

## 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 tax 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 2011–2017 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 December 31, 2011. Expired or repealed provisions are not listed if their revenue effects result only from taxpayer activity occurring before fiscal year 2011. The estimates are based on the economic assumptions from the Mid-session Review of the 2012 Budget.

The total revenue effects for tax expenditures for fiscal years 2011–2017 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.<sup>1</sup> 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 esti-

mates 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 2013–2017 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 interaction 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.

<sup>1</sup> 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.

### 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 2011 which cause the deferrals or other long-term revenue effects. For instance, a pension contribution in 2011 would cause a deferral of tax payments on wages in 2011 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2011 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. Accrued 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.



**Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2011-2017—Continued**  
(In millions of dollars)

		Total from corporations and individuals							
		2011	2012	2013	2014	2015	2016	2017	2013–17
47	Capital gains treatment of certain income .....	630	890	830	650	800	960	1,070	4,310
48	Income averaging for farmers .....	90	90	90	90	100	100	100	480
49	Deferral of gain on sale of farm refiners .....	20	20	20	20	20	20	20	100
50	Expensing of reforestation expenditures .....	60	70	80	80	90	90	90	430
<b>Commerce and housing:</b>									
Financial institutions and insurance:									
51	Exemption of credit union income .....	1,110	1,140	1,160	1,120	1,120	1,210	1,520	6,130
52	Exclusion of interest on life insurance savings .....	22,060	23,570	25,150	26,810	28,350	29,890	30,430	140,630
53	Special alternative tax on small property and casualty insurance companies .....	40	40	40	40	40	40	40	200
54	Tax exemption of certain insurance companies owned by tax-exempt organizations .....	200	210	210	210	220	220	220	1,080
55	Small life insurance company deduction .....	30	30	30	30	30	30	30	150
56	Exclusion of interest spread of financial institutions .....	260	490	600	690	760	810	870	3,730
Housing:									
57	Exclusion of interest on owner-occupied mortgage subsidy bonds .....	1,060	1,170	1,460	1,720	1,890	2,000	2,100	9,170
58	Exclusion of interest on rental housing bonds .....	900	1,000	1,240	1,470	1,610	1,690	1,780	7,790
59	Deductibility of mortgage interest on owner-occupied homes .....	72,240	86,910	100,910	110,830	120,240	130,920	143,520	606,420
60	Deductibility of State and local property tax on owner-occupied homes .....	23,210	16,150	22,320	27,900	29,060	30,080	31,270	140,630
61	Deferral of income from installment sales .....	970	1,380	1,350	1,180	1,390	1,610	1,770	7,300
62	Capital gains exclusion on home sales .....	15,060	16,040	23,440	31,610	34,910	38,560	42,590	171,110
63	Exclusion of net imputed rental income .....	46,950	50,640	51,080	58,740	66,860	75,480	85,220	337,380
64	Exception from passive loss rules for \$25,000 of rental loss .....	11,080	12,550	15,380	18,450	20,680	21,990	23,310	99,810
65	Credit for low-income housing investments <sup>6</sup> .....	6,150	6,530	7,380	7,830	7,850	7,920	8,320	39,300
66	Accelerated depreciation on rental housing (normal tax method) .....	-140	-50	90	350	690	1,020	1,330	3,480
67	Discharge of mortgage indebtedness .....	1,370	1,080	250	0	0	0	0	250
68	Credit for homebuyer <sup>7</sup> .....	2,400	-2,350	-1,150	-590	-520	-470	-410	-3,140
Commerce:									
69	Cancellation of indebtedness .....	690	330	-20	-220	-290	-310	-260	-1,100
70	Exceptions from imputed interest rules .....	50	50	50	50	50	50	50	250
71	Treatment of qualified dividends .....	16,550	30,580	21,900	0	0	0	0	21,900
72	Capital gains (except agriculture, timber, iron ore, and coal) .....	47,390	66,210	62,040	48,300	59,380	71,550	80,200	321,470
73	Capital gains exclusion of small corporation stock .....	60	60	280	660	1,020	1,060	830	3,850
74	Step-up basis of capital gains at death .....	3,940	19,940	23,860	36,200	38,370	40,670	43,110	182,210
75	Carryover basis of capital gains on gifts .....	1,930	1,860	2,070	3,360	3,530	3,650	3,830	16,440
76	Ordinary income treatment of loss from small business corporation stock sale .....	60	60	60	60	60	60	60	300
77	Accelerated depreciation of buildings other than rental housing (normal tax method) .....	-7,290	-6,970	-7,370	-7,390	-7,220	-7,010	-6,800	-35,790
78	Accelerated depreciation of machinery and equipment (normal tax method) .....	118,530	76,280	33,180	48,730	77,350	98,970	116,410	374,640
79	Expensing of certain small investments (normal tax method) .....	-30	3,060	940	440	1,330	1,570	1,760	6,040
80	Graduated corporation income tax rate (normal tax method) .....	3,280	3,220	3,300	3,590	3,770	3,960	4,050	18,670
81	Exclusion of interest on small issue bonds .....	240	270	340	400	430	460	480	2,110
82	Deduction for US production activities .....	13,130	13,750	14,500	15,330	16,200	17,090	17,960	81,080
83	Special rules for certain film and TV production .....	160	130	80	50	20	10	0	160
<b>Transportation:</b>									
84	Deferral of tax on shipping companies <sup>8</sup> .....	20	20	20	20	20	20	20	100
85	Exclusion of reimbursed employee parking expenses .....	3,060	3,170	3,290	3,440	3,590	3,750	3,900	17,970
86	Exclusion for employer-provided transit passes .....	560	570	560	590	630	670	720	3,170
87	Tax credit for certain expenditures for maintaining railroad tracks .....	160	130	80	50	20	10	0	160
88	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities .....	250	240	230	210	200	190	170	1,000
<b>Community and regional development:</b>									
89	Investment credit for rehabilitation of structures (other than historic) .....	20	20	20	20	20	20	20	100
90	Exclusion of interest for airport, dock, and similar bonds .....	700	780	970	1,160	1,260	1,330	1,410	6,130
91	Exemption of certain mutuals' and cooperatives' income .....	110	110	120	120	120	130	130	620
92	Empowerment zones and renewal communities .....	980	670	460	470	480	480	440	2,330
93	New markets tax credit .....	820	900	930	930	910	830	680	4,280

**Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2011–2017—Continued**  
(In millions of dollars)

		Total from corporations and individuals							
		2011	2012	2013	2014	2015	2016	2017	2013–17
94	Expensing of environmental remediation costs .....	200	–20	–170	–160	–140	–130	–130	–730
95	Credit to holders of Gulf Tax Credit Bonds .....	80	70	50	50	50	50	40	240
96	Recovery Zone Bonds <sup>9</sup> .....	0	0	0	0	0	0	0	
97	Tribal Economic Development Bonds .....	170	380	480	580	630	660	690	3,040
<b>Education, training, employment, and social services:</b>									
Education:									
98	Exclusion of scholarship and fellowship income (normal tax method) .....	3,060	3,170	3,290	3,410	3,530	3,660	3,800	17,690
99	HOPE tax credit .....	0	0	580	5,780	5,780	5,770	5,800	23,710
100	Lifetime Learning tax credit .....	2,800	3,250	3,920	5,750	5,810	5,850	5,880	27,210
101	American Opportunity Tax Credit <sup>10</sup> .....	13,060	14,290	13,710	0	0	0	0	13,710
102	Education Individual Retirement Accounts .....	70	80	80	90	100	100	110	480
103	Deductibility of student-loan interest .....	1,400	850	900	960	1,020	1,090	1,160	5,130
104	Deduction for higher education expenses .....	690	470	0	0	0	0	0	0
105	Qualified tuition programs .....	1,610	1,780	1,890	1,980	2,070	2,170	2,280	10,390
106	Exclusion of interest on student-loan bonds .....	480	530	660	780	850	900	940	4,130
107	Exclusion of interest on bonds for private nonprofit educational facilities .....	2,100	2,320	2,900	3,430	3,760	3,970	4,170	18,230
108	Credit for holders of zone academy bonds <sup>11</sup> .....	200	200	180	160	130	120	110	700
109	Exclusion of interest on savings bonds redeemed to finance educational expenses ..	20	20	20	20	30	30	30	130
110	Parental personal exemption for students age 19 or over .....	5,600	3,120	2,800	3,060	2,780	2,510	2,260	13,410
111	Deductibility of charitable contributions (education) .....	3,520	3,910	4,610	5,060	5,500	5,930	6,370	27,470
112	Exclusion of employer-provided educational assistance .....	710	750	40	0	0	0	0	40
113	Special deduction for teacher expenses .....	190	170	0	0	0	0	0	0
114	Discharge of student loan indebtedness .....	20	20	20	20	20	20	20	100
115	Qualified school construction bonds <sup>12</sup> .....	210	400	580	650	650	650	0	2,530
Training, employment, and social services:									
116	Work opportunity tax credit .....	1,110	930	620	340	140	70	20	1,190
117	Welfare-to-work tax credit .....	0	0	0	0	0	0	0	0
118	Employer provided child care exclusion .....	840	1,350	1,580	1,670	1,780	1,900	2,040	8,970
119	Employer-provided child care credit .....	10	10	0	0	0	0	0	0
120	Assistance for adopted foster children .....	500	530	560	600	650	690	730	3,230
121	Adoption credit and exclusion <sup>13</sup> .....	1,200	760	380	110	80	80	80	730
122	Exclusion of employee meals and lodging (other than military) .....	9,980	6,620	10,290	10,460	10,640	10,830	11,020	53,240
123	Child credit <sup>14</sup> .....	23,410	24,470	18,390	9,280	8,900	8,500	8,060	53,130
124	Credit for child and dependent care expenses .....	4,200	3,400	1,620	1,460	1,380	1,320	1,260	7,040
125	Credit for disabled access expenditures .....	20	20	20	20	20	20	20	100
126	Deductibility of charitable contributions, other than education and health .....	29,820	33,290	39,770	43,900	47,800	51,660	55,590	238,720
127	Exclusion of certain foster care payments .....	410	410	400	410	400	390	380	1,980
128	Exclusion of parsonage allowances .....	660	710	770	830	900	970	1,050	4,520
129	Employee retention credit for employers in certain federal disaster areas .....	30	10	0	0	0	0	0	0
130	Exclusion for benefits provided to volunteer EMS and firefighters .....	20	0	0	0	0	0	0	0
131	Making work pay tax credit <sup>15</sup> .....	23,528	0	0	0	0	0	0	0
<b>Health:</b>									
132	Exclusion of employer contributions for medical insurance premiums and medical care <sup>16</sup> ...	163,040	170,650	180,580	189,670	200,640	213,620	227,810	1,012,320
133	Self-employed medical insurance premiums <sup>17</sup> .....	5,170	5,520	5,970	6,970	7,750	8,270	8,800	37,760
134	Medical Savings Accounts / Health Savings Accounts .....	1,880	1,980	2,070	2,210	2,350	2,510	2,680	11,820
135	Deductibility of medical expenses .....	8,280	9,320	9,910	10,710	12,490	14,420	15,640	63,170
136	Exclusion of interest on hospital construction bonds .....	3,100	3,440	4,280	5,050	5,550	5,860	6,150	26,890
137	Refundable Premium Assistance Tax Credit <sup>18</sup> .....	0	0	0	0	–2,440	–3,610	–4,460	–10,510
138	Credit for employee health insurance expenses of small business <sup>19</sup> .....	830	1,470	1,750	2,500	2,870	2,500	2,060	11,680
139	Deductibility of charitable contributions (health) .....	3,370	3,760	4,490	4,960	5,400	5,840	6,280	26,970
140	Tax credit for orphan drug research .....	770	930	1,120	1,360	1,640	1,990	2,410	8,520
141	Special Blue Cross/Blue Shield deduction .....	715	680	590	530	610	710	690	3,130
142	Tax credit for health insurance purchased by certain displaced and retired individuals <sup>20</sup> .....	10	10	10	0	0	0	0	10

**Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2011–2017—Continued**  
(In millions of dollars)

		Total from corporations and individuals							
		2011	2012	2013	2014	2015	2016	2017	2013–17
143	Distributions from retirement plans for premiums for health and long-term care insurance .....	300	330	360	400	440	490	510	2,200
<b>Income security:</b>									
144	Exclusion of railroad retirement system benefits .....	360	340	290	260	250	240	220	1,260
145	Exclusion of workers' compensation benefits .....	7,050	7,410	7,790	8,170	8,570	9,000	9,440	42,970
146	Exclusion of public assistance benefits (normal tax method) .....	670	710	750	770	800	840	850	4,010
147	Exclusion of special benefits for disabled coal miners .....	40	40	40	40	40	40	40	200
148	Exclusion of military disability pensions .....	120	120	130	130	130	130	140	660
Net exclusion of pension contributions and earnings:									
149	Employer plans .....	36,390	44,490	52,330	56,650	59,840	62,960	66,260	298,040
150	401(k)-type plans .....	53,360	60,090	72,740	81,030	86,740	92,230	96,020	428,760
151	Individual Retirement Accounts .....	12,840	15,410	19,650	18,450	19,740	20,790	21,450	100,080
152	Low and moderate income savers credit .....	1,070	1,040	1,130	1,110	1,090	1,110	1,070	5,510
153	Self-Employed plans .....	15,030	17,070	19,580	20,940	22,450	23,840	25,390	112,200
Exclusion of other employee benefits:									
154	Premiums on group term life insurance .....	1,980	2,080	2,120	2,150	2,190	2,250	2,310	11,020
155	Premiums on accident and disability insurance .....	340	350	360	360	370	370	370	1,830
156	Income of trusts to finance supplementary unemployment benefits .....	30	30	40	50	60	70	80	300
157	Special ESOP rules .....	1,500	1,600	1,700	1,700	1,800	1,900	2,000	9,100
158	Additional deduction for the blind .....	40	30	40	50	50	50	50	240
159	Additional deduction for the elderly .....	2,390	2,110	2,780	3,350	3,480	3,500	3,490	16,600
160	Tax credit for the elderly and disabled .....	10	10	10	10	10	10	0	40
161	Deductibility of casualty losses .....	270	300	350	380	390	420	440	1,980
162	Earned income tax credit <sup>21</sup> .....	1,172	1,128	3,155	3,265	3,423	3,550	3,769	17,162
<b>Social Security:</b>									
Exclusion of social security benefits:									
163	Social Security benefits for retired workers .....	25,360	25,970	25,620	27,580	29,690	31,970	34,420	149,280
164	Social Security benefits for disabled workers .....	7,690	8,030	8,230	8,590	9,000	9,430	9,860	45,110
165	Social Security benefits for spouses, dependents and survivors .....	4,710	4,470	3,890	3,960	4,040	4,110	4,190	20,190
<b>Veterans benefits and services:</b>									
166	Exclusion of veterans death benefits and disability compensation .....	5,200	5,880	5,650	6,060	6,210	6,520	6,770	31,210
167	Exclusion of veterans pensions .....	240	300	340	370	390	420	440	1,960
168	Exclusion of GI bill benefits .....	810	1,030	1,190	1,280	1,350	1,420	1,470	6,710
169	Exclusion of interest on veterans housing bonds .....	10	10	20	30	30	30	30	140
<b>General purpose fiscal assistance:</b>									
170	Exclusion of interest on public purpose State and local bonds .....	26,190	29,080	36,210	42,770	46,920	49,570	52,030	227,500
171	Build America Bonds <sup>22</sup> .....	0	0	0	0	0	0	0	0
172	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes .....	41,060	33,180	46,260	56,980	60,500	63,880	67,430	295,050
<b>Interest:</b>									
173	Deferral of interest on U.S. savings bonds .....	1,190	1,200	1,250	1,330	1,340	1,360	1,370	6,650
<b>Addendum: Aid to State and local governments:</b>									
Deductibility of:									
	Property taxes on owner-occupied homes .....	23,210	16,150	22,320	27,900	29,060	30,080	31,270	140,630
	Nonbusiness State and local taxes other than on owner-occupied homes .....	41,060	33,180	46,260	56,980	60,500	63,880	67,430	295,050
Exclusion of interest on State and local bonds for:									
	Public purposes .....	26,190	29,080	36,210	42,770	46,920	49,570	52,030	227,500
	Energy facilities .....	20	30	30	30	40	40	60	200
	Water, sewage, and hazardous waste disposal facilities .....	420	470	580	690	750	790	830	3,640
	Small-issues .....	240	270	340	400	430	460	480	2,110
	Owner-occupied mortgage subsidies .....	1,060	1,170	1,460	1,720	1,890	2,000	2,100	9,170
	Rental housing .....	900	1,000	1,240	1,470	1,610	1,690	1,780	7,790
	Airports, docks, and similar facilities .....	700	780	970	1,160	1,260	1,330	1,410	6,130

**Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2011–2017—Continued**  
(In millions of dollars)

	Total from corporations and individuals							
	2011	2012	2013	2014	2015	2016	2017	2013–17
Student loans .....	480	530	660	780	850	900	940	4,130
Private nonprofit educational facilities .....	2,100	2,320	2,900	3,430	3,760	3,970	4,170	18,230
Hospital construction .....	3,100	3,440	4,280	5,050	5,550	5,860	6,150	26,890
Veterans' housing .....	10	10	20	30	30	30	30	140
GO Zone and GO Zone mortgage .....	80	70	50	50	50	50	40	240
Credit for holders of zone academy bonds .....	200	200	180	160	130	120	110	700

<sup>1</sup> 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: 2011 \$3,510; 2012 \$4,130; 2013 \$3,850; 2014 \$3,210; 2015 \$1,230; 2016 \$290; 2017 \$110;

<sup>2</sup> In addition, the alcohol fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2011 \$6,520; 2012 \$3,590; 2013 \$0; 2014 \$0; 2015 \$0; 2016 \$0; 2017 \$0.

The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2011 \$160; 2012 \$170; 2013 \$0; 2014 \$0; 2015 \$0; 2016 \$0; 2017 \$0.

<sup>3</sup> In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2011 \$760; 2012 \$210; 2013 \$0; 2014 \$0; 2015 \$0; 2016 \$0; 2017 \$0.

<sup>4</sup> In addition, the provision has outlay effects of (in millions of dollars): 2011 \$20; 2012 \$40; 2013 \$50; 2014 \$50; 2015 \$50; 2016 \$50; 2017 \$50.

<sup>5</sup> In addition, the provision has outlay effects of (in millions of dollars): 2011 \$30; 2012 \$50; 2013 \$60; 2014 \$60; 2015 \$60; 2016 \$60; 2017 \$60.

<sup>6</sup> In addition, the credit for low-income housing investments has outlay effects (in millions of dollars) as follows: 2010 \$1940; 2011 \$3480; 2012 \$180.

<sup>7</sup> The figures in the table indicate the effect of the homebuyer credits on receipts. The effect of the credits on outlays (in millions of dollars) is as follows: 2010 \$8,670; 2011 \$2,760; 2012 \$310; 2013 \$0; 2014 \$0; 2015 \$0; 2016 \$0; and 2017 \$0.

<sup>8</sup> These figures do not account for the tonnage tax which shipping companies may opt into in lieu of the corporate income tax.

The tonnage tax reduces the cost of this tax expenditure by \$20 per year in each year of the budget.

<sup>9</sup> In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2011 \$160, 2012 \$160, 2013 \$160, 2014 \$160, 2015 \$160, 2016 \$160; and 2017 \$160.

<sup>10</sup> The figures in the table indicate the effect of the American opportunity tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2011 \$5,770; 2012 \$6,560; 2013 \$7,850.

<sup>11</sup> In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2011 \$10; 2012 \$20; 2013 \$30; 2014 \$30; 2015 \$30; 2016 \$30; 2017 \$30.

<sup>12</sup> In addition, the provision for school construction bonds has outlay effects of (in millions of dollars): 2011 \$430; 2012 \$780; 2013 \$940; 2014 \$940; 2015 \$940; 2016 \$940; 2017 \$940.

<sup>13</sup> 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: 2011 \$1,150 and 2012 \$540.

<sup>14</sup> 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: 2011 \$22,890; 2012 \$22,660; 2013 \$22,390; 2014 \$1,670; 2015 \$1,680; 2016 \$1,420; and 2017 \$1,650.

<sup>15</sup> 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: 2011 \$13,876.

<sup>16</sup> 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: 2011 \$104,800; 2012 \$108,850; 2013 \$113,690; 2014 \$117,160; 2015 \$122,260; 2016 \$129,280; and 2017 \$136,760.

<sup>17</sup> 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.

<sup>18</sup> In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 \$21,550; 2015 \$43,260; 2016 \$55,900; and 2017 \$61,800.

<sup>19</sup> In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2011 \$30; 2012 \$110; 2013 \$130; 2014 \$180; 2015 \$210; 2016 \$180; and 2017 \$150.

<sup>20</sup> 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: 2011 \$190; 2012 \$150; 2013 \$140; 2014 \$40; 2015 \$0; 2016 \$0; and 2017 \$0.

<sup>21</sup> 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: 2011 \$55,670; 2012 \$52,120; 2013 \$52,500; 2014 \$46,570; 2015 \$47,270; 2016 \$47,900; and 2017 \$48,790.

