5. TAX EXPENDITURES

Tax expenditures are revenue losses due to preferential provisions of the Federal tax laws, such as special exclusions, exemptions, deductions, credits, deferrals, or tax rates. They are alternatives to other policy instruments, such as spending or regulatory programs, as means of achieving Federal policy goals. Tax expenditures are created for a variety of reasons, including to encourage certain activities, to improve fairness, to ease compliance with and administration of the tax system, and to reduce certain tax-induced distortions. The Congressional Budget Act of 1974 (Public Law 93–344) requires that a list of tax expenditures be included in the budget.

The largest tax expenditures tend to be associated with the individual income tax. For example, tax preferences are provided for employer contributions for medical insurance, pension contributions and earnings, mortgage interest payments on owner-occupied homes, capital gains, and payments of State and local individual income taxes. Tax expenditures under the corporate income tax tend to be related to the rate of cost recovery for various investments; as is discussed below, the extent to which these provisions are classified as tax expenditures varies according to the conceptual baseline used. Charitable contributions and credits for State taxes on bequests are the largest tax expenditures under the unified transfer (i.e., estate and gift) tax.

Because of potential interactions among provisions, this chapter does not present a grand total revenue loss estimate for tax expenditures. Moreover, past tax changes entailing broad elimination of tax expenditures were generally accompanied by changes in tax rates or other basic provisions, so that the net effects on Federal revenues were considerably (if not totally) offset. Nevertheless, in aggregate, tax expenditures have revenue impacts of hundreds of billions of dollars, and are some of the most important ways in which the Federal Government affects economic decisions and social welfare.

Tax expenditures relating to the individual and corporate income taxes are considered first in this chapter. They are estimated for fiscal years 1997–2003 using three methods of accounting: revenue loss, outlay equivalent, and present value. The present value approach provides estimates of the revenue losses for tax expenditures that involve deferrals of tax payments into the future or have similar long-term effects. Tax expenditures relating to the unified transfer tax are considered in a section at the end of the chapter.

The section in this chapter on Performance Measures and the Economic Effects of Tax Expenditures presents information related to assessment of the effect of tax expenditures on the achievement of program performance goals. This section was prepared under the Government Performance and Results Act of 1993 and is a part of the government-wide performance plan required by this Act (see also Sections III, IV, and VI of the *Budget* volume). Tax expenditures are also discussed in Section VI of the *Budget,* which considers the Federal Government's spending, regulatory, and tax policies across functional areas.

TAX EXPENDITURES IN THE INCOME TAX

Tax Expenditure Estimates

The Treasury Department prepared all tax expenditure estimates presented here based upon tax law enacted as of December 31, 1997. The analysis includes new tax expenditures which were enacted this year in the Taxpayer Relief Act of 1997. Expired or repealed provisions are not listed if their revenue effects result only from taxpayer activity occurring before fiscal year 1997. Due to the time required to estimate the large number of tax expenditures, the estimates are based on mid-session economic assumptions; exceptions are the earned income tax credit and child credit provisions, which involve outlay components and hence are updated to reflect the economic assumptions used elsewhere in the budget.

The total revenue loss estimates for tax expenditures for fiscal years 1997–2003 are displayed by the budget's functional categories in table 5–1. Descriptions of the specific tax expenditure provisions follow the tables of estimates and discussion of general features of the tax expenditure concept.

As in prior years, two baseline concepts—the normal tax baseline and the reference tax law baseline—are used to identify tax expenditures. For the most part, the two concepts coincide. However, items treated as tax expenditures under the normal tax baseline, but not the reference tax law baseline, are indicated by the designation "normal tax method" in the tables. The revenue losses for these items are zero using the reference tax rules. The alternative baseline concepts are discussed in detail following the estimates.

Table 5–2 reports the respective portions of the total revenue losses that arise under the individual and corporate income taxes. Listing revenue loss estimates under the individual and corporate headings does not imply that these categories of filers benefit from the special tax provisions in proportion to the respective tax expenditure amounts shown. Rather, these break-

downs show the specific tax accounts through which the various provisions are cleared. The ultimate beneficiaries of corporate tax expenditures, for example, could be stockholders, employees, customers, or others, depending on the circumstances.

Table 5–3 ranks the major tax expenditures by fiscal year 1999 revenue loss. This table merges several individual entries provided in table 5–1; for example, table 5–3 contains one merged entry for charitable contributions instead of the three separate entries found in table 5–1.

Interpreting Tax Expenditure Estimates

Tax expenditure revenue loss estimates do not necessarily equal the increase in Federal revenues (or the change in the budget balance) that would result from repealing the special provisions, for the following reasons:

- Eliminating a tax expenditure may have incentive effects that alter economic behavior. These incentives can affect the resulting magnitudes of the formerly subsidized activity or of other tax preferences or Government programs. For example, if deductibility of mortgage interest were limited, some taxpayers would hold smaller mortgages, with a concomitantly smaller effect on the budget than if no such limits were in force.
- Tax expenditures are interdependent even without incentive effects. Repeal of a tax expenditure provision can increase or decrease the revenue losses associated with other provisions. For example, even if behavior does not change, repeal of an itemized deduction could increase the revenue losses from other deductions because some taxpayers would be moved into higher tax brackets. Alternatively, repeal of an itemized deduction could lower the revenue loss from other deductions if taxpayers are led to claim the standard deduction instead of itemizing. Similarly, if two provisions were repealed simultaneously, the increase in tax liability could be greater or less than the sum of the two separate tax expenditures, since each is estimated assuming that the other remains in force. In addition, the estimates reported in Table 5–1 are the totals of individual and corporate income tax revenue losses reported in Table 5–2 and do not reflect any possible interactions between the individual and corporate income tax receipts. For this reason, the figures in Table 5–1 (as well as those in Table 5–5, which are also based on summing individual and corporate estimates) should be regarded as approximations.
- Revenues raised by changes to tax expenditures are sensitive to timing effects and effective dates. Changes in some provisions would yield their full potential revenue gains relatively quickly, whereas changes to other provisions would only gradually yield their full revenue potential, as certain deductions or exemptions would likely be grandfathered.
- The annual value of tax expenditures for tax deferrals is reported on a cash basis in all tables except Table 5–4. Cash-based estimates reflect the difference between taxes deferred in the current year and incoming revenues that are received due to deferrals of taxes from prior years. While such estimates are useful as a measure of cash flows into the Government, they do not accurately reflect the true economic cost of these provisions. For example, for a provision where activity levels have changed, so that incoming tax receipts from past deferrals are greater than deferred receipts from new activity, the cash-basis tax expenditure estimate can be negative, despite the fact that in present-value terms current deferrals do have a real cost to the Government. Alternatively, in the case of a newly enacted deferral provision, a cash-based estimate can overstate the real cost to the Government because the newly deferred taxes will ultimately be received. Present-value estimates, which are a useful supplement to the cash-basis estimates for provisions involving deferrals, are discussed below.
- Repeal of some provisions could affect overall levels of income and rates of economic growth. In principle, repeal of major tax provisions may have some impact on the budget economic assumptions. In general, however, most changes in particular provisions are unlikely to have significant macroeconomic effects.

Present-Value Estimates

Discounted present-value estimates of revenue losses are presented in Table 5–4 for certain provisions that involve tax deferrals or other long-term revenue effects. These estimates complement the cash-based tax expenditure estimates presented in the other tables.

The present-value estimates represent the revenue losses, net of future tax payments, that follow from activities undertaken during calendar year 1998 which cause the deferrals or other long-term revenue effects. For instance, a pension contribution in 1998 would cause a deferral of tax payments on wages in 1998 and on pension earnings on this contribution (e.g., interest) in later years. In some future year, however, the 1998 pension contribution and accrued earnings will be paid out and taxes will be due; these receipts are included in the present-value estimate. In general, this conceptual approach is similar to the one used for reporting the budgetary effects of credit programs, where direct loans and guarantees in a given year affect future cash flows.

Table 5–1. TOTAL REVENUE LOSS ESTIMATES FOR TAX EXPENDITURES IN THE INCOME TAX

(In millions of dollars)

		Total revenue loss from corporate and individual Income taxes							
		1997	1998	1999	2000	2001	2002	2003	1999–2003
	National defense:								
1	Exclusion of benefits and allowances to armed forces personnel	2,080	2,095	2,120	2,140	2,160	2,180	2,200	10,800
	International affairs:								
2	Exclusion of income earned abroad by U.S. citizens	1,790	1,985	2,205	2,450	2,725	3,035	3,345	13,760
3	Exclusion of income of foreign sales corporations	1,600	1,700	1,800	1,900	2,000	2,100	2,200	10,000
4	Inventory property sales source rules exception	1,500	1,600	1,700	1,800	1,900	2,000	2,100	9,500
5	Deferral of income from controlled foreign corporations (normal tax method)	2,200	2,400	2,600	2,800	3,000	3,200	3,400	15,000
	General science, space, and technology:								
6	Expensing of research and experimentation expenditures (normal tax method)	195	430	580	685	740	765	785	3,555
7	Credit for increasing research activities	880	2,125	860	370	165	55	10	1,460
	Energy:								
8	Expensing of exploration and development costs, fuels	–160	–95	–50	10	–10	....	20	–30
9	Excess of percentage over cost depletion, fuels	830	835	840	855	865	880	890	4,330
10	Alternative fuel production credit	710	670	630	600	560	530	350	2,670
11	Exception from passive loss limitation for working interests in oil and gas properties	45	50	50	50	55	55	60	270
12	Capital gains treatment of royalties on coal	50	50	50	55	60	60	60	285
13	Exclusion of interest on energy facility bonds	175	175	170	165	155	150	140	780
14	Enhanced oil recovery credit	95	100	100	110	115	120	130	575
15	New technology credit	60	65	70	80	80	80	80	390
16	Alcohol fuel credit [1]	20	20	20	20	20	20	20	100
17	Tax credit and deduction for clean-fuel burning vehicles and properties	65	75	80	85	100	95	70	430
18	Exclusion from income of conservation subsidies provided by public utilities	70	20	30	40	45	50	60	225
	Natural resources and environment:								
19	Expensing of exploration and development costs, nonfuel minerals	45	55	55	55	55	55	55	275
20	Excess of percentage over cost depletion, nonfuel minerals	335	340	355	360	365	380	385	1,845
21	Capital gains treatment of iron ore	....	....	....	....	....	....	....	....
22	Special rules for mining reclamation reserves	20	20	20	20	20	20	20	100
23	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	625	605	590	565	540	500	455	2,650
24	Capital gains treatment of certain timber income	50	50	50	55	60	60	60	285
25	Expensing of multiperiod timber growing costs	460	480	505	525	540	555	575	2,700
26	Investment credit and seven-year amortization for reforestation expenditures	45	45	50	50	50	50	55	255
27	Tax incentives for preservation of historic structures	120	115	115	110	105	105	105	540
	Agriculture:								
28	Expensing of certain capital outlays	65	65	70	70	70	70	70	350
29	Expensing of certain multiperiod production costs	80	80	85	85	85	85	85	425
30	Treatment of loans for solvent farmers	10	10	10	10	10	10	10	50
31	Capital gains treatment of certain income	505	520	535	550	570	585	600	2,840
32	Income averaging for farmers	....	5	30	35	25	....	....	90
	Commerce and housing:								
	Financial institutions and insurance:								
33	Exemption of credit union income	800	880	960	1,050	1,150	1,260	1,380	5,800
34	Excess bad debt reserves of financial institutions	70	45	20	10	5	5	....	40
35	Exclusion of interest on life insurance savings	12,765	13,465	14,200	14,990	15,810	16,680	17,585	79,265
36	Special alternative tax on small property and casualty insurance companies	5	5	5	5	5	5	5	25
37	Tax exemption of insurance companies owned by tax-exempt organizations	200	215	230	245	260	280	300	1,315
38	Small life insurance company deduction	110	115	120	125	130	135	140	650
	Housing:								
39	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,750	1,670	1,595	1,520	1,440	1,365	1,290	7,210
40	Exclusion of interest on rental housing bonds	810	750	695	615	530	450	320	2,610
41	Deductibility of mortgage interest on owner-occupied homes	49,060	51,245	53,695	56,515	59,505	62,730	66,245	298,690
42	Deductibility of State and local property tax on owner-occupied homes	16,915	17,700	18,440	19,220	20,045	20,920	21,855	100,480
43	Deferral of income from post 1987 installment sales	960	975	995	1,015	1,035	1,055	1,075	5,175
44	Deferral of capital gains on home sales	12,245	5,770	....	....	....	....	....	....
45	Exclusion of capital gains on home sales for persons age 55 and over	3,740	1,110	....	....	....	....	....	....
46	Capital gains exclusion on home sales	8,750	9,100	9,465	9,845	10,235	10,645	11,070	51,260
47	Exception from passive loss rules for $25,000 of rental loss	4,175	3,910	3,680	3,465	3,270	3,080	2,900	16,395
48	Credit for low-income housing investment	2,300	2,420	2,365	2,340	2,385	2,415	2,490	11,995
49	Accelerated depreciation on rental housing (normal tax method)	1,365	1,585	1,845	2,100	2,235	2,560	2,880	11,620
	Commerce:								
50	Cancellation of indebtedness	40	15	....	–10	–5	–5	....	–20
51	Exceptions from imputed interest rules	155	155	160	160	160	165	165	810
52	Capital gains (other than agriculture, timber, iron ore, and coal) (normal tax method)	24,620	25,360	26,120	26,900	27,710	28,540	29,395	138,665
53	Capital gains exclusion of small corporation stock	35	35	35	35	40	40	40	190
54	Step-up basis of capital gains at death	8,750	9,100	9,465	9,845	10,235	10,645	11,070	51,260

Table 5–1. TOTAL REVENUE LOSS ESTIMATES FOR TAX EXPENDITURES IN THE INCOME TAX—Continued

(In millions of dollars)

		Total revenue loss from corporate and individual Income taxes							
		1997	1998	1999	2000	2001	2002	2003	1999–2003
55	Carryover basis of capital gains on gifts	155	165	180	190	200	210	220	1,000
56	Ordinary income treatment of loss from small business corporation stock sale	....	....	5	20	40	70	95	230
57	Accelerated depreciation of buildings other than rental housing (normal tax method)	5,830	4,690	3,470	2,530	1,705	1,070	350	9,125
58	Accelerated depreciation of machinery and equipment (normal tax method)	24,970	26,655	28,535	29,410	30,620	31,620	31,935	152,120
59	Expensing of certain small investments (normal tax method)	1,050	970	880	815	1,360	1,285	930	5,270
60	Amortization of start-up costs (normal tax method)	200	205	210	215	220	225	230	1,100
61	Graduated corporation income tax rate (normal tax method)	4,695	4,950	5,085	5,280	5,525	5,820	6,130	27,840
62	Exclusion of interest on small-issue bonds	350	295	275	255	245	230	225	1,230
	Transportation:								
63	Deferral of tax on shipping companies	20	20	20	20	20	20	20	100
64	Exclusion of reimbursed employee parking expenses	1,280	1,315	1,340	1,370	1,405	1,440	1,475	7,030
65	Exclusion for employer-provided transit passes	60	70	80	95	110	125	145	555
	Community and regional development:								
66	Investment credit for rehabilitation of structures (other than historic)	80	70	70	70	65	65	65	335
67	Exclusion of interest for airport, dock, and similar bonds	970	1,020	1,060	1,095	1,125	1,140	1,160	5,580
68	Exemption of certain mutuals' and cooperatives' income	60	65	65	65	65	70	70	335
69	Empowerment zones and enterprise communities	255	460	555	640	670	620	465	2,950
70	Expensing of environmental remediation costs	....	100	120	160	65	–10	–30	305
	Education, training, employment, and social services:								
	Education:								
71	Exclusion of scholarship and fellowship income (normal tax method)	875	910	955	995	1,040	1,085	1,135	5,210
72	HOPE tax credit	....	205	4,160	4,870	5,225	5,525	5,625	25,405
73	Lifetime Learning tax credit	....	115	2,550	2,590	2,805	2,840	3,160	13,945
74	Education Individual Retirement Accounts	....	15	85	190	295	405	520	1,495
75	Deductibility of student-loan interest	....	65	235	285	345	410	430	1,705
76	Deferral of state prepaid tuition plans	....	65	110	120	130	145	155	660
77	Exclusion of interest on student loan bonds	290	275	255	240	230	215	210	1,150
78	Exclusion of interest on bonds for private nonprofit educational facilities	835	860	885	910	920	935	940	4,590
79	Credit for holders of zone academy bonds	....	5	35	45	45	45	45	215
80	Exclusion of interest on savings bonds transferred to educational institutions	10	10	10	15	15	15	15	70
81	Parental personal exemption for students age 19 or over	845	875	925	970	1,025	1,070	1,125	5,115
82	Child credit [2]	....	3,590	19,175	19,240	19,015	18,845	18,580	94,855
83	Deductibility of charitable contributions (education)	2,670	2,890	3,010	3,145	3,295	3,460	3,640	16,550
84	Exclusion of employer provided educational assistance	320	215	215	210	15	....	....	440
	Training, employment, and social services:								
85	Work opportunity tax credit	110	275	200	100	30	10	....	340
86	Welfare-to-work tax credit	....	10	30	30	15	10	5	90
87	Exclusion of employer provided child care	860	910	950	995	1,040	1,085	1,135	5,205
88	Adoption assistance	10	200	320	355	370	365	225	1,635
89	Exclusion of employee meals and lodging (other than military)	595	620	650	680	710	740	775	3,555
90	Credit for child and dependent care expenses	2,515	2,510	2,510	2,505	2,500	2,500	2,495	12,510
91	Credit for disabled access expenditures	65	65	65	70	70	70	70	345
92	Expensing of costs of removing certain architectural barriers to the handicapped	20	20	20	20	20	20	20	100
93	Deductibility of charitable contributions, other than education and health	17,080	18,700	19,565	20,530	21,555	22,655	23,830	108,135
94	Exclusion of certain foster care payments	35	35	40	40	45	45	50	220
95	Exclusion of parsonage allowances	295	315	340	360	385	410	440	1,935
	Health:								
96	Exclusion of employer contributions for medical insurance premiums and medical care	67,050	71,465	76,230	81,295	86,875	93,045	100,245	437,690
97	Medical savings accounts	....	30	110	115	115	120	125	585
98	Deductibility of medical expenses	4,175	4,550	4,815	5,110	5,425	5,775	6,150	27,275
99	Exclusion of interest on hospital construction bonds	1,675	1,740	1,795	1,845	1,880	1,910	1,930	9,360
100	Deductibility of charitable contributions (health)	2,365	2,570	2,685	2,805	2,940	3,095	3,250	14,775
101	Tax credit for orphan drug research	15	40	50	55	60	70	80	315
102	Special Blue Cross/Blue Shield deduction	225	185	240	255	290	340	330	1,455
	Income security:								
103	Exclusion of railroad retirement system benefits	445	455	460	465	465	470	480	2,340
104	Exclusion of workmen's compensation benefits	4,410	4,950	5,210	5,480	5,775	6,090	6,420	28,975
105	Exclusion of public assistance benefits (normal tax method)	545	580	605	630	655	685	710	3,285
106	Exclusion of special benefits for disabled coal miners	85	85	80	75	70	70	65	360
107	Exclusion of military disability pensions	125	130	135	140	145	150	155	725
	Net exclusion of pension contributions and earnings:								
108	Employer plans	71,145	72,135	72,375	73,500	73,285	73,225	73,480	365,865
109	Individual Retirement Accounts	9,770	10,275	10,780	11,085	11,485	11,865	12,160	57,375
110	Keogh plans	3,520	3,655	3,755	3,895	4,070	4,260	4,450	20,430

