

[JOINT COMMITTEE PRINT]

**ESTIMATES OF
FEDERAL TAX EXPENDITURES
FOR FISCAL YEARS 2009–2013**

PREPARED FOR THE
HOUSE COMMITTEE ON WAYS AND MEANS
AND THE
SENATE COMMITTEE ON FINANCE

BY THE STAFF
OF THE
JOINT COMMITTEE ON TAXATION



JANUARY 11, 2010

U.S. GOVERNMENT PRINTING OFFICE

54-136

WASHINGTON : 2010

JCS-1-10

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111TH CONGRESS, 2ND SESSION

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INTRODUCTION

Tax expenditure analysis can help both policymakers and the public to understand the actual size of government, the uses to which government resources are put, and the tax and economic policy consequences that follow from the implicit or explicit choices made in fashioning legislation. This report¹ on tax expenditures for fiscal years 2009–2013 is prepared by the staff of the Joint Committee on Taxation (“Joint Committee staff”) for the House Committee on Ways and Means and the Senate Committee on Finance. The report also is submitted to the House and Senate Committees on the Budget.

As in the case of earlier reports,² the estimates of tax expenditures in this report were prepared in consultation with the staff of the Office of Tax Analysis in the Department of the Treasury (“the Treasury”). The Treasury published its estimates of tax expenditures for fiscal years 2008–2014 in the Administration’s budgetary statement of May 2009.³ The lists of tax expenditures in this Joint Committee staff report and the Administration’s budgetary statement overlap considerably; the differences are discussed in Part I of this report under the heading “Comparisons with Treasury.”

The Joint Committee staff has made its estimates (as shown in Table 1) based on the provisions in Federal tax law as enacted through September 30, 2009.⁴ Expired or repealed provisions are not listed unless they have continuing revenue effects that are associated with ongoing taxpayer activity. Proposed extensions or modifications of expiring provisions are not included until they have been enacted into law. The tax expenditure calculations in this report are based on the August 2009 Congressional Budget Office (“CBO”) revenue baseline and Joint Committee staff projections

¹This report may be cited as follows: Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2009–2013* (JCS–1–10), January 11, 2010.

²Joint Committee on Taxation, *Estimates of Federal Tax Expenditures*, October 4, 1972 (JCS–28–72), June 1, 1973 (JCS–20–73), July 8, 1975 (JCS–11–75), March 15, 1976 (JCS–5–76), March 15, 1977 (JCS–10–77), March 14, 1978 (JCS–9–78), March 15, 1979 (JCS–9–79), March 6, 1980 (JCS–8–80), March 16, 1981 (JCS–7–81), March 8, 1982 (JCS–4–82), March 7, 1983 (JCS–4–83), November 9, 1984 (JCS–39–84), April 12, 1985 (JCS–8–85), March 1, 1986 (JCS–7–86), February 27, 1987 (JCS–3–87), March 8, 1988 (JCS–3–88), February 28, 1989 (JCS–4–89), March 9, 1990 (JCS–7–90), March 11, 1991 (JCS–4–91), April 24, 1992 (JCS–8–92), April 22, 1993 (JCS–6–93), November 9, 1994 (JCS–6–94), September 1, 1995 (JCS–21–95), November 26, 1996 (JCS–11–96), December 15, 1997 (JCS–22–97), December 14, 1998 (JCS–7–98), December 22, 1999 (JCS–13–99), April 6, 2001 (JCS–1–01), January 17, 2002 (JCS–1–02), December 19, 2002 (JCS–5–02), December 22, 2003 (JCS–8–03), January 12, 2005 (JCS–1–05), April 25, 2006 (JCS–2–06), September 24, 2007 (JCS–3–07), and October 31, 2008 (JCS–2–08).

³Office of Management and Budget, “Tax Expenditures,” *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2010*, May 7, 2009, pp. 297–329.

⁴This analysis does not include effects of the Worker, Homeownership, and Business Assistance Act of 2009 (Pub. L. No. 111–92) or the Department of Defense Appropriations Act, 2010 (Pub. L. No. 111–118), which became law after the end of fiscal year 2009. The Worker, Homeownership, and Business Assistance Act affects the tax expenditures for the first-time homebuyer tax credit and the exclusion of benefits and allowances to armed forces personnel under the Homeowners Assistance Program. The Department of Defense Appropriations Act extends the premium subsidy for COBRA continuation coverage.

of the gross income, deductions, and expenditures of individuals and corporations for calendar years 2008–2013.

Part I of this report contains a discussion of the concept of tax expenditures. Part II is a discussion of the measurement of tax expenditures. Estimates of tax expenditures for fiscal years 2009–2013 are presented in Table 1 in Part III. Table 2 shows the distribution of tax returns by income class, and Table 3 presents distributions of selected individual tax expenditures by income class.

I. THE CONCEPT OF TAX EXPENDITURES

Overview

Tax expenditures are defined under the Congressional Budget and Impoundment Control Act of 1974 (the “Budget Act”) as “revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.”⁵ Thus, tax expenditures include any reductions in income tax liabilities that result from special tax provisions or regulations that provide tax benefits to particular taxpayers.

Special income tax provisions are referred to as tax expenditures because they may be considered to be analogous to direct outlay programs, and the two can be considered as alternative means of accomplishing similar budget policy objectives. Tax expenditures are similar to those direct spending programs that are available as entitlements to those who meet the statutory criteria established for the programs.

Estimates of tax expenditures are prepared for use in budget analysis. They are a measure of the economic benefits that are provided through the tax laws to various groups of taxpayers and sectors of the economy. The estimates also may be useful in determining the relative merits of achieving specified public goals through tax benefits or direct outlays. It is appropriate to evaluate tax expenditures with respect to cost, distributional consequences, alternative means of provision, and economic effects and to allow policymakers to evaluate the tradeoffs among these and other potentially competing policy goals.

The legislative history of the Budget Act indicates that tax expenditures are to be defined with reference to a normal income tax structure (referred to here as “normal income tax law”). The determination of whether a provision is a tax expenditure is made on the basis of a broad concept of income that is larger in scope than “income” as defined under general U.S. income tax principles. The Joint Committee staff has used its judgment in distinguishing between those income tax provisions (and regulations) that can be viewed as a part of normal income tax law and those special provisions that result in tax expenditures. A provision traditionally has been listed as a tax expenditure by the Joint Committee staff if there is a reasonable basis for such classification and the provision results in more than a *de minimis* revenue loss, which solely for this purpose means a total revenue loss of less than \$50 million over the five fiscal years 2009–2013. The Joint Committee staff em-

⁵ Congressional Budget and Impoundment Control Act of 1974 (Pub. L. No. 93–344), sec. 3(3). The Budget Act requires CBO and the Treasury to publish annually detailed lists of tax expenditures.

phasizes, however, that in the process of listing tax expenditures, no judgment is made, nor any implication intended, about the desirability of any special tax provision as a matter of public policy.

An alternative approach builds on the work of Seymour Fiekowsky and others, by defining a “tax subsidy” (a tax expenditure in the narrow sense) as a specific tax provision that is deliberately inconsistent with an identifiable general rule of the present tax law (not a hypothetical normal income tax law), and that collects less revenue than does the general rule.⁶ In practice, the compilation of general rules comprise a baseline for identifying tax subsidies that corresponds to the “reference tax” baseline that the Treasury primarily uses in its tax expenditure analyses and that the Joint Committee staff used in 2008.⁷ While this definition does not require the kinds of normative judgments required to construct the “normal” tax base, it is not automatic in application. For example, there may be uncertainty as to whether there is a clear general rule, and if so, what that general rule may be.

As a practical matter, either approach can yield a similar list of tax expenditures. Many of the provisions of normal income tax law are also general rules of the Internal Revenue Code of 1986, as amended (“the Code”). Both systems generally allow as part of the baseline tax system, among other features, deferral of tax on unrealized gains; existence of a separate corporate income tax; a standard deduction and personal exemptions; variation in individual tax rates by income; variation in rate brackets, standard deductions, and other tax attributes by marital status; exclusion of gifts between individuals from gross income; deductibility of the expenses of earning income; economic depreciation; and credit for foreign income taxes paid to prevent double taxation of income earned abroad.⁸ As a result, a provision identified as a tax expenditure under the general rules of the Code generally is identified as a tax expenditure under the normal income tax law baseline; however, the reverse is not always true. The primary areas of departure relate to accelerated depreciation (of which expensing is an extreme form), deferral of income of controlled foreign corporations (“CFCs”), and exclusion of certain cash transfers from income.⁹

Given the similarity of the two approaches, the generally more expansive list of provisions identified relative to the normal income tax baseline, and continuity with the historical approach of the Joint Committee staff since 1972, this pamphlet resumes imple-

⁶Seymour Fiekowsky, “The Relation of Tax Expenditures to the Distribution of the ‘Fiscal Burden,’” 2 *Canadian Taxation*, 1980, 211, 215; see also Office of Management and Budget, *The Budget of the United States Government, Fiscal Year 1983—Special Analyses G-5*, 1982.

⁷Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2008–2012* (JCS-2-08), October 31, 2008.

⁸The rationales for inclusion of items in this list, and, indeed, for designation as tax expenditures, vary. For example, while taxation of accrued but unrealized gains is consistent with the broad concept of normal income, nontaxation of accrued gains is not treated as a tax expenditure because of the infeasibility of its implementation. Other considerations include how much a provision contributes to compliance and/or systemic equity.

⁹In its 2008 tax expenditure report, the Joint Committee staff identifies five major provisions that would be classified as tax expenditures under the normal income tax law baseline that are not classified as tax subsidies under the general rules of the Code. Three of these items relate to accelerated depreciation; two relate to deferral of income of CFCs. See *ibid.*, Table 4, p. 69. In its 2009 tax expenditure report, Treasury identifies nine such provisions: five relate to accelerated depreciation; two relate to exclusion of certain cash transfers from income; one relates to deferral of income of CFCs; and one relates to graduated corporation income tax rates. See Office of Management and Budget, “Tax Expenditures,” *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2010*, May 7, 2009, pp. 299–302.

mentation of the tax expenditure concept under a normal income tax baseline, adjusted to include additional tax expenditures (negative and otherwise) presented on the basis of traditional budget functions.

The Budget Act uses the term tax expenditure to refer to the special tax provisions that are contained in the Federal income taxes on individuals and corporations.¹⁰ Other Federal taxes such as excise taxes, employment taxes, and estate and gift taxes may also have exceptions, exclusions, and credits, but those special tax provisions are not included in this report because they are not part of the income tax. Thus, for example, the income tax exclusion for employer-paid health insurance is included, but the Federal Insurance Contributions Act (“FICA”) tax exclusion for employer-paid health insurance is not treated as a tax expenditure in this report.¹¹

Some provisions in the Code provide for special tax treatment that is less favorable than normal income tax law. Examples of such provisions include (1) the denial of deductions for certain lobbying expenses, (2) the denial of deductions for certain executive compensation, and (3) the two-percent floor on itemized deductions for unreimbursed employee expenses. Tax provisions that provide treatment less favorable than normal income tax law and are not related directly to progressivity are called *negative* tax expenditures.¹² Special provisions of the law the principal purpose for which is to enforce general tax rules, or to prevent the violation of other laws, are not treated as negative tax expenditures even though they may increase the tax burden for certain taxpayers. Examples of these compliance and enforcement provisions include (1) the section 382 limitation on net operating loss carryforwards and certain built-in losses following ownership changes, (2) the section 1091 wash sale rules, (3) the section 1287 denial of capital gain treatment for gains on certain obligations not in registered form, and (4) the section 162(f) disallowance of a deduction for fines and penalties.¹³

Individual Income Tax

Under the Joint Committee staff methodology, the normal structure of the individual income tax includes the following major components: one personal exemption for each taxpayer and one for each dependent, the standard deduction, the existing tax rate schedule, and deductions for investment and employee business expenses. Most other tax benefits to individual taxpayers are classified as exceptions to normal income tax law.

¹⁰The Federal income tax on individuals also applies to estates and trusts, which are subject to a separate income tax rate schedule (sec. 1(e) of the Code). Estates and trusts may benefit from some of the same tax expenditure provisions that apply to individuals. In Table 1 of this report, the tax expenditures that apply to estates and trusts have been included in the estimates of tax expenditures for individual taxpayers.

¹¹Other analysts have explored applying the concept of tax expenditures to payroll and excise taxes. See Jonathan Barry Forman, “Would a Social Security Tax Expenditure Budget Make Sense?” *Public Budgeting and Financial Management*, 5, 1993, pp. 311–335, and Bruce F. Davie, “Tax Expenditures in the Federal Excise Tax System,” *National Tax Journal*, 47, March 1994, pp. 39–62. Prior to 2003, the President’s budget contained a section that reviewed and tabulated estate and gift tax provisions that the Treasury considered tax expenditures.

¹²Although the Budget Act does not require the identification of negative tax expenditures, the Joint Committee staff has presented a number of negative tax expenditures for completeness.

¹³See Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2008–2012* (JCS–2–08), October 31, 2008, 9.

The Joint Committee staff views the personal exemptions and the standard deduction as defining the zero-rate bracket that is a part of normal tax law. An itemized deduction that is not necessary for the generation of income is classified as a tax expenditure, but only to the extent that it, when added to a taxpayer's other itemized deductions, exceeds the standard deduction.