<sup>22</sup> In addition, Build America Bonds have outlay effects of (in millions of dollars): 2011 \$3,190; 2012 \$3,190; 2013 \$3,190; 2014 \$3,190; 2015 \$3,190; 2016 \$3,190; and 2017 \$3,190.

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 2011-2017**

(In millions of dollars)

	Corporations								Individuals																	
	2011	2012	2013	2014	2015	2016	2017	2013-17	2011	2012	2013	2014	2015	2016	2017	2013-17										
<b>National Defense</b>																										
1	Exclusion of benefits and allowances to armed forces personnel .....								13,250	14,270	14,900	15,380	12,960	12,710	13,030	68,980										
<b>International affairs:</b>																										
2	Exclusion of income earned abroad by U.S. citizens .....								5,550	5,400	5,800	6,140	6,430	6,740	7,050	32,160										
3	Exclusion of certain allowances for Federal employees abroad .....								1,020	1,070	1,120	1,180	1,240	1,300	1,370	6,210										
4	Inventory property sales source rules exception .....								3,160	3,430	3,730	4,050	4,400	4,780	5,180	22,140										
5	Deferral of income from controlled foreign corporations (normal tax method) .....								41,410	42,000	41,810	41,770	43,020	44,240	45,180	216,020										
6	Deferred taxes for financial firms on certain income earned overseas .....								6,180	2,510	0	0	0	0	0	0										
<b>General science, space, and technology:</b>																										
7	Expensing of research and .....								960	3,060	4,950	6,000	6,700	7,190	7,430	32,270	-160	0	120	190	210	230	250	1,000		
8	Credit for increasing research activities .....								8,300	6,280	4,230	3,380	2,700	2,160	1,720	14,190	460	140	0	0	0	0	0	0	0	0
<b>Energy:</b>																										
9	Expensing of exploration and development costs, fuels .....								440	410	690	770	550	340	230	2,580	60	60	100	110	80	50	30	370		
10	Excess of percentage over cost depletion, fuels .....								1,010	1,040	1,070	1,110	1,160	1,210	1,260	5,810	180	180	190	200	210	220	230	1,050		
11	Alternative fuel production credit .....								10	10	10	0	0	0	0	10	0	0	0	0	0	0	0	0	0	
12	Exception from passive loss limitation for working interests in oil and gas properties .....																30	20	30	30	30	20	20	130		
13	Capital gains treatment of royalties on coal																60	90	80	60	80	100	110	430		
14	Exclusion of interest on energy facility bonds .....								10	10	10	10	10	10	30	70	10	20	20	20	30	30	30	30	130	
15	Energy production credit <sup>1</sup> .....								1,410	1,540	1,710	1,770	1,750	1,670	1,510	8,410	150	170	190	190	190	180	170	920		
16	Energy investment credit <sup>1</sup> .....								560	740	1,210	1,830	2,320	2,600	1,810	9,770	140	180	300	460	580	650	450	2,440		
17	Alcohol fuel credits <sup>2</sup> .....								480	110	80	40	20	10	10	160	20	30	30	10	10	0	0	50		
18	Bio-Diesel and small agri-biodiesel producer tax credits <sup>3</sup> .....								20	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
19	Tax credit and deduction for clean-fuel burning vehicles .....								40	20	20	30	50	60	60	220	50	80	160	210	340	560	620	1,890		
20	Exclusion of utility conservation subsidies ..								10	10	10	10	10	10	0	40	210	200	200	200	200	190	190	980		
21	Credit for holding clean renewable energy bonds <sup>4</sup> .....								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 .....								120	-70	-180	-190	-180	-150	-120	-820										
23	Credit for investment in clean coal facilities .....								370	400	410	470	510	280	40	1,710	0	0	0	0	0	0	0	0		
24	Temporary 50% expensing for equipment used in the refining of liquid fuels .....								670	580	530	-560	-1,170	-990	-830	-3,020	0	0	0	0	0	0	0	0		
25	Natural gas distribution pipelines treated as 15-year property .....								120	110	90	80	80	90	100	440	0	0	0	0	0	0	0	0	0	
26	Amortize all geological and geophysical expenditures over 2 years .....								100	120	130	110	70	50	20	380	20	30	30	30	20	10	10	100		
27	Allowance of deduction for certain energy efficient commercial building property ...								60	70	80	50	20	10	0	160	20	20	20	20	10	0	0	50		
28	Credit for construction of new energy efficient homes .....								20	20	10	10	10	10	0	40	30	30	10	10	10	0	0	30		
29	Credit for energy efficiency improvements to existing homes .....								0	0	0	0	0	0	0	0	4,370	1,110	0	0	0	0	0	0	0	
30	Credit for energy efficient appliances .....								280	200	140	120	110	90	0	460	0	0	0	0	0	0	0	0		
31	Credit for residential energy efficient property .....								0	0	0	0	0	0	0	0	840	950	1,030	1,090	1,160	1,220	500	5,000		
32	Qualified energy conservation bonds <sup>5</sup> .....								0	10	10	10	10	10	10	50	10	10	20	20	20	20	20	100		
33	Advanced Energy Property Credit .....								390	410	340	240	110	-10	-50	630	40	50	40	30	10	0	-10	70		

**Table 17-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011–2017—Continued**

(In millions of dollars)

