17. TAX EXPENDITURES

The Congressional Budget Act of 1974 (Public Law 93-344) requires that a list of "tax expenditures" be included in the budget. Tax expenditures are defined in the law 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 liability." These exceptions may be viewed as alternatives to other policy instruments, such as spending or regulatory programs.

Identification and measurement of tax expenditures depends importantly on the baseline tax system against which the actual tax system is compared. The tax expenditure estimates presented in this chapter are patterned on a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time.

An important assumption underlying each tax expenditure estimate reported below is that other parts of the Tax Code remain unchanged. The estimates would be different if tax expenditures were changed simultaneously because of potential interactions among provisions. For that reason, this chapter does not present a grand total for the estimated tax expenditures.

Tax expenditures relating to the individual and corporate income taxes are estimated for fiscal years 2010–2016 using two methods of accounting: current revenue effects and present value effects. The present value approach provides estimates of the revenue effects for tax expenditures that generally involve deferrals of tax payments into the future.

A discussion of performance measures and economic effects related to the assessment of the effect of tax expenditures on the achievement of program performance goals is presented in Appendix A. This section is a complement to the Government-wide performance plan required by the Government Performance and Results Act of 1993.

TAX EXPENDITURES IN THE INCOME TAX

Tax Expenditure Estimates

All tax expenditure estimates presented here are based upon current tax law enacted as of September 30, 2010. The estimates reflect 2010 Budget Midsession Review economic assumptions. Legislation enacted in 2011 is not reflected in these estimates. On December 17, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 not only extended many tax expenditure provisions, but also changed income tax rates for the years 2011-12 affecting the estimates of many tax expenditures. Given the late passage of this legislation, revised estimates will be released in the spring of 2011 to reflect tax law enacted as of December 31, 2010.

The total revenue effects for tax expenditures for fiscal years 2010–2016 are displayed according to the Budget's functional categories in Table 17–1. Descriptions of the specific tax expenditure provisions follow the tables of estimates and the discussion of general features of the tax expenditure concept.

Two baseline concepts—the normal tax baseline and the reference tax law baseline—are used to identify and estimate tax expenditures.[1] For the most part, the two concepts coincide. However, items treated as tax expenditures under the normal tax baseline, but not the reference tax law baseline, are indicated by the designation "normal tax method" in the tables. The revenue effects for these items are zero using the reference tax rules. The alternative baseline concepts are discussed in detail following the tables.

Table 17–2 reports the respective portions of the total revenue effects that arise under the individual and corporate income taxes separately. The location of the estimates under the individual and corporate headings does not imply that these categories of filers benefit from the special tax provisions in proportion to the respective tax expenditure amounts shown. Rather, these breakdowns show the specific tax accounts through which the various provisions are cleared. The ultimate beneficiaries of corporate tax expenditures could be shareholders, employees, customers, or other providers of capital, depending on economic forces.

Table 17–3 ranks the major tax expenditures by the size of their 2012–2016 revenue effect. The first column provides the number of the provision in order to cross reference this table to Tables 17–1 and 17–2, as well as to the descriptions below.

In the 2005 *Analytical Perspectives*, the treatment of capital gains was changed to exclude the portion of capital gains derived from corporate equity from the estimate of the tax expenditure for preferential tax rates on capital gains. In addition, the preferential rates on qualified dividend income that were enacted in the Jobs and Growth Tax Relief Reconciliation Act of 2003 were not identified as a tax expenditure. In this volume, the estimates reflect the pre-2005 methodology where no in-

[1] These baseline concepts are thoroughly discussed in Special Analysis G of the 1985 Budget, where the former is referred to as the pre-1983 method and the latter the post-1982 method.

teraction effects among the various taxes are taken into account. For example, preferences under the personal income tax are evaluated in isolation of additional taxes that may apply under the corporate tax, the payroll tax, the estate tax, and excise taxes. The preferential rate on qualified dividends is identified as a tax expenditure.

Interpreting Tax Expenditure Estimates

The estimates shown for individual tax expenditures in Tables 17–1, 17–2, and 17–3 do not necessarily equal the increase in Federal revenues (or the change in the budget balance) that would result from repealing these special provisions, for the following reasons.

First, eliminating a tax expenditure may have incentive effects that alter economic behavior. These incentives can affect the resulting magnitudes of the activity or of other tax provisions or Government programs. For example, if capital gains were taxed at ordinary rates, capital gain realizations would be expected to decline, resulting in lower tax receipts. Such behavioral effects are not reflected in the estimates.

Second, tax expenditures are interdependent even without incentive effects. Repeal of a tax expenditure provision can increase or decrease the tax revenues associated with other provisions. For example, even if behavior does not change, repeal of an itemized deduction could increase the revenue costs from other deductions because some taxpayers would be moved into higher tax brackets. Alternatively, repeal of an itemized deduction could lower the revenue cost from other deductions if taxpayers are led to claim the standard deduction instead of itemizing. Similarly, if two provisions were repealed simultaneously, the increase in tax liability could be greater or less than the sum of the two separate tax expenditures, because each is estimated assuming that the other remains in force. In addition, the estimates reported in Table 17–1 are the totals of individual and corporate income tax revenue effects reported in Table 17–2 and do not reflect any possible interactions between individual and corporate income tax receipts. For this reason, the estimates in Table 17–1 should be regarded as approximations.

Present-Value Estimates

The annual value of tax expenditures for tax deferrals is reported on a cash basis in all tables except Table 17–4. Cash-based estimates reflect the difference between taxes deferred in the current year and incoming revenues that are received due to deferrals of taxes from prior years. Although such estimates are useful as a measure of cash flows into the Government, they do not accurately reflect the true economic cost of these provisions. For example, for a provision where activity levels have changed, so that incoming tax receipts from past deferrals are greater than deferred receipts from new activity, the cash-basis tax expenditure estimate can be negative, despite the fact that in present-value terms current deferrals have a real cost to the Government. Alternatively, in the case of a newly enacted deferral provision, a cash-based estimate can overstate the real effect on receipts to the Government because the newly deferred taxes will ultimately be received.

Discounted present-value estimates of revenue effects are presented in Table 17–4 for certain provisions that involve tax deferrals or other long-term revenue effects. These estimates complement the cash-based tax expenditure estimates presented in the other tables.

The present-value estimates represent the revenue effects, net of future tax payments that follow from activities undertaken during calendar year 2010 which cause the deferrals or other long-term revenue effects. For instance, a pension contribution in 2010 would cause a deferral of tax payments on wages in 2010 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2010 pension contribution and accrued earnings will be paid out and taxes will be due; these receipts are included in the present-value estimate. In general, this conceptual approach is similar to the one used for reporting the budgetary effects of credit programs, where direct loans and guarantees in a given year affect future cash flows.

Tax Expenditure Baselines

A tax expenditure is an exception to baseline provisions of the tax structure that usually results in a reduction in the amount of tax owed. The 1974 Congressional Budget Act, which mandated the tax expenditure budget, did not specify the baseline provisions of the tax law. As noted previously, deciding whether provisions are exceptions, therefore, is a matter of judgment. As in prior years, most of this year's tax expenditure estimates are presented using two baselines: the normal tax baseline and the reference tax law baseline. Tax expenditures may take the form of credits, deductions, special exceptions and allowances, and reduce tax liability below the level implied by the baseline tax system.

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

The reference tax law baseline is also patterned on a comprehensive income tax, but it is closer to existing law. Reference law tax expenditures are limited to special exceptions from a generally provided tax rule that serve programmatic functions in a way that is analogous to spending programs. Provisions under the reference law baseline are generally tax expenditures under the normal tax baseline, but the reverse is not always true.

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

- Income is taxable only when it is realized in exchange. Thus, the deferral of tax on unrealized capital gains is not regarded as a tax expenditure. Ac-

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2010-2016

(In millions of dollars)

		Total from corporations and individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16
National Defense									
1	Exclusion of benefits and allowances to armed forces personnel	12,740	13,290	13,710	12,200	12,680	13,190	13,720	65,500
International affairs:									
2	Exclusion of income earned abroad by U.S. citizens	6,800	5,550	5,400	5,800	6,140	6,430	6,730	30,500
3	Exclusion of certain allowances for Federal employees abroad	970	1,020	1,070	1,120	1,180	1,240	1,300	5,910
4	Inventory property sales source rules exception	2,680	2,910	3,160	3,430	3,730	4,050	4,400	18,770
5	Deferral of income from controlled foreign corporations (normal tax method)	38,130	41,410	42,000	41,810	41,770	43,020	44,240	212,840
6	Deferred taxes for financial firms on certain income earned overseas	2,330	0	0	0	0	0	0	0
General science, space, and technology:									
7	Expensing of research and experimentation expenditures (normal tax method)	3,560	4,610	5,770	6,730	6,970	7,760	7,850	35,080
8	Credit for increasing research activities	5,890	3,850	3,080	2,460	1,960	1,570	1,250	10,320
Energy:									
9	Expensing of exploration and development costs, fuels	400	520	700	540	400	340	320	2,300
10	Excess of percentage over cost depletion, fuels	980	1,070	1,120	1,150	1,170	1,180	1,200	5,820
11	Alternative fuel production credit	170	170	120	90	60	20	0	290
12	Exception from passive loss limitation for working interests in oil and gas properties	30	40	30	30	30	30	30	150
13	Capital gains treatment of royalties on coal	50	50	50	60	60	80	90	340
14	Exclusion of interest on energy facility bonds	20	30	30	30	30	40	40	170
15	Energy production credit [1]	1,540	1,620	1,740	1,900	1,950	1,890	1,770	9,250
16	Energy investment credit [1]	130	170	960	1,690	1,030	480	490	4,650
17	Alcohol fuel credits [2]	70	90	130	110	50	30	10	330
18	Bio-Diesel and small agri-biodiesel producer tax credits [3]	20	10	0	0	0	0	0	0
19	Tax credit and deduction for clean-fuel burning vehicles	250	260	140	170	230	390	660	1,590
20	Exclusion of utility conservation subsidies	220	220	220	220	210	210	210	1,070
21	Credit for holding clean renewable energy bonds [4]	70	70	70	70	70	70	70	350
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–50	–150	–150	–130	–110	–80	–50	–520
23	Credit for investment in clean coal facilities	240	400	460	450	360	300	200	1,770
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	760	620	520	420	–580	–1,110	–950	–1,700
25	Natural gas distribution pipelines treated as 15-year property	120	120	100	80	80	80	90	430
26	Amortize all geological and geophysical expenditures over 2 years	150	110	90	60	40	30	30	250
27	Allowance of deduction for certain energy efficient commercial building property	60	80	90	100	70	30	10	300
28	Credit for construction of new energy efficient homes	20	20	20	0	0	0	0	20
29	Credit for energy efficiency improvements to existing homes	3,190	5,530	2,270	0	0	0	0	2,270
30	Credit for energy efficient appliances	150	60	0	0	0	0	0	0
31	Credit for residential energy efficient property	220	220	220	230	230	230	240	1,150
32	Qualified energy conservation bonds [5]	0	10	20	30	30	30	30	140
33	Advanced Energy Property Credit	180	600	900	460	–10	–90	–80	1,180
Natural resources and environment:									
34	Expensing of exploration and development costs, nonfuel minerals	110	110	130	140	140	150	150	710
35	Excess of percentage over cost depletion, nonfuel minerals	770	790	770	740	750	770	780	3,810
36	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	460	460	550	650	710	750	790	3,450
37	Capital gains treatment of certain timber income	50	50	50	60	60	80	90	340
38	Expensing of multiperiod timber growing costs	230	290	290	300	310	330	310	1,540
39	Tax incentives for preservation of historic structures	390	390	400	410	420	430	430	2,090
40	Exclusion of gain or loss on sale or exchange of certain brownfield sites	70	60	40	30	10	0	0	80
41	Industrial CO2 capture and sequestration tax credit	20	30	30	40	80	130	170	450
42	Deduction for endangered species recovery expenditures	20	30	30	30	50	50	60	220
Agriculture:									
43	Expensing of certain capital outlays	70	80	100	110	130	130	140	610
44	Expensing of certain multiperiod production costs	140	150	150	170	180	180	180	860
45	Treatment of loans forgiven for solvent farmers	20	20	20	20	20	20	20	100
46	Capital gains treatment of certain income	490	500	520	580	630	780	930	3,440

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16
47	Income averaging for farmers	90	90	90	90	90	100	100	470
48	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100
49	Expensing of reforestation expenditures	50	70	80	80	80	90	90	420
Commerce and housing:									
	Financial institutions and insurance:								
50	Exemption of credit union income	1,270	1,240	1,310	1,470	1,600	1,710	1,830	7,920
51	Exclusion of interest on life insurance savings	19,910	21,210	22,660	24,220	25,830	27,380	28,970	129,060
52	Special alternative tax on small property and casualty insurance companies	40	40	40	40	40	40	40	200
53	Tax exemption of certain insurance companies owned by tax-exempt organizations	200	200	210	210	210	220	220	1,070
54	Small life insurance company deduction	30	30	30	30	30	30	30	150
55	Exclusion of interest spread of financial institutions	–170	300	550	630	700	760	810	3,450
	Housing:								
56	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,230	1,260	1,490	1,760	1,920	2,010	2,120	9,300
57	Exclusion of interest on rental housing bonds	1,050	1,080	1,270	1,500	1,640	1,710	1,800	7,920
58	Deductibility of mortgage interest on owner-occupied homes	79,150	88,720	98,550	110,660	122,970	133,300	143,700	609,180
59	Deductibility of State and local property tax on owner-occupied homes	15,120	19,320	24,910	27,000	28,760	30,250	31,370	142,290
60	Deferral of income from installment sales	620	730	830	1,020	1,230	1,420	1,600	6,100
61	Capital gains exclusion on home sales	22,160	27,650	35,200	38,880	42,940	47,420	52,380	216,820
62	Exclusion of net imputed rental income	41,200	46,950	50,640	51,080	58,740	66,860	75,480	302,800
63	Exception from passive loss rules for $25,000 of rental loss	8,790	10,860	13,110	14,830	16,730	18,880	20,200	83,750
64	Credit for low-income housing investments	5,650	5,990	6,290	7,130	7,430	7,580	7,640	36,070
65	Accelerated depreciation on rental housing (normal tax method)	–1,490	–1,670	–1,580	–1,370	–1,100	–890	–700	–5,640
66	Discharge of mortgage indebtedness	1,480	1,390	1,100	250	0	0	0	1,350
67	Credit for homebuyer	13,680	10,410	–2,160	–1,450	–590	–520	–470	–5,190
	Commerce:								
68	Cancellation of indebtedness	750	430	130	–70	–180	–250	–230	–600
69	Exceptions from imputed interest rules	50	50	50	50	50	50	50	250
70	Treatment of qualified dividends	31,050	23,600	0	0	0	0	0	0
71	Capital gains (except agriculture, timber, iron ore, and coal)	36,300	37,560	38,490	43,260	46,880	58,110	69,540	256,280
72	Capital gains exclusion of small corporation stock	50	170	290	300	470	820	850	2,730
73	Step-up basis of capital gains at death	39,520	50,940	61,480	66,090	71,040	76,370	82,100	357,080
74	Carryover basis of capital gains on gifts	1,400	4,790	1,990	2,660	2,850	3,070	3,290	13,860
75	Ordinary income treatment of loss from small business corporation stock sale	60	60	60	60	60	60	60	300
76	Accelerated depreciation of buildings other than rental housing (normal tax method)	–11,130	–13,010	–13,750	–14,380	–14,970	–15,530	–15,840	–74,470
77	Accelerated depreciation of machinery and equipment (normal tax method)	39,790	17,540	24,450	44,290	58,250	68,740	73,950	269,680
78	Expensing of certain small investments (normal tax method)	950	6,710	–710	–2,820	–840	150	930	–3,290
79	Graduated corporation income tax rate (normal tax method)	3,000	3,280	3,220	3,300	3,590	3,770	3,960	17,840
80	Exclusion of interest on small issue bonds	330	340	400	470	510	530	560	2,470
81	Deduction for US production activities	13,140	13,800	14,630	15,510	16,410	17,290	18,160	82,000
82	Special rules for certain film and TV production	50	30	30	10	0	0	0	40
Transportation:									
83	Deferral of tax on shipping companies	20	20	20	20	20	20	20	100
84	Exclusion of reimbursed employee parking expenses	2,970	3,050	3,180	3,320	3,470	3,620	3,760	17,350
85	Exclusion for employer-provided transit passes	580	510	520	560	590	640	680	2,990
86	Tax credit for certain expenditures for maintaining railroad tracks	50	30	30	10	0	0	0	40
87	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	240	250	240	230	210	200	190	1,070
Community and regional development:									
88	Investment credit for rehabilitation of structures (other than historic)	20	20	20	20	20	20	20	100
89	Exclusion of interest for airport, dock, and similar bonds	840	870	1,020	1,210	1,310	1,380	1,450	6,370
90	Exemption of certain mutuals' and cooperatives' income	110	110	110	120	120	120	130	600
91	Empowerment zones and renewal communities	730	500	570	620	630	600	520	2,940
92	New markets tax credit	720	800	810	780	740	660	540	3,530
93	Expensing of environmental remediation costs	10	–130	–140	–140	–130	–120	–110	–640

