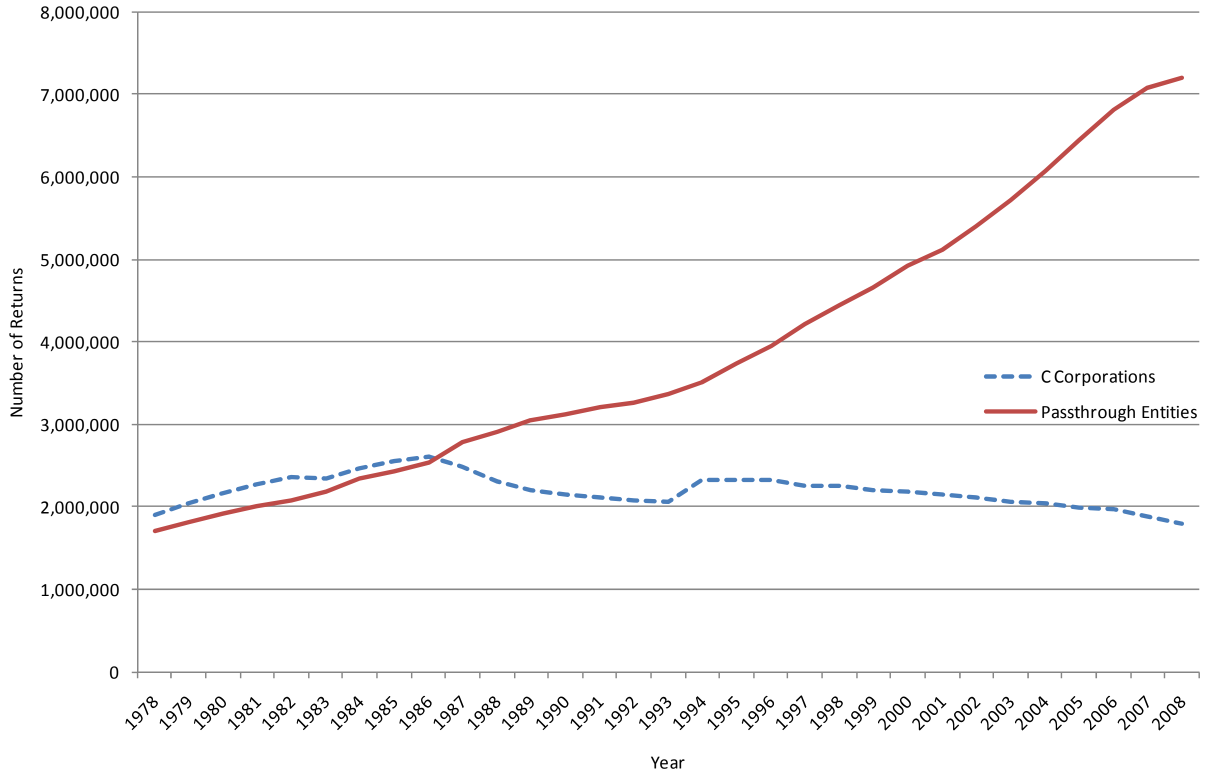
Figure 6. —Number of Different Types of Business Returns, 1978-2008




Source: Internal Revenue Service, Statistics of Income, published and unpublished data.

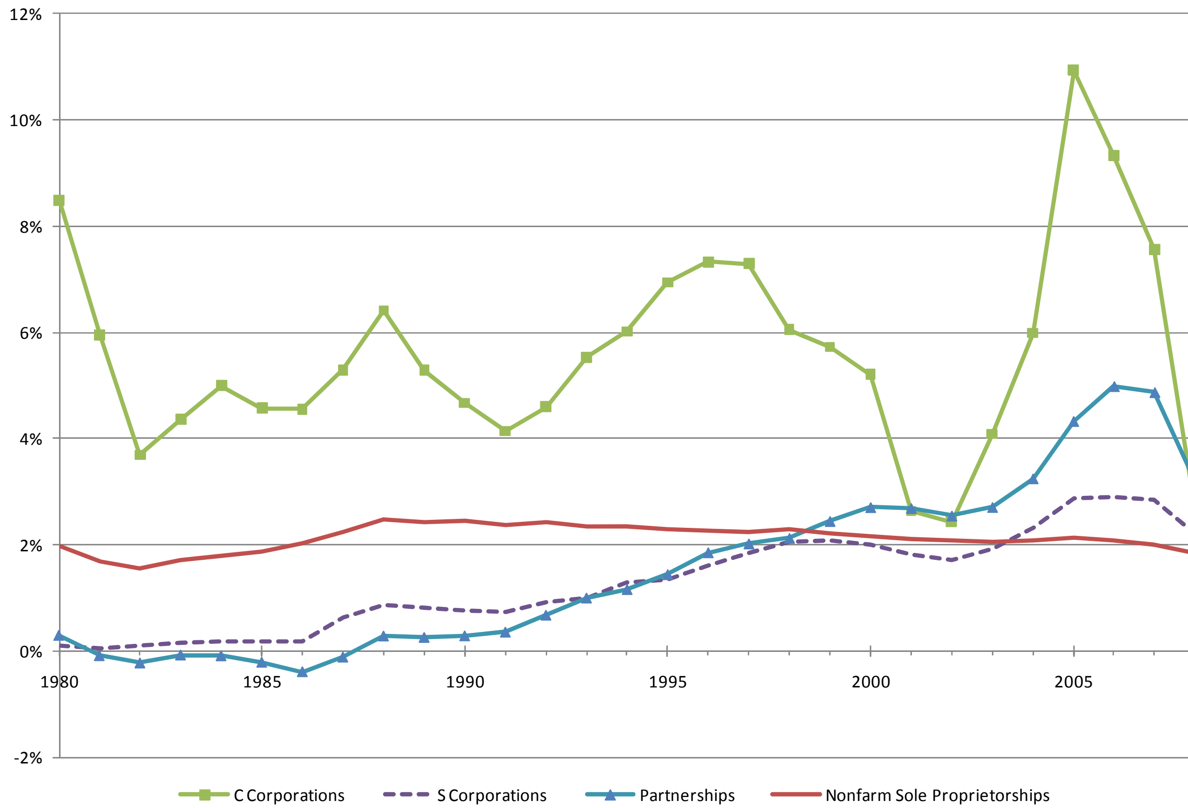
Figure 7 below compares the number of C corporation returns to the total number of passthrough entity returns (S corporations, partnerships and LLCs taxable as partnerships) over the same period.

Figure 7. —Number of C Corporation Returns Compared to the Sum of S Corporation and Partnership Returns, 1978-2008




Source: Internal Revenue Service, Statistics of Income, published and unpublished data.

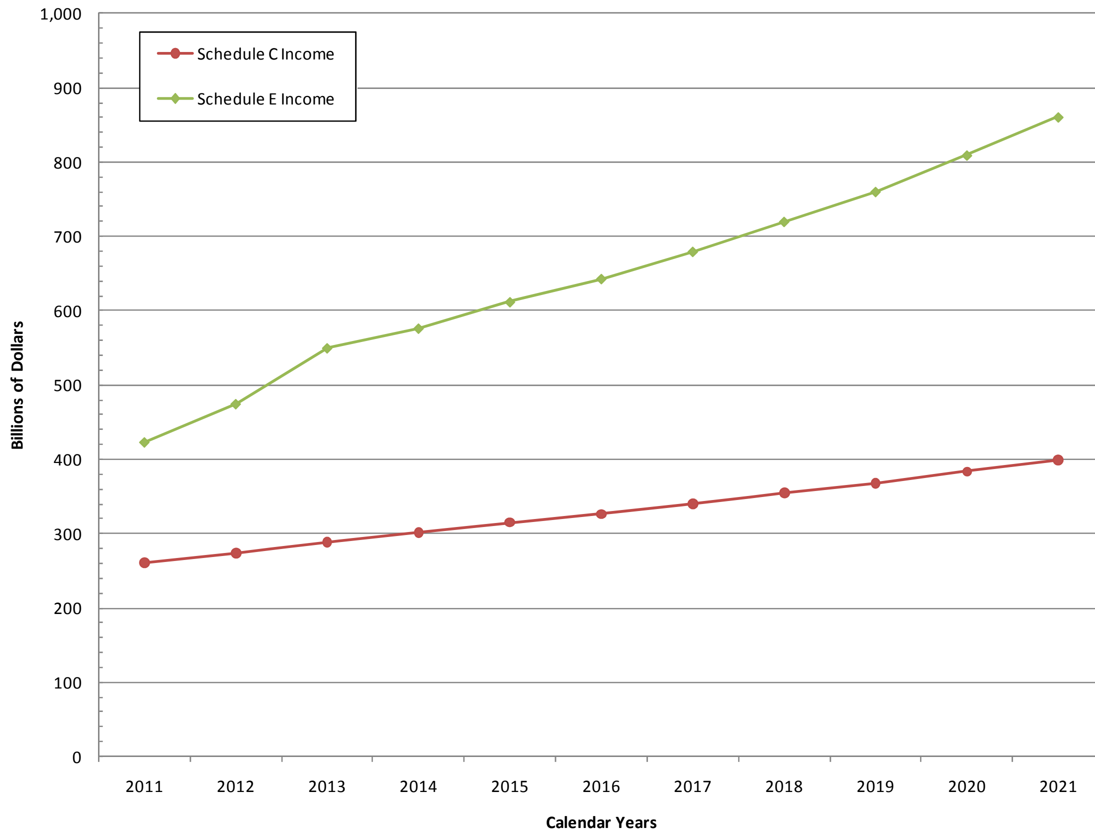
Figure 8 below shows the income of various business forms as a percentage of GDP over the period 1980 through 2008.




Source: IRS Statistics on Income.

Figure 9 below shows projected business income earned by sole proprietorships, reported on Schedule C, and income reported on Schedule E, over the period 2011 - 2021. While total adjusted gross income is forecast to increase somewhat more than 70 percent over this period, passthrough income reported on individual returns (the sum of income reported on Schedules C and E) goes up by over 80 percent. Growth in this passthrough income is driven by growth in Schedule E income, which is projected to more than double.

**Figure 9.—Projected Schedule C and Schedule E Income, 2011 - 2021**




Source: Joint Committee on Taxation.

# II. OVERVIEW OF THE INDIVIDUAL INCOME TAX

## A. Structure of the Individual Income Tax

**In general**

An income tax is imposed on individual citizens and residents of the United States.[9] The tax is based on an individual's taxable income. An individual computes his or her taxable income by reducing gross income by the sum of (i) the deductions allowable in computing adjusted gross income, (ii) the standard deduction (or itemized deductions, at the election of the taxpayer), and (iii) the deduction for personal exemptions. Graduated tax rates are then applied to a taxpayer's taxable income to determine his or her income tax liability. Lower rates apply to net capital gain and qualified dividend income. A taxpayer may also be subject to an alternative minimum tax. A taxpayer may reduce his or her income tax liability by certain tax credits. In the remainder of this section of the document, the broad structure of the individual income tax system is outlined, and certain parameters of the individual tax system are highlighted for selected years beginning with 1975.[10]

**Gross income**

Gross income means "income from whatever source derived" other than certain items specifically excluded from gross income. Sources of gross income generally include, among other things, compensation for services, interest, dividends, capital gains, rents, royalties, alimony and separate maintenance payments, annuities, income from life insurance and endowment contracts (other than certain death benefits), pensions, gross profits from a trade or business, income in respect of a decedent, and income from S corporations, partnerships,[11] and trusts or estates.[12] Exclusions from gross income include death benefits payable under a life insurance contract, interest on certain tax-exempt State and local bonds, employer-provided

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[9] Foreign tax credits generally are available against U.S. income tax imposed on foreign source income to the extent of foreign income taxes paid on that income. A nonresident alien generally is subject to the U.S. individual income tax only on income with a sufficient nexus to the United States.

[10] For more information regarding individual tax rates and the individual tax base, see Joint Committee on Taxation, *Federal Tax Treatment of Individuals* (JCS-43-11), September 12, 2011, and Joint Committee on Taxation, *Present Law and Historical Overview of the Federal Tax System* (JCS-1-11)), January 18, 2011.

[11] In general, partnerships and S corporations are treated as passthrough entities for Federal income tax purposes. Thus, no Federal income tax is imposed at the entity level. Rather, income of these entities is passed through and taxed to the partners and shareholders, whether distributed or not.

[12] In general, estates and trusts (other than grantor trusts) pay an individual income tax on the taxable income of the estate or trust. Items of income which are distributed or required to be distributed under governing law or under the terms of the governing instrument generally are included in the income of the beneficiary and not the estate or trust. Estates and trusts determine their tax liability using a special tax rate schedule and may be subject to the alternative minimum tax. Certain trusts are treated as being owned by grantors in whole or in part for tax purposes; in such cases, the grantors are taxed on the income of the trust.

health insurance, employer-provided pension contributions, and certain other employer-provided benefits.

**Adjusted gross income**

An individual's adjusted gross income ("AGI") is determined by subtracting certain "above-the-line" deductions from gross income. These deductions include, among other things, trade or business expenses, losses from the sale or exchange of property, deductions attributable to rents and royalties, contributions to pensions and other retirement plans, certain moving expenses, and alimony payments.

**Taxable income**

In order to determine taxable income, an individual reduces AGI by any personal exemption deductions and either the applicable standard deduction or his or her itemized deductions. Table 1 below summarizes the amount of personal exemptions for selected years between 1975 and 2011. Personal exemptions generally are allowed for the taxpayer, his or her spouse, and any dependents. Beginning in 1985, the amount of the personal exemption was indexed annually for inflation during the preceding year.

**Table 1.−Personal Exemption and Standard Deduction, Selected Calendar Years 1975-2011**

| | 1975 | 1985 | 1990 | 1995 | 2000 | 2005 | 2011 |
|---|---|---|---|---|---|---|---|
| **Personal Exemption** | $750 | $1,040 | $2,050 | $2,500 | $2,800 | $3,200 | $3,700 |
| **Standard Deduction** | | | | | | | |
| Single Individual | $1,600* | $2,390 | $3,250 | $3,900 | $4,400 | $5,000 | $5,800 |
| Head of Household | $1,600* | $2,390 | $4,750 | $5,750 | $6,450 | $7,300 | $8,500 |
| Married Couples Filing Jointly | $1,900* | $3,540 | $5,450 | $6,550 | $7,350 | $10,000 | $11,600 |
| Married Individual Filing Separately | $950* | $1,770 | $2,725 | $3,275 | $3,675 | $5,000 | $5,800 |

* Shows minimum standard deduction.

A taxpayer may also reduce AGI by the amount of the applicable standard deduction. The basic standard deduction varies depending upon a taxpayer's filing status. Also, an additional standard deduction is allowed with respect to any individual who is elderly or blind.[13]

[13] For 2011, the additional amount is $1,150 for married taxpayers (for each spouse meeting the applicable criteria) and surviving spouses. The additional amount for single individuals and heads of households is $1,450. If an individual is both blind and aged, the individual is entitled to two additional standard deductions, for a total additional amount of $2,300 or $2,900, as applicable.

In lieu of taking the applicable standard deduction, an individual may elect to itemize deductions. The deductions that may be itemized include State and local income taxes (or, in lieu of income, sales taxes), real property and certain personal property taxes, home mortgage interest, charitable contributions, certain investment interest, medical expenses (in excess of 7.5 percent of AGI), casualty and theft losses (in excess of 10 percent of AGI and in excess of $100 per loss), and certain miscellaneous expenses (in excess of two percent of AGI).

In recent decades there have been many changes to the individual income tax base. The increased availability of pre-tax contributions to Individual Retirement Arrangements[14] (commonly called "IRAs") followed by the subsequent curtailment of their availability[15] and the taxation of a portion of Social Security and Railroad Retirement Tier 1 benefits[16] are two items which affect the measurement of gross income for some taxpayers. The enactment of pre-tax elective contributions under tax-qualified employer-sponsored retirement plans and the enactment of "pre-tax elective benefits" designed to respond to increased health-care costs are examples of changes to adjusted gross income.[17] The calculation of taxable income has been affected by the numerous changes to itemized deductions. Examples of such changes include the creation of the two-percent floor on miscellaneous itemized deductions,[18] changes to the tax treatment of moving expenses,[19] and changes to the floor on the itemized deduction for medical expenses.[20] Another significant change to the individual income tax base was the enactment of a limitation on passive activity losses, which may affect an individual's tax liability on certain business investments.

## Tax liability

### In general

A taxpayer's net income tax liability is the greater of (1) regular individual income tax liability reduced by credits allowed against the regular tax, or (2) tentative minimum tax reduced by credits allowed against the minimum tax.

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[14] The Economic Recovery Tax Act of 1981 (Pub. L No. 97-34).

[15] The Tax Reform Act of 1986 (Pub. L. No. 99-514).

[16] The Social Security Amendments of 1983 (Pub. L. No. 98-21), as amended by the Railroad Retirement Solvency Act of 1983 (Pub. L. No. 98-76) and the Consolidated Budget Reconciliation Act of 1985 (Pub. L. No. 99-272). The Omnibus Budget Reconciliation Act of 1993 (Pub. L. No. 103-66).

[17] The Revenue Act of 1978 (Pub. L. No. 95-600).

[18] The Tax Reform Act of 1986 (Pub. L. No. 99-514).

[19] The Omnibus Budget Reconciliation Act of 1993 (Pub. L. No. 103-66).

[20] The Internal Revenue Act of 1954 (Pub. L. No. 83-59) set the floor at three percent, the 1982 Tax and Equity Fiscal Responsibility Act (Pub. L. No. 97-248) raised the floor to 5 percent, the Tax Reform Act of 1986 (Pub. L. No. 99-514) raised the floor to 7.5 percent, and the Patient Protection and Affordable Care Act (Pub. L. No. 111-148) raised the floor to 10 percent (for taxable years beginning after December 31, 2012).

Regular tax liability

To determine regular tax liability, a taxpayer generally must apply the tax rate schedules (or the tax tables) to his or her regular taxable income. The rate schedules are broken into several ranges of income, known as income brackets, and the marginal tax rate increases as a taxpayer's income increases.

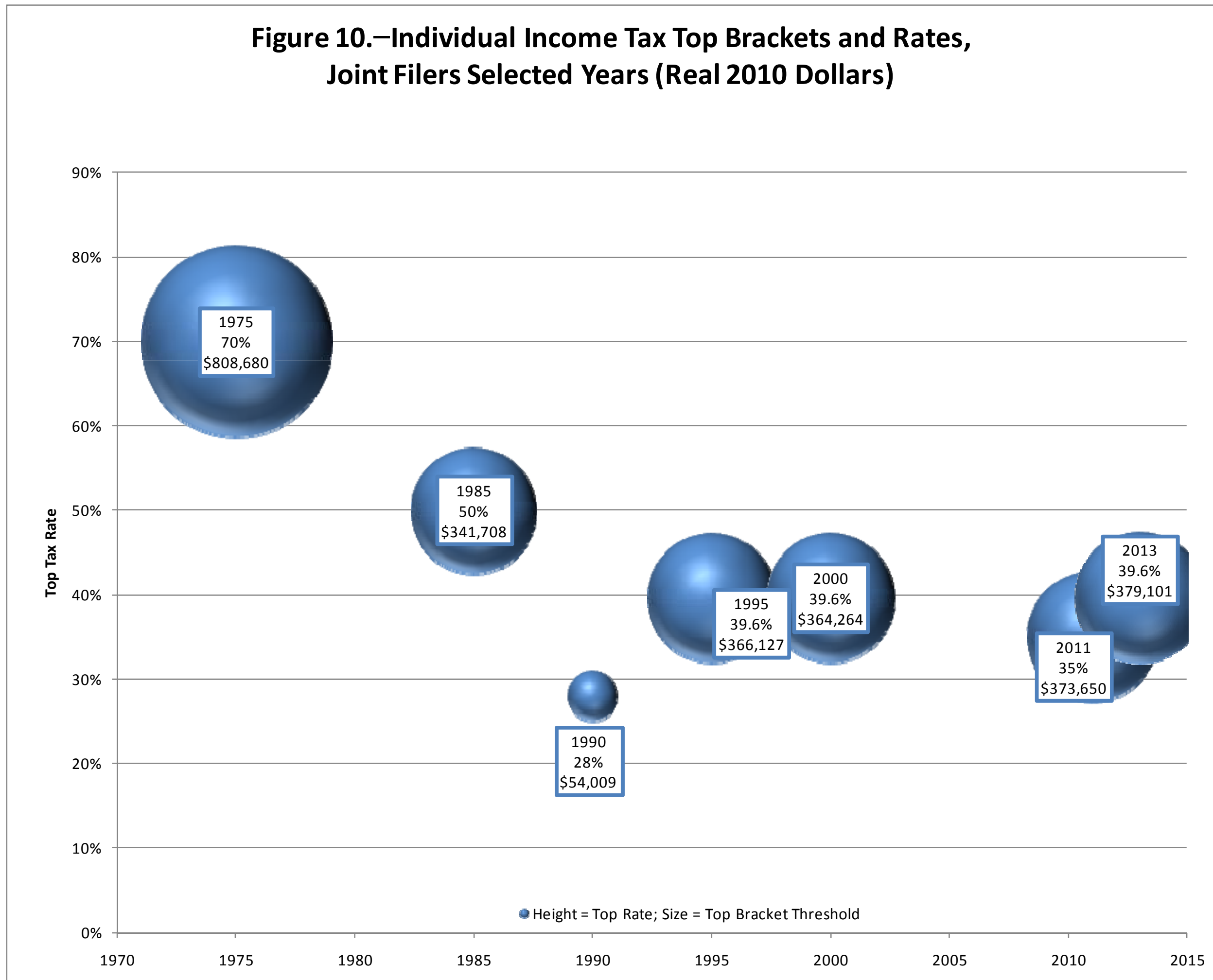
Separate rate schedules apply based on an individual's filing status. Table 2 shows the individual income tax rate schedule for 2011. It should be noted that these rates will change in 2013 when individual income tax rates will increase from the current rates of 10, 15, 25, 28, 33, and 35 percent to the rates of 15, 28, 31, 36, and 39.6 percent.