All employee compensation is subject to tax unless the Code contains a specific exclusion for the income. Specific exclusions for employer-provided benefits include: coverage under accident and health plans,¹⁴ accident and disability insurance, group term life insurance, educational assistance, tuition reduction benefits, transportation benefits (parking, van pools, and transit passes), dependent care assistance, adoption assistance, meals and lodging furnished for the convenience of the employer, employee awards, and other miscellaneous fringe benefits (e.g., employee discounts, services provided to employees at no additional cost to employers, and *de minimis* fringe benefits). Each of these exclusions is classified as a tax expenditure in this report.

Under normal income tax law, employer contributions to pension plans and income earned on pension assets generally would be taxable to employees as the contributions are made and as the income is earned, and employees would not receive any deduction or exclusion for their pension contributions. Under present law, employer contributions to qualified pension plans and employee contributions made at the election of the employee through salary reduction are not taxed until distributed to the employee, and income earned on pension assets is not taxed until distributed. The tax expenditure for "net exclusion of pension contributions and earnings" is computed as the income taxes forgone on current tax-excluded pension contributions and earnings less the income taxes paid on current pension distributions (including the 10-percent additional tax paid on early withdrawals from pension plans).

Under present law, social security and tier 1 railroad retirement benefits are partially excluded or fully excluded from gross income.¹⁵ Under normal income tax law, retirees would be entitled to exclude only the portion of the retirement benefits that represents a return of the payroll taxes that they paid during their working years. Thus, the exclusion of social security and railroad retirement benefits in excess of payroll tax payments is classified as a tax expenditure.

All Medicare benefits are excluded from taxation. The value of Medicare Part A insurance generally is greater than the Health Insurance ("HI") tax contributions that enrollees made during their working years, the value of Medicare Part B insurance generally is greater than the Part B premium that enrollees must pay, and the value of Medicare Part D (prescription drug) insurance generally is greater than the Part D premium that enrollees must pay. The ex-

¹⁴ Present law contains an exclusion for employer-provided coverage under accident and health plans (sec. 106) and an exclusion for benefits received by employees under employer-provided accident and health plans (sec. 105(b)). These two exclusions are viewed as a single tax expenditure. Under normal income tax law, the value of employer-provided accident and health coverage would be includable in the income of employees, but employees would not be subject to tax on the accident and health insurance benefits (reimbursements) that they might receive.

¹⁵ For taxpayers with modified adjusted gross incomes above certain levels, up to 85 percent of social security and tier 1 railroad retirement benefits are includable in income.

clusion of the value of Medicare Part A insurance in excess of HI tax contributions is classified as a tax expenditure, as are the exclusion of the value of Medicare Part B insurance in excess of Part B premiums and the exclusion of the value of Part D insurance in excess of Part D premiums.

Public assistance benefits are excluded from gross income by statute or by Treasury regulations. Table 1 contains tax expenditure calculations for workers' compensation benefits, special benefits for disabled coal miners, and cash public assistance benefits (which include Supplemental Security Income benefits and Temporary Assistance for Needy Families benefits).

The individual income tax does not include in gross income the imputed income that individuals receive from the services provided by owner-occupied homes and durable goods.¹⁶ However, the Joint Committee staff does not classify this exclusion as a tax expenditure.¹⁷ The measurement of imputed income for tax purposes presents administrative problems and its exclusion from taxable income may be regarded as an administrative necessity.¹⁸ Under normal income tax law, individuals would be allowed to deduct only the interest on indebtedness incurred in connection with a trade or business or an investment. Thus, the deduction for mortgage interest on a principal or second residence is classified as a tax expenditure.

The Joint Committee staff assumes that, for administrative feasibility, normal income tax law would tax capital gains in full in the year the gains are realized through sale, exchange, gift, or transfer at death. Thus, the deferral of tax until realization is not classified as a tax expenditure. However, reduced rates of tax, further deferrals of tax (beyond the year of sale, exchange, gift, or transfer at death), and exclusions of certain capital gains are classified as tax expenditures. Because of the same concern for administrative feasibility, it also is assumed that normal income tax law would not provide for any indexing of the basis of capital assets for changes in the general price level. Thus, under normal income tax law (as under present law), the income tax would be levied on nominal gains as opposed to real gains in asset values.

There are many types of State and local government bonds and private purpose bonds that qualify for tax-exempt status for Federal income tax purposes. Table 1 contains a separate tax expenditure listing for each type of bond.

Under the Joint Committee staff view of normal tax law, compensatory stock options would be subject to regular income tax at the time the options are exercised and employers would receive a

¹⁶The National Income and Product Accounts include estimates of this imputed income. The accounts appear in *Survey of Current Business*, published monthly by the U.S. Department of Commerce, Bureau of Economic Analysis. However, a taxpayer-by-taxpayer accounting of imputed income would be necessary for a tax expenditure estimate.

¹⁷The Treasury Department provides a tax expenditure calculation for the exclusion of net rental income of homeowners that combines the positive tax expenditure for the failure to impute rental income with the negative tax expenditure for the failure to allow a deduction for depreciation and other costs.

¹⁸If the imputed income from owner-occupied homes were included in adjusted gross income, it would be proper to include all mortgage interest deductions and related property tax deductions as part of the normal income tax structure, since interest and property tax deductions would be allowable as a cost of producing imputed income. It also would be appropriate to allow deductions for depreciation and maintenance expenses for owner-occupied homes.

corresponding tax deduction.¹⁹ The employee's income would be equal to the difference between the purchase price of the stock and the market price on the day the option is exercised. Present law provides for special tax treatment for incentive stock options and options acquired under employee stock purchase plans. When certain requirements are satisfied, then: (1) the income that is received at the time the option is exercised is excluded for purposes of the regular income tax but, in the case of an incentive stock option, included for purposes of the alternative minimum tax ("AMT"); (2) the gain from any subsequent sale of the stock is taxed as a capital gain; and (3) the employer does not receive a tax deduction with respect to the option. The special tax treatment provided to the employee is viewed as a tax expenditure by the Joint Committee staff, and an estimate of this tax expenditure is contained in Table 1. However, it should be noted that the revenue loss from the special tax treatment provided to the employee is accompanied by a significant revenue gain from the denial of the deduction to the employer. The negative tax expenditure created by the denial of the deduction for employers is incorporated in the calculation of the tax expenditure.

The individual AMT and the passive activity loss rules are not viewed by the Joint Committee staff as a part of normal income tax law. Instead, they are viewed as provisions that reduce the magnitude of the tax expenditures to which they apply. For example, the AMT reduces the value of the deduction for State and local income taxes (for those taxpayers subject to the AMT) by not allowing the deductions to be claimed in the calculation of AMT liability. Similarly, the passive loss rules defer otherwise allowable deductions and credits from passive activities until a time when the taxpayer has passive income or disposes of the assets associated with the passive activity. Exceptions to the individual AMT and the passive loss rules are not classified as tax expenditures by the Joint Committee staff because the effects of the exceptions already are incorporated in the estimates of related tax expenditures. In one case the restrictive effects of the AMT are presented separately because there are no underlying positive tax expenditures reflecting these effects: the negative tax expenditures for the AMT's disallowance of personal exemptions and the standard deduction.

Business Income Taxation

Regardless of the legal form of organization (sole proprietorship, partnership, or S or C corporation), the same general principles are used in the computation of taxable business income. Thus, most business tax expenditures apply equally to unincorporated and incorporated businesses.

One of the most difficult issues in defining tax expenditures for business income relates to the tax treatment of capital costs. Under present law, capital costs may be recovered under a variety of alternative methods, depending upon the nature of the costs and the status of the taxpayer. For example, investments in equipment and structures may qualify for tax credits, expensing, accelerated de-

¹⁹If the option has a readily ascertainable fair market value, normal law would tax the option at the time it is granted and the employer would be entitled to a deduction at that time.

preciation, or straight-line depreciation. The Joint Committee staff generally classifies as tax expenditures, cost-recovery allowances that are more favorable than those provided under the alternative depreciation system (sec. 168(g)), which provides for straight-line recovery over tax lives that are longer than those permitted under the accelerated system. In addition, a tax expenditure has been measured for depreciation in those specific cases where the tax treatment of a certain type of asset deviates from the overall treatment of other similar types of assets. For example, the tax treatment of leasehold improvements of commercial buildings is depreciated using a recovery period of 15 years, while the general treatment of improvements to commercial buildings (e.g., owned commercial buildings) is a 39-year recovery period. In this case, the difference between depreciation (in this case straight line) using 15 years and 39 years for the recovery period represents a tax expenditure. As indicated above, the Joint Committee staff assumes that normal income tax law would not provide for any indexing of the basis of capital assets (nor, for that matter, any indexing with respect to expenses associated with these assets). Thus, normal income tax law would not take into account the effects of inflation on tax depreciation.

The Joint Committee staff uses several accounting standards in evaluating the provisions in the Code that govern the recognition of business receipts and expenses. Under the Joint Committee staff view, normal income tax law is assumed to require the accrual method of accounting (except where its application is deemed infeasible), the standard of “economic performance” (used in the Code to test whether liabilities are deductible), and the general concept of matching income and expenses. In general, tax provisions that do not satisfy all three standards are viewed as tax expenditures. For example, the deduction for contributions to taxpayer-controlled mining reclamation reserve accounts is viewed as a tax expenditure because the contributions do not satisfy the economic performance standard. (Adherence to the standard would require that the taxpayer make an irrevocable contribution toward future reclamation, involving a trust fund or similar mechanism, as occurs in a number of areas in the Code.) As another example, the deductions for contributions to nuclear decommissioning trust accounts and certain environmental settlement trust accounts are not viewed as tax expenditures because the contributions are irrevocable (i.e., they satisfy the economic performance standard). However, present law provides for a reduced rate of tax on the incomes of these two types of trust accounts, and these tax rate reductions are viewed as tax expenditures.

The Joint Committee staff assumes that normal income tax law would provide for the carryback and carryforward of net operating losses. The staff also assumes that the general limits on the number of years that such losses may be carried back or forward were chosen for reasons of administrative convenience and compliance concerns and may be assumed to represent normal income tax law. Exceptions to the general limits on carrybacks and carryforwards are viewed as tax expenditures.

Corporate Income Tax

The income of corporations (other than S corporations) generally is subject to the corporate income tax. The corporate income tax includes a graduated tax rate schedule. The lower tax rates in the schedule are classified by the Joint Committee staff as a tax expenditure (as opposed to normal income tax law) because they are intended to provide tax benefits to small business and, unlike the graduated individual income tax rates, are unrelated directly to concerns about ability of individuals to pay taxes.

Exceptions to the corporate alternative minimum tax are not viewed as tax expenditures because the effects of the AMT exceptions are already incorporated in the estimates of related tax expenditures.²⁰

Certain income of pass-through entities is exempt from the corporate income tax. The income of sole proprietorships, S corporations, most partnerships, and other entities (such as regulated investment companies, real estate investment trusts, real estate mortgage investment conduits, and cooperatives) is taxed only at the individual level. The special tax rules for these pass-through entities are not classified as tax expenditures because the tax benefits are available to any entity that chooses to organize itself and operate in the required manner.

Nonprofit corporations that satisfy the requirements of section 501 also generally are exempt from corporate income tax. The tax exemption for organizations that have a direct business analogue or compete with for-profit organizations organized for similar purposes is a tax expenditure.²¹ The tax exemption for certain nonprofit cooperative business organizations, such as trade associations, is not treated as a tax expenditure just as the entity-level exemption given to for-profit pass-through business entities is not treated as a tax expenditure. With respect to other nonprofit organizations, such as charities, tax-exempt status is not classified as a tax expenditure because the nonbusiness activities of such organizations generally must predominate and their unrelated business activities are subject to tax. However, there are numerous exceptions that allow for otherwise unrelated business income to escape taxation,²² and these exceptions are treated as tax expenditures. In general, the imputed income derived from nonbusiness activities conducted by individuals or collectively by certain nonprofit organizations is outside the normal income tax base. However, the ability of donors to such nonprofit organizations to claim a charitable contribution deduction is a tax expenditure, as is the exclusion of income granted to holders of tax-exempt financing issued by charities.

²⁰ See discussion of the individual AMT above.

²¹ These organizations include small insurance companies, mutual or cooperative electric companies, State credit unions, and Federal credit unions.

²² These exceptions include certain passive income that arguably may relate to business activities, such as royalties or rents received from licensing trade names or other assets typically used in a trade or business, as well as other passive income such as certain dividends and interest. Other exceptions include income derived from certain research activities and income from certain trade show and fair activities.

Recent Legislation

The American Recovery and Reinvestment Act of 2009, enacted on February 17, 2009 (Pub. L. No. 111–5), created 15 new tax expenditures, as follows:

—A “making work pay” credit of 6.2 percent of earned income (up to a maximum of \$400 for single taxpayers (\$800 joint)) was provided for certain taxpayers (the credit is phased out for single taxpayers with AGI in excess of \$75,000 (\$150,000 joint)), effective for taxable years beginning in 2009 and 2010.

—An exclusion from gross income was provided for up to \$2,400 of unemployment compensation, effective for taxable years beginning in 2009.

—An above-the-line deduction was provided for any State or local sales or excise tax imposed on the purchase of a new car, light truck, motorcycle, or motor home, phased out for taxpayers with modified AGI in excess of \$125,000 (\$250,000 joint), effective for purchases on or after February 17, 2009, and before January 1, 2010.