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16
94	Credit to holders of Gulf Tax Credit Bonds.	80	80	70	50	50	50	50	270
95	Recovery Zone Bonds [6]								
96	Tribal Economic Development Bonds	10	30	30	30	20	20	10	110
Education, training, employment, and social services:									
	Education:								
97	Exclusion of scholarship and fellowship income (normal tax method)	2,760	3,010	3,130	3,240	3,360	3,480	3,610	16,820
98	HOPE tax credit	0	540	5,410	5,510	5,830	5,770	5,760	28,280
99	Lifetime Learning tax credit	3,490	3,880	5,530	5,660	5,790	5,800	5,840	28,620
100	American Opportunity Tax Credit	15,110	14,400	0	0	0	0	0	0
101	Education Individual Retirement Accounts	60	70	80	80	90	100	100	450
102	Deductibility of student-loan interest	1,480	1,400	900	960	1,030	1,100	1,170	5,160
103	Deduction for higher education expenses	760	0	0	0	0	0	0	0
104	State prepaid tuition plans	1,390	1,580	1,750	1,860	1,950	2,050	2,150	9,760
105	Exclusion of interest on student-loan bonds	550	560	660	790	860	890	940	4,140
106	Exclusion of interest on bonds for private nonprofit educational facilities	2,340	2,400	2,840	3,360	3,660	3,830	4,020	17,710
107	Credit for holders of zone academy bonds [7]	190	200	200	180	160	130	120	790
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	20	20	20	20	20	30	30	120
109	Parental personal exemption for students age 19 or over	2,960	2,990	3,400	3,210	2,950	2,690	2,440	14,690
110	Deductibility of charitable contributions (education)	3,930	4,520	4,900	5,290	5,660	6,040	6,410	28,300
111	Exclusion of employer-provided educational assistance	680	30	0	0	0	0	0	0
112	Special deduction for teacher expenses	160	0	0	0	0	0	0	0
113	Discharge of student loan indebtedness	20	20	20	20	20	20	20	100
114	Qualified school construction bonds [8]	80	210	400	580	650	650	650	2,930
	Training, employment, and social services:								
115	Work opportunity tax credit	1,110	1,020	680	340	160	70	30	1,280
116	Welfare-to-work tax credit	20	10	0	0	0	0	0	0
117	Employer provided child care exclusion	1,220	1,380	1,450	1,570	1,690	1,800	1,900	8,410
118	Employer-provided child care credit	10	0	0	0	0	0	0	0
119	Assistance for adopted foster children	460	500	530	560	600	650	690	3,030
120	Adoption credit and exclusion [9]	660	160	190	110	100	100	90	590
121	Exclusion of employee meals and lodging (other than military)	1,060	1,110	1,170	1,230	1,300	1,370	1,440	6,510
122	Child credit [10]	23,030	18,330	10,580	10,290	9,900	9,430	9,000	49,200
123	Credit for child and dependent care expenses	3,470	1,900	1,710	1,660	1,590	1,500	1,440	7,900
124	Credit for disabled access expenditures	20	20	20	20	20	20	20	100
125	Deductibility of charitable contributions, other than education and health	34,080	39,610	43,110	46,570	49,790	53,120	56,340	248,930
126	Exclusion of certain foster care payments	420	410	410	400	410	400	390	2,010
127	Exclusion of parsonage allowances	660	700	750	800	860	920	980	4,310
128	Employee retention credit for employers in certain federal disaster areas	70	30	10	0	0	0	0	10
129	Exclusion for benefits provided to volunteer EMS and firefighters	70	20	0	0	0	0	0	0
130	Making work pay tax credit [11]	38,850	23,460	0	0	0	0	0	0
Health:									
131	Exclusion of employer contributions for medical insurance premiums and medical care [12]	160,110	173,750	184,460	196,220	211,470	230,080	248,980	1,071,210
132	Self-employed medical insurance premiums [13]	5,680	6,210	6,690	7,200	7,740	8,310	8,900	38,840
133	Medical Savings Accounts / Health Savings Accounts	1,790	1,880	1,980	2,070	2,210	2,350	2,510	11,120
134	Deductibility of medical expenses	9,090	10,030	10,010	9,930	11,240	13,390	15,450	60,020
135	Exclusion of interest on hospital construction bonds	3,530	3,630	4,290	5,080	5,520	5,790	6,080	26,760
136	Refundable Premium Assistance Tax Credit [14]	0	0	0	0	0	–1,010	–1,530	–2,540
137	Credit for employee health insurance expenses of small business [15]	2,300	2,420	3,440	3,810	4,460	4,740	4,190	20,640
138	Deductibility of charitable contributions (health)	3,850	4,470	4,870	5,250	5,630	6,000	6,360	28,110
139	Tax credit for orphan drug research	470	550	650	770	900	1,060	1,250	4,630
140	Special Blue Cross/Blue Shield deduction	750	715	680	590	530	610	710	3,120
141	Tax credit for health insurance purchased by certain displaced and retired individuals [16]	0	0	0	0	0	0	0	0
142	Distributions from retirement plans for premiums for health and long-term care insurance	260	300	330	360	400	440	490	2,020

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

	Total from corporations and individuals							
	2010	2011	2012	2013	2014	2015	2016	2012-16
Income security:								
143 Exclusion of railroad retirement system benefits	350	330	310	280	270	260	260	1,380
144 Exclusion of workers' compensation benefits	6,770	7,050	7,410	7,790	8,170	8,570	9,000	40,940
145 Exclusion of public assistance benefits (normal tax method)	640	670	710	750	770	800	830	3,860
146 Exclusion of special benefits for disabled coal miners	40	40	40	40	40	40	40	200
147 Exclusion of military disability pensions	110	110	110	110	110	110	110	550
Net exclusion of pension contributions and earnings:								
148 Employer plans	39,580	42,200	45,230	46,460	49,460	51,620	53,200	245,970
149 401(k) plans	52,240	62,850	67,590	69,060	71,520	72,880	75,210	356,260
150 Individual Retirement Accounts	12,630	13,930	15,610	16,020	16,220	16,320	16,320	80,490
151 Low and moderate income savers credit	1,130	1,370	1,320	1,320	1,290	1,270	1,290	6,490
152 Keogh plans	13,820	15,030	17,070	19,580	20,940	22,450	23,840	103,880
Exclusion of other employee benefits:								
153 Premiums on group term life insurance	1,950	1,980	2,080	2,120	2,150	2,190	2,250	10,790
154 Premiums on accident and disability insurance	330	340	350	360	360	370	370	1,810
155 Income of trusts to finance supplementary unemployment benefits	20	30	40	50	60	70	80	300
156 Special ESOP rules	1,400	1,500	1,600	1,700	1,700	1,800	1,900	8,700
157 Additional deduction for the blind	30	40	40	50	50	50	50	240
158 Additional deduction for the elderly	1,890	2,480	2,980	3,170	3,400	3,560	3,590	16,700
159 Tax credit for the elderly and disabled	10	10	10	10	10	0	0	30
160 Deductibility of casualty losses	260	300	320	330	360	380	410	1,800
161 Earned income tax credit [17]	4,910	7,510	8,500	8,730	9,020	9,260	9,550	45,060
162 Exclusion of unemployment insurance benefits	5,220	0	0	0	0	0	0	0
Social Security:								
Exclusion of social security benefits:								
163 Social Security benefits for retired workers	21,440	20,300	21,830	23,350	25,070	27,780	31,010	129,040
164 Social Security benefits for disabled workers	7,040	7,180	7,510	7,840	8,150	8,610	9,130	41,240
165 Social Security benefits for spouses, dependents and survivors	3,850	3,160	3,270	3,300	3,320	3,580	3,920	17,390
Veterans benefits and services:								
166 Exclusion of veterans death benefits and disability compensation	4,130	4,510	5,010	5,520	6,110	6,750	7,460	30,850
167 Exclusion of veterans pensions	210	240	300	330	360	380	400	1,770
168 Exclusion of GI bill benefits	450	810	1,010	1,200	1,330	1,440	1,560	6,540
169 Exclusion of interest on veterans housing bonds	20	10	20	30	30	30	30	140
General purpose fiscal assistance:								
170 Exclusion of interest on public purpose State and local bonds	30,440	31,260	36,960	43,720	47,570	49,840	52,350	230,440
171 Build America Bonds [18]	0	0	0	0	0	0	0	0
172 Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	26,890	37,720	48,640	54,030	59,080	63,470	67,070	292,290
Interest:								
173 Deferral of interest on U.S. savings bonds	1,180	1,220	1,300	1,320	1,330	1,340	1,360	6,650
Addendum: Aid to State and local governments:								
Deductibility of:								
Property taxes on owner-occupied homes	15,120	19,320	24,910	27,000	28,760	30,250	31,370	142,290
Nonbusiness State and local taxes other than on owner-occupied homes	26,890	37,720	48,640	54,030	59,080	63,470	67,070	292,290
Exclusion of interest on State and local bonds for:								
Public purposes	30,440	31,260	36,960	43,720	47,570	49,840	52,350	230,440
Energy facilities	20	30	30	30	30	40	40	170
Water, sewage, and hazardous waste disposal facilities	460	460	550	650	710	750	790	3,450
Small-issues	330	340	400	470	510	530	560	2,470
Owner-occupied mortgage subsidies	1,230	1,260	1,490	1,760	1,920	2,010	2,120	9,300
Rental housing	1,050	1,080	1,270	1,500	1,640	1,710	1,800	7,920
Airports, docks, and similar facilities	840	870	1,020	1,210	1,310	1,380	1,450	6,370
Student loans	550	560	660	790	860	890	940	4,140

Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

	Total from corporations and individuals							
	2010	2011	2012	2013	2014	2015	2016	2012-16
Private nonprofit educational facilities	2,340	2,400	2,840	3,360	3,660	3,830	4,020	17,710
Hospital construction	3,530	3,630	4,290	5,080	5,520	5,790	6,080	26,760
Veterans' housing	20	10	20	30	30	30	30	140
GO Zone and GO Zone mortgage	90	90	100	120	130	140	140	690
Credit for holders of zone academy bonds	190	200	200	180	160	130	120	790

[1] Firms can tax an energy grant in lieu of the energy production credit or the energy investment credit for facilities placed in service in 2009 and 2010 or whose construction commenced in 2009 and 2010.

The effect of the grant on outlays (in millions of dollars) is as follows: 2010 $4,210; 2011 $4,260; 2012 $3,350; 2013 $2,850; 2014 $2,140; 2015 $1,520; 2016 $620.

[2] In addition, the alcohol fuel credit results in a reduction in excise tax receipts (in millions of dollars) as follows:
2010 $5680; 2011 $2990; 2012 $0; 2013 $0; 2014 $0; 2015 $0; 2016 $0.

[3] In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2010 $490 ; 2011 $0; 2012 $0; 2013 $0; 2014 $0; 2015 $0; 2016 $0.

[4] In addition, the provision has outlay effects of (in millions of dollars):
2010 $10 ; 2011 $20; 2012 $30; 2013 $30; 2014 $30; 2015 $30; 2016 $30.

[5] In addition, the provision has outlay effects of (in millions of dollars):
2010 $30 ; 2011 $50; 2012 $60; 2013 $60; 2014 $60; 2015 $60; 2016 $60.

[6] In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows:
2010 $60, 2011 $120, 2012 $130, 2013 $130, 2014 $130, 2015 $130, 2016 $130.

[7] In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars):
2010 $10 ; 2011 $20; 2012 $30; 2013 $30; 2014 $30; 2015 $30; 2016 $30.

[8] In addition, the provision has outlay effects of (in millions of dollars):
2010 $460 ; 2011 $850; 2012 $1020; 2013 $1020; 2014 $1020; 2015 $1020; 2016 $1020.

[9] The figures in the table indicate the effect of the adoption tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $940 and 2011 $410.

[10] The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $24,470; 2011 $24,170; 2012 $1,470; 2013 $1,460; 2014 $1,440; 2015 $1,440; and 2016 $,1420.

[11] The figures in the table indicate the effect of the making work pay tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:
2010 $21,410 and 2011 $20,490.

[12] The figures in the table indicate the effect on income taxes of the employer contributions for health. In addition, the effect on payroll tax receipts (in millions of dollars) is as follows: 2010 $103,980; 2011 $107,770; 2012 $113,050; 2013 $118,250; 2014 $124,860; 2015 $133,130; and 2016 $141,330.

[13] In 2010 only, there is an additional exclusion of self-employed insurance premiums from payroll taxes. The effect on payroll tax receipts FY 2010 (in millions of dollars) is $1,570.

[14] In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 $16,010; 2015 $32,900; and 2016 $43,840.

[15] In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2011 $180; 2012 $260; 2013 $290; 2014 $340; 2015 $360; and 2016 $320.

[16] The figures in the table indicate the effect of the health coverage tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $200; 2011 $150; 2012 $130; 2013 $130; 2014 $140; 2015 $150; and 2016 $150.

[17] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $54,740; 2011 $54,960; 2012 $43,980; 2013 $43,860; 2014 $44,130; 2015 $44,380; and 2016 $44,910.

[18] In addition, Build America Bonds have outlay effects of (in millions of dollars): 2010 $1,850; 2011 $2,590; 2012 $2,860; 2013 $2,760; 2014 $2,650; 2015 $2,550, and 2016 $2,450.

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

All estimates have been rounded to the nearest $10 million. Provisions with estimates that rounded to zero in each year are not included in the table.

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016

(In millions of dollars)

	Corporations								Individuals							
	2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
National Defense																
1 Exclusion of benefits and allowances to armed forces personnel									12,740	13,290	13,710	12,200	12,680	13,190	13,720	65,500
International affairs:																
2 Exclusion of income earned abroad by U.S. citizens									6,800	5,550	5,400	5,800	6,140	6,430	6,730	30,500
3 Exclusion of certain allowances for Federal employees abroad									970	1020	1070	1120	1180	1240	1300	5,910
4 Inventory property sales source rules exception	2,680	2,910	3,160	3,430	3,730	4,050	4,400	18,770								
5 Deferral of income from controlled foreign corporations (normal tax method)	38,130	41,410	42,000	41,810	41,770	43,020	44,240	212,840								
6 Deferred taxes for financial firms on certain income earned overseas	2,330	0	0	0	0	0	0	0								
General science, space, and technology:																
7 Expensing of research and experimentation expenditures (normal tax method)	3220	4250	5390	6330	6550	7310	7380	32,960	340	360	380	400	420	450	470	2,120
8 Credit for increasing research activities	5770	3850	3080	2460	1960	1570	1250	10,320	120	0	0	0	0	0	0	0
Energy:																
9 Expensing of exploration and development costs, fuels	350	460	610	470	350	300	280	2,010	50	60	90	70	50	40	40	290
10 Excess of percentage over cost depletion, fuels	830	910	950	970	990	1,000	1,020	4,930	150	160	170	180	180	180	180	890
11 Alternative fuel production credit	160	160	110	80	60	20	0	270	10	10	10	10	0	0	0	20
12 Exception from passive loss limitation for working interests in oil and gas properties									30	40	30	30	30	30	30	150
13 Capital gains treatment of royalties on coal									50	50	50	60	60	80	90	340
14 Exclusion of interest on energy facility bonds	10	10	10	10	10	10	10	50	10	20	20	20	20	30	30	120
15 Energy production credit [1]	1,370	1,430	1,510	1,620	1,640	1,580	1,460	7,810	170	190	230	280	310	310	310	1,440
16 Energy investment credit [1]	100	120	720	1260	790	390	400	3,560	30	50	240	430	240	90	90	1,090
17 Alcohol fuel credits [2]	60	70	110	80	40	20	10	260	10	20	20	30	10	10	0	70
18 Bio-Diesel and small agri-biodiesel producer tax credits [3]	20	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0
19 Tax credit and deduction for clean-fuel burning vehicles	70	40	20	10	20	50	70	170	180	220	120	160	210	340	590	1,420
20 Exclusion of utility conservation subsidies	10	10	10	10	10	10	10	50	210	210	210	210	200	200	200	1,020
21 Credit for holding clean renewable energy bonds [4]	20	20	20	20	20	20	20	100	50	50	50	50	50	50	50	250
22 Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–50	–150	–150	–130	–110	–80	–50	–520								
23 Credit for investment in clean coal facilities	240	400	460	450	360	300	200	1,770								
24 Temporary 50% expensing for equipment used in the refining of liquid fuels	760	620	520	420	–580	–1110	–950	–1,700								
25 Natural gas distribution pipelines treated as 15-year property	120	120	100	80	80	80	90	430								
26 Amortize all geological and geophysical expenditures over 2 years	120	90	70	50	30	20	20	190	30	20	20	10	10	10	10	60
27 Allowance of deduction for certain energy efficient commercial building property	50	60	70	80	50	20	10	230	10	20	20	20	20	10	0	70
28 Credit for construction of new energy efficient homes	10	10	10	0	0	0	0	10	10	10	10	0	0	0	0	10
29 Credit for energy efficiency improvements to existing homes	0	0	0	0	0	0	0	0	3,190	5,530	2,270	0	0	0	0	2,270
30 Credit for energy efficient appliances	150	60	0	0	0	0	0	0								
31 Credit for residential energy efficient property									220	220	220	230	230	230	240	1,150
32 Qualified energy conservation bonds [5]	0	0	10	10	10	10	10	50	0	10	10	20	20	20	20	90
33 Advanced Energy Property Credit	160	540	810	410	–10	–80	–70	1,060	20	60	90	50	0	–10	–10	120