**Table 2.–Federal Individual Income Tax Rates for 2011**

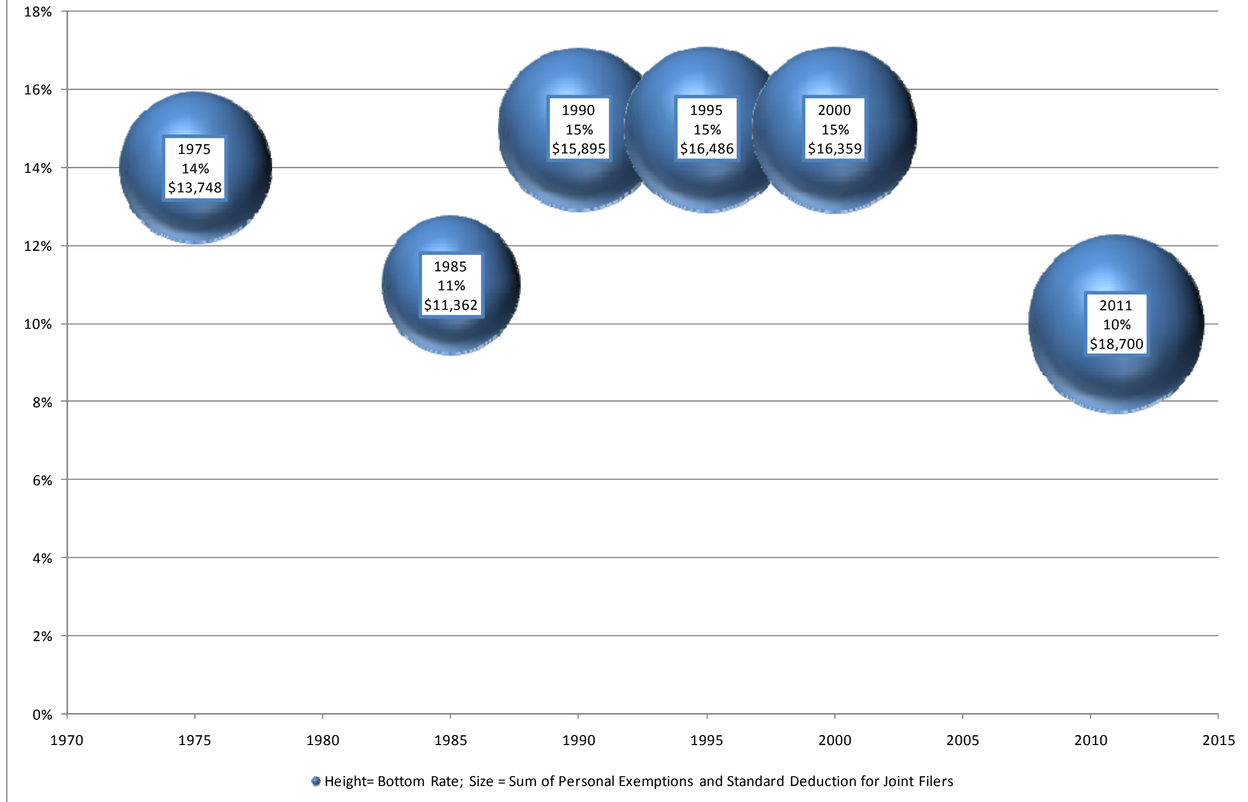
| *Single Individuals* | |
|---|---|
| *If taxable income is:* | *Then income tax equals:* |
| Not over $8,500 | 10% of the taxable income |
| Over $8,500 but not over $34,500 | $850 plus 15% of the excess over $8,500 |
| Over $34,500 but not over $83,600 | $4,750 plus 25% of the excess over $34,500 |
| Over $83,600 but not over $174,400 | $17,025 plus 28% of the excess over $83,600 |
| Over $174,400 but not over $379,150 | $42,449 plus 33% of the excess over $174,400 |
| Over $379,150 | $110,016.50 plus 35% of the excess over $379,150 |
| *Heads of Households* | |
| Not over $12,150 | 10% of the taxable income |
| Over $12,150 but not over $46,250 | $1,215 plus 15% of the excess over $12,150 |
| Over $46,250 but not over $119,400 | $6,330 plus 25% of the excess over $46,250 |
| Over $119,400 but not over $193,350 | $24,617.50 plus 28% of the excess over $119,400 |
| Over $193,350 but not over $379,150 | $45,323.50 plus 33% of the excess over $193,350 |
| Over $379,150 | $106,637.50 plus 35% of the excess over $379,150 |

| *Married Individuals Filing Joint Returns and Surviving Spouses* | |
|---|---|
| Not over $17,000 | 10% of the taxable income |
| Over $17,000 but not over $69,000 | $1,700 plus 15% of the excess over $17,000 |
| Over $69,000 but not over $139,350 | $9,500 plus 25% of the excess over $69,000 |
| Over $139,350 but not over $212,300 | $27,087.50 plus 28% of the excess over $139,350 |
| Over $212,300 but not over $379,150 | $47,513.50 plus 33% of the excess over $212,300 |
| Over $379,150 | $102,574 plus 35% of the excess over $379,150 |
| *Married Individuals Filing Separate Returns* | |
| Not over $8,500 | 10% of the taxable income |
| Over $8,500 but not over $34,500 | $850 plus 15% of the excess over $8,500 |
| Over $34,500 but not over $69,675 | $4,750 plus 25% of the excess over $34,500 |
| Over $69,675 but not over $106,150 | $13,543.75 plus 28% of the excess over $69,675 |
| Over $106,150 but not over $189,575 | $23,756.75 plus 33% of the excess over $106,150 |
| Over $189,575 | $51,287 plus 35% of the excess over $189,575 |

Figure 10 below shows the top tax bracket rate and income level at which it begins to apply for married tax payers filing jointly for selected years. Figure 11 shows the bottom rate and the income level at which it would begin to apply for married taxpayers filing jointly, calculated as the sum of the standard deduction and two personal exemptions.




Note: For 1975 the maximum rate on earned income was 50 percent.




## Capital gains

### In general

In general, gain or loss reflected in the value of an asset is not recognized for income tax purposes until a taxpayer disposes of the asset. On the sale or exchange of a capital asset, any gain generally is included in income. However, any net capital gain of an individual generally is taxed at rates lower than rates applicable to ordinary income. Net capital gain is the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for the year. Gain or loss is treated as long-term if the asset is held for more than one year.

Capital losses generally are deductible in full against capital gains. In addition, individual taxpayers may deduct capital losses against up to $3,000 of ordinary income in each year. Any remaining unused capital losses may be carried forward indefinitely to another taxable year.

A capital asset generally means any property except (1) inventory, stock in trade, or property held primarily for sale to customers in the ordinary course of the taxpayer's trade or business, (2) depreciable or real property used in the taxpayer's trade or business, (3) specified literary or artistic property, (4) business accounts or notes receivable, (5) certain U.S.

publications, (6) certain commodity derivative financial instruments, (7) hedging transactions, and (8) business supplies. In addition, the net gain from the disposition of certain property used in the taxpayer's trade or business is treated as long-term capital gain. Gain from the disposition of depreciable personal property is not treated as capital gain to the extent of all previous depreciation allowances. Gain from the disposition of depreciable real property is generally not treated as capital gain to the extent of the depreciation allowances in excess of the allowances available under the straight-line method of depreciation.

## Tax credits

An individual may reduce his or her tax liability by any available tax credits.

### Refundable tax credits

The two most widely used refundable credits are the earned income tax credit (the "EITC") and the child tax credit.

Earned income tax credit.−The EITC generally equals a specified percentage of wages up to a maximum credit amount. The maximum credit amount applies over a certain income range and then diminishes to zero over a certain income range. In 2011, the maximum EITC is $5,751 for taxpayers with more than two qualifying children, $5,112 for taxpayers with two qualifying children, $3,094 for taxpayers with one qualifying child, and $464 for taxpayers with no qualifying children.

The EITC is phased out along certain phase-out ranges. In 2011, the phase-out range is $7,590 to $13,660 for no qualifying children, $16,690 to $36,052 for one qualifying child, $16,690 to $40,964 for two qualifying children, and $16,690 to $43,998 for three or more qualifying children. Also for 2011, the phase-out threshold for married couples filing a joint return is increased by $5,080.

After 2012 the larger EITC for three or more qualifying children and the higher phase-out threshold for married couples filing a joint return are repealed. Additionally, certain of the rules of the credit return to pre-2001 law.

### Progression of the EITC

Although the basic structure of the EITC is unchanged since its enactment in 1975, the maximum credit has been increased several times since enactment by expanding the applicable percentage of the credit and the base against which that percentage is applied (including adjusting the EITC for number of qualifying children). Also, the beginning point of the phase-out range has been raised as has the length of the phase-out range. Finally, the dollar amounts of the credit have been automatically adjusted for inflation. In all, these changes have had the effect of further expanding the availability of the EITC.

As originally enacted in 1975, the credit was 10 percent of the first $4,000 of earned income[21] (i.e., a maximum credit of $400). The credit began to be phased out for filing units with earned income (or AGI, if greater) above $4,000, and was entirely phased out for filing units with income of $8,000. The EITC was not adjusted for inflation in 1975.

Thus, an eligible EITC recipient in 1975 with $4,000 of income ($16,844 in today's dollars) received the maximum $400 ($1,684 in today's dollars). In 2011, a similarly situated taxpayer (i.e., one with $16,844 in income) would receive today's maximum amounts if married ($3,094, $5,112, or $5,751 with one, two, or more than two children, respectively). An unmarried filer would receive just shy of these maximum amounts as his income is just over the start of the phaseout threshold of $16,690. In 1975, a taxpayer without children was not eligible for the EITC. In 2011, a taxpayer with $16,844 in income but without a qualifying child would be phased out of the EITC.

A taxpayer earning $8,000 in 1975 would receive no EITC, while a similarly situated taxpayer (i.e., one with $33,688 in income today) would receive $378, $1,532, or $2,171 if an unmarried filer with one, two, or more than two children, respectively. If married, the taxpayers would receive $1,190, $2,602, or $3,241 depending on whether he had one, two, or more than two children, respectively. In 2011, a taxpayer with $33,688 in income but without a qualifying child would be phased out of the EITC.

Child tax credit.–For 2011, the child tax credit generally is $1,000 for each qualifying child.[22] The credit is allowable against the regular tax and, for taxable years beginning before January 1, 2012, is allowed against the AMT.

The child tax credit is phased out for individuals with income over certain thresholds. The phase out rate is $50 for each $1,000 of modified AGI[23] (or a fraction thereof) in excess of the threshold. For married taxpayers filing joint returns, the threshold is $110,000. For taxpayers filing single or head of household returns, the threshold is $75,000. For married taxpayers filing separate returns, the threshold is $55,000. These thresholds are not indexed for inflation.

To the extent the child tax credit exceeds the taxpayer's tax liability, the taxpayer is eligible for a refundable credit (the additional child tax credit) equal to 15 percent of earned income in excess of a threshold dollar amount (the "earned income" formula). For 2011, the

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[21] Earned income is defined as the sum of wages, salaries, tips, and other taxable employee compensation plus net self-employment earnings.

[22] A qualifying child is an individual for whom the taxpayer can claim a dependency exemption and who is a son or daughter of the taxpayer (or a descendant of either), a stepson or stepdaughter of the taxpayer, or an eligible foster child of the taxpayer.

[23] For these purposes modified AGI is computed by increasing the taxpayer's AGI by the amount otherwise excluded under Code sections 911, 931, and 933 (relating to the exclusion of income of U.S. citizens or residents living abroad; residents of Guam, American Samoa, and the Northern Mariana Islands; and residents of Puerto Rico, respectively).

child tax credit is refundable up to the greater of: (1) 15 percent of the taxpayer's earned income in excess of $3,000; or (2) for families with three or more children, the amount by which the taxpayer's social security taxes exceed the taxpayer's earned income.

After 2012, the maximum child tax credit is $500 for each qualifying child and is only refundable for families with three or more children if the taxpayer's social security taxes exceed the taxpayer's earned income. The maximum child tax credit after 2012 is equivalent to the credit as originally enacted in the Taxpayer Relief Act of 1997.[24] Before 1997, taxpayers could not claim tax credits based solely on the number of dependent children. Instead, they were generally able to claim a personal exemption for each of these dependents. The Taxpayer Relief Act of 1997 provided for a child tax credit of $500 ($400 for 1998) for taxable years beginning after December 31, 1997. The Economic Growth and Tax Relief Reconciliation Act of 2001 increased the maximum child tax credit from $500 to $1000 over a number of years and made other changes to the child tax credit.[25]

Nonrefundable tax credits

Nonrefundable personal credits include the foreign tax credit, child and dependent care credit, education credits, retirement savings contributions credit, child tax credit, residential energy efficient property credit, nonbusiness energy property credit, and expenses of elderly or disabled.

**Alternative minimum tax liability**

In general

An alternative minimum tax is imposed on an individual, estate, or trust in an amount by which the tentative minimum tax exceeds the regular income tax for the taxable year. The tentative minimum tax is the sum of: (1) 26 percent of so much of the taxable excess as does not exceed $175,000 ($87,500 in the case of a married individual filing a separate return) and (2) 28 percent of the remaining taxable excess. The taxable excess is so much of the alternative minimum taxable income ("AMTI") as exceeds the exemption amount. The maximum tax rates on net capital gain and dividends used in computing the regular tax are also used in computing the tentative minimum tax. AMTI is the taxpayer's taxable income increased by the taxpayer's "tax preference items" and adjusted by redetermining the tax treatment of certain items in a manner that negates the deferral of income resulting from the regular tax treatment of those items.

The exemption amounts for 2011 are: (1) $74,450 in the case of married individuals filing a joint return and surviving spouses; (2) $48,450 in the case of unmarried individuals other than surviving spouses; (3) $37,225 in the case of married individuals filing separate returns; and (4) $22,500 in the case of an estate or trust. The exemption amounts are phased out by an

[24] Pub. L. No. 105-34.

[25] Pub. L. No. 107-16.

amount equal to 25 percent of the amount by which the individual's AMTI exceeds: (1) $150,000 in the case of married individuals filing a joint return and surviving spouses; (2) $112,500 in the case of other unmarried individuals; and (3) $75,000 in the case of married individuals filing separate returns or an estate or a trust. These amounts are not indexed for inflation.

Among the preferences and adjustments applicable to the individual alternative minimum tax are accelerated depreciation on certain property used in a trade or business, circulation expenditures, research and experimental expenditures, certain expenses and allowances related to oil and gas and mining exploration and development, certain tax-exempt interest income, and a portion of the amount of gain excluded with respect to the sale or disposition of certain small business stock. In addition, personal exemptions, the standard deduction, and certain itemized deductions, such as State and local taxes and miscellaneous deductions items, are not allowed to reduce alternative minimum taxable income.

## B. Largest Tax Expenditures for Individuals

The following Table 3 shows the ten largest tax expenditures for individuals estimated for the period 2010-2014. The Appendix includes the top ten tax expenditures for five-year periods beginning with 1975-1979. Several items have consistently been among the top ten largest individual tax expenditures. Four have made the top ten lists in all eight of the five-year periods. These four items are: (1) the exclusion of employer contributions for health care and health insurance premiums; (2) the net exclusion of pension contributions and earnings: employer plans;[26] (3) the deduction for mortgage interest on owner-occupied homes; and (4) the deduction for nonbusiness State and local taxes (other than State and local property taxes on owner-occupied homes). Two items have been on the top ten list seven out of eight times: (1) the exclusion of untaxed Social Security and railroad retirement benefits, and (2) the deduction for charitable contributions. Two items have been on the top ten list six out of eight times: (1) the deduction for State and local property taxes on owner-occupied homes, and (2) the reduced rate of tax on dividends and long-term capital gains.[27]

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[26] This item represents a combination of two items appearing on Table 3, (1) net exclusion of pension contributions and earnings: Defined benefit plans, and (2) net exclusion of pension contributions and earnings: Defined contribution plans, which are shown as a single combined item on the Tables for periods prior to 2010-2014 in the Appendix.

[27] Dividends have been included in this category for periods during which a reduced tax rate applies to them.

**Table 3.−Largest Tax Expenditures, Individual 2010-2014**

| Tax Expenditure | Total Amount (2010-2014) (Billions of dollars) |
|---|---|
| Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums | 659.4 |
| Deduction for mortgage interest on owner-occupied homes | 484.1 |
| Reduced rates of tax on dividends and long-term capital gains | 402.9 |
| Net exclusion of pension contributions and earnings: Defined contribution plans | 303.2 |
| Earned income credit | 268.8 |
| Deduction of nonbusiness State and local government income, sales and personal property taxes | 237.3 |
| Net exclusion of pension contributions and earnings: Defined benefit plans | 212.2 |
| Exclusions of capital gains at death | 194.0 |
| Deductions for charitable contributions, other than for education and health | 182.4 |
| Exclusion of untaxed social security and railroad retirement benefits | 173.0 |

# III. OVERVIEW OF THE CORPORATE INCOME TAX

## A. Structure of the Corporate Income Tax

Since its inception in 1909, the Federal income tax assessed on the earnings of corporations as entities separate and apart from their owners has undergone significant changes, both with respect to the corporate income tax rate structure and the tax base. The following very generally describes the corporate income tax as it exists today, an abbreviated history of the corporate income tax rates, and certain significant changes to the corporate income tax base.[28]

### <u>In general</u>

Corporations organized under the laws of any of the 50 States (and the District of Columbia) generally are subject to the U.S. corporate income tax on their worldwide taxable income.[29]

The taxable income of a corporation generally is comprised of gross income less allowable deductions. Gross income generally is income derived from any source, including gross profit from the sale of goods and services to customers, rents, royalties, interest (other than interest from certain indebtedness issued by State and local governments), dividends, gains from the sale of business and investment assets, and other income.

Allowable deductions include ordinary and necessary business expenses, such as salaries, wages, contributions to profit-sharing and pension plans and other employee benefit programs, repairs, bad debts, taxes (other than Federal income taxes), contributions to charitable organizations (subject to an income limitation), advertising, interest expense, certain losses, selling expenses, and other expenses. Expenditures that produce benefits in future taxable years to a taxpayer's business or income-producing activities (such as the purchase of plant and equipment) generally are capitalized and recovered over time through depreciation, amortization or depletion allowances. A net operating loss incurred in one taxable year typically may be carried back two years or carried forward 20 years and allowed as a deduction in another taxable year. Deductions are also allowed for certain amounts despite the lack of a direct expenditure by the taxpayer. For example, a deduction is allowed for all or a portion of the amount of dividends received by a corporation from another corporation (provided certain ownership requirements are satisfied). Moreover, a deduction is allowed for a portion of the amount of income attributable to certain manufacturing activities.

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[28] For a more information regarding corporate historic corporate tax rates and the corporate income tax base see the Appendix to this document, Joint Committee on Taxation, *Present Law and Background Relating to Selected Business Income Provisions* (JCX-34-11), June 1, 2011, and Joint Committee on Taxation, *Present Law and Historical Overview of the Federal Tax System* (JCX-1-11), January 18, 2011.

[29] Foreign tax credits generally are available against U.S. income tax imposed on foreign source income to the extent of foreign income taxes paid on that income. A foreign corporation generally is subject to the U.S. corporate income tax only on income with a sufficient nexus to the United States.

The Code also specifies certain expenses that typically may not be deducted, such as expenses associated with earning tax-exempt income,[30] certain entertainment expenses, certain executive compensation in excess of $1,000,000 per year, a portion of the interest on certain high-yield debt obligations that resemble equity, and fines, penalties, bribes, kickbacks and illegal payments.

In contrast to the treatment of capital gains in the individual income tax, no separate rate structure exists for corporate capital gains. Thus, the maximum rate of tax on the net capital gains of a corporation is 35 percent. A corporation may not deduct the amount of capital losses in excess of capital gains for any taxable year. Disallowed capital losses may be carried back three years or carried forward five years.