—An election to receive an investment credit in lieu of a renewable electricity production credit was provided for facilities placed in service after December 31, 2008, and before January 1, 2014 (January 1, 2013, for wind facilities).

—A 10-percent credit (maximum of \$2,500) for certain alternative motor vehicles that do not meet the existing criteria of a qualified plug-in electric drive motor vehicle, and a 10-percent credit (maximum of \$4,000) for converting a vehicle into a plug-in electric drive motor vehicle, were provided for vehicles sold or for conversions made before December 31, 2011, effective February 17, 2009.

—For purposes of the work opportunity tax credit, a new targeted group was created, allowing businesses to claim the credit for hiring unemployed veterans or disconnected youth, effective for individuals who begin work in 2009 or 2010.

—The inclusion of income arising from business indebtedness discharged by the reacquisition of a debt instrument in 2009 or 2010 was deferred until the fifth taxable year, for reacquisitions occurring in 2009 (or fourth taxable year for reacquisitions occurring in 2010), following the taxable year in which the reacquisition occurs. The rule that partially denies the deduction for original issue discount in the case of an applicable high-yield discount obligation was suspended for certain obligations issued in a debt-for-debt exchange, including an exchange resulting from a significant modification of a debt instrument, effective for obligations issued after August 31, 2008, and before January 1, 2010.

—A credit was provided for investment in advanced energy property (with a maximum overall allocation of \$2.3 billion of such credits), effective for property placed in service after February 17, 2009.

—The issuance of recovery zone economic development bonds (with a maximum allocation of \$10 billion) and recovery zone facility bonds (with a maximum allocation of \$15 billion) was authorized, effective for obligations issued after February 17, 2009, and before January 1, 2011.

—The issuance of tribal economic development bonds (with a maximum allocation of \$2 billion) was authorized, effective for obligations issued after February 17, 2009.

—For private activity bonds issued in 2009 and 2010, and for bonds issued since January 1, 2004, that are refunded during 2009 or 2010, the classification of tax-exempt interest as a tax preference for purposes of the alternative minimum tax, and the inclusion of tax-exempt interest in the corporate adjustment based on current earnings, were suspended.

—The issuance of qualified school construction bonds (with a maximum allocation of \$11 billion per calendar year) was authorized, effective for obligations issued after February 17, 2009, and before January 1, 2011.

—The issuance of build America bonds was authorized, allowing bondholders a 35-percent credit or, alternatively, allowing issuers a 35-percent refundable credit, effective for obligations issued after February 17, 2009, and before January 1, 2011.

—A \$250 credit (\$500 for a joint return where both spouses are eligible) against income taxes owed for tax year 2009 was provided for individuals who receive a government pension or annuity from work not covered by social security and who were not otherwise eligible to receive a \$250 grant, effective for taxable years beginning after December 31, 2008.

—A 65-percent premium subsidy (phased out for single taxpayers with AGI above \$125,000 (\$250,000 joint)) for COBRA continuation coverage was provided for unemployed workers and their families, effective for individuals who are involuntarily terminated on or after September 1, 2008, and before January 1, 2010, and effective only for a maximum of nine months of premiums, for months of coverage beginning after February 17, 2009.

The American Recovery and Reinvestment Act of 2009 also extended or modified several existing tax expenditures, as follows:

—The earned-income tax credit was increased for certain taxpayers with three or more qualifying children and for certain joint taxpayers, effective for taxable years beginning in 2009 and 2010.

—The earnings threshold for the refundable portion of the child tax credit was reduced to \$3,000, effective for taxable years beginning in 2009 and 2010.

—The Hope Scholarship Credit was increased to a maximum of \$2,500, was made available for each of the first four years of a student's post-secondary education, and was made 40-percent refundable. For purposes of the credit, the definition of qualified tuition was expanded to include course materials, and the income phase-out range was increased. The changes are effective for taxable years beginning in 2009 and 2010.

—The definition of qualified higher education expense for qualified tuition programs (sec. 529) was expanded to include computer technology and equipment, effective for expenses paid or incurred in 2009 or 2010.

—The first-time homebuyer credit, which was scheduled to expire for homes purchased after June 30, 2009, was extended to expire for homes purchased after November 30, 2009. The maximum credit was increased from \$7,500 to \$8,000 and the repayment requirement was waived for homes not sold within 36 months of purchase,

effective for homes purchased after December 31, 2008, and before December 1, 2009.

—For purposes of the electricity production credit, the time period during which qualified facilities (wind, closed-loop biomass, open-loop biomass, geothermal energy, municipal solid waste, qualified hydropower, and marine renewables) may be placed in service was extended by three years (two years for marine renewables), through December 31, 2013 (December 31, 2012, for wind facilities).

—The credit cap applicable to qualified small wind energy property and the rule that reduces the credit when the property has received subsidized energy financing were both eliminated, effective for periods after December 31, 2008.

—The limitation on issuance of new clean renewable energy bonds (“CREBs”) was increased by \$1.6 billion, effective on February 17, 2009.

—The limitation on issuance of qualified energy conservation bonds was increased from \$800 million to \$3.2 billion, effective on February 17, 2009.

—The credit for nonbusiness energy property, which was scheduled to expire for expenditures made after December 31, 2009, was extended to expire for expenditures made after December 31, 2010. The credit rate was increased from 10 percent to 30 percent, the credit cap was increased from \$500 to \$1,500, and the credit reduction related to subsidized energy financing was eliminated, effective for taxable years beginning after December 31, 2008.

—The credit cap for residential wind, geothermal, and solar thermal property, and the reduction in credits for property using subsidized energy financing were eliminated, effective for taxable years beginning after December 31, 2008.

—The credit rate for nonhydrogen alternative fuel vehicle refueling property was increased from 30 percent to 50 percent, the maximum credit available for business property was increased to \$200,000 for hydrogen refueling property and \$50,000 for other refueling property, and the maximum credit for nonbusiness property was increased to \$2,000, effective for taxable years beginning after December 31, 2008, for property placed in service in 2009 or 2010.

—The plug-in electric drive motor vehicle credit was modified in several ways. As discussed above, the Act created a new maximum credit of \$2,500 for electric drive low-speed vehicles, motorcycles, and three-wheeled vehicles and a new credit for converting a vehicle into a plug-in electric drive motor vehicle, for vehicles sold and for conversions made before December 31, 2011. The Act also limited the maximum plug-in electric drive motor vehicle credit to \$7,500, eliminated the credit for low speed plug-in vehicles and for plug-in vehicles weighing 14,000 pounds or more, replaced the total vehicle limitation with a per manufacturer limitation, for vehicles acquired after December 31, 2009. The credit is a personal credit allowed against the AMT for taxable years beginning after December 31, 2008.

—The treatment of the alternative motor vehicle credit as a personal credit allowed against the AMT was provided, effective for taxable years beginning after December 31, 2008.

—The exclusion of employer-provided transit and vanpool benefits was increased from \$120 per month to \$230 (and indexed for inflation in 2010), effective for months beginning on or after February 17, 2009, and scheduled to expire for taxable years beginning after December 31, 2010.

—The additional first-year depreciation deduction for certain business property, which was scheduled to expire for property placed in service after December 31, 2008, was extended to expire for property placed in service after December 31, 2009.

—The election to accelerate AMT and research credits in lieu of bonus depreciation, which was scheduled to expire for taxable years beginning after December 31, 2008, was extended to expire for taxable years beginning after December 31, 2009.

—The limitations on expensing certain depreciable business assets, which were scheduled to expire for taxable years beginning after December 31, 2008, were extended to expire for taxable years beginning after December 31, 2009.

—The carryback period for net operating losses was increased from two years to five years for businesses with gross receipts of \$15 million or less, effective for net operating losses generated in either a taxable year beginning in 2008 or a taxable year ending in 2008.

—The percentage exclusion for qualified small business stock sold by an individual was increased from 50 percent to 75 percent, effective for stock issued after February 17, 2009, and before January 1, 2011.

—The recognition period for built-in gains of S corporations was reduced from 10 years to seven years, effective for any taxable year beginning in 2009 or 2010.

—The limitation on net operating loss carryforwards and certain built-in losses following an ownership change was eliminated for certain restructurings, effective for ownership changes after February 17, 2009.

—The availability of industrial development bonds was extended to facilities manufacturing intangible property, and the 25-percent-of-net-proceeds restriction does not apply to such facilities, effective for obligations issued after February 17, 2009, and before January 1, 2011.

—The national limitation on the amount of investments designated for receipt of the new markets tax credit was increased from \$3.5 billion to \$5 billion for calendar years 2008 and 2009.

—The requirement that financial institutions allocate interest expense attributable to tax-exempt interest was eliminated for certain small issuers in some instances, effective for tax-exempt obligations issued during 2009 or 2010.

—The high-speed intercity rail vehicle speed requirement for exempt high-speed rail facility bonds was modified, effective for obligations issued after February 17, 2009.

—The national limitation on zone academy bonds, which was scheduled to decrease from \$400 million in 2008 to zero thereafter, was increased to \$1.4 billion in 2009 and 2010, effective for obligations issued after December 31, 2008.

—The amount of the health coverage tax credit was increased to 80 percent of the taxpayer's premiums for qualified health insur-

ance of the taxpayer and qualifying family members, effective for coverage months beginning on or after May 1, 2009, and before January 1, 2011.

—The general rule that basis of a qualified building must be reduced by the amount of any federal grant with respect to such building was modified such that low-income housing grants received in lieu of credits do not reduce the tax basis of a qualified low-income building, effective on February 17, 2009.

Expiring Tax Expenditure Provisions

A number of tax expenditure provisions expired, or are scheduled to expire, in 2009. These determinations reflect present law as of September 30, 2009:

—The tax credit for Indian coal produced at Indian coal production facilities expired for facilities placed in service after December 31, 2008. The tax expenditure estimate in Table 1 reflects the tax credit for facilities placed in service before January 1, 2009.

—The treatment of mineral royalties as qualified REIT income for timber REITs is scheduled to expire on the last day of the taxpayer's first taxable year beginning after May 22, 2008, and before May 23, 2009. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The treatment of sales by REITs of certain timber property as sale of property held for investment or used in a trade or business is scheduled to expire for sales after the last day of the taxpayer's first taxable year beginning after May 22, 2008, and before May 23, 2009. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The temporary reduction in corporate rate for qualified timber gain is scheduled to expire for taxable years beginning after May 22, 2009.

—The tax credit for first-time homebuyers is scheduled to expire for residences purchased after November 30, 2009.²³

—The tax credit for qualified hybrid motor vehicles other than passenger automobiles and light trucks is scheduled to expire for vehicles purchased after December 31, 2009.

—The tax credit for biodiesel and renewable diesel fuel is scheduled to expire for fuel sold or used after December 31, 2009.

—The tax credit for research and experimentation expenses is scheduled to expire for amounts paid or incurred after December 31, 2009.

—The increase in the State housing credit ceiling under the low-income housing credit is scheduled to expire after December 31, 2009.

—The election to substitute grants to States for low-income housing projects for low-income housing credit allocation is scheduled to expire after December 31, 2009.

—The tax credit for electricity produced at open-loop biomass facilities placed in service before October 22, 2004, is scheduled to expire after December 31, 2009.

²³This credit was modified and extended (generally through April 30, 2010) by the Worker, Homeownership, and Business Assistance Act of 2009, Pub. L. No. 111-92, secs. 11, 12.

—The tax credit for refined coal produced at refined coal production facilities is scheduled to expire for facilities placed in service after December 31, 2009.

—The Indian employment tax credit is scheduled to expire for taxable years beginning after December 31, 2009.

—The new markets tax credit is scheduled to expire after December 31, 2009.

—The tax credit for certain expenditures on railroad track maintenance is scheduled to expire for expenditures paid or incurred after December 31, 2009.

—The period for incurring qualified expenditures for purposes of credit for production of low sulfur diesel fuel for small refiners in compliance with EPA sulfur regulations is scheduled to end on December 31, 2009. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The tax credit for producing coke or coke gas is scheduled to expire for facilities placed in service after December 31, 2009. In Table 1, this is reflected in the tax expenditure estimate for “Credit for producing fuels from a nonconventional source.”

—The tax credit for construction of new energy efficient homes is scheduled to expire for homes purchased after December 31, 2009.

—The tax credit for training costs of mine rescue team employees is scheduled to expire for taxable years beginning after December 31, 2009. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The tax credit for wages of employees who are active duty members of the uniformed services is scheduled to expire for payments made after December 31, 2009. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The tax credit to holders of clean renewable energy bonds is scheduled to expire for bonds issued after December 31, 2009.

—The above-the-line deduction for teacher classroom expenses is scheduled to expire for taxable years beginning after December 31, 2009.

—The increased standard deduction for State and local real property taxes is scheduled to expire for taxable years beginning after December 31, 2009.

—The exclusion of unemployment compensation benefits from gross income is scheduled to expire for taxable years beginning after December 31, 2009.

—The suspension of applicable high-yield debt obligation rules for debt issued in an exchange or as a result of modification is scheduled to expire for obligations issued after December 31, 2009.

—The election to deduct State and local general sales taxes (in lieu of State and local income taxes) is scheduled to expire for taxable years beginning after December 31, 2009.

—The increased standard deduction and itemized deduction for State or local sales or excise taxes imposed on the purchase of a qualified motor vehicle are scheduled to expire for purchases made after December 31, 2009.