	Corporations								Individuals								
	2011	2012	2013	2014	2015	2016	2017	2013–17	2011	2012	2013	2014	2015	2016	2017	2013–17	
34	Advanced nuclear power production credit .....	0	0	0	0	0	0	80	80	0	0	0	0	0	0	0	0
<b>Natural resources and environment:</b>																	
35	Expensing of exploration and development costs, nonfuel minerals .....	60	60	70	80	80	90	100	420	0	0	0	0	0	0	0	0
36	Excess of percentage over cost depletion, nonfuel minerals .....	550	550	560	560	570	580	580	2,850	30	30	30	40	40	40	40	190
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities .....	120	130	170	200	210	220	230	1,030	300	340	410	490	540	570	600	2,610
38	Capital gains treatment of certain timber income .....									60	90	80	60	80	100	110	430
39	Expensing of multiperiod timber growing costs .....	160	170	170	180	190	200	200	940	90	100	110	110	120	120	120	580
40	Tax incentives for preservation of historic structures .....	470	500	530	560	580	610	640	2,920	40	40	40	50	50	50	60	250
41	Exclusion of gain or loss on sale or exchange of certain brownfield sites .....	40	30	20	10	0	0	0	30	20	10	10	0	0	0	0	10
42	Industrial CO <sub>2</sub> capture and sequestration tax credit .....	60	60	60	70	90	220	400	840	0	0	0	0	0	0	0	0
43	Deduction for endangered species recovery expenditures .....	10	10	10	10	10	10	10	50	10	10	10	10	10	20	20	70
<b>Agriculture:</b>																	
44	Expensing of certain capital outlays .....	0	0	10	10	10	10	10	50	70	70	100	120	120	130	140	610
45	Expensing of certain multiperiod production costs .....	10	10	10	10	10	10	10	50	120	130	160	170	170	170	180	850
46	Treatment of loans forgiven for solvent farmers .....									20	20	20	20	20	20	20	100
47	Capital gains treatment of certain income .....									630	890	830	650	800	960	1,070	4,310
48	Income averaging for farmers .....									90	90	90	90	100	100	100	480
49	Deferral of gain on sale of farm refiners .....	20	20	20	20	20	20	20	100								
50	Expensing of reforestation expenditures .....	10	10	10	10	10	10	10	50	50	60	70	70	80	80	80	380
<b>Commerce and housing:</b>																	
Financial institutions and insurance:																	
51	Exemption of credit union income .....	1,110	1,140	1,160	1,120	1,120	1,210	1,520	6,130								
52	Exclusion of interest on life insurance savings .....	2,420	2,560	2,670	2,820	2,910	2,970	3,080	14,450	19,640	21,010	22,480	23,990	25,440	26,920	27,350	126,180
53	Special alternative tax on small property and casualty insurance companies .....	40	40	40	40	40	40	40	200								
54	Tax exemption of certain insurance companies owned by .....	200	210	210	210	220	220	220	1,080								
55	Small life insurance company deduction .....	30	30	30	30	30	30	30	150								
56	Exclusion of interest spread of financial institutions .....									260	490	600	690	760	810	870	3,730
Housing:																	
57	Exclusion of interest on owner-occupied mortgage subsidy bonds .....	310	310	420	500	540	560	580	2,600	750	860	1,040	1,220	1,350	1,440	1,520	6,570
58	Exclusion of interest on rental housing bonds .....	260	270	360	430	460	470	490	2,210	640	730	880	1,040	1,150	1,220	1,290	5,580
59	Deductibility of mortgage interest on owner-occupied homes .....	0	0	0	0	0	0	0	0	72,240	86,910	100,910	110,830	120,240	130,920	143,520	606,420
60	Deductibility of State and local property tax on owner-occupied homes .....	0	0	0	0	0	0	0	0	23,210	16,150	22,320	27,900	29,060	30,080	31,270	140,630
61	Deferral of income from installment sales .....									970	1,380	1,350	1,180	1,390	1,610	1,770	7,300
62	Capital gains exclusion on home sales .....									15,060	16,040	23,440	31,610	34,910	38,560	42,590	171,110
63	Exclusion of net imputed rental income .....									46,950	50,640	51,080	58,740	66,860	75,480	85,220	337,380
64	Exception from passive loss rules for \$25,000 of rental loss .....									11,080	12,550	15,380	18,450	20,680	21,990	23,310	99,810
65	Credit for low-income housing investments <sup>6</sup> .....	5,840	6,200	7,010	7,440	7,460	7,520	7,900	37,330	310	330	370	390	390	400	420	1,970

**Table 17-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011-2017—Continued**

(In millions of dollars)