Table 5–1. TOTAL REVENUE LOSS ESTIMATES FOR TAX EXPENDITURES IN THE INCOME TAX—Continued

(In millions of dollars)

		Total revenue loss from corporate and individual Income taxes							
		1997	1998	1999	2000	2001	2002	2003	1999–2003
111	Exclusion of employer provided death benefits	185	190	200	210	220	230	240	1,099
	Exclusion of other employee benefits:								
112	Premiums on group term life insurance	2,065	2,110	2,150	2,200	2,240	2,290	2,340	11,220
113	Premiums on accident and disability insurance	165	175	185	195	205	215	225	1,025
114	Income of trusts to finance supplementary unemployment benefits	5	5	5	5	5	5	5	25
115	Special ESOP rules	735	720	740	760	790	820	850	3,960
116	Additional deduction for the blind	25	30	30	30	30	35	35	160
117	Additional deduction for the elderly	1,545	1,710	1,785	1,800	1,800	1,805	1,845	9,035
118	Tax credit for the elderly and disabled	50	50	50	50	50	50	50	250
119	Deductibility of casualty losses	465	485	510	535	560	590	620	2,815
120	Earned income tax credit [3]	6,065	6,210	4,635	4,515	4,625	4,790	4,965	23,530
	Social Security:								
	Exclusion of social security benefits:								
121	Social Security benefits for retired workers	17,470	18,330	19,115	20,025	20,840	21,830	22,930	104,740
122	Social Security benefits for disabled	2,270	2,495	2,685	2,875	3,090	3,325	3,590	15,565
123	Social Security benefits for dependents and survivors	3,825	4,000	4,160	4,310	4,470	4,640	4,795	22,375
	Veterans benefits and services:								
124	Exclusion of veterans death benefits and disability compensation	2,770	2,930	3,100	3,280	3,470	3,675	3,890	17,415
125	Exclusion of veterans pensions	70	70	65	70	75	80	85	376
126	Exclusion of GI bill benefits	50	60	70	80	90	95	100	435
127	Exclusion of interest on veterans housing bonds	75	75	75	75	75	80	85	390
	General purpose fiscal assistance:								
128	Exclusion of interest on public purpose bonds	13,800	14,315	14,760	15,125	15,390	15,600	15,750	76,625
129	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	30,720	32,145	33,490	34,910	36,410	37,995	39,695	182,500
130	Tax credit for corporations receiving income from doing business in U.S. possessions	2,700	2,770	2,800	2,885	2,970	3,060	3,075	14,790
	Interest:								
131	Deferral of interest on U.S. savings bonds	915	965	1,015	1,065	1,115	1,175	1,235	5,605
	Addendum—Aid to State and local governments:								
	Deductibility of:								
	Property taxes on owner-occupied homes	16,915	17,700	18,440	19,220	20,045	20,920	21,855	100,480
	Nonbusiness State and local taxes other than on owner-occupied homes	30,720	32,145	33,490	34,910	36,410	37,995	39,695	182,500
	Exclusion of interest on:								
	Public purpose bonds	13,800	14,315	14,760	15,125	15,390	15,600	15,750	76,625
	Energy facility bonds	175	175	170	165	155	150	140	780
	Bonds for water, sewage, and hazardous waste facilities	625	605	590	565	540	500	455	2,650
	Small-issue bonds	350	295	275	255	245	230	225	1,230
	Owner-occupied mortgage revenue bonds	1,750	1,670	1,595	1,520	1,440	1,365	1,290	7,210
	Rental housing bonds	810	750	695	615	530	450	320	2,610
	Bonds for airports, docks, and sports and convention facilities	970	1,020	1,060	1,095	1,125	1,140	1,160	5,580
	Student loan bonds	290	275	255	240	230	215	210	1,150
	Bonds for private nonprofit educational facilities	835	860	885	910	920	935	940	4,590
	Hospital construction bonds	1,675	1,740	1,795	1,845	1,880	1,910	1,930	9,360
	Veterans housing bonds	75	75	75	75	75	80	85	390

Notes:
Provisions with estimates denoted "normal tax method" have no revenue loss under the reference tax law method.
All estimates have been rounded to the nearest $5 million.
Figures in tables 5–1 are the arithmetic sums of corporate and individual income tax revenue loss estimates from table 5–2, and do not reflect possible interactions across these two taxes.
[1] In addition, the partial exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts (in millions of dollars) as follows: 1997 $675; 1998 $720; 1999 $750; 2000 $780; 2001 $810; 2002 $845; 2003 $875.
[2] The figures in the table indicate the effect of the child credit on receipts. The effect on outlays in (in millions of dollars) is as follows: 1997 $0; 1998 $0; 1999 $538; 2000 $685; 2001 $662; 2002 $624; and 2003 $589.
[3] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays in (in millions of dollars) is as follows: 1997 $21,856; 1998 $22,295; 1999 $24,496; 2000 $25,334; 2001 $26,040; 2002 $26,715; and 2003 $27,414.

Table 5–2. CORPORATE AND INDIVIDUAL INCOME TAX REVENUE LOSS ESTIMATES FOR TAX EXPENDITURES

(In millions of dollars)

		Revenue Loss													
		Corporations							Individuals						
		1997	1998	1999	2000	2001	2002	2003	1997	1998	1999	2000	2001	2002	2003
	National defense:														
1	Exclusion of benefits and allowances to armed forces personnel	......	......	......	......	......	......	......	2,080	2,095	2,120	2,140	2,160	2,180	2,200
	International affairs:														
2	Exclusion of income earned abroad by U.S. citizens	......	......	......	......	......	......	......	1,790	1,985	2,205	2,450	2,725	3,035	3,345
3	Exclusion of income of foreign sales corporations	1,600	1,700	1,800	1,900	2,000	2,100	2,200	......	......	......	......	......	......	......
4	Inventory property sales source rules exception	1,500	1,600	1,700	1,800	1,900	2,000	2,100	......	......	......	......	......	......	......
5	Deferral of income from controlled foreign corporations (normal tax method)	2,200	2,400	2,600	2,800	3,000	3,200	3,400	......	......	......	......	......	......	......
	General science, space, and technology:														
6	Expensing of research and experimentation expenditures (normal tax method)	190	420	570	670	725	750	770	5	10	10	15	15	15	15
7	Credit for increasing research activities	860	2,095	845	370	165	55	10	20	30	15	......	......	......	......
	Energy:														
8	Expensing of exploration and development costs, fuels	–160	–95	–50	10	–10	......	20	......	......	......	......	......	......	......
9	Excess of percentage over cost depletion, fuels	620	625	630	640	645	660	665	210	210	210	215	220	220	225
10	Alternative fuel production credit	680	640	600	570	540	510	340	30	30	30	30	20	20	10
11	Exception from passive loss limitation for working interests in oil and gas properties	......	......	......	......	......	......	......	45	50	50	50	55	55	60
12	Capital gains treatment of royalties on coal	......	......	......	......	......	......	......	50	50	50	55	60	60	60
13	Exclusion of interest on energy facility bonds	70	70	70	65	60	60	55	105	105	100	100	95	90	85
14	Enhanced oil recovery credit	90	95	95	100	105	110	120	5	5	5	10	10	10	10
15	New technology credit	60	65	70	80	80	80	80	......	......	......	......	......	......	......
16	Alcohol fuel credit [1]	10	10	10	10	10	10	10	10	10	10	10	10	10	10
17	Tax credit and deduction for clean-fuel burning vehicles and properties	55	60	65	70	80	75	55	10	15	15	15	20	20	15
18	Exclusion from income of conservation subsidies provided by public utilities	10	–45	–35	–30	–25	–25	–20	60	65	65	70	70	75	80
	Natural resources and environment:														
19	Expensing of exploration and development costs, nonfuel minerals	35	40	40	40	40	40	40	10	15	15	15	15	15	15
20	Excess of percentage over cost depletion, nonfuel minerals	250	255	265	270	275	285	290	85	85	90	90	90	95	95
21	Capital gains treatment of iron ore	......	......	......	......	......	......	......	......	......	......	......	......	......	......
22	Special rules for mining reclamation reserves	20	20	20	20	20	20	20	......	......	......	......	......	......	......
23	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	250	240	235	225	215	195	180	375	365	355	340	325	305	275
24	Capital gains treatment of certain timber income	......	......	......	......	......	......	......	50	50	50	55	60	60	60
25	Expensing of multiperiod timber growing costs	285	300	315	325	335	345	355	175	180	190	200	205	210	220
26	Investment credit and seven-year amortization for reforestation expenditures	20	20	25	25	25	25	25	25	25	25	25	25	25	30
27	Tax incentives for preservation of historic structures	25	25	25	20	20	20	20	95	90	90	90	85	85	85
	Agriculture:														
28	Expensing of certain capital outlays	10	10	10	10	10	10	10	55	55	60	60	60	60	60
29	Expensing of certain multiperiod production costs	10	10	10	10	10	10	10	70	70	75	75	75	75	75
30	Treatment of loans for solvent farmers	......	......	......	......	......	......	......	10	10	10	10	10	10	10
31	Capital gains treatment of certain income	......	......	......	......	......	......	......	505	520	535	550	570	585	600
32	Income averaging for farmers	......	......	......	......	......	......	......	......	5	30	35	25	......	......
	Commerce and housing:														
	Financial institutions and insurance:														
33	Exemption of credit union income	800	880	960	1,050	1,150	1,260	1,380	......	......	......	......	......	......	......
34	Excess bad debt reserves of financial institutions	70	45	20	10	5	5	......	......	......	......	......	......	......	......
35	Exclusion of interest on life insurance savings	190	200	210	225	235	250	260	12,575	13,265	13,990	14,765	15,575	16,430	17,325
36	Special alternative tax on small property and casualty insurance companies	5	5	5	5	5	5	5	......	......	......	......	......	......	......
37	Tax exemption of insurance companies owned by tax-exempt organizations	200	215	230	245	260	280	300	......	......	......	......	......	......	......
38	Small life insurance company deduction	110	115	120	125	130	135	140	......	......	......	......	......	......	......
	Housing:														
39	Exclusion of interest on owner-occupied mortgage subsidy bonds	695	660	635	600	570	540	510	1,055	1,010	960	920	870	825	780
40	Exclusion of interest on rental housing bonds	320	295	275	240	205	175	115	490	455	420	375	325	275	205
41	Deductibility of mortgage interest on owner-occupied homes	......	......	......	......	......	......	......	49,060	51,245	53,695	56,515	59,505	62,730	66,245
42	Deductibility of State and local property tax on owner-occupied homes	......	......	......	......	......	......	......	16,915	17,700	18,440	19,220	20,045	20,920	21,855
43	Deferral of income from post 1987 installment sales	250	255	260	265	270	275	280	710	720	735	750	765	780	795

Table 5–2. CORPORATE AND INDIVIDUAL INCOME TAX REVENUE LOSS ESTIMATES FOR TAX EXPENDITURES—Continued

(In millions of dollars)

		Revenue Loss													
		Corporations							Individuals						
		1997	1998	1999	2000	2001	2002	2003	1997	1998	1999	2000	2001	2002	2003
44	Deferral of capital gains on home sales								12,245	5,770					
45	Exclusion of capital gains on home sales for persons age 55 and over								3,740	1,110					
46	Capital gains exclusion on home sales								8,750	9,100	9,465	9,845	10,235	10,645	11,070
47	Exception from passive loss rules for $25,000 of rental loss								4,175	3,910	3,680	3,465	3,270	3,080	2,900
48	Credit for low-income housing investment	460	485	475	470	475	485	500	1,840	1,935	1,890	1,870	1,910	1,930	1,990
49	Accelerated depreciation on rental housing (normal tax method)	865	1,025	1,215	1,390	1,460	1,705	1,865	500	560	630	710	775	855	1,015
	Commerce:														
50	Cancellation of indebtedness								40	15		–10	–5	–5	
51	Exceptions from imputed interest rules								155	155	160	160	160	165	165
52	Capital gains (other than agriculture, timber, iron ore, and coal) (normal tax method)								24,620	25,360	26,120	26,900	27,710	28,540	29,395
53	Capital gains exclusion of small corporation stock								35	35	35	35	40	40	40
54	Step-up basis of capital gains at death								8,750	9,100	9,465	9,845	10,235	10,645	11,070
55	Carryover basis of capital gains on gifts								155	165	180	190	200	210	220
56	Ordinary income treatment of loss from small business corporation stock sale										5	20	40	70	95
57	Accelerated depreciation of buildings other than rental housing (normal tax method)	4,100	3,285	2,425	1,825	1,230	765	245	1,730	1,405	1,045	705	475	305	105
58	Accelerated depreciation of machinery and equipment (normal tax method)	19,770	21,030	22,390	23,090	23,755	24,610	24,820	5,200	5,625	6,145	6,320	6,865	7,010	7,115
59	Expensing of certain small investments (normal tax method)	660	620	570	540	955	810	615	390	350	310	275	405	475	315
60	Amortization of start-up costs (normal tax method)	95	100	100	105	105	110	110	105	105	110	110	115	115	120
61	Graduated corporation income tax rate (normal tax method)	4,695	4,950	5,085	5,280	5,525	5,820	6,130							
62	Exclusion of interest on small-issue bonds	135	115	110	100	95	90	90	215	180	165	155	150	140	135
	Transportation:														
63	Deferral of tax on shipping companies	20	20	20	20	20	20	20							
64	Exclusion of reimbursed employee parking expenses								1,280	1,315	1,340	1,370	1,405	1,440	1,475
65	Exclusion for employer-provided transit passes								60	70	80	95	110	125	145
	Community and regional development:														
66	Investment credit for rehabilitation of structures (other than historic)	15	15	15	15	15	15	15	65	55	55	55	50	50	50
67	Exclusion of interest for airport, dock, and similar bonds	390	410	425	440	450	455	465	580	610	635	655	675	685	695
68	Exemption of certain mutuals' and cooperatives' income	60	65	65	65	65	70	70							
69	Empowerment zones and enterprise communities	75	165	215	240	225	200	155	180	295	340	400	445	420	310
70	Expensing of environmental remediation costs		85	100	135	55	–10	–25		15	20	25	10		–5
	Education, training, employment, and social services:														
	Education:.														
71	Exclusion of scholarship and fellowship income (normal tax method)								875	910	955	995	1,040	1,085	1,135
72	HOPE tax credit									205	4,160	4,870	5,225	5,525	5,625
73	Lifetime Learning tax credit									115	2,550	2,590	2,805	2,840	3,160
74	Education Individual Retirement Accounts									15	85	190	295	405	520
75	Deductibility of student-loan interest									65	235	285	345	410	430
76	Deferral of state prepaid tuition plans									65	110	120	130	145	155
77	Exclusion of interest on student loan bonds	115	110	100	95	90	85	85	175	165	155	145	140	130	125
78	Exclusion of interest on bonds for private nonprofit educational facilities	335	345	355	365	370	375	375	500	515	530	545	550	560	565
79	Credit for holders of zone academy bonds			10	10	10	10	10		5	25	35	35	35	35
80	Exclusion of interest on savings bonds transferred to educational institutions								10	10	10	15	15	15	15
81	Parental personal exemption for students age 19 or over								845	875	925	970	1,025	1,070	1,125
82	Child credit [2]									3,590	19,175	19,240	19,015	18,845	18,580
83	Deductibility of charitable contributions (education)	920	970	1,000	1,025	1,065	1,120	1,180	1,750	1,920	2,010	2,120	2,230	2,340	2,460
84	Exclusion of employer provided educational assistance								320	215	215	210	15		
	Training, employment, and social services:														
85	Work opportunity tax credit	90	235	170	80	30	10		20	40	30	20			
86	Welfare-to-work tax credit		10	25	25	10	10	5			5	5	5		
87	Exclusion of employer provided child care								860	910	950	995	1,040	1,085	1,135
88	Adoption assistance								10	200	320	355	370	365	225
89	Exclusion of employee meals and lodging (other than military)								595	620	650	680	710	740	775
90	Credit for child and dependent care expenses								2,515	2,510	2,510	2,505	2,500	2,500	2,495
91	Credit for disabled access expenditures	50	50	50	55	55	55	55	15	15	15	15	15	15	15
92	Expensing of costs of removing certain architectural barriers to the handicapped	15	15	15	15	15	15	15	5	5	5	5	5	5	5

Table 5–2. CORPORATE AND INDIVIDUAL INCOME TAX REVENUE LOSS ESTIMATES FOR TAX EXPENDITURES—Continued

(In millions of dollars)

