[JOINT COMMITTEE PRINT]

ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 1988-1992

PREPARED FOR THE

COMMITTEE ON WAYS AND MEANS

AND THE

COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

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INTRODUCTION

This report[1] on tax expenditures for fiscal years 1988-1992 is pre-
ared for the House Committee on Ways and Means and the
enate Committee on Finance. The report also is submitted by the
oint Committee on Taxation to the House and Senate Committees
n the Budget.

As in the case of earlier reports,[2] the estimates in this report
ere prepared with the cooperation of the staff of the Office of Tax
nalysis in the Treasury Department. With the exception of the
rst two reports which were prepared at the request of the confer-
es on the Revenue Act of 1971, these reports have been prepared
s the Joint Committee's report under the budget process.

The Administration published its estimates of tax expenditures
r fiscal years 1986-1988 in Special Analysis G of the Budget for
iscal Year 1988.[3] The tax expenditure items included in this pam-
hlet and in Special Analysis G overlap considerably, and the dif-
erences are discussed below in Part I under the heading "Compari-
n with Special Analysis G".

The staff of the Joint Committee has made its estimates (as
own in table 1) based on the provisions in tax law as enacted
rough December 31, 1986, including relevant provisions of the
ax Reform Act of 1986. Expired or repealed provisions are not
sted if their effect on revenue results only from taxpayer activity
prior years. Some of the provisions repealed in the Tax Reform
ct of 1986 continue to appear as tax expenditures because they
re phased out over periods as long as five years. Extensions or
odifications of expiring provisions are not included until they
ave been enacted into law.

Part I of this report contains a discussion of the concept of tax
xpenditures, and it is followed in Part II by a discussion of the
easurement of tax expenditures. Estimates of tax expenditures
r fiscal years 1988-1992, under tax law enacted through December
1, 1986, are presented in table 1 in Part III. Table 2 shows the dis-
ribution of tax returns by income class, and table 3 presents distri-
utions of selected individual tax expenditure items by income
lass.

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[1] This report may be cited as follows: Joint Committee on Taxation, *Estimates of Federal Tax xpenditures for Fiscal Years 1988-1992* (JCS-3-87), February 27, 1987.

[2] Joint Committee on Taxation, *Estimates of Federal Tax Expenditures*, October 4, 1972, June 1973, July 8, 1975, March 15, 1976, March 16, 1977, March 14, 1978, March 15, 1979, March 6, 980, March 16, 1981, March 8, 1982, March 7, 1983, November 9, 1984, April 12, 1985, and larch 1, 1986.

[3] Office of Management and Budget, "*Tax Expenditures*," Special Analysis G, *The Budget of e United States Government for Fiscal Year 1988*, pp. *G1-46*.

I. THE CONCEPT OF TAX EXPENDITURES

Overview

Tax expenditure estimates measure the decreases in individual and corporate income tax liabilities that result from provisions in income tax laws and regulations that have been enacted to provide economic incentives to the private or public sectors or tax relief to particular kinds of taxpayers. These tax provisions take the form of exclusions, credits, deductions, preferential tax rates, or deferrals of tax liability. (Tax disincentives or penalties are not shown as negative tax expenditures.) Tax expenditure provisions, like all tax provisions but unlike direct spending programs, are administered by the Internal Revenue Service. Since most provisions in the Code are permanent ones, tax expenditures usually do not have expiration dates.

The term tax expenditure comes from the assumption that the objectives of many of these tax provisions might be accomplished with the same efficiency by expenditure programs. Tax expenditures, in this view, also are analogous to those direct expenditures that have no program spending limits, and that are available as entitlements to individuals and corporations who meet the criteria established for the programs. As in an entitlement program, any taxpayer who meets the criteria specified in the Internal Revenue Code may obtain the benefits of the provision without any further action by the Federal Government.

Tax expenditures estimates have been prepared for use in public policy analysis to determine the relative merits of providing direct outlays or tax benefits in order to achieve specified public goals. To provide this capability, the Congressional Budget Act of 1974 requires that a report on tax expenditures be submitted to the House and Senate Budget Committees. These committees include tax expenditure estimates with the discussions of the budget functional spending categories in their reports that accompany the annual budget resolutions. An alternative way to measure tax expenditures is to express their value in terms of outlay equivalents, i.e., how large direct outlays for a program would have to be in order to place the taxpayer in the same after-tax position he would be under a tax expenditure regime; the administration also presents such estimates in Special Analysis G. Often the outlay equivalent is greater than the revenue loss, because in many cases outlays would have to be included in the pre-tax taxable income of the beneficiaries of the program.

In this report, the Joint Committee staff follows the definition of tax expenditures that appears in the Congressional Budget Act: ". . . those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability." [4] The legislative history of this Act indicates that tax expenditures are to be defined with reference to a normal income tax structure and also refers to the first two tax expenditure pamphlets prepared by the Joint Committee staff in which the normal tax structure was used as the reference point.