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Corporations								Individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
	Natural resources and environment:																
34	Expensing of exploration and development costs, nonfuel minerals	110	110	120	130	130	140	140	660	0	0	10	10	10	10	10	50
35	Excess of percentage over cost depletion, nonfuel minerals	720	740	720	690	700	720	730	3,560	50	50	50	50	50	50	50	250
36	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	150	130	180	220	230	230	240	1,100	310	330	370	430	480	520	550	2,350
37	Capital gains treatment of certain timber income									50	50	50	60	60	80	90	340
38	Expensing of multiperiod timber growing costs	150	180	180	190	200	210	190	970	80	110	110	110	110	120	120	570
39	Tax incentives for preservation of historic structures	300	300	310	310	320	330	330	1,600	90	90	90	100	100	100	100	490
40	Exclusion of gain or loss on sale or exchange of certain brownfield sites	50	40	30	20	10	0	0	60	20	20	10	10	0	0	0	20
41	Industrial CO2 capture and sequestration tax credit	20	30	30	40	80	130	170	450								
42	Deduction for endangered species recovery expenditures	10	20	20	20	30	30	40	140	10	10	10	10	20	20	20	80
	Agriculture:																
43	Expensing of certain capital outlays	0	10	10	10	10	10	10	50	70	70	90	100	120	120	130	560
44	Expensing of certain multiperiod production costs	10	10	10	10	10	10	10	50	130	140	140	160	170	170	170	810
45	Treatment of loans forgiven for solvent farmers									20	20	20	20	20	20	20	100
46	Capital gains treatment of certain income									490	500	520	580	630	780	930	3,440
47	Income averaging for farmers									90	90	90	90	90	100	100	470
48	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100								
49	Expensing of reforestation expenditures	10	10	10	10	10	10	10	50	40	60	70	70	70	80	80	370
	Commerce and housing:																
	Financial institutions and insurance:																
50	Exemption of credit union income	1,270	1,240	1,310	1,470	1,600	1,710	1,830	7,920								
51	Exclusion of interest on life insurance savings	1,500	1,570	1,650	1,740	1,840	1,940	2,050	9,220	18,410	19,640	21,010	22,480	23,990	25,440	26,920	119,840
52	Special alternative tax on small property and casualty insurance companies	40	40	40	40	40	40	40	200								
53	Tax exemption of certain insurance companies owned by tax-exempt organizations	200	200	210	210	210	220	220	1,070								
54	Small life insurance company deduction	30	30	30	30	30	30	30	150								
55	Exclusion of interest spread of financial institutions									–170	300	550	630	700	760	810	3,450
	Housing:																
56	Exclusion of interest on owner-occupied mortgage subsidy bonds	400	360	480	600	620	610	640	2,950	830	900	1,010	1,160	1,300	1,400	1,480	6,350
57	Exclusion of interest on rental housing bonds	340	310	410	510	530	520	540	2,510	710	770	860	990	1,110	1,190	1,260	5,410
58	Deductibility of mortgage interest on owner-occupied homes									79,150	88,720	98,550	110,660	122,970	133,300	143,700	609,180
59	Deductibility of State and local property tax on owner-occupied homes									15,120	19,320	24,910	27,000	28,760	30,250	31,370	142,290
60	Deferral of income from installment sales									620	730	830	1,020	1,230	1,420	1,600	6,100
61	Capital gains exclusion on home sales									22,160	27,650	35,200	38,880	42,940	47,420	52,380	216,820
62	Exclusion of net imputed rental income									41,200	46,950	50,640	51,080	58,740	66,860	75,480	302,800
63	Exception from passive loss rules for $25,000 of rental loss									8,790	10,860	13,110	14,830	16,730	18,880	20,200	83,750
64	Credit for low-income housing investments	5,370	5,690	5,980	6,770	7,060	7,200	7,260	34,270	280	300	310	360	370	380	380	1,800
65	Accelerated depreciation on rental housing (normal tax method)	–30	–30	–30	–30	–20	–20	–10	–110	–1,460	–1,640	–1,550	–1,340	–1,080	–870	–690	–5,530

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Corporations								Individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
66	Discharge of mortgage indebtedness	0	0	0	0	0	0	0	0	1,480	1,390	1,100	250	0	0	0	1,350
67	Credit for homebuyer									13,680	10,410	–2,160	–1,450	–590	–520	–470	–5,190
	Commerce:																
68	Cancellation of indebtedness									750	430	130	–70	–180	–250	–230	–600
69	Exceptions from imputed interest rules									50	50	50	50	50	50	50	250
70	Treatment of qualified dividends									31,050	23,600	0	0	0	0	0	0
71	Capital gains (except agriculture, timber, iron ore, and coal)									36,300	37,560	38,490	43,260	46,880	58,110	69,540	256,280
72	Capital gains exclusion of small corporation stock									50	170	290	300	470	820	850	2,730
73	Step-up basis of capital gains at death									39,520	50,940	61,480	66,090	71,040	76,370	82,100	357,080
74	Carryover basis of capital gains on gifts									1,400	4,790	1,990	2,660	2,850	3,070	3,290	13,860
75	Ordinary income treatment of loss from small business corporation stock sale									60	60	60	60	60	60	60	300
76	Accelerated depreciation of buildings other than rental housing (normal tax method)	–2,440	–2,950	–2,980	–3,150	–3,300	–3,450	–3,310	–16,190	–8,690	–10,060	–10,770	–11,230	–11,670	–12,080	–12,530	–58,280
77	Accelerated depreciation of machinery and equipment (normal tax method)	17,140	5,400	5,300	15,730	24,470	30,950	32,990	109,440	22,650	12,140	19,150	28,560	33,780	37,790	40,960	160,240
78	Expensing of certain small investments (normal tax method)	170	960	–270	–620	–300	–130	10	–1,310	780	5,750	–440	–2,200	–540	280	920	–1,980
79	Graduated corporation income tax rate (normal tax method)	3,000	3,280	3,220	3,300	3,590	3,770	3,960	17,840								
80	Exclusion of interest on small issue bonds	110	100	130	160	160	160	170	780	220	240	270	310	350	370	390	1,690
81	Deduction for US production activities	10010	10510	11140	11810	12500	13170	13830	62,450	3,130	3,290	3,490	3,700	3,910	4,120	4,330	19,550
82	Special rules for certain film and TV production	40	20	20	10	0	0	0	30	10	10	10	0	0	0	0	10
	Transportation:																
83	Deferral of tax on shipping companies	20	20	20	20	20	20	20	100	0	0	0	0	0	0	0	0
84	Exclusion of reimbursed employee parking expenses	0	0	0	0	0	0	0	0	2,970	3,050	3,180	3,320	3,470	3,620	3,760	17,350
85	Exclusion for employer-provided transit passes	0	0	0	0	0	0	0	0	580	510	520	560	590	640	680	2,990
86	Tax credit for certain expenditures for maintaining railroad tracks	40	20	20	10	0	0	0	30	10	10	10	0	0	0	0	10
87	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	60	60	60	60	50	50	50	270	180	190	180	170	160	150	140	800
	Community and regional development:																
88	Investment credit for rehabilitation of structures (other than historic)	10	10	10	10	10	10	10	50	10	10	10	10	10	10	10	50
89	Exclusion of interest for airport, dock, and similar bonds	270	250	330	410	420	420	440	2,020	570	620	690	800	890	960	1,010	4,350
90	Exemption of certain mutuals' and cooperatives' income	110	110	110	120	120	120	130	600								
91	Empowerment zones and renewal communities	150	100	120	130	130	120	100	600	580	400	450	490	500	480	420	2,340
92	New markets tax credit	650	720	730	700	660	590	480	3,160	70	80	80	80	80	70	60	370
93	Expensing of environmental remediation costs	10	–110	–120	–120	–110	–100	–90	–540	0	–20	–20	–20	–20	–20	–20	–100
94	Credit to holders of Gulf Tax Credit Bonds.	20	20	20	10	10	10	10	60	60	60	50	40	40	40	40	210
95	Recovery Zone Bonds [6]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
96	Tribal Economic Development Bonds	0	10	10	10	10	10	0	40	10	20	20	20	10	10	10	70
	Education, training, employment, and social services:																
	Education:																
97	Exclusion of scholarship and fellowship income (normal tax method)									2,760	3,010	3,130	3,240	3,360	3,480	3,610	16,820
98	HOPE tax credit									0	540	5,410	5,510	5,830	5,770	5,760	28,280
99	Lifetime Learning tax credit									3,490	3,880	5,530	5,660	5,790	5,800	5,840	28,620
100	American Opportunity Tax Credit									15,110	14,400	0	0	0	0	0	0

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Corporations								Individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
101	Education Individual Retirement Accounts ..									60	70	80	80	90	100	100	450
102	Deductibility of student-loan interest									1,480	1,400	900	960	1,030	1,100	1,170	5,160
103	Deduction for higher education expenses									760	0	0	0	0	0	0	0
104	State prepaid tuition plans									1,390	1,580	1,750	1,860	1,950	2,050	2,150	9,760
105	Exclusion of interest on student-loan bonds ..	180	160	210	270	280	270	280	1,310	370	400	450	520	580	620	660	2,830
106	Exclusion of interest on bonds for private nonprofit educational facilities	760	690	910	1,150	1,180	1,170	1,210	5,620	1580	1710	1930	2210	2480	2660	2810	12,090
107	Credit for holders of zone academy bonds [7] ...	190	200	200	180	160	130	120	790								
108	Exclusion of interest on savings bonds redeemed to finance educational expenses									20	20	20	20	20	30	30	120
109	Parental personal exemption for students age 19 or over									2,960	2,990	3,400	3,210	2,950	2,690	2,440	14,690
110	Deductibility of charitable contributions (education)	620	650	690	740	790	840	890	3,950	3,310	3,870	4,210	4,550	4,870	5,200	5,520	24,350
111	Exclusion of employer-provided educational assistance									680	30	0	0	0	0	0	0
112	Special deduction for teacher expenses									160	0	0	0	0	0	0	0
113	Discharge of student loan indebtedness									20	20	20	20	20	20	20	100
114	Qualified school construction bonds [8]	30	60	110	150	160	160	160	740	50	150	290	430	490	490	490	2,190
	Training, employment, and social services:																
115	Work opportunity tax credit	860	770	550	290	130	60	20	1,050	250	250	130	50	30	10	10	230
116	Welfare-to-work tax credit	10	10	0	0	0	0	0	0	10	0	0	0	0	0	0	0
117	Employer provided child care exclusion ...									1220	1380	1450	1570	1690	1800	1900	8,410
118	Employer-provided child care credit	10	0	0	0	0	0	0	0								0
119	Assistance for adopted foster children									460	500	530	560	600	650	690	3,030
120	Adoption credit and exclusion [9]									660	160	190	110	100	100	90	590
121	Exclusion of employee meals and lodging (other than military)									1,060	1,110	1,170	1,230	1,300	1,370	1,440	6,510
122	Child credit [10]									23,030	18,330	10,580	10,290	9,900	9,430	9,000	49,200
123	Credit for child and dependent care expenses									3,470	1,900	1,710	1,660	1,590	1,500	1,440	7,900
124	Credit for disabled access expenditures	10	10	10	10	10	10	10	50	10	10	10	10	10	10	10	50
125	Deductibility of charitable contributions, other than education and health	1,370	1,430	1,510	1,600	1,690	1,770	1860	8,430	32,710	38,180	41,600	44,970	48,100	51,350	54,480	240,500
126	Exclusion of certain foster care payments									420	410	410	400	410	400	390	2,010
127	Exclusion of parsonage allowances									660	700	750	800	860	920	980	4,310
128	Employee retention credit for employers in certain federal disaster areas	50	20	10	0	0	0	0	10	20	10	0	0	0	0	0	0
129	Exclusion for benefits provided to volunteer EMS and firefighters	0	0	0	0	0	0	0	0	70	20	0	0	0	0	0	0
130	Making work pay tax credit [11]									38,850	23,460	0	0	0	0	0	0
Health:																	
131	Exclusion of employer contributions for medical insurance premiums and medical care [12]									160,110	173,750	184,460	196,220	211,470	230,080	248,980	1,071,210
132	Self-employed medical insurance premiums [13] ...									5,680	6,210	6,690	7,200	7,740	8,310	8,900	38,840
133	Medical Savings Accounts / Health Savings Accounts									1,790	1,880	1,980	2,070	2,210	2,350	2,510	11,120
134	Deductibility of medical expenses									9,090	10,030	10,010	9,930	11,240	13,390	15,450	60,020
135	Exclusion of interest on hospital construction bonds	1,140	1,040	1,380	1,730	1,780	1,770	1,830	8,490	2,390	2,590	2,910	3,350	3,740	4,020	4,250	18,270
136	Refundable Premium Assistance Tax Credit [14] ...									0	0	0	0	0	–1,010	–1,530	–2,540
137	Credit for employee health insurance expenses of small business [15]									2,300	2,420	3,440	3,810	4,460	4,740	4,190	20,640
138	Deductibility of charitable contributions (health)	180	190	200	210	230	240	250	1,130	3,670	4,280	4,670	5,040	5,400	5,760	6,110	26,980
139	Tax credit for orphan drug research	470	550	650	770	900	1,060	1,250	4,630								
140	Special Blue Cross/Blue Shield deduction ...	750	715	680	590	530	610	710	3,120								
141	Tax credit for health insurance purchased by certain displaced and retired individuals [16]									0	0	0	0	0	0	0	0

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

		Corporations								Individuals							
		2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
142	Distributions from retirement plans for premiums for health and long-term care insurance									260	300	330	360	400	440	490	2,020
	Income security:																
143	Exclusion of railroad retirement system benefits									350	330	310	280	270	260	260	1,380
144	Exclusion of workers' compensation benefits									6,770	7,050	7,410	7,790	8,170	8,570	9,000	40,940
145	Exclusion of public assistance benefits (normal tax method)									640	670	710	750	770	800	830	3,860
146	Exclusion of special benefits for disabled coal miners									40	40	40	40	40	40	40	200
147	Exclusion of military disability pensions									110	110	110	110	110	110	110	550
	Net exclusion of pension contributions and earnings:																
148	Employer plans									39,580	42,200	45,230	46,460	49,460	51,620	53,200	245,970
149	401(k) plans									52,240	62,850	67,590	69,060	71,520	72,880	75,210	356,260
150	Individual Retirement Accounts									12,630	13,930	15,610	16,020	16,220	16,320	16,320	80,490
151	Low and moderate income savers credit									1,130	1,370	1,320	1,320	1,290	1,270	1,290	6,490
152	Keogh plans									13,820	15,030	17,070	19,580	20,940	22,450	23,840	103,880
	Exclusion of other employee benefits:																
153	Premiums on group term life insurance									1,950	1,980	2,080	2,120	2,150	2,190	2,250	10,790
154	Premiums on accident and disability insurance									330	340	350	360	360	370	370	1,810
155	Income of trusts to finance supplementary unemployment benefits									20	30	40	50	60	70	80	300
156	Special ESOP rules	950	1,030	1,110	1,180	1,150	1,220	1,290	5,950	450	470	490	520	550	580	610	2,750
157	Additional deduction for the blind									30	40	40	50	50	50	50	240
158	Additional deduction for the elderly									1,890	2,480	2,980	3,170	3,400	3,560	3,590	16,700
159	Tax credit for the elderly and disabled									10	10	10	10	10	0	0	30
160	Deductibility of casualty losses									260	300	320	330	360	380	410	1,800
161	Earned income tax credit [17]									4,910	7,510	8,500	8,730	9,020	9,260	9,550	45,060
162	Exclusion of unemployment insurance benefits									5,220	0	0	0	0	0	0	0
	Social Security:																
	Exclusion of social security benefits:																
163	Social Security benefits for retired workers									21,440	20,300	21,830	23,350	25,070	27,780	31,010	129,040
164	Social Security benefits for disabled workers									7,040	7,180	7,510	7,840	8,150	8,610	9,130	41,240
165	Social Security benefits for spouses, dependents and survivors									3,850	3,160	3,270	3,300	3,320	3,580	3,920	17,390
	Veterans benefits and services:																
166	Exclusion of veterans death benefits and disability compensation									4,130	4,510	5,010	5,520	6,110	6,750	7,460	30,850
167	Exclusion of veterans pensions									210	240	300	330	360	380	400	1,770
168	Exclusion of GI bill benefits									450	810	1,010	1,200	1,330	1,440	1,560	6,540
169	Exclusion of interest on veterans housing bonds	10	0	10	10	10	10	10	50	10	10	10	20	20	20	20	90
	General purpose fiscal assistance:																
170	Exclusion of interest on public purpose State and local bonds	9,850	8,990	11,880	14,910	15,340	15,210	15,780	73,120	20,590	22,270	25,080	28,810	32,230	34,630	36,570	157,320
171	Build America Bonds [18]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
172	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes									26,890	37,720	48,640	54,030	59,080	63,470	67,070	292,290
	Interest:																
173	Deferral of interest on U.S. savings bonds									1,180	1,220	1,300	1,320	1,330	1,340	1,360	6,650

Table 17–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2010-2016—Continued

(In millions of dollars)

	Corporations								Individuals							
	2010	2011	2012	2013	2014	2015	2016	2012-16	2010	2011	2012	2013	2014	2015	2016	2012-16
Addendum: Aid to State and local governments:																
Deductibility of:																
Property taxes on owner-occupied homes									15,120	19,320	24,910	27,000	28,760	30,250	31,370	142,290
Nonbusiness State and local taxes other than on owner-occupied homes									26,890	37,720	48,640	54,030	59,080	63,470	67,070	292,290
Exclusion of interest on State and local bonds for:																
Public purposes	9,850	8,990	11,880	14,910	15,340	15,210	15,780	73,120	20,590	22,270	25,080	28,810	32,230	34,630	36,570	157,320
Energy facilities	10	10	10	10	10	10	10	50	10	20	20	20	20	30	30	120
Water, sewage, and hazardous waste disposal facilities	150	130	180	220	230	230	240	1,100	310	330	370	430	480	520	550	2,350
Small-issues	110	100	130	160	160	160	170	780	220	240	270	310	350	370	390	1,690
Owner-occupied mortgage subsidies	400	360	480	600	620	610	640	2,950	830	900	1,010	1,160	1,300	1,400	1,480	6,350
Rental housing	340	310	410	510	530	520	540	2,510	710	770	860	990	1,110	1,190	1,260	5,410
Airports, docks, and similar facilities	270	250	330	410	420	420	440	2,020	570	620	690	800	890	960	1,010	4,350
Student loans	180	160	210	270	280	270	280	1,310	370	400	450	520	580	620	660	2,830
Private nonprofit educational facilities	760	690	910	1,150	1,180	1,170	1,210	5,620	1,580	1,710	1,930	2,210	2,480	2,660	2,810	12,090
Hospital construction	1,140	1,040	1,380	1,730	1,780	1,770	1,830	8,490	2,390	2,590	2,910	3,350	3,740	4,020	4,250	18,270
Veterans' housing	10	0	10	10	10	10	10	50	10	10	10	20	20	20	20	90
GO Zone and GO Zone mortgage	30	30	30	40	40	40	40	250	60	60	70	80	90	100	100	440
Credit for holders of zone academy bonds	190	200	200	180	160	130	120	790								

[1] Firms can tax an energy grant in lieu of the energy production credit or the energy investment credit for facilities placed in service in 2009 and 2010 or whose construction commenced in 2009 and 2010. The effect of the grant on outlays (in millions of dollars) is as follows: 2010 $4,210; 2011 $4,260; 2012 $3,350; 2013 $2,850; 2014 $2,140; 2015 $1,520; 2016 $620.