	Corporations									Individuals							
	2011	2012	2013	2014	2015	2016	2017	2013-17	2011	2012	2013	2014	2015	2016	2017	2013-17	
66	Accelerated depreciation on rental housing (normal tax method) .....	-20	-10	10	50	100	150	200	510	-120	-40	80	300	590	870	1,130	2,970
67	Discharge of mortgage indebtedness .....	0	0	0	0	0	0	0	0	1,370	1,080	250	0	0	0	0	250
68	Credit for homebuyer <sup>7</sup> .....									2,400	-2,350	-1,150	-590	-520	-470	-410	-3,140
<b>Commerce:</b>																	
69	Cancellation of indebtedness .....									690	330	-20	-220	-290	-310	-260	-1,100
70	Exceptions from imputed interest rules .....									50	50	50	50	50	50	50	250
71	Treatment of qualified dividends .....									16,550	30,580	21,900	0	0	0	0	21,900
72	Capital gains (except agriculture, timber, iron ore, and coal) .....									47,390	66,210	62,040	48,300	59,380	71,550	80,200	321,470
73	Capital gains exclusion of small corporation stock .....									60	60	280	660	1,020	1,060	830	3,850
74	Step-up basis of capital gains at death .....									3,940	19,940	23,860	36,200	38,370	40,670	43,110	182,210
75	Carryover basis of capital gains on gifts .....									1,930	1,860	2,070	3,360	3,530	3,650	3,830	16,440
76	Ordinary income treatment of loss from small business corporation stock sale .....									60	60	60	60	60	60	60	300
77	Accelerated depreciation of buildings other than rental housing (normal tax method) .....	-3,300	-3,140	-3,100	-3,000	-2,950	-2,890	-2,820	-14,760	-3,990	-3,830	-4,270	-4,390	-4,270	-4,120	-3,980	-21,030
78	Accelerated depreciation of machinery and equipment (normal tax method) .....	76,140	46,650	13,750	23,170	43,080	58,140	70,450	208,590	42,390	29,630	19,430	25,560	34,270	40,830	45,960	166,050
79	Expensing of certain small investments (normal tax method) .....	-40	460	50	-60	90	130	170	380	10	2,600	890	500	1,240	1,440	1,590	5,660
80	Graduated corporation income tax rate (normal tax method) .....	3,280	3,220	3,300	3,590	3,770	3,960	4,050	18,670	0	0	0	0	0	0	0	0
81	Exclusion of interest on small issue bonds .....	70	70	100	120	120	130	130	600	170	200	240	280	310	330	350	1,510
82	Deduction for US production activities .....	9840	10310	10870	11490	12140	12810	13460	60,770	3,290	3,440	3,630	3,840	4,060	4,280	4,500	20,310
83	Special rules for certain film and TV production .....	130	100	60	40	20	10	0	130	30	30	20	10	0	0	0	30
<b>Transportation</b>																	
84	Deferral of tax on shipping companies <sup>8</sup> .....	20	20	20	20	20	20	20	100	0	0	0	0	0	0	0	0
85	Exclusion of reimbursed employee parking expenses .....	0	0	0	0	0	0	0	0	3,060	3,170	3,290	3,440	3,590	3,750	3,900	17,970
86	Exclusion for employer-provided transit passes .....	0	0	0	0	0	0	0	0	560	570	560	590	630	670	720	3,170
87	Tax credit for certain expenditures for maintaining railroad tracks .....	130	100	60	40	20	10	0	130	30	30	20	10	0	0	0	30
88	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities .....	60	60	60	50	50	50	40	250	190	180	170	160	150	140	130	750
<b>Community and regional development:</b>																	
89	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
90	Exclusion of interest for airport, dock, and similar bonds .....	200	210	280	340	360	370	390	1,740	500	570	690	820	900	960	1,020	4,390
91	Exemption of certain mutuals' and cooperatives' income .....	110	110	120	120	120	130	130	620								
92	Empowerment zones, the DC enterprise zone, and renewal communities .....	450	230	140	140	140	130	120	670	530	440	320	330	340	350	320	1,660
93	New markets tax credit .....	800	880	910	910	890	810	660	4,180	20	20	20	20	20	20	20	100
94	Expensing of environmental remediation costs .....	170	-20	-140	-130	-120	-110	-110	-610	30	0	-30	-30	-20	-20	-20	-120
95	Credit to holders of Gulf Tax Credit Bonds .....	20	20	10	10	10	10	10	50	60	50	40	40	40	40	30	190
96	Recovery Zone Bonds <sup>9</sup> .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
97	Tribal Economic Development Bonds .....	60	100	140	170	180	180	190	860	110	280	340	410	450	480	500	2,180
<b>Education, training, employment, and social services:</b>																	
<b>Education:</b>																	
98	Exclusion of scholarship and fellowship income (normal tax method) .....									3,060	3,170	3,290	3,410	3,530	3,660	3,800	17,690

**Table 17-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011-2017—Continued**

(In millions of dollars)

	Corporations								Individuals							
	2011	2012	2013	2014	2015	2016	2017	2013-17	2011	2012	2013	2014	2015	2016	2017	2013-17
99									0	0	580	5,780	5,780	5,770	5,800	23,710
100									2,800	3,250	3,920	5,750	5,810	5,850	5,880	27,210
101									13,060	14,290	13,710	0	0	0	0	13,710
102									70	80	80	90	100	100	110	480
103									1,400	850	900	960	1,020	1,090	1,160	5,130
104									690	470	0	0	0	0	0	0
105									1,610	1,780	1,890	1,980	2,070	2,170	2,280	10,390
106									140	140	190	230	240	250	260	1,170
107									610	620	840	1,000	1,070	1,110	1,150	5,170
108									200	200	180	160	130	120	110	700
109									0	20	20	20	20	30	30	130
110									0	5,600	3,120	2,800	3,060	2,780	2,510	13,410
111									650	690	740	790	840	890	940	4,200
112									0	710	750	40	0	0	0	40
113									0	190	170	0	0	0	0	0
114									0	20	20	20	20	20	20	100
115									60	110	150	160	160	160	630	1,900
Training, employment, and social services:																
116									860	790	570	310	130	60	20	1,090
117									0	0	0	0	0	0	0	0
118									10	10	0	0	0	0	0	0
119									10	10	0	0	0	0	0	0
120									500	530	560	600	650	690	730	3,230
121									1,200	760	380	110	80	80	80	730
122									9,980	6,620	10,290	10,460	10,640	10,830	11,020	53,240
123									23,410	24,470	18,390	9,280	8,900	8,500	8,060	53,130
124									4,200	3,400	1,620	1,460	1,380	1,320	1,260	7,040
125									10	10	10	10	10	10	10	50
126									1,430	1,510	1,600	1,690	1,770	1,860	1,940	8,860
127									410	410	400	410	400	390	380	1,980
128									660	710	770	830	900	970	1,050	4,520
129									20	10	0	0	0	0	0	0
130									20	0	0	0	0	0	0	0
131									23,528	0	0	0	0	0	0	0
<b>Health:</b>																
132									163,040	170,650	180,580	189,670	200,640	213,620	227,810	1,012,320
133									5,170	5,520	5,970	6,970	7,750	8,270	8,800	37,760
134									1,880	1,980	2,070	2,210	2,350	2,510	2,680	11,820
135									8,280	9,320	9,910	10,710	12,490	14,420	15,640	63,170