Under the individual income tax, this normal income tax structure includes one personal exemption for each taxpayer and one for each dependent; the standard deduction,[5] which serves as a general minimum deduction for all taxpayers; the tax rate structure; the limit on using passive business activity losses to offset other income; and deductions for costs incurred in producing net income, e.g., investment expenses or the cost of the tool that a mechanic purchases for use on his job. The normal tax structure of the corporation income tax includes deductions for the costs incurred in producing income, including depreciation, but it does not include the graduated tax rate structure on the grounds that those provisions are intended as a way of providing tax relief to small corporations.

The staff acknowledges that its concept of a normal tax structure may err on the side of being too narrow and that its definition of tax expenditures may err on the side of being too broad. The staff's approach traditionally has been to list any item as a tax expenditure for which there is a reasonable basis for such classification and a revenue loss above a de minimis amount. In this context, a de minimis amount means a revenue loss of less than $10 million in at least one of the five years 1988-1992. The staff emphasizes, however, that in the process of listing tax expenditure items, no judgment is made, nor any inference intended, about the desirability of any special provision as public policy, or about the effectiveness of the tax approach relative to other methods available to the Federal Government for achieving particular public policy goals.

As defined in the Congressional Budget Act, the concept of tax expenditure relates only to the corporation and individual income taxes. Other parts of the Internal Revenue Code—excise taxes, employment taxes, estate and gift taxes—also have exceptions, exclusions, refunds and credits, which are not included in this report because they are not parts of the income tax. The income tax credit for producing ethanol that is to be used for blending with gasoline to make gasohol is included, for example, even though the equivalent exemption from the gasoline excise tax for gasohol sales is not a tax expenditure.

Individual income tax

The staff does not include as tax expenditures either the standard deduction or the personal exemption for the taxpayer and dependents because Congress believes these amounts approximate the level of income below which it would be difficult for an individual or a family to obtain minimal amounts of food, clothing and shel-

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[4] Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344), sec. 3(a)(3).

[5] Beginning in 1987, the zero bracket amount is repealed and replaced by the standard deduction which is allowed in the process of determining individual taxable income.

ter. Thus, itemized deductions are measured as tax expenditures only to the extent they exceed the standard deduction.

Deductions for costs incurred in producing income are considered part of the normal tax structure and, therefore, are not listed as tax expenditures. These include deductions for moving expenses and, subject to certain limitations, employee business expenses, investment expenses, and business-related travel expenses. In addition, deductible interest expenses, i.e., interest paid or accrued on indebtedness incurred or continued in connection with a trade or business, investment interest to the extent of investment income, or interest payable on any unpaid portion of tax due on an estate when an extension of time for payment is in effect, are not tax expenditure items. Tax expenditure items include mortgage interest on a principal or second residence, interest on residential equity loans and interest paid on consumer loans.

The exclusion from income of a portion of capital gains for individuals and the alternative rate for corporations were repealed by the Tax Reform Act of 1986. Beginning in 1988, capital gains income of individual (and corporate) taxpayers will be taxed at the same rate as ordinary income. Although transitional individual and corporate tax rate structures for 1987 allow some favorable treatment for capital gains, the effects of this treatment are not reflected in table 3. The exclusion of capital gains from income at death, the deferral of capital gains on home sales rollovers, and the exclusion of capital gains up to $125,000 on home sales for individuals age 55 or over were not changed by the Tax Reform Act of 1986.

The failure to include in gross income imputed income received by individuals from the services of their own durable assets is not treated as a tax expenditure. Such imputations are often considered as income under other concepts of income, such as, that used in measuring gross national product. Measurement of imputed income for inclusion for income tax purposes would present severe administrative problems, and its exclusion from taxable income is regarded as an administrative necessity rather than as a specific incentive to encourage certain kinds of consumption. The imputed income from an owner-occupied home is the most prominent of these omitted items; among the others are the income that could be imputed to household furniture and appliances, books, art collections, and automobiles. If all the imputed income items were included in adjusted gross income, however, it would be proper to include all associated interest deductions as part of the normal tax structure, since interest deductions would be allowable as a cost of producing imputed income. Thus, in effect, the staff's listing of certain interest deductions as a tax expenditure is a substitute for listing the exclusion of imputed income on durable assets.

Business income taxation

For business income of individuals and corporations, the most difficult issues in defining tax expenditures relate to capital costs, which are costs not properly allocable to income earned in a single year. The staff assumes, for example, that the normal tax structure would permit cost recovery deductions on structures and equipment under the method of cost recovery and the estimated useful ife of the asset used under the alternative tax depreciation system lescribed in sec. 168(g) of the Internal Revenue Code.

The definition of depreciation employed in making the tax expenditure estimates does not take inflation into account. In this respect, these estimates are consistent with the general structure of he Internal Revenue Code that does not provide inflation adjustnents for other components involved in determining taxable ncome. As a result, fixed depreciation schedules will overstate or ınderstate the real economic value of depreciation of assets in any ;iven year. Similarly, the effect of inflation on realized capital ;ains, interest income, interest deductions, and asset prices generılly is not taken into account.