Like individuals, corporations may reduce their tax liability by any applicable tax credits. Tax credits applicable to businesses are listed in the Appendix, relating to the general business credit. Credits generally are determined based on a percentage of the cost associated with the underlying activity and generally are subject to certain limitations.

**<u>Affiliated group</u>**

Domestic corporations that are affiliated through 80 percent or more corporate ownership may elect to file a consolidated return in lieu of filing separate returns. For purposes of calculating tax liability, corporations filing a consolidated return generally are treated as divisions of a single corporation; thus, the losses (and credits) of one corporation generally can offset the income (and thus reduce the otherwise applicable tax) of other affiliated corporations.

**<u>Alternative minimum tax</u>**

A corporation is subject to an alternative minimum tax which is payable, in addition to all other tax liabilities, to the extent that it exceeds the corporation's regular income tax liability. The tax is imposed at a flat rate of 20 percent on alternative minimum taxable income in excess of a $40,000 exemption amount.[31] Credits that are allowed to offset a corporation's regular tax liability generally are not allowed to offset its minimum tax liability. If a corporation pays the alternative minimum tax, the amount of the tax paid is allowed as a credit against the regular tax in future years.

Alternative minimum taxable income is the corporation's taxable income increased by the corporation's tax preference items and adjusted by determining the tax treatment of certain items in a manner that negates the deferral of income resulting from the regular tax treatment of those items. Among the preferences and adjustments applicable to the corporate alternative minimum tax are accelerated depreciation on certain property, certain expenses and allowances

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[30] For example, the carrying costs of tax-exempt State and local obligations and the premiums on certain life insurance policies are not deductible.

[31] The exemption amount is phased out for corporations with income above certain thresholds, and is completely phased out for corporations with alternative minimum taxable income of $310,000 or more.

related to oil and gas and mining exploration and development, certain amortization expenses related to pollution control facilities, net operating losses and certain tax-exempt interest income. In addition, corporate alternative minimum taxable income is increased by 75 percent of the amount by which the corporation's "adjusted current earnings" exceeds its alternative minimum taxable income (determined without regard to this adjustment). Adjusted current earnings generally are determined with reference to the rules that apply in determining a corporation's earnings and profits.

A corporation with average annual gross receipts of not more than $7.5 million is exempt from the alternative minimum tax.

**Treatment of corporate distributions**

The taxation of a corporation generally is separate and distinct from the taxation of its shareholders. A distribution by a corporation to one of its shareholders generally is taxable as a dividend to the shareholder to the extent of the corporation's current or accumulated earnings and profits, and such a distribution is not a deductible expense of the corporation.[32] Thus, the amount of a corporate dividend generally is taxed twice: once when the income is earned by the corporation and again when the dividend is distributed to the shareholder.[33] Although subject to a second tax when distributed, shareholders in a corporation may benefit from deferral of this tax on undistributed corporate income (e.g., corporate income reinvested in the business).

Amounts received by a shareholder in complete liquidation of a corporation generally are treated as full payment in exchange for the shareholder's stock. A liquidating corporation recognizes gain or loss on the distributed property as if such property were sold to the distributee for its fair market value. However, if a corporation liquidates a subsidiary corporation of which it has 80 percent or more control, no gain or loss generally is recognized by either the parent corporation or the subsidiary corporation.

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[32] A distribution in excess of the earnings and profits of a corporation generally is a tax-free return of capital to the shareholder to the extent of the shareholder's adjusted basis (generally, cost) in the stock of the corporation; such distribution is a capital gain if in excess of basis. A distribution of property other than cash generally is treated as a taxable sale of such property by the corporation and is taken into account by the shareholder at the property's fair market value. A distribution of common stock of the corporation generally is not a taxable event to either the corporation or the shareholder.

[33] This double taxation is mitigated by a reduced maximum tax rate of 15 percent generally applicable to dividend income of individuals (prior to 2013). Note that amounts paid as interest to the debtholders of a corporation generally are subject to only one level of tax (at the recipient level) because the corporation generally is allowed a deduction for the amount of interest expense paid or accrued.

**Tax treatment of foreign activities of U.S. corporations**[34]

The United States employs a worldwide tax system, under which domestic corporations generally are taxed on all income, whether derived in the United States or abroad. Income earned by a domestic parent corporation from foreign operations conducted by foreign corporate subsidiaries generally is subject to U.S. tax when the income is distributed as a dividend to the domestic parent corporation. Until that repatriation, the U.S. tax on the income generally is deferred. However, certain anti-deferral regimes may cause the domestic parent corporation to be taxed on a current basis in the United States on certain categories of passive or highly mobile income earned by its foreign corporate subsidiaries, regardless of whether the income has been distributed as a dividend to the domestic parent corporation. The main anti-deferral regimes in this context are the controlled foreign corporation rules of subpart F[35] and the passive foreign investment company rules.[36] A limited credit against U.S. tax is generally available for foreign tax imposed on foreign-source income, whether the income is earned directly by the domestic corporation, repatriated as an actual dividend, or included in the domestic parent corporation's income under one of the anti-deferral regimes.[37]

**Corporate income tax rates**

A corporation's regular income tax liability generally is determined by applying the appropriate tax rate to its taxable income. Table 4 below provides a compilation of the marginal rates of tax imposed on corporate income in 2011.

[34] For more information regarding the tax treatment of the foreign activities of U.S. corporations, see Joint Committee on Taxation, *Background and Selected Issues Related to the U.S. International Tax System and Systems that Exempt Foreign Business Income* (JCX-33-11), May 20, 2011; *Present Law and Issues in U.S. Taxation of Cross-Border Income* (JCX-42-11), September 6, 2011; *The Impact of International Tax Reform: Background and Selected Issues Relating to U.S. International Tax Rules and the Competitiveness of U.S Businesses* (JCX-22-06), June 21, 2006; and *Economic Efficiency and Structural Analyses of Alternative U.S. Tax Policies for Foreign Direct Investment* (JCX-55-08), June 25, 2008.

[35] Secs. 951-964.

[36] Secs. 1291-1298.

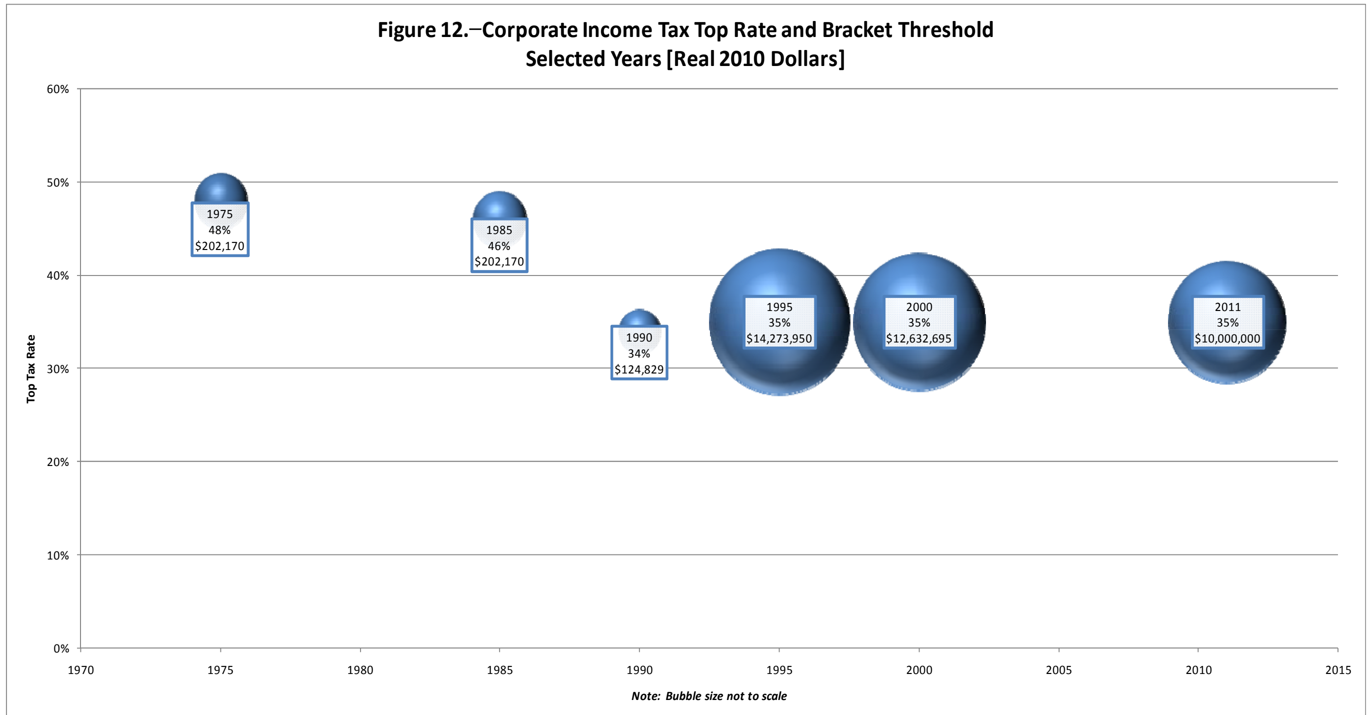
[37] Secs. 901, 902, 960, 1291(g).

**Table 4.–Federal Corporate Income Tax Rate Structure in 2011**

| Corporate Taxable Income | Income Tax Rate (percent) |
|---|---|
| First $50,000 | 15 |
| $50,001-$75,000 | 25 |
| $75,001-$100,000 | 34 |
| $100,001-$335,000 | 39* |
| $335,001-$10,000,000 | 34 |
| $10,000,001-$15,000,000 | 35 |
| $15,000,001-$18,333,333 | 38* |
| Over $18,333,333 | 35 |

* Rates higher than the top bracket rate reflect phaseouts of the benefit from the lower bracket rates and are not technically the top corporate statutory rate.

Figure 12 below shows the top statutory corporate income tax rate and income threshold at which the rate begins to apply for selected years.




## Significant modifications to the corporate income tax base

The following discussion summarizes certain significant modifications to the corporate income tax base in the last few decades. In addition to affecting corporations, many of the Federal income tax provisions discussed below apply to all businesses.

Investment tax credit.–From 1962 through 1985 the Code from time to time allowed an investment tax credit. The investment tax credit was originally seven percent (three percent in the case of certain public utilities) of the cost of capital investments in new tangible personal property and certain depreciable real property. The investment tax credit was suspended during the years 1966 and from 1969-1971. The credit was revived in 1972 and then increased to a rate of ten percent in 1975. The Tax Reform Act of 1986 largely repealed the investment tax credit in an effort to equate effective tax rates with statutory tax rates and to rationalize the tax treatment of different assets.

Depreciation.–For Federal income tax purposes, a taxpayer is allowed to recover through annual depreciation deductions the cost of certain property used in a trade or business or for the production of income. The amount of the depreciation deduction allowed with respect to tangible property for a taxable year is determined under the modified accelerated cost recovery system ("MACRS"). Under MACRS, different types of property generally are assigned applicable recovery periods and depreciation methods. The MACRS depreciation categories generally are set out in the Code and Internal Revenue Service guidance.[38]

Generally, the depreciation deduction calculation is a function of the capital investment in depreciable property, the recovery period, and the cost recovery method. Recovery periods and rates of recovery have varied over time. For example, prior to 1981, the depreciation system was based on estimated useful lives determined either by using facts and circumstances or by using guideline lives in Treasury guidance.[39] The useful lives were generally applied to calculate depreciation deductions using a straight-line method. The Economic Recovery Tax Act of 1981[40] replaced the prior law depreciation system with the Accelerated Cost Recovery System ("ACRS") which significantly accelerated depreciation on tangible property.[41] The Tax Reform Act of 1986 created MACRS. At times, Congress has enacted temporary bonus depreciation rules.

Section 179 expensing.–In lieu of depreciation, a taxpayer with a sufficiently small amount of annual investment may elect to deduct (or "expense") such costs under section 179. The rules of section 179 were originally enacted in 1958 and the amount allowed to be expensed has generally increased over time.[42] Under a temporary provision enacted in 2010, for taxable years beginning in 2011, the maximum amount that a taxpayer may expense is $500,000 of the cost of qualifying property placed in service for the taxable year. The $500,000 amount is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the taxable year exceeds $2 million. For taxable years beginning in 2012 and

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[38] Sec. 168; Rev. Proc. 87-56, 1987-2 C.B. 674.

[39] See Rev. Proc. 62-21, 1962-2 C.B. 418, for guideline useful lives.

[40] Pub. L. No. 97-34.

[41] Pub. L. No. 97-34, sec. 201.

[42] Pub. L. No. 85-866. sec. 204.

thereafter, the limitation amount is $125,000 and the phaseout threshold amount is $500,000, adjusted for inflation.

Amortization of goodwill and certain other intangible assets.−Prior to 1993, goodwill was not an amortizable asset and the amortization of other intangible assets was generally based on facts and circumstances. The Code was amended in 1993 to specify a 15-year amortization period for acquired goodwill and certain other intangible assets.[43]

Deduction for income attributable to domestic production activities.−The American Jobs Creation Act of 2004[44] created a deduction for income attributable to domestic production activities. The allowance of a deduction equal to a specified percentage of certain qualifying domestic production activities income has the effect of lowering the tax rate applicable to income from such activities. For taxable years beginning in 2005 or 2006, the deduction is three percent of the income from manufacturing, construction, and certain other activities specified in the Code. For taxable years beginning in 2007, 2008 and 2009, the deduction is equal to six percent. Beginning in 2010, the percentage is generally[45] nine percent.[46]

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[43] Pub. L. No. 103-66.

[44] Pub. L. No. 108-357.

[45] In the case of oil related qualified production activities income, for any taxable year beginning after 2009, the percentage is reduced by three percent of the least of: (1) oil related qualified production activities income of the taxpayer for the taxable year; (2) qualified production activities income of the taxpayer for the taxable year; or (3) taxable income (determined without regard to the deduction for income attributable to domestic manufacturing activities).

[46] At the fully phased-in nine percent deduction, a corporation is taxed at a rate of 35 percent on only 91 percent of qualifying income, resulting in an effective tax rate on qualifying income of 31.85 percent (0.91 x 0.35 = 0.3185). A similar reduction applies to the graduated rates applicable to individuals with qualifying domestic production activities income.

## B. Overview of Business Entities Other Than Corporations

Significant business activity is conducted through entities other than corporations. Such business entities include passthrough entities such as partnerships (including limited liability companies ("LLCs")) and S corporations. For Federal income tax purposes, these passthrough entities generally are not subject to tax at the entity level. Rather, the owners − that is, partners or S corporation shareholders − are subject to tax on their shares of the entity's income, gain, loss, deduction, and credit, whether or not distributed.[47] The tax treatment of passthrough entities differs from the generally applicable entity level tax on income of C corporations. In addition, noncorporate business income is generated by sole proprietorships and farms.[48]

Allowable deductions for businesses conducted in passthrough entity form are generally the same as allowable deductions for businesses conducted in corporate form. However, the calculation of these deductions is affected by the fact that they are taken into account for tax purposes by the partners or S corporation shareholders rather than by the partnership or S corporation at the entity level.

There are no limitations on the identity of a partner in a partnership under present law. Thus, a partner in a business conducted through a partnership (including an LLC taxable as a partnership) can generally be an individual, a corporation, or another partnership, for example. Permissible shareholders of S corporations are restricted to individuals (other than nonresident aliens), estates, certain trusts, and certain tax-exempt organizations, and may not exceed 100 in number (taking into account applicable attribution rules).

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[47] Partners and S corporation shareholders who are individuals generally report this income on Schedule E.

[48] This income is generally reported by individuals on Schedules C and F.

## C. Largest Corporate Tax Expenditures

The following Table 5 shows the ten largest corporate tax expenditures estimated for the period 2010-2014. The Appendix includes top ten tax expenditures for five-year periods beginning with 1975-1979. Although the composition of the top ten lists has changed over time, two items have been in the list of top ten expenditures for the entire period: the exclusion of interest on general purpose State and local debt, and some form of accelerated depreciation.[49] Reduced rates for an initial amount of corporate income has been in the top ten since 1980-1985. A tax benefit for research expenses (either through a deduction or a tax credit) has been on the list for seven out of the eight periods.

**Table 5.−Largest Tax Expenditures, Corporate 2010-2014**

| Tax Expenditure | Total Amount (2010-2014) (Billions of dollars) |
|---|---|
| Deferral of active income of controlled foreign corporations | 70.6 |
| Exclusion of interest on public purpose State and local government debt | 45.3 |
| Deduction for income attributable to domestic production activities | 43.2 |
| Inventory property sales source rule exception | 38.0 |
| Depreciation of equipment in excess of alternative depreciation system | 37.1 |
| Inclusion of income arising from business indebtedness discharged by the reacquisition of a debt instrument | 28.8 |
| Tax credit for low-income housing | 27.0 |
| Expensing of research and experimental expenditures | 25.6 |
| Inventory methods and valuation: Last in first out | 20.0 |
| Reduced rates for first $10,000,000 of corporate taxable income | 15.9 |

[49] The tax expenditure item relating to accelerated depreciation (a function of asset basis, recovery period, and depreciation method) is a measure of the depreciation allowed in excess of the amount allowed in a normative system, though the terminology describing it has changed in the tax law over the years.

## IV. REFORMING TAX EXPENDITURES AND THE NATIONAL COMMISSION ON FISCAL RESPONSIBILITY AND REFORM

### A. The National Commission's General Approach to Tax Reform

In their report, the National Commission on Fiscal Responsibility and Reform (the "Commission") concluded that "[t]ax reform should lower tax rates, reduce the deficit, simplify the tax code, reduce the tax gap, and make America the best place to start a business and create jobs."[50] The Commission proposed eliminating most income tax expenditures and using the revenue to lower marginal tax rates and to reduce projected deficits. The proposed approach is consistent with much commentary over the years that a tax system with a broad base and low rates generally promotes market efficiency and growth.

It is possible that part of the motivation of the Commission was the recognition of the growth in number and value of tax expenditures. Figure 13 below displays a simple count of provisions identified as tax expenditures with an estimated value in excess of $50 million as reported in the document published annually by the staff of the Joint Committee on Taxation.[51]

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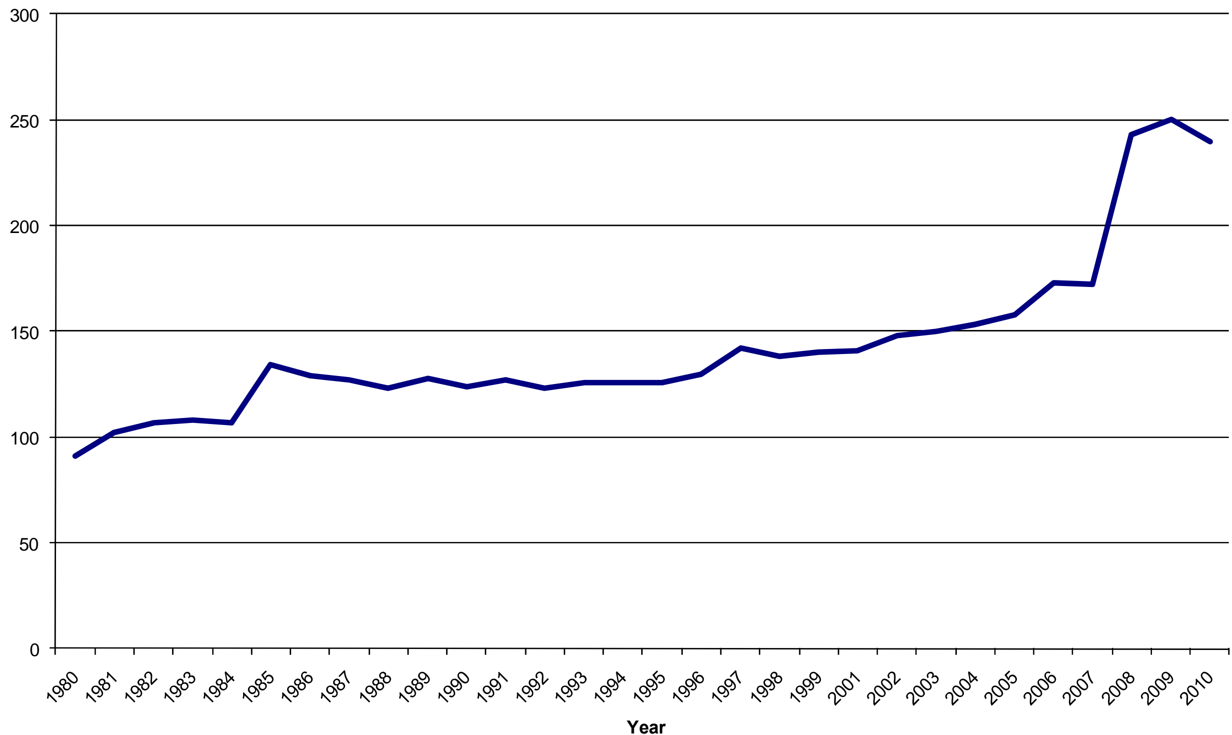
[50] The National Commission on Fiscal Responsibility and Reform, *The Moment of Truth*, December 2010, p. 28.