—The classification as five-year property of farming business machinery and equipment is scheduled to expire for machinery and

equipment placed in service after December 31, 2009. In Table 1, this is reflected in the tax expenditure estimate for “Depreciation of equipment in excess of the alternative depreciation system.”

—Fifteen-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant property, and qualified retail improvements is scheduled to expire for property placed in service after December 31, 2009. In Table 1, this is reflected in the tax expenditure estimate for “Depreciation of buildings other than rental housing in excess of alternative depreciation system.”

—Seven-year cost recovery for certain motorsports racetrack property is scheduled to expire for property placed in service after December 31, 2009. In Table 1, this is reflected in the tax expenditure estimate for “Depreciation of buildings other than rental housing in excess of alternative depreciation system.”

—Accelerated depreciation for business property on Indian reservations is scheduled to expire for property placed in service after December 31, 2009.

—Additional first-year depreciation for 50 percent of basis of qualified property is scheduled to expire for property acquired after December 31, 2009.

—The election to accelerate AMT and research credits in lieu of additional first-year depreciation is scheduled to expire for basis attributable to manufacture, construction, or production after December 31, 2009.

—The higher deduction limits for charitable contributions of real property interests made exclusively for conservation purposes are scheduled to expire for contributions made in taxable years beginning after December 31, 2009. In Table 1, this is reflected in the tax expenditure estimate for “Deduction for charitable contributions, other than for education and health.”

—The enhanced charitable deduction for contributions of food inventory is scheduled to expire for contributions made after December 31, 2009. In Table 1, this is reflected in the tax expenditure estimate for “Deduction for charitable contributions, other than for education and health.”

—The enhanced charitable deduction for contributions of book inventories to public schools is scheduled to expire for contributions made after December 31, 2009. In Table 1, this is reflected in the tax expenditure estimate for “Deduction for charitable contributions to educational institutions.”

—The enhanced charitable deduction for corporate contributions of computer equipment for educational purposes is scheduled to expire for contributions made in taxable years beginning after December 31, 2009. In Table 1, this is reflected in the tax expenditure estimate for “Deduction for charitable contributions to educational institutions.”

—The increased dollar limitations for expensing certain depreciable business assets are scheduled to expire for taxable years beginning after December 31, 2009. In Table 1, this is reflected in the tax expenditure estimate for “Expensing under section 179 of depreciable business property.”

—The election to expense 50 percent of qualified property used to refine liquid fuels is scheduled to expire for property which is

placed in service after December 31, 2009 and for property on which construction begins after December 31, 2009.

—The election to expense advanced mine safety equipment is scheduled to expire for property placed in service after December 31, 2009. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The election to expense qualified film and television productions is scheduled to expire for productions commencing after December 31, 2009. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The election to expense environmental remediation expenditures is scheduled to expire for expenditures paid or incurred after December 31, 2009.

—The deduction for income attributable to domestic production activities in Puerto Rico is scheduled to expire for taxable years beginning after December 31, 2009. In Table 1, this is reflected in the tax expenditure estimate for “Deduction for income attributable to domestic production activities.”

—The allowance of additional qualified retirement contributions in certain bankruptcy cases is scheduled to expire for taxable years beginning after December 31, 2009. In Table 1, this is reflected in the tax expenditure estimate for “Traditional IRAs.”

—The above-the-line deduction for qualified higher education expenses is scheduled to expire for taxable years beginning after December 31, 2009.

—The waiver of minimum required distribution rules for IRAs and defined contribution plans is scheduled to expire after December 31, 2009.

—The exclusion of individual retirement plan distributions for charitable purposes is scheduled to expire for taxable years beginning after December 31, 2009.

—The deferral of gain from the disposition of electric transmission property to implement Federal Energy Regulation Commission restructuring policy is scheduled to expire for taxable years beginning after December 31, 2009.

—The exclusion of gain or loss on sale or exchange of certain brownfield sites from unrelated business taxable income is scheduled to expire for property acquired after December 31, 2009.

—The suspension of the 100-percent-of-net-income limitation on percentage depletion for oil and gas from marginal wells is scheduled to expire for taxable years beginning after December 31, 2009.

—The exemption for certain dividends of regulated investment companies is scheduled to expire for dividends with respect to taxable years (of issuing companies) that begin after December 31, 2009.

—The exemptions under subpart F for active financing income are scheduled to expire for taxable years beginning after December 31, 2009.

—The look-through treatment of payments between related controlled foreign corporations under the foreign personal holding company rules is scheduled to expire for taxable years beginning after December 31, 2009.

—The designations and tax incentives for empowerment zones are scheduled to expire after December 31, 2009.

—The designations and tax incentives for renewal communities are scheduled to expire after December 31, 2009.

—Various tax incentives for investment in the District of Columbia are scheduled to expire after December 31, 2009.

—The 65-percent subsidy for payment of COBRA health care coverage continuation premiums is scheduled to expire for involuntary terminations that occur after December 31, 2009.²⁴

—The tax credit for corporate income earned in American Samoa is scheduled to expire for taxable years beginning after December 31, 2009. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The refundable tax credit for government retirees is scheduled to expire for taxable years beginning after December 31, 2009.

Comparisons with Treasury

The Joint Committee staff and Treasury lists of tax expenditures differ in at least six respects. First, the Joint Committee staff and the Treasury use differing methodologies for the estimation of tax expenditures. Thus, the estimates in Table 1 are not necessarily comparable with the estimates prepared by the Treasury. Under the Joint Committee staff methodology, each tax expenditure is measured by the difference between tax liability under present law and the tax liability that would result if the tax expenditure provision were repealed and taxpayers were allowed to take advantage of any of the remaining tax expenditure provisions that apply to the income or the expenses associated with the repealed tax expenditure.

For example, the tax expenditure provision for the exclusion of employer-paid health insurance is measured by the difference between tax liability under present law and the tax liability that would result if the exclusion were repealed and taxpayers were allowed to claim the next best tax treatment for the previously excluded employer-paid health insurance. This next best tax treatment could be the inclusion of the employer-paid health insurance as an itemized medical deduction on Schedule A.²⁵

Under the Treasury methodology, each tax expenditure is measured by the difference between tax liability under present law and the tax liability that would result if the tax expenditure provision were repealed and taxpayers were prohibited from taking advantage of any of the remaining tax expenditure provisions that apply to the income or the expenses associated with the repealed tax expenditure. For example, the tax expenditure provision for the exclusion for employer-paid health insurance is measured by the difference between tax liability under present law and the tax liability that would result if the exclusion were repealed and taxpayers were required to include all of the employer-paid health insurance

²⁴ The Department of Defense Appropriations Act, 2010 (Pub. L. No. 111–118, sec. 1010) extended the eligibility period for this subsidy (for involuntary terminations through February 28, 2010) and the maximum duration of assistance (to 15 months).

²⁵ If the exclusion were repealed, the value of the employer-paid health insurance would be included in income and taxpayers would be treated as having purchased the insurance themselves. Thus, the insurance expense would be deductible as an itemized medical expense on Schedule A, subject to the itemized medical deduction floor (7.5 percent of the taxpayer's adjusted gross income).

in income, with no offsetting deductions (i.e., no deductibility on Schedule A).

Second, the Treasury uses a different classification of those provisions that can be considered a part of normal income tax law under both the individual and business income taxes. In general, the Joint Committee staff methodology involves a broader definition of the normal income tax base. Thus, the Joint Committee list of tax expenditures includes some provisions that are not contained in the Treasury list. The cash method of accounting by certain businesses provides an example. The Treasury considers the cash accounting option for certain businesses to be a part of normal income tax law, but the Joint Committee staff methodology treats it as a departure from normal income tax law that constitutes a tax expenditure.

Third, the Joint Committee staff and the Treasury estimates of tax expenditures may also differ as a result of differing data sources and differences in baseline projections of incomes and expenses. The Treasury's tax expenditure calculations are based on the Administration's economic forecast. The Joint Committee staff calculations are based on the economic forecast prepared by the CBO.

Fourth, the Joint Committee staff and the Treasury estimates of tax expenditures span slightly different sets of years. The Treasury's estimates cover a seven-year period: the last fiscal year, the current fiscal year when the President's budget is submitted, and the next five fiscal years, i.e., fiscal years 2008–2014. The Joint Committee staff estimates cover a recent fiscal year and the succeeding four fiscal years, i.e., fiscal years 2009–2013.

Fifth, the Joint Committee staff list excludes those provisions that are estimated to result in revenue losses below the *de minimis* amount, i.e., less than \$50 million over the five fiscal years 2009 through 2013. The Treasury rounds all yearly estimates to the nearest \$10 million and excludes those provisions with estimates that round to zero in each year, i.e., provisions that result in less than \$5 million in revenue loss in each of the years 2008 through 2014.

Finally, the Joint Committee staff list formally integrates negative tax expenditures into its standard presentation.

In some cases, two or more of the tax expenditure items in the Treasury list have been combined into a single item in the Joint Committee staff list, and vice versa. The Table 1 descriptions of some tax expenditures also may vary from the descriptions used by the Treasury.

II. MEASUREMENT OF TAX EXPENDITURES

Tax expenditure calculations generally

A tax expenditure is measured by the difference between tax liability under present law and the tax liability that would result from a recomputation of tax without benefit of the tax expenditure provision.²⁶ Taxpayer behavior is assumed to remain unchanged for tax expenditure estimate purposes.²⁷ This assumption is made to simplify the calculation and conform to the presentation of government outlays. This approach to tax expenditure measurement is in contrast to the approach taken in revenue estimating; all of our revenue estimates do reflect anticipated taxpayer behavior.

The tax expenditure calculations in this report are based on the August 2009 CBO revenue baseline and Joint Committee staff projections of the gross income, deductions, and expenditures of individuals and corporations for calendar years 2008–2013. These projections are used to compute tax liabilities for the present-law revenue baseline and tax liabilities for the alternative baseline that assumes that the tax expenditure provision does not exist.

Internal Revenue Service (“IRS”) statistics from recent tax returns are used to develop projections of the tax credits, deductions, and exclusions that will be claimed (or that will be denied in the case of negative tax expenditures) under the present-law baseline. These IRS statistics show the actual usage of the various tax expenditure provisions. In the case of some tax expenditures, such as the earned income credit, there is evidence that some taxpayers are not claiming all of the benefits to which they are entitled, while others are filing claims that exceed their entitlements. The tax expenditure calculations in this report are based on projections of actual claims under the various tax provisions, not the potential tax benefits to which taxpayers are entitled.

Some tax expenditure calculations are based partly on statistics for income, deductions, and expenses for prior years. Accelerated depreciation is an example. Estimates for this tax expenditure are based on the difference between tax depreciation deductions under present law and the deductions that would have been claimed in

²⁶ An alternative way to measure tax expenditures is to express their values in terms of “outlay equivalents.” An outlay equivalent is the dollar size of a direct spending program that would provide taxpayers with net benefits that would equal what they now receive from a tax expenditure. For positive tax expenditures, the major difference between outlay equivalents and the tax expenditure calculations presented here is accounting for whether a tax expenditure converted into an outlay payment would itself be taxable, so that a gross-up might be needed to deliver the equivalent after-tax benefits.

²⁷ An exception to this absence of behavior in tax expenditure calculations is that a taxpayer is assumed to make simple additions or deletions in filing tax forms, what the Joint Committee staff refers to as “tax form behavior.” For example, as noted above, if the exclusion for employer-paid health insurance were repealed, taxpayers would be allowed to claim the next best tax treatment for the previously excluded insurance. This next best tax treatment could be the inclusion of the employer-paid health insurance as an itemized medical deduction on Schedule A. Similarly, a taxpayer that is eligible for one of two alternative credits is assumed to file for the second credit if the first credit is eliminated.

the current year if investments in the current year and all prior years had been depreciated using the alternative (normal income tax law) depreciation system.

Each tax expenditure is calculated separately, under the assumption that all other tax expenditures remain in the Code. If two or more tax expenditures were estimated simultaneously, the total change in tax liability could be smaller or larger than the sum of the amounts shown for each item separately, as a result of interactions among the tax expenditure provisions.²⁸

Year-to-year differences in the calculations for each tax expenditure reflect changes in tax law, including phaseouts of tax expenditure provisions and changes that alter the definition of the normal income tax structure, such as the tax rate schedule, the personal exemption amount, and the standard deduction. Some of the calculations for this tax expenditure report may differ from estimates made in previous years because of changes in law and economic conditions, the availability of better data, and improved measurement techniques.

If a tax expenditure provision were eliminated, Congress might choose to continue financial assistance through other means rather than terminate all Federal assistance for the activity. If a replacement spending program were enacted, the higher revenues received as a result of the elimination of a tax expenditure might not represent a net budget gain. A replacement program could involve direct expenditures, direct loans or loan guarantees, regulatory activity, a mandate, a different form of tax expenditure, or a general reduction in tax rates. Joint Committee staff estimates of tax expenditures do not anticipate such policy responses.

Tax expenditures versus revenue estimates

A tax expenditure calculation is not the same as a revenue estimate for the repeal of the tax expenditure provision for three reasons. First, unlike revenue estimates, tax expenditure calculations do not incorporate the effects of the behavioral changes that are anticipated to occur in response to the repeal of a tax expenditure provision. Second, tax expenditure calculations are concerned with changes in the reported tax liabilities of taxpayers.²⁹ Because tax expenditure analysis focuses on tax liabilities as opposed to Federal government tax receipts, there is no concern for the short-term timing of tax payments. Revenue estimates are concerned with changes in Federal tax receipts that are affected by the timing of all tax payments. Third, some of the tax provisions that provide an exclusion from income also apply to the FICA tax base, and the repeal of the income tax provision would automatically increase FICA tax revenues as well as income tax revenues. This FICA effect would be reflected in revenue estimates, but is not considered in tax expenditure calculations. There may also be interactions between income tax provisions and other Federal taxes such as excise taxes and the estate and gift tax.