The foreign tax credit is not classified in this report as a tax expenditure because it is considered a way of taking into account the nterrelationship of domestic and foreign tax systems and avoiding louble taxation. In addition, this analysis does not attempt to go behind the treatment as income taxes by U.S. taxpayers of paynents to foreign governments as income taxes, i.e., it does not attempt to determine whether such payments claimed as foreign tax credits satisfy the requirements of creditability.

Comparison with Special Analysis G

The Joint Committee and Treasury lists of tax expenditures liffer for several reasons. First, the Joint Committee uses as its neasure of tax expenditures the definition of tax expenditure in he Congressional Budget Act of 1974 (see, above, on page 2). A normative concept based on the Internal Revenue Code, as amended by the Economic Recovery and Tax Act of 1981 and the Tax Reform Act of 1986, is used by the Treasury in determining which tems to include for purposes of Special Analysis G. Second, the Joint Committee in 1985 expanded its list of tax expenditures to include several of the tax provisions recommended for repeal under the principles employed in developing both the President's and the Treasury Department's tax simplification and reform proposals.[6] Special Analysis G has not been extended to incorporate these additional items. Third, Special Analysis G covers the usual threeyear period of a budget analysis—the most recent fiscal year, the current fiscal year, and the next fiscal year to which the budget proposals apply, i.e., fiscal years 1986-1988. The Joint Committee estimates apply to the next fiscal year and the succeeding four fiscal years, i.e., fiscal years 1988-1992. In addition, the Joint Committee estimates, which cover provisions in the Internal Revenue Code of 1986, as in effect on December 31, 1986, include in this year's report several expired or repealed provisions for which lengthy transition periods have been provided and which involve substantial amounts of revenue foregone. Finally, the Joint Committee prefers that its listing be as inclusive as is reasonable.

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[6] The White House, *The President's Tax Proposals to the Congress for Fairness, Growth and Simplicity*, Washington, D.C., May 1985, and Office of the Secretary of the Treasury, *Tax Reform for Fairness, Simplification, and Economic Growth: The Treasury Department Report to the President*, vols. 1 and 2, Washington, D.C., Department of the Treasury, November 1984.

The listing below comprises tax expenditure items in the Joint Committee list which have not been made part of the listing in Special Analysis G.

International affairs

Exclusion of certain allowances for federal employees abroad

Energy

Exception from passive loss limitation for working interests in oil and gas properties
Expensing tertiary injectants

Natural resources and environment

Passive loss exception for rehabilitation of historic structures

Agriculture

Deductibility of patronage dividends and certain other items of cooperatives
Exclusion of cost-sharing payments

Financial institutions

Merger rules for thrift institutions

Insurance companies

Special alternative tax on small property and casualty insurance companies
Tax exemption for certain insurance companies
Special deduction for Blue Cross-Blue Shield companies
Deduction of unpaid losses of property and casualty companies
Small life insurance company taxable income adjustment
Treatment of life insurance company reserves

Housing

Passive loss exception for low-income housing

Business and commerce

Expensing of up to $10,000 depreciable business property
Nonrecognition of gain on property distributions in pre-1989 liquidations
Permanent exemption from imputed interest rules
Special rules for magazine, paperback, and record returns
Expensing magazine circulation expenditures
Deferral of gain on installment sales
Completed contract rules
Cash accounting, other than agriculture
Exception from passive loss rules for $25,000 of rental losses

Employment

Exclusion for cafeteria plans
Exclusion of miscellaneous fringe benefits
Exclusion of employee awards
Exclusion of income earned by voluntary employee beneficiary organizations (VEBAs)
Reserves for vacation pay

Social services

Expensing costs of removing architectural barriers

Medicare

Exclusion of untaxed medicare benefits
- Hospital insurance
- Supplementary medical insurance

Income security

Exclusion for employer-provided death benefits

II. MEASUREMENT OF TAX EXPENDITURES

Estimates of tax expenditures as revenue losses are subject to important limitations. Each tax expenditure is measured in isolation. For example, the amount of a deduction is added back into taxable income, which is increased by that amount. The difference between the estimates of tax liabilities under present law, which provides for the deduction, and the higher level of tax liabilities under the assumption that the provision did not exist is the amount of the tax expenditure. For this computation, as opposed to revenue estimates provided for legislative purposes, it is assumed that nothing else changes, i.e., these are static estimates that do not anticipate taxpayer behavioral responses to changes in tax law.

If two or more items were to be eliminated simultaneously, the result of the combination of changes might produce a lesser or greater revenue effect than the sum of the amounts shown for each item separately. This means that the addition of the amounts of various tax expenditure items is of quite limited usefulness, and this is why annual totals for all tax expenditures in table 1 are shown only as an addendum to table 1.