[51] The annual publication also lists other tax expenditure provisions, identified as quantitatively *de minimis* tax expenditures, that do not meet a $50 million threshold. The Appendix to this testimony includes a list of tax expenditures that have been added to the Code since the passage of the Tax Reform Act of 1986.

**Figure 13.–Joint Committee on Taxation Count of Tax Expenditures, 1980-2010**




Source: Joint Committee on Taxation staff.

## B. Considerations for Congress in Assessing the National Commission's Approach

### Two concerns

The course proposed by the Commission appears clear. However, I think it is important to emphasize today that the Commission's proposed course is not simply achieved. I say this for two reasons.

- First, it is not clear as a matter of crafting legislation what it means to eliminate all tax expenditures and start from a clean slate.
- Second, the dollar value of tax expenditures, as calculated by the staff of the Joint Committee on Taxation, is not the same as the estimated revenue effect to the Federal Treasury from elimination or reform of any such provision.

### What replaces a repealed tax expenditure?

The Congressional Budget and Impoundment Control Act of 1974 defines tax expenditures as "revenue losses attributable to provisions of the Federal tax law 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."[52] Tax expenditures are defined relative to a more theoretically pure income tax. Thus, tax expenditures include any reductions in income tax liabilities that result from special tax provisions that provide tax benefits to particular taxpayers relative to this hypothetical income tax. Because the notion of a tax expenditure is measured against a hypothetical world, eliminating tax expenditures can involve many significant policy questions.

Example: home mortgage interest deduction

As noted above, one of the largest individual tax expenditure provisions is the deductibility of home mortgage interest expense by individuals. What does it mean to eliminate this tax expenditure? As of what date would mortgage interest no longer be deductible? Would the repeal apply to all existing mortgages or only to mortgages undertaken after the effective date? Either choice could be said to substantially eliminate the tax expenditure. These decisions will affect taxpayer's behavior regarding owning versus renting, the size of a home that they may choose to purchase, as well as the amount of debt they undertake and the choice of assets that they may retain in their portfolios. These decisions will affect the magnitude of revenues that redound to the Federal Treasury from the elimination of the tax expenditure and, as discussed below, these revenues will generally be less than the value of the estimated tax expenditure.

Example: employer de minimis fringe benefit--exercise room on site

Another example, while small in size, is employer de minimis fringe benefits. Currently, for example, the employer provision of an amenity like an exercise room on site is an allowable deductible expense for the business but is not included in the income of the employee. How would this tax expenditure be eliminated? Would the deduction be denied to the employer? Or would there be an attempt to value the benefit and require that it be included in the income of the employer?

Example: employer-provided pension benefits[53]

Another significant individual tax expenditure arises because pension benefits that accrue to individuals, either in defined contribution pension plans or in defined benefit pension plans, are not subject to the individual income tax. In the case of an employer's contribution to an individual's defined contribution pension plan, elimination of the tax expenditure could mean: counting the employer's specific dollar contribution as part of the individual's current taxable income. But the treatment of existing accounts is less clear. Would existing accounts still benefit from deferral of tax on earnings?

It is even less clear what elimination of this tax expenditure means in the context of a defined benefit accrual. Often the accrual value attributable to any specific individual depends upon economic outcomes that are not currently known to either the employer or the employee.

[52] Congressional Budget and Impoundment Control Act of 1974 (Pub. L. No. 93-344), sec. 3(3).

[53] The Commission did not propose eliminating this tax expenditure.

Specifically, the accrual value often depends upon the number of years of service that the employee ultimately provides to the employer and to the employee's as yet unknown highest salary level. How policymakers might develop the rules to value and tax this current tax expenditure benefit is not obvious.

Summary

These three examples demonstrate that eliminating many tax expenditures is not an easy legislative task. It is a task that involves many important decisions for policymakers.

## **Tax expenditure estimates compared to estimates of changed Federal revenues**

A tax expenditure calculation is not the same as a revenue estimate for the repeal of the tax expenditure provision for three reasons. First, unlike revenue estimates, tax expenditure calculations do not incorporate the effects of the behavioral changes of affected individuals or entities that are anticipated to occur in response to the repeal of a tax expenditure provision. Second, tax expenditure calculations are concerned with changes in the reported tax liabilities of taxpayers. Because tax expenditure analysis focuses on tax liabilities as opposed to Federal government tax receipts, there is no concern for the short-term timing of tax payments. Revenue estimates are concerned with changes in Federal tax receipts that are affected by the timing of all tax payments. Third, some of the tax provisions that provide an exclusion from income also apply to the FICA tax base, and the repeal of the income tax provision would automatically increase FICA tax revenues as well as income tax revenues. This FICA effect would be reflected in revenue estimates, but is not considered in tax expenditure calculations. There may also be interactions between income tax provisions and other Federal taxes such as excise taxes and the estate and gift taxes.

If a tax expenditure provision were repealed, it is likely that the repeal would be made effective for taxable years beginning after a certain date. Because most individual taxpayers have taxable years that coincide with the calendar year, the repeal of a provision affecting the individual income tax most likely would be effective for taxable years beginning after December 31 of a certain year. However, the Federal government’s fiscal year begins October 1. Thus, the revenue estimate for repeal of a provision would show a smaller revenue gain in the first fiscal year than in subsequent fiscal years. This is due to the fact that the repeal would be effective after the start of the Federal government’s fiscal year. The revenue estimate might also reflect some delay in the timing of the revenue gains as a result of the taxpayer tendency to postpone or forgo changes in tax withholding and estimated tax payments, and very often repeal or modification of a tax provision includes transition relief that would not be captured in a tax expenditure calculation.

# APPENDIX

## A. Overview of Other Federal Taxes

### 1. Social insurance (employment) taxes

Social Security benefits and certain Medicare benefits are financed primarily by payroll taxes on covered wages and self-employment income. The Federal Insurance Contributions Act ("FICA") imposes a tax on employers based on the amount of wages paid to an employee during the year. The tax is composed of two parts: (1) the old age, survivors, and disability insurance ("OASDI") tax equal to 6.2 percent of covered wages up to the taxable wage base ($106,800 in 2011); and (2) the Medicare hospital insurance ("HI") tax amount equal to 1.45 percent of covered wages. In addition to the tax on employers, each employee is subject to FICA taxes equal to the amount of tax imposed on the employer. For calendar year 2011, the employee OASDI rate is reduced by two percentage points to 4.2 percent. The employee tax generally must be withheld and remitted to the Federal government by the employer.[54] Self-employed taxpayers are subject to payroll tax under the Self-Employment Contributions Act ("SECA").

The earnings base is indexed each year automatically according to a statutory formula. Any increase in the earnings base is based on the increase in average wages in the economy.[55]

As part of the Omnibus Budget Reconciliation Act of 1993,[56] the earnings base for the HI portion of the tax was removed, making all earnings taxable for HI purposes, effective starting in 1994.

The social insurance tax rate and taxable wage base have increased over time. Table A-1 below shows the evolution of the taxable wage base and rates of tax since 1975.

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[54] The OASDI and HI payroll tax is generally collected as a single tax with portions of it allocated by statute among three separate trust funds (OASI, DI and HI).

[55] The earnings base can only increase in a year in which there was an increase in benefits under the cost-of-living adjustment (COLA) formula. If there was no increase in benefits, the earnings base is prohibited from increasing. Sec. 230(a) of the Social Security Act. Since there was no increase in benefits from 2009 through 2011, the earnings base remained constant from 2009 through 2011 as well.

[56] Pub. L. No. 103-66.

## Table A-1.−Social Insurance Taxable Wage Base and Rates of Tax

| Year | Annual Maximum Taxable Wage Base | Contribution Rate for Both Employers and Employees (Percent of Covered Earnings) | | | Contribution Rate for Self-Employed Persons | | |
|---|---|---|---|---|---|---|---|
| | | Total | OASDI | HI | Total | OASDI | HI |
| 1975 | $14,100 | 5.85 | 4.95 | 0.9 | 7.9 | 7.0 | 0.9 |
| 1976 | $15,300 | 5.85 | 4.95 | 0.9 | 7.9 | 7.0 | 0.9 |
| 1977 | $16,500 | 5.85 | 4.95 | 0.9 | 7.9 | 7.0 | 0.9 |
| 1978 | $17,700 | 6.05 | 5.05 | 1.00 | 8.1 | 7.1 | 1.0 |
| 1979 | $22,900 | 6.13 | 5.08 | 1.05 | 8.1 | 7.05 | 1.05 |
| 1980 | $25,900 | 6.13 | 5.08 | 1.05 | 8.1 | 7.05 | 1.05 |
| 1981 | $29,700 | 6.65 | 5.35 | 1.3 | 9.3 | 8.0 | 1.3 |
| 1982 | $32,400 | 6.7 | 5.4 | 1.3 | 9.35 | 8.05 | 1.3 |
| 1983 | $35,700 | 6.7 | 5.4 | 1.3 | 9.35 | 8.05 | 1.3 |
| 1984[1] | $37,800 | 7.0 | 5.7 | 1.3 | 14.00 | 11.4 | 2.6 |
| 1985 | $39,600 | 7.05 | 5.7 | 1.35 | 14.10 | 11.4 | 2.7 |
| 1986 | $42,000 | 7.15 | 5.7 | 1.45 | 14.30 | 11.4 | 2.9 |
| 1987 | $43,800 | 7.15 | 5.7 | 1.45 | 14.30 | 11.4 | 2.9 |
| 1988 | $45,000 | 7.51 | 6.06 | 1.45 | 15.02 | 12.12 | 2.9 |
| 1989 | $48,000 | 7.51 | 6.06 | 1.45 | 15.02 | 12.12 | 2.9 |
| 1990 | $51,300 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1991 | $53,400 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1992 | $55,500 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1993 | $57,600 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1994 | $60,600 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1995 | $61,200 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1996 | $62,700 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1997 | $65,400 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1998 | $68,400 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 1999 | $72,600 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2000 | $76,200 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2001 | $80,400 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2002 | $84,900 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2003 | $87,900 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2004 | $87,900 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2005 | $90,000 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2006 | $94,200 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2007 | $97,500 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2008 | $102,000 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2009 | $106,800 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2010 | $106,800 | 7.65 | 6.2 | 1.45 | 15.3 | 12.4 | 2.9 |
| 2011 | $106,800 | [2] | [2] | 1.45 | 13.3 | 10.4 | 2.9 |

[1] For 1984 only, employees were allowed a credit of 0.3 percent of taxable wages against their FICA tax liability, reducing the effective rate to 6.7 percent.

[2] The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 reduced the FICA tax rate for employees by two percentage points for 2011. Specifically, the employer OASDI rate remains at 6.2 while the employee rate is reduced to 4.2.

## 2. Estate and gift tax

The United States generally imposes a gift tax on transfers of property by gift made by a U.S. citizen or resident, whether made directly or indirectly and whether made in trust or otherwise.[57] Nonresident aliens are subject to the gift tax with respect to transfers of tangible real or personal property where the property is located in the United States at the time of the gift. An estate tax generally is imposed on the taxable estate of any person who was a citizen or resident of the United States at the time of death and on certain property held by a nonresident alien if the property is located in the United States at the time of death.[58] The estate tax is imposed on the estate of the decedent and generally is based on the fair market value of the property passing at death. The taxable estate generally equals the worldwide gross estate less certain allowable deductions. Since 1976, a generation-skipping transfer tax also has been imposed on certain transfers to "skip persons," generally, beneficiaries in a generation more than one generation below that of the transferor.

Prior to 1976, the estate and gift tax systems were two separate systems. The Tax Reform Act of 1976[59] unified the estate and gift taxes, with a single graduated rate table for both cumulative inter vivos gifts and taxable transfers at death. Since that time, the top marginal estate and gift tax rate has decreased significantly, from 70 percent in 1977 to 35 percent in 2011. The 1976 Act also combined separate estate and gift tax exemptions into a single "unified credit," which effectively exempts a certain dollar value in gifts or bequests from gift or estate tax. The exemption value of the unified credit has increased significantly since that time, from $120,667 in 1977 to $5 million in 2011.[60]

The Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA")[61] gradually reduced the estate and generation skipping transfer taxes through 2009, and generally repealed the estate and generation-skipping transfer taxes for one year in 2010. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010[62] generally reinstated the estate and generation-skipping transfer taxes for 2010, but allowed a decedent's executor to

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[57] In determining their taxable gifts, taxpayers are permitted to exclude every year a specified dollar value of gifts to another person, provided the gift is a gift of a present interest in property. The gift tax annual exclusion has increased over time, from $3,000 in 1975 to $13,000 in 2011.

[58] Assets acquired from a decedent generally receive a fair market value ("stepped up") basis. In general, the tax basis of assets acquired by gift is carried over from the donor of the gift. Gifts and bequests generally are excluded from the recipient's gross income for income tax purposes.

[59] Pub. L. No. 94-455.

[60] Through 1976, and again from 2004 through 2010, the exemption value of the unified credit for estate and gift tax purposes differed. The generation-skipping transfer tax rate equals the highest marginal estate tax rate, and the generation-skipping transfer tax exemption equals the estate tax exemption in effect for the year.

[61] Pub. L. No. 107-16.

[62] Pub. L. No. 111-312.

elect out of the new regime (such that an estate tax would not apply); the Act set the generation-skipping transfer tax rate at zero percent.

The estate and gift tax laws include special rules, which have become more generous over time, for gifts or bequests to a spouse. Prior to 1976, for example, a marital deduction was permitted for 50 percent of the value of property transferred through an estate from a deceased spouse to the surviving spouse. The 1976 Act provided a 100-percent marital deduction for the first $250,000 of property transferred to a surviving spouse. Since 1981, the estate and gift tax laws generally have provided for unlimited deductions for gifts and bequests to spouses.

The estate and gift tax laws also include a number of special, preferential rules for transfers of interests in closely held businesses and farms, including special valuation rules and rules that allow for installment payment of estate taxes under certain circumstances. For example, a provision included in the 1976 Act generally permits a decedent's executor to value farm and other business real property for estate tax purposes at its current-use value instead of at its highest and best use value for estate tax purposes, subject to a maximum reduction in value.[63] This maximum reduction in value subject to tax has increased over time, from $500,000 in 1981 to $1 million in 2011.

Table A-2 below shows the evolution since 1975 of the gift tax annual exclusion, the estate and gift tax exemptions, the highest statutory estate and gift tax rates, and the threshold above which such rates apply.

**Table A-2.–Estate and Gift Tax Rates and Exemption Amounts, 1975-2011**

| Year | Annual gift exclusion | Exemption value of unified credit (gift exemption when not unified) | Threshold of highest statutory tax rate | Highest statutory tax rate (percent) |
|---|---|---|---|---|
| 1975-1976 | $3,000 | $60,000 ($30,000) | $10 million | 57.75 gift; 77 estate |
| 1977 | $3,000 | $120,667 | $5 million | 70 |
| 1978 | $3,000 | $134,000 | $5 million | 70 |
| 1979 | $3,000 | $147,333 | $5 million | 70 |
| 1980 | $3,000 | $161,563 | $5 million | 70 |
| 1981 | $10,000 | $175,625 | $5 million | 70 |
| 1982 | $10,000 | $225,000 | $4 million | 65 |
| 1983 | $10,000 | $275,000 | $3.5 million | 60 |
| 1984 | $10,000 | $325,000 | $3 million | 55 |
| 1985 | $10,000 | $400,000 | $3 million | 55 |
| 1986 | $10,000 | $500,000 | $3 million | 55 |
| 1987-1997 | $10,000 | $600,000 | $3 million | 55 |
| 1998 | $10,000 | $625,000 | $3 million | 55 |

[63] Sec. 2032A.

| Year | Annual gift exclusion | Exemption value of unified credit (gift exemption when not unified) | Threshold of highest statutory tax rate | Highest statutory tax rate (percent) |
|---|---|---|---|---|
| 1999 | $10,000 | $650,000 | $3 million | 55 |
| 2000-2001 | $10,000 | $675,000 | $3 million | 55 |
| 2002 | $11,000 | $1 million | $2.5 million | 50 |
| 2003 | $11,000 | $1 million | $2 million | 49 |
| 2004 | $11,000 | $1.5 million ($1 million) | $2 million | 48 |
| 2005 | $11,000 | $1.5 million ($1 million) | $2 million | 47 |
| 2006 | $12,000 | $2 million ($1 million) | $2 million | 46 |
| 2007-2008 | $12,000 | $2 million ($1 million) | $1.5 million | 45 |
| 2009 | $13,000 | $3.5 million ($1 million) | $1.5 million | 45 |
| 2010[64] | $13,000 | $5 million ($1 million) | $500,000[65] | 35 |
| 2011 | $13,000 | $5 million | $500,000[66] | 35 |

### 3. Excise taxes

**<u>In general</u>**

The Federal tax system imposes excise taxes on selected goods and services.[67] In addition to excise taxes the primary purpose of which is revenue production, excise taxes also are imposed to promote adherence to other policies (e.g., penalty excise taxes). Generally, excise taxes are taxes imposed on a per unit or ad valorem (i.e., percentage of price) basis on the

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[64] Under the 2010 Act, executors of estates of decedents who die during 2010 generally may elect to have the EGTRRA 2010 estate tax and basis rules apply as if the estate tax provisions of the 2010 Act had never been enacted. In the event of such an election: (1) no estate tax would apply; (2) the generation skipping transfer tax would remain in effect with a $5 million exemption and a zero-percent rate; (3) The gift tax exemption and rate would be $1 million and 35 percent; and (4) basis of assets acquired from the decedent would take a modified carry-over basis under section 1022.

[65] The 2010 Act modifies the rate table in section 2001(c) to provide for a $500,000 threshold for the highest statutory rate of 35 percent. However, the estate and gift tax exemptions for 2010 exceed this threshold amount, with the result that any transfers up to the exemption amounts will not be taxed. Therefore, in practice, the 35-percent rate applies only to 2010 transfers that exceed a taxpayer's estate or gift tax exemptions, and any lower marginal rates listed in the section 2001(c) rate table will not apply.

[66] The 2010 Act modifies the rate table in section 2001(c) to provide for a $500,000 threshold for the highest statutory rate of 35 percent. However, the estate and gift tax exemptions for 2011 exceed this threshold amount, with the result that any transfers up to the exemption amounts will not be taxed. Therefore, in practice, the 35-percent rate applies only to 2011 transfers that exceed a taxpayer's estate or gift tax exemptions, and any lower marginal rates listed in the section 2001(c) rate table will not apply.

[67] For a more detailed description of Federal excise taxes, see, Joint Committee on Taxation*, Present Law and Background Information on Federal Excise Taxes* (JCS-1-11), January 2011.

production, importation, or sale of a specific good or service. Among the goods and services subject to U.S. excise taxes are motor fuels, alcoholic beverages, tobacco products, firearms, air and ship transportation, certain environmentally hazardous activities and products, coal, telephone communications, certain wagers, and vehicles lacking in fuel efficiency.[68]

In 2010, the Congress enacted several new excise taxes. These taxes are: the Patient-Centered Outcomes Research Trust Fund taxes;[69] the annual fee on branded prescription pharmaceutical manufacturers and importers;[70] the excise tax on indoor tanning services;[71] the excise tax on certain medical devices;[72] the annual fee on health insurance providers;[73] the excise taxes on individuals without minimum essential health coverage;[74] the excise tax on certain large employers not offering health care coverage;[75] the excise tax on insurers for high-cost employer-sponsored health coverage;[76] and the foreign procurement excise tax.[77]

Revenues from certain Federal excise taxes are dedicated to trust funds (e.g., the Highway Trust Fund) for designated expenditure programs. Revenues from other excise taxes (e.g., alcoholic beverages) go to the General Fund for general purpose expenditures.

The largest excise taxes in terms of revenue (for fiscal year 2009) are those for gasoline motor fuels ($25.1 billion), domestic cigarettes ($11.0 billion), diesel motor fuel ($8.5 billion), and domestic air ticket taxes ($7.3 billion).

The following summarizes the key changes to the alcohol, cigarette, and motor fuel excise taxes since 1975.

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[68] See Joint Committee on Taxation, *Study of the Overall State of the Federal Tax System and Recommendations for Simplification, Pursuant to Section 8022(3)(B) of the Internal Revenue Code of 1986* (JCS-3-01), April 2001, pp. 478-516 for discussion of various Federal excise taxes.

[69] Sec. 4375 (relating to health insurance); and sec. 4376 (relating to self-insured health plans).

[70] Sec. 9008 of Pub. L. No 111-148, as amended by sec. 1404 of Pub. L. No. 111-152.

[71] Sec. 5000B.

[72] Sec. 4191.

[73] Sec. 9010 of Pub. L. No. 111-148, as amended by sec. 10905 of such Act, as further amended by sec. 1406 of Pub. L. No. 111-152.