		Revenue Loss													
		Corporations							Individuals						
		1997	1998	1999	2000	2001	2002	2003	1997	1998	1999	2000	2001	2002	2003
93	Deductibility of charitable contributions, other than education and health	1,130	1,190	1,225	1,260	1,305	1,375	1,450	15,950	17,510	18,340	19,270	20,250	21,280	22,380
94	Exclusion of certain foster care payments								35	35	40	40	45	45	50
95	Exclusion of parsonage allowances								295	315	340	360	385	410	440
	Health:														
96	Exclusion of employer contributions for medical insurance premiums and medical care								67,050	71,465	76,230	81,295	86,875	93,045	100,245
97	Medical savings accounts									30	110	115	115	120	125
98	Deductibility of medical expenses								4,175	4,550	4,815	5,110	5,425	5,775	6,150
99	Exclusion of interest on hospital construction bonds	675	700	720	740	755	765	770	1,000	1,040	1,075	1,105	1,125	1,145	1,160
100	Deductibility of charitable contributions (health)	575	610	625	645	670	705	740	1,790	1,960	2,060	2,160	2,270	2,390	2,510
101	Tax credit for orphan drug research	15	40	50	55	60	70	80							
102	Special Blue Cross/Blue Shield deduction	225	185	240	255	290	340	330							
	Income security:														
103	Exclusion of railroad retirement system benefits								445	455	460	465	465	470	480
104	Exclusion of workmen's compensation benefits								4,410	4,950	5,210	5,480	5,775	6,090	6,420
105	Exclusion of public assistance benefits (normal tax method)								545	580	605	630	655	685	710
106	Exclusion of special benefits for disabled coal miners								85	85	80	75	70	70	65
107	Exclusion of military disability pensions								125	130	135	140	145	150	155
	Net exclusion of pension contributions and earnings:														
108	Employer plans								71,145	72,135	72,375	73,500	73,285	73,225	73,480
109	Individual Retirement Accounts								9,770	10,275	10,780	11,085	11,485	11,865	12,160
110	Keogh plans								3,520	3,655	3,755	3,895	4,070	4,260	4,450
111	Exclusion of employer provided death benefits								185	190	200	210	220	230	240
	Exclusion of other employee benefits:														
112	Premiums on group term life insurance								2,065	2,110	2,150	2,200	2,240	2,290	2,340
113	Premiums on accident and disability insurance								165	175	185	195	205	215	225
114	Income of trusts to finance supplementary unemployment benefits								5	5	5	5	5	5	5
115	Special ESOP rules	675	660	680	700	730	760	790	60	60	60	60	60	60	60
116	Additional deduction for the blind								25	30	30	30	30	35	35
117	Additional deduction for the elderly								1,545	1,710	1,785	1,800	1,800	1,805	1,845
118	Tax credit for the elderly and disabled								50	50	50	50	50	50	50
119	Deductibility of casualty losses								465	485	510	535	560	590	620
120	Earned income tax credit [3]								6,065	6,210	4,635	4,515	4,625	4,790	4,965
	Social Security:														
	Exclusion of social security benefits:.														
121	Social Security benefits for retired workers								17,470	18,330	19,115	20,025	20,840	21,830	22,930
122	Social Security benefits for disabled								2,270	2,495	2,685	2,875	3,090	3,325	3,590
123	Social Security benefits for dependents and survivors								3,825	4,000	4,160	4,310	4,470	4,640	4,795
	Veterans benefits and services:														
124	Exclusion of veterans death benefits and disability compensation								2,770	2,930	3,100	3,280	3,470	3,675	3,890
125	Exclusion of veterans pensions								70	70	65	70	75	80	85
126	Exclusion of GI bill benefits								50	60	70	80	90	95	100
127	Exclusion of interest on veterans housing bonds	30	30	30	30	30	30	35	45	45	45	45	45	50	50
	General purpose fiscal assistance:														
128	Exclusion of interest on public purpose bonds	5,550	5,750	5,925	6,060	6,165	6,245	6,300	8,250	8,565	8,835	9,065	9,225	9,355	9,450
129	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes								30,720	32,145	33,490	34,910	36,410	37,995	39,695
130	Tax credit for corporations receiving income from doing business in U.S. possessions	2,700	2,770	2,800	2,885	2,970	3,060	3,075							
	Interest:														
131	Deferral of interest on U.S. savings bonds								915	965	1,015	1,065	1,115	1,175	1,235
	Addendum—Aid to State and local governments:														
	Deductibility of:.														
	Property taxes on owner-occupied homes								16,915	17,700	18,440	19,220	20,045	20,920	21,855
	Nonbusiness State and local taxes other than on owner-occupied homes								30,720	32,145	33,490	34,910	36,410	37,995	39,695
	Exclusion of interest on:														
	Public purpose bonds	5,550	5,750	5,925	6,060	6,165	6,245	6,300	8,250	8,565	8,835	9,065	9,225	9,355	9,450
	Energy facility bonds	70	70	70	65	60	60	55	105	105	100	100	95	90	85
	Bonds for water, sewage, and hazardous waste facilities	250	240	235	225	215	195	180	375	365	355	340	325	305	275
	Small-issue bonds	135	115	110	100	95	90	90	215	180	165	155	150	140	135

Table 5–2. CORPORATE AND INDIVIDUAL INCOME TAX REVENUE LOSS ESTIMATES FOR TAX EXPENDITURES—Continued

(In millions of dollars)

		Revenue Loss													
		Corporations							Individuals						
		1997	1998	1999	2000	2001	2002	2003	1997	1998	1999	2000	2001	2002	2003
	Owner-occupied mortgage revenue bonds	695	660	635	600	570	540	510	1,055	1,010	960	920	870	825	780
	Rental housing bonds	320	295	275	240	205	175	115	490	455	420	375	325	275	205
	Bonds for airports, docks, and sports and convention facilities	390	410	425	440	450	455	465	580	610	635	655	675	685	695
	Student loan bonds	115	110	100	95	90	85	85	175	165	155	145	140	130	125
	Bonds for private nonprofit educational facilities	335	345	355	365	370	375	375	500	515	530	545	550	560	565
	Hospital construction bonds	675	700	720	740	755	765	770	1,000	1,040	1,075	1,105	1,125	1,145	1,160
	Veterans housing bonds	30	30	30	30	30	30	35	45	45	45	45	45	50	50

Notes:
Provisions with estimates denoted "normal tax method" have no revenue loss under the reference tax law method.
All estimates have been rounded to the nearest $5 million.
Figures in table 5–1 are the arithmetic sums of corporate and individual income tax revenue loss estimates from table 5–2, and do not reflect possible interactions across these two taxes.

[1] In addition, the partial exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts (in millions of dollars) as follows: 1997 $675; 1998 $720; 1999 $750; 2000 $780; 2001 $810; 2002 $845; 2003 $875.

[2] The figures in the table indicate the effect of the child credit on receipts. The effect on outlays in (in millions of dollars) is as follows: 1997 $0; 1998 $0; 1999 $538; 2000 $685; 2001 $662; 2002 $624; and 2003 $589.

[3] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays in (in millions of dollars) is as follows: 1997 $21,856; 1998 $22,295; 1999 $24,496; 2000 $25,334; 2001 $26,040; 2002 $26,715; and 2003 $27,414.

Table 5–3. MAJOR TAX EXPENDITURES IN THE INCOME TAX, RANKED BY TOTAL 1999 REVENUE LOSS
(In millions of dollars)

Provision	1999	1999–2003
Exclusion of employer contributions for medical insurance premiums and medical care	76,230	437,690
Net exclusion of employer pension-plan contributions and earnings	72,375	365,865
Deductibility of mortgage interest on owner-occupied homes	53,695	298,690
Deductibility of nonbusiness State and local taxes other than owner-occupied homes	33,490	182,500
Accelerated depreciation of machinery and equipment (normal tax method)	28,535	152,120
Capital gains (other than agriculture, timber, iron ore, and coal) (Normal tax method)	26,120	138,665
Deductibility of charitable contributions	25,260	139,460
Child credit [1]	19,175	94,855
Exclusion of Social Security benefits for retired workers	19,115	104,740
Deductibility of State and local property tax on owner-occupied homes	18,440	100,480
Exclusion of interest on public purpose bonds	14,760	76,625
Exclusion of interest on life insurance savings	14,200	79,265
Net Exclusion of Individual Retirement Account contributions and earnings	10,780	57,375
Capital gains exclusion on home sales	9,465	51,260
Step-up basis of capital gains at death	9,465	51,260
Exclusion of interest on State and local debt for various non-public purposs	7,395	35,550
Exclusion of workmen's compensation benefits	5,210	28,975
Graduated corporation income tax rate (normal tax method)	5,085	27,840
Deductibility of medical expenses	4,815	27,275
Earned income tax credit [2]	4,635	23,530
HOPE tax credit	4,160	25,405
Exclusion of Social Security benefits for dependents and survivors	4,160	22,375
Net exclusion of Keogh plan contributions and earnings	3,755	20,430
Exception from passive loss rules for $25,000 of rental loss	3,680	16,395
Accelerated depreciation of buildings other than rental housing (normal tax method)	3,470	9,125
Exclusion of veterans death benefits and disability compensation	3,100	17,415
Tax credit for corporations receiving income from doing business in U.S. possessions	2,800	14,790
Exclusion of Social Security benefits for disabled	2,685	15,565
Deferral of income from controlled foreign corporations (normal tax method)	2,600	15,000
Lifetime Learning tax credit	2,550	13,945
Credit for child and dependent care expenses	2,510	12,510
Credit for low-income housing investment	2,365	11,995
Exclusion of income earned abroad by U.S. citizens	2,205	13,760
Premiums on group term life insurance	2,150	11,220
Exclusion of benefits and allowances to armed forces personnel	2,120	10,800
Accelerated depreciation on rental housing (normal tax method)	1,845	11,620
Exclusion of income of foreign sales corporations	1,800	10,000
Additional deduction for the elderly	1,785	9,035
Inventory property sales source rules exception	1,700	9,500
Exclusion of reimbursed employee parking expenses	1,340	7,030
Deferral of interest on U.S. savings bonds	1,015	5,605
Deferral of income from post 1987 installment sales	995	5,175
Exemption of credit union income	960	5,800
Exclusion of scholarship and fellowship income (normal tax method)	955	5,210
Exclusion of employer provided child care	950	5,205
Parental personal exemption for students age 19 or over	925	5,115
Expensing of certain small investments (normal tax method)	880	5,270
Credit for increasing research activities	860	1,460
Excess of percentage over cost depletion, fuels	840	4,330
Special ESOP rules	740	3,960
Exclusion of employee meals and lodging (other than military)	650	3,555
Alternative fuel production credit	630	2,670
Exclusion of public assistance benefits (normal tax method)	605	3,285
Expensing of research and experimentation expenditures (normal tax method)	580	3,555
Empowerment zones and enterprise communities	555	2,950
Capital gains treatment of certain income	535	2,840
Deductibility of casualty losses	510	2,815
Expensing of multiperiod timber growing costs	505	2,700
Exclusion of railroad retirement system benefits	460	2,340
Excess of percentage over cost depletion, nonfuel minerals	355	1,845
Exclusion of parsonage allowances	340	1,935
Adoption assistance	320	1,635
Special Blue Cross/Blue Shield deduction	240	1,455
Deductibility of student-loan interest	235	1,705
Tax exemption of insurance companies owned by tax-exempt organizations	230	1,315
Exclusion of employer provided educational assistance	215	440
Amortization of start-up costs (normal tax method)	210	1,100
Work opportunity tax credit	200	340
Exclusion of employer provided death benefits	200	1,099

Table 5–3. MAJOR TAX EXPENDITURES IN THE INCOME TAX, RANKED BY TOTAL 1999 REVENUE LOSS—Continued

(In millions of dollars)

Provision	1999	1999–2003
Premiums on accident and disability insurance	185	1,025
Carryover basis of capital gains on gifts	180	1,000
Exceptions from imputed interest rules	160	810
Exclusion of military disability pensions	135	725
Expensing of environmental remediation costs	120	305
Small life insurance company deduction	120	650
Tax incentives for preservation of historic structures	115	540
Medical savings accounts	110	585
Deferral of state prepaid tuition plans	110	660
Enhanced oil recovery credit	100	575
Expensing of certain multiperiod production costs	85	425
Education Individual Retirement Accounts	85	1,495
Tax credit and deduction for clean-fuel burning vehicles and properties	80	430
Exclusion for employer-provided transit passes	80	555
Exclusion of special benefits for disabled coal miners	80	360
Investment credit for rehabilitation of structures (other than historic)	70	335
Expensing of certain capital outlays	70	350
New technology credit	70	390
Exclusion of GI bill benefits	70	435
Exclusion of veterans pensions	65	376
Exemption of certain mutuals' and cooperatives' income	65	335
Credit for disabled access expenditures	65	345
Expensing of exploration and development costs, nonfuel minerals	55	275
Investment credit and seven-year amortization for reforestation expenditures	50	255
Capital gains treatment of certain timber income	50	285
Tax credit for orphan drug research	50	315
Exception from passive loss limitation for working interests in oil and gas properties	50	270
Capital gains treatment of royalties on coal	50	285
Tax credit for the elderly and disabled	50	250
Exclusion of certain foster care payments	40	220
Capital gains exclusion of small corporation stock	35	190
Credit for holders of zone academy bonds	35	215
Welfare-to-work tax credit	30	90
Income averaging for farmers	30	90
Additional deduction for the blind	30	160
Exclusion from income of conservation subsidies provided by public utilities	30	225
Expensing of costs of removing certain architectural barriers to the handicapped	20	100
Special rules for mining reclamation reserves	20	100
Deferral of tax on shipping companies	20	100
Excess bad debt reserves of financial institutions	20	40
Alcohol fuel credit [3]	20	100
Treatment of loans for solvent farmers	10	50
Exclusion of interest on savings bonds transferred to educational institutions	10	70
Special alternative tax on small property and casualty insurance companies	5	25
Ordinary income treatment of loss from small business corporation stock sale	5	230
Income of trusts to finance supplementary unemployment benefits	5	25

Note: Provisions with estimates denoted "normal tax method" have no revenue loss under the reference tax law method.

All estimates have been rounded to the nearest $5 million.

Figures in table 5–3 are the arithmetic sums of corporate and individual income taxrevenue loss estimates from table 5–2, and do not reflect possible interactions across these two taxes.

[1] The figures in the table indicate the effect of the child credit on receipts. The effect on outlays in (in millions of dollars) is as follows: 1997 $0; 1998 $0; 1999 $538; 2000 $685; 2001 $662; 2002 $624; and 2003 $589.

[2] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays in (in millions of dollars) is as follows: 1997 $21,856; 1998 $22,295; 1999 $24,496; 2000 $25,334; 2001 $26,040; 2002 $26,715; and 2003 $27,414.

[3] In addition, the partial exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts (in millions of dollars) as follows: 1997 $675; 1998 $720; 1999 $750; 2000 $780; 2001 $810; 2002 $845; and 2003 $875.

Table 5–4. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 1998
(In millions of dollars)

Provision	Present Value of Revenue Loss
Deferral of income from controlled foreign corporation (normal tax method)	2,350
Expensing of research and experimentation expenditure (normal tax method)	1,655
Expensing of exploration and development costs—fuels	160
Expensing of exploration and development costs—nonfuels	75
Expensing of multiperiod timber growing costs	285
Expensing of certain multiperiod production costs—agriculture	70
Expensing of certain capital outlays—agriculture	85
Deferral of income on life insurance and annuity contracts	19,635
Accelerated depreciation of rental housing (normal tax method)	2,230
Accelerated depreciation of buildings other than rental housing (normal tax method)	535
Accelerated depreciation of machinery and equipment (normal tax method)	30,730
Expensing of certain small investments (normal tax method)	1,065
Amortization of start-up costs (normal tax method)	180
Deferral of tax on shipping companies	10
Credit for low-income housing investments	1,930
Exclusion of pension contributions and earnings—employer plans	77,260
Exclusion of IRA contributions and earnings	10,525
Exclusions of contribution and earnings for Keogh plans	3,185
Exclusion of interest on State and local public-purpose bonds	21,940
Exclusion of interest on State and local non-public purposes bonds	8,665
Deferral of interest on U.S. savings bonds	230

Note: Provisions with estimates denoted "normal tax method" have no revenue loss under the reference tax law method.

Outlay Equivalents

The concept of "outlay equivalents" complements "revenue losses" as a measure of the budget effect of tax expenditures. It is the amount of outlay that would be required to provide the taxpayer the same after-tax income as would be received through the tax preference. The outlay equivalent measure allows a comparison of the cost of the tax expenditure with that of a direct Federal outlay. Outlay equivalents are reported in table 5–5.

The measure is larger than the revenue loss estimate when the tax expenditure is judged to function as a Government payment for service. This occurs because an outlay program would increase the taxpayer's pre-tax income. For some tax expenditures, however, the revenue loss equals the outlay equivalent measure. This occurs when the tax expenditure is judged to function like a price reduction or tax deferral that does not directly enter the taxpayer's pre-tax income.[1]

[1]Budget outlay figures generally reflect the pre-tax price of the resources. In some instances, however, Government purchases or subsidies are exempted from tax by a special tax provision. When this occurs, the outlay figure understates the resource cost of the program and is, therefore, not comparable with other outlay amounts. For example, the outlays for certain military personnel allowances are not taxed. If this form of compensation were treated as part of the employee's taxable income, the Defense Department would have to make larger cash payments to its military personnel to leave them as well off after tax as they are now. The tax subsidy must be added to the tax-exempt budget outlay to make this element of national defense expenditures comparable with other outlays.