If a tax expenditure item were to be eliminated, it is possible that Congress would deal with the underlying reason for enacting the tax expenditure in another way, rather than simply terminating federal assistance of any kind. For example, the Tax Reform Act of 1986 repealed the itemized deduction for certain adoption expenses and in its place authorized a direct spending program for such expenses. To the extent that a replacement program would be adopted, the higher revenues received as a result of the elimination of a tax expenditure might not represent a net budget gain. The nature of any alternative program cannot be anticipated—it could involve direct expenditures, direct loans, or loan guarantees, a different form of a tax expenditure, or a general reduction in tax rates. If any provisions were to be repealed, adjustments might be made through fiscal or monetary policy to offset the effects of higher tax liabilities on the economy; the estimates of tax expenditures do not anticipate such policy responses.

Year-to-year differences in the estimates for each tax expenditure may be explained by changes in tax law, e.g., the reduction in marginal tax rates specified in the 1986 Act, the indexing of the individual income tax brackets, the personal exemption amount, and the standard deduction, which affect the estimates for successive years. Some of the estimates for this tax expenditure budget may differ from estimates made in previous years because of inflation, changed economic conditions, the availability of better data, and improved estimating techniques. Similar differences also occur in the budget estimates for direct outlays.

III. TAX EXPENDITURE ESTIMATES

To aid analysis of the economic benefits provided through the tax ws to various sectors of the economy, tax expenditures are ouped in table 1 in the same functional categories as outlays in ıe federal budget. Estimates are shown separately for individuals ıd corporations. Some tax expenditures do not fit clearly into any the budget functional categories; they have been placed in the ıost appropriate functional category.

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

Table 2 presents tax return information for each of nine income asses on the number of all returns filed, the number of all reırns and taxable returns with itemized deductions, and for each ass the amount of tax liability.

Table 3 provides estimates by income class for some of the tax xpenditures which affect individual taxpayers. Not all tax expendures which affect individuals are shown in this table because of ıe difficulty in making reliable estimates of the income distribuon of items which do not appear on tax returns under present ıw.

Tables 1, 2, and 3 assume the tax laws as enacted through Deember 31, 1986.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1988–1992

[Billions of dollars]

Function	Corporations					Individuals					Total 1988–92
	1988	1989	1990	1991	1992	1988	1989	1990	1991	1992	
National defense											
Exclusion of benefits and allowances to Armed Forces personnel						1.8	1.7	1.8	1.8	1.9	8.9
Exclusion of military disability pensions						0.1	0.1	0.1	0.1	0.1	0.6
International affairs											
Exclusion of income earned abroad by U.S. citizens						1.2	1.3	1.3	1.4	1.5	6.7
Exclusion of certain allowances for Federal employees abroad						0.2	0.2	0.2	0.2	0.2	1.0
Exclusion of income of foreign sales corporations (FSCs)	0.9	1.0	1.0	1.1	1.3						5.3
Deferral of income of controlled foreign corporations	0.1	0.1	0.1	0.1	0.1						0.4
Inventory property sales source rule exception	0.5	0.5	0.5	0.5	0.5						2.6
Interest allocation rules exception for certain nonfinancial institutions	([1])	0.1	0.1	0.1	0.1						0.4
General science, space, and technology											
Expensing of research and development expenditures	2.1	2.2	2.3	2.5	2.6	0.1	0.1	0.1	0.1	0.1	12.2
Credit for increasing research activities	1.8	0.9	0.5	0.2	0.1	0.1	0.1	([1])	([1])		3.7
Modification in regulations providing for allocation of research and experimental expenditures	0.1										0.1
Energy											
Expensing of exploration and development costs:											
Oil and gas	−1.0	−0.8	−0.5	−0.1	0.2	0.4	0.4	0.5	0.5	0.6	0.2
Other fuels	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	([1])	0.1
Excess of percentage over cost depletion:											
Oil and gas	0.1	0.1	0.1	0.1	0.1	0.4	0.4	0.4	0.4	0.4	2.7
Other fuels	0.2	0.2	0.2	0.3	0.3	([1])	([1])	([1])	([1])	([1])	1.3
Exception from passive loss limitation for working interests in oil and gas properties						0.2	0.3	0.3	0.4	0.4	1.7
Alternative fuel production credit	([1])	([1])	([1])	([1])	([1])						0.1