[2] In addition, the alcohol fuel credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2010 $5680; 2011 $2990; 2012 $0; 2013 $0; 2014 $0; 2015 $0; 2016 $0.

[3] In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2010 $490 ; 2011 $0; 2012 $0; 2013 $0; 2014 $0; 2015 $0; 2016 $0.

[4] In addition, the provision has outlay effects of (in millions of dollars): 2010 $10 ; 2011 $20; 2012 $30; 2013 $30; 2014 $30; 2015 $30; 2016 $30.

[5] In addition, the provision has outlay effects of (in millions of dollars): 2010 $30 ; 2011 $50; 2012 $60; 2013 $60; 2014 $60; 2015 $60; 2016 $60.

[6] In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2010 $60, 2011 $120, 2012 $130, 2013 $130, 2014 $130, 2015 $130, 2016 $130.

[7] In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2010 $10 ; 2011 $20; 2012 $30; 2013 $30; 2014 $30; 2015 $30; 2016 $30.

[8] In addition, the provision has outlay effects of (in millions of dollars): 2010 $460 ; 2011 $850; 2012 $1020; 2013 $1020; 2014 $1020; 2015 $1020; 2016 $1020.

[9] The figures in the table indicate the effect of the adoption tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $940 and 2011 $410.

[10] The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $24,470; 2011 $24,170; 2012 $1,470; 2013 $1,460; 2014 $1,440; 2015 $1,440; and 2016 $,1420.

[11] The figures in the table indicate the effect of the making work pay tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $21,410 and 2011 $20,490.

[12] The figures in the table indicate the effect on income taxes of the employer contributions for health. In addition, the effect on payroll tax receipts (in millions of dollars) is as follows: 2010 $103,980; 2011 $107,770; 2012 $113,050; 2013 $118,250; 2014 $124,860; 2015 $133,130; and 2016 $141,330.

[13] In 2010 only, there is an additional exclusion of self-employed insurance premiums from payroll taxes. The effect on payroll tax receipts FY 2010 (in millions of dollars) is $1,570.

[14] In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 $16,010; 2015 $32,900; and 2016 $43,840.

[15] In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2011 $180; 2012 $260; 2013 $290; 2014 $340; 2015 $360; and 2016 $320.

[16] The figures in the table indicate the effect of the health coverage tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $200; 2011 $150; 2012 $130; 2013 $130; 2014 $140; 2015 $150; and 2016 $150.

[17] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2010 $54,740; 2011 $54,960; 2012 $43,980; 2013 $43,860; 2014 $44,130; 2015 $44,380; and 2016 $44,910.

[18] In addition, Build America Bonds have outlay effects of (in millions of dollars): 2010 $1,850; 2011 $2,590; 2012 $2,860; 2013 $2,760; 2014 $2,650; 2015 $2,550, and 2016 $2,450.

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

All estimates have been rounded to the nearest $10 million. Provisions with estimates that rounded to zero in each year are not included in the table.

Table 17–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2012–2016 PROJECTED REVENUE EFFECT

(In millions of dollars)

	Provision	2012	2012-16
131	Exclusion of employer contributions for medical insurance premiums and medical care	184,460	1,071,210
58	Deductibility of mortgage interest on owner-occupied homes	98,550	609,180
73	Step-up basis of capital gains at death	61,480	357,080
149	401(k) plans	67,590	356,260
62	Exclusion of net imputed rental income	50,640	302,800
172	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	48,640	292,290
77	Accelerated depreciation of machinery and equipment (normal tax method)	24,450	269,680
71	Capital gains (except agriculture, timber, iron ore, and coal)	38,490	256,280
125	Deductibility of charitable contributions, other than education and health	43,110	248,930
148	Employer plans	45,230	245,970
170	Exclusion of interest on public purpose State and local bonds	36,960	230,440
61	Capital gains exclusion on home sales	35,200	216,820
5	Deferral of income from controlled foreign corporations (normal tax method)	42,000	212,840
59	Deductibility of State and local property tax on owner-occupied homes	24,910	142,290
51	Exclusion of interest on life insurance savings	22,660	129,060
163	Social Security benefits for retired workers	21,830	129,040
152	Keogh plans	17,070	103,880
63	Exception from passive loss rules for $25,000 of rental loss	13,110	83,750
81	Deduction for US production activities	14,630	82,000
150	Individual Retirement Accounts	15,610	80,490
1	Exclusion of benefits and allowances to armed forces personnel	13,710	65,500
134	Deductibility of medical expenses	10,010	60,020
122	Child credit	10,580	49,200
161	Earned income tax credit	8,500	45,060
164	Social Security benefits for disabled workers	7,510	41,240
144	Exclusion of workers' compensation benefits	7,410	40,940
132	Self-employed medical insurance premiums	6,690	38,840
64	Credit for low-income housing investments	6,290	36,070
7	Expensing of research and experimentation expenditures (normal tax method)	5,770	35,080
166	Exclusion of veterans death benefits and disability compensation	5,010	30,850
2	Exclusion of income earned abroad by U.S. citizens	5,400	30,500
99	Lifetime Learning tax credit	5,530	28,620
110	Deductibility of charitable contributions (education)	4,900	28,300
98	HOPE tax credit	5,410	28,280
138	Deductibility of charitable contributions (health)	4,870	28,110
135	Exclusion of interest on hospital construction bonds	4,290	26,760
137	Credit for employee health insurance expenses of small business.	3,440	20,640
4	Inventory property sales source rules exception	3,160	18,770
79	Graduated corporation income tax rate (normal tax method)	3,220	17,840
106	Exclusion of interest on bonds for private nonprofit educational facilities	2,840	17,710
165	Social Security benefits for spouses, dependents and survivors	3,270	17,390
84	Exclusion of reimbursed employee parking expenses	3,180	17,350
97	Exclusion of scholarship and fellowship income (normal tax method)	3,130	16,820
158	Additional deduction for the elderly	2,980	16,700
109	Parental personal exemption for students age 19 or over	3,400	14,690
74	Carryover basis of capital gains on gifts	1,990	13,860
133	Medical Savings Accounts / Health Savings Accounts	1,980	11,120
153	Premiums on group term life insurance	2,080	10,790
8	Credit for increasing research activities	3,080	10,320
104	State prepaid tuition plans	1,750	9,760
56	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,490	9,300
15	New technology credit	1,740	9,250
156	Special ESOP rules	1,600	8,700
117	Employer provided child care exclusion	1,450	8,410
50	Exemption of credit union income	1,310	7,920
57	Exclusion of interest on rental housing bonds	1,270	7,920

Table 17–3.—INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2012–2016 PROJECTED REVENUE EFFECT—Continued

(In millions of dollars)

	Provision	2012	2012-16
123	Credit for child and dependent care expenses	1,710	7,900
173	Deferral of interest on U.S. savings bonds	1,300	6,650
168	Exclusion of GI bill benefits	1,010	6,540
121	Exclusion of employee meals and lodging (other than military)	1,170	6,510
151	Low and moderate income savers credit	1,320	6,490
89	Exclusion of interest for airport, dock, and similar bonds	1,020	6,370
60	Deferral of income from installment sales	830	6,100
3	Exclusion of certain allowances for Federal employees abroad	1,070	5,910
10	Excess of percentage over cost depletion, fuels	1,120	5,820
102	Deductibility of student-loan interest	900	5,160
16	Energy investment credit	960	4,650
139	Tax credit for orphan drug research	650	4,630
127	Exclusion of parsonage allowances	750	4,310
105	Exclusion of interest on student-loan bonds	660	4,140
145	Exclusion of public assistance benefits (normal tax method)	710	3,860
35	Excess of percentage over cost depletion, nonfuel minerals	770	3,810
92	New markets tax credit	810	3,530
55	Exclusion of interest spread of financial institutions	550	3,450
36	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	550	3,450
46	Capital gains treatment of certain income	520	3,440
140	Special Blue Cross/Blue Shield deduction	680	3,120
119	Assistance for adopted foster children	530	3,030
85	Exclusion for employer-provided transit passes	520	2,990
91	Empowerment zones, Enterprise communities, and Renewal communities	570	2,940
114	Qualified school construction bonds	400	2,930
72	Capital gains exclusion of small corporation stock	290	2,730
80	Exclusion of interest on small issue bonds	400	2,470
9	Expensing of exploration and development costs, fuels	700	2,300
29	Credit for energy efficiency improvements to existing homes	2,270	2,270
39	Tax incentives for preservation of historic structures	400	2,090
142	Distributions from retirement plans for premiums for health and long-term care insurance	330	2,020
126	Exclusion of certain foster care payments	410	2,010
154	Premiums on accident and disability insurance	350	1,810
160	Deductibility of casualty losses	320	1,800
23	Credit for investment in clean coal facilities	460	1,770
167	Exclusion of veterans pensions	300	1,770
19	Tax credit and deduction for clean-fuel burning vehicles	140	1,590
38	Expensing of multiperiod timber growing costs	290	1,540
143	Exclusion of railroad retirement system benefits	310	1,380
66	Discharge of mortgage indebtedness	1,100	1,350
115	Work opportunity tax credit	680	1,280
33	Advanced Energy Property Credit	900	1,180
31	30% credit for residential purchases/installations of solar and fuel cells	220	1,150
20	Exclusion of utility conservation subsidies	220	1,070
53	Tax exemption of certain insurance companies owned by tax-exempt organizations	210	1,070
87	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	240	1,070
44	Expensing of certain multiperiod production costs	150	860
107	Credit for holders of zone academy bonds	200	790
34	Expensing of exploration and development costs, nonfuel minerals	130	710
43	Expensing of certain capital outlays	100	610
90	Exemption of certain mutuals' and cooperatives' income	110	600
120	Adoption credit and exclusion	190	590
147	Exclusion of military disability pensions	110	550
47	Income averaging for farmers	90	470
41	Industrial CO2 capture and sequestration tax credit	30	450
101	Education Individual Retirement Accounts	80	450

Table 17–3.—INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2012–2016 PROJECTED REVENUE EFFECT—Continued
(In millions of dollars)

	Provision	2012	2012-16
25	Natural gas distribution pipelines treated as 15-year property	100	430
49	Expensing of reforestation expenditures	80	420
21	Credit for holding clean renewable energy bonds	70	350
13	Capital gains treatment of royalties on coal	50	340
37	Capital gains treatment of certain timber income	50	340
17	Alcohol fuel credits	130	330
27	Allowance of deduction for certain energy efficient commercial building property	90	300
75	Ordinary income treatment of loss from small business corporation stock sale	60	300
155	Income of trusts to finance supplementary unemployment benefits	40	300
11	Alternative fuel production credit	120	290
94	Credit to holders of Gulf Tax Credit Bonds.	70	270
26	Amortize all geological and geophysical expenditures over 2 years	90	250
69	Exceptions from imputed interest rules	50	250
157	Additional deduction for the blind	40	240
42	Deduction for endangered species recovery expenditures	30	220
146	Exclusion of special benefits for disabled coal miners	40	200
52	Special alternative tax on small property and casualty insurance companies	40	200
14	Exclusion of interest on energy facility bonds	30	170
12	Exception from passive loss limitation for working interests in oil and gas properties	30	150
54	Small life insurance company deduction	30	150
32	Qualified energy conservation bonds	20	140
169	Exclusion of interest on veterans housing bonds	20	140
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	20	120
96	Tribal Economic Development Bonds	30	110
45	Treatment of loans forgiven for solvent farmers	20	100
48	Deferral of gain on sale of farm refiners	20	100
83	Deferral of tax on shipping companies	20	100
88	Investment credit for rehabilitation of structures (other than historic)	20	100
113	Discharge of student loan indebtedness	20	100
124	Credit for disabled access expenditures	20	100
40	Exclusion of gain or loss on sale or exchange of certain brownfield sites	40	80
82	Special rules for certain film and TV production	30	40
86	Tax credit for certain expenditures for maintaining railroad tracks	30	40
159	Tax credit for the elderly and disabled	10	30
28	Credit for construction of new energy efficient homes	20	20
128	Employee retention credit for employers affected by Hurricane Katrina, Rita, and Wilma	10	10
6	Deferred taxes for financial firms on certain income earned overseas	0	0
18	Bio-Diesel and small agri-biodiesel producer tax credits	0	0
30	Credit for energy efficient appliances	0	0
70	Treatment of qualified dividends	0	0
95	Recovery Zone Bonds	0	0
100	Lifetime Learning tax credit	0	0
103	Deduction for higher education expenses	0	0
111	Exclusion of employer-provided educational assistance	0	0
112	Special deduction for teacher expenses	0	0
116	Welfare-to-work tax credit	0	0
118	Employer-provided child care credit	0	0
129	Exclusion for benefits provided to volunteer EMS and firefighters	0	0
130	Making work pay tax credit	0	0
141	Tax credit for health insurance purchased by certain displaced and retired individuals	0	0
162	Exclusion of unemployment insurance benefits	0	0
171	Build America Bonds	0	0
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–150	–520
68	Cancellation of indebtedness	130	–600
93	Expensing of environmental remediation costs	–140	–640
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	520	–1,700

Table 17–3.—INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2012–2016 PROJECTED REVENUE EFFECT—Continued

(In millions of dollars)

	Provision	2012	2012-16
136	Refundable Premium Assistance Tax Credit	0	–2,540
78	Expensing of certain small investments (normal tax method)	–710	–3,290
67	Credit for homebuyer	–2,160	–5,190
65	Accelerated depreciation on rental housing (normal tax method)	–1,580	–5,640
76	Accelerated depreciation of buildings other than rental housing (normal tax method)	–13,750	–74,470

crued income would be taxed under a comprehensive income tax.

- There is a separate corporate income tax. Under a comprehensive income tax, corporate income would be taxed only once – at the shareholder level, whether or not distributed in the form of dividends.
- Noncorporate tax rates vary by level of income.
- Individual tax rates, including brackets, standard deduction, and personal exemptions, are allowed to vary with marital status.
- Values of assets and debt are not generally adjusted for inflation. A comprehensive income tax would adjust the cost basis of capital assets and debt for changes in the general price level. Thus, under a comprehensive income tax baseline, the failure to take account of inflation in measuring depreciation, capital gains, and interest income would be regarded as a negative tax expenditure (i.e., a tax penalty), and failure to take account of inflation in measuring interest costs would be regarded as a positive tax expenditure (i.e., a tax subsidy).

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

Tax rates. The separate schedules applying to the various taxpaying units are included in the reference law baseline. Thus, corporate tax rates below the maximum statutory rate do not give rise to a tax expenditure. The

Table 17–4. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 2010

(In millions of dollars)

	Provision	2010 Present Value of Revenue Loss
5	Deferral of income from controlled foreign corporations (normal tax method)	23,260
7	Expensing of research and experimentation expenditures (normal tax method)	2,840
21	Credit for holding clean renewable energy bonds	320
9	Expensing of exploration and development costs - fuels	220
34	Expensing of exploration and development costs - nonfuels	40
38	Expensing of multiperiod timber growing costs	120
44	Expensing of certain multiperiod production costs - agriculture	220
43	Expensing of certain capital outlays - agriculture	150
49	Expensing of reforestation expenditures	20
51	Deferral of income on life insurance and annuity contracts	19,180
65	Accelerated depreciation on rental housing	6,570
76	Accelerated depreciation of buildings other than rental	–13,500
77	Accelerated depreciation of machinery and equipment	15,230
78	Expensing of certain small investments (normal tax method)	–40
107	Credit for holders of zone academy bonds	170
64	Credit for low-income housing investments	5,900
104	Deferral for state prepaid tuition plans	8,500
148	Exclusion of pension contributions - employer plans	73,830
149	Exclusion of 401(k) contributions	134,000
150	Exclusion of IRA contributions and earnings	3,800
150	Exclusion of Roth earnings and distributions	11,300
150	Exclusion of non-deductible IRA earnings	510
152	Exclusion of contributions and earnings for Keogh plans	5,710
170	Exclusion of interest on public-purpose bonds	19,600
	Exclusion of interest on non-public purpose bonds	6,690
173	Deferral of interest on U.S. savings bonds	260

normal tax baseline is similar, except that, by convention, it specifies the current maximum rate as the baseline for the corporate income tax. The lower tax rates applied to the first $10 million of corporate income are thus regarded as a tax expenditure under the normal tax. By convention, the Alternative Minimum Tax is treated as part of the baseline rate structure under both the reference and normal tax methods.

Income subject to the tax. Income subject to tax is defined as gross income less the costs of earning that income. Under the reference tax rules, gross income does not include gifts defined as receipts of money or property that are not consideration in an exchange nor does gross income include most transfer payments from the Government.[2] The normal tax baseline also excludes gifts between individuals from gross income. Under the normal tax baseline, however, all cash transfer payments from the Government to private individuals are counted in gross income, and exemptions of such transfers from tax are identified as tax expenditures. The costs of earning income are generally deductible in determining taxable income under both the reference and normal tax baselines.[3]

Capital recovery. Under the reference tax law baseline no tax expenditures arise from accelerated depreciation. Under the normal tax baseline, the depreciation allowance for property is computed using estimates of economic depreciation.

Treatment of foreign income. Both the normal and reference tax baselines allow a tax credit for foreign income taxes paid (up to the amount of U.S. income taxes that would otherwise be due), which prevents double taxation of income earned abroad. Under the normal tax method, however, controlled foreign corporations (CFCs) are not regarded as entities separate from their controlling U.S. shareholders. Thus, the deferral of tax on income received by CFCs is regarded as a tax expenditure under this method. In contrast, except for tax haven activities, the reference law baseline follows current law in treating CFCs as separate taxable entities whose income is not subject to U.S. tax until distributed to U.S. taxpayers. Under this baseline, deferral of tax on CFC income is not a tax expenditure because U.S. taxpayers generally are not taxed on accrued, but unrealized, income.