²⁸ See Leonard E. Burman, Christopher Geissler, and Eric J. Toder, "How Big Are Total Individual Income Tax Expenditures, and Who Benefits from Them?" *American Economic Review*, 98, May 2008, pp. 79–83.

²⁹ Reported tax liabilities may reflect compliance issues, and thus calculations of tax expenditures reflect existing compliance issues.

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

Quantitatively de minimis tax expenditures

The following tax provisions are viewed as tax expenditures by the Joint Committee staff but are not listed in Table 1 because the estimated revenue losses for fiscal years 2009 through 2013 are below the *de minimis* amount (\$50 million):

International affairs

- Miscellaneous exclusions (*e.g.*, bond income of residents of the Ryukyu Islands, certain wagering income, certain communication satellite earnings, earnings from railroad rolling stock)

Energy

- Expensing of tertiary injectants
- Credit for production of electricity from qualifying advanced nuclear power facilities
- Credit for producing oil and gas from marginal wells
- Credit for the residential purchase of qualified photovoltaic and solar water heating property
- Credit for the construction of energy-efficient new homes
- Partial expensing of investments in advanced mine safety equipment
- Credit for costs incurred in training qualified mine rescue team employees
- Credit and deduction for small refiners with capital costs associated with EPA sulfur regulation compliance
- Credits for biodiesel and renewable fuels
- Energy research credit
- 50-percent expensing of cellulosic biofuel plant property
- Seven-year MACRS Alaska natural gas pipeline

Agriculture

- Cash accounting for agriculture

Commerce and housing credit

- Bad debt reserves of financial institutions
- Exclusion of investment income from structured settlement arrangements

- Deferral of gain on sales of property to comply with conflict-of-interest requirements
- Exclusion of income from discharge of indebtedness incurred in connection with qualified real property
- Reduced rates of tax on gains from the sale of self-created musical works
- Amortization of expenses for the creation or acquisition of musical compositions
- Alaska Native Corporation trusts

Community and regional development

- Five-year carryback period for certain net operating losses of electric utility companies
- New York Liberty Zone
- Katrina Emergency Act provisions
- Kansas disaster relief

Social services

- Exclusion of restitution payments received by victims of the Nazi regime and the victims' heirs and estates

Health

- Archer medical savings accounts

Income security

- Credit for the elderly and disabled
- Credit for new retirement plan expenses of small businesses

Veterans' benefits and services

- Burial expenses for veterans

General purpose fiscal assistance

- American Samoa economic development credit

Tax expenditures for which quantification is not available

The following tax provisions are viewed as tax expenditures by the Joint Committee staff but are not listed in Table 1 because the projected revenue changes are unavailable (a provision that is a negative tax expenditure is indicated by an “*”):

International affairs

- Branch profits tax*
- Deduction for U.S. employment tax paid under section 3121(l) agreements for employees of foreign affiliates
- Doubling of tax rates on citizens and corporations of certain foreign countries*

Energy

- Accelerated deductions for nuclear decommissioning costs
- IGCC and advanced coal credit

Natural resources and environment

- Exception to partial interest rule for qualified conservation

Agriculture

- Agricultural security credit
- Exceptions from dealer disposition definition
- Exception from interest calculation on installment sales for small dispositions
- Single purpose agricultural or horticultural structures

Commerce and housing credit

- Amortization of organizational expenditures
- Deferral of prepaid subscription income
- Deferral of prepaid dues income of certain membership organizations
- Amortization of partnership organization and syndication fees
- Unrecaptured section 1250 gain rate (section 1(h)), which applies to depreciation taken on real property
- Nonrecognition of in-kind distributions by regulated investment companies in redemption of their stock
- Special discount rate rule for certain debt instruments where stated principal amount is \$2.8 million or less
- Deduction for investment expenses*
- Tax treatment of convertible bonds
- Treatment of loans under life insurance and annuity contracts and 401(k) plans
- Exemption for cemetery companies
- Certain exceptions to the UBTI rules:
 - Passive income gains
 - Income from certain research
 - Trade shows and fairs
 - Bingo games
 - Pole rentals
 - Sponsorship payments
 - Real estate exception to the debt-financed income rules
- Specific identification of sold equities

Community and regional development

- Three-year carryback of small businesses' and farmers' casualty losses attributable to Presidentially declared disaster

Education, training, employment, and social services

- Allowance of 80-percent deduction for right to purchase tickets or stadium seating
- Disallowance, limitation, and heightened substantiation for certain business deductions (e.g., entertainment, gift, cell phone expenses)

General purpose fiscal assistance

- Exclusion of Guam, American Samoa, and Northern Mariana Islands income
- Exclusion of U.S. Virgin Islands income
- Exclusion of Puerto Rico income

III. TAX EXPENDITURE ESTIMATES

Tax expenditures are grouped in Table 1 in the same functional categories as outlays in the Federal budget. Estimates are shown separately for individuals and corporations. Those tax expenditures that do not fit clearly into any single budget category have been placed in the most appropriate category.

Several of the tax expenditure items involve small amounts of revenue, and those estimates are indicated in Table 1 by footnotes 2 and 5. For each of these items, the footnote means that the tax expenditure is less than \$50 million in the fiscal year.

Table 2 presents projections of tax return information for each of nine income classes on the number of all returns (including filing and nonfiling units), the number of taxable returns, the number of returns with itemized deductions, and the amount of tax liability.

Table 3 provides distributional estimates by income class for some of the tax expenditures that affect individual taxpayers. Not all tax expenditures that affect individuals are shown in this table because of the difficulty in making reliable estimates of the income distribution of items that do not appear on tax returns under present law.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2009–2013 ¹

[Billions of dollars]

Budget Function	Corporations					Individuals					Total 2009–13
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013	
National Defense											
Exclusion of benefits and allowances to armed forces personnel						3.9	4.0	4.3	4.5	4.6	21.2
Exclusion of military disability benefits						0.2	0.2	0.2	0.2	0.2	0.8
Deduction for overnight-travel expenses of national guard and reserve members						0.1	0.1	0.1	0.1	0.1	0.4
Exclusion of combat pay						1.1	0.9	0.8	0.8	0.8	4.5
International Affairs											
Exclusion of certain allowances for Federal employees abroad						1.2	1.3	1.4	1.5	1.5	6.9
Exclusion of foreign earned income:											
Housing						0.9	1.0	1.0	1.1	1.1	5.1
Salary						4.3	4.5	4.7	4.9	5.1	23.5
Inventory property sales source rule exception						7.0	7.2	7.4	7.6	7.8	37.0
Deduction for foreign taxes instead of a credit	0.2	0.2	0.2	0.3	0.3						1.2
Interest expense allocation:											
Unavailability of symmetric worldwide method*	–2.5	–2.7	–2.9	–0.5	(²)						–8.6
Separate grouping of affiliated financial companies	1.1	1.2	1.3	1.4	1.5						6.5
Apportionment of research and development expenses for determination of foreign tax credits	0.3	0.3	0.3	0.4	0.4						1.7
Special rules for interest-charge domestic international sales corporations	0.5	0.5	0.1	0.1	0.1						1.3
Taxation of real property gains of foreign persons*	(²)	(²)	(²)	(²)	(²)	(²)	(²)	(²)	(²)	(²)	–0.1
Tonnage tax	0.1	0.1	0.1	0.1	0.1						0.5

Deferral of active income of controlled foreign corporations	10.5	11.3	12.1	12.9	13.5	.....	.....	.....	.....	.....	60.3
Deferral of active financing income ³	2.9	1.0	.....	.....	.....	.....	.....	.....	.....	.....	3.9
General Science, Space, and Technology											
Credit for increasing research activities (Code section 41) ⁴	4.8	3.1	2.5	1.9	1.5	0.1	0.1	0.1	(5)	(5)	14.1
Expensing of research and experimental expenditures	3.0	4.0	4.8	5.8	6.4	0.1	0.1	0.1	0.1	0.1	24.5
Energy											
Credit for energy efficiency improvements to existing homes .....	.....	.....	.....	.....	.....	0.3	1.7	1.2	.....	.....	3.2
Credits for alternative technology vehicles	0.1	0.2	0.1	(5)	(5)	0.4	0.5	0.2	(5)	(5)	1.5
Credit for holders of clean renewable energy bonds	(5)	0.1	0.1	0.1	0.2	(5)	(5)	(5)	(5)	(5)	0.5
Exclusion of energy conservation subsidies provided by public utilities .....	.....	.....	.....	.....	.....	(5)	(5)	(5)	(5)	(5)	0.1
Credit for holder of qualified energy conservation bonds	(5)	(5)	(5)	(5)	0.1	(5)	(5)	(5)	(5)	(5)	0.1
<i>Energy related credits:</i>											
Credit for enhanced oil recovery costs	(5)	0.1	(5)	(5)	(5)	(5)	0.1	(5)	(5)	(5)	0.3
Credit for producing fuels from a non-conventional source	0.1	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.1
Credits for alcohol fuels ⁶	6.5	10.1	10.4	11.0	3.9	.....	.....	.....	.....	.....	41.9
<i>Energy credit (section 48):</i>											
Solar	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Geothermal	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Fuel cells	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Microturbines .....	.....	.....	.....	.....	.....	(5)	(5)	(5)	(5)	(5)	(5)
<i>Credits for electricity production from renewable resources (section 45):</i>											
Wind	0.7	0.9	1.1	1.4	1.5	(5)	(5)	0.1	0.1	0.1	5.9
Closed-loop biomass	(5)	(5)	(5)	(5)	(5)	.....	.....	.....	.....	.....	0.2
Geothermal	(5)	(5)	(5)	(5)	(5)	.....	.....	.....	.....	.....	0.1
Qualified hydropower	(5)	(5)	(5)	(5)	(5)	.....	.....	.....	.....	.....	0.1
Solar (limited to facilities placed in service before 1/1/06)	(5)	(5)	(5)	(5)	(5)	.....	.....	.....	.....	.....	0.1
Small irrigation power	(5)	(5)	(5)	(5)	(5)	.....	.....	.....	.....	.....	0.1

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2009–2013 ¹—Continued

[Billions of dollars]

Budget Function	Corporations					Individuals					Total 2009–13
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013	
Municipal solid waste	(5)	(5)	(5)	(5)	(5)	.....	.....	.....	.....	.....	0.1
Open-loop biomass	0.6	0.4	0.3	0.2	0.2	(5)	(5)	(5)	(5)	(5)	1.3
Credits for investments in clean coal facilities	0.2	0.2	0.2	0.2	0.2	.....	.....	.....	.....	.....	0.9
Coal production credits:											
Refined coal	(5)	(5)	(5)	(5)	(5)	.....	.....	.....	.....	.....	0.1
Indian coal	(5)	(5)	(5)	(5)	(5)	.....	.....	.....	.....	.....	0.1
Credit for the production of energy-efficient appliances	0.1	0.2	0.1	.....	.....	.....	.....	.....	.....	.....	0.4
Credits for alternative technology vehicles:											
Hybrid vehicles	(5)	(5)	(5)	(5)	(5)	0.2	0.2	0.1	0.1	(5)	1.0
Other alternative fuel vehicles	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.1
Credit for clean-fuel vehicle refueling property	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.2
Residential energy efficient property credit .....	.....	.....	.....	.....	.....	0.1	0.2	0.2	0.2	0.2	0.8
New energy efficient home credit	(5)	(5)	(5)	(5)	(5)	.....	.....	.....	.....	.....	0.1
Credit for certain alternative motor vehicles that do not meet existing criteria of a qualified plug-in electric drive motor vehicle	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.2
Provide credit for investment in advanced energy property	0.1	0.2	0.2	0.3	0.3	(5)	0.1	0.1	0.1	0.1	1.3
<i>Energy-related exclusions from income:</i>											
Exclusion of interest on State and local government qualified private activity bonds for energy production facilities	(5)	(5)	(5)	(5)	(5)	0.1	0.1	0.1	0.1	0.1	0.5