Table 5–5. OUTLAY EQUIVALENT ESTIMATES FOR TAX EXPENDITURES IN THE INCOME TAX

(In millions of dollars)

		Outlay Equivalents							
		1997	1998	1999	2000	2001	2002	2003	1999–2003
	National defense:								
1	Exclusion of benefits and allowances to armed forces personnel	2,425	2,445	2,470	2,495	2,520	2,545	2,570	12,600
	International affairs:								
2	Exclusion of income earned abroad by U.S. citizens	2,355	2,610	2,900	3,225	3,585	3,990	4,440	18,140
3	Exclusion of income of foreign sales corporations	2,460	2,615	2,770	2,925	3,075	3,230	3,385	15,385
4	Inventory property sales source rules exception	2,310	2,460	2,615	2,770	2,925	3,075	3,230	14,615
5	Deferral of income from controlled foreign corporations (normal tax method)	2,200	2,400	2,600	2,800	3,000	3,200	3,400	15,000
	General science, space, and technology:								
6	Expensing of research and experimentation expenditures (normal tax method)	190	430	585	680	740	765	785	3,555
7	Credit for increasing research activities	1,360	3,270	1,315	565	250	85	15	2,230
	Energy:								
8	Expensing of exploration and development costs, fuels	–300	–180	–95	10	–20	....	30	–75
9	Excess of percentage over cost depletion, fuels	1,160	1,175	1,185	1,200	1,215	1,240	1,255	6,095
10	Alternative fuel production credit	1,090	1,120	960	910	860	820	550	4,100
11	Exception from passive loss limitation for working interests in oil and gas properties	45	50	50	50	55	55	60	270
12	Capital gains treatment of royalties on coal	65	65	70	75	75	75	80	375
13	Exclusion of interest on energy facility bonds	255	245	245	240	225	210	200	1,120
14	Enhanced oil recovery credit	145	150	160	170	180	190	195	895
15	New technology credit	80	90	100	105	110	110	110	535
16	Alcohol fuel credit [1]	20	20	20	20	20	20	20	100
17	Tax credit and deduction for clean-fuel burning vehicles and properties	95	100	110	125	135	130	100	600
18	Exclusion from income of conservation subsidies provided by public utilities	95	25	40	55	60	65	80	300
	Natural resources and environment:								
19	Expensing of exploration and development costs, nonfuel minerals	65	75	75	75	75	75	75	375
20	Excess of percentage over cost depletion, nonfuel minerals	465	480	495	505	515	535	540	2,590
21	Capital gains treatment of iron ore	....	....	....	....	....	....	....	....
22	Special rules for mining reclamation reserves	25	25	25	25	25	25	25	125
23	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	895	870	845	810	775	720	650	3,800
24	Capital gains treatment of certain timber income	65	65	70	75	75	75	80	375
25	Expensing of multiperiod timber growing costs	460	480	505	525	540	555	575	2,700
26	Investment credit and seven-year amortization for reforestation expenditures	45	50	50	50	50	55	55	260
27	Tax incentives for preservation of historic structures	120	115	115	110	105	105	105	540
	Agriculture:								
28	Expensing of certain capital outlays	65	65	70	70	70	70	70	350
29	Expensing of certain multiperiod production costs	80	80	85	85	85	85	85	425
30	Treatment of loans for solvent farmers	10	10	10	10	10	10	10	50
31	Capital gains treatment of certain income	675	695	715	735	755	780	805	3,790
32	Income averaging for farmers	....	5	30	35	25	....	....	90
	Commerce and housing:								
	Financial institutions and insurance:								
33	Exemption of credit union income	1,020	1,120	1,225	1,340	1,465	1,605	1,760	7,395
34	Excess bad debt reserves of financial institutions	70	45	20	10	5	5	....	40
35	Exclusion of interest on life insurance savings	12,765	13,465	14,200	14,990	15,810	16,680	17,585	79,265
36	Special alternative tax on small property and casualty insurance companies	5	5	5	5	5	5	5	25
37	Tax exemption of insurance companies owned by tax-exempt organizations	280	300	320	340	360	390	415	1,825
38	Small life insurance company deduction	145	150	160	165	170	180	190	865
	Housing:								
39	Exclusion of interest on owner-occupied mortgage subsidy bonds	2,510	2,395	2,290	2,185	2,060	1,955	1,845	10,335
40	Exclusion of interest on rental housing bonds	1,165	1,075	990	880	755	645	440	3,710
41	Deductibility of mortgage interest on owner-occupied homes	49,060	51,245	53,695	56,515	59,505	62,730	66,245	298,690
42	Deductibility of State and local property tax on owner-occupied homes	16,915	17,700	18,440	19,220	20,045	20,920	21,855	100,480
43	Deferral of income from post 1987 installment sales	960	975	995	1,015	1,035	1,055	1,075	5,175
44	Deferral of capital gains on home sales	12,245	5,770	....	....	....	....	....	....
45	Exclusion of capital gains on home sales for persons age 55 and over	3,740	1,110	....	....	....	....	....	....
46	Capital gains exclusion on home sales	11,670	12,135	12,620	13,125	13,650	14,195	14,765	68,355
47	Exception from passive loss rules for $25,000 of rental loss	4,175	3,910	3,680	3,465	3,270	3,080	2,900	16,395
48	Credit for low-income housing investment	3,490	3,670	3,590	3,550	3,615	3,665	3,775	18,195
49	Accelerated depreciation on rental housing (normal tax method)	1,365	1,585	1,840	2,100	2,235	2,560	2,885	11,620
	Commerce:								
50	Cancellation of indebtedness	40	15	....	–10	–5	–5	....	–20
51	Exceptions from imputed interest rules	155	155	160	160	160	165	165	810
52	Capital gains (other than agriculture, timber, iron ore, and coal) (normal tax method)	32,825	33,810	34,815	35,870	36,950	38,060	39,195	184,890
53	Capital gains exclusion of small corporation stock	....	....	5	25	55	95	125	305
54	Step-up basis of capital gains at death	11,670	12,135	12,620	13,125	13,650	14,195	14,765	68,355

Table 5–5. OUTLAY EQUIVALENT ESTIMATES FOR TAX EXPENDITURES IN THE INCOME TAX—Continued

(In millions of dollars)

		Outlay Equivalents							
		1997	1998	1999	2000	2001	2002	2003	1999–2003
55	Carryover basis of capital gains on gifts	155	165	180	190	200	210	220	1,000
56	Ordinary income treatment of loss from small business corporation stock sale	45	45	50	50	55	55	55	265
57	Accelerated depreciation of buildings other than rental housing (normal tax method)	5,830	4,690	3,470	2,530	1,700	1,070	350	9,120
58	Accelerated depreciation of machinery and equipment (normal tax method)	24,970	26,655	28,535	29,410	30,620	31,620	31,935	152,120
59	Expensing of certain small investments (normal tax method)	1,055	965	880	820	1,360	1,285	930	5,275
60	Amortization of start-up costs (normal tax method)	200	205	210	215	220	225	230	1,100
61	Graduated corporation income tax rate (normal tax method)	6,345	6,690	6,870	7,135	7,465	7,865	8,280	37,615
62	Exclusion of interest on small-issue bonds	495	425	395	370	350	335	320	1,770
	Transportation:								
63	Deferral of tax on shipping companies	20	20	20	20	20	20	20	100
64	Exclusion of reimbursed employee parking expenses	1,670	1,710	1,750	1,790	1,835	1,885	1,935	9,195
65	Exclusion for employer-provided transit passes	80	100	115	135	155	175	200	780
	Community and regional development:								
66	Investment credit for rehabilitation of structures (other than historic)	80	70	70	70	65	65	65	335
67	Exclusion of interest for airport, dock, and similar bonds	1,400	1,470	1,530	1,580	1,620	1,645	1,665	8,040
68	Exemption of certain mutuals' and cooperatives' income	60	65	65	65	65	70	70	335
69	Empowerment zones and enterprise communities	255	460	555	635	670	620	465	2,945
70	Expensing of environmental remediation costs	....	130	155	210	85	–20	–35	395
	Education, training, employment, and social services:								
	Education:								
71	Exclusion of scholarship and fellowship income (normal tax method)	970	1,015	1,060	1,105	1,155	1,210	1,265	5,795
72	HOPE tax credit	....	265	5,335	6,245	6,700	7,085	7,210	32,575
73	Lifetime Learning tax credit	....	145	3,270	3,320	3,595	3,640	4,050	17,875
74	Education Individual Retirement Accounts	....	20	110	250	395	535	690	1,980
75	Deductibility of student-loan interest	....	85	300	355	435	510	535	2,135
76	Deferral of state prepaid tuition plans	....	80	140	155	170	185	200	850
77	Exclusion of interest on student loan bonds	415	390	365	345	325	310	300	1,645
78	Exclusion of interest on bonds for private nonprofit educational facilities	1,200	1,245	1,280	1,305	1,325	1,340	1,350	6,600
79	Credit for holders of zone academy bonds	....	10	45	65	65	65	65	305
80	Exclusion of interest on savings bonds transferred to educational institutions	10	15	20	20	20	20	20	100
81	Parental personal exemption for students age 19 or over	935	970	1,025	1,075	1,135	1,185	1,245	5,665
82	Child credit [2]	....	4,785	25,565	25,655	25,355	25,125	24,775	126,475
83	Deductibility of charitable contributions (education)	3,680	3,975	4,140	4,315	4,520	4,750	5,000	22,725
84	Exclusion of employer provided educational assistance	395	270	270	260	20	....	....	550
	Training, employment, and social services:								
85	Work opportunity tax credit	110	275	200	100	30	10	....	340
86	Welfare-to-work tax credit	....	10	30	30	15	10	5	90
87	Exclusion of employer provided child care	1,145	1,215	1,265	1,325	1,385	1,445	1,515	6,935
88	Adoption assistance	10	240	385	430	450	435	270	1,970
89	Exclusion of employee meals and lodging (other than military)	725	760	795	830	862	905	945	4,337
90	Credit for child and dependent care expenses	3,350	3,350	3,345	3,340	3,335	3,330	3,330	16,680
91	Credit for disabled access expenditures	115	115	115	120	120	120	120	595
92	Expensing of costs of removing certain architectural barriers to the handicapped	20	20	20	20	20	20	20	100
93	Deductibility of charitable contributions, other than education and health	22,675	24,820	25,960	27,235	28,590	30,050	31,600	143,435
94	Exclusion of certain foster care payments	40	45	45	50	50	55	55	255
95	Exclusion of parsonage allowances	365	390	415	445	475	505	540	2,380
	Health:								
96	Exclusion of employer contributions for medical insurance premiums and medical care	85,585	91,445	97,690	104,225	111,355	119,245	128,370	560,885
97	Medical savings accounts	....	40	150	155	155	160	170	790
98	Deductibility of medical expenses	4,175	4,550	4,815	5,110	5,425	5,775	6,150	27,275
99	Exclusion of interest on hospital construction bonds	2,420	2,510	2,590	2,655	2,705	2,750	2,780	13,480
100	Deductibility of charitable contributions (health)	3,220	3,500	3,645	3,815	3,990	4,190	4,415	20,055
101	Tax credit for orphan drug research	25	65	75	80	95	105	115	470
102	Special Blue Cross/Blue Shield deduction	280	230	300	320	360	425	415	1,820
	Income security:								
103	Exclusion of railroad retirement system benefits	445	455	460	465	465	470	480	2,340
104	Exclusion of workmen's compensation benefits	4,410	4,950	5,210	5,480	5,775	6,090	6,420	28,975
105	Exclusion of public assistance benefits (normal tax method)	545	580	605	630	655	685	710	3,285
106	Exclusion of special benefits for disabled coal miners	85	85	80	75	70	70	65	360
107	Exclusion of military disability pensions	125	130	135	130	145	150	155	715
	Net exclusion of pension contributions and earnings:								
108	Employer plans	96,455	97,615	98,130	99,880	99,780	99,990	100,540	498,320
109	Individual Retirement Accounts	13,555	14,250	15,025	15,570	16,215	16,890	17,395	81,095
110	Keogh plans	4,635	4,815	4,950	5,130	5,360	5,615	5,865	26,920
111	Exclusion of employer provided death benefits	235	245	260	270	280	295	310	1,415

Table 5–5. OUTLAY EQUIVALENT ESTIMATES FOR TAX EXPENDITURES IN THE INCOME TAX—Continued

(In millions of dollars)

		Outlay Equivalents							
		1997	1998	1999	2000	2001	2002	2003	1999–2003
	Exclusion of other employee benefits:								
112	Premiums on group term life insurance	2,730	2,790	2,845	2,905	2,965	3,030	3,090	14,835
113	Premiums on accident and disability insurance	210	225	235	250	260	275	290	1,310
114	Income of trusts to finance supplementary unemployment benefits	5	5	5	5	5	5	5	25
115	Special ESOP rules	1,020	1,000	1,030	1,055	1,095	1,140	1,190	5,510
116	Additional deduction for the blind	30	35	35	35	40	40	40	190
117	Additional deduction for the elderly	1,870	2,070	2,160	2,175	2,180	2,180	2,230	10,925
118	Tax credit for the elderly and disabled	60	60	60	60	60	60	65	305
119	Deductibility of casualty losses	600	630	665	695	730	765	805	3,660
120	Earned income tax credit [3]	5,340	5,460	3,790	3,635	3,860	4,005	4,245	19,535
	Social Security:								
	Exclusion of social security benefits:								
121	Social Security benefits for retired workers	17,470	18,330	19,115	20,025	20,840	21,830	22,930	104,740
122	Social Security benefits for disabled	2,270	2,495	2,685	2,875	3,090	3,325	3,590	15,565
123	Social Security benefits for dependents and survivors	3,825	4,000	4,160	4,310	4,470	4,640	4,795	22,375
	Veterans benefits and services:								
124	Exclusion of veterans death benefits and disability compensation	2,770	2,930	3,100	3,280	3,470	3,675	3,890	17,415
125	Exclusion of veterans pensions	70	65	70	75	80	85	90	400
126	Exclusion of GI bill benefits	60	70	80	90	95	100	105	470
127	Exclusion of interest on veterans housing bonds	110	110	105	110	110	115	120	560
	General purpose fiscal assistance:								
128	Exclusion of interest on public purpose bonds	19,915	20,650	21,285	21,795	22,170	22,475	22,680	110,405
129	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	30,720	32,145	33,490	34,910	36,410	37,995	39,695	182,500
130	Tax credit for corporations receiving income from doing business in U.S. possessions	3,860	3,960	4,000	4,120	4,245	4,370	4,390	21,125
	Interest:								
131	Deferral of interest on U.S. savings bonds	915	965	1,015	1,065	1,115	1,175	1,235	5,605
	Addendum—Aid to State and local governments:								
	Deductibility of:								
	Property taxes on owner-occupied homes	16,915	17,700	18,440	19,220	20,045	20,920	21,855	100,480
	Nonbusiness State and local taxes other than on owner-occupied homes	30,720	32,145	33,490	34,910	36,410	37,995	39,695	182,500
	Exclusion of interest on:								
	Public purpose bonds	19,915	20,650	21,285	21,795	22,170	22,475	22,680	110,405
	Energy facility bonds	255	245	245	240	225	210	200	1,120
	Bonds for water, sewage, and hazardous waste facilities	895	870	845	810	775	720	650	3,800
	Small-issue bonds	495	425	395	370	350	335	320	1,770
	Owner-occupied mortgage revenue bonds	2,510	2,395	2,290	2,185	2,060	1,955	1,845	10,335
	Rental housing bonds	1,165	1,075	990	880	755	645	440	3,710
	Bonds for airports, docks, and sports and convention facilities	1,400	1,470	1,530	1,580	1,620	1,645	1,665	8,040
	Student loan bonds	415	390	365	345	325	310	300	1,645
	Bonds for private nonprofit educational facilities	1,200	1,245	1,280	1,305	1,325	1,340	1,350	6,600
	Hospital construction bonds	2,420	2,510	2,590	2,655	2,705	2,750	2,780	13,480
	Veterans housing bonds	110	110	105	110	110	115	120	560

Note: Provisions with estimates denoted "normal tax method" have no revenue loss under the reference tax law method.
All estimates have been rounded to the nearest $5 million.
Figures in table 5–1 are the arithmetic sums of corporate and individual income tax revenue loss estimates from table 5–2, and do not reflect possible interactions across these two taxes.

[1] In addition, the partial exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts (in millions of dollars) as follows: 1997 $675; 1998 $720; 1999 $750; 2000 $780; 2001 $810; 2002 $845; 2003 $875.

[2] The figures in the table indicate the effect of the child credit on receipts. The effect on outlays in (in millions of dollars) is as follows: 1997 $0; 1998 $0; 1999 $538; 2000 $685; 2001 $662; 2002 $624; and 2003 $589.

[3] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays in (in millions of dollars) is as follows: 1997 $21,856; 1998 $22,295; 1999 $24,496; 2000 $25,334; 2001 $26,040; 2002 $26,715; and 2003 $27,414.

Tax Expenditure Baselines

A tax expenditure is a preferential exception to the baseline provisions of the tax structure. The 1974 Congressional Budget Act does not, however, specify the baseline provisions of the tax law. Deciding whether provisions are preferential exceptions, therefore, is a matter of judgement. As in prior years, this year's tax expenditure estimates are presented using two baselines: the normal tax baseline, which is used by the Joint Committee on Taxation, and the reference tax law baseline, which has been reported by the Administration since 1983.

The normal tax baseline is patterned on a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time. The normal tax baseline allows personal exemptions, a standard deduction, and deductions of the expenses incurred in earning income. It is not limited to a particular structure of tax rates, or by a specific definition of the taxpaying unit.

The reference tax law baseline is also patterned on a comprehensive income tax, but in practice is closer to existing law. Reference law tax expenditures are limited to special exceptions in the tax code that serve programmatic functions. These functions correspond to specific budget categories such as national defense, agriculture, or health care. While tax expenditures under the reference law baseline are generally tax expenditures under the normal tax baseline, the reverse is not always true.

Both the normal and reference tax baselines allow several major departures from a pure comprehensive income tax. For example:

- Income is taxable when realized in exchange. Thus, neither the deferral of tax on unrealized capital gains nor the tax exclusion of imputed income (such as the rental value of owner-occupied housing or farmers' consumption of their own produce) is regarded as a tax expenditure. Both accrued and imputed income would be taxed under a comprehensive income tax.
- There is a separate corporation income tax. Under a comprehensive income tax corporate income would be taxed only once—at the shareholder level, whether or not distributed in the form of dividends.
- Values of assets and debt are not adjusted for inflation. A comprehensive income tax would adjust the cost basis of capital assets and debt for changes in the price level during the time the assets or debt are held. Thus, under a comprehensive income tax baseline the failure to take account of inflation in measuring depreciation, capital gains, and interest income would be regarded as a negative tax expenditure (i.e., a tax penalty), and failure to take account of inflation in measuring interest costs would be regarded as a positive tax expenditure (i.e., a tax subsidy).

While the reference law and normal tax baselines are generally similar, areas of difference include:

- Tax rates. The separate schedules applying to the various taxpaying units are included in the reference law baseline. Thus, corporate tax rates below the maximum statutory rate do not give rise to a tax expenditure. The normal tax baseline is similar, except that it specifies the current maximum rate as the baseline for the corporate income tax. The lower tax rates applied to the first $10 million of corporate income are thus regarded as a tax expenditure. Similarly, under the reference law baseline, preferential tax rates for capital gains generally do not yield a tax expenditure; only capital gains treatment of otherwise "ordinary income," such as that from coal and iron ore royalties and the sale of timber and certain agricultural products, is considered a tax expenditure. The alternative minimum tax is treated as part of the baseline rate structure under both the reference and normal tax methods.
- Income subject to the tax. Income subject to tax is defined as gross income less the costs of earning that income. The Federal income tax defines gross income to include: (1) consideration received in the exchange of goods and services, including labor services or property; and (2) the taxpayer's share of gross or net income earned and/or reported by another entity (such as a partnership). Under the reference tax rules, therefore, gross income does not include gifts—defined as receipts of money or property that are not consideration in an exchange—or most transfer payments, which can be thought of as gifts from the Government.[2] The normal tax baseline also excludes gifts between individuals from gross income. Under the normal tax baseline, however, all cash transfer payments from the Government to private individuals are counted in gross income, and exemptions of such transfers from tax are identified as tax expenditures. The costs of earning income are generally deductible in determining taxable income under both the reference and normal tax baselines.[3]
- Capital recovery. Under the reference tax law baseline no tax expenditures arise from accelerated depreciation. Under the normal tax baseline, the depreciation allowance for machinery and equipment is determined using straight-line depreciation over tax lives equal to mid-values of the asset depreciation range (a depreciation system in effect from 1971 through 1980). The normal tax baseline for real property is computed using 40-year straight-line depreciation.
- Treatment of foreign income. Both the normal and reference tax baselines allow a tax credit for foreign income taxes paid (up to the amount of U.S. income taxes that would otherwise be due), which prevents double taxation of income earned abroad. Under the normal tax method, however, controlled foreign corporations (CFCs) are not regarded as entities separate from their controlling U.S. shareholders. Thus, the deferral of tax on income received by CFCs is regarded as a tax expenditure under this method. In contrast, except for tax haven activities, the reference law baseline follows current law in treating CFCs as separate taxable entities whose income is not subject to U.S. tax until distributed to U.S. taxpayers. Under this baseline, deferral of tax on CFC income is not a tax expenditure because U.S. taxpayers generally are not taxed on accrued, but unrealized, income.