Descriptions of Income Tax Provisions

Descriptions of the individual and corporate income tax expenditures reported on in this chapter follow. These descriptions relate to current law as of September 30, 2010, and do not reflect proposals made elsewhere in the Budget. Legislation enacted in 2010, such as the Haiti Charity, Hiring Incentives to Restore Employment Act, Temporary Extension Act of 2010, Continuing Extension Act of 2010, Homebuyer Assistance and Improvement Act of 2010, tax-related provisions of "The Patient Protection and Affordable Care Act" and the "Reconciliation Act of 2010", and the Small Business Jobs Act of 2010, introduced many changes which for the most part expanded the scope of existing provisions in the Tax Code.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the Act) in addition to ordinary tax rate reductions, introduced many temporary changes that affect tax expenditure estimates not reflected in the tables of this chapter. Businesses incentives include reduced taxes on capital investments by introducing lower capital gains and dividend tax rates, increased section 179 expensing and faster first year depreciation, tax credit for research and experimentation expenses, Indian employment tax credit, New Markets tax credit ($3.5 billion allocation for both 2010 and 2011), 50% tax credit for certain expenditures for maintaining railroad tracks, mine rescue team training credit, employer wage credit for activated military reservists, 15-year straight line cost recovery for qualified leasehold and restaurant improvements, 7-year recovery period for certain motorsports racing track facilities, accelerated depreciation for business property on Indian reservations, election to expense mine safety equipment, special expensing rules for certain film and television productions, expensing of "Brownfields" environmental remediation costs, deduction allowable with respect to income attributable to domestic production activities in Puerto Rico, exception under subpart F for active financing income, empowerment zone tax incentives, tax incentives for investment in the District of Columbia, economic development credit for American Samoa, work opportunity tax credit, alternative fuel vehicle refueling property (non-hydrogen refueling property), premiums for mortgage insurance deductible as interest that is qualified residence interest, extension and modification of section 25C nonbusiness energy property, credit for energy efficient appliances, and special rules applicable to qualified small business stock.

The Act provides tax relief for families and individuals including increased child credit, modified adoption credit, increased dependent care tax credit, and increases in earned income tax credit. Education incentives include extending employer provided educational assistance exclusion for undergraduate courses and graduate level courses, as well as expanding student loan interest deduction, above-the-line deduction of up to $250 for teacher classroom expenses, deduction for qualified tuition and related expenses, extension of American opportunity tax credit, elimination of tax on awards under the National Health Corps Scholarship program and F. Edward Herbert Armed Forces Health Professions Scholarship program, increase arbitrage rebate exception for governmental bonds used to finance qualified school construction from $10 million to $15 million, issuance of tax-exempt private

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

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

activity bonds for qualified education facilities with annual State volume caps the greater of $10 per resident or $5 million, and qualified zone academy bonds ($400 million allocation).

The Act's incentives for charitable giving include enhanced charitable deduction for contributions of food inventory, enhanced charitable deduction for contributions of book inventories to public schools, enhanced charitable deduction for corporate contributions of computer inventory for educational purposes, contributions of capital gain real property made for qualified conservation purposes, tax-free distributions from IRAs to certain public charities, and basis adjustment to stock of S corporations making charitable contributions of property.

The Act also provides energy incentives, including incentives for biodiesel and renewable diesel, revised placed-in-service date for facilities eligible to claim the refined coal production credit, credit for construction of energy efficient new homes, incentives for alternative fuel and alternative fuel mixtures (modified to exclude black liquor), special rule to implement electric transmission restructuring, extension of suspension of 100 percent-of-net income limitation on percentage depletion for oil and natural gas from marginal properties, grants for specified energy property in lieu of tax credits, incentives for alcohol fuels, extension of income tax credit for alcohol used as fuel, extension of excise tax credit for alcohol used as fuel, and extension of payment for alcohol fuel mixture.

Other provisions of the Act include the temporary extension of disaster provisions related to New York Liberty Zone and GO Zone, deduction of State and local general sales taxes, parity for exclusion for employer-provided mass transit and parking benefits, among others.

National Defense

1. ***Benefits and allowances to Armed Forces personnel.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. As an example, a rental voucher of $100 is (approximately) equal in value to $100 of cash income. In contrast to this treatment, certain housing and meals, in addition to other benefits provided military personnel, either in cash or in kind, as well as certain amounts of pay related to combat service, are excluded from income subject to tax.

2. ***Income earned abroad.***—Under the baseline tax system, all compensation received by U.S. citizens is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as a housing allowance. In contrast to this treatment, U.S. tax law allows U.S. citizens who live abroad, work in the private sector, and satisfy a foreign residency requirement to exclude up to $80,000 in foreign earned income from U.S. taxes. In addition, if these taxpayers receive a specific allowance for foreign housing from their employers, then they may also exclude the value of that allowance. If they do not receive a specific allowance for housing expenses, they may exclude from taxable income that portion of such expenses that exceeds one-sixth the salary of a civil servant at grade GS–14, step 1 ($84,697 in 2010).

3. ***Exclusion of certain allowances for Federal employees abroad.***—In general, all compensation received by U.S. citizens is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as an allowance for the high cost of living abroad. In contrast to this treatment, U.S. Federal civilian employees and Peace Corps members who work outside the continental United States are allowed to exclude from U.S. taxable income certain special allowances they receive to compensate them for the relatively high costs associated with living overseas. The allowances supplement wage income and cover expenses such as rent, education, and the cost of travel to and from the United States.

4. ***Sales source rule exceptions.***—The United States generally taxes the worldwide income of U.S. persons, with taxpayers receiving a credit for foreign taxes paid, limited to the pre-credit U.S. tax on the foreign source income. In contrast, the sales source rules for inventory property allow U.S. exporters to use more foreign tax credits by allowing the exporters to attribute a larger portion of their earnings abroad than would be the case if the allocation of earnings was based on actual economic activity.

5. ***Income of U.S.-controlled foreign corporations.***—The United States generally taxes the worldwide income of U.S. persons and business entities. In contrast, certain active income of foreign corporations controlled by U.S. shareholders is not subject to U.S. taxation when it is earned. The income becomes taxable only when the controlling U.S. shareholders receive dividends or other distributions from their foreign stockholding. The reference law tax baseline reflects this tax treatment where only realized income is taxed. Under the normal tax method, however, the currently attributable foreign source pre-tax income from such a controlling interest is considered to be subject to U.S. taxation, whether or not distributed. Thus, the normal tax method considers the amount of controlled foreign corporation income not yet distributed to a U.S. shareholder as tax-deferred income.

6. ***Exceptions under subpart F for active financing income.***—The United States generally taxes the worldwide income of U.S. persons and business entities. It would not allow the deferral of tax or other relief targeted at particular industries or activities. In contrast, under current law, financial firms may defer taxes on income earned overseas in an active business.

General Science, Space, and Technology

7. ***Expensing R&E expenditures.***—Research and experimentation (R&E) projects can be viewed as investments because, if successful, their benefits accrue for several years. It is often difficult, however, to identify whether a specific R&E project is successful and, if successful, what its expected life will be. Because of this ambiguity, the reference law baseline tax system would allow of ex-

pensing of R&E expenditures. In contrast, under the normal tax method, the expensing of R&E expenditures is viewed as a tax expenditure. The baseline assumed for the normal tax method is that all R&E expenditures are successful and have an expected life of five years.

8. ***R&E credit.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows an R&E credit of 20 percent of qualified research expenditures in excess of a base amount.

The base amount is generally determined by multiplying a "fixed-base percentage" by the average amount of the company's gross receipts for the prior four years. The taxpayer's fixed base percentage generally is the ratio of its research expenses to gross receipts for 1984 through 1988. Taxpayers can elect the alternative simplified credit regime, which is equal to 14 percent (12 percent prior to 2009) of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding taxable years. Prior to January 1, 2009, taxpayers could also elect an alternative incremental credit regime. Under the alternative incremental credit regime the taxpayer was assigned a three-tiered fixed base percentage that is lower than the fixed-base percentage that would otherwise apply, and the credit rate was reduced. The rates for the alternative incremental credit ranged from 3 percent to 5 percent. Under current law as of September 30, the research credit expired on December 31, 2009.

Energy

9. ***Exploration and development costs.***—Under the baseline tax system, the costs of exploring and developing oil and gas wells would be capitalized and then amortized (or depreciated) over an estimate of the economic life of the well. This insures that the net income from the well is measured appropriately each year.

In contrast to this treatment, current law allows intangible drilling costs for successful investments in domestic oil and gas wells (such as wages, the cost of using machinery for grading and drilling, and the cost of unsalvageable materials used in constructing wells) to be deducted immediately, i.e., expensed. Because it allows recovery of costs sooner, expensing is more generous for the taxpayer than would be amortization. Integrated oil companies may deduct only 70 percent of such costs and must amortize the remaining 30 percent over five years. The same rule applies to the exploration and development costs of surface stripping and the construction of shafts and tunnels for other fuel minerals.

10. ***Percentage depletion.***—The baseline tax system would allow recovery of the costs of developing certain oil and mineral properties using cost depletion. Cost depletion is similar in concept to depreciation, in that the costs of developing or acquiring the asset are capitalized and then gradually reduced over an estimate of the asset's productive life, as is appropriate for measuring net income.

In contrast, the Tax Code generally allows independent fuel and mineral producers and royalty owners to take percentage depletion deductions rather than cost depletion on limited quantities of output. Under percentage depletion, taxpayers deduct a percentage of gross income from mineral production. In certain cases the deduction is limited to a fraction of the asset's net income. Over the life of an investment, percentage depletion deductions can exceed the cost of the investment. Consequently, percentage depletion offers more generous tax treatment than would cost depletion, which would limit deductions to an investment's cost.

11. ***Alternative fuel production credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides a credit of $3 per oil-equivalent barrel of production (in 2004 dollars) for coke or coke gas during a four-year period for qualified facilities. Under current law as of September 30, these facilities must be placed in service before January 1, 2010.

12. ***Oil and gas exception to passive loss limitation.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as those in which the taxpayer does not materially participate and there are numerous additional considerations brought to bear on the determination of which activities are passive for a given taxpayer. Losses are limited in an attempt to limit tax sheltering activities. Passive losses that are unused may be carried forward and applied against future passive income.

In contrast to the general restrictions on passive losses, the Tax Code exempts owners of working interests in oil and gas properties from "passive income" limitations, such that the working interest-holder who manages the development of wells and incurs all operating costs on behalf of himself and all other owners may aggregate negative taxable income (i.e., losses) from such interests with his other income. Thus, these taxpayers are able to fully deduct passive losses against nonpassive income, in contradiction to the general prohibition against such deductions.

13. ***Capital gains treatment of royalties on coal.***—For individuals in 2010, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent. Certain sales of coal under royalty contracts qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 15 percent maximum tax rate on capital gains.

14. ***Energy facility bonds.***—The baseline tax system generally would tax all income under the regular tax rate

schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance construction of certain energy facilities to be exempt from tax. These bonds are generally subject to the State private-activity-bond annual volume cap.

15. ***Energy production credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides a credit for certain electricity produced from wind energy, biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, or qualified hydropower and sold to an unrelated party. In addition to the electricity production credit, an income tax credit is allowed for the production of refined coal and Indian coal at qualified facilities.

16. ***Energy investment credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code provides credits for investments in solar and geothermal energy property, qualified fuel cell power plants, stationary microturbine power plants, geothermal heat pumps, small wind property and combined heat and power property. Owners of renewable power facilities that qualify for the energy production credit may instead elect to take an energy investment credit.

17. ***Alcohol fuel credits.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides an income tax credit for ethanol derived from renewable sources and used as fuel. In lieu of the alcohol mixture credit, the taxpayer may claim a refundable excise tax credit. In addition, small ethanol producers are eligible for a separate income tax credit for ethanol production and a separate income tax credit is available for qualified cellulosic biofuel production.

18. ***Bio-Diesel tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows an income tax credit for biodiesel used or sold and for bio-diesel derived from virgin sources. In lieu of the bio-diesel credit, the taxpayer may claim a refundable excise tax credit. In addition, small agri-biodiesel producers are eligible for a separate income tax credit for ethanol production and a separate credit is available for qualified renewable diesel fuel mixtures.

19. ***Credit for alternative motor vehicles and refueling property.***—The baseline tax system would not allow credits or deductions for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a number of credits for certain types of vehicles and property. These are available for alternative motor vehicles (including fuel cell, advanced lean burn technology, hybrid, and alternative fuel motor vehicles), alternative fuel vehicle refueling property, and plug-ins (including plug-in electric vehicles, plug-in electric drive motor vehicles, and plug-in conversion kits). Under current law as of September 30, the credit expired on December 31, 2010 for non-hydrogen refueling stations.

20. ***Exclusion of utility conservation subsidies.***—The baseline tax system generally takes a comprehensive view of taxable income that includes a wide variety of (measurable) accretions to wealth. In certain circumstances, public utilities offer rate subsidies to non-business customers who invest in energy conservation measures. These rate subsidies are equivalent to payments from the utility to its customer, and so represent accretions to wealth, income, that would be taxable to the customer under the baseline tax system. In contrast, the Tax Code exempts these subsidies from the non-business customer's gross income.

21. ***Credit to holders of clean renewable energy bonds.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides for the issuance of Clean Renewable Energy Bonds which entitles the bond holder to a Federal income tax credit in lieu of interest. The limit on the volume issued in 2009-2010 is $2.4 billion. As of May 2010, issuers of such bonds may opt to receive direct payment with the yield becoming fully taxable.

22. ***Deferral of gain from dispositions of transmission property to implement FERC restructuring policy.***—The baseline tax system generally would tax gains from sale when realized. However, the Tax Code allows utilities to defer gains from the sale of their transmission assets to a FERC-approved independent transmission company.

23. ***Credit for investment in clean coal facilities.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides investment tax credits for clean coal facilities producing electricity and for industrial gasification combined cycle projects.

24. ***Temporary 50 percent expensing for equipment used in the refining of liquid fuels.***—The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over time. However, the Tax Code provides for an accelerated recovery of the cost of certain investments in refineries by allowing partial expensing of the cost, thereby giving such investments a tax advantage.

25. ***Natural gas distribution pipelines treated as 15-year property.***—The baseline tax system allows taxpayers to deduct the decline in the economic value of an investment over time. However, the Tax Code allows depreciation of natural gas distribution pipelines (placed in service between 2005 and 2011) over a 15 year period.

These deductions are accelerated relative to deductions based on economic depreciation.

26. ***Amortize all geological and geophysical expenditures over two years.***—The baseline tax system allows taxpayers to deduct the decline in the economic value of an investment over time. However, the Tax Code allows geological and geophysical expenditures incurred in connection with oil and gas exploration in the United States to be amortized over two years for non-integrated oil companies.

27. ***Allowance of deduction for certain energy efficient commercial building property.***—The baseline tax system would not allow deductions in addition to normal depreciation allowances for particular investments in particular industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a deduction, per square foot, for certain energy efficient commercial buildings.

28. ***Credit for construction of new energy efficient homes.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows contractors a tax credit of $2,000 for the construction of a qualified new energy-efficient home that has an annual level of heating and cooling energy consumption at least 50 percent below the annual consumption of a comparable dwelling unit. The credit equals $1,000 in the case of a new manufactured home that meets a 30 percent standard.

29. ***Credit for energy efficiency improvements to existing homes.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code provides an investment tax credit for expenditures made on insulation, exterior windows, and doors that improve the energy efficiency of homes and meet certain standards. The Tax Code also provides a credit for purchases of advanced main air circulating fans, natural gas, propane, or oil furnaces or hot water boilers, and other qualified energy efficient property.

30. ***Credit for energy efficient appliances.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides tax credits for the manufacture of efficient dishwashers, clothes washers, and refrigerators. The size of the credit depends on the efficiency of the appliance.

31. ***Credit for residential energy efficient property.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code provides a credit for the purchase of a qualified photovoltaic property and solar water heating property, as well as for fuel cell power plants, geothermal heat pumps and small wind property.

32. ***Credit for qualified energy conservation bonds.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code provides for the issuance of energy conservation bonds which entitle the bond holder to a Federal income tax credit in lieu of interest. The limit on the volume issued in 2009-2010 is $3.2 billion. As of May 2010, issuers of such bonds may opt to receive direct payment with the yield becoming fully taxable.

33. ***Advanced Energy Property Credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code provides a 30 percent investment credit for property used in a qualified advanced energy manufacturing project. The Treasury Department may award up to $2.3 billion in tax credits for qualified investments.

Natural Resources and Environment

34. ***Exploration and development costs.***—The baseline tax system allows the taxpayer to deduct the depreciation of an asset according to the decline in its economic value over time. However, certain capital outlays associated with exploration and development of nonfuel minerals may be expensed rather than depreciated over the life of the asset.

35. ***Percentage depletion.***—The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over time. Under current law, however, most nonfuel mineral extractors may use percentage depletion (whereby the deduction is fixed as a percentage of revenue and can exceed total costs) rather than cost depletion, with percentage depletion rates ranging from 22 percent for sulfur to 5 percent for sand and gravel. Over the life of an investment, percentage depletion deductions can exceed the cost of the investment. Consequently, percentage depletion offers more generous tax treatment than would cost depletion, which would limit deductions to an investment's cost.

36. ***Sewage, water, solid and hazardous waste facility bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance construction of sewage, water, or hazardous waste facilities to be exempt from tax. These bonds are generally subject to the State private-activity-bond annual volume cap.

37. ***Capital gains treatment of certain timber.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. However, under current law certain timber sales can be treated as a capital gain rather than ordinary income and therefore subject to the lower capital-gains tax rate. For individuals in 2010, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent.

38. ***Expensing multi-period timber growing costs.***—The baseline tax system requires the taxpayer to capitalize costs associated with investment property. However, most of the production costs of growing timber may be expensed under current law rather than capitalized and deducted when the timber is sold, thereby accelerating cost recovery.

39. ***Historic preservation.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, expenditures to preserve and restore certified historic structures qualify for an investment tax credit of 20 percent under current law for certified rehabilitation activities.

40. ***Exclusion of gain or loss on sale or exchange of certain brownfield sites.***—In general, a tax-exempt organization must pay taxes on income from activities unrelated to its nonprofit status. The Tax Code, however, provides a special exclusion from unrelated business taxable income of the gain or loss from the sale or exchange of certain qualifying brownfield properties.