<i>Energy-related deductions:</i>											
Deduction for expenditures on energy-efficient commercial building property	(5)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.9
Expensing of exploration and development costs:											
Oil and gas	0.3	0.4	0.4	0.7	0.8	(5)	(5)	(5)	(5)	(5)	2.6
Other fuels	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.3
Excess of percentage over cost depletion:											
Oil and gas	1.3	1.2	1.3	1.3	1.4	(5)	(5)	(5)	(5)	(5)	6.5
Other fuels	0.2	0.2	0.2	0.2	0.2	(5)	(5)	(5)	(5)	(5)	0.9
Amortization of geological and geophysical expenditures associated with oil and gas exploration	(5)	0.1	0.1	0.1	0.1	(5)	(5)	(5)	(5)	(5)	0.6
Amortization of air pollution control facilities	0.1	0.1	0.2	0.2	0.2	.....	.....	.....	.....	.....	0.7
Depreciation recovery periods for energy specific items:											
Five-year MACRS for certain energy property (solar, wind, etc.)	0.3	0.3	0.2	0.1	(5)	(5)	(5)	(5)	(5)	(5)	1.0
Seven-year MACRS for natural gas gathering line	(5)	(5)	(5)	(5)	(5)	.....	.....	.....	.....	.....	0.1
10-year MACRS for smart electric distribution property	(5)	(5)	0.1	0.1	0.1	.....	.....	.....	.....	.....	0.4
15-year MACRS for certain electric transmission property	0.1	0.1	0.1	0.2	0.2	.....	.....	.....	.....	.....	0.6
15-year MACRS for natural gas distribution line	0.1	0.1	0.1	0.1	0.1	.....	.....	.....	.....	.....	0.5
Election to expense 50 percent of qualified property used to refine liquid fuels	0.5	0.7	0.8	0.7	0.6	.....	.....	.....	.....	.....	3.4
Exceptions for publicly traded partnership with qualified income derived from certain energy-related activities .....	.....	.....	.....	.....	.....	0.4	0.5	0.6	0.6	0.7	2.9
Natural Resources and Environment											
Refund of deemed tax payment for allocation of qualified forestry conservation bond limitation ⁴	0.3	.....	.....	.....	.....	.....	.....	.....	.....	.....	0.3

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2009–2013 ¹—Continued

[Billions of dollars]

Budget Function	Corporations					Individuals					Total 2009–13
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013	
Special depreciation allowance for certain reuse and recycling property	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.1
Expensing of exploration and development costs, nonfuel minerals	0.1	0.1	0.1	0.1	0.1	(5)	(5)	(5)	(5)	(5)	0.4
Excess of percentage over cost depletion, nonfuel minerals	0.1	0.1	0.1	0.1	0.1	(5)	(5)	(5)	(5)	(5)	1.0
Expensing of timber-growing costs	0.2	0.2	0.2	0.2	0.2	(5)	(5)	(5)	(5)	(5)	1.2
Special rules for mining reclamation reserves	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.2
Special tax rate for nuclear decommissioning reserve funds	0.8	0.9	0.9	1.0	1.1	.....	.....	.....	.....	.....	4.7
Exclusion of contributions in aid of construction for water and sewer utilities	(5)	(5)	(5)	(5)	(5)	.....	.....	.....	.....	.....	0.2
Exclusion of earnings of certain environmental settlement funds	(5)	(5)	(5)	(5)	(5)	.....	.....	.....	.....	.....	0.1
Amortization and expensing of reforestation expenditures	0.1	0.1	0.1	0.1	0.1	(5)	(5)	(5)	(5)	(5)	0.6
Special tax rate for qualified timber gain .....	.....	.....	.....	.....	.....	0.4	0.4	0.4	0.4	0.4	2.2
Treatment of income from exploration and mining of natural resources as qualifying income under the publicly-traded partnership rules .....	.....	.....	.....	.....	.....	(5)	(5)	(5)	(5)	(5)	0.1
Agriculture											
Expensing of soil and water conservation expenditures	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.2
Expensing of the costs of raising dairy and breeding cattle	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.6
Expensing of cost-sharing payments	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.1

Exclusion of cancellation of indebtedness income of farmers .....	.....	.....	.....	.....	.....	0.1	0.1	0.1	0.1	0.1	0.4
Income averaging for farmers and fishermen .....	.....	.....	.....	.....	.....	(5)	(5)	(5)	(5)	(5)	0.2
Five-year carryback period for net operating losses attributable to farming	(5)	0.1	0.1	0.1	0.1	(5)	0.1	0.1	0.1	0.1	0.6
Five-year recovery period for certain farming business machinery or equipment	(5)	(5)	(5)	(5)	(5)	(5)	0.1	0.1	0.1	(5)	0.4
Expensing by farmers for fertilizer and soil conditioner costs	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.4
Commerce and Housing											
<i>Housing:</i>											
Deduction for mortgage interest on owner-occupied residences .....	.....	.....	.....	.....	.....	86.4	103.7	119.9	128.2	134.7	572.9
Deduction for property taxes on real property .....	.....	.....	.....	.....	.....	25.1	16.4	24.9	29.3	30.0	125.7
Increased standard deduction for real property taxes .....	.....	.....	.....	.....	.....	1.9	0.5	.....	.....	.....	2.4
Exclusion of capital gains on sales of principal residences .....	.....	.....	.....	.....	.....	15.3	15.3	17.4	18.8	19.8	86.6
Exclusion of interest on State and local government qualified private activity bonds for owner-occupied housing	0.4	0.4	0.4	0.4	0.4	1.0	1.0	1.1	1.1	1.1	7.4
Deduction for premiums for qualified mortgage insurance .....	.....	.....	.....	.....	.....	0.1	0.2	0.2	.....	.....	0.5
Exclusion of income attributable to the discharge of principal residence acquisition indebtedness ..	.....	.....	.....	.....	.....	0.7	0.6	0.3	0.1	(5)	1.7
First-time homebuyer credit ⁴ .....	.....	.....	.....	.....	.....	8.7	0.9	-1.8	-1.7	-1.0	5.0
Credit for low-income housing ^{4,7} ...	3.4	.....	.....	.....	.....	.....	.....	.....	.....	.....	3.4
Credit for rehabilitation of historic structures	0.3	0.4	0.4	0.4	0.4	0.1	0.1	0.2	0.2	0.2	2.6
Credit for rehabilitation of structures, other than historic structures	(5)	(5)	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	1.0

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2009–2013 ¹—Continued

[Billions of dollars]

Budget Function	Corporations					Individuals					Total 2009–13
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013	
Exclusion of interest on State and local government qualified private activity bonds for rental housing	0.2	0.3	0.3	0.3	0.3	0.6	0.6	0.7	0.7	0.7	4.7
Depreciation of rental housing in excess of alternative depreciation system	0.4	0.5	0.5	0.5	0.4	4.0	4.5	4.4	4.2	3.9	23.2
<i>Other business and commerce:</i>											
Exclusion of interest on State and local government small-issue qualified private activity bonds ..	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.4	0.4	0.4	2.5
Carryover basis of capital gains on gifts .....	.....	.....	.....	.....	.....	1.8	12.1	14.8	5.3	1.9	35.9
Investment recovery period for 15-year property ⁸ :											
Leasehold improvement property	2.8	1.4	0.3	0.2	0.2	3.4	1.8	0.3	0.3	0.2	10.9
Restaurant property	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.1
Retail improvements	(⁵)	(⁵)	0.1	(⁵)	(⁵)	(⁵)	(⁵)	0.1	0.1	0.1	0.4
Retail motor fuels outlets	0.2	0.2	0.1	0.1	0.1	0.3	0.2	0.1	0.1	0.1	1.6
Seven-year recovery period for motorsports entertainment complexes	0.1	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)	0.1
Deferral of gain on non-dealer installment sales ⁹ *	−6.1	−4.1	0.1	4.1	5.6	−3.4	−2.5	−1.0	0.8	1.4	−5.1
Deferral of gain on like-kind exchanges	1.4	1.4	1.7	2.0	2.3	0.6	0.7	0.8	1.0	1.1	13.0
Expensing under section 179 of depreciable business property	−0.4	0.5	0.4	−0.3	−0.1	−1.6	2.0	1.7	−1.1	−0.2	1.0
Amortization of business startup costs	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)	0.9	0.9	1.0	1.0	1.1	4.9

Reduced rates on first \$10,000,000 of corporate taxable income	3.3	3.2	3.2	3.2	3.1	.....	.....	.....	.....	.....	16.1
Exemptions from imputed interest rules	(5)	(5)	(5)	(5)	(5)	0.4	0.4	0.5	0.5	0.6	2.4
Expensing of magazine circulation expenditures	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.1
Special rules for magazine, paperback book, and record returns	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.2
Completed contract rules	0.5	0.6	0.6	0.7	0.7	(5)	(5)	(5)	(5)	(5)	3.1
Cash accounting, other than agriculture	(5)	(5)	(5)	(5)	(5)	0.9	1.0	1.0	1.1	1.1	5.1
Credit for employer-paid FICA taxes on tips	0.3	0.3	0.4	0.4	0.4	0.2	0.2	0.3	0.3	0.3	3.1
Deduction for certain film and television production costs	0.2	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	0.1
Deduction for income attributable to domestic production activities	5.0	7.0	8.4	8.8	9.2	1.2	2.4	3.2	3.8	4.4	53.4
Credit for the cost of carrying tax-paid distilled spirits in wholesale inventories	(5)	(5)	(5)	(5)	(5)	.....	.....	.....	.....	.....	0.1
Reduced rates of tax on dividends and long-term capital gains .....	.....	.....	.....	.....	.....	89.5	96.6	71.3	75.7	85.7	418.7
Exclusion of capital gains at death .....	.....	.....	.....	.....	.....	23.7	25.5	31.5	37.9	40.8	159.4
Expensing of costs to remove architectural and transportation barriers to the handicapped and elderly	(5)	(5)	(5)	(5)	(5)	0.1	0.1	0.1	0.1	0.1	0.6
Small business stock .....	.....	.....	.....	.....	.....	0.4	0.5	0.3	0.4	0.4	2.0
Distributions in redemption of stock to pay various taxes imposed at death .....	.....	.....	.....	.....	.....	0.3	0.2	(5)	0.4	0.5	1.4
Ordinary gain or loss treatment for sale or exchange of Fannie Mae and Freddie Mac preferred stock by certain financial institutions	2.6	0.4	0.2	0.1	-0.1	0.1	(5)	(5)	(5)	(5)	3.3
Inventory methods and valuation:											
Last in first out	3.4	3.6	3.8	4.0	4.2	0.4	0.5	0.5	0.6	0.6	21.6
Lower of cost or market	0.4	0.4	0.4	0.4	0.5	0.1	0.1	0.1	0.1	0.1	2.6

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2009–2013 ¹—Continued

[Billions of dollars]

Budget Function	Corporations					Individuals					Total 2009–13
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013	
Specific identification for homogeneous products	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.2
Exclusion of gain or loss on sale or exchange of brownfield property	(5)	(5)	(5)	(5)	(5)	.....	.....	.....	.....	.....	0.1
Income recognition rule for gain or loss from section 1256 contracts	(5)	(5)	(5)	(5)	(5)	0.8	0.8	0.8	0.8	0.9	4.2
Net alternative minimum tax attributable to net operating loss limitation*	–0.5	–0.5	–0.5	–0.5	–0.5	–0.1	–0.1	–0.1	–0.1	–0.1	–3.0
Exclusion of interest on State and local qualified private activity bonds for green buildings and sustainable design projects	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.1
Depreciation of buildings other than rental housing in excess of alternative depreciation system ¹⁰	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.2	0.2	1.7
Depreciation of equipment in excess of the alternative depreciation system ¹¹	35.0	6.2	–8.3	–2.7	4.2	6.2	1.1	–1.5	–0.5	0.7	40.5
R&E credits in lieu of bonus depreciation (Code section 168(k)(4)) ⁴	0.5	0.3	(2)	(2)	(2)	.....	.....	.....	.....	.....	0.8
Five-year carryback period for small business	0.2	(2)	(2)	(2)	(2)	0.8	–0.1	–0.1	–0.1	–0.1	0.5
Inclusion of income arising from business indebtedness discharged by the reacquisition of a debt instrument	11.2	21.1	6.9	0.5	0.3	0.9	1.7	0.6	(5)	(5)	43.2
<i>Financial institutions:</i>											
Exemption of credit union income	1.5	1.6	1.7	1.8	1.8	.....	.....	.....	.....	.....	8.2

<i>Insurance companies:</i>											
Exclusion of investment income on life insurance and annuity contracts	2.7	2.7	2.8	2.9	3.0	27.5	28.2	28.9	29.7	30.5	158.8
Small life insurance company taxable income adjustment	0.1	0.1	0.1	0.1	0.1	.....	.....	.....	.....	.....	0.3
Special treatment of life insurance company reserves	2.1	2.2	2.3	2.4	2.6	.....	.....	.....	.....	.....	11.7
Special deduction for Blue Cross and Blue Shield companies	0.4	0.4	0.4	0.4	0.5	.....	.....	.....	.....	.....	2.1
Tax-exempt status and election to be taxed only on investment income for certain small property and casualty insurance companies	0.1	0.1	0.1	0.1	0.1	.....	.....	.....	.....	.....	0.3
Interest rate and discounting period assumptions for reserves of property and casualty insurance companies	0.6	0.7	0.7	0.7	0.8	.....	.....	.....	.....	.....	3.4
Proration for property and casualty insurance companies	0.3	0.3	0.4	0.4	0.4	.....	.....	.....	.....	.....	1.8
Transportation											
Exclusion of employer-paid transportation benefits .....	.....	.....	.....	.....	.....	3.8	3.9	4.4	4.6	4.8	21.5
Credit for certain expenditures on railroad track maintenance	0.2	0.1	(5)	(5)	(5)	.....	.....	.....	.....	.....	0.3
Deferral of tax on capital construction funds of shipping companies	0.1	0.1	0.1	0.1	0.1	.....	.....	.....	.....	.....	0.5
Exclusion of interest on State and local government qualified private activity bonds for highway projects and rail-truck transfer facilities	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.1
Exclusion of employer-provided transit and vanpool benefits .....	.....	.....	.....	.....	.....	0.4	0.5	0.5	0.5	0.5	2.4
High-speed intercity rail vehicle speed requirement for exempt high-speed rail facility bonds	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.1
Community and Regional Development											
Empowerment zone tax incentives	0.3	0.2	0.1	(5)	(5)	0.4	0.3	0.1	(5)	(5)	1.4