[74] Sec. 5000A.

[75] Sec. 4980H.

[76] Sec. 4980I.

[77] Sec. 5000C.

### Alcohol

Taxes are imposed at different rates for distilled spirits, beer, and wines, and are imposed on these products when produced or imported. Table A-3 below shows the alcohol excise tax rates since 1975.

**A-3.−Alcohol Excise Taxes**

| Type of Alcohol | 1975 | 1985 | 1990-Present |
|---|---|---|---|
| Distilled Spirits (per proof gallon) | $10.50 | $12.50 | $13.50 |
| Beer (per barrel) | 9.0 | 9.0 | 18.0 |
| Wines (per wine gallon) | | | |
| "Still wines" not more than 14 percent alcohol | .17 | .17 | 1.07 |
| "Still wines" 14-21% alcohol | .67 | .67 | 1.57 |
| "Still wines" 21-24% alcohol | 2.25 | 2.25 | 3.15 |
| "Still wines" more than 24% alcohol | Taxed as spirits | Taxed as Spirits | Taxed as Spirits |
| Champagne and sparkling wines | 3.40 | 3.40 | 3.40 |
| Artificially carbonated wines | 2.40 | 2.40 | 3.30 |

### Cigarettes

In 1975 the excise tax rate on small cigarettes was eight cents per pack, the same rate that had been in effect since 1951.[78] Table A-4 below shows the cigarette excise tax rates since 1975.

**Table A-4.−Cigarette Excise Tax Rates**

| Year | 1975 - 1981 | 1982 - 1990 | 1991 - 1992 | 1993 - 1996 | 1997 - 2008 | 2009 - Present |
|---|---|---|---|---|---|---|
| Small Cigarettes Tax Rate (cents per pack) | 8 | 16 | 20 | 24 | 39 | 100.66 |

### Motor fuels

The tax on gasoline in 1975 was four cents per gallon and the revenues raised from the tax were allocated to the Highway Trust Fund ("HTF"), created by the Highway Revenue Act of

[78] Small cigarettes are those weighing three pounds or less per thousand.

1956.[79] The tax on diesel fuel was also four cents per gallon in 1975. Table A-5 below shows motor fuel excise tax rates since 1975.

**Table A-5.−Motor Fuel Excise Tax Rates**

| Year | 1975 | 1983 | 1984 | 1987 | 1990 | 1993-Present[(1)] |
|---|---|---|---|---|---|---|
| Gasoline (cents per gallon) | 4 | 9 | 9 | 9.1 | 14.1 | 18.4 |
| Diesel (cents per gallon) | 4 | 9 | 15 | 15.1 | 20.1 | 24.4 |

[1] The current gasoline and diesel rates of 18.4 cents per gallon and 24.4 cents per gallon, respectively, consist of 18.3 cents per gallon (gasoline) and 24.3 cents per gallon (diesel) allocated to the HTF, and 0.1 cent per gallon allocated to the Leaking Underground Storage Tank Trust Fund.

[79] Pub. L. No. 84-627.

## B. Historical Federal Receipts by Source - Supplemental Material

Tables A-6 through A-8 below show data from 1950 to 2010 on the aggregate receipts collected from the individual income tax, the corporate income tax, social insurance taxes, excise taxes, the estate and gift taxes, and other receipts. Table A-6 shows the aggregate revenues collected by source, in millions of dollars.

Table A-7 shows the same aggregate revenues by source, but as a percentage of Gross Domestic Product ("GDP"). As a share of GDP, the individual income tax has generally oscillated around its average value of eight percent over this period of time. By contrast, corporate income taxes and excise taxes have generally declined as a share of GDP during this period, while social insurance taxes have risen substantially as a share of GDP over this period. In 2010, total taxes averaged 14.9 percent of GDP, well below the average of the 1950-2010 period of 17.9 percent.

Table A-8 shows Federal receipts by source as a percentage of all Federal receipts. Reflecting the same facts as above, the individual income tax has oscillated around its average share over this period of 44.8 percent, the corporate and excise taxes have declined as a percentage of all revenues, and social insurance taxes have risen substantially from around 10 percent of the total in the early 1950s to levels generally varying between 35 and 40 percent in recent years. Social insurance taxes as a share of all taxes reached a historic high of 42.3 percent in 2009, owing to sharp declines in individual and corporate income taxes.

Figure A-1 shows the components of adjusted gross income as a percentage of total adjusted gross income from 1950 to 2008. Since 1980, salary and wage income has fallen as a share of adjusted gross income, while business net income has risen substantially.

**Table A-6.−Aggregate Federal Receipts by Source, 1950-2010**
**[millions of dollars]**

| Fiscal Year | Individual Income Tax | Corporate Income Tax | Employment[1] Taxes | Excise Taxes | Estate and Gift Taxes | Other[2] Receipts | Total |
|---|---|---|---|---|---|---|---|
| 1950 | 15,755 | 10,449 | 4,338 | 7,550 | 698 | 653 | 39,443 |
| 1951 | 21,616 | 14,101 | 5,674 | 8,648 | 708 | 870 | 51,616 |
| 1952 | 27,934 | 21,226 | 6,445 | 8,852 | 818 | 892 | 66,167 |
| 1953 | 29,816 | 21,238 | 6,820 | 9,877 | 881 | 976 | 69,608 |
| 1954 | 29,542 | 21,101 | 7,208 | 9,945 | 934 | 971 | 69,701 |
| 1955 | 28,747 | 17,861 | 7,862 | 9,131 | 924 | 926 | 65,451 |
| 1956 | 32,188 | 20,880 | 9,320 | 9,929 | 1,161 | 1,109 | 74,587 |
| 1957 | 35,620 | 21,167 | 9,997 | 10,534 | 1,365 | 1,307 | 79,990 |
| 1958 | 34,724 | 20,074 | 11,239 | 10,638 | 1,393 | 1,568 | 79,636 |
| 1959 | 36,719 | 17,309 | 11,722 | 10,578 | 1,333 | 1,588 | 79,249 |
| 1960 | 40,715 | 21,494 | 14,683 | 11,676 | 1,606 | 2,317 | 92,492 |
| 1961 | 41,338 | 20,954 | 16,439 | 11,860 | 1,896 | 1,900 | 94,388 |
| 1962 | 45,571 | 20,523 | 17,046 | 12,534 | 2,016 | 1,985 | 99,676 |
| 1963 | 47,588 | 21,579 | 19,804 | 13,194 | 2,167 | 2,228 | 106,560 |
| 1964 | 48,697 | 23,493 | 21,963 | 13,731 | 2,394 | 2,337 | 112,613 |
| 1965 | 48,792 | 25,461 | 22,242 | 14,570 | 2,716 | 3,037 | 116,817 |
| 1966 | 55,446 | 30,073 | 25,546 | 13,062 | 3,066 | 3,642 | 130,835 |
| 1967 | 61,526 | 33,971 | 32,619 | 13,719 | 2,978 | 4,009 | 148,822 |
| 1968 | 68,726 | 28,665 | 33,923 | 14,079 | 3,051 | 4,529 | 152,973 |
| 1969 | 87,249 | 36,678 | 39,015 | 15,222 | 3,491 | 5,227 | 186,882 |
| 1970 | 90,412 | 32,829 | 44,362 | 15,705 | 3,644 | 5,855 | 192,807 |
| 1971 | 86,230 | 26,785 | 47,325 | 16,614 | 3,735 | 6,450 | 187,139 |
| 1972 | 94,737 | 32,166 | 52,574 | 15,477 | 5,436 | 6,919 | 207,309 |
| 1973 | 103,246 | 36,153 | 63,115 | 16,260 | 4,917 | 7,109 | 230,799 |
| 1974 | 118,952 | 38,650 | 75,071 | 16,844 | 5,035 | 8,702 | 263,224 |
| 1975 | 122,386 | 40,621 | 84,534 | 16,551 | 4,611 | 10,387 | 279,090 |
| 1976 | 131,603 | 41,409 | 90,769 | 16,963 | 5,216 | 12,101 | 298,060 |
| 1977 | 157,626 | 54,892 | 106,485 | 17,548 | 7,327 | 11,681 | 355,559 |
| 1978 | 180,988 | 59,952 | 120,967 | 18,376 | 5,285 | 13,993 | 399,561 |
| 1979 | 217,841 | 65,677 | 138,939 | 18,745 | 5,411 | 16,690 | 463,302 |
| 1980 | 244,069 | 64,600 | 157,803 | 24,329 | 6,389 | 19,922 | 517,112 |
| 1981 | 285,917 | 61,137 | 182,720 | 40,839 | 6,787 | 21,872 | 599,272 |
| 1982 | 297,744 | 49,207 | 201,498 | 36,311 | 7,991 | 25,015 | 617,766 |
| 1983 | 288,938 | 37,022 | 208,994 | 35,300 | 6,053 | 24,256 | 600,562 |
| 1984 | 298,415 | 56,893 | 239,376 | 37,361 | 6,010 | 28,382 | 666,438 |
| 1985 | 334,531 | 61,331 | 265,163 | 35,992 | 6,422 | 30,598 | 734,037 |
| 1986 | 348,959 | 63,143 | 283,901 | 32,919 | 6,958 | 33,275 | 769,155 |
| 1987 | 392,557 | 83,926 | 303,318 | 32,457 | 7,493 | 34,536 | 854,288 |
| 1988 | 401,181 | 94,508 | 334,335 | 35,227 | 7,594 | 36,393 | 909,238 |
| 1989 | 445,690 | 103,291 | 359,416 | 34,386 | 8,745 | 39,576 | 991,105 |
| 1990 | 466,884 | 93,507 | 380,047 | 35,345 | 11,500 | 44,674 | 1,031,958 |
| 1991 | 467,827 | 98,086 | 396,016 | 42,402 | 11,138 | 39,519 | 1,054,988 |
| 1992 | 475,964 | 100,270 | 413,689 | 45,569 | 11,143 | 44,574 | 1,091,208 |
| 1993 | 509,680 | 117,520 | 428,300 | 48,057 | 12,577 | 38,201 | 1,154,335 |
| 1994 | 543,055 | 140,385 | 461,475 | 55,225 | 15,225 | 43,202 | 1,258,566 |
| 1995 | 590,244 | 157,004 | 484,473 | 57,484 | 14,763 | 47,822 | 1,351,790 |
| 1996 | 656,417 | 171,824 | 509,414 | 54,014 | 17,189 | 44,195 | 1,453,053 |
| 1997 | 737,466 | 182,293 | 539,371 | 56,924 | 19,845 | 43,333 | 1,579,232 |
| 1998 | 828,586 | 188,677 | 571,831 | 57,673 | 24,076 | 50,885 | 1,721,728 |
| 1999 | 879,480 | 184,680 | 611,833 | 70,414 | 27,782 | 53,263 | 1,827,452 |
| 2000 | 1,004,462 | 207,289 | 652,852 | 68,865 | 29,010 | 62,713 | 2,025,191 |
| 2001 | 994,339 | 151,075 | 693,967 | 66,232 | 28,400 | 57,069 | 1,991,082 |
| 2002 | 858,345 | 148,044 | 700,760 | 66,989 | 26,507 | 52,491 | 1,853,136 |
| 2003 | 793,699 | 131,778 | 712,978 | 67,524 | 21,959 | 54,376 | 1,782,314 |
| 2004 | 808,959 | 189,371 | 733,407 | 69,855 | 24,831 | 53,691 | 1,880,114 |
| 2005 | 927,222 | 278,282 | 794,125 | 73,094 | 24,764 | 56,124 | 2,153,611 |
| 2006 | 1,043,908 | 353,915 | 837,821 | 73,961 | 27,877 | 69,387 | 2,406,869 |
| 2007 | 1,163,472 | 370,243 | 869,607 | 65,069 | 26,044 | 73,550 | 2,567,985 |
| 2008 | 1,145,747 | 304,346 | 900,155 | 67,334 | 28,844 | 77,565 | 2,523,991 |
| 2009 | 915,308 | 138,229 | 890,917 | 62,483 | 23,482 | 74,570 | 2,104,989 |
| 2010 | 898,549 | 191,437 | 864,814 | 66,909 | 18,885 | 122,130 | 2,162,724 |

[1] Employment taxes comprise old-age and survivors insurance, disability insurance, hospital insurance, railroad retirement, railroad social security equivalent account, employment insurance, employee share of Federal employees retirement, and certain non-Federal employees retirement.

[2] Other receipts are primarily composed of [1] customs duties and fees, and [2] deposits of earnings by the Federal Reserve system.

Source: Office of Management and Budget, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2012, Tables 2.1 and 2.5, and JCT calculations.*

### Table A-7.−Federal Receipts by Source, As a Percentage of GDP, 1950-2010

| Fiscal Year | Individual Income Tax | Corporate Tax | Employment[1] Taxes | Excise Taxes | Estate and Gift Taxes | Other[2] Receipts | Total |
|---|---|---|---|---|---|---|---|
| 1950 | 5.8 | 3.8 | 1.6 | 2.8 | 0.3 | 0.2 | 14.4 |
| 1951 | 6.8 | 4.4 | 1.8 | 2.7 | 0.2 | 0.3 | 16.1 |
| 1952 | 8.0 | 6.1 | 1.8 | 2.5 | 0.2 | 0.3 | 19.0 |
| 1953 | 8.0 | 5.7 | 1.8 | 2.7 | 0.2 | 0.3 | 18.7 |
| 1954 | 7.8 | 5.6 | 1.9 | 2.6 | 0.2 | 0.3 | 18.5 |
| 1955 | 7.3 | 4.5 | 2.0 | 2.3 | 0.2 | 0.2 | 16.5 |
| 1956 | 7.5 | 4.9 | 2.2 | 2.3 | 0.3 | 0.3 | 17.5 |
| 1957 | 7.9 | 4.7 | 2.2 | 2.3 | 0.3 | 0.3 | 17.7 |
| 1958 | 7.5 | 4.4 | 2.4 | 2.3 | 0.3 | 0.3 | 17.3 |
| 1959 | 7.5 | 3.5 | 2.4 | 2.2 | 0.3 | 0.3 | 16.2 |
| 1960 | 7.8 | 4.1 | 2.8 | 2.3 | 0.3 | 0.4 | 17.8 |
| 1961 | 7.8 | 4.0 | 3.1 | 2.2 | 0.4 | 0.4 | 17.8 |
| 1962 | 8.0 | 3.6 | 3.0 | 2.2 | 0.4 | 0.3 | 17.6 |
| 1963 | 7.9 | 3.6 | 3.3 | 2.2 | 0.4 | 0.4 | 17.8 |
| 1964 | 7.6 | 3.7 | 3.4 | 2.1 | 0.4 | 0.4 | 17.6 |
| 1965 | 7.1 | 3.7 | 3.2 | 2.1 | 0.4 | 0.4 | 17.0 |
| 1966 | 7.3 | 4.0 | 3.4 | 1.7 | 0.4 | 0.5 | 17.3 |
| 1967 | 7.6 | 4.2 | 4.0 | 1.7 | 0.4 | 0.5 | 18.4 |
| 1968 | 7.9 | 3.3 | 3.9 | 1.6 | 0.4 | 0.5 | 17.6 |
| 1969 | 9.2 | 3.9 | 4.1 | 1.6 | 0.4 | 0.6 | 19.7 |
| 1970 | 8.9 | 3.2 | 4.4 | 1.6 | 0.4 | 0.6 | 19.0 |
| 1971 | 8.0 | 2.5 | 4.4 | 1.5 | 0.3 | 0.6 | 17.3 |
| 1972 | 8.1 | 2.7 | 4.5 | 1.3 | 0.5 | 0.6 | 17.6 |
| 1973 | 7.9 | 2.8 | 4.8 | 1.2 | 0.4 | 0.5 | 17.6 |
| 1974 | 8.3 | 2.7 | 5.2 | 1.2 | 0.4 | 0.6 | 18.3 |
| 1975 | 7.8 | 2.6 | 5.4 | 1.1 | 0.3 | 0.7 | 17.9 |
| 1976 | 7.6 | 2.4 | 5.2 | 1.0 | 0.3 | 0.7 | 17.1 |
| 1977 | 8.0 | 2.8 | 5.4 | 0.9 | 0.4 | 0.6 | 18.0 |
| 1978 | 8.2 | 2.7 | 5.5 | 0.8 | 0.2 | 0.6 | 18.0 |
| 1979 | 8.7 | 2.6 | 5.6 | 0.7 | 0.2 | 0.7 | 18.5 |
| 1980 | 9.0 | 2.4 | 5.8 | 0.9 | 0.2 | 0.7 | 19.0 |
| 1981 | 9.4 | 2.0 | 6.0 | 1.3 | 0.2 | 0.7 | 19.6 |
| 1982 | 9.2 | 1.5 | 6.3 | 1.1 | 0.2 | 0.8 | 19.2 |
| 1983 | 8.4 | 1.1 | 6.1 | 1.0 | 0.2 | 0.7 | 17.5 |
| 1984 | 7.8 | 1.5 | 6.2 | 1.0 | 0.2 | 0.7 | 17.3 |
| 1985 | 8.1 | 1.5 | 6.4 | 0.9 | 0.2 | 0.7 | 17.7 |
| 1986 | 7.9 | 1.4 | 6.4 | 0.7 | 0.2 | 0.8 | 17.5 |
| 1987 | 8.4 | 1.8 | 6.5 | 0.7 | 0.2 | 0.7 | 18.4 |
| 1988 | 8.0 | 1.9 | 6.7 | 0.7 | 0.2 | 0.7 | 18.2 |
| 1989 | 8.3 | 1.9 | 6.7 | 0.6 | 0.2 | 0.7 | 18.4 |
| 1990 | 8.1 | 1.6 | 6.6 | 0.6 | 0.2 | 0.8 | 18.0 |
| 1991 | 7.9 | 1.7 | 6.7 | 0.7 | 0.2 | 0.7 | 17.8 |
| 1992 | 7.6 | 1.6 | 6.6 | 0.7 | 0.2 | 0.7 | 17.5 |
| 1993 | 7.7 | 1.8 | 6.5 | 0.7 | 0.2 | 0.6 | 17.5 |
| 1994 | 7.8 | 2.0 | 6.6 | 0.8 | 0.2 | 0.6 | 18.0 |
| 1995 | 8.0 | 2.1 | 6.6 | 0.8 | 0.2 | 0.7 | 18.4 |
| 1996 | 8.5 | 2.2 | 6.6 | 0.7 | 0.2 | 0.6 | 18.8 |
| 1997 | 9.0 | 2.2 | 6.6 | 0.7 | 0.2 | 0.5 | 19.2 |
| 1998 | 9.6 | 2.2 | 6.6 | 0.7 | 0.3 | 0.6 | 19.9 |
| 1999 | 9.6 | 2.0 | 6.6 | 0.8 | 0.3 | 0.6 | 19.8 |
| 2000 | 10.2 | 2.1 | 6.6 | 0.7 | 0.3 | 0.6 | 20.6 |
| 2001 | 9.7 | 1.5 | 6.8 | 0.6 | 0.3 | 0.6 | 19.5 |
| 2002 | 8.1 | 1.4 | 6.6 | 0.6 | 0.3 | 0.5 | 17.6 |
| 2003 | 7.2 | 1.2 | 6.5 | 0.6 | 0.2 | 0.5 | 16.2 |
| 2004 | 6.9 | 1.6 | 6.3 | 0.6 | 0.2 | 0.5 | 16.1 |
| 2005 | 7.5 | 2.2 | 6.4 | 0.6 | 0.2 | 0.5 | 17.3 |
| 2006 | 7.9 | 2.7 | 6.3 | 0.6 | 0.2 | 0.5 | 18.2 |
| 2007 | 8.4 | 2.7 | 6.3 | 0.5 | 0.2 | 0.5 | 18.5 |
| 2008 | 8.0 | 2.1 | 6.3 | 0.5 | 0.2 | 0.5 | 17.5 |
| 2009 | 6.5 | 1.0 | 6.3 | 0.4 | 0.2 | 0.5 | 14.9 |
| 2010 | 6.2 | 1.3 | 6.0 | 0.5 | 0.1 | 0.8 | 14.9 |
| 1950-2010 Avg. | 8.0 | 2.8 | 5.0 | 1.3 | 0.3 | 0.5 | 17.9 |

[1] Employment taxes comprise old-age and survivors insurance, disability insurance, hospital insurance, railroad retirement, railroad Social Security equivalent account, employment insurance, employee share of Federal employees retirement, and certain non-Federal employees retirement.

[2] Other receipts are primarily composed of (1) customs duties and fees, and (2) deposits of earnings by the Federal Reserve system.

Source: Office of Management and Budget, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2012, Table 2.3;* Economic Report of the President, 2011, Table B-78 for fiscal year GDP Figures.