In addition to these areas of difference, the Joint Committee on Taxation considers a somewhat broader

[2] Gross income does, however, include transfer payments associated with past employment, such as social security benefits.

[3] In the case of individuals who hold "passive" equity interests in businesses, however, the pro rata shares of sales and expense deductions reportable in a year are limited. A passive business activity is defined to be one in which the holder of the interest, usually a partnership interest, does not actively perform managerial or other participatory functions. The taxpayer may generally report no larger deductions for a year than will reduce taxable income from such activities to zero. Deductions in excess of the limitation may be taken in subsequent years, or when the interest is liquidated.

set of tax expenditures under its normal tax baseline than is considered here.

Performance Measures and the Economic Effects of Tax Expenditures

Under the Government Performance and Results Act of 1993 (GPRA), Federal agencies are directed to develop both strategic and annual plans for their programs and activities. These plans set out performance objectives to be achieved over a specific time period. Achieving most of these objectives will largely be the result of direct expenditures of funds. However, tax expenditures may also contribute to goal achievement.

The Senate Governmental Affairs Committee report on this Act[4] called on the Executive branch to undertake a series of analyses to assess the effect of specific tax expenditures on the achievement of the goals and objectives in these strategic and annual plans. As described in OMB's May 1997 report on this Act,[5] Treasury in 1997 initiated pilot studies of three specific tax expenditures in order to explore evaluation methods and resource needs associated with evaluating the relationship between tax expenditures and performance goals. Tax expenditures were selected in each of the three main areas—individual, business, and international taxation—within the Office of Tax Analysis. The specific provisions considered were: the tax exemption for worker's compensation benefits; the tax credit for nonconventional fuels; and the tax exclusion for certain amounts of income earned by Americans living abroad. The results of these studies are summarized in the context of the three specific provisions in the section that follows, which provides provision descriptions.

For the next year, the Administration's plan is to complete additional studies that will focus on the availability of the data needed to assess the effects of selected significant tax expenditures. In addition, summarized data on the beneficiaries and other economic properties of such provisions will be developed where feasible. This effort will complement information published by the Joint Committee on Taxation and the Senate Budget Committee on the rationale, beneficiaries, and effects of tax expenditures.[6] One finding of the pilot studies is that much of the data needed for thorough analysis is not currently available. Hence, assessment of data needs and availability from Federal statistical agencies, program-agency studies, or private-sector sources, and, when feasible, publication of data on selected tax expenditures should prove valuable to broader efforts to assess the effects tax expenditures and to compare their effectiveness with outlay, regulatory and other tax polices as means of achieving objectives.

[4] Committee on Government Affairs, United States Senate, "Government Performance and Results Act of 1993" (Report 103–58, 1993).

[5] Director of the Office of Management and Budget, "The Government Performance and Results Act," Report to the President and the Congress, May 1997.

[6] Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 1998–2992," JCS–22–97, December 15, 1997; and Committee on the Budget, United States Senate, "Tax Expenditures: Compendium of Background Material on Individual Provisions," prepared by the Congressional Research Service (S. Prt. 104–69, December 1996).

Comparisons of tax expenditure, spending, and regulatory policies. Tax expenditures by definition work through the tax system and, particularly, the income tax. Thus, they may be relatively advantageous policy approaches when the benefit or incentive is related to income and is intended to be widely available.[7] Because there is an existing public administrative and private compliance structure for the tax system, the incremental administrative and compliance costs for a tax expenditure may be low in many, though not all, cases. In addition, tax expenditures may help simplify the tax system, as where they leave certain income sources untaxed (e.g, exemptions for employer fringe benefits or exclusions for up to $500,000 of capital gains on home sales). Tax expenditures also implicitly subsidize certain activities, which benefits recipients; the beneficiaries experience reduced taxes that are offset by higher taxes (or spending reductions) elsewhere. Regulatory or tax-disincentive policies, which can also modify behavior, would have a different distributional impact. Finally, a variety of tax expenditure tools can be used—e.g., deductions, credits, exemptions and deferrals; floors and ceilings; and phase-ins and phase-outs, dependent on income, expenses, or demographic characteristics (age, number of family members, etc.). This wide range means that tax expenditures can be flexible and can have very different distributional and cost-effectiveness properties.

Tax expenditures also have limitations. In some cases they can add to the complexity of the tax system, which can raise both administrative and compliance costs; for example, various holding periods and tax rates for capital gains can complicate filing and decisionmaking. Also, the income tax system does not gather information on wealth, in contrast to certain loan programs that are based on recipients' assets and income. In addition, the tax system may have little or no contact with persons who have no or very low incomes, and incentives for such persons may need to take the form of refunds. These features may reduce the effectiveness of tax expenditures for addressing certain income-transfer objectives. Tax expenditures also generally do not enable the same degree of agency discretion as an outlay program; for example, grant or direct Federal service delivery programs can prioritize which activities are addressed with what amount of resources in a way that is difficult to emulate with tax expenditures. Finally, tax expenditures tend to escape the budget scrutiny afforded to other programs. For instance, a program funded by a tax expenditure does not increase government outlays as a share of national product and it may even decrease receipts as a share of output. However, the effective government compensation to a service provider can be identical to that of a spending program under which the outlay (and possibly the receipts) share of GDP may increase.

[7] While this section focuses upon tax expenditures under the income tax, tax preferences also arise under the unified transfer, payroll, and excise tax systems. Such preferences can be useful when they relate to the base of those taxes, such as an excise tax exemption for certain types of meritorious consumption.

Outlay programs, in contrast, have advantages where direct government service provision is particularly warranted—such as equipping and providing the armed forces or administering the system of justice. Outlay programs may also be specifically designed to meet the needs of low-income families who would not otherwise be subject to income taxes or need to file a return. Outlay programs may also receive more year-to-year oversight and fine tuning, through the legislative and executive budget process. In addition, there are many types of spending programs—including direct government provision; credit programs; and payments to State and local governments, the private sector, or individuals in the form of grants or contracts—which provides flexibility for policy design. Regarding limitations, certain outlay programs—such as direct government service provision—may rely less directly on economic incentives and private-market provision than tax incentives, which may reduce the relative efficiency of spending programs for some goals. Spending programs also require resources to be raised via taxes, user charges, or government borrowing. Finally, spending programs, particularly on the discretionary side, may respond less readily to changing activity levels and economic conditions than tax expenditures.

Regulations have a key distributional difference from outlay and tax-expenditure programs in that the immediate distributional burden of the regulation typically falls on the regulated party (i.e., the intended actor)—generally in the private sector. While the regulated parties can pass costs along through product or input prices, the initial incidence is on the regulated party. Regulations can be fine-tuned more quickly than tax expenditures, as they can generally be changed by the executive branch without legislation. Like tax expenditures, regulations often largely rely upon voluntary compliance, rather than detailed inspections and policing. As such, the public administrative costs tend to be modest, relative to the private resource costs associated with modifying activities. Historically, regulations have tended to rely on proscriptive measures, as opposed to economic incentives, which can diminish their efficiency, though this feature can also promote full compliance where (as in certain safety-related cases) policymakers believe that trade-offs with economic considerations are unnecessary. Also, regulations generally do not directly affect the Federal budget and outlays and receipts as a percentage of national output. Thus, like tax expenditures, they may escape the type of scrutiny that outlay programs receive. However, most regulations are subjected to a formal type of benefit-cost analysis that goes well beyond the analysis required for outlay and tax-expenditure programs. To some extent, the GPRA requirement for performance evaluation will address this lack of formal analysis.

Tax expenditures, like spending and regulatory programs, have a variety of objectives and effects. These include: encouraging certain types of activities (e.g., saving for retirement or investing in certain sectors); increasing certain types of after-tax income (e.g., favorable tax treatment of social security income); reducing private compliance costs and government administrative costs (e.g., favorable treatment of certain employer-provided fringe benefits); and promoting tax neutrality (e.g., accelerated depreciation in the presence of inflation). Some of these objectives are well suited to quantitative measurement, while others are less well suited. Also, many tax expenditures, including those cited above, may have more than one objective. For example, favorable treatment of employer-provided pensions might be argued to have aspects of most, or even all, of the goals mentioned above. In addition, the economic effects of particular provisions can extend beyond their intended objectives (e.g., a provision intended to promote an activity or raise certain incomes may have positive or negative effects on tax neutrality).

Performance measurement is generally concerned with inputs, outputs, and outcomes. In the case of tax expenditures, the principal input is usually the tax revenue loss. Outputs are quantitative or qualitative measures of goods and services, or changes in income and investment, directly produced by these inputs. Outcomes, in turn, represent the changes in the economy, society, or environment that are the ultimate goals of programs.

Thus, for a provision that reduces taxes on certain investment activity, an increase in the amount of investment would likely be a key output. The resulting production from that investment, and, in turn, the associated improvements in national income, welfare, or security, could be the outcomes of interest. For other provisions, such as those designed to address a potential inequity or unintended consequence in the tax code, an important performance measure might be how they change effective tax rates (the discounted present-value of taxes owed on new investments or incremental earnings) or excess burden (an economic measure of the distortions caused by taxes). Distributional effects on incomes may be an important measure for certain provisions.

An overview of evaluation issues by budget function. The discussion below considers the types of measures that might be useful for some major programmatic groups of tax expenditures. The discussion is intended to be illustrative, and not all encompassing. However, it is premised on the assumption that the data needed to perform the analysis are available or can be developed. In practice, data availability is likely to be a major challenge, and data constraints may limit the assessment of the effectiveness of many of the provisions for some time. In addition, such assessments can raise significant challenges in economic modeling, which has inherent uncertainties. For these reasons, and related time, staffing, and resource constraints, the evaluation process is likely to take a number of years and to include qualitative assessments and estimated ranges of effects, in many cases, as opposed to point estimates.

National defense.—Some tax expenditures are intended to assist governmental activities. For example, tax preferences for military benefits reflect, among other things, the view that benefits such as housing, subsistence, and moving expenses are intrinsic aspects of military service, and are provided, in part, for the benefit of the employer, the U.S. Government. Tax benefits for combat service are intended to reduce tax burdens on military personnel undertaking hazardous service for the Nation. A portion of the tax expenditure associated with foreign earnings is targeted to benefit U.S. Government civilian personnel working abroad, by offsetting the living costs that can be higher than those in the United States. These tax expenditures should be considered together with direct agency budget costs in making programmatic decisions.

International affairs.—Tax expenditures are also aimed at promoting U.S. exports. These include the exclusion for income earned abroad by nongovernmental employees and preferences for income from exports and U.S.-controlled foreign corporations. Measuring the effectiveness of these provisions raises challenging issues. In addition to determining their effectiveness in markets of the benefitting firms, analysis should consider the extent to which macroeconomic factors lead to offsetting effects, such as increased imports, which could moderate any net effects on employment, national output, and trade deficits. Similar issues arise in the case of export promotion programs supported by outlays.

General science, space and technology; energy; natural resources and the environment; agriculture; and commerce and housing.—A series of tax expenditures reduces the cost of investment, both in specific activities—such as research and experimentation, extractive industries, and certain financial activities—and more generally, through accelerated depreciation for plant and equipment. These provisions can be evaluated along a number of dimensions. For example, it could be useful to consider the strength of the incentives by measuring their effects on the cost of capital (the interest rate which investments must yield to cover their costs) and effective tax rates. The impact of these provisions on the amounts of corresponding forms of investment—such as research spending, exploration activity, or equipment—could also be estimated. In some cases, such as research, there is evidence that the investment can provide significant positive externalities—that is, economic benefits that are not reflected in the market transactions between private parties. It could be useful to quantify these externalities and compare them with the degree of tax subsidy provided. Measures could also indicate the provisions' effects on production from these investments—such as numbers or values of patents, energy production and reserves, and industrial production. Issues to be considered include the extent to which the preferences increase production (as opposed to benefitting existing output) and their cost-effectiveness relative to other policies. Analysis could also consider objectives that are more difficult to measure but still are ultimate goals, such as promoting the Nation's technological base, energy security, environmental quality, or economic growth. Such an assessment is likely to involve tax analysis as well as consideration of non-tax matters such as market structure, scientific, and other information (such as the effects of increased domestic fuel production on imports from various regions, or the effects of various energy sources on the environment).

Housing investment also benefits from tax expenditures, including the mortgage interest deduction and preferential treatment of capital gains on homes. Measures of the effectiveness of these provisions could include their effects on increasing the extent of home ownership and the quality of housing. In addition, the mortgage interest deduction offsets the taxable nature of investment income received by homeowners, so the relationship between the deduction and such earnings is also relevant to evaluation of this provision. Similarly, analysis of the extent of accumulated inflationary gains is likely to be relevant to evaluation of the capital gains preference for home sales. Deductibility of State and local property taxes assists with making housing more affordable as well as easing the cost of providing community services through these taxes. Provisions intended to promote investment in rental housing could be evaluated for their effects on making such housing more available and affordable. These provisions should then be compared with alternative programs that address housing supply and demand.

Transportation.—Employer-provided parking is a fringe benefit that, for the most part, is excluded from taxation. The tax expenditure revenue loss estimates reflect the cost of parking that is leased by employers for employees; an estimate is not currently available for the value of parking owned by employers and provided to their employees. The exclusion for employer-provided transit passes is intended to promote use of this mode of transportation, which has environmental and congestion benefits. The tax treatments of these different benefits could be compared with alternative transportation policies.

Community and regional development.—A series of tax expenditures is intended to promote community and regional development by reducing the costs of financing specialized infrastructure, such as airports, docks, and stadiums. Empowerment zone and enterprise community provisions are designed to promote activity in disadvantaged areas. These provisions can be compared with grant and other policies designed to spur economic development.

Education, training, employment, and social services.—Major provisions in this function are intended to promote post-secondary education, to offset costs of raising children, and to promote a variety of charitable activities. The education incentives can be compared with loans, grants, and other programs designed to promote higher education and training. The

child credits are intended to adjust the tax system for the costs of raising children; as such, they could be compared to other Federal tax and spending policies, including related features of the tax system, such as personal exemptions (which are not defined as a tax expenditure). Evaluation of charitable activities requires consideration of the beneficiaries of these activities, who are generally not the parties receiving the tax reduction.

Health.—Individuals also benefit from favorable treatment of employer-provided health insurance. Measures of these benefits could include increased coverage and the distribution of this coverage across different income groups. The effects of insurance coverage on final outcome measures of actual health (e.g., infant mortality, days of work lost due to illness, or life expectancy) or intermediate outcomes (e.g., use of preventive health care or health care costs) could also be investigated. The distribution of employer-provided health insurance is not readily evident from tax return information; thus, the distribution of benefits from this exclusion must be imputed using tax as well as other forms of information.

Income security, social security, and veterans benefits and services.—Major tax expenditures in the income security function benefit retirement savings, through employer-provided pensions, individual retirement accounts, and Keogh plans. These provisions might be evaluated in terms of their effects on boosting retirement incomes, private savings, and national savings (which would include the effect on private savings as well as public savings or deficits). In considering the provisions' distributional effects, it may be useful to consider beneficiaries' incomes while retired and over their entire lifetimes. Interactions with other programs, including social security, also may merit analysis. As in the case of employer-provided health insurance, analysis of employer-provided pension programs requires imputing the benefits of the firm-level contributions back to individuals.

Other provisions principally have income distribution, rather than incentive, effects. For example, tax-favored treatment of social security benefits, certain veterans benefits, and deductions for the blind and elderly provide increased incomes to eligible parties. The distribution of these benefits may be a useful performance measure. The earned-income tax credit, in contrast, should be evaluated both for its effects on labor force participation and its distributional properties.

General purpose fiscal assistance and interest.—The tax-exemption for public purpose State and local bonds reduces the costs of borrowing for a variety of purposes; borrowing for non-public purposes is reflected under other budget functions. The deductibility of certain State and local taxes reflected under this function primarily relates to personal income taxes; property tax deductibility is reflected under the commerce and housing function. Tax preferences for Puerto Rico and other U.S. possessions are also included here. These provisions can be compared with other tax and spending policies as means of benefitting fiscal and economic conditions in the States, localities, and possessions. Finally, the tax deferral for interest on U.S. savings bonds benefits savers who invest in these instruments; the extent of these benefits and any effects on Federal borrowing costs could be evaluated.

The above illustrative discussion, while broad, is nevertheless incomplete, both for the provisions mentioned and the many that are not explicitly cited. Developing a framework that is sufficiently comprehensive, accurate, and flexible to reflect the objectives and effects of the wide range of tax expenditures will be a significant challenge. OMB, Treasury, and other agencies will work together, as appropriate, to address this challenge. Particularly over the next few years, a significant portion of this effort is likely to be devoted to data issues. Because the compilation of data is resource intensive, and must be balanced with other objectives (including minimizing information collection burdens), careful planning will be essential. Given the challenges inherent in this work, the nature of the analyses is likely to evolve and improve over the next several years.

Other Considerations

The tax expenditure analysis could be extended beyond the income and transfer taxes to include payroll and excise taxes. The exclusion of certain forms of compensation from the wage base, for instance, reduces payroll taxes, as well as income taxes. Payroll tax exclusions are complex to analyze, however, because they also affect social insurance benefits. Certain targeted excise tax provisions might also be considered tax expenditures. In this case challenges include determining an appropriate baseline.

Descriptions of Income Tax Provisions

Descriptions of the individual and corporate income tax expenditures reported upon in this chapter follow.

National Defense

1. ***Benefits and allowances to armed forces personnel.***—The housing and meals provided military personnel, either in cash or in kind, as well as certain amounts of pay related to combat service, are excluded from income subject to tax.