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2009–2013 ¹—Continued

[Billions of dollars]

Budget Function	Corporations					Individuals					Total 2009–13
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013	
Renewal community incentives	0.2	0.1	0.1	(5)	(5)	0.3	0.1	0.1	0.1	(5)	1.1
New markets tax credit	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	3.5
District of Columbia tax incentives	0.1	(5)	(5)	(5)	(5)	0.2	0.1	0.1	0.1	0.1	0.7
Credit for Indian reservation employ- ment	(5)	(5)	(5)	.....	.....	(5)	(5)	(5)	.....	.....	0.1
Exclusion of interest on State and local government qualified private activity bonds for private airports, docks, and mass-commuting facilities	0.3	0.3	0.3	0.3	0.3	0.7	0.8	0.8	0.8	0.9	5.6
Exclusion of interest on State and local government qualified private activity bonds for sewage, water, and hazardous waste facilities	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.5	0.5	0.5	3.2
Issuance of recovery zone economic de- velopment bonds	(5)	0.1	0.3	0.5	0.6	(5)	(5)	(5)	(5)	(5)	1.5
Issuance of tribal economic develop- ment bonds	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.3
Build America bonds ⁴	1.3	2.2	3.0	3.0	3.0	(5)	(5)	(5)	(5)	(5)	12.5
Eliminate requirement that financial institutions allocate interest expense attributable to tax-exempt interest ...	(5)	0.3	0.3	0.3	0.3	.....	.....	.....	.....	.....	1.3
<i>Disaster Relief:</i>											
Gulf opportunity zone	(5)	0.1	0.3	(5)	(5)	.....	0.6	0.4	0.3	0.2	1.7
Midwest disaster relief	0.3	0.2	0.2	0.3	0.3	.....	0.9	0.1	0.1	0.1	2.5
National disaster relief	0.8	1.1	0.7	0.2	–0.2	.....	1.2	0.8	0.5	0.1	5.1
Education, Training, Employment, and Social Services											
<i>Education and training:</i>											
Deduction for interest on student loans .....	.....	.....	.....	.....	.....	0.8	0.9	0.5	0.4	0.4	3.1
Deduction for higher education ex- penses .....	.....	.....	.....	.....	.....	0.7	0.2	.....	.....	.....	0.9

Exclusion of earnings of Coverdell education savings accounts .....	.....	.....	.....	.....	.....	0.1	0.1	0.1	0.2	0.2	0.6
Exclusion of interest on educational savings bonds .....	.....	.....	.....	.....	.....	(5)	(5)	(5)	(5)	(5)	0.1
Exclusion of scholarship and fellowship income .....	.....	.....	.....	.....	.....	1.8	1.9	2.0	2.1	2.2	10.1
Exclusion of income attributable to the discharge of certain student loan debt and NHSC educational loan repayments .....	.....	.....	.....	.....	.....	0.1	0.1	0.1	0.1	0.1	0.4
Exclusion of employer-provided education assistance benefits .....	.....	.....	.....	.....	.....	0.8	0.9	0.9	0.9	0.9	4.4
Exclusion of employer-provided tuition reduction benefits .....	.....	.....	.....	.....	.....	0.2	0.2	0.2	0.2	0.2	1.1
Parental personal exemption for students aged 19 to 23 .....	.....	.....	.....	.....	.....	1.2	0.4	0.2	0.2	(5)	2.0
Exclusion of interest on State and local government qualified private activity bonds for student loans	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.5	0.5	3.1
Exclusion of interest on State and local government qualified private activity bonds for private nonprofit and qualified public educational facilities	0.9	0.9	0.9	1.0	1.0	2.2	2.3	2.4	2.5	2.5	16.5
Credit for holders of qualified zone academy bonds	0.2	0.2	0.3	0.3	0.4	.....	.....	.....	.....	.....	1.4
Deduction for charitable contributions to educational institutions	0.4	0.4	0.4	0.4	0.5	5.0	5.7	6.3	6.5	6.8	32.4
Deduction for teacher classroom expenses .....	.....	.....	.....	.....	.....	0.2	(5)	.....	.....	.....	0.2
Credits for tuition for post-secondary education:											
Hope credit ⁴ .....	.....	.....	.....	.....	.....	6.7	9.5	4.7	2.9	2.9	26.7
Lifetime learning credit .....	.....	.....	.....	.....	.....	1.9	2.2	3.0	3.2	3.2	13.4
Exclusion of tax on earnings of qualified tuition programs:											
Prepaid tuition programs .....	.....	.....	.....	.....	.....	(5)	0.1	0.1	0.1	0.1	0.4
Savings account programs .....	.....	.....	.....	.....	.....	0.3	0.4	0.5	0.7	1.0	2.9

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2009–2013 ¹—Continued

[Billions of dollars]

Budget Function	Corporations					Individuals					Total 2009–13
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013	
Qualified school construction bonds	(⁵)	0.1	0.3	0.6	0.9	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)	1.9
<i>Employment:</i>											
Exclusion of employee meals and lodging (other than military) .....	.....	.....	.....	.....	.....	1.0	1.0	1.1	1.1	1.2	5.4
Exclusion of benefits provided under cafeteria plans ¹² .....	.....	.....	.....	.....	.....	27.8	31.6	34.9	37.7	40.6	172.7
Exclusion of housing allowances for ministers .....	.....	.....	.....	.....	.....	0.6	0.7	0.7	0.7	0.8	3.5
Exclusion of miscellaneous fringe benefits .....	.....	.....	.....	.....	.....	6.4	6.6	7.5	8.0	8.2	36.7
Exclusion of employee awards .....	.....	.....	.....	.....	.....	0.2	0.2	0.2	0.2	0.2	0.9
Exclusion of income earned by voluntary employees' beneficiary associations .....	.....	.....	.....	.....	.....	1.8	1.9	2.1	2.3	2.3	9.7
Special tax provisions for employee stock ownership plans (ESOPs) ..	1.0	1.1	1.2	1.2	1.3	0.5	0.5	0.5	0.5	0.5	8.3
Deferral of taxation on spread on acquisition of stock under incentive stock option plans and employee stock purchase plans:											
Deferral of taxation on spread on acquisition of stock under incentive stock option plans*	–0.8	–0.9	–0.9	–0.9	–1.0	0.3	0.3	0.3	0.2	0.2	–3.3
Deferral of taxation on spread on employee stock purchase plans*	–0.2	–0.3	–0.3	–0.3	–0.3	0.1	0.1	0.1	0.1	0.1	–0.6

Disallowance of deduction for excess parachute payments (applicable if payments to a disqualified individual are contingent on a change of control of a corporation and are equal to or greater than three times the individual's annualized includible compensation) ^{13 *}	-0.1	-0.1	-0.2	-0.2	-0.2	.....	.....	.....	.....	.....	-0.8
One million dollar cap on deductible compensation for covered employees of publicly held corporations ^{13 *}	-0.4	-0.5	-0.5	-0.5	-0.5	.....	.....	.....	.....	.....	-2.4
Work opportunity tax credit	0.5	0.5	0.5	0.3	0.1	0.1	0.1	0.1	0.1	(5)	2.4
<i>Social services:</i>											
Credit for children under age 17 ⁴ .....	.....	.....	.....	.....	.....	52.6	54.4	24.6	14.4	14.3	160.4
Credit for child and dependent care and exclusion of employer-provided child care ¹⁴ .....	.....	.....	.....	.....	.....	4.3	3.1	2.6	2.5	2.5	15.0
Credit for employer-provided dependent care	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.2
Exclusion of certain foster care payments .....	.....	.....	.....	.....	.....	0.7	0.8	0.8	0.9	0.9	4.2
Adoption credit and employee adoption benefits exclusion .....	.....	.....	.....	.....	.....	0.4	0.4	0.1	(5)	(5)	0.9
Deduction for charitable contributions, other than for education and health ¹⁵	2.3	2.4	2.5	2.6	2.6	28.0	32.3	35.7	37.1	38.6	184.1
Credit for disabled access expenditures	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.3
Health											
Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums ¹⁶ .....	.....	.....	.....	.....	.....	94.4	106.6	115.2	122.0	130.0	568.3
Exclusion of medical care and TRICARE medical insurance for military dependents, retirees, and retiree dependents not enrolled in Medicare .....	.....	.....	.....	.....	.....	2.2	2.3	2.5	2.6	2.8	12.4

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2009–2013 ¹—Continued

[Billions of dollars]

Budget Function	Corporations					Individuals					Total 2009–13
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013	
Exclusion of health insurance benefits for military retirees and retiree dependents enrolled in Medicare .....	.....	.....	.....	.....	.....	1.3	1.4	1.7	1.9	2.3	8.6
Deduction for health insurance premiums and long-term care insurance premiums by the self-employed .....	.....	.....	.....	.....	.....	4.3	4.6	5.1	5.4	5.7	25.1
Deduction for medical expenses and long-term care expenses .....	.....	.....	.....	.....	.....	11.6	12.4	15.5	17.9	19.3	76.6
Exclusion of workers' compensation benefits (medical benefits) .....	.....	.....	.....	.....	.....	2.8	3.0	3.2	3.5	3.7	16.3
Health savings accounts .....	.....	.....	.....	.....	.....	0.7	0.9	1.2	1.6	2.1	6.5
Exclusion of interest on State and local government qualified private activity bonds for private nonprofit hospital facilities	0.7	0.7	0.7	0.7	0.7	1.7	1.7	1.8	1.9	1.9	12.5
Deduction for charitable contributions to health organizations	0.3	0.3	0.3	0.3	0.3	3.2	3.7	4.1	4.2	4.4	21.1
Credit for purchase of health insurance by certain displaced persons .....	.....	.....	.....	.....	.....	0.2	0.4	0.2	0.2	0.2	1.2
Credit for orphan drug research	0.4	0.5	0.5	0.6	0.6	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)	2.6
Premium subsidy for COBRA continuation coverage .....	.....	.....	.....	.....	.....	8.7	5.7	0.9	.....	.....	15.5
Medicare											
Exclusion of Medicare benefits:											
Hospital insurance (Part A) .....	.....	.....	.....	.....	.....	26.5	28.6	34.1	37.0	39.9	166.1
Supplementary medical insurance (Part B) .....	.....	.....	.....	.....	.....	20.0	20.5	24.3	25.9	29.0	119.7
Prescription drug insurance (Part D) .....	.....	.....	.....	.....	.....	4.7	5.2	6.1	6.0	6.8	28.8

Exclusion of certain subsidies to employers who maintain prescription drug plans for Medicare enrollees	0.5	0.5	0.5	0.5	0.6	.....	.....	.....	.....	.....	2.5
Income Security											
Exclusion of workers' compensation benefits (disability and survivors payments) .....	.....	.....	.....	.....	.....	2.7	2.7	3.0	3.1	3.1	14.6
Exclusion of damages on account of personal physical injuries or physical sickness .....	.....	.....	.....	.....	.....	1.5	1.5	1.6	1.6	1.6	7.8
Exclusion of special benefits for disabled coal miners .....	.....	.....	.....	.....	.....	(5)	(5)	(5)	(5)	(5)	0.2
Exclusion of cash public assistance benefits .....	.....	.....	.....	.....	.....	3.0	3.1	3.4	4.4	4.9	18.8
Net exclusion of pension contributions and earnings ⁹ :											
Plans covering partners and sole proprietors (sometimes referred to as "Keogh plans") .....	.....	.....	.....	.....	.....	9.2	12.9	16.2	17.3	17.8	73.4
Defined benefit plans .....	.....	.....	.....	.....	.....	38.4	37.5	51.5	66.3	82.0	275.7
Defined contribution plans .....	.....	.....	.....	.....	.....	32.6	29.6	32.6	39.8	49.7	184.3
Individual retirement arrangements ⁹ :											
Traditional IRAs .....	.....	.....	.....	.....	.....	-28.0	21.5	13.4	14.3	18.5	40.7
Roth IRAs .....	.....	.....	.....	.....	.....	0.1	3.6	4.1	4.9	5.6	18.3
Credit for certain individuals for elective deferrals and IRA contributions .....	.....	.....	.....	.....	.....	0.9	0.9	0.9	1.0	1.0	4.7
Exclusion of other employee benefits:											
Premiums on group term life insurance .....	.....	.....	.....	.....	.....	2.4	2.4	2.5	2.5	2.6	12.4
Premiums on accident and disability insurance .....	.....	.....	.....	.....	.....	3.0	3.1	3.4	3.6	3.8	17.0
Additional standard deduction for the blind and the elderly .....	.....	.....	.....	.....	.....	1.7	1.6	1.9	2.3	2.5	10.0
Deduction for casualty and theft losses .....	.....	.....	.....	.....	.....	0.2	0.2	0.3	0.3	0.3	1.3
Earned income credit ⁴ .....	.....	.....	.....	.....	.....	52.8	55.1	51.3	50.6	51.4	261.3
Recovery rebate ⁴ .....	.....	.....	.....	.....	.....	12.0	1.7	.....	.....	.....	13.7

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2009–2013 ¹—Continued

[Billions of dollars]

Budget Function	Corporations					Individuals					Total 2009–13
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013	
Phase out of the personal exemption for regular income tax, and disallowance of the personal exemption and the standard deduction for the alternative minimum tax*						– 10.6	– 32.9	– 43.2	– 33.3	– 36.4	– 156.4
Exclusion of survivor annuities paid to families of public safety officers killed in the line of duty						(5)	(5)	(5)	(5)	(5)	0.1
Exclusion of disaster mitigation payments	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	0.2
Making work pay credit ⁴						42.8	58.0	14.8			115.6
Exclusion from gross income for up to \$2,400 of unemployment compensation						3.6	1.2				4.7
\$250 credit against income taxes owed for 2009						0.2	0.1				0.2
Social Security and Railroad Retirement											
Exclusion of untaxed social security and railroad retirement benefits						24.0	25.8	32.4	35.3	36.8	154.3
Veterans' Benefits and Services											
Exclusion of veterans' disability compensation						4.1	4.2	4.3	4.2	4.2	20.9
Exclusion of veterans' pensions						0.1	0.1	0.1	0.1	0.1	0.6
Exclusion of veterans' readjustment benefits						0.4	0.8	1.0	1.3	1.2	4.8
Exclusion of interest on State and local government qualified private activity bonds for veterans' housing	(5)	(5)	(5)	(5)	(5)	0.1	0.1	0.1	0.1	0.1	0.4

General Purpose Fiscal Assistance											
Exclusion of interest on public purpose State and local government bonds	7.8	8.1	8.4	8.7	9.0	20.0	20.7	21.5	22.3	23.1	149.4
Deduction of nonbusiness State and local government income taxes, sales taxes, and personal property taxes ...	.....	.....	.....	.....	.....	46.7	34.0	49.9	58.4	61.1	250.2
Above-the-line deduction for State or local sales or excise tax imposed on the purchase of a new car .....	.....	.....	.....	.....	.....	0.9	0.3	(⁵)	.....	.....	1.2
Interest											
Deferral of interest on savings bonds ...	.....	.....	.....	.....	.....	1.2	1.2	1.3	1.3	1.3	6.3

Footnotes for Table 1 appear on the following pages.