**Table A-8.−Federal Receipts by Source, As a Percentage of Total Revenues, 1950-2010**

| Fiscal Year | Individual Income Tax | Corporate Tax | Employment[1] Taxes | Excise Taxes | Estate and Gift Taxes | Other[2] Receipts |
|---|---|---|---|---|---|---|
| 1950 | 39.9 | 26.5 | 11.0 | 19.1 | 1.8 | 1.7 |
| 1951 | 41.9 | 27.3 | 11.0 | 16.8 | 1.4 | 1.7 |
| 1952 | 42.2 | 32.1 | 9.7 | 13.4 | 1.2 | 1.3 |
| 1953 | 42.8 | 30.5 | 9.8 | 14.2 | 1.3 | 1.4 |
| 1954 | 42.4 | 30.3 | 10.3 | 14.3 | 1.3 | 1.4 |
| 1955 | 43.9 | 27.3 | 12.0 | 14.0 | 1.4 | 1.4 |
| 1956 | 43.2 | 28.0 | 12.5 | 13.3 | 1.6 | 1.5 |
| 1957 | 44.5 | 26.5 | 12.5 | 13.2 | 1.7 | 1.6 |
| 1958 | 43.6 | 25.2 | 14.1 | 13.4 | 1.7 | 2.0 |
| 1959 | 46.3 | 21.8 | 14.8 | 13.3 | 1.7 | 2.0 |
| 1960 | 44.0 | 23.2 | 15.9 | 12.6 | 1.7 | 2.5 |
| 1961 | 43.8 | 22.2 | 17.4 | 12.6 | 2.0 | 2.0 |
| 1962 | 45.7 | 20.6 | 17.1 | 12.6 | 2.0 | 2.0 |
| 1963 | 44.7 | 20.3 | 18.6 | 12.4 | 2.0 | 2.1 |
| 1964 | 43.2 | 20.9 | 19.5 | 12.2 | 2.1 | 2.1 |
| 1965 | 41.8 | 21.8 | 19.0 | 12.5 | 2.3 | 2.6 |
| 1966 | 42.4 | 23.0 | 19.5 | 10.0 | 2.3 | 2.8 |
| 1967 | 41.3 | 22.8 | 21.9 | 9.2 | 2.0 | 2.7 |
| 1968 | 44.9 | 18.7 | 22.2 | 9.2 | 2.0 | 3.0 |
| 1969 | 46.7 | 19.6 | 20.9 | 8.1 | 1.9 | 2.8 |
| 1970 | 46.9 | 17.0 | 23.0 | 8.1 | 1.9 | 3.0 |
| 1971 | 46.1 | 14.3 | 25.3 | 8.9 | 2.0 | 3.4 |
| 1972 | 45.7 | 15.5 | 25.4 | 7.5 | 2.6 | 3.3 |
| 1973 | 44.7 | 15.7 | 27.3 | 7.0 | 2.1 | 3.1 |
| 1974 | 45.2 | 14.7 | 28.5 | 6.4 | 1.9 | 3.3 |
| 1975 | 43.9 | 14.6 | 30.3 | 5.9 | 1.7 | 3.7 |
| 1976 | 44.2 | 13.9 | 30.5 | 5.7 | 1.7 | 4.1 |
| 1977 | 44.3 | 15.4 | 29.9 | 4.9 | 2.1 | 3.3 |
| 1978 | 45.3 | 15.0 | 30.3 | 4.6 | 1.3 | 3.5 |
| 1979 | 47.0 | 14.2 | 30.0 | 4.0 | 1.2 | 3.6 |
| 1980 | 47.2 | 12.5 | 30.5 | 4.7 | 1.2 | 3.9 |
| 1981 | 47.7 | 10.2 | 30.5 | 6.8 | 1.1 | 3.6 |
| 1982 | 48.2 | 8.0 | 32.6 | 5.9 | 1.3 | 4.0 |
| 1983 | 48.1 | 6.2 | 34.8 | 5.9 | 1.0 | 4.0 |
| 1984 | 44.8 | 8.5 | 35.9 | 5.6 | 0.9 | 4.3 |
| 1985 | 45.6 | 8.4 | 36.1 | 4.9 | 0.9 | 4.2 |
| 1986 | 45.4 | 8.2 | 36.9 | 4.3 | 0.9 | 4.3 |
| 1987 | 46.0 | 9.8 | 35.5 | 3.8 | 0.9 | 4.0 |
| 1988 | 44.1 | 10.4 | 36.8 | 3.9 | 0.8 | 4.0 |
| 1989 | 45.0 | 10.4 | 36.3 | 3.5 | 0.9 | 4.0 |
| 1990 | 45.2 | 9.1 | 36.8 | 3.4 | 1.1 | 4.3 |
| 1991 | 44.3 | 9.3 | 37.5 | 4.0 | 1.1 | 3.7 |
| 1992 | 43.6 | 9.2 | 37.9 | 4.2 | 1.0 | 4.1 |
| 1993 | 44.2 | 10.2 | 37.1 | 4.2 | 1.1 | 3.3 |
| 1994 | 43.1 | 11.2 | 36.7 | 4.4 | 1.2 | 3.4 |
| 1995 | 43.7 | 11.6 | 35.8 | 4.3 | 1.1 | 3.5 |
| 1996 | 45.2 | 11.8 | 35.1 | 3.7 | 1.2 | 3.0 |
| 1997 | 46.7 | 11.5 | 34.2 | 3.6 | 1.3 | 2.7 |
| 1998 | 48.1 | 11.0 | 33.2 | 3.3 | 1.4 | 3.0 |
| 1999 | 48.1 | 10.1 | 33.5 | 3.9 | 1.5 | 2.9 |
| 2000 | 49.6 | 10.2 | 32.2 | 3.4 | 1.4 | 3.1 |
| 2001 | 49.9 | 7.6 | 34.9 | 3.3 | 1.4 | 2.9 |
| 2002 | 46.3 | 8.0 | 37.8 | 3.6 | 1.4 | 2.8 |
| 2003 | 44.5 | 7.4 | 40.0 | 3.8 | 1.2 | 3.1 |
| 2004 | 43.0 | 10.1 | 39.0 | 3.7 | 1.3 | 2.9 |
| 2005 | 43.1 | 12.9 | 36.9 | 3.4 | 1.1 | 2.6 |
| 2006 | 43.4 | 14.7 | 34.8 | 3.1 | 1.2 | 2.9 |
| 2007 | 45.3 | 14.4 | 33.9 | 2.5 | 1.0 | 2.9 |
| 2008 | 45.4 | 12.1 | 35.7 | 2.7 | 1.1 | 3.1 |
| 2009 | 43.5 | 6.6 | 42.3 | 3.0 | 1.1 | 3.5 |
| 2010 | 41.5 | 8.9 | 40.0 | 3.1 | 0.9 | 5.6 |
| 1950-2010 Avg. | 44.8 | 15.7 | 27.7 | 7.3 | 1.5 | 3.0 |

[1] Employment taxes comprise old-age and survivors insurance, disability insurance, hospital insurance, railroad retirement, railroad Social Security equivalent account, employment insurance, employee share of Federal employees retirement, and certain non-Federal employees retirement.

[2] Other receipts are primarily composed of (1) customs duties and fees, and (2) deposits of earnings by the Federal Reserve system.

Source: Office of Management and Budget, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2012, Table 2.2.*

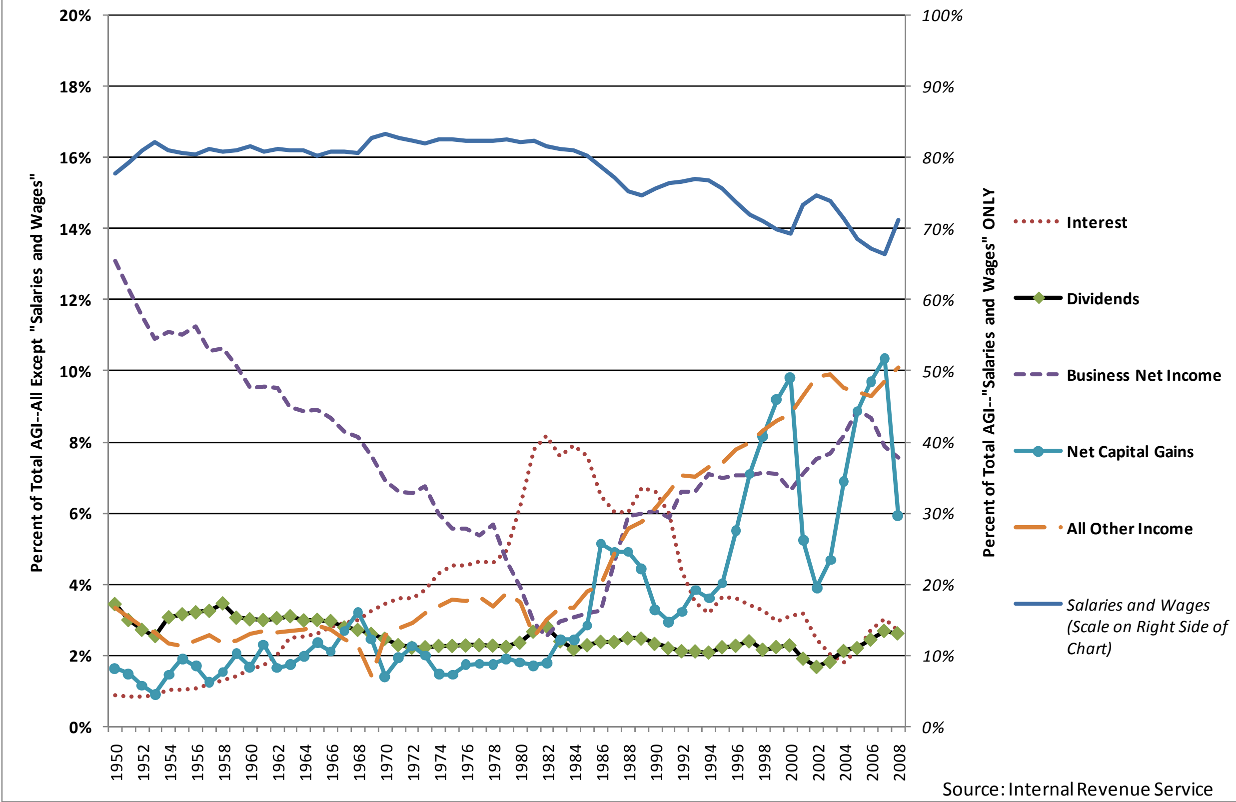
Figure A-1.–Components of AGI as Percentage of Total, 1950-2008
Percent of Total AGI--All Except "Salaries and Wages"
Percent of Total AGI--"Salaries and Wages" ONLY
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1950
1952
1954
1956
1958
1960
1962
1964
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
Interest
Dividends
Business Net Income
Net Capital Gains
All Other Income
Salaries and Wages (Scale on Right Side of Chart)
Source: Internal Revenue Service

## C. Variety of Business Organizations - Supplemental Data

### Table A-9.−Number of Different Types of Business Returns, 1978-2008

| Year | Non-Farm Sole Props | C Corporations | S Corporations | Partnerships | Farms | Total |
|---|---|---|---|---|---|---|
| 1978 | 8,908,289 | 1,898,100 | 478,679 | 1,234,157 | 2,704,794 | 15,224,019 |
| 1979 | 9,343,603 | 2,041,887 | 514,907 | 1,299,593 | 2,605,684 | 15,805,674 |
| 1980 | 9,730,019 | 2,165,149 | 545,389 | 1,379,654 | 2,608,430 | 16,428,641 |
| 1981 | 9,584,790 | 2,270,931 | 541,489 | 1,460,502 | 2,641,254 | 16,498,966 |
| 1982 | 10,105,515 | 2,361,714 | 564,219 | 1,514,212 | 2,689,237 | 17,234,897 |
| 1983 | 10,703,921 | 2,350,804 | 648,267 | 1,541,539 | 2,710,044 | 17,954,575 |
| 1984 | 11,262,390 | 2,469,404 | 701,339 | 1,643,581 | 2,694,420 | 18,771,134 |
| 1985 | 11,928,573 | 2,552,470 | 724,749 | 1,713,603 | 2,620,861 | 19,540,256 |
| 1986 | 12,393,700 | 2,602,301 | 826,214 | 1,702,952 | 2,524,331 | 20,049,498 |
| 1987 | 13,091,132 | 2,484,228 | 1,127,905 | 1,648,035 | 2,420,186 | 20,771,486 |
| 1988 | 13,679,302 | 2,305,598 | 1,257,191 | 1,654,245 | 2,367,527 | 21,263,863 |
| 1989 | 14,297,558 | 2,204,896 | 1,422,967 | 1,635,164 | 2,359,718 | 21,920,303 |
| 1990 | 14,782,738 | 2,141,558 | 1,575,092 | 1,553,529 | 2,321,153 | 22,374,070 |
| 1991 | 15,180,722 | 2,105,200 | 1,696,927 | 1,515,345 | 2,290,908 | 22,789,102 |
| 1992 | 15,495,419 | 2,083,652 | 1,785,371 | 1,484,752 | 2,288,218 | 23,137,412 |
| 1993 | 15,848,119 | 2,063,124 | 1,901,505 | 1,467,567 | 2,272,407 | 23,552,722 |
| 1994 | 16,153,871 | 2,318,614 | 2,023,754 | 1,493,963 | 2,242,324 | 24,232,526 |
| 1995 | 16,423,872 | 2,321,048 | 2,153,119 | 1,580,900 | 2,219,244 | 24,698,183 |
| 1996 | 16,955,023 | 2,326,954 | 2,304,416 | 1,654,256 | 2,188,025 | 25,428,674 |
| 1997 | 17,176,486 | 2,257,829 | 2,452,254 | 1,758,627 | 2,160,954 | 25,806,150 |
| 1998 | 17,398,440 | 2,260,757 | 2,588,081 | 1,855,348 | 2,091,845 | 26,194,471 |
| 1999 | 17,575,643 | 2,210,129 | 2,725,775 | 1,936,919 | 2,067,883 | 26,516,349 |
| 2000 | 17,902,791 | 2,184,795 | 2,860,478 | 2,057,500 | 2,086,789 | 27,092,353 |
| 2001 | 18,338,190 | 2,149,105 | 2,986,486 | 2,132,117 | 2,006,871 | 27,612,769 |
| 2002 | 18,925,517 | 2,112,230 | 3,154,377 | 2,242,169 | 1,995,072 | 28,429,365 |
| 2003 | 19,710,079 | 2,059,631 | 3,341,606 | 2,375,375 | 1,997,116 | 29,483,807 |
| 2004 | 20,590,691 | 2,039,631 | 3,518,334 | 2,546,877 | 2,004,898 | 30,700,431 |
| 2005 | 21,467,566 | 1,987,171 | 3,684,086 | 2,763,625 | 1,981,249 | 31,883,697 |
| 2006 | 22,074,953 | 1,968,032 | 3,872,766 | 2,947,116 | 1,958,273 | 32,821,140 |
| 2007 | 23,122,698 | 1,878,956 | 3,989,893 | 3,096,334 | 1,989,690 | 34,077,571 |
| 2008 | 22,614,483 | 1,797,278 | 4,049,943 | 3,146,006 | 1,948,054 | 33,555,764 |

Source: Internal Revenue Service, Statistics of Income, published and unpublished data.

**Table A-10.− Distribution of C Corporations, 2008**

| Firms classified by assets | Number of Returns | Total Assets (millions) | Cumulative Percent: Returns | Cumulative Percent: Total Assets |
|---|---|---|---|---|
| $0 or less | 296,074 | 0 | 16.47% | 0.00% |
| $1 to $25,000 | 363,899 | 2,668 | 36.72% | 0.00% |
| $25,001 to $50,000 | 136,343 | 4,695 | 44.31% | 0.01% |
| $50,001 to $100,000 | 174,776 | 11,908 | 54.03% | 0.03% |
| $100,001 to $250,000 | 253,837 | 39,698 | 68.15% | 0.08% |
| $250,001 to $500,000 | 181,186 | 64,539 | 78.24% | 0.17% |
| $500,001 to $1,000,000 | 139,966 | 98,766 | 86.02% | 0.30% |
| $1,000,001 to $10,000,000 | 193,443 | 549,528 | 96.79% | 1.05% |
| $10,000,001 to $50,000,000 | 29,932 | 654,387 | 98.45% | 1.94% |
| $50,000,001 to $100,000,000 | 7,290 | 519,178 | 98.86% | 2.65% |
| More than $100,000,000 | 20,530 | 71,486,474 | 100.00% | 100.00% |
| **All Assets** | 1,797,278 | 73,431,840 | | |

| Firms classified by receipts | Number of Returns | Total Receipts (millions) | Cumulative Percent: Returns | Cumulative Percent: Total Receipts |
|---|---|---|---|---|
| $0 or less | 223,061 | -15,496 | 12.41% | -0.07% |
| $1 to $2,500 | 46,820 | 49 | 15.02% | -0.07% |
| $2,501 to $5,000 | 29,231 | 113 | 16.64% | -0.07% |
| $5,001 to $10,000 | 42,501 | 317 | 19.01% | -0.07% |
| $10,001 to $25,000 | 98,843 | 1,671 | 24.51% | -0.06% |
| $25,001 to $50,000 | 108,038 | 3,996 | 30.52% | -0.04% |
| $50,001 to $100,000 | 154,729 | 11,337 | 39.13% | 0.01% |
| $100,001 to $250,000 | 276,747 | 45,667 | 54.53% | 0.23% |
| $250,001 to $500,000 | 212,272 | 77,224 | 66.34% | 0.59% |
| $500,001 to $1,000,000 | 195,168 | 141,202 | 77.20% | 1.26% |
| $1,000,001 to $10,000,000 | 337,815 | 1,020,309 | 95.99% | 6.07% |
| $10,000,001 to $50,000,000 | 52,541 | 1,092,809 | 98.91% | 11.22% |
| More than $50,000,000 | 19,510 | 18,843,110 | 100.00% | 100.00% |
| **All Receipts** | 1,797,278 | 21,222,309 | | |

* Details do not add to totals due to rounding.

Source: JCT calculations on SOI data.

**Table A-11.− Distribution of S Corporations, 2008**

| Firms classified by assets | Number of Returns | Total Assets (millions) | Cumulative Percent: Returns | Cumulative Percent: Total Assets |
|---|---|---|---|---|
| $0 or less | 722,118 | 0 | 17.83% | 0.00% |
| $1 to $25,000 | 1,002,508 | 7,857 | 42.58% | 0.23% |
| $25,001 to $50,000 | 415,105 | 14,177 | 52.83% | 0.65% |
| $50,001 to $100,000 | 415,052 | 28,505 | 63.08% | 1.50% |
| $100,001 to $250,000 | 568,719 | 90,348 | 77.12% | 4.18% |
| $250,001 to $500,000 | 345,585 | 122,359 | 85.66% | 7.81% |
| $500,001 to $1,000,000 | 239,203 | 167,535 | 91.56% | 12.79% |
| $1,000,001 to $10,000,000 | 301,953 | 839,356 | 99.02% | 37.72% |
| $10,000,001 to $50,000,000 | 32,765 | 644,961 | 99.83% | 56.87% |
| $50,000,001 to $100,000,000 | 3,611 | 250,689 | 99.92% | 64.31% |
| More than $100,000,000 | 3,326 | 1,201,517 | 100.00% | 100.00% |
| **All Assets** | 4,049,944 | 3,367,304 | | |

| Firms classified by receipts | Number of Returns | Total Receipts (millions) | Cumulative Percent: Returns | Cumulative Percent: Total Receipts |
|---|---|---|---|---|
| $0 or less | 552,003 | -8,165 | 13.63% | -0.14% |
| $1 to $2,500 | 96,972 | 100 | 16.02% | -0.14% |
| $2,501 to $5,000 | 54,264 | 198 | 17.36% | -0.14% |
| $5,001 to $10,000 | 80,680 | 597 | 19.36% | -0.13% |
| $10,001 to $25,000 | 219,584 | 3,750 | 24.78% | -0.07% |
| $25,001 to $50,000 | 260,228 | 9,718 | 31.20% | 0.09% |
| $50,001 to $100,000 | 400,774 | 29,242 | 41.10% | 0.57% |
| $100,001 to $250,000 | 707,617 | 117,275 | 58.57% | 2.51% |
| $250,001 to $500,000 | 536,784 | 191,812 | 71.83% | 5.68% |
| $500,001 to $1,000,000 | 467,402 | 331,675 | 83.37% | 11.17% |
| $1,000,001 to $10,000,000 | 585,763 | 1,637,854 | 97.83% | 38.27% |
| $10,000,001 to $50,000,000 | 73,682 | 1,476,065 | 99.65% | 62.69% |
| More than $50,000,000 | 14,192 | 2,253,935 | 100.00% | 100.00% |
| **All Receipts** | 4,049,944 | 6,044,056 | | |

* Details do not add to totals due to rounding.

Source: JCT calculations on SOI data.