Business energy credits (solar, geothermal, ocean thermal and biomass)	0.1	(2)	(2)	(2)	(2)	....	....	....	....	....	(1)
Alcohol fuel credit [3]	(1)	0.2	0.2	0.2	0.3	(1)	(1)	(1)	(1)	(1)	1.1
Exclusion of interest on State and local government industrial development bonds for energy production facilities	(2)	(2)	(2)	(2)	(2)	0.2	0.2	0.2	0.2	0.2	0.8
Expensing of tertiary injectants	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Natural resources and environment											
Expensing of exploration and development costs, nonfuel minerals	(1)	(1)	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.3
Excess of percentage over cost depletion, nonfuel materials	0.3	0.3	0.4	0.4	0.4	(1)	(1)	(1)	(1)	(1)	1.9
Investment credit and 7-year amortization reforestation expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Expensing multiperiod timber growing costs	0.3	0.3	0.3	0.3	0.4	(1)	(1)	(1)	(1)	(1)	1.7
Exclusion of interest on State and local government sewage, water and hazardous waste facilities bonds	−0.3	−0.3	−0.4	−0.4	−0.4	1.8	1.8	1.9	2.1	2.2	8.1
Investment tax credit and passive loss exception for rehabilitation of historic structures	0.7	0.5	0.5	0.6	0.6	1.2	1.0	1.1	1.2	1.3	8.7
Special rules for mining reclamation reserves	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	0.1
Agriculture											
Expensing of certain capital outlays	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.4
Expensing certain multiperiod production costs	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Deductibility of patronage dividends and certain other items of cooperatives	0.6	0.6	0.6	0.7	0.7	−0. 1	−0.1	−0.2	−0.2	−0.2	2.4
Exclusion of cost-sharing payments	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of cancellation of indebtedness income of farmers	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Special investment tax credit carryback rules for farmers	....	....	....	....	....	0.2	(2)	(2)	(2)	(2)	0.1
Commerce and housing											
Financial institutions											
Excess bad debt reserves of financial institutions	0.2	0.2	0.2	0.2	0.2	....	....	....	....	....	1.0
Merger rules for thrift institutions	0.3	0.2	0.2	0.1	0.1	....	....	....	....	....	0.9
Exemption of credit union income	0.4	0.4	0.4	0.5	0.5	....	....	....	....	....	2.2
Insurance companies											
Exclusion of income on life insurance and annuity savings	0.2	0.2	0.2	0.2	0.2	5.0	4.7	5.0	5.2	5.5	26.5

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1988-1992—Continued

[Billions of dollars]

Function	Corporations 1988	Corporations 1989	Corporations 1990	Corporations 1991	Corporations 1992	Individuals 1988	Individuals 1989	Individuals 1990	Individuals 1991	Individuals 1992	Total 1988-92
Small life insurance company taxable income adjustment	0.1	0.1	0.1	0.1	0.1	....	....	....	....	....	0.5
Deduction of unpaid losses for property treatment of casualty insurance companies	2.7	2.4	2.0	1.0	1.4	....	....	....	....	....	9.5
Treatment of reserves of life insurance companies	0.6	0.6	0.7	0.8	0.8	....	....	....	....	....	3.5
Special alternative tax on small property and casualty insurance companies	0.1	0.1	0.1	(1)	(1)	....	....	....	....	....	0.4
Tax exemption for certain insurance companies	0.1	0.1	0.2	0.2	0.2	....	....	....	....	....	0.9
Special deduction for Blue Cross and Blue Shield companies	0.1	0.1	0.2	0.2	0.2	....	....	....	....	....	0.9
Housing											
Deductibility of mortgage interest on owner-occupied principal and second residences	....	....	....	....	....	28.9	28.4	29.6	30.8	32.1	149.8
Deductibility of property tax on owner-occupied homes	....	....	....	....	....	8.2	7.4	7.8	8.2	8.7	40.3
Deferral of capital gains on home sales	....	....	....	....	....	6.9	6.5	7.1	7.7	8.4	36.7
Exclusion of capital gains on home sales for persons age 55 and over	....	....	....	....	....	2.3	2.2	2.4	2.6	2.8	12.2
Exclusion of interest on State and local government bonds for owner-occupied housing	0.4	0.4	0.3	0.3	0.3	1.4	1.3	1.2	1.1	1.1	7.7
Depreciation of rental housing in excess of alternative depreciation system	0.2	0.2	0.3	0.4	0.4	0.9	0.9	1.0	1.1	1.1	6.4
Credit and passive loss exception for low-income housing	(1)	0.1	0.1	0.1	0.1	0.3	0.6	0.9	1.0	1.0	4.3
Exclusion of interest on State and local government bonds for rental housing	0.3	0.2	0.2	0.2	0.2	0.8	0.7	0.7	0.7	0.7	5.0
Other business and commerce											
Depreciation on buildings other than rental housing in excess of alternative depreciation system	3.5	3.6	3.9	4.0	4.1	2.8	2.9	3.1	3.1	3.3	34.3