International Affairs

2. ***Income earned abroad.***—A U.S. citizen or resident alien who resides or stays overseas for at least 11 of the past 12 months may exclude $70,000 per year of foreign-earned income. Beginning in 1998, the exclusion limit is increased to $80,000 in $2,000 annual increments. Eligible taxpayers also may exclude or deduct reasonable housing costs in excess of one-sixth of the salary of a civil servant at grade GS–14, step 1 ($60,270 in 1997). Federal employees working abroad are not eligible for the foreign-earned income exclusion.

Federal employees, however, may exclude certain allowances from their taxable income.

The exclusion for certain income earned abroad was one of the tax expenditures examined by the Department of the Treasury in its pilot performance evaluations this year. This tax expenditure consists of two specific components: section 911 of the tax code, which covers private-sector employees, and section 912, which covers civilian government employees.[8]

The benefits for private-sector employees account for about 85 percent of the combined revenue loss from the two tax expenditures. The private-sector provision is intended to promote U.S. exports, help make U.S. companies competitive when doing business abroad, and to offset the costs of living abroad, which can be higher than costs in the United States. Because American workers in higher-tax nations can offset their U.S. taxes through use of the foreign tax credit, in practice the provision primarily benefits U.S. citizens who work in nations with income taxes that are lower than U.S. taxes. Using tax-return data from 1987, Treasury finds that 70 percent of the benefit of the provision goes to taxpayers with income (defined here as adjusted gross income plus the exclusion) above $50,000; over 98 percent of the housing exclusion, went to this group of taxpayers.

The provision benefiting civilian government employees is intended to help them maintain their standard of living when stationed abroad by compensating them for the higher costs of living abroad. To the extent that this compensation is carried out via the tax code, as opposed to agency appropriations, costs are shifted from outlays to revenue losses.

3. ***Income of Foreign Sales Corporations.***—The Foreign Sales Corporation (FSC) provisions exempt from tax a portion of U.S. exporters' foreign trading income to reflect the FSC's sales functions as foreign corporations. These provisions conform to the General Agreement on Tariffs and Trade.

4. ***Sales source rule exceptions.***—The worldwide income of U.S. persons is taxable by the United States and a credit for foreign taxes paid is allowed. The amount of foreign taxes that can be credited is limited to the pre-credit U.S. tax on the foreign source income. The sales source rules for inventory property allow U.S. exporters to use more foreign tax credits by allowing the exporters to attribute a larger portion of their earnings abroad than would be the case if the allocation of earnings was based on actual economic activity.

5. ***Income of U.S.-controlled foreign corporations.***—The income of foreign corporations controlled by U.S. shareholders is not subject to U.S. taxation. The income becomes taxable only when the controlling U.S. shareholders receive dividends or other distributions from their foreign stockholding. Under the normal tax method, the currently attributable foreign source pre-tax income from such a controlling interest is subject to U.S. taxation, whether or not distributed. Thus, the normal tax method considers the amount of controlled foreign corporation income not distributed to a U.S. shareholder as tax-deferred income.

[8] Section 911 was also the subject of a January 1993 Treasury report to Congress, "Taxation of Americans Working Overseas."

General Science, Space, and Technology

6. ***Expensing R&E expenditures.***—Research and experimentation (R&E) projects can be viewed as investments because, if successful, their benefits accrue for several years. It is often difficult, however, to identify whether a specific R&E project is successful and, if successful, what its expected life will be. Under the normal tax method, the expensing of R&E expenditures is viewed as a tax expenditure. The baseline assumed for the normal tax method is that all R&E expenditures are successful and have an expected life of five years.

7. ***R&E credit.***—The research and experimentation (R&E) credit, which expired on May 31, 1997, was reinstated under the Taxpayer Relief Act of 1997 for 13 months (through June 30, 1998). The tax credit is 20 percent of qualified research expenditures in excess of a base amount. The base amount is generally determined by multiplying a "fixed-base percentage" (limited to a maximum of .16) by the average amount of the company's gross receipts for the 1984 to 1988 period. Certain start-up companies are assigned a fixed-base percentage of .03 for the first five taxable years, which is gradually phased out in years 6 through 10 and replaced by the firm's actual fixed-base percentage. Taxpayers may also elect an alternative credit regime. Under the alternative credit regime, the credit rate is reduced and the taxpayer is assigned a three-tiered fixed-base percentage that is lower than the fixed-base percentage that would otherwise apply. A credit with a separate threshold is provided for a taxpayer's payments to universities for basic research.

Energy

8. ***Exploration and development costs.***—For successful investments in domestic oil and gas wells, intangible drilling costs (e.g., wages, the costs of using machinery for grading and drilling, the cost of unsalvageable materials used in constructing wells) may be expensed rather than amortized over the productive life of the property. Integrated oil companies may deduct only 70 percent of such costs and must amortize the remaining 30 percent over five years. The same rule applies to the exploration and development costs of surface stripping and the construction of shafts and tunnels for other fuel minerals.

9. ***Percentage depletion.***—Independent fuel mineral producers and royalty owners are generally allowed to take percentage depletion deductions rather than cost depletion on limited quantities of output. Under cost depletion, outlays are deducted over the productive life of the property based on the fraction of the resource extracted. Under percentage depletion, taxpayers deduct a percentage of gross income from mineral production at rates of 22 percent for uranium; 15 percent for oil, gas and oil shale; and 10 percent for coal. The deduction is limited to 50 percent of net income from

the property, except for oil and gas where the deduction can be 100 percent of net property income. Production from geothermal deposits is eligible for percentage depletion at 65 percent of net income, but with no limit on output and no limitation with respect to qualified producers. Unlike depreciation or cost depletion, percentage depletion deductions can exceed the cost of the investment.

10. ***Alternative fuel production credit.***—A nontaxable credit of $3 per barrel (in 1979 dollars) of oil-equivalent production is provided for several forms of alternative fuels. The credit is generally available if the price of oil stays below $29.50 (in 1979 dollars). The credit generally expires on December 31, 2002.

Treasury reviewed the nonconventional fuel production tax credit as one of its pilot studies of tax expenditures under the Government Performance and Results Act. The provision provides a significant credit—currently about $6 per barrel of oil equivalent or $1 per thousand cubic feet of natural gas, or roughly half of the wellhead price of gas. Coalbed methane (natural gas) and gas from tight formations currently account for most of the credit. While the credit has been effective in stimulating the coalbed methane industry, increased domestic production of natural gas tends to discourage imports from stable suppliers (in particular, Canada), so there is relatively little benefit to U.S. energy security. In addition, there are indications that credit-qualified gas displaced some non-qualified domestic gas.

11. ***Oil and gas exception to passive loss limitation.***—Owners of working interests in oil and gas properties are exempt from the “passive income” limitations. As a result, the working interest-holder, who manages on behalf of himself and all other owners the development of wells and incurs all the costs of their operation, may aggregate negative taxable income from such interests with his income from all other sources.

12. ***Capital gains treatment of royalties on coal.***—Sales of certain coal under royalty contracts can be treated as capital gains rather than ordinary income.

13. ***Energy facility bonds.***—Interest earned on state and local bonds used to finance construction of certain energy facilities is tax-exempt. These bonds are generally subject to the state private-activity bond annual volume cap.

14. ***Enhanced oil recovery credit.***—A credit is provided equal to 15 percent of the taxpayer’s costs for tertiary oil recovery on U.S. projects. Qualifying costs include tertiary injectant expenses, intangible drilling and development costs on a qualified enhanced oil recovery project, and amounts incurred for tangible depreciable property.

15. ***New technology credits.***—A credit of 10 percent is available for investment in solar and geothermal energy facilities. In addition, a credit of 1.5 cents is provided per kilowatt hour of electricity produced from renewable resources such as wind and biomass. The renewable resources credit applies only to electricity produced by a facility placed in service before July 1, 1999.

16. ***Alcohol fuel credits.***—Gasohol, a motor fuel composed of at least 10 percent alcohol, is exempt from 5.4 of the 18.4 cents per gallon Federal excise tax on gasoline. Smaller exemptions are allowed for motor fuel with lower alcohol content. There is a corresponding income tax credit for alcohol used as a fuel in applications where the excise tax is not assessed. This credit, equal to a subsidy of 54 cents per gallon for alcohol used as a motor fuel, is intended to encourage substitution of alcohol for petroleum-based gasoline. In addition, small producers of ethanol are eligible for a 10 cent per gallon credit.

17. ***Credit and deduction for clean-fuel vehicles and property.***—A tax credit of 10 percent (not to exceed $4,000) is provided for purchasers of electric vehicles. Purchasers of other clean-fuel burning vehicles and owners of clean-fuel refueling property may deduct part of their expenditures. The credit and deduction are phased out from 2002 through 2005.

18. ***Exclusion of utility conservation subsidies.***—Subsidies by public utilities for customer expenditures on energy conservation measures are excluded from the gross income of the customer. The exclusion does not apply to subsidies provided to businesses after December 31, 1996.

Natural Resources and Environment

19. ***Exploration and development costs.***—Certain capital outlays associated with exploration and development of nonfuel minerals may be expensed rather than depreciated over the life of the asset.

20. ***Percentage depletion.***—Most nonfuel mineral extractors may use percentage depletion rather than cost depletion, with percentage depletion rates ranging from 22 percent for sulphur to 5 percent for sand and gravel.

21. ***Capital gains treatment of iron ore.***—Iron ore sold under a royalty contract can be treated as capital gains rather than ordinary income.

22. ***Mining reclamation reserves.***—Taxpayers are allowed to establish reserves to cover certain costs of mine reclamation and of closing solid waste disposal properties. Net increases in reserves may be taken as a deduction against taxable income.

23. ***Sewage, water, and hazardous waste bonds.***—Interest earned on state and local bonds used to finance the construction of sewage, water, or hazardous waste facilities is tax-exempt. These bonds are generally subject to the state private-activity bond annual volume cap.

24. ***Capital gains treatment of certain timber.***—Certain timber sold under a royalty contract can be treated as capital gains rather than ordinary income.

25. ***Expensing multiperiod timber growing costs.***—Most of the production costs of growing timber may be expensed rather than capitalized and deducted when the timber is sold. In most other industries, these

costs are capitalized under the uniform capitalization rules.

26. ***Credit and seven-year amortization for reforestation.***—A 10-percent investment tax credit is allowed for up to $10,000 invested annually to clear land and plant trees for the production of timber. Up to $10,000 in forestation investment may also be amortized over a seven-year period rather than capitalized and deducted when the trees are sold or harvested. The amount of forestation investment that is amortizable is not reduced by any of the allowable investment credit.

27. ***Historic preservation.***—Expenditures to preserve and restore historic structures qualify for a 20-percent investment credit, but the depreciable basis must be reduced by the full amount of the credit taken.

Agriculture

28. ***Expensing certain capital outlays.***—Farmers, except for certain agricultural corporations and partnerships, are allowed to expense certain expenditures for feed and fertilizer, as well as for soil and water conservation measures. Expensing is allowed, even though these expenditures are for inventories held beyond the end of the year, or for capital improvements that would otherwise be capitalized.

29. ***Expensing multiperiod livestock and crop production costs.***—The production of livestock and crops with a production period of less than two years is exempt from the uniform cost capitalization rules. Farmers establishing orchards, constructing farm facilities for their own use, or producing any goods for sale with a production period of two years or more may elect not to capitalize costs. If they do, they must apply straight-line depreciation to all depreciable property they use in farming.

30. ***Loans forgiven solvent farmers.***—Farmers are forgiven the tax liability on certain forgiven debt. Normally, the debtor must include the amount of loan forgiveness as income or reduce his recoverable basis in the property to which the loan relates. If the debtor elects to reduce basis and the amount of forgiveness exceeds his basis in the property, the excess forgiveness is taxable. For insolvent (bankrupt) debtors, however, the amount of loan forgiveness never results in an income tax liability.[9] Farmers with forgiven debt are considered insolvent for tax purposes, and thus qualify for income tax forgiveness.

31. ***Capital gains treatment of certain income.***—Certain agricultural income, such as unharvested crops, can be treated as capital gains rather than ordinary income.

32. ***Income averaging for farmers.***—The Taxpayer Relief Act of 1997 allows taxpayers to lower their tax liability by averaging, over the prior three-year period, their taxable income from farming. Taxpayers may average their farm income beginning in 1998; the provision generally expires on December 31, 2000.

Commerce and Housing

This category includes a number of tax expenditure provisions that also affect economic activity in other functional categories. For example, provisions related to investment, such as accelerated depreciation, could be classified under the energy, natural resources and environment, agriculture, or transportation categories.

33. ***Credit union income.***—The earnings of credit unions not distributed to members as interest or dividends are exempt from income tax.

34. ***Bad debt reserves.***—Small (less than $500 million in assets) commercial banks, mutual savings banks, and savings and loan associations may deduct additions to bad debt reserves in excess of actually experienced losses.

35. ***Deferral of income on life insurance and annuity contracts.***—Favorable tax treatment is provided for investment income within qualified life insurance and annuity contracts. Investment income earned on qualified life insurance contracts held until death is permanently exempt from income tax. Investment income distributed prior to the death of the insured is tax-deferred, if not tax-exempt. Investment income earned on annuities is treated less favorably than income earned on life insurance contracts, but it benefits from tax deferral without annual contribution or income limits generally applicable to other tax-favored retirement income plans.

36. ***Small property and casualty insurance companies.***— Insurance companies that have annual net premium incomes of less than $350,000 are exempt from tax; those with $350,000 to $2,100,000 of net premium incomes may elect to pay tax only on the income earned by their investment portfolio.

37. ***Insurance companies owned by exempt organizations.***—Generally, the income generated by life and property and casualty insurance companies is subject to tax, albeit by special rules. Insurance operations conducted by such exempt organizations as fraternal societies and voluntary employee benefit associations, however, are exempt from tax.

38. ***Small life insurance company deduction.***—Small life insurance companies (gross assets of less than $500 million) can deduct 60 percent of the first $3 million of otherwise taxable income. The deduction phases out for otherwise taxable income between $3 million and $15 million.

39. ***Mortgage housing bonds.***—Interest earned on state and local bonds used to finance homes purchased by first-time, low-to-moderate-income buyers is tax-exempt. The amount of state and local tax-exempt bonds that can be issued to finance such private activity is limited. The combined volume cap for mortgage housing bonds, rental housing bonds, student loan bonds, and industrial development bonds is $50 per capita ($150 million minimum) per state. States may issue mortgage credit certificates (MCCs) in lieu of mortgage revenue

[9] The insolvent taxpayer's carryover losses and unused credits are extinguished first, and then his basis in assets reduced to no less than amounts still owed creditors. Finally, the remainder of the forgiven debt is excluded from tax.

bonds. MCCs entitle home buyers to income tax credits for a specified percentage of interest on qualified mortgages. The total amount of MCCs issued by a state cannot exceed 25 percent of its annual ceiling for mortgage-revenue bonds.

40. ***Rental housing bonds.***—Interest earned on state and local government bonds used to finance multifamily rental housing projects is tax-exempt. At least 20 percent (15 percent in targeted areas) of the units must be reserved for families whose income does not exceed 50 percent of the area's median income; or 40 percent for families with incomes of no more than 60 percent of the area median income. Other tax-exempt bonds for multifamily rental projects are generally issued with the requirement that all tenants must be low or moderate income families. Rental housing bonds are subject to the volume cap discussed in the mortgage housing bond section above.

41. ***Interest on owner-occupied homes.***—Owner-occupants of homes may deduct mortgage interest on their primary and secondary residences as itemized nonbusiness deductions. The mortgage interest deduction is limited to interest on debt no greater than the owner's basis in the residence and, for debt incurred after October 13, 1987, it is limited to no more than $1 million. Interest on up to $100,000 of other debt secured by a lien on a principal or second residence is also deductible, irrespective of the purpose of borrowing, provided the debt does not exceed the fair market value of the residence. Mortgage interest deductions on personal residences are tax expenditures because the taxpayers are not required to report the value of owner-occupied housing services as gross income.

42. ***Taxes on owner-occupied homes.***—Owner-occupants of homes may deduct property taxes on their primary and secondary residences even though they are not required to report the value of owner-occupied housing services as gross income.

43. ***Installment sales.***—Dealers in real and personal property (i.e., sellers that regularly hold property for sale or resale) cannot defer taxable income from installment sales until the receipt of the loan repayment. Nondealers (i.e., sellers of real property used in their business) are required to pay interest on deferred taxes attributable to their total installment obligations in excess of $5 million. Only properties with sales prices exceeding $150,000 are includable in the total. The payment of a market rate of interest eliminates the benefit of the tax deferral. The tax exemption for nondealers with total installment obligations of less than $5,000,000 is, therefore, a tax expenditure.

44. ***Capital gains deferral on home sales.***—Homeowners can defer paying capital gains tax on the sale of a principal residence by buying or constructing a home at least equal in value to that of the sold home (net of sales and qualified fix-up costs) within two years. This deferral applies to homes sold before May 7, 1997. For homes sold between May 7, 1997 and July 28, 1997, taxpayers may defer paying the capital gains tax if they elect not to use the $500,000 ($250,000 for singles) exclusion on the sale of a principal residence. The $500,000 exclusion was created by the Taxpayer Relief Act of 1997. For homes sold after July 28, 1997, no capital gains deferral is allowed.

45. ***Capital gains on sales by owners aged 55 or older.***—A taxpayer who is 55 years of age or older may elect to exclude from gross income up to $125,000 of the capital gain from the sale of a principal residence. The exclusion is a once-in-a-lifetime election. This exclusion applies to homes sold before May 7, 1997. For homes sold between May 7, 1997 and July 28, 1997, taxpayers may exclude the $125,000 from gross income if they elect not to use the $500,000 ($250,000 for singles) exclusion on the sale of a principal residence. The $500,000 exclusion was created by the Taxpayer Relief Act of 1997. For homes sold after July 28, 1997, the $125,000 exclusion is not allowed.

46. ***Capital gains exclusion on home sales.***—A homeowner can exclude from tax up to $500,000 ($250,000 for singles) of the capital gains from the sale of a principal residence. The exclusion was created by the Taxpayer Relief Act of 1997 and applies only to homes sold after May 6, 1997. The exclusion may not be used more than once every two years.

47. ***Passive loss real estate exemption.***—In general, passive losses may not offset income from other sources. Losses up to $25,000 attributable to certain rental real estate activity, however, are exempt from this rule.