### Table A-12. −Distribution of Partnerships, 2008

| Firms classified by assets | Number of Returns | Total Assets (millions) | Cumulative Percent Returns | Cumulative Percent Total Assets |
|---|---|---|---|---|
| $0 or less | 831,112 | -124,983 | 26.42% | -0.65% |
| $1 to $25,000 | 326,725 | 2,463 | 36.80% | -0.64% |
| $25,001 to $50,000 | 112,035 | 4,206 | 40.36% | -0.62% |
| $50,001 to $100,000 | 165,193 | 12,295 | 45.62% | -0.56% |
| $100,001 to $250,000 | 337,546 | 58,018 | 56.34% | -0.26% |
| $250,001 to $500,000 | 302,787 | 111,844 | 65.97% | 0.32% |
| $500,001 to $1,000,000 | 293,703 | 210,331 | 75.31% | 1.41% |
| $1,000,001 to $10,000,000 | 648,573 | 1,960,646 | 95.92% | 11.59% |
| $10,000,001 to $50,000,000 | 95,883 | 1,972,643 | 98.97% | 21.83% |
| $50,000,001 to $100,000,000 | 14,272 | 994,910 | 99.42% | 27.00% |
| More than $100,000,000 | 18,180 | 14,057,430 | 100.00% | 100.00% |
| **All Assets** | 3,146,006 | 19,259,804 | | |

| Firms classified by receipts | Number of Returns | Total Receipts (millions) | Cumulative Percent Returns | Cumulative Percent Total Receipts |
|---|---|---|---|---|
| $0 or less | 1,940,561 | 0 | 61.68% | 0.00% |
| $1 to $2,500 | 88,435 | 89 | 64.49% | 0.00% |
| $2,501 to $5,000 | 30,168 | 108 | 65.45% | 0.00% |
| $5,001 to $10,000 | 56,704 | 418 | 67.26% | 0.01% |
| $10,001 to $25,000 | 125,287 | 2,036 | 71.24% | 0.06% |
| $25,001 to $50,000 | 97,436 | 3,661 | 74.34% | 0.14% |
| $50,001 to $100,000 | 120,238 | 8,651 | 78.16% | 0.34% |
| $100,001 to $250,000 | 206,257 | 34,255 | 84.71% | 1.12% |
| $250,001 to $500,000 | 141,415 | 50,313 | 89.21% | 2.26% |
| $500,001 to $1,000,000 | 118,379 | 83,280 | 92.97% | 4.15% |
| $1,000,001 to $10,000,000 | 187,050 | 547,902 | 98.92% | 16.61% |
| $10,000,001 to $50,000,000 | 26,111 | 540,309 | 99.75% | 28.90% |
| More than $50,000,000 | 7,965 | 3,126,814 | 100.00% | 100.00% |
| **All Receipts** | 3,146,006 | 4,397,835 | | |

* Details do not add to totals due to rounding.

Source: JCT calculations on SOI data.

**Table A-13.−Distribution of Nonfarm Sole Proprietorships, 2008**

| Firms classified by receipts | Number of Returns | Total Receipts (millions) | Cumulative Percent: Returns | Cumulative Percent: Total Receipts |
|---|---|---|---|---|
| $0 or less | 1,151,951 | 0 | 5.09% | 0.00% |
| $1 to $2,500 | 4,487,073 | 5,291 | 24.94% | 0.41% |
| $2,501 to $5,000 | 2,457,593 | 8,913 | 35.80% | 1.09% |
| $5,001 to $10,000 | 3,009,684 | 21,815 | 49.11% | 2.77% |
| $10,001 to $25,000 | 4,522,767 | 72,407 | 69.11% | 8.33% |
| $25,001 to $50,000 | 2,694,233 | 95,710 | 81.02% | 15.68% |
| $50,001 to $100,000 | 1,903,231 | 133,731 | 89.44% | 25.95% |
| $100,001 to $250,000 | 1,506,201 | 233,793 | 96.10% | 43.91% |
| $250,001 to $500,000 | 519,138 | 179,845 | 98.40% | 57.72% |
| $500,001 to $1,000,000 | 227,167 | 154,542 | 99.40% | 69.59% |
| $1,000,001 to $10,000,000 | 132,164 | 273,398 | 99.99% | 90.59% |
| $10,000,001 to $50,000,000 | 2,907 | 53,060 | 100.00%[1] | 94.67% |
| More than $50,000,000 | 375 | 69,419 | 100.00% | 100.00% |
| **All Receipts** | 22,614,483 | 1,301,922 | | |

* Details do not add to totals due to rounding.

[1] The actual figure is 99.9983 percent which rounds to 100.00 percent.

Source: JCT calculations on SOI data.

**Table A-14a.−Distribution of Net Income by Gross Receipts and Entity Type, 2008**

| | Net Income (millions of dollars) | | |
|---|---|---|---|
| Firms classified by receipts | S Corporations | Partnerships | Nonfarm Sole Proprietorships |
| $0 or less | -12,897 | -132,165 | -4,479 |
| $1 to $2,500 | -558 | -703 | -6,687 |
| $2,501 to $5,000 | -392 | -280 | -417 |
| $5,001 to $10,000 | -752 | -917 | 6,311 |
| $10,001 to $25,000 | -1,541 | -1,791 | 29,049 |
| $25,001 to $50,000 | -1,190 | -2,309 | 33,783 |
| $50,001 to $100,000 | 1,641 | -2,088 | 43,637 |
| $100,001 to $250,000 | 9,874 | -888 | 65,726 |
| $250,001 to $500,000 | 13,076 | -67 | 40,290 |
| $500,001 to $1,000,000 | 20,007 | 1,770 | 27,883 |
| $1,000,001 to $10,000,000 | 83,359 | 25,270 | 26,740 |
| $10,000,001 to $50,000,000 | 54,503 | 18,052 | 2,166 |
| More than $50,000,000 | 74,896 | 206,921 | 505 |
| **All Receipts** | 240,026 | 110,806 | 264,508 |

**Table A-14b.−Percent of Firms with a Net Operating Loss by Gross Receipts and Entity Type, 2008**

| Firms classified by receipts | S Corporations | Partnerships | Nonfarm Sole Proprietorships |
|---|---|---|---|
| $0 or less | 58 | 27 | 83 |
| $1 to $2,500 | 77 | 70 | 40 |
| $2,501 to $5,000 | 69 | 56 | 30 |
| $5,001 to $10,000 | 58 | 65 | 22 |
| $10,001 to $25,000 | 52 | 54 | 15 |
| $25,001 to $50,000 | 45 | 49 | 13 |
| $50,001 to $100,000 | 34 | 41 | 12 |
| $100,001 to $250,000 | 30 | 39 | 12 |
| $250,001 to $500,000 | 31 | 37 | 12 |
| $500,001 to $1,000,000 | 28 | 39 | 12 |
| $1,000,001 to $10,000,000 | 26 | 33 | 18 |
| $10,000,001 to $50,000,000 | 26 | 33 | 34 |
| More than $50,000,000 | 21 | 28 | 59 |
| **All Receipts** | 38 | 34 | 25 |

* Details do not add to totals due to rounding.
Source: JCT calculations on SOI data.

**Table A-15a.−Distribution of Net Income by Gross Receipts of C Corporations, 2008**

| Firms classified by receipts | Net Income (millions of dollars) |
|---|---|
| $0 or less | -72,237 |
| $1 to $2,500 | -956 |
| $2,501 to $5,000 | -483 |
| $5,001 to $10,000 | -789 |
| $10,001 to $25,000 | -1,577 |
| $25,001 to $50,000 | -1,830 |
| $50,001 to $100,000 | -2,502 |
| $100,001 to $250,000 | -4,500 |
| $250,001 to $500,000 | -3,848 |
| $500,001 to $1,000,000 | -3,985 |
| $1,000,001 to $10,000,000 | -8,585 |
| $10,000,001 to $50,000,000 | 26,220 |
| More than $50,000,000 | 819,389 |
| **All Receipts** | 744,316 |

**Table A-15b.−Percent of C Corporations with a Net Operating Loss by Gross Receipts, 2008**

| Firms classified by receipts | C Corporations |
|---|---|
| $0 or less | 71 |
| $1 to $2,500 | 67 |
| $2,501 to $5,000 | 60 |
| $5,001 to $10,000 | 54 |
| $10,001 to $25,000 | 56 |
| $25,001 to $50,000 | 52 |
| $50,001 to $100,000 | 51 |
| $100,001 to $250,000 | 46 |
| $250,001 to $500,000 | 46 |
| $500,001 to $1,000,000 | 42 |
| $1,000,001 to $10,000,000 | 35 |
| $10,000,001 to $50,000,000 | 31 |
| More than $50,000,000 | 32 |
| **All Receipts** | 48 |

* Details do not add to totals due to rounding.
Source: JCT calculations on SOI data.

## D. Corporate Income Tax Supplement - General Business Credits

The general business credit is the sum of various business credits determined under the Code. The component credits of the general business credit are listed below.

The general business credit may not reduce a taxpayer's net income tax below an amount equal to the taxpayer's tentative minimum tax (or, if greater, 25 percent of so much of the taxpayer's regular tax liability as exceeds $25,000). For purposes of applying this rule to certain credits (the alcohol fuels credit, the low-income housing credit, portions of the renewable electricity production credit, the employer Social Security credit, the railroad track maintenance credit, the small employer health insurance credit, the energy credit, the rehabilitation credit, and work opportunity credit), the tentative minimum tax is treated as being zero.

General business credits determined in a taxable year that exceed the amount allowable in that year generally may be carried back one year and forward up to 20 years. Credits for small businesses determined in 2010 were allowed a five-year carryback.

**Table A-16.−Components of the General Business Credit for 2011***

| Provision | Description |
|---|---|
| Rehabilitation credit (sec. 47) | Credit for restoring certain pre-1936 buildings and certain historic buildings |
| Energy credit (sec. 48) | Credit for investing in certain solar, geothermal, fuel cell, and other energy property |
| Advanced coal project credit (sec. 48A) | Credit for investing in advanced coal power facilities |
| Gasification project credit (sec. 48B) | Credit for investing in gasification facilities |
| Advanced energy project credit (sec. 48C) | Credit for investing in facilities that manufacture certain renewable power or other advanced energy equipment or products |
| Work opportunity credit (sec. 51) | Credit for hiring employees from certain targeted groups |
| Alcohol fuels credit (sec. 40) | Credit for producing ethanol and other alcohol fuels |
| Research credit (sec. 41) | Credit for conducting research in the United States |
| Low-income housing credit (sec. 42) | Credit for owners of qualified low-income rental housing |
| Disabled access credit (sec. 44) | Credit to offset costs incurred by small businesses to comply with the Americans With Disabilities Act of 1990 |
| Renewable electricity production credit (sec. 45) | Credit for producing power from wind, biomass, and other renewable resources |
| Empowerment zone employment credit (sec. 1396) | Credit for employing people in certain designated areas with high levels of unemployment and poverty |
| Indian employment credit (sec. 45A) | Credit for employing native Americans living and working on Indian reservations |

| Table A-16.−Components of the General Business Credit for 2011* | |
|---|---|
| **Provision** | **Description** |
| Employer Social Security credit (sec. 45B) | Credit for an employer's portion of Social Security taxes paid on employee cash tips in excess of the minimum wage |
| Orphan drug credit (sec. 45C) | Credit for clinical testing of drugs used to treat certain rare diseases or conditions |
| New markets tax credit (sec. 45D) | Credit for investing in community development entities, which serve low income communities |
| Small employer pension plan startup cost credit (45E) | Credit for small employers that start qualified pension plans |
| Employer-provided child care credit (sec. 45F) | Credit for building or running an employer-provided child care facility |
| Railroad track maintenance credit (sec.45G) | Credit for railroad track maintenance expenses |
| Biodiesel fuels credit (sec. 40A) | Credit for producing biodiesel |
| Distilled spirits credit (sec. 5011) | Credit to wholesalers, distillers, and importers of distilled spirits that approximates the interest cost resulting from the early imposition of certain excise taxes |
| Advanced nuclear power production credit (sec. 45J) | Credit for producing nuclear power at advanced nuclear power facilities |
| New energy efficient homes credit (sec. 45L) | Credit for building energy efficient homes |
| Energy efficient appliance credit (sec. 45M) | Credit for manufacturing energy efficient appliances |
| Alternative fuel refueling property credit (sec. 30C) | Credit for installing certain biofuel, electric, and alternative fuel refueling property |
| Mine rescue team training credit (sec. 45N) | Credit for training mine rescue team employees |
| Agricultural chemicals security credit (sec. 45O) | Credit for conducting backgrounds checks, installing security devices, and taking other measures to safeguard certain fertilizers and pesticides used on farms |
| Differential wage payment credit (sec. 45P) | Credit for small employers who supplement the military pay of their employees called to active duty |
| Carbon dioxide sequestration credit (sec. 45Q) | Credit for sequestering industrial source carbon dioxide |
| Alternative motor vehicle credit (sec. 30B) | Credit for fuel cell vehicles and hybrid vehicle conversions |
| Plug-in electric drive motor vehicle credit (secs. 30 and 30D) | Credit for plug-in electric drive motor vehicles |
| Small employer health insurance credit (sec. 45R) | Credit for small employers who provide health insurance to their employees |

* Excludes expired and phased-out credits.

### E. New Tax Expenditures since the Tax Reform Act of 1986

The Tax Reform Act of 1986[80] "represents one of the most comprehensive revisions of the Federal income tax system since its inception."[81] Among other considerations, Congress was concerned that erosion of the tax base required tax rates to be higher than otherwise would be necessary. With the elimination of various tax expenditures and other preferences and the enactment of other base-broadening provisions, the Act sharply reduced individual income tax rates. The Act retained some of the tax expenditures most widely utilized by individuals and business tax expenditures believed to be beneficial to the economy.

Numerous changes to the Code have been enacted in subsequent tax legislation. The information that follows provides a list of the new tax expenditures contained in legislation since the passage of the Tax Reform Act of 1986.[82] Modifications and extensions of pre-existing tax expenditures are not listed. Items are grouped by the legislation by which they were created. Items that have since expired are shown in italics.

Technical and Miscellaneous Revenue Act of 1988, enacted on November 10, 1988 (Pub. L. No. 100-647).

- Exclusion of income from United States savings bonds used to pay higher education tuition and fees

Omnibus Budget Reconciliation Act of 1990, enacted on November 5, 1990 (Pub. L. No. 101-508).

- Enhanced oil recovery credit
- Credit for small producers of ethanol
- Credit for cost of providing access for disabled individuals
- *Credit for health insurance costs for coverage of children*
- Reduced rate of tax on capital gains (effective with increase in individual income tax rates)

[80] Pub. L. No. 99-514.

[81] Joint Committee on Taxation, *General Explanation of the Tax Reform Act of 1986* (JCS-10-87), May 4, 1987, p. 6.

[82] This list may not be exhaustive. Differences in the methodology for (1) identifying tax expenditures (including negative tax expenditures) generally, (2) determining what constitutes a new provision versus a modification or extension of an existing provision, and (3) determining whether a provision is *de minimis* may yield a different list of provisions.

Omnibus Budget Reconciliation Act of 1993, enacted on August 10, 1993 (Pub. L. No. 103-66).

- Exclusion for gain from certain small business stock
- Rollover of gain from sale of publicly traded securities into specialized small business investment companies
- *Tax incentives for businesses in empowerment zones, enterprise communities, and rural development investment areas*
- Accelerated depreciation for property on Indian reservations
- Indian employment credit
- Modification of passive loss rules for certain real estate professionals
- Modification of unrelated business taxable income rules relating to real estate
- Exclusion of income from discharge of indebtedness incurred in connection with qualified real property
- Credit for portion of employer paid FICA taxes on tips

Small Business Job Protection Act of 1996, enacted on August 20, 1996 (Pub. L. No. 104-188).

- Deferral of gain on involuntary conversions resulting from Presidentially-declared disasters
- Exclusion of contributions in aid of construction for water and sewer utilities
- Adoption tax credit
- Exclusion of employer adoption assistance programs
- Deferral of tax on earnings of qualified State tuition programs
- Tax-free transfer of assets from common trust funds to mutual funds

Health Insurance Portability and Accountability Act of 1996, enacted on August 21, 1996 (Pub. L. No. 104-191).

- Medical savings accounts

Taxpayer Relief Act of 1997, enacted on August 5, 1997 (Pub. L. No. 105-34),

- Tax credit for taxpayers with qualifying children under the age of 17
- HOPE and Lifetime Learning credits for tuition for post-secondary education
- Exclusion of earnings of trust or custodial accounts for paying higher education expenses
- Deduction for interest on qualified higher education loans

- *Credit for holders of qualified zone academy bonds*
- Tax incentives for D.C. Enterprise Zones
- D.C. first-time homebuyer tax credit
- Welfare-to-work tax credit
- Income averaging for farmers
- Expensing of environmental remediation expenditures
- *Tax refund to Amtrak based on the carryback of its net operating losses against the tax attributes of its predecessor railroads*
- Exclusion for certain disaster mitigation payments
- Exclusion of survivor annuities paid to families of public safety officers killed in the line of duty

Tax and Trade Relief Extension Act of 1998, as part of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (Pub. L. No. 105-277).

- Special five-year carryback period for net operating losses attributable to farming

FSC Repeal and Extraterritorial Income Exclusion Act of 2000, enacted on November 15, 2000 (Pub. L. No. 106-519).

- *Extraterritorial income exclusion*

Community Renewal Tax Relief Act of 2000, incorporated by reference in the Consolidated Appropriations Act, 2001, enacted on December 2, 2000 (Pub. L. No. 106-554).

- *Renewal community tax incentives*
- New markets tax credit

Economic Growth and Tax Relief Reconciliation Act of 2001, enacted on June 7, 2001 (Pub. L. No. 107-16).

- Deduction for qualified higher education expenses
- Tax credit for employers who provide child care for employees
- Exclusion for certain restitution payments made to individuals who were persecuted for racial or religious reasons by Nazi Germany or other Axis regimes
- Credit for certain individuals for elective deferrals and IRA contributions
- Nonrefundable credit for administrative and retirement-education expenses for new pension plans adopted by small businesses
- Treatment of electing Alaska Native Settlement Trusts

Job Creation and Worker Assistance Act of 2002, enacted on March 9, 2002 (Pub. L. No. 107-147).

- Additional first-year depreciation deduction for qualified property to which the general rules of MACRS apply
- Above the line deduction for teacher classroom expenses
- Additional first-year depreciation deduction for qualified New York Liberty Zone property
- Authority to issue $8 billion of tax-exempt private activity bonds to finance the construction and rehabilitation of nonresidential real property and residential rental real property in the New York Liberty Zone
- Authority for one additional advance refunding for certain bonds for facilities located in New York City
- A five-year recovery period was provided for qualified New York Liberty Zone leasehold improvement property

Trade Act of 2002, enacted on August 6, 2002 (Pub. L. No. 107-210).

- Tax credit for the purchase of health insurance coverage by certain taxpayers

Jobs and Growth Tax Relief Reconciliation Act of 2003, enacted on May 28, 2003 (Pub. L. No. 108-27).

- Reduced rates of tax on qualified dividends

Military Family Tax Relief Act of 2003, enacted on November 11, 2003 (Pub. L. No. 108-121).

- Exclusion for amounts received under Department of Defense Homeowners Assistance Program
- Deduction for overnight travel expenses of National Guard and Reserve members

Medicare Prescription Drug, Improvement, and Modernization Act of 2003, enacted on December 8, 2003 (Pub. L. No. 108-173).

- Exclusion of untaxed Medicare benefits: Prescription drug insurance (Part D)
- Exclusion of subsidies to employers who maintain prescription drug plans for Medicare retirees
- Health savings accounts

American Jobs Creation Act of 2004, enacted on October 22, 2004 (Pub. L. No. 108-357).

- Production activity deduction

- Deduction of film and television production costs
- Tax credit for expenditures for maintaining railroad tracks
- Elective "tonnage tax" in lieu of corporate income tax on taxable income from certain shipping activities
- Tax credit for biodiesel blenders
- Charitable deduction for certain expenses incurred in carrying out sanctioned whaling activities
- Incentives for small refiners to comply with EPA sulfur regulations
- Exclusion of interest on State and local government bonds for qualified green building and sustainable design projects
- Deferral of gain from the disposition of electric transmission property to implement Federal Energy Regulatory Commission restructuring policy

H.R. 241, enacted on January 7, 2005 (Pub. L. No. 109-1).

- Accelerated deduction for cash contributions for Indian Ocean tsunami victims

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, enacted on August 10, 2005 (Pub. L. No. 109-59).

- Tax credit for the cost of carrying tax-paid distilled spirits in wholesale inventories
- Exclusion of interest on State and local government qualified private activity bonds for highway projects and rail-truck transfer facilities

Energy Tax Incentives Act of 2005, enacted on August 8, 2005 (Pub. L. No. 109-58).