tive depreciation system	22.4	25.6	29.2	31.3	33.2	6.4	7.3	8.4	9.1	9.7	182.2
Investment credit other than ESOPs, rehabilitation of structures, reforestation, and energy property	7.9	4.6	2.8	1.5	0.9	1.2	0.6	0.2	0.1	0.1	19.7
Special investment credit carryback rules	0.6	(2)	−0.1	−0.1	−0.1	....	....	....	....	....	0.3
Expensing up to $10,000 depreciable business property	0.9	0.7	0.6	0.2	0.2	0.4	0.3	0.2	0.2	0.2	3.9
Exclusion of capital gains at death	....	....	....	....	....	4.4	4.9	5.3	5.6	6.0	26.2
Amortization of business startup costs	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.1
Nonrecognition of gain on property distributions in pre-1989 liquidations	3.9	4.1	4.3	4.4	4.5	−0.3	−0.3	−0.3	−0.4	−0.4	19.6
Reduced rates on first $75,000 of corporate taxable income	5.6	5.0	5.2	5.5	5.7	....	....	....	....	....	27.0
Deductibility of nonmortgage interest in excess of investment income	....	....	....	....	....	5.7	3.0	1.6	0.4	....	10.7
Permanent exemption from imputed interest rules	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.2	0.2	0.2	1.0
Expensing magazine circulation expenditures	(1)	(1)	(1)	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.2
Special rules for magazine, paperback, and record returns	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	(1)
Deferral of gain on installment sales	0.1	0.1	0.1	0.1	0.2	(1)	(1)	(1)	(1)	(1)	0.7
Completed contract rules	−1.1	−2.1	−0.9	0.2	0.4	(2)	(2)	(2)	(1)	(1)	−3.6
Cash accounting, other than agriculture	0.1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.4
Exclusion of interest on State and local small issue bonds	−0.3	−0.2	−0.2	−0.1	−0.1	2.7	2.4	2.4	2.4	2.4	11.5
Exception from passive loss rules for $25,000 of rental losses	....	....	....	....	....	2.0	2.8	3.6	3.9	3.8	16.1
Transportation											
Deferral of tax on capital construction funds of shipping companies	(1)	0.1	0.1	0.1	0.1	....	....	....	....	....	0.4
Exclusion of interest on State and local government bonds for mass transit commuting vehicles and facilities	(2)	(2)	(2)	(2)	(2)	0.1	(1)	(1)	(1)	(1)	0.2
Community and regional development											
Investment credit and passive loss exception for rehabilitation of structures, other than historic structures	0.2	0.1	0.1	0.1	0.1	0.4	0.3	0.2	0.2	0.2	1.9
Exclusion of interest on State and local government bonds for private airports and docks	−0.1	−0.1	−0.1	−0.1	−0.1	0.7	0.7	0.8	0.8	0.9	3.4

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1988–1992—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1988–92
	1988	1989	1990	1991	1992	1988	1989	1990	1991	1992	
Five-year amortization for housing rehabilitation						(1)	(1)	(1)	(1)	(1)	0.1
Education, training, employment, and social services											
Education and training											
Exclusion of scholarship and fellowship income						0.7	0.6	0.6	0.7	0.7	3.3
Parental personal exemption for students age 19 or over						0.2	0.2	0.2	0.2	0.2	1.0
Exclusion of interest on State and local government student loans	0.1	0.1	(1)	(1)	(1)	0.3	0.2	0.2	0.2	0.2	1.5
Exclusion of interest on State and local government bonds for private educational facilities	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	1.8
Deductibility of charitable contributions for education	0.4	0.5	0.5	0.5	0.6	1.2	1.1	1.1	1.2	1.2	8.3
Exclusion of employer-provided educational assistance						(1)					(1)
Employment											
Targeted jobs credit	0.3	0.2	0.1	0.1	(1)	(1)	(1)	(1)	(1)	(1)	0.9
Exclusion of employee meals and lodging (other than military)											
Employee stock ownership plans (ESOPs) [4]	0.8	0.5	0.1	0.1	(1)						1.8
Exclusion of cafeteria plans						1.4	2.0	2.6	3.2	3.6	12.8
Exclusion of rental allowances of minister's home						0.2	0.2	0.2	0.2	0.2	0.9
Exclusion of miscellaneous fringe benefits						3.4	3.7	4.1	4.4	4.7	20.3
Exclusion of income earned by benefit organizations:											
Supplemental unemployment benefit trusts						(1)	(1)	(1)	(1)	(1)	0.2
Voluntary employees' beneficiary associations						0.4	0.4	0.5	0.5	0.5	2.2
Reserves for vacation pay	0.1	(1)	(1)	(1)	(1)						0.3
Exclusion for employer contributions to prepaid legal services plans						(1)					(1)