¹ Reflects legislation enacted by September 30, 2009.

² Negative tax expenditure of less than \$50 million.

³ Does not include provision that provides look-through of payments between related controlled foreign corporations.

⁴ Estimate includes refundability associated with the following outlay effects:

	<u>Corporations</u>					<u>Individuals</u>					<u>Total</u>
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	
Refund of deemed tax payment for allocation of qualified forestry conservation bond limitation	0.3	.....	.....	.....	.....	.....	.....	.....	.....	.....	0.3
First-time homebuyer credit .....	.....	.....	.....	.....	.....	2.9	0.8	.....	.....	.....	3.6
Low-income housing credit grant election	3.4	.....	.....	.....	.....	.....	.....	.....	.....	.....	3.4
R&E credits in lieu of bonus depreciation (Code section 168(k)(4), not Code section 41)	0.5	0.3	.....	.....	.....	.....	.....	.....	.....	.....	0.8
Build America bonds	1.3	2.2	3.0	3.0	3.0	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)	12.5
Hope credit .....	.....	.....	.....	.....	.....	2.2	3.0	0.8	.....	.....	6.0
Credit for children under age 17 .....	.....	.....	.....	.....	.....	28.7	30.8	10.6	3.9	4.0	77.8
Earned income credit .....	.....	.....	.....	.....	.....	47.2	49.5	44.0	42.6	43.2	226.4
Recovery rebate .....	.....	.....	.....	.....	.....	3.0	0.4	.....	.....	.....	3.4
Making work pay credit .....	.....	.....	.....	.....	.....	14.1	18.6	4.6	.....	.....	37.2

⁵ Positive tax expenditure of less than \$50 million.

⁶ Estimate includes the effect of “black liquor,” a byproduct of the kraft paper making process, qualifying for the cellulosic biofuel producer credit. In addition to the amounts above, the excise tax credit for alcohol fuel mixtures results in a reduction in excise tax receipts, net of income, of \$8.8 billion over the fiscal years 2009 through 2013.

⁷ Estimate includes low-income housing grant election.

⁸ 15-year recovery period and bonus depreciation (when generally applicable) in the case of leasehold improvements and retail motor fuel outlets.

⁹ Pattern differs from tax expenditure calculated in prior pamphlets because of economic conditions in 2008 and 2009.

¹⁰ Does not include special depreciation rules relating to leasehold and retail improvements, restaurants, and retail motor fuel outlets that are reported separately.

¹¹ Includes bonus depreciation and general acceleration under MACRS.

¹² Estimate includes amounts of employer-provided health insurance purchased through cafeteria plans and employer-provided child care purchased through dependent care flexible spending accounts. These amounts are also included in other line items in this table.

¹³ Estimate does not include effects of changes made by the Emergency Economic Stabilization Act of 2008.

¹⁴ Estimate includes employer-provided child care purchased through dependent care flexible spending accounts.

¹⁵ In addition to the general charitable deduction, the tax expenditure accounts for the higher percentage limitation for public charities, the fair market value deduction for related-use tangible personal property, the enhanced deduction for inventory, the fair market value deduction for publicly traded stock and exceptions to the partial interest rules.

¹⁶ Estimate includes employer-provided health insurance purchased through cafeteria plans.

NOTE.—Details may not add to totals due to rounding. An “*” indicates a negative tax expenditure for the 2009–2013 period.

Source: Joint Committee on Taxation.

**Table 2.—Distribution by Income Class of All Returns, Taxable Returns, Itemized Returns, and Tax Liability
at 2008 Rates and 2008 Law and 2008 Income Levels ¹**

[Money amounts in millions of dollars, returns in thousands]

Income Class ²	All Returns ³	Taxable Returns	Itemized Returns	Tax Liability
Below \$10,000	26,489	98	670	– \$7,847
\$10,000 to \$20,000	20,806	4,430	1,187	– 17,934
\$20,000 to \$30,000	15,638	6,548	1,990	– 10,037
\$30,000 to \$40,000	14,339	8,263	3,080	3,839
\$40,000 to \$50,000	12,889	9,094	4,246	16,504
\$50,000 to \$75,000	23,329	18,947	10,547	69,030
\$75,000 to \$100,000	15,454	14,576	9,247	86,568
\$100,000 to \$200,000	20,409	20,083	16,506	255,927
\$200,000 and over	5,742	5,713	5,397	582,838
Total	155,094	87,751	52,871	\$978,889

¹Tax law as in effect on December 31, 2008, is applied to the 2008 level and sources of income and their distribution among taxpayers.

²The income concept used to place tax returns into classes is adjusted gross income (“AGI”) plus: (a) tax-exempt interest, (b) employer contributions for health plans and life insurance, (c) employer share of FICA tax, (d) workers’ compensation, (e) nontaxable Social Security benefits, (f) insurance value of Medicare benefits, (g) alternative minimum tax preference items, and (h) excluded income of U.S. citizens living abroad.

³Includes filing and non-filing units. Filing units include all taxable and nontaxable returns. Non-filing units include individuals with income that is exempt from Federal income taxation (e.g., transfer payments, interest from tax-exempt bonds, etc.). Excludes individuals who are dependents of other taxpayers and taxpayers with negative income.

NOTE.—Details may not add to totals due to rounding.

Source: Joint Committee on Taxation.

**Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items,
at 2008 Rates and 2008 Income Levels ¹**

[Money amounts in millions of dollars, returns in thousands]

Income Class ²	Medical Deduction		Real Estate Tax Deduction	
	Returns	Amount	Returns	Amount
Below \$10,000	987	\$7	3	(³)
\$10,000 to \$20,000	1,564	198	151	\$17
\$20,000 to \$30,000	1,708	556	604	113
\$30,000 to \$40,000	1,665	847	1,321	276
\$40,000 to \$50,000	1,470	1,006	2,425	602
\$50,000 to \$75,000	2,606	2,612	7,405	2,772
\$75,000 to \$100,000	1,340	1,958	7,633	3,485
\$100,000 to \$200,000	1,022	2,658	14,611	12,042
\$200,000 and over	93	842	2,949	5,732
Total	12,455	\$10,684	37,101	\$25,040

Footnotes appear at the end of the table.

**Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items,
at 2008 Rates and 2008 Income Levels ¹—Continued**

[Money amounts in millions of dollars, returns in thousands]

Income Class ²	State and Local Income, Sales, and Personal Property Tax Deduction		Charitable Contributions Deduction	
	Returns	Amount	Returns	Amount
Below \$10,000	14	\$1	21	\$1
\$10,000 to \$20,000	291	14	723	82
\$20,000 to \$30,000	1,011	86	1,987	343
\$30,000 to \$40,000	2,160	270	3,223	702
\$40,000 to \$50,000	3,438	570	3,809	1,043
\$50,000 to \$75,000	9,674	2,918	9,614	3,677
\$75,000 to \$100,000	9,195	3,915	7,928	3,811
\$100,000 to \$200,000	16,307	15,701	11,433	10,357
\$200,000 and over	4,104	24,649	4,002	21,785
Total	46,192	\$48,124	42,742	\$41,804

Footnotes appear at the end of the table.

**Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items,
at 2008 Rates and 2008 Income Levels ¹—Continued**

[Money amounts in millions of dollars, returns in thousands]

Income Class ²	Child Care Credit		Earned Income Credit ⁴	
	Returns	Amount	Returns	Amount
Below \$10,000 .....	.....	.....	6,821	\$7,479
\$10,000 to \$20,000	195	\$46	6,335	16,949
\$20,000 to \$30,000	774	420	4,676	12,771
\$30,000 to \$40,000	790	494	3,911	7,384
\$40,000 to \$50,000	579	317	2,168	2,983
\$50,000 to \$75,000	1,275	707	1,002	1,029
\$75,000 to \$100,000	1,017	561	27	39
\$100,000 to \$200,000	1,268	684	2	2
\$200,000 and over	257	134	.....	.....
Total	6,155	\$3,363	24,942	\$48,636

Footnotes appear at the end of the table.

**Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items,
at 2008 Rates and 2008 Income Levels ¹—Continued**

[Money amounts in millions of dollars, returns in thousands]

Income Class ²	Untaxed Social Security and Railroad Retirement Benefits		Child Tax Credit ⁴	
	Returns	Amount	Returns	Amount
Below \$10,000	12	(³)	522	\$313
\$10,000 to \$20,000	5,889	\$1,985	4,051	2,970
\$20,000 to \$30,000	2,853	2,469	4,251	5,515
\$30,000 to \$40,000	2,332	2,672	3,985	6,193
\$40,000 to \$50,000	2,604	3,646	3,341	5,518
\$50,000 to \$75,000	5,834	7,380	6,185	10,502
\$75,000 to \$100,000	3,748	3,478	4,738	8,240
\$100,000 to \$200,000	3,735	1,212	6,142	9,521
\$200,000 and over	979	419	18	11
Total	27,985	\$23,261	33,233	\$48,782

Footnotes appear at the end of the table.

**Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items,
at 2008 Rates and 2008 Income Levels ¹—Continued**

[Money amounts in millions of dollars, returns in thousands]

Income Class ²	Education Credits		Student Loan Interest Deduction	
	Returns	Amount	Returns	Amount
Below \$10,000	(⁵)	(³)	15	\$1
\$10,000 to \$20,000	494	\$101	210	13
\$20,000 to \$30,000	924	395	460	35
\$30,000 to \$40,000	918	490	701	64
\$40,000 to \$50,000	895	505	763	82
\$50,000 to \$75,000	1,562	989	1,608	215
\$75,000 to \$100,000	1,400	1,148	1,178	134
\$100,000 to \$200,000	1,283	1,038	1,692	290
\$200,000 and over .....	.....	.....	.....	.....
Total	7,477	\$4,665	6,628	\$834

Footnotes appear at the end of the table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2008 Rates and 2008 Income Levels ¹—Continued

[Money amounts in millions of dollars, returns in thousands]

Income Class ²	Mortgage Interest Deduction		Phase out of the Personal Exemption for Regular Income Tax, and Denial of Personal Exemption and the Standard Deduction for AMT	
	Returns	Amount	Returns	Amount
Below \$10,000	3	(³)	1	– \$1
\$10,000 to \$20,000	247	\$75	7	– 3
\$20,000 to \$30,000	732	358	3	– 5
\$30,000 to \$40,000	1,478	944	(⁵)	(⁶)
\$40,000 to \$50,000	2,426	1,836	(⁵)	(⁶)
\$50,000 to \$75,000	7,033	8,370	26	– 19
\$75,000 to \$100,000	7,044	10,136	91	– 75
\$100,000 to \$200,000	13,622	36,278	856	– 911
\$200,000 and over	4,082	27,468	4,182	– 9,234
Total	36,668	\$85,465	5,167	– \$10,249

¹Excludes individuals who are dependents of other taxpayers and taxpayers with negative income.

²The income concept used to place tax returns into classes is adjusted gross income (“AGI”) plus: (a) tax-exempt interest, (b) employer contributions for health plans and life insurance, (c) employer share of FICA tax, (d) workers’ compensation, (e) nontaxable Social Security benefits, (f) insurance value of Medicare benefits, (g) alternative minimum tax preference items, and (h) excluded income of U.S. citizens living abroad.

³Positive tax expenditure of less than \$500,000.

⁴Includes the refundable portion.

⁵Fewer than 500 returns.

⁶Negative tax expenditure of less than \$500,000.

NOTE.—Details may not add to totals due to rounding.

Source: Joint Committee on Taxation.