- Tax credit for the holders of clean renewable energy bonds
- Tax credit for the production of electricity from qualifying advanced nuclear power facilities
- Tax credits for investments in clean coal power generation facilities
- Temporary election for refiners to expense up to 50 percent of the cost of qualified property used in the refining of liquid fuels
- Two-year amortization for certain geological and geophysical costs incurred in connection with oil and gas exploration
- Deduction for expenditures on qualified energy-efficient commercial building property
- Tax credit for the purchase of qualified energy efficiency improvements to existing homes
- Tax credit for the production of certain energy-efficient appliances

- Tax credit for the purchase of qualified photovoltaic property and qualified solar water heating property used exclusively for purposes other than heating swimming pools and hot tubs
- Tax credit for eligible contractors for the construction of qualified energy-efficient homes
- Tax credits for alternative technology vehicles
- Tax credit for the cost of installing clean-fuel vehicle refueling property
- Temporary five-year carryback period for a portion of the net operating losses of certain electric utility companies
- Tax credits for biodiesel fuels

The Katrina Emergency Tax Relief Act of 2005, enacted on September 23, 2005 (Pub. L. No. 109-73).

- Tax credit for employee retention for employers affected by Hurricanes Katrina, Rita, and Wilma
- Additional personal exemption for taxpayers who provide 60 days or more of free housing in their personal residence to individuals displaced by Hurricane Katrina
- Exclusion for the income from certain discharges of nonbusiness debt owed by individuals harmed by Hurricane Katrina

The Gulf Opportunity Zone Act of 2005, enacted on December 21, 2005 (Pub. L. No. 109-135).

- Additional first-year depreciation deduction for qualified Gulf Opportunity Zone property
- Partial expensing for Gulf Opportunity Zone clean-up costs
- Ten-year carryback period for casualty losses of Gulf Opportunity Zone public utility property by reason of Hurricane Katrina
- Five-year carryback period for net operating losses attributable to expenses
- Tax credit for the holders of Gulf Tax Credit Bonds
- Five-year carryback period for casualty losses of public utility property attributable to Hurricane Katrina
- Tax credit for Gulf Opportunity Zone employers providing in-kind lodging for employees and income exclusion for the employees

Tax Increase Prevention and Reconciliation Act of 2005, enacted on May 17, 2006 (Pub. L. No. 109-222).

- Exclusion for earnings of certain environmental settlement funds

- Reduced rates of tax for gains from the sale or exchange of self-created musical works
- Elective five-year amortization of expenses paid or incurred for the creation or acquisition of musical compositions

The Tax Relief and Health Care Act of 2006, enacted on December 20, 2006 (Pub. L. No. 109-432).

- Tax credit for corporate income earned in American Samoa
- Special depreciation allowance for cellulosic biomass ethanol plant property
- Partial expensing for investments in advanced mine safety equipment
- Credit for costs incurred in training qualified mine rescue team employees
- Deduction for premiums paid or accrued for qualified mortgage insurance
- 25-percent exclusion from gross income for capital gains from the conservation sale of a qualifying mineral or geothermal interest located on eligible Federal land

Hokie Spirit Memorial Fund, enacted December 19, 2007 (Pub. L. No. 110-141).

- Exclusion of amounts received from the Hokie Spirit Memorial Fund, established by the Virginia Tech Foundation

Mortgage Forgiveness Debt Relief Act of 2007, enacted December 20, 2007 (Pub. L. No. 110-142).

- Exclusion of indebtedness income arising from discharge of qualified principal residence indebtedness
- Exclusion of benefits provided to volunteer firefighters and emergency medical responders

Economic Stimulus Act of 2008, enacted February 13, 2008 (Pub. L. No. 110-185)

- Recovery rebates for individual taxpayers
- Additional first year depreciation deduction for qualified property

Food, Conservation, and Energy Act of 2008, enacted May 22, 2008 (Pub. L. No. 110-234 and 110-246).

- Exclusion of Conservation Reserve Program payments from SECA tax for individuals receiving Social Security retirement or disability payments
- Deduction for endangered species recovery expenditures
- Credit for cellulosic biofuel
- Tax credit bonds for qualified forestry conservation projects

- Agricultural chemicals security tax credit

Heroes Earnings Assistance and Relief Tax Act of 2008, enacted June 17, 2008 (Pub. L. No. 110-245).

- Employer wage credit for activated military reservists
- Exclusion of certain State and local payments to military personnel

Housing and Economic Recovery Act of 2008, enacted July 30, 2008 (Pub. L. No. 110-289).

- First time homebuyer credit
- Additional standard deduction for State and local real property taxes
- Bonds guaranteed by Federal Home Loan Banks eligible for treatment as tax-exempt bonds

Emergency Economic Stabilization Act of 2008, Energy Improvement and Extension Act of 2008, and Tax Extenders and Alternative Minimum Tax Relief Act of 2008, enacted October 3, 2008 (Pub. L. No. 110-343).

- New clean renewable energy bonds
- Credit for carbon dioxide sequestration
- Alternative motor vehicle credit and plug in electric vehicle credit
- Qualified energy conservation bonds
- Accelerated recovery period for depreciation of smart meters and smart grid system
- Special depreciation allowance for certain reuse and recycling property
- Treatment of amounts received in connection with the Exxon Valdez litigation.
- Tax exempt bond financing for the Midwestern Disaster Area
- Expensing for certain demolition and clean up costs
- Tax credit bonds
- Additional personal exemption for housing displaced individuals in the Midwestern Disaster area
- Mileage reimbursements to charitable volunteers excluded from gross income
- Exclusions for certain cancellations of indebtedness by reason of Midwestern disasters
- Expensing of qualified disaster expenses
- Special depreciation allowance for qualified disaster property
- Increased expensing for qualified disaster assistance property

The American Recovery and Reinvestment Act of 2009, enacted on February 17, 2009 (Pub. L. No. 111-5).

- Making work pay credit
- Exclusion from gross income for up to $2,400 of unemployment compensation
- Deduction for any State or local sales or excise tax imposed on the purchase of a new car, light truck, motorcycle, or motor home
- Election to receive an investment credit in lieu of a renewable electricity production credit
- Credit for alternative motor vehicles
- Deferral of income arising from business indebtedness discharged by the reacquisition of a debt instrument
- Credit for investment in advanced energy property
- Issuance of recovery zone economic development bonds and recovery zone facility bonds
- Tribal economic development bonds
- Suspension of classification of tax-exempt interest on certain bonds as a tax preference for AMT purposes
- Qualified school construction bonds
- Build America bonds
- Credit against income taxes owed for tax year 2009 for individuals who receive a government pension or annuity from work not covered by social security
- Premium subsidy for COBRA continuation coverage for unemployed workers and their families

Hiring Incentives to Restore Employment Act, enacted on March 18, 2010 (Pub. L. No. 111-147).

- Credit for retention of certain newly hired workers

Patient Protection and Affordable Care Act, enacted March 23, 2010 (Pub. L. No. 111-148), in combination with the Health Care and Education Reconciliation Act of 2010, enacted March 30, 2010 (Pub. L. No. 111-152).

- Credits and subsidies for participation in exchanges
- Tax credit for small businesses purchasing employer insurance
- Annual fees imposed on any covered entity engaged in the business of providing health insurance with respect to United States health risks are not deductible as ordinary and necessary business expenses

- Limits on deductible compensation for insurance companies
- Exclusion of Indian health care benefits
- *Therapeutic research credit*
- Surtax on unearned income

The Small Business Jobs Act of 2010, enacted on September 27, 2010 (Pub. L. No. 111-240).

- Extended carryback period for eligible small business credits from one year to five years

## F. Historical Trends in the Largest Tax Expenditures, Individual and Corporate

### Individual Tax Expenditures

The tables below illustrate in five-year segments the top ten largest tax expenditures for individuals since 1975.

**Table A-17.−Largest Tax Expenditures, Individual 1975-1979**

| Tax Expenditure | Total Amount (1975-1979) (Billions of dollars) |
|---|---|
| Exclusion of capital gains at death | 37.6 |
| Deduction for nonbusiness State and local taxes (other than State and local property taxes on owner-occupied homes) | 37.3 |
| Net exclusion of pension contributions and earnings: employer plans | 32.4 |
| Capital gain (other than farming and timber) | 32.0 |
| Deduction for mortgage interest on owner-occupied homes | 25.7 |
| Exclusion of employer contributions to medical insurance premiums and medical care | 21.2 |
| Deduction for State and local property taxes on owner-occupied homes | 21.0 |
| Exclusion of untaxed social security and railroad retirement benefits | 17.7 |
| Deduction for charitable contributions, other than for education and health | 16.9 |
| Exclusion of unemployment insurance benefits | 13.6 |

**Table A-18.−Largest Tax Expenditures, Individual 1980-1984**

| Tax Expenditure | Total Amount (1980-1984) (Billions of dollars) |
|---|---|
| Deduction for nonbusiness State and local taxes (other than State and local property taxes on owner-occupied homes) | 104.9 |
| Exclusion of employer contributions to medical insurance premiums and medical care | 91.5 |
| Deduction for mortgage interest on owner-occupied homes | 89.5 |
| Net exclusion of pension contributions and earnings: employer plans | 85.5 |
| Capital gains (other than farming and timber) | 80.4 |
| Deduction for State and local property taxes on owner-occupied homes | 53.2 |
| Exclusion of untaxed social security and railroad retirement benefits | 53.1 |
| Deduction for charitable contributions, other than for education and health | 39.4 |
| Deduction for medical expenses | 23.2 |
| Exclusion of interest on life insurance savings | 23.0 |

**Table A-19.−Largest Tax Expenditures, Individual 1985-1989**

| Tax Expenditure | Total Amount (1985-1989) (Billions of dollars) |
|---|---|
| Net exclusion of pension contributions and earnings: employer plans | 334.6 |
| Deduction for nonbusiness State and local taxes (other than State and local property taxes on owner-occupied homes) | 143.5 |
| Exclusion of employer contributions to medical insurance premiums and medical care | 133.4 |
| Capital gains, other than agricultural, timber, iron ore and coal | 111.0 |
| Deduction for mortgage interest on owner-occupied homes | 75.6 |
| Exclusion of untaxed social security and railroad retirement benefits | 71.6 |
| Deduction for charitable contributions, other than for education and health | 62.4 |
| Deduction for State and local property tax on owner-occupied homes | 61.7 |
| Individual retirement plans | 59.3 |
| Deduction for nonmortgage interest in excess of investment income | 41.1 |

**Table A-20.−Largest Tax Expenditures, Individual 1990-1994**

| Tax Expenditure | Total Amount (1990-1994) (Billions of dollars) |
|---|---|
| Net exclusion of pension contributions and earnings: employer plans | 272.9 |
| Exclusions of contributions by employers for medical insurance premiums and medical care | 205.5 |
| Deduction for mortgage interest on owner-occupied homes | 133.5 |
| Exclusion of untaxed social security and railroad retirement benefits | 127.2 |
| Deduction of nonbusiness State and local government income and personal property taxes (other than State and local property taxes on owner-occupied homes) | 109.4 |
| Deferral of capital gains on sales of principal residences | 57.4 |
| Deduction for charitable contributions, other than for education and health | 55.8 |
| Exclusion of interest on general purpose State and local government debts | 54.1 |
| Individual retirement plans | 52.5 |
| Deduction for State and local property tax on owner-occupied homes | 43.5 |

**Table A-21.−Largest Tax Expenditures, Individual 1995-1999**

| Tax Expenditure | Total Amount (1995-1999) (Billions of dollars) |
|---|---|
| Net exclusion of pension contributions and earnings: employer plans | 391.6 |
| Deduction for mortgage interest on owner-occupied homes | 302.1 |
| Exclusion of employer contributions for medical insurance premiums and medical care | 269.7 |
| Deduction of nonbusiness State and local government income and personal property taxes (other than State and local property taxes on owner-occupied homes) | 139.0 |
| Exclusion of untaxed social security and railroad retirement benefits | 125.5 |
| Deferral of capital gains on sales of principal residences | 79.4 |
| Exclusion of capital gains at death | 77.5 |
| Deduction for charitable contributions, other than for education and health | 77.0 |
| Deduction for State and local property tax on owner-occupied homes | 76.8 |
| Exclusion on investment income on life insurance and annuity contracts | 61.8 |

**Table A-22.−Largest Tax Expenditures, Individual 2000-2004**

| Tax Expenditure | Total Amount (2000-2004) (Billions of dollars) |
|---|---|
| Net exclusion of pension contributions and earnings: employer plans | 416.0 |
| Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums | 324.1 |
| Deduction for mortgage interest on owner-occupied homes | 301.4 |
| Reduced rates of tax on long-term capital gains | 194.6 |
| Deduction of nonbusiness State and local government income and personal property taxes (other than State and local property taxes on owner-occupied homes) | 190.0 |
| Exclusion of capital gains at death | 136.1 |
| Exclusion of untaxed social security and railroad retirement benefits | 131.9 |
| Deduction of charitable contributions, other than for education and health | 124.3 |
| Exclusion of investment income on life insurance and annuity contracts | 121.8 |
| Deduction for State and local property taxes on owner-occupied residences | 101.3 |

**Table A-23.−Largest Tax Expenditures, Individual 2005-2009**

| Tax Expenditure | Total Amount (2005-2009) (Billions of dollars) |
|---|---|
| Net exclusion of pension contributions and earnings: employer plans | 567.8 |
| Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums | 493.7 |
| Deduction for mortgage interest on owner-occupied homes | 434.2 |
| Reduced rates of tax on dividends and long-term capital gains | 356.8 |
| Tax credit for children under age 17 | 231.7 |
| Exclusions of capital gains at death | 215.6 |
| Earned income credit | 195.1 |
| Deduction of nonbusiness State and local government income, sales and personal property taxes | 185.8 |
| Deductions for charitable contributions, other than for education and health | 159.2 |
| Exclusion of benefits provided under cafeteria plans | 134.4 |

**Table A-24.−Largest Tax Expenditures, Individual 2010-2014**

| Tax Expenditure | Total Amount (2010-2014) (Billions of dollars) |
|---|---|
| Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums | 659.4 |
| Deduction for mortgage interest on owner-occupied homes | 484.1 |
| Reduced rates of tax on dividends and long-term capital gains | 402.9 |
| Net exclusion of pension contributions and earnings: Defined benefit plans | 303.2 |
| Earned income credit | 268.8 |
| Deduction of nonbusiness State and local government income, sales and personal property taxes | 237.3 |
| Net exclusion of pension contributions and earnings: Defined contribution plans | 212.2 |
| Exclusions of capital gains at death | 194.0 |
| Deductions for charitable contributions, other than for education and health | 182.4 |
| Exclusion of untaxed social security and railroad retirement benefits | 173.0 |

## Corporate Tax Expenditures

The tables below illustrate in five-year segments the top ten largest corporate tax expenditures since 1975.

**Table A-25.−Largest Tax Expenditures, Corporate 1975-1979**

| Tax Expenditure | Total Amount (1975-1979) (Billions of dollars) |
|---|---|
| Investment Credit | 29.0 |
| Corporate surtax exemption | 22.0 |
| Exclusion of interest on general purpose State and local debt | 15.7 |
| Asset depreciation range | 8.2 |
| Deferral of income of domestic international sales corporations | 6.8 |
| Excess of percentage over cost depletion | 6.2 |
| Expensing of construction period interest and taxes | 5.3 |
| Capital gain: corporate (other than farming and timber) | 4.5 |
| Financial institutions: excess bad debt reserves | 3.6 |
| Expensing of research and development expenditures | 3.5 |

**Table A-26.−Largest Tax Expenditures, Corporate 1980-1984**

| Tax Expenditure | Total Amount (1980-1984) (Billions of dollars) |
|---|---|
| Investment Credit, other than for TRASOPs and for rehabilitated structures | 89.4 |
| Reduced rates on first $100,000 of corporate taxable income | 41.6 |
| Exclusion of interest on general purpose State and local debt | 21.9 |
| Asset depreciation range | 18.9 |
| Exclusion of interest on State and local housing bonds | 12.0 |
| Expensing of research and development expenditures | 11.3 |
| Expensing of exploration and development costs | 9.6 |
| Deferral of income of domestic international sales corporations | 8.0 |
| Excess of percentage over cost depletion | 7.5 |
| Excess bad debt reserves of financial institutions | 5.2 |

**Table A-27.−Largest Tax Expenditures, Corporate 1985-1989**

| Tax Expenditure | Total Amount (1985-1989) (Billions of dollars) |
|---|---|
| Investment Credit, other than for ESOPs, rehabilitation of structures, reforestation, leasing and energy property | 176.0 |
| Accelerated depreciation on equipment other than leased property | 79.9 |
| Exclusion of interest on general purpose State and local debt | 54.4 |
| Reduced rates on first $100,000 of corporate taxable income | 45.6 |
| Exclusion of interest on State and local government industrial development bonds | 19.1 |
| Expensing of research and development expenditures | 16.3 |
| Capital gains, other than agricultural, timber, iron ore and coal | 15.0 |
| Tax credit for ESOPs | 12.2 |
| Exclusion of possessions source income | 8.8 |
| Expensing of exploration and development costs: oil and gas | 8.0 |

**Table A-28.−Largest Tax Expenditures, Corporate 1990-1994**

| Tax Expenditure | Total Amount (1990-1994) (Billions of dollars) |
|---|---|
| Depreciation of equipment in excess of alternative depreciation system | 70.9 |
| Reduced rates on first $75,000 of corporate taxable income | 28.6 |
| Inventory property sales source rule exception | 15.9 |
| Merger rules for banks and thrift institutions | 11.7 |
| Exclusion and tax credit for corporations with possessions source income | 11.5 |
| Deduction of unpaid loss reserves for property and casualty insurance companies | 8.2 |
| Expensing of research and development expenditures | 8.1 |
| Investment credit other than ESOPs, rehabilitation of structures, reforestation and energy property | 7.1 |
| Exclusion of interest on general purpose State and local government debt | 6.6 |
| Exclusion of income of foreign sales corporations | 4.3 |

**Table A-29.−Largest Tax Expenditures, Corporate 1995-1999**

| Tax Expenditure | Total Amount (1995-1999) (Billions of dollars) |
|---|---|
| Depreciation of equipment in excess of alternative depreciation system | 97.7 |
| Reduced rates for first $10,000,000 of corporate taxable income | 21.7 |
| Tax credit for section 936 income | 19.7 |
| Inventory property sales source rule exception | 18.3 |
| Exclusion of interest on general purpose State and local government debt | 17.5 |
| Depreciation on buildings other than rental housing in excess of alternative depreciation system | 13.0 |
| Special treatment of life insurance company reserves | 12.5 |
| Deduction of unpaid property loss reserves for property and casualty insurance companies | 9.7 |
| Exclusion of income of foreign sales corporations | 7.5 |
| Deferral of income of controlled foreign corporations | 5.7 |

**Table A-30.−Largest Tax Expenditures, Corporate, 2000-2004**

| Tax Expenditure | Total Amount (2000-2004) (Billions of dollars) |
|---|---|
| Depreciation of equipment in excess of alternative depreciation system | 119.0 |
| Exclusion of interest on public purpose State and local government debt | 27.2 |
| Reduced rates for first $10,000,000 of corporate taxable income | 22.0 |
| Inventory property sales source rule exception | 22.0 |
| Deferral of active income of controlled foreign corporations | 19.8 |
| Tax credit for Puerto Rico and possession income, and Puerto Rico economic activity | 17.6 |
| Tax credit for qualified research expenditures | 17.3 |
| Exclusion of income of foreign sales corporations | 15.6 |
| Expensing of research and experimental expenditures | 14.9 |
| Deduction for unpaid property loss reserves for property and casualty insurance companies | 14.7 |

**Table A-31.−Largest Tax Expenditures, Corporate 2005-2009**

| Tax Expenditure | Total Amount (2005-2009) (Billions of dollars) |
|---|---|
| Depreciation of equipment in excess of alternative depreciation system | 71.3 |
| Exclusion of interest on public purpose State and local government debt | 38.3 |
| Inventory property sales source rule exception | 30.9 |
| Expensing of research and experimental expenditures | 28.5 |
| Deferral of active income of controlled foreign corporations | 25.8 |
| Reduced rates for first $10,000,000 of corporate taxable income | 23.7 |
| Deduction for income attributable to domestic production activities | 19.8 |
| Tax credit for low-income housing | 17.5 |
| Exclusion of investment income on life insurance and annuity contracts | 12.8 |
| Tax credit for qualified research expenditures | 10.7 |

**Table A-32.−Largest Tax Expenditures, Corporate 2010-2014**

| Tax Expenditure | Total Amount (2010-2014) (Billions of dollars) |
|---|---|
| Deferral of active income of controlled foreign corporations | 70.6 |
| Exclusion of interest on public purpose State and local government debt | 45.3 |
| Deduction for income attributable to domestic production activities | 43.2 |
| Inventory property sales source rule exception | 38.0 |
| Depreciation of equipment in excess of alternative depreciation system | 37.1 |
| Inclusion of income arising from business indebtedness discharged by the reacquisition of a debt instrument | 28.8 |
| Tax credit for low-income housing | 27.0 |
| Expensing of research and experimental expenditures | 25.6 |
| Inventory methods and valuation: Last in first out | 20.0 |
| Reduced rates for first $10,000,000 of corporate taxable income | 15.9 |