Exclusion of employee awards						0.1	0.1	0.1	0.1	0.1	0.4
Social services											
Deductibility of charitable contributions, other than for education and health	0.4	0.4	0.5	0.5	0.6	9.1	8.2	8.6	9.1	9.5	46.9
Credit for child and dependent care expenses						3.3	3.5	3.8	4.2	4.6	19.5
Exclusion for employer-provided child care						(1)	0.1	0.1	0.1	0.1	0.4
Exclusion for certain foster care payments						(1)	(1)	(1)	(1)	(1)	0.1
Expensing costs of removing architectural barriers	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Health											
Exclusion of contributions by employers and self-employed for medical insurance premiums and medical care						24.2	26.5	27.8	29.6	31.1	139.2
Deductibility of medical expenses						2.3	2.3	2.6	3.0	3.3	13.6
Exclusion of interest on State and local government bonds for hospital facilities	0.1	0.1	0.1	0.1	0.1	2.4	2.3	2.5	2.6	2.7	12.9
Deductibility of charitable contributions for health	0.2	0.2	0.2	0.2	0.2	1.2	1.0	1.1	1.2	1.2	6.7
Tax credit for orphan drug research	(1)	(1)	(1)	(1)							(1)
Medicare											
Exclusion of untaxed medicare benefits:											
Hospital insurance						3.8	4.2	4.7	5.1	5.6	23.4
Supplementary medical insurance						1.9	2.1	2.4	2.7	3.0	12.1
Income security											
Exclusion of untaxed railroad retirement system benefits						0.4	0.4	0.4	0.4	0.4	1.9
Exclusion of workmen's compensation benefits						2.7	3.0	3.3	3.6	3.9	16.5
Exclusion of special benefits for disabled coal miners						0.2	0.2	0.2	0.2	0.2	0.9
Exclusion of public assistance benefits						0.3	0.3	0.3	0.3	0.3	1.5
Net exclusion of pension contributions and earnings						49.3	51.7	56.5	61.8	67.5	286.9
Individual retirement plans						8.5	8.4	8.9	9.3	10.2	45.3
Exclusion of other employee benefits:											
Premiums on group term life insurance						1.8	1.8	1.9	2.0	2.1	9.6
Premiums on accident and disability insurance						0.1	0.1	0.1	0.1	0.1	0.6
Exclusion for employer-provided death benefits						(1)	(1)	(1)	(1)	(1)	0.1
Additional standard deduction for the blind and the elderly						1.4	1.1	1.2	1.3	1.4	6.4
Tax credit for the elderly and disabled						0.2	0.2	0.2	0.2	0.2	0.8
Deductibility of casualty and theft losses						0.3	0.2	0.2	0.1	0.1	0.9
Earned income credit [5]						0.8	1.2	1.4	1.5	1.7	6.6

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1988-1992—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1988-92
	1988	1989	1990	1991	1992	1988	1989	1990	1991	1992	
Social Security											
Exclusion of untaxed social security benefits:											
Disability insurance benefits						1.5	1.4	1.5	1.6	1.7	7.7
OASI benefits for retired workers						12.5	11.7	12.5	13.2	14.1	64.0
Benefits for dependents and survivors						4.5	4.2	4.5	4.8	5.1	23.1
Veterans benefits and services											
Exclusion of veterans' disability compensation						1.3	1.2	1.3	1.3	1.3	6.5
Exclusion of veterans' pensions						0.1	0.1	0.1	0.1	0.1	0.7
Exclusion of GI bill benefits						0.1	0.1	0.1	0.1	0.1	0.3
Exclusion of interest on State and local government veterans' housing bonds	0.1	0.1	0.1	([1])	([1])	0.2	0.2	0.2	0.2	0.2	1.2
General purpose fiscal assistance											
Exclusion of interest on general purpose State and local government debt	1.8	1.6	1.5	1.5	1.4	8.1	7.6	7.9	8.7	8.8	48.9
Deductibility of nonbusiness State and local government income and personal property taxes						18.3	16.7	18.0	19.5	21.2	93.5
Exclusion and tax credit for corporations with possessions source income	1.7	1.7	1.9	2.1	2.3						9.7
Interest											
Deferral of interest on savings bonds						0.8	0.8	0.8	0.8	0.8	4.0

Footnotes to Table 1:

[1] Positive tax expenditure of less than $50 million.

[2] Negative tax expenditure of less than $50 million.

[3] In addition, the 6-cents-per-gallon exemption from excise tax for alcohol fuels results in a reduction in excise tax receipts, net of income tax effect, of $0.2 billion in 1988, and less than $50 million in 1989.

[4] Includes effects of tax credit, dividend deduction, nonrecognition of gain on stock sales, and exclusion of interest on ESOP loans.

[5] The figures in the table show the effect of the earned income credit on receipts. The increases in outlays are: $3.3 billion in 1988, $4.8 billion in 1989, $5.2 billion in 1990, $5.6 billion in 1991, and $6.1 billion in 1992.

ADDENDUM TO TABLE 1.—SUM OF TAX EXPENDITURE ITEMS BY TYPE OF TAXPAYER, FISCAL YEARS 1988–1992

[Billions of dollars]

Fiscal year	Corporations	Individuals	Total
1988	62.0	259.1	321.1
1989	58.2	257.0	315.2
1990	61.3	274.4	335.7
1991	63.4	292.2	355.6
1992	66.6	311.2	377.8

Note: These totals represent merely the mathematical sum of the estimated fiscal year effect of each of the tax expenditure items included in table 1. The limitations on the use of the totals is explained in the text.