41. ***Industrial CO_2 capture and sequestration tax credit***.—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows a credit of $20 per metric ton for qualified carbon dioxide captured at a qualified facility and disposed of in secure geological storage. In addition, the provision allows a credit of $10 per metric ton of qualified carbon dioxide that is captured at a qualified facility and as a tertiary injectant in a qualified enhanced oil or natural gas recovery project.

42. ***Deduction for endangered species recovery expenditures.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, under current law farmers can deduct up to 25 percent of their gross income for expenses incurred as a result of site and habitat improvement activities that will benefit endangered species on their farm land, in accordance with site specific management actions included in species recovery plans approved pursuant to the Endangered Species Act of 1973.

Agriculture

43. ***Expensing certain capital outlays.***—The baseline tax system requires the taxpayer to capitalize costs associated with investment property. However, farmers may expense certain expenditures for feed and fertilizer as well as for soil and water conservation measures as well as other capital improvements under current law.

44. ***Expensing multi-period livestock and crop production costs.***—The baseline tax system requires the taxpayer to capitalize costs associated with an investment over time. However, the production of livestock and crops with a production period greater than two years (e.g., establishing orchards or constructing barns) is exempt from the uniform cost capitalization rules, thereby accelerating cost recovery.

45. ***Loans forgiven solvent farmers.***—The baseline tax system requires debtors to include the amount of loan forgiveness as income or else reduce their recoverable basis in the property related to the loan. If the amount of forgiveness exceeds the basis, the excess forgiveness is taxable. However, for bankrupt debtors, the amount of loan forgiveness reduces carryover losses, unused credits, and then basis, with the remainder of the forgiven debt excluded from taxation.

46. ***Capital gains treatment of certain income.***—For individuals in 2010, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent. Certain agricultural income, such as unharvested crops, qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 15 percent maximum tax rate on capital gains.

47. ***Income averaging for farmers.***—The baseline tax system generally taxes all earned income each year at the rate determined by the income tax. However, taxpayers may average their taxable income from farming and fishing over the previous three years.

48. ***Deferral of gain on sales of farm refiners.***—The baseline tax system generally subjects capital gains to taxes the year that they are realized. However, the Tax Code allows a taxpayer who sells stock in a farm refiner to a farmers' cooperative to defer recognition of the gain if the proceeds are re-invested in a qualified replacement property.

49. ***Expensing of reforestation expenditures***.—The baseline tax system requires the taxpayer to capitalize costs associated with an investment over time. In contrast, the Tax Code provides for the expensing of the first $10,000 in reforestation expenditures with 7-year amortization of the remaining expenses.

Commerce and Housing

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

50. ***Credit union income exemption.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. However, in the Tax Code the earnings of credit unions not distributed to members as interest or dividends are exempt from the income tax.

51. ***Deferral of income on life insurance and annuity contracts.***—Under the baseline tax system, individuals and corporations pay taxes on their income when

it is (actually or constructively) received or accrued, depending on their method of accounting. Nevertheless, the Tax Code provides favorable tax treatment for investment income earned within qualified life insurance and annuity contracts. In general, investment income earned on qualified life insurance contracts held until death is permanently exempt from income tax. Investment income distributed prior to the death of the insured is generally tax-deferred. Investment income earned on annuities benefits from tax deferral.

52. ***Small property and casualty insurance companies.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, stock non-life insurance companies are generally exempt from tax if their gross receipts for the taxable year do not exceed $600,000 and more than 50 percent of such gross receipts consists of premiums. Mutual non-life insurance companies are generally tax-exempt if their annual gross receipts do not exceed $150,000 and more than 35 percent of gross receipts consist of premiums. Also, non-life insurance companies with no more than $1.2 million of annual net premiums may elect to pay tax only on their taxable investment income.

53. ***Insurance companies owned by exempt organizations.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Generally the income generated by life and property and casualty insurance companies is subject to tax, albeit by special rules. Insurance operations conducted by such exempt organizations as fraternal societies, voluntary employee benefit associations, and others, however, are exempt from tax.

54. ***Small life insurance company deduction.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. However, under current law small life insurance companies (with gross assets of less than $500 million) can deduct 60 percent of the first $3 million of otherwise taxable income. The deduction phases out for otherwise taxable income between $3 million and $15 million.

55. ***Exclusion of interest spread of financial institutions.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Consumers and nonprofit organizations pay for some deposit-linked services, such as check cashing, by accepting a below-market interest rate on their demand deposits. If they received a market rate of interest on those deposits and paid explicit fees for the associated services, they would pay taxes on the full market rate and (unlike businesses) could not deduct the fees. The Government thus foregoes tax on the difference between the risk-free market interest rate and below-market interest rates on demand deposits, which under competitive conditions should equal the value added of deposit services.

56. ***Mortgage housing bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance homes purchased by first-time, low-to-moderate-income buyers to be exempt. These bonds are generally subject to the State private-activity-bond annual volume cap.

57. ***Rental housing bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local government bonds used to finance multifamily rental housing projects to be tax-exempt.

58. ***Interest on owner-occupied homes.***—Under the baseline tax system, expenses incurred in earning income would be deductible. However, such expenses would not be deductible when the income or the return on an investment is not taxed. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for the value of owner-occupied housing services but allows the owner-occupant to deduct mortgage interest paid on his or her primary and secondary residences as an itemized non-business deduction. In general, the mortgage interest deduction is limited to interest on debt no greater than the owner's basis in the residence, and is also limited to interest on debt of no more than $1 million. Interest on up to $100,000 of other debt secured by a lien on a principal or second residence is also deductible, irrespective of the purpose of borrowing, provided the total debt does not exceed the fair market value of the residence. As an alternative to the deduction, holders of qualified Mortgage Credit Certificates issued by State or Local governmental units or agencies may claim a tax credit of up to 20 percent of the interest expense.

59. ***Taxes on owner-occupied homes.***—Under the baseline tax system, expenses incurred in earning income would be deductible. However, such expenses would not be deductible when the income or the return on an investment is not taxed. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for the value of owner-occupied housing services but allows the owner-occupant to deduct property taxes paid on his or her primary and secondary residences.

60. ***Installment sales.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates, or deferral of tax, to apply to certain types or sources of income. Dealers in real and personal property (i.e., sellers who regularly hold property for sale or resale) cannot defer taxable income from installment sales until the receipt of the loan repayment. Nondealers (i.e., sellers of real property used in their business) are required to pay interest on deferred taxes attributable to their total installment obligations in excess of $5 million. Only properties with sales prices exceeding $150,000 are includ-

able in the total. The payment of a market rate of interest eliminates the benefit of the tax deferral. The tax exemption for nondealers with total installment obligations of less than $5 million is, therefore, a tax expenditure.

61. ***Capital gains exclusion on home sales.***—The baseline tax system would not allow deductions and exemptions to certain types of income. In contrast, under current law, a homeowner can exclude from tax up to $500,000 ($250,000 for singles) of the capital gains from the sale of a principal residence. The exclusion may not be used more than once every two years.

62. ***Imputed net rental income on owner-occupied housing.***—Under the baseline tax system, the taxable income of a taxpayer who is an owner-occupant would include the implicit value of gross rental income on housing services earned on the investment in owner-occupied housing and would allow a deduction for expenses, such as interest, depreciation, property taxes, and other costs, associated with earning such rental income. In contrast, the Tax Code allows an exclusion from taxable income for the implicit gross rental income on housing services, while in certain circumstances allows a deduction for some costs associated with such income, such as for mortgage interest and property taxes.

63. ***Passive loss real estate exemption.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as those in which the taxpayer does not materially participate and there are numerous additional considerations brought to bear on the determination of which activities are passive for a given taxpayer. Losses are limited in an attempt to limit tax sheltering activities. Passive losses that are unused may be carried forward and applied against future passive income.

In contrast to the general restrictions on passive losses, the Tax Code exempts owners of rental real estate activities from "passive income" limitations. The exemption is limited to $25,000 in losses and phases out for taxpayers with income between $100,000 and $150,000.

64. ***Low-income housing credit.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, under current law taxpayers who invest in certain low-income housing are eligible for a tax credit. The credit rate is set so that the present value of the credit is equal to 70 percent for new construction and 30 percent for (1) housing receiving other Federal benefits (such as tax-exempt bond financing), or (2) substantially rehabilitated existing housing. The credit can exceed these levels in certain statutorily defined and State designated areas where project development costs are higher. The credit is allowed in equal amounts over 10 years and is generally subject to a volume cap.

65. ***Accelerated depreciation of residential rental property.***—Under an economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the rental property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

66. ***Discharge of mortgage indebtedness.***—Under the baseline tax system, all income would generally be taxed under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for any discharge of indebtedness of up to $2 million from a qualified principal residence. The provision sunsets on December 31, 2012.

67. ***Credit for homebuyer.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a tax credit for home buyers on purchases before May 1, 2010.

68. ***Cancellation of indebtedness.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law individuals are not required to report the cancellation of certain indebtedness as current income. If the canceled debt is not reported as current income, however, the basis of the underlying property must be reduced by the amount canceled.

69. ***Imputed interest rules.***—Holders (issuers) of debt instruments are generally required to report interest earned (paid) in the period it accrues, not when paid. In addition, the amount of interest accrued is determined by the actual price paid, not by the stated principal and interest stipulated in the instrument. In general, any debt associated with the sale of property worth less than $250,000 is excepted from the general interest accounting rules. This general $250,000 exception is not a tax expenditure under reference law but is under normal law. Exceptions above $250,000 are a tax expenditure under reference law; these exceptions include the following: (1) sales of personal residences worth more than $250,000, and (2) sales of farms and small businesses worth between $250,000 and $1 million.

70. ***Treatment of qualified dividends.***—For individuals in 2010, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows qualified dividends to be taxed at a preferentially low rate that is no higher than 15 percent.

71. ***Capital gains (other than agriculture, timber, and coal).***—For individuals in 2010, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule.

It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains on assets held for more than one year to be taxed at a preferentially low rate that is no higher than 15 percent.

72. ***Capital gains exclusion for small business stock.***—The baseline tax system would not allow deductions and exemptions to certain types of income. In contrast, the Tax Code provides an exclusion of 50 percent (from a 28 percent tax rate) for capital gains from qualified small business stock held by individuals for more than 5 years; 75 percent for stock issued after February 17, 2009 and before September 28, 2010; and 100 percent for stock issued after September 27, 2010 and before January 1, 2011. A qualified small business is a corporation whose gross assets do not exceed $50 million as of the date of issuance of the stock.

73. ***Step-up in basis of capital gains at death.***—Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred at death or by gift.. In contrast, capital gains on assets held at the owner's death are not subject to capital gains tax under current law. The cost basis of the appreciated assets is adjusted to the market value at the owner's date of death.

74. ***Carryover basis of capital gains on gifts.***—Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred at death or by gift.. In contrast, when a gift of appreciated asset is made under current law, the donor's basis in the transferred property (the cost that was incurred when the transferred property was first acquired) carries over to the donee. The carryover of the donor's basis allows a continued deferral of unrealized capital gains.

75. ***Ordinary income treatment of losses from sale of small business corporate stock shares.***—The baseline tax system limits to $3,000 the write-off of losses from capital assets, with carryover of the excess to future years. In contrast, the Tax Code allows up to $100,000 in losses from the sale of small business corporate stock (capitalization less than $1 million) to be treated as ordinary losses and fully deducted.

76. ***Depreciation of non-rental-housing buildings.***—Under an economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

77. ***Accelerated depreciation of machinery and equipment.***—Under an economic income tax, the costs of acquiring machinery and equipment are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

78. ***Expensing of certain small investments.***—Under the reference law baseline, the costs of acquiring tangible property and computer software would be depreciated using the Tax Code's depreciation provisions. Under the normal tax baseline, depreciation allowances are estimates of economic depreciation. However, the Tax Code allows qualifying investments by small businesses in tangible property and certain computer software to be expensed rather than depreciated over time.

79. ***Graduated corporation income tax rate schedule.***—Because the corporate rate schedule is part of reference tax law, it is not considered a tax expenditure under the reference method. A flat corporation income tax rate is taken as the baseline under the normal tax method; therefore the lower rate is considered a tax expenditure under this concept.

80. ***Small issue industrial development bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on small issue industrial development bonds (IDBs) issued by State and local governments to finance manufacturing facilities to be tax exempt. Depreciable property financed with small issue IDBs must be depreciated, however, using the straight-line method. The annual volume of small issue IDBs is subject to the unified volume cap discussed in the mortgage housing bond section above.

81. ***Deduction for U.S. production activities.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows for a deduction equal to a portion of taxable income attributable to domestic production.

82. ***Special rules for certain film and TV production.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law taxpayers may deduct up to $15 million per production ($20 million in certain distressed areas) in non-capital expenditures incurred during the year. Under current law as of September 30, the provision expired on December 31, 2009.

Transportation

83. ***Deferral of tax on U.S. shipping companies.***—The baseline tax system generally would tax all profits and income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows certain companies that operate U.S. flag vessels to defer income taxes on that portion of their income used for shipping purposes, primarily construction, mod-

ernization and major repairs to ships, and repayment of loans to finance these investments.

84. ***Exclusion of employee parking expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from taxable income for employee parking expenses that are paid for by the employer or that are received by the employee in lieu of wages. In 2010, the maximum amount of the parking exclusion is $230 per month. The tax expenditure estimate does not include any subsidy provided through employer-owned parking facilities.

85. ***Exclusion of employee transit pass expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for passes, tokens, fare cards, and vanpool expenses that are paid for by an employer or that are received by the employee in lieu of wages to defray an employee's commuting costs. The American Recovery and Reinvestment Act of 2009 ("ARRA," Pub. L. 111-5) included a provision that equalized the maximum exclusion amount for these expenses with the maximum exclusion amount for employee parking expenses. In 2010, the maximum amount of the exclusion is $230 per month. Under current law as of September 30, this provision of the ARRA expired on December 31, 2010.

86. ***Tax credit for certain expenditures for maintaining railroad tracks.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, under current law eligible taxpayers may claim a credit equal to the lesser of 50 percent of maintenance expenditures and the product of $3,500 and the number of miles of track owned or leased. Under current law as of September 30, the credit expired on December 31, 2009.

87. ***Exclusion of interest on bonds for financing of highway projects and rail-truck transfer facilities.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code provides for $15 billion of tax-exempt bond authority to finance qualified highway or surface freight transfer facilities. The authority to issue these bonds expires on December 31, 2015.

Community and Regional Development

88. ***Rehabilitation of structures.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code allows a 10-percent investment tax credit for the rehabilitation of buildings that are used for business or productive activities and that were erected before 1936 for other than residential purposes. The taxpayer's recoverable basis must be reduced by the amount of the credit.

89. ***Airport, dock, and similar facility bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds issued to finance high-speed rail facilities and Government-owned airports, docks, wharves, and sport and convention facilities to be tax-exempt. These bonds are not subject to a volume cap.

90. ***Exemption of income of mutuals and cooperatives.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. In contrast, the Tax Code provides for the incomes of mutual and cooperative telephone and electric companies to be exempt from tax if at least 85 percent of their revenues are derived from patron service charges.

91. ***Empowerment zones and renewal communities.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income, tax credits, and write-offs faster than economic depreciation. In contrast, under current law qualifying businesses in designated economically depressed areas can receive tax benefits such as an employer wage credit, increased expensing of investment in equipment, special tax-exempt financing, accelerated depreciation, and certain capital gains incentives.

92. ***New markets tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, under current law taxpayers who make qualified equity investments in a community development entity (CDE), which then makes qualified investments in low-income communities, are eligible for a tax credit received over 7 years. The total equity investment available for the credit across all CDEs is $5 billion in 2009. Under current law as of September 30, the credit expired on December 31, 2009.

93. ***Expensing of environmental remediation costs.***—Under the baseline tax system, the costs would be amortized (or depreciated) over an estimate of the economic life of the building. This insures that the net income from the buildings is measured appropriately each year. However, the Tax Code allows taxpayers who clean up certain hazardous substances at a qualified site to expense the clean-up costs, even though the expenses will generally increase the value of the property significantly or appreciably prolong the life of the property.

94. ***Credit to holders of Gulf and Midwest Tax Credit Bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, under current law taxpayers that own Gulf and Midwest Tax Credit bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income.

95. ***Recovery Zone Bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In addition, it would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows local governments to issue up $10 billion in taxable Recovery Zone Economic Development Bonds in 2009 and 2010 and receive a direct payment from Treasury equal to 45 percent of interest expenses. In addition, they would be allowed to allocate up to $15 billion in tax exempt Recovery Zone Facility Bonds. These bonds finance certain kinds of business development in areas of economic distress.

96. ***Tribal Economic Development Bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code was modified in 2009 to allow Indian tribal governments to issue tax exempt "tribal economic development bonds." There is a national bond limitation of $2 billion.

Education, Training, Employment, and Social Services

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

98. ***HOPE tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable HOPE tax credit allows a credit for 100 percent of an eligible student's first $1,200 of tuition and fees and 50 percent of the next $1,200 of tuition and fees. The credit only covers tuition and fees paid during the first two years of a student's post-secondary education. In 2010, the credit is phased out ratably for taxpayers with modified AGI between $100,000 and $120,000 ($50,000 and $60,000 for singles), indexed.

99. ***Lifetime Learning tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable Lifetime Learning tax credit allows a credit for 20 percent of an eligible student's tuition and fees, up to a maximum credit per return of $2,000. The credit is phased out ratably for taxpayers with modified AGI between $100,000 and $120,000 ($50,000 and $60,000 for singles), indexed. The credit applies to both undergraduate and graduate students.

100. ***American Opportunity Tax Credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code was modified in 2009 to provide a tax credit in 2009 and 2010 of up to $2,500 per eligible student for qualified tuition and related expenses paid for each of the first four years of the student's post-secondary education. The credit is phased out for taxpayers with modified adjusted gross income between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return).

101. ***Education Individual Retirement Accounts (IRA).***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Contributions to an education IRA are not tax-deductible. However, investment income earned by education IRAs is not taxed when earned, and investment income from an education IRA is tax-exempt when withdrawn to pay for a student's education expenses. The maximum contribution to an education IRA in 2010 is $2,000 per beneficiary. The maximum contribution is phased down ratably for taxpayers with modified AGI between $190,000 and $220,000 ($95,000 and $110,000 for singles).