48. ***Low-income housing credit.***—Taxpayers who invest in certain low-income housing are eligible for a tax credit. The credit rate is set so that the present value of the credit is equal to 70 percent for new construction and 30 percent for (1) housing receiving other Federal benefits (such as tax-exempt bond financing), or (2) substantially rehabilitated existing housing. The credit is allowed in equal amounts over 10 years. States agencies determine who receives the credit; states are limited in the amount of credit they may authorize annually to $1.25 per resident.

49. ***Accelerated depreciation of rental property.***—The tax depreciation allowance provisions are part of the reference law rules, and thus do not cause tax expenditures under the reference method. Under the normal tax method, however, a 40-year tax life for depreciable real property is the norm. Thus, statutory depreciation period for rental property of 27.5 years is a tax expenditure. In addition, tax expenditures arise from pre-1987 tax allowances for rental property.

50. ***Cancellation of indebtedness.***—Individuals are not required to report the cancellation of certain indebtedness as current income. If the canceled debt is not reported as current income, however, the basis of the underlying property must be reduced by the amount canceled.

51. ***Imputed interest rules.***—Holders (issuers) of debt instruments are generally required to report interest earned (paid) in the period it accrues, not when paid. In addition, the amount of interest accrued is determined by the actual price paid, not by the stated

principal and interest stipulated in the instrument.[10] In general, any debt associated with the sale of property worth less than $250,000 is excepted from the general interest accounting rules. This general $250,000 exception is not a tax expenditure under reference law but is under normal law. Exceptions above $250,000 are a tax expenditure under reference law; these exceptions include the following: (1) sales of personal residences worth more than $250,000, and (2) sales of farms and small businesses worth between $250,000 and $1 million.

52. ***Capital gains (other than agriculture, timber, iron ore, and coal).***—Capital gains on assets held for more than 1 year are taxed at a lower rate than ordinary income. The lower rate on capital gains is considered a tax expenditure under the normal tax method but not under the reference law method.

For assets held for more than 1 year and sold before May 7, 1997, the top tax rate is 28 percent. For assets held for more than 1 year and sold between May 7, 1997 and July 28, 1997, the top rate is 20 percent (10 percent for taxpayers who would otherwise pay capital gains tax at the 15-percent rate). For assets held for more than 1.5 years and sold after July 28, 1997, the top rate is 20 percent (10 percent for taxpayers who would otherwise pay capital gains tax at the 15-percent rate). For assets held for more than 1 year but not more than 1.5 years and sold after July 28, 1997, the top rate is 28 percent.

In addition, for assets acquired after December 31, 2000, the maximum capital gains tax rates for assets held more than 5 years are 8 percent and 18 percent (rather than 10 percent and 20 percent). On January 1, 2001, taxpayers may mark-to-market existing assets to start the 5-year holding period.

53. ***Capital gains exclusion for small business stock.***—An exclusion of 50 percent is provided for capital gains from qualified small business stock held by individuals for more than 5 years. A qualified small business is a corporation whose gross assets do not exceed $50 million as of the date of issuance of the stock.

54. ***Step-up in basis of capital gains at death.***—Capital gains on assets held at the owner's death are not subject to capital gains taxes. The cost basis of the appreciated assets is adjusted upward to the market value at the owner's date of death. The step-up in the heir's cost basis means that, in effect, the tax on the capital gain is forgiven.

55. ***Carryover basis of capital gains on gifts.***—When a gift is made, the transferred property carries to the donee the donor's basis—the cost that was incurred when the property was first acquired. The carryover of the donor's basis allows a continued deferral of unrealized capital gains.

[10] For example, if a borrower on December 31, 1997 issues a promise to pay $1,000 plus interest at 10 percent on December 30, 1998, for a total repayment of $1,100 and accepts $900 from a lender in exchange for the contract, the rules require that both parties (a) recognize that $900 is the amount lent, so that the effective loan interest rate is not the stated 10 percent but is 22.2 percent, and (b) report $200 as interest paid or received in 1998.

56. ***Ordinary income treatment of losses from sale of small business corporate stock shares.***—Up to $100,000 in losses from the sale of small business corporate stock (capitalization less than $1 million) may be treated as ordinary losses. Such losses would, thus, not be subject to the $3,000 annual capital loss write-off limit.

57. ***Accelerated depreciation of non-rental-housing buildings.***—The tax depreciation allowance provisions are part of the reference law rules, and thus do not cause tax expenditures under reference law. Under normal law, however, a 40-year life for non-rental-housing buildings is the norm. Thus, the 39-year depreciation period for property placed in service after February 25, 1993, the 31.5-year depreciation period for property placed in service from 1987 to February 25, 1993, and the pre-1987 depreciation periods create a tax expenditure.

58. ***Accelerated depreciation of machinery and equipment.***—The tax depreciation allowance provisions are part of the reference law rules, and thus do not cause tax expenditures under reference law. Statutory depreciation of machinery and equipment, however, is accelerated somewhat relative to the normal tax baseline, creating a tax expenditure.

59. ***Expensing of certain small investments.***—In 1997, qualifying investments in tangible property up to $18,000 can be expensed rather than depreciated over time. (The expensing limit increases annually until 2003, when it reaches $25,000). To the extent that qualifying investment during the year exceeds $200,000, the amount eligible for expensing is decreased. In 1997, the amount expensed is completely phased out when qualifying investments exceed $218,000.

60. ***Business start-up costs.***—When taxpayers enter into a new business, certain start-up expenses, such as the cost of legal services, are normally incurred. Taxpayers may elect to amortize these outlays over 60 months even though they are similar to other payments made for nondepreciable intangible assets that are not recoverable until the business is sold. The normal tax method treats this amortization as a tax expenditure; the reference tax method does not.

61. ***Graduated corporation income tax rate schedule.***—The corporate income tax schedule is graduated, with rates of 15 percent on the first $50,000 of taxable income, 25 percent on the next $25,000, and 34 percent on the next $9.925 million. Compared with a flat 34-percent rate, the lower rates provide an $11,750 reduction in tax liability for corporations with taxable income of $10 million. This benefit is recaptured for corporations with taxable incomes exceeding $100,000 by a 5-percent additional tax on corporate incomes in excess of $100,000, but less than $335,000.

The corporate tax rate is 35 percent on income over $10 million. Compared with a flat 35-percent tax rate, the 34-percent rate provides a $100,000 reduction in tax liability for corporations with taxable incomes of $10 million. This benefit is recaptured for corporations

with taxable incomes exceeding $15 million by a 3-percent additional tax on income over $15 million but less than $18.33 million. Because the corporate rate schedule is part of reference tax law, it is not considered a tax expenditure under the reference method. A flat corporation income tax rate is taken as the baseline under the normal tax method; therefore the lower rates is considered a tax expenditure under this concept.

62. ***Small issue industrial development bonds.***—Interest earned on small issue industrial development bonds (IDBs) issued by state and local governments to finance manufacturing facilities is tax-exempt. Depreciable property financed with small issue IDBs must be depreciated, however, using the straight-line method. The annual volume of small issue IDBs is subject to the unified volume cap discussed in the mortgage housing bond section above.

Transportation

63. ***Deferral of tax on U.S. shipping companies.***—Certain companies that operate U.S. flag vessels can defer income taxes on that portion of their income used for shipping purposes, primarily construction, modernization and major repairs to ships, and repayment of loans to finance these investments. Once indefinite, the deferral has been limited to 25 years since January 1, 1987.

64. ***Exclusion of reimbursed employee parking expenses.***—Parking at or near an employer's business premises that is paid for by the employer is excludable from the income of the employee. In 1997, the maximum amount of the parking exclusion is $170 (indexed) per month. The tax expenditure estimate does not include parking at facilities owned by the employer.

65. ***Exclusion of employer-provided transit passes.***—Transit passes, tokens, and fare cards provided by an employer to defray an employee's commuting costs are excludable from the employee's income if the total value of the benefit does not exceed the transit limit. In 1997, the limit is $70 (indexed) per month.

Community and Regional Development

66. ***Rehabilitation of structures.***—A 10-percent investment tax credit is available for the rehabilitation of buildings that are used for business or productive activities and that were erected before 1936 for other than residential purposes. The taxpayer's recoverable basis must be reduced by the amount of the credit.

67. ***Airport, dock, and similar facility bonds.***—Interest earned on state and local bonds issued to finance high-speed rail facilities and government-owned airports, docks, wharves, and sport and convention facilities is tax-exempt. These bonds are not subject to a volume cap.

68. ***Exemption of income of mutuals and cooperatives.***—The incomes of mutual and cooperative telephone and electric companies are exempt from tax if at least 85 percent of their revenues are derived from patron service charges.

69. ***Empowerment zones and enterprise communities.***—Qualifying businesses in designated economically depressed areas can receive tax benefits such as an employer wage credit, increased expensing of investment in equipment, special tax-exempt financing, and accelerated depreciation. A tax credit for contributions to certain community development corporations can also be available. In addition, certain first-time buyers of a principal residence in the District of Columbia can receive a tax credit, and investors in certain D.C. property can receive a capital gains break.

70. ***Expensing of environmental remediation costs.***—The Taxpayer Relief Act of 1997 allows taxpayers who clean up hazardous substances at a qualified site to expense the clean-up costs, rather than capitalize the costs, even though the expenses will generally increase the value of the property significantly or appreciably prolong the life of the property. The expensing only applies to clean-up costs incurred after August 5, 1997 and before January 1, 2001.

Education, Training, Employment, and Social Services

71. ***Scholarship and fellowship income.***—Scholarships and fellowships are excluded from taxable income to the extent they pay for tuition and course-related expenses of the grantee. Similarly, tuition reductions for employees of educational institutions and their families are not included in taxable income. From an economic point of view, scholarships and fellowships are either gifts not conditioned on the performance of services, or they are rebates of educational costs. Thus, under the reference law method, this exclusion is not a tax expenditure because this method does not include either gifts or price reductions in a taxpayer's gross income. The exclusion, however, is considered a tax expenditure under the normal tax method, which includes gift-like transfers of government funds in gross income (many scholarships are derived directly or indirectly from government funding).

72. ***HOPE tax credit.***—The Taxpayer Relief Act of 1997 created the non-refundable HOPE tax credit, which allows a credit for 100 percent of an eligible student's first $1,000 of tuition and fees and 50 percent of the next $1,000 of tuition and fees. The credit only covers tuition and fees paid during the first two years of a student's post-secondary education. The credit is phased out ratably for taxpayers with modified AGI between $80,000 and $100,000 ($40,000 and $50,000 for singles).

73. ***Lifetime Learning tax credit.***—The Taxpayer Relief Act of 1997 created the non-refundable Lifetime Learning tax credit, which allows a credit for 20 percent of an eligible student's tuition and fees. For tuition and fees paid between July 1, 1998 and December 31, 2002, the maximum credit per return is $1,000. For tuition and fees paid after December 31, 2002, the maximum credit per return is $2,000. The credit is phased

out ratably for taxpayers with modified AGI between $80,000 and $100,000 ($40,000 and $50,000 for singles). The credit applies to both undergraduate and graduate students.

74. ***Education Individual Retirement Accounts.***— The Taxpayer Relief Act of 1997 created education IRAs. Contributions to an education IRA are not tax-deductible. Investment income earned by education IRAs is not taxed when earned, and investment income from an education IRA is tax-exempt when withdrawn to pay for a student's tuition and fees. The maximum contribution to an education IRA is $500 per year per beneficiary. Contributions can be made after December 31, 1997. The maximum contribution is phased down ratably for taxpayers with modified AGI between $150,000 and $160,000 ($95,000 and $110,000 for singles). Contributions may not be made to an education IRA in any year in which a contribution has been made to a state tuition plan for the same beneficiary.

75. ***Student-loan interest.***—Taxpayers may claim an above-the-line deduction of up to $2,500 ($1,000 in 1998, $1,500 in 1999, and $2,000 in 2000) on interest paid on an education loan. Interest may only be deducted for the first five years in which interest payments are required. The maximum deduction is phased down ratably for taxpayers with modified AGI between $60,000 and $75,000 ($40,000 and $55,000 for singles). Only interest paid and due after December 31, 1997 may be deducted.

76. ***State prepaid tuition plans.***—Some states have adopted prepaid tuition plans, which allow persons to pay in advance for college tuition for designated beneficiaries. Taxes on the earnings from these plans are paid by the beneficiaries and are deferred until the tuition is actually paid. The Taxpayer Relief Act of 1997 expanded state prepaid tuition plans to include pre-payment for room and board expenses.

77. ***Student-loan bonds.***—Interest earned on state and local bonds issued to finance student loans is tax-exempt. The volume of all such private activity bonds that each state may issue annually is limited.

78. ***Bonds for private nonprofit educational institutions.***—Interest earned on state and local government bonds issued to finance the construction of facilities used by private nonprofit educational institutions is not taxed. The aggregate volume of all such private activity bonds that each state may issue during any calendar year is limited.

79. ***Credit for holders of zone academy bonds.***— Financial institutions that own zone academy bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income. Proceeds from zone academy bonds may only be use to improve impoverished schools. The total amount of zone academy bonds that may be issued is limited to $800 million; no bonds may be issued before January 1, 1998.

80. ***U.S. savings bonds for education.***—Interest earned on U.S. savings bonds issued after December 31, 1989 is tax-exempt if the bonds are transferred to an educational institution to pay for educational expenses. The tax exemption is phased out for taxpayers with AGI between $76,250 and $106,250 ($50,850 and $65,850 for singles) in 1997.

81. ***Dependent students age 19 or older.***—Taxpayers may claim personal exemptions for dependent children age 19 or over who (1) receive parental support payments of $1,000 or more per year, (2) are full-time students, and (3) do not claim a personal exemption on their own tax returns.

82. ***Child credit.***—The Taxpayer Relief Act of 1997 provides for a $500 child credit for taxpayers with children under age 17, beginning January 1, 1999. (The Act also provides for a $400 credit in 1998.) The credit is phased out for taxpayers at the rate of $50 per $1,000 of modified AGI above $110,000 ($75,000 for singles). The child credit is refundable for taxpayers with three or more children.

83. ***Charitable contributions to educational institutions.***—Taxpayers may deduct contributions to nonprofit educational institutions. Taxpayers who donate capital assets to educational institutions can deduct the assets' current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

84. ***Employer-provided educational assistance.***— Employer-provided educational assistance is excluded from an employee's gross income even though the employer's costs for this assistance are a deductible business expense. This exclusion applies only to non-graduate courses beginning before July 1, 2000.

85. ***Work opportunity tax credit.***—Employers can claim a tax credit for qualified wages paid to individuals who begin work after September 30, 1996 and before July 1, 1998 and who are certified as members of various targeted groups. For employees hired before October 1, 1997, the amount of the credit that can be claimed is 35 percent of the first $6,000 paid during the first year of employment. For employees hired after September 30, 1997, the credit is 25 percent for employment of less than 400 hours and 40 percent for employment of 400 hours or more. Employers must reduce their deduction for wages paid by the amount of the credit claimed.

86. ***Welfare-to-work tax credit.***—The Taxpayer Relief Act of 1997 provides for an employer tax credit on the first $20,000 of eligible wages paid to qualified long-term family assistance recipients during the first two years of employment. The credit is 35 percent of the first $10,000 of wages in the first year of employment and 50 percent of the first $10,000 of wages in the second year of employment. The maximum credit is $8,500 per employee. The credit applies to wages paid to employees who are hired after December 31, 1997 and before May 1, 1999.

87. ***Employer-provided child care.***—Employer-provided child care is excluded from an employee's gross

income even though the employer's costs for the child care are a deductible business expense.

88. ***Adoption assistance.***—Beginning January 1, 1997, taxpayers can receive a nonrefundable tax credit for qualified adoption expenses. The maximum credit is $5,000 per child ($6,000 for special needs adoptions, except foreign adoptions). The credit is phased-out ratably for taxpayers with modified AGI between $75,000 and $115,000. Unused credits may be carried forward. In lieu of the tax credit, taxpayers may exclude qualified adoption expenses from income, subject to the same maximum amounts and phase-out as the credit. The non-special needs adoption assistance and foreign special needs assistance expire on December 31, 2001.

89. ***Employer-provided meals and lodging.***—Employer-provided meals and lodging are excluded from an employee's gross income even though the employer's costs for these items are a deductible business expense.

90. ***Child and dependent care expenses.***—Married couples with child and dependent care expenses may claim a tax credit when one spouse works full time and the other works at least part time or goes to school. The credit may also be claimed by divorced or separated parents who have custody of children, and by single parents. Expenditures up to a maximum $2,400 for one dependent and $4,800 for two or more dependents are eligible for the credit. The credit is equal to 30 percent of qualified expenditures for taxpayers with incomes of $10,000 or less. The credit is reduced to a minimum of 20 percent by one percentage point for each $2,000 of income between $10,000 and $28,000.

91. ***Disabled access expenditure credit.***—Small businesses (less than $1 million in gross receipts or fewer than 31 full-time employees) can claim a 50-percent credit for expenditures in excess of $250 to remove access barriers for disabled persons. The credit is limited to $5,000.

92. ***Expensing costs of removing architectural barriers.***—Taxpayers can expense (up to $15,000 annually) the cost of removing architectural barriers to the handicapped rather than depreciate the cost over the useful life of the asset.

93. ***Charitable contributions, other than education and health.***—Taxpayers may deduct contributions to charitable, religious, and certain other nonprofit organizations. Taxpayers who donate capital assets to charitable organizations can deduct the assets' current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

94. ***Foster care payments.***—Foster parents provide a home and care for children who are wards of the State, under contract with the State. Compensation received for this service is excluded from the gross incomes of foster parents; the expenses they incur are nondeductible.

95. ***Parsonage allowances.***—The value of a minister's housing allowance and the rental value of parsonages are not included in a minister's taxable income.

Health

96. ***Employer-paid medical insurance and expenses.***—Employer-paid health insurance premiums and other medical expenses (including long-term care) is deducted as a business expense by employers, but it is not included in employee gross income. The self-employed also may deduct part of their family health insurance premiums.

97. ***Medical savings accounts.***—Beginning January 1, 1997, some employees may deduct annual contributions to a medical savings account (MSA); employer contributions to MSAs (except those made through cafeteria plans) for qualified employees are also excluded from income. An employee may contribute to an MSA in a given year only if the employer does not contribute to the MSA in that year. MSAs are only available to self-employed individuals or employees covered under an employer-sponsored high deductible health plan of a small employer. The maximum annual MSA contribution is 75 percent of the deductible under the high deductible plan for family coverage (65 percent for individual coverage). Earnings from MSAs are excluded from taxable income. Distributions from an MSA for medical expenses are not taxable. The number of taxpayers who may benefit annually from MSAs is generally limited to 750,000. No new MSAs may be established after December 31, 2000.