Table 2.—Distribution by Income Class of All Returns, Taxable Returns, Itemized Returns, and Tax Liability, at 1988 Law and 1988 Income Levels [1]

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

Income class (thousands) [2]	All returns [3]	Taxable returns	Itemized returns		Tax liability
			Total	Taxable	
Below $10	39,289	7,153	706	274	632
$10 to $20	30,000	19,653	2,917	2,151	18,493
$20 to $30	22,271	19,732	5,778	5,237	39,649
$30 to $40	15,155	14,505	6,667	6,485	43,450
$40 to $50	9,250	9,103	5,519	5,424	40,448
$50 to $75	9,084	9,002	6,997	6,870	71,006
$75 to $100	2,193	2,185	1,871	1,856	29,754
$100 to $200	1,946	1,928	1,834	1,798	49,047
$200 and over	685	682	650	644	77,158
Total	**129,873**	**83,943**	**32,939**	**30,738**	**369,636**

[1] Tax law as in effect on January 1, 1988, is applied to the 1988 level and sources of income and their distribution among taxpayers. Excludes individuals under age 16.

[2] The income concept used to place tax returns into income classes is adjusted gross income plus (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) inside build-up on life insurance, (4) workers' compensation, (5) nontaxable social security benefits, (6) deductible contributions to individual retirement accounts, (7) the minimum tax preferences, and (8) net losses, in excess of minimum tax preferences, from passive business activities.

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

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

Table 3.—Distribution of Selected Individual Tax Expenditure Items by Income Class, at 1988 Rates and 1988 Income levels [1]

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

Income class (thousands) [2]	Medical deduction		Real estate tax deduction	
	Returns	Amount	Returns	Amount
Below $10	102	18	99	6
$10 to $20	883	190	1,612	135
$20 to $30	1,319	320	4,371	530
$30 to $40	1,230	404	5,720	753
$40 to $50	731	266	5,025	949
$50 to $75	546	358	6,496	2,208
$75 to $100	114	163	1,763	967
$100 to $200	97	316	1,631	1,262
$200 and over	14	127	507	592
Total	**5,036**	**2,161**	27,225	7,401

Footnotes at end of table.

Table 3.—Distribution of Selected Individual Tax Expenditure Items by Income Class, at 1988 Rates and 1988 Income Levels [1]—Continued

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

Income class (thousands) [2]	State and local income tax deduction		Home mortgage interest deduction	
	Returns	Amounts	Returns	Amounts
Below $10	142	4	165	30
$10 to $20	1,732	135	2,209	628
$20 to $30	4,487	664	5,277	2,135
$30 to $40	5,582	1,104	6,269	3,004
$40 to $50	4,785	1,578	5,158	3,626
$50 to $75	5,863	3,692	6,614	8,546
$75 to $100	1,624	1,868	1,728	3,623
$100 to $200	1,501	3,311	1,603	4,001
$200 and over	468	3,698	560	2,133
Total	26,185	16,053	29,583	27,726

Footnotes at end of table.

Income Levels [1]—Continued

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

Income class (thousands) [2]	Deductibility of nonmortgage interest in excess of investment income		Charitable contributions deduction		Casualty loss deduction	
	Returns	Amount	Returns	Amount	Returns	Amount
Below $10	120	4	104	2	2	0
$10 to $20	1,685	84	1,626	81	60	25
$20 to $30	4,529	307	4,687	375	79	41
$30 to $40	5,675	485	6,008	649	40	29
$40 to $50	4,809	528	5,117	913	10	3
$50 to $75	6,203	1,281	6,721	1,976	17	34
$75 to $100	1,568	492	1,789	905	8	7
$100 to $200	1,361	667	1,697	1,871	4	6
$200 and over	421	536	542	3,092	1	15
Total	**26,371**	**4,385**	**28,291**	**9,865**	**221**	**161**

Footnotes at end of table.

Table 3.—Distribution of Selected Individual Tax Expenditure Items by Income Class at 1988 Rates and 1988 Income Levels [1]—Continued

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

Income class (thousands) [2]	Child care credit		Earned income credit [3]	
	Returns	Amount	Returns	Amount
Below $10	80	20	2,925	2,040
$10 to $20	1,040	426	7,101	3,533
$20 to $30	1,978	841	1,109	389
$30 to $40	2,043	870	155	66
$40 to $50	1,537	623	34	15
$50 to $75	1,383	541	12	8
$75 to $100	218	78	0	0
$100 to $200	137	51	0	0
$200 and over	20	8	0	0
Total	**8,436**	**3,458**	**11,336**	**6,052**

Footnotes to Table 3:

[1] Excludes individuals under age 16.

[2] The income concept used to place tax returns into income classes is adjusted gross income plus (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) inside build-up on life insurance, (4) workers' compensation, (5) nontaxable social security benefits, (6) deductible contributions to individual retirement accounts, (7) the minimum tax preferences, and (8) net losses, in excess of minimum tax preferences, from passive business activities.

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

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