102. ***Student-loan interest.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct non-business interest expenses. In contrast, taxpayers may claim an above-the-line deduction of up to $2,500 on interest paid on an education loan. Interest may only be deducted for the first five years in which interest payments are required. In 2010, the maximum deduction is phased down ratably for taxpayers with modified AGI between $120,000 and $150,000 ($60,000 and $75,000 for singles), indexed.

103. ***Deduction for higher education expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides a maximum annual deduction of $4,000 in 2010 for qualified higher education expenses for taxpayers with adjusted gross income up to $130,000 on a joint return ($65,000 for singles). Taxpayers with adjusted gross income up to $160,000 on a joint return ($80,000 for singles) may deduct up to $2,000.

104. ***State prepaid tuition plans.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Some States have adopted prepaid tuition plans and prepaid room and board plans, which allow persons to pay in advance for college expenses for designated beneficiaries. Under current law, investment income, or the return on prepayments, is not taxed when earned, and is tax-exempt when withdrawn to pay for qualified expenses.

105. ***Student-loan bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero)

tax rates to apply to certain types or sources of income. In contrast, interest earned on State and local bonds issued to finance student loans is tax-exempt under current law. The volume of all such private activity bonds that each State may issue annually is limited.

106. ***Bonds for private nonprofit educational institutions.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local Government bonds issued to finance the construction of facilities used by private nonprofit educational institutions is not taxed.

107. ***Credit for holders of zone academy bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, financial institutions that own zone academy bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income. Proceeds from zone academy bonds may only be used to renovate, but not construct, qualifying schools and for certain other school purposes. Under current law as of September 30, the total amount of zone academy bonds that may be issued is limited to $1.4 billion in 2009 and 2010.

108. ***U.S. savings bonds for education.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, interest earned on U.S. savings bonds issued after December 31, 1989 is tax-exempt if the bonds are transferred to an educational institution to pay for educational expenses. The tax exemption is phased out for taxpayers with AGI between $105,100 and $135,100 ($70,100 and $85,100 for singles) in 2010.

109. ***Dependent students age 19 or older.***—Under the baseline tax system, a personal exemption for the taxpayer is allowed. However, additional exemptions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers to claim personal exemptions for dependent children who are over the age of 18 or under the age of 24 and who (1) reside with the taxpayer for over half the year (with exceptions for temporary absences from home, such as for school attendance), (2) are full-time students, and (3) do not claim a personal exemption on their own tax returns.

110. ***Charitable contributions to educational institutions.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides taxpayers a deduction for contributions to nonprofit educational institutions. Moreover, taxpayers who donate capital assets to educational institutions can deduct the asset's current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

111. ***Employer-provided educational assistance.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, employer-provided educational assistance is excluded from an employee's gross income even though the employer's costs for this assistance are a deductible business expense.

112. ***Special deduction for teacher expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law educators in both public and private elementary and secondary schools, who work at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide, may subtract up to $250 of qualified expenses when figuring their adjusted gross income (AGI). This provision expired on December 31, 2009.

113. ***Discharge of student loan indebtedness.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, the Tax Code allows certain professionals who perform in underserved areas or specific fields, and as a consequence have their student loans discharged, not to recognize such discharge as income.

114. ***Qualified school construction bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code was modified in 2009 to provide a tax credit in lieu of interest to holders of qualified school construction bonds. The national volume limit is $22 billion over 2009 and 2010. As of May 2010, issuers of such bonds may opt to receive direct payment with the yield becoming fully taxable.

115. ***Work opportunity tax credit (WOTC).***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides employers with a tax credit for qualified wages paid to individuals. The credit applies to employees who begin work on or before August 31, 2011 and who are certified as members of various targeted groups. The amount of the credit that can be claimed is 25 percent of qualified wages for employment less than 400 hours and 40 percent for employment of 400 hours or more. Generally, the maximum credit per employee is $2,400 and can only be claimed on the first year of wages an individual earns from an employer. However, the credit for long-term welfare recipients can be claimed on second year wages as well and has a $9,000 maximum. Employees must work at least 120 hours to be eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed.

116. ***Welfare-to-work tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, under current law an employer is eligible for a tax credit on the first $20,000 of eligible wages

paid to qualified long-term family assistance recipients during the first two years of employment. The welfare-to-work credit expired on December 31, 2006. After this date, long-term welfare recipients became a WOTC target group.

117. ***Employer-provided child care exclusion.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law up to $5,000 of employer-provided child care is excluded from an employee's gross income even though the employer's costs for the child care are a deductible business expense.

118. ***Employer-provided child care credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, current law provides a credit equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services. Employer deductions for such expenses are reduced by the amount of the credit. The maximum total credit is limited to $150,000 per taxable year.

119. ***Assistance for adopted foster children.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Taxpayers who adopt eligible children from the public foster care system can receive monthly payments for the children's significant and varied needs and a reimbursement of up to $2,000 for nonrecurring adoption expenses. These payments are excluded from gross income under current law.

120. ***Adoption credit and exclusion.***—The baseline tax system would not allow credits for particular activities. Instead, taxpayers can receive a refundable tax credit for qualified adoption expenses under current law. The maximum credit is $13,170 per child for 2010, and is phased-out ratably for taxpayers with modified AGI between $182,520 and $222,520. The credit amounts and the phase-out thresholds are indexed for inflation. Taxpayers may also exclude qualified adoption expenses from income, subject to the same maximum amounts and phase-out as the credit. The same expenses cannot qualify for tax benefits under both programs; however, a taxpayer may use the benefits of the exclusion and the tax credit for different expenses.

121. ***Employer-provided meals and lodging.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law employer-provided meals and lodging are excluded from an employee's gross income even though the employer's costs for these items are a deductible business expense.

122. ***Child credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. Under current law, however, taxpayers with children under age 17 can qualify for a $1,000 partially refundable per child credit. The maximum credit declines to $500 in 2011 and later years. The credit is phased out for taxpayers at the rate of $50 per $1,000 of modified AGI above $110,000 ($75,000 for singles).

123. ***Child and dependent care expenses.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides married couples with child and dependent care expenses a tax credit when one spouse works full time and the other works at least part time or goes to school. The credit may also be claimed by single parents and by divorced or separated parents who have custody of children. In 2010, expenditures up to a maximum $3,000 for one dependent and $6,000 for two or more dependents are eligible for the credit. The credit is equal to 35 percent of qualified expenditures for taxpayers with incomes of $15,000. The credit is reduced to a minimum of 20 percent by one percentage point for each $2,000 of income in excess of $15,000.

124. ***Disabled access expenditure credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides small businesses (less than $1 million in gross receipts or fewer than 31 full-time employees) a 50-percent credit for expenditures in excess of $250 to remove access barriers for disabled persons. The credit is limited to $5,000.

125. ***Charitable contributions, other than education and health.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides taxpayers a deduction for contributions to charitable, religious, and certain other nonprofit organizations. Taxpayers who donate capital assets to charitable organizations can deduct the assets' current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

126. ***Foster care payments.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Foster parents provide a home and care for children who are wards of the State, under contract with the State. However, compensation received for this service is excluded from the gross incomes of foster parents; the expenses they incur are nondeductible.

127. ***Parsonage allowances.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a clergyman's taxable income for the value of the clergyman's housing allowance or the rental value of the clergyman's parsonage.

128. ***Provide an employee retention credit to employers affected by hurricanes Katrina, Rita, Wilma, and Ike.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides tax credits against the wages paid to eligible employees in areas affected by nat-

ural disasters such as hurricanes Katrina, Rita, Wilma, and Ike.

129. ***Exclusion for benefits provided to volunteer EMS and firefighters.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from taxable income of certain rebates or reductions of state and local income and property taxes provided by states or localities if the taxpayer is a member of a volunteer emergency response organization. The Tax Code also allows an exclusion from taxable income of certain payments such as reimbursements for expenses or equipment allowances of up to $360 per year provided by states or localities on account of performance of services as a member of a volunteer emergency response organization.

130. ***Making work pay tax credit.***—The baseline tax system would not allow credits for particular activities. In contrast, the Tax Code was modified in 2009 to provide for a tax credit in 2009 and 2010 of the lesser of 6.2 percent of an individual's earned income or $400 ($800 for joint filers). It is phased out at a rate of 2 percent of modified AGI above $75,000 ($150,000 for joint filers).

Health

131. ***Employer-paid medical insurance and expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law, employer-paid health insurance premiums and other medical expenses (including long-term care) are deducted as a business expense by employers, but they are not included in employee gross income.

132. ***Self-employed medical insurance premiums.***—Under the baseline tax system, all compensation and remuneration, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law self-employed taxpayers may deduct their family health insurance premiums. Taxpayers without self-employment income are not eligible for this special deduction. The deduction is not available for any month in which the self-employed individual is eligible to participate in an employer-subsidized health plan and the deduction may not exceed the self-employed individual's earned income from self-employment.

133. ***Medical and health savings accounts.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Also, the baseline tax system would not allow a deduction for personal expenditures. In contrast, individual contributions to Archer Medical Savings Accounts (Archer MSAs) and Health Savings Accounts (HSAs) are allowed as a deduction in determining adjusted gross income whether or not the individual itemizes deductions. Employer contributions to Archer MSAs and HSAs are excluded from income and employment taxes. Archer MSAs and HSAs require that the individual have coverage by a qualifying high deductible health plan. Earnings from the accounts are excluded from taxable income. Distributions from the accounts used for medical expenses are not taxable. The rules for HSAs are generally more flexible than for Archer MSAs and the deductible contribution amounts are greater (in 2010, $3050 for taxpayers with individual coverage and $6,150 for taxpayers with family coverage). Thus, HSAs have largely replaced MSAs.

134. ***Medical care expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law personal expenditures for medical care (including the costs of prescription drugs) exceeding 7.5 percent of the taxpayer's adjusted gross income are deductible. For tax years beginning after 2012, only medical expenditures exceeding 10 percent of the taxpayer's adjusted gross income are deductible. However, for the years 2013, 2014, 2015 and 2016, if either the taxpayer or the taxpayer's spouse turns 65 before the end of the taxable year, the threshold remains at 7.5 percent of adjusted income.

135. ***Hospital construction bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local government debt issued to finance hospital construction is excluded from income subject to tax.

136. ***Refundable Premium Assistance Tax Credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, for taxable years ending after 2013, the Tax Code provides a premium assistance credit to any eligible taxpayer for any qualified health insurance purchased through a Health Insurance Exchange. In general, an eligible taxpayer is a taxpayer with annual household income between 100% and 400% of the federal poverty level for a family of the taxpayer's size and that does not have access to affordable minimum essential health care coverage. The amount of the credit equals the lesser of (i) the actual premiums paid by the taxpayer for such coverage or (ii) the difference between the cost of a statutorily-identified benchmark plan offered on the exchange and a required payment by the taxpayer that increases with income.

137. ***Credit for employee health insurance expenses of small business.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides a tax credit to qualified small employers that make a certain level of non-elective contributions towards the purchase of certain health insurance coverage for its employees. To receive a credit, an employer must have fewer than 25 full-time-equivalent employees whose average annual full-time-equivalent wages from the employer are less than $50,000 (indexed for taxable years after 2013). However, to receive a full credit, an employer must have no more than 10 full-time employees, and the average wage paid to these employees must be no more than $25,000 (indexed for taxable years after 2013). A qualifying employer may

claim the credit for any taxable year beginning in 2010, 2011, 2012, and 2013 and for up to two years for insurance purchased through a Health Insurance Exchange thereafter. For taxable beginning in 2010, 2011, 2012, and 2013, the maximum credit is 35 percent of premiums paid by qualified taxable employers and 25 percent of premiums paid by qualified tax-exempt organizations. For taxable years beginning in 2014 and later years, the maximum tax credit will increase to 50 percent of premiums paid by qualified taxable employers and 35 percent of premiums paid by qualified tax-exempt organizations.

138. ***Charitable contributions to health institutions.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides individuals and corporations a deduction for contributions to nonprofit health institutions. Tax expenditures resulting from the deductibility of contributions to other charitable institutions are listed under the education, training, employment, and social services function.

139. ***Orphan drugs.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, under current law drug firms can claim a tax credit of 50 percent of the costs for clinical testing required by the Food and Drug Administration for drugs that treat rare physical conditions or rare diseases.

140. ***Blue Cross and Blue Shield.***—The baseline tax system generally would tax all profits under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, Blue Cross and Blue Shield health insurance providers in existence on August 16, 1986 and certain other nonprofit health insurers are provided exceptions from otherwise applicable insurance company income tax accounting rules that substantially reduce their tax liabilities, provided that their percentage of total premium revenue expended on reimbursement for clinical services provided to enrollees is not less than 85 percent for the taxable year.

141. ***Tax credit for health insurance purchased by certain displaced and retired individuals.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Trade Act of 2002 provides a refundable tax credit of 65 percent for the purchase of health insurance coverage by individuals eligible for Trade Adjustment Assistance and certain Pension Benefit Guarantee Corporation pension recipients. The American Recovery and Reinvestment Act increased the credit to 80 percent in coverage months preceding January 1, 2011.

142. ***Distributions for premiums for health and long-term care insurance.***—Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, the Tax Code provides for tax-free distributions of up to $3,000 from governmental retirement plans for premiums for health and long term care premiums of public safety officers.

Income Security

143. ***Railroad retirement benefits.***—Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, railroad retirement benefits are not generally subject to the income tax unless the recipient's gross income reaches a certain threshold under current law. The threshold is discussed more fully under the Social Security function.

144. ***Workers' compensation benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. However, workers compensation, although income to the recipients, are not subject to the income tax under current law.

145. ***Public assistance benefits.***—Under the reference law baseline tax system, gifts and transfers are not treated as income to the recipients. In contrast, the normal tax method considers cash transfers from the Government as part of the recipients' income, and thus, treats the exclusion for public assistance benefits under current law as tax expenditure.

146. ***Special benefits for disabled coal miners.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. However, disability payments to former coal miners out of the Black Lung Trust Fund, although income to the recipient, are not subject to the income tax.

147. ***Military disability pensions.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, most of the military pension income received by current disabled retired veterans is excluded from their income subject to tax.

148. ***Employer-provided pension contributions and earnings.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law certain employer contributions to pension plans are excluded from an employee's gross income even though the employer can deduct the contributions. In addition, the tax on the investment income earned by pension plans is deferred until the money is withdrawn.

149. ***401(k) plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law individual taxpayers can make tax-preferred contributions to certain types of employer-provided 401(k) plans (and 401(k)-type plans like 403(b) plans and the Federal Government's Thrift Savings Plan). In 2010, an employee could exclude up to $16,500 (indexed) of wages from AGI under a qualified arrangement with an employer's 401(k) plan. Employees age 50 or over could exclude up to $22,000 in contributions (indexed). The tax on contributions and the investment income earned by 401(k)-type plans is deferred until withdrawn.

150. ***Individual Retirement Accounts (IRAs).***—Under the baseline tax system, all compensation, includ-

ing deferred and dedicated payments, should be included in taxable income. In contrast, under current law individual taxpayers can take advantage of traditional and Roth IRAs to defer or otherwise reduce the tax on the return to their retirement savings. The IRA contribution limit is $5,000 in 2010 (indexed); taxpayers age 50 or over are allowed to make additional "catch-up" contributions of $1,000. Contributions to a traditional IRA are generally deductible but the deduction is phased out for workers with incomes above certain levels who, or whose spouses, are active participants in an employer-provided retirement plan. Contributions and account earnings are includible in income when withdrawn from traditional IRAs. Individuals who make nondeductible contributions to a traditional IRA can still benefit from deferral of tax on earnings. Roth IRA contributions are not deductible, but earnings and withdrawals are exempt from taxation under certain conditions. Income limits also apply to Roth IRA contributions; however, taxpayers at any income level may roll account balances from traditional IRAs into Roth IRAs, after paying income tax on any deduction and accrued income.

151. ***Low and moderate-income savers' credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides an additional incentive for lower-income taxpayers to save through a nonrefundable credit of up to 50 percent on IRA and other retirement contributions of up to $2,000. This credit is in addition to any deduction or exclusion. The credit is completely phased out by $55,500 for joint filers and $27,750 for single filers.

152. ***Keogh plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law self-employed individuals can make deductible contributions to their own retirement (Keogh) plans equal to 25 percent of their income, up to a maximum of $49,000 in 2010. Total plan contributions are limited to 25 percent of a firm's total wages. The tax on the investment income earned by Keogh plans is deferred until withdrawn.

153. ***Employer-provided life insurance benefits.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law employer-provided life insurance benefits are excluded from an employee's gross income even though the employer's costs for the insurance are a deductible business expense, but only to the extent that the employer's share of the total costs does not exceed the cost of $50,000 of such insurance.

154. ***Employer-provided accident and disability benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, employer-provided accident and disability benefits are excluded from an employee's gross income even though the employer's costs for the benefits are a deductible business expense.

155. ***Employer-provided supplementary unemployment benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Employers may establish trusts to pay supplemental unemployment benefits to employees separated from employment. Investment income earned by such trusts is exempt from taxation.

156. ***Employer Stock Ownership Plan (ESOP) provisions.***—ESOPs are a special type of tax-exempt employee benefit plan. Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, employer-paid contributions (the value of stock issued to the ESOP) are deductible by the employer as part of employee compensation costs. They are not included in the employees' gross income for tax purposes, however, until they are paid out as benefits. In addition, the following special income tax provisions for ESOPs are intended to increase ownership of corporations by their employees: (1) annual employer contributions are subject to less restrictive limitations than other qualified retirement plans; (2) ESOPs may borrow to purchase employer stock, guaranteed by their agreement with the employer that the debt will be serviced by his payment (deductible by him) of a portion of wages (excludable by the employees) to service the loan; (3) employees who sell appreciated company stock to the ESOP may defer any taxes due until they withdraw benefits; and (4) dividends paid to ESOP-held stock are deductible by the employer.