98. ***Medical care expenses.***—Personal expenditures for medical care (including the costs of prescription drugs) exceeding 7.5 percent of the taxpayer's adjusted gross income are deductible.

99. ***Hospital construction bonds.***—Interest earned on state and local government debt issued to finance hospital construction is excluded from income subject to tax.

100. ***Charitable contributions to health institutions.***—Individuals and corporations may deduct contributions to nonprofit health institutions. Tax expenditures resulting from the deductibility of contributions to other charitable institutions are listed under the education, training, employment, and social services function.

101. ***Orphan drugs.***—Drug firms can claim a tax credit of 50 percent of the costs for clinical testing required by the Food and Drug Administration for drugs that treat rare physical conditions or rare diseases.

102. ***Blue Cross and Blue Shield.***—Blue Cross and Blue Shield health insurance providers in existence on August 16, 1986 and certain other nonprofit health insurers are provided exceptions from otherwise applicable insurance company income tax accounting rules that substantially reduce (or even eliminate) their tax liabilities.

Income Security

103. ***Railroad retirement benefits.***—Railroad retirement benefits are not generally subject to the income tax unless the recipient's gross income reaches a certain threshold. The threshold is discussed more fully under the social security function.

104. ***Workmen's compensation benefits.***—Workmen's compensation provides payments to disabled workers. These benefits, although income to the recipients, are not subject to the income tax.

Treasury reviewed the Federal income tax exemption for workers' compensation wage replacement benefits as one of its pilot analyses of tax expenditures. Workers' compensation programs, with the principal exception of the program covering Federal employees, are State programs that do not have to conform to any national criteria. While the legislative history does not explain the goal of the tax exemption, the exemption has the effect of reducing taxes on families with unexpected losses of earnings from work-related injuries or death. Because the tax exemption may have been considered in setting the levels of benefits mandated by State laws, the net benefit of the tax exemption to recipients is uncertain.

105. ***Public assistance benefits.***—Public assistance benefits are excluded from tax. The normal tax method considers cash transfers from the government as taxable and, thus, treats the exclusion for public assistance benefits as a tax expenditure.

106. ***Special benefits for disabled coal miners.***—Disability payments to former coal miners out of the Black Lung Trust Fund, although income to the recipient, are not subject to the income tax.

107. ***Military disability pensions.***—Most of the military pension income received by current disabled retired veterans is excluded from their income subject to tax.

108. ***Employer-provided pension contributions and earnings.***—Certain employer contributions to pension plans are excluded from an employee's gross income even though the employer can deduct the contributions. In addition, the tax on the investment income earned by the pension plans is deferred until the money is withdrawn.

109. ***401(k) plans and Individual Retirement Accounts.***—Individual taxpayers can take advantage of several different tax-preferenced retirement plans: deductible IRAs, non-deductible IRAs, Roth IRAs, and 401(k) plans (and 401(k)-type plans like 403(b) plans and the government's Thrift Savings Plan).

In 1997, an employee could exclude up to $9,500 (indexed) of wages from AGI under a qualified arrangement with an employer's 401(k). Employees can annually contribute to a deductible IRA up to $2,000 (or 100 percent of compensation, if less) or $4,000 on a joint return with only one working spouse if: (a) neither the individual nor spouse is an active participant in an employer-provided retirement plan, or (b) their AGI is below $40,000 ($25,000 for singles). The IRA deduction is phased out for AGI between $40,000 and $50,000 ($25,000 and $35,000 for singles). The Taxpayer Relief Act of 1997 raises the phaseout range in 1998 to $50,000 and $60,000 ($30,000 and $40,000 for singles). Taxpayers whose AGI is above the start of the IRA phase-out range or who are active participants in an employer-provided retirement plan can contribute to a non-deductible IRA. The tax on the investment income earned by 401(k) plans, non-deductible IRAs, and deductible IRAs is deferred until the money is withdrawn.

The Taxpayer Relief Act of 1997 created Roth IRAs, effective January 1, 1998. An employed taxpayer can make a non-deductible contribution of up to $2,000 (a non-employed spouse can also contribute up to $2,000 if a joint return is filed) to a Roth IRA. Investment income of a Roth IRA is not taxed when earned. Withdrawals from a Roth IRA are tax free if (1) the Roth IRA was opened at least 5 years before the withdrawal, and (2) the taxpayer either (a) is at least 59-1/2, (b) dies, (c) is disabled, or (d) purchases a first-time house. The maximum contribution to a Roth IRA is phased out for taxpayers with AGI between $150,000 and $160,000 ($95,000 and $110,000 for singles). Total annual contributions to a taxpayer's deductible, non-deductible, and Roth IRAs cannot exceed $2,000 ($4,000 for joints).

110. ***Keogh plans.***—Self-employed individuals can make deductible contributions to their own retirement (Keogh) plans equal to 25 percent of their income, up to a maximum of $30,000 per year. In addition, the tax on the investment income earned by Keogh plans is deferred until the money is withdrawn.

111. ***Employer-provided death benefits.***—Employer-provided death benefits are excluded from an employee's gross income even though the employer's costs for the death benefits are a deductible business expense.

112. ***Employer-provided life insurance benefits.***—Employer-provided life insurance benefits are excluded from an employee's gross income even though the employer's costs for the insurance are a deductible business expense.

113. ***Employer-provided accident and disability benefits.***—Employer-provided accident and disability benefits are excluded from an employee's gross income even though the employer's costs for the benefits are a deductible business expense.

114. ***Employer-provided supplementary unemployment benefits.***—Employer-provided supplementary unemployment benefits are excluded from an employee's gross income even though the employer's costs for the benefits are a deductible business expense.

115. ***Employer Stock Ownership Plan (ESOP) provisions.***—ESOPs are a special type of tax-exempt employee benefit plan. Employer-paid contributions (the value of stock issued to the ESOP) are deductible by the employer as part of employee compensation costs. They are not included in the employees' gross income for tax purposes, however, until they are paid out as benefits. The following special income tax provisions for ESOPs are intended to increase ownership of cor-

porations by their employees: (1) annual employer contributions are subject to less restrictive limitations; (2) ESOPs may borrow to purchase employer stock, guaranteed by their agreement with the employer that the debt will be serviced by his payment (deductible by him) of a portion of wages (excludable by the employees) to service the loan; (3) employees who sell appreciated company stock to the ESOP may defer any taxes due until they withdraw benefits; and (4) dividends paid to ESOP-held stock are deductible by the employer.

116. ***Additional deduction for the blind.***—Taxpayers who are blind may take an additional $1,000 standard deduction if single, or $800 if married.

117. ***Additional deduction for the elderly.***—Taxpayers who are 65 years or older may take an additional $1,000 standard deduction if single, or $800 if married.

118. ***Tax credit for the elderly and disabled.***—Individuals who are 65 years of age or older, or who are permanently disabled, can take a tax credit equal to 15 percent of the sum of their earned and retirement income. Income is limited to no more than $5,000 for single individuals or married couples filing a joint return where only one spouse is 65 years of age or older, and up to $7,500 for joint returns where both spouses are 65 years of age or older. These limits are reduced by one-half of the taxpayer's adjusted gross income over $7,500 for single individuals and $10,000 for married couples filing a joint return.

119. ***Casualty losses.***—Neither the purchase of property nor insurance premiums to protect its value are deductible as costs of earning income; therefore, reimbursement for insured loss of such property is not reportable as a part of gross income. Taxpayers, however, may deduct uninsured casualty and theft losses of more than $100 each, but only to the extent that total losses during the year exceed 10 percent of AGI.

120. ***Earned income tax credit (EITC).***—The EITC may be claimed by low income workers. For a family with one qualifying child, the credit is 34 percent of the first $6,500 of earned income in 1997. The credit is 40 percent of the first $9,140 of income for a family with two or more qualifying children. When the taxpayer's income exceeds $11,930, the credit is phased out at the rate of 15.98 percent (21.06 percent if two or more qualifying children are present). It is completely phased out at $25,760 of modified adjusted gross income ($29,290 if two or more qualifying children are present).

The credit may also be claimed by workers who do not have children living with them. Qualifying workers must be at least age 25 and may not be claimed as a dependent on another taxpayer's return. The credit is not available to workers age 65 or older. In 1997, the credit is 7.65 percent of the first $4,340 of earned income. When the taxpayer's income exceeds $5,430, the credit is phased out at the rate of 7.65 percent. It is completely phased out at $9,770 of modified adjusted gross income.

For workers with or without children, the income level at which the credit's phase-outs begin and the maximum amounts of income on which the credit can be taken are adjusted for inflation. Earned income tax credits in excess of tax liabilities owed through the individual income tax system are refundable to individuals. This portion of the credit is shown as an outlay, while the amount that offsets tax liabilities is shown as a tax expenditure.

Social Security

121. ***Social Security benefits for retired workers.***—Social security benefits that exceed the beneficiary's contributions out of taxed income are deferred employee compensation and the deferral of tax on that compensation is a tax expenditure. These additional retirement benefits are paid for partly by employers' contributions that were not included in employees' taxable compensation. Portions (reaching as much as 85 percent) of recipients' social security and tier 1 railroad retirement benefits are included in the income tax base, however, if the recipient's provisional income exceeds certain base amounts. Provisional income is equal to adjusted gross income plus foreign or U.S. possession income and tax-exempt interest, and one half of social security and tier 1 railroad retirement benefits. The tax expenditure is limited to the portion of the benefits received by taxpayers who are below the base amounts at which 85 percent of the benefits are taxable.

122. ***Social Security benefits for the disabled.***—Benefit payments from the Social Security Trust Fund, for disability and for dependents and survivors, are excluded from the beneficiaries' gross incomes.

123. ***Social Security benefits for dependents and survivors.***—Benefit payments from the Social Security Trust Fund for dependents and survivors are excluded from the beneficiaries' gross income.

Veterans Benefits and Services

124. ***Veterans death benefits and disability compensation.***—All compensation due to death or disability paid by the Veterans Administration is excluded from taxable income.

125. ***Veterans pension payments.***—Pension payments made by the Veterans Administration are excluded from gross income.

126. ***G.I. Bill benefits.***—G.I. Bill benefits paid by the Veterans Administration are excluded from gross income.

127. ***Tax-exempt mortgage bonds for veterans.***—Interest earned on general obligation bonds issued by State and local governments to finance housing for veterans is excluded from taxable income. The issuance of such bonds is limited, however, to five pre-existing State programs and to amounts based upon previous volume levels for the period January 1, 1979 to June 22, 1984. Furthermore, future issues are limited to veterans who served on active duty before 1977.

General Government

128. ***Public purpose State and local bonds.***—Interest earned on State and local government bonds issued to finance public purpose construction (e.g., schools, roads, sewers) is tax-exempt.

129. ***Deductibility of certain nonbusiness State and local taxes.***—Taxpayers may deduct State and local income taxes and property taxes even though these taxes primarily pay for services that, if purchased directly by taxpayers, would not be deductible.

130. ***Business income earned in U.S. possessions.***—U.S. corporations receiving income from investments or businesses located in a U.S. possession (e.g., Puerto Rico) can claim a credit against U.S. tax, which effectively excludes some of this income from tax. The credit expires December 31, 2005.

Interest

131. ***U.S. savings bonds.***—Taxpayers may defer paying tax on interest earned on U.S. savings bonds until the bonds are redeemed.

TAX EXPENDITURES IN THE UNIFIED TRANSFER TAX

Exceptions to the general terms of the Federal unified transfer tax favor particular transferees or dispositions of transferors, similar to Federal direct expenditure or loan programs. The transfer tax provisions identified as tax expenditures satisfy the reference law criteria for inclusion in the tax expenditure budget that were described above. There is no generally accepted normal tax baseline for transfer taxes.

Unified Transfer Tax Reference Rules

The reference tax rules for the unified transfer tax from which departures represent tax expenditures include:

- Definition of the taxpaying unit. The payment of the tax is the liability of the transferor whether the transfer of cash or property was made by gift or bequest.
- Definition of the tax base. The base for the tax is the transferor's cumulative, taxable lifetime gifts made plus the net estate at death. Gifts in the tax base are all annual transfers in excess of $10,000 to any donee except the donor's spouse. Excluded are, however, payments on behalf of family members' educational and medical expenses, as well as the cost of ceremonial gatherings and celebrations that are not in honor of the donor.
- Property valuation. In general, property is valued at its fair market value at the time it is transferred. This is not necessarily the case in the valuation of property for transfer tax purposes. Executors of estates are provided the option to value assets at the time of the testator's death or up to six months later.
- Tax rate schedule. A single graduated tax rate schedule applies to all taxable transfers. This is reflected in the name of the "unified transfer tax" that has replaced the former separate gift and estate taxes. The tax rates vary from 18 percent on the first $10,000 of aggregate taxable transfers, to 55 percent on amounts exceeding $3 million. A lifetime credit is provided against the tax in determining the final amount of transfer taxes that are due and payable. For decedents dying in 1998, this credit allows each taxpayer to make a $625,000 tax-free transfer of assets that otherwise would be liable to the unified transfer tax. This figure is scheduled to increase in steps to $1 million in 2005.[11]
- Time when tax is due and payable. Donors are required to pay the tax annually as gifts are made. The generation-skipping transfer tax is payable by the donees whenever they accede to the gift. The net estate tax liability is due and payable within nine months after the decedent's death. The Internal Revenue Service may grant an extension of up to 10 years for a reasonable cause. Interest is charged on the unpaid tax liability at a rate equal to the cost of Federal short-term borrowing, plus three percentage points.

Tax Expenditures by Function

The estimates of tax expenditures in the Federal unified transfer tax for fiscal years 1997-2003 are displayed by functional category in table 5–6. Outlay equivalent estimates are similar to revenue loss estimates for transfer tax expenditures and, therefore, are not shown separately. A description of the provisions follows.

Natural Resources and Environment

1. ***Donations of conservation easements.***—Bequests of property and easements (in perpetuity) for conservation purposes can be excluded from taxable estates. Use of the property and easements must be restricted to at least one of the following purposes: outdoor recreation or scenic enjoyment for the general public; protection of the natural habitats of fish, wildlife, plants, etc.; and preservation of historic land areas and structures. Conservation gifts are similarly excluded from the gift tax. The Taxpayer Relief Act of 1997 (TRA97) allows up to 40 percent of the value of land subject to certain conservation easements to be excluded from taxable estates; the maximum amount of the exclusion is $100,000 in 1998 and increases by $100,000 in each year through 2002. The TRA97 exclusion applies to the estates of decedents dying after December 31, 1997.

[11] An additional tax, at a flat rate of 55 percent, is imposed on lifetime, generation-skipping transfers in excess of $1 million. It is considered a generation-skipping transfer whenever the transferee is at least two generations younger than the transferor, as it would be in the case of transfers to grandchildren or great-grandchildren. The liability of this tax is on the recipients of the transfer.

Agriculture

2. ***Special-use valuation of farms.***—Up to $750,000 in farmland owned and operated by a decedent and/or a member of the family may be valued for estate tax purposes on the basis of its "continued use" as farmland if: (1) the value of the farmland is at least 25 percent of the gross estate; (2) the entire value of all farm property is at least 50 percent of the gross estate; and (3) family heirs to the farm agree to continue to operate the property as a farm for at least 10 years. The $750,000 limit is indexed at 1998 levels, beginning in 1999.

3. ***Tax deferral of closely held farms.***—The tax on a decedent's farm can be deferred for up to 14 years if the value of the farm is at least 35 percent of the net estate. For the first 4 years of deferral, no tax need be paid. During the last 10 years of deferral, the tax liability must be paid in equal annual installments. Throughout the 14 year period, interest is charged at a special, favorable rate. The Taxpayer Relief Act of 1997 (TRA97) lowered the applicable interest rates and made the interest non-deductible. The TRA97 provision applies to the estates of decedents dying after December 31, 1997.

Commerce and Housing

4. ***Special-use valuation of closely-held businesses.***—The special-use valuation rule available for family farms is also available for nonfarm family businesses. To be eligible for the special-use valuation, the same three conditions previously described must be met.

5. ***Tax deferral of closely-held businesses.***—The tax-deferral rule available for family farms is also available for nonfarm family businesses. To be eligible for the tax deferral, the value of stock in closely-held corporations must exceed 35 percent of the decedent's gross estate, less debt and funeral expenses.

6. ***Exclusion for family-owned businesses.***—The Taxpayer Relief Act of 1997 added a provision excluding from taxable estates certain family-owned businesses that are bequeathed to qualified heirs. The exclusion cannot exceed $1.3 million less the value of the unified credit. The exclusion is recaptured if certain conditions are not maintained for 10 years. The exclusion applies to the estates of decedents dying after December 31, 1997.

Education, Training, Employment, and Social Services

7. ***Charitable contributions to educational institutions.***—Bequests to educational institutions can be deducted from taxable estates.

8. ***Charitable contributions, other than education and health.***— Bequests to charitable, religious, and certain other nonprofit organizations can be deducted from taxable estates.

Health

9. ***Charitable contributions to health institutions.***—Bequests to health institutions can be deducted from taxable estates.

General Government

10. ***State and local death taxes.***—A credit against the federal estate tax is allowed for State taxes on bequests. The amount of this credit is determined by a rate schedule that reaches a maximum of 16 percent of the taxable estate in excess of $60,000.

Table 5–6. REVENUE LOSS ESTIMATES FOR TAX EXPENDITURES IN THE FEDERAL UNIFIED TRANSFER TAX

(In millions of dollars)

	Description	1997	1998	1999	2000	2001	2002	2003	1999–2003
	Natural Resources and Environment:								
1	Donations of conservation easements	0	0	10	25	40	55	75	205
	Agriculture:								
2	Special use valuation of farm real property	80	85	90	95	100	105	110	500
3	Tax deferral of closely held farms	10	10	15	15	15	20	20	85
	Commerce:								
4	Special use valuation of real property used in closely held businesses	20	25	25	25	30	30	35	145
5	Tax deferral of closely held business	65	70	75	80	85	95	105	440
6	Exclusion for family owned businesses	0	0	390	395	400	420	435	2,040
	Education, training, employment, and social services:								
7	Deduction for charitable contributions (education)	835	905	930	975	1,025	1,100	1,160	5,190
8	Deduction for charitable contributions (other than education and health)	2,460	2,670	2,745	2,880	3,035	3,245	3,425	15,330
	Health:								
9	Deduction for charitable contributions (health)	755	820	840	880	930	995	1,050	4,695
	General government:								
10	Credit for State death taxes	3,910	4,120	4,260	4,465	4,685	4,930	5,215	23,555

Note: All estimates have been rounded to the nearest $5 million.