157. ***Additional deduction for the blind.***—Under the baseline tax system, the standard deduction is allowed. However, additional standard deductions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are blind to claim an additional $1,400 standard deduction if single, or $1,100 if married in 2010.

158. ***Additional deduction for the elderly.***—Under the baseline tax system, the standard deduction is allowed. However, additional standard deductions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years or older to claim an additional $1,400 standard deduction if single, or $1,100 if married in 2010.

159. ***Tax credit for the elderly and disabled.***—Under the baseline tax system, a credit targeted at a specific group within a given filing status or for particular activities would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years of age or older, or who are permanently disabled, to claim a tax credit equal to 15 percent of the sum of their earned and retirement income. The amount to which the 15 percent rate is applied is limited to no more than $5,000 for single individuals or married couples filing a joint return where only one spouse is 65 years of age or older, and up to $7,500 for joint returns where both spouses are 65 years of age or older. These limits are reduced by one-half of the taxpayer's adjusted gross income over $7,500 for single individuals and $10,000 for married couples filing a joint return.

160. ***Casualty losses.***—Under the baseline tax system, neither the purchase of property nor insurance premiums to protect its value are deductible as costs of earning income. Therefore, reimbursement for insured loss of such property is not included as a part of gross income, and uninsured losses are not deductible. In contrast, the Tax Code provides a deduction for uninsured casualty and theft losses of more than $100 each, to the extent that total losses during the year exceed 10 percent of the taxpayer's adjusted gross income.

161. ***Earned income tax credit (EITC).***—The baseline tax system would not allow credits for particular activities or targeted at specific group. In contrast, the Tax Code provides an EITC to low-income workers at a maximum rate of 45 percent of income. For a family with one qualifying child, the credit is 34 percent of the first $8,970 of earned income in 2010. The credit is 40 percent of the first $12,590 of income for a family with two or more qualifying children. The credit is 45 percent of the first $12,590 of income for a family with three or more qualifying children. Low-income workers with no qualifying children are eligible for a 7.65 percent credit on the first $5,980 of earned income. The credit is phased out at income levels and rates which depend upon how many qualifying children are eligible and marital status. Earned income tax credits in excess of tax liabilities owed through the individual income tax system are refundable to individuals.

162. ***Exclusion of unemployment benefits.***—The baseline tax system would not allow deductions and exemptions to certain types of income. In contrast the Tax Code was modified in 2009 to allow an exclusion of up to $2,400 of unemployment insurance benefits from gross income for taxable year 2009.

Social Security

163. ***Social Security benefits for retired workers.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Thus, the portion of Social Security benefits that is attributable to employer contributions and earnings on employer and employee contributions (and not attributable to employee contributions) would be subject to tax. In contrast, the Tax Code may not tax all of the Social Security benefits that exceed the beneficiary's contributions from previously taxed income. Actuarially, previously taxed contributions generally do not exceed 15 percent of benefits, even for retirees receiving the highest levels of benefits. Up to 85 percent of recipients' Social Security and tier 1 railroad retirement benefits are included in (phased into) the income tax base if the recipient's provisional income exceeds certain base amounts. (Provisional income is equal to other items included in adjusted gross income plus foreign or U.S. possession income, tax-exempt interest, and one half of Social Security and tier 1 railroad retirement benefits.) The untaxed portion of the benefits received by taxpayers who are below the income amounts at which 85 percent of the benefits are taxable is counted as a tax expenditure.

164. ***Social Security benefits for the disabled.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, benefit payments from the Social Security Trust Fund for disability are fully or partially excluded from a beneficiary's gross incomes. (See provision number 163, Social Security benefits for retired workers.)

165. ***Social Security benefits for dependents and survivors.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, benefit payments from the Social Security Trust Fund for dependents and survivors are fully or partially excluded from a beneficiary's gross income.

Veterans Benefits and Services

166. ***Veterans death benefits and disability compensation.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. In contrast, all compensation due to death or disability paid by the Veterans Administration is excluded from taxable income under current law.

167. ***Veterans pension payments.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, pension payments made by the Veterans Administration are excluded from gross income.

168. ***G.I. Bill benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, G.I. Bill benefits paid by the Veterans Administration are excluded from gross income.

169. ***Tax-exempt mortgage bonds for veterans.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law, interest earned on general obligation bonds issued by State and local governments to finance housing for veterans is excluded from taxable income.

General Government

170. ***Public purpose State and local bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially

low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local government bonds issued to finance public-purpose construction (e.g., schools, roads, sewers), equipment acquisition, and other public purposes is tax-exempt. Interest on bonds issued by Indian tribal governments for essential governmental purposes is also tax-exempt.

171. ***Build America Bonds.***—The baseline tax system would not allow credits for particular activities or targeted at specific group. In contrast, the Tax Code in 2009 allowed State and local governments to issue taxable bonds and receive a direct payment from Treasury equal to 35 percent of interest expenses. Alternatively, State and local governments may issue taxable bonds and the private lenders receive the 35 percent credit which is included in taxable income.

172. ***Deductibility of certain nonbusiness State and local taxes.***—Under the baseline tax system, a deduction for personal consumption expenditures would not be allowed. In contrast, the Tax Code allows taxpayers who itemize their deductions to claim a deduction for State and local income taxes (or, at the taxpayer's election, state and local sales taxes) and property taxes, even though these taxes primarily pay for services that, if purchased directly by taxpayers, would not be deductible.

Interest

173. ***U.S. savings bonds.***—The baseline tax system would uniformly tax all returns to investments and not allow an exemption or deferral for particular activities, investments, or industries. In contrast, taxpayers may defer paying tax on interest earned on U.S. savings bonds until the bonds are redeemed.

APPENDIX

Performance Measures and the Economic Effects of Tax Expenditures

The Government Performance and Results Act of 1993 (GPRA) directs Federal agencies to develop annual and strategic plans for their programs and activities. These plans set out performance objectives to be achieved over a specific time period. Most of these objectives are achieved through direct expenditure programs. Tax expenditures – spending programs implemented through the tax code by reducing tax obligations for certain activities -- contribute to achieving these goals in a manner similar to direct expenditure programs.

Tax expenditures by definition work through the tax system and, particularly, the income tax. Thus, they may be relatively advantageous policy approaches when the benefit or incentive is related to income and is intended to be widely available.[4] Because there is an existing public administrative and private compliance structure for the tax system, income based programs that require little oversight might be efficiently run through the tax system. In addition, some tax expenditures actually simplify the operation of the tax system (for example, the exclusion for up to $500,000 of capital gains on home sales). Tax expenditures also implicitly subsidize certain activities in a manner similar to direct expenditures. For example, exempting employer-sponsored health insurance from income taxation is equivalent to a direct spending subsidy equal to the forgone tax obligations for this type of compensation. Spending, regulatory or tax-disincentive policies can also modify behavior, but may have different economic effects. Finally, a variety of tax expenditure tools can be used, e.g., deductions; credits; exemptions; deferrals; floors; ceilings; phase-ins; phase-outs; and these can be dependent on income, expenses, or demographic characteristics (age, number of family members, etc.). This wide range of policy instruments means that tax expenditures can be flexible and can have very different economic effects.

Tax expenditures also have limitations. In many cases they add to the complexity of the tax system, which raises both administrative and compliance costs. For example, personal exemptions, deductions, credits, and phase-outs can complicate filing and decision-making. The income tax system may have little or no contact with persons who have no or very low incomes, and does not require information on certain characteristics of individuals used in some spending programs, such as wealth or duration of employment. These features may reduce the effectiveness of tax expenditures for addressing socioeconomic disparities. Tax expenditures also generally do not enable the same degree of agency discretion as an outlay program. For example, grant or direct Federal service delivery programs can prioritize activities to be addressed with specific resources in a way that is difficult to emulate with tax expenditures.

Outlay programs have advantages where the direct provision of government services is particularly warranted, such as equipping and maintaining the armed forces or administering the system of justice. Outlay programs may also be specifically designed to meet the needs of low-income families who would not otherwise be subject to income taxes or need to file a tax return. Outlay programs may also receive more year-to-year oversight and fine tuning through the legislative and executive budget process. In addition, many different types of spending programs include direct Government provision; credit programs; and payments to State and local governments, the private sector, or individuals in the form of grants or contracts provide flexibility for policy design. On the other hand, certain outlay programs may rely less directly on economic incentives and private-market provision than tax incentives, thereby reducing the relative efficiency

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

of spending programs for some goals. Finally, spending programs, particularly on the discretionary side, may respond less rapidly to changing activity levels and economic conditions than tax expenditures.

Regulations may have more direct and immediate effects than outlay and tax-expenditure programs because regulations apply directly and immediately to the regulated party (i.e., the intended actor), generally in the private sector. Regulations can also be fine-tuned more quickly than tax expenditures because they can often be changed as needed by the Executive Branch without legislation. Like tax expenditures, regulations often rely largely on voluntary compliance, rather than detailed inspections and policing. As such, the public administrative costs tend to be modest relative to the private resource costs associated with modifying activities. Historically, regulations have tended to rely on proscriptive measures, as opposed to economic incentives. This reliance can diminish their economic efficiency, although this feature can also promote full compliance where (as in certain safety-related cases) policymakers believe that trade-offs with economic considerations are not of paramount importance. Also, regulations generally do not directly affect Federal outlays or receipts. Thus, like tax expenditures, they may escape the degree of scrutiny that outlay programs receive. Some policy objectives are achieved using multiple approaches. For example, minimum wage legislation, the earned income tax credit, and the food stamp program (SNAP) are regulatory, tax expenditure, and direct outlay programs, respectively, all having the objective of improving the economic welfare of low-wage workers and families.

A Framework for Evaluating the Effectiveness of Tax Expenditures

Across all major budgetary categories – from housing and health to space, technology, agriculture, and national defense – tax expenditures make up a significant portion of Federal activity and affect every area of the economy. For these reasons, a comprehensive evaluation framework that examines incentives, direct results, and spillover effects will benefit the budgetary process by informing decisions on tax expenditure policy.

As described above, tax expenditures, like spending and regulatory programs, have a variety of objectives and economic effects. These include: encouraging certain types of activities (e.g., saving for retirement or investing in certain sectors); increasing certain types of after-tax income (e.g., favorable tax treatment of Social Security income); and reducing private compliance costs and Government administrative costs (e.g., the exclusion for up to $500,000 of capital gains on home sales). Some of these objectives are well suited to quantitative measurement and evaluation, while others are less well suited

Performance measurement is generally concerned with inputs, outputs, and outcomes. In the case of tax expenditures, the principal input is usually the revenue effect. Outputs are quantitative or qualitative measures of goods and services, or changes in income and investment, directly produced by these inputs. Outcomes, in turn, represent the changes in the economy, society, or environment that are the ultimate goals of programs. Evaluations assess whether programs are meeting intended goals, but may also encompass analyzing whether initiatives are superior to other policy alternatives.

The Administration is working towards examining the objectives and effects of the wide range of tax expenditures in our budget, despite challenges related to data availability, measurement, and analysis. Evaluations include an assessment of whether tax expenditures are achieving intended policy results in an efficient manner, with minimal burdens on individual taxpayers, consumers, and firms; and an examination of possible unintended effects and their consequences.

As an illustration of how evaluations can inform budgetary decisions, consider education and research and investment credits.

Education. There are millions of individuals taking advantage of tax credits designed to help pay for educational expenses. There are a number of different credits available as well as other important forms of Federal support for higher education such as subsidized loans and grants. An evaluation would explore the possible relationships between use of the credits and the use of loans and grants, seeking to answer, for examples, whether the use of credits reduce or increase the likelihood of the students applying for loans. Such an evaluation would allow stakeholders to determine the most effective program – whether it is a tax credit, a subsidized loan, or a grant.

Investment. A series of tax expenditures reduce the cost of investment, both in specific activities such as research and experimentation, extractive industries, and certain financial activities and more generally throughout the economy, through accelerated depreciation for plant and equipment. These provisions can be evaluated along a number of dimensions. For example, it is useful to consider the strength of the incentives by measuring their effects on the cost of capital (the return which investments must yield to cover their costs) and effective tax rates. The impact of these provisions on the amounts of corresponding forms of investment (e.g., research spending, exploration activity, equipment) might also be estimated. In some cases, such as research, there is evidence that the investment can provide significant positive externalities—that is, economic benefits that are not reflected in the market transactions between private parties. It could be useful to quantify these externalities and compare them with the size of tax expenditures. Measures could also indicate the effects on production from these investments such as numbers or values of patents, energy production and reserves, and industrial production. Issues to be considered include the extent to which the preferences increase production (as opposed to benefiting existing output) and their cost-effectiveness relative to other policies. Analysis could also consider objectives that are more difficult to measure but still are ultimate goals, such as promoting the Nation's technological base, energy security, environmental quality, or economic growth. Such an assessment is likely to involve tax analysis as well as consideration of

non-tax matters such as market structure, scientific, and other information (such as the effects of increased domestic fuel production on imports from various regions, or the effects of various energy sources on the environment).

The tax proposals subject to these analyses include items that indirectly affect the estimated value of tax expenditures (such as changes in income tax rates), proposals that make reforms to improve tax compliance and administration, as well as proposals which would change, add, or delete tax expenditures.

Barriers to Evaluation. Developing a framework that is sufficiently comprehensive, accurate, and flexible is a significant challenge. Evaluations are constrained by the availability of appropriate data and challenges in economic modeling:

1. Data availability. Data may not exist, or may not exist in an analytically appropriate form, to conduct rigorous evaluations of certain types of expenditures. For example, measuring the effects of tax expenditures designed to achieve tax neutrality for individuals and firms earning income abroad, and foreign firms could require data from foreign governments or firms which are not readily available.

2. Analytical constraints. Evaluations of tax expenditures face analytical constraints even when data are available. For example, individuals might have access to several tax expenditures and programs aimed at improving the same outcome. Isolating the effect of a single tax credit is challenging absent a well-specified research design.

3. Resources. Tax expenditure analyses are seriously constrained by staffing considerations. Evaluations typically require expert analysts who are often engaged in other more competing areas of work related to the budget.

The Executive Branch is focused on addressing these challenges in order to lay the foundation for the analysis of tax expenditures comprehensively, alongside evaluations of the effectiveness of direct spending initiatives.

Current Administration Proposals on Tax Expenditures

The Administration considers performance measurement, evaluations, and the economic effects of tax expenditures each year in its deliberation for the Budget and proposals are informed by these analyses. The President's National Commission on Fiscal Responsibility and Reform recently submitted a report in which they said that the income tax system is unduly complicated and that the government should "sharply reduce rates, broaden the base, simplify the tax code, and reduce the many 'tax expenditures' —another name for spending through the tax code."

The current Budget and enacted Administration policies include several proposals that would change existing tax expenditures to raise revenue, eliminate ineffective or counterproductive tax expenditures, and enhance effective tax expenditures. The tax expenditure proposals in the budget further the Administration's goals of economic recovery and growth, clean and secure energy, and a world-class education for all Americans.

Limit itemized deductions. The Administration is proposing to limit the tax rate at which high-income taxpayers can take itemized deductions to a maximum of 28 percent, affecting married taxpayers with incomes over $250,000 and singles over $200,000. This will reduce the value of tax expenditures for such deductions, which include mortgage interest, state and local taxes, and charitable contributions. These are among the largest tax expenditures. This proposal would make the tax code more equitable because the value of the tax expenditure as a percentage of the deduction is proportional to one's tax bracket, so it is less valuable to those in lower brackets.

Reduce preferences for oil, gas, and coal. Current law provides a number of credits and deductions that are targeted towards certain oil, gas, and coal activities. These tax preferences run counter to our policies for reducing greenhouse gas emissions. In accordance with the President's agreement at the G-20 summit in 2009 to phase out subsidies for fossil fuels so that we can transition to a 21st century energy economy, the Administration proposes to repeal a number of tax preferences available for fossil fuels.

Enhance and make permanent the Research and Experimentation (R&E) credit. The extension of this credit every year creates uncertainty reducing firms' incentive to expand their research activities. For this reason, and more generally to achieve the President's R&D goals, the Budget proposes making the R&E credit permanent.

Make the American Opportunity Tax Credit (AOTC) Permanent. This tax credit provides a substantial benefit to students and families in defraying the cost of college, a key Administration priority. For this reason, the Budget proposes a permanent extension of this tax expenditure.

Modify the EITC (Earned Income Tax Credit). As a result of analyses showing both effective and ineffective components of the EITC (a tax credit for certain people who work and have low wages, designed to encourage and maintain employment), the Administration has proposed extending some portions of this tax credit, and eliminating others:

- *Extend the "third tier" component of the EITC.* Under the Recovery Act, the EITC was expanded to reduce the marriage penalty and to create a "third tier" of the EITC for families with three or more children. This means larger families receive more now than they would have under the old system. Evaluations of the distribution of EITC benefits showed that this extension would benefit working mothers, and families headed by single mothers specifically. The bipartisan tax agreement extends this credit.

- *Repeal the Advanced Earned Income Tax Credit (AEITC).* In 2009 and 2010, the Administration proposed repealing the AEITC, and this proposal was enacted in the Education/Jobs/Medicaid Assistance Act of 2010. The AEITC allows individuals to receive a portion of the Earned Income Tax Credit (EITC) in

their paychecks, instead of receiving all of it when filing their year-end tax return. A Government Accountability Office (GAO) Report dated August 2007 found an extremely high error rate in the AEITC program; some 80 percent of AEITC recipients did not comply with at least one program requirement. Only a tiny number of EITC eligible taxpayers claim the AEITC (three percent, or 514,000 according to the GAO.) Further, the dollar amounts involved were consistently small: half of all AEITC recipients received less than $100.

Allow a range of tax expenditures to expire. The aforementioned bipartisan tax agreement extended many provisions of the tax code for up to two years, including many provisions identified as tax expenditures in this chapter. However, a number of provisions identified as tax expenditures were not extended. For instance, the sales tax deduction for new cars and trucks, the above-the-line deduction for property taxes up to $500 for taxpayers who to not itemize, and the exemption from taxes for the first $2,400 of unemployment benefits were allowed to expire.