**Table 17-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011-2017—Continued**

(In millions of dollars)

	Corporations									Individuals							
	2011	2012	2013	2014	2015	2016	2017	2013-17	2011	2012	2013	2014	2015	2016	2017	2013-17	
136	Exclusion of interest on hospital construction bonds .....	900	920	1,240	1,470	1,580	1,630	1,700	7,620	2,200	2,520	3,040	3,580	3,970	4,230	4,450	19,270
137	Refundable Premium Assistance Tax Credit <sup>18</sup> ....									0	0	0	0	-2,440	-3,610	-4,460	-10,510
138	Credit for employee health insurance expenses of small business <sup>19</sup> .....	270	480	570	820	940	820	670	3,820	560	990	1,180	1,680	1,930	1,680	1,390	7,860
139	Deductibility of charitable contributions (health) .....	190	200	210	230	240	250	260	1,190	3,180	3,560	4,280	4,730	5,160	5,590	6,020	25,780
140	Tax credit for orphan drug research .....	770	930	1,120	1,360	1,640	1,990	2,410	8,520								
141	Special Blue Cross/Blue Shield deduction .....	715	680	590	530	610	710	690	3,130								
142	Tax credit for health insurance purchased by certain displaced and retired individuals <sup>20</sup> .....									10	10	10	0	0	0	0	10
143	Distributions from retirement plans for premiums for health and long-term care insurance .....									300	330	360	400	440	490	510	2,200
<b>Income security:</b>																	
144	Exclusion of railroad retirement system benefits .....									360	340	290	260	250	240	220	1,260
145	Exclusion of workers' compensation benefits .....									7,050	7,410	7,790	8,170	8,570	9,000	9,440	42,970
146	Exclusion of public assistance benefits (normal tax method) .....									670	710	750	770	800	840	850	4,010
147	Exclusion of special benefits for disabled coal miners .....									40	40	40	40	40	40	40	200
148	Exclusion of military disability pensions .....									120	120	130	130	130	130	140	660
	Net exclusion of pension contributions and earnings:																
149	Employer plans .....									36,390	44,490	52,330	56,650	59,840	62,960	66,260	298,040
150	401(k)-type plans .....									53,360	60,090	72,740	81,030	86,740	92,230	96,020	428,760
151	Individual Retirement Accounts .....									12,840	15,410	19,650	18,450	19,740	20,790	21,450	100,080
152	Low and moderate income savers credit .....									1,070	1,040	1,130	1,110	1,090	1,110	1,070	5,510
153	Self-Employed plans .....									15,030	17,070	19,580	20,940	22,450	23,840	25,390	112,200
	Exclusion of other employee benefits:																
154	Premiums on group term life insurance .....									1,980	2,080	2,120	2,150	2,190	2,250	2,310	11,020
155	Premiums on accident and disability insurance .....									340	350	360	360	370	370	370	1,830
156	Income of trusts to finance supplementary unemployment benefits .....									30	30	40	50	60	70	80	300
157	Special ESOP rules .....	1,030	1,110	1,180	1,150	1,220	1,290	1,370	6,210	470	490	520	550	580	610	630	2,890
158	Additional deduction for the blind .....									40	30	40	50	50	50	50	240
159	Additional deduction for the elderly .....									2,390	2,110	2,780	3,350	3,480	3,500	3,490	16,600
160	Tax credit for the elderly and disabled .....									10	10	10	10	10	10	0	40
161	Deductibility of casualty losses .....									270	300	350	380	390	420	440	1,980
162	Earned income tax credit <sup>21</sup> .....									1,172	1,128	3,155	3,265	3,423	3,550	3,769	17,162
<b>Social Security:</b>																	
	Exclusion of social security benefits:																
163	Social Security benefits for retired workers .....									25,360	25,970	25,620	27,580	29,690	31,970	34,420	149,280
164	Social Security benefits for disabled workers .....									7,690	8,030	8,230	8,590	9,000	9,430	9,860	45,110
165	Social Security benefits for spouses, dependents and survivors .....									4,710	4,470	3,890	3,960	4,040	4,110	4,190	20,190
<b>Veterans benefits and services:</b>																	
166	Exclusion of veterans death benefits and disability compensation .....									5,200	5,880	5,650	6,060	6,210	6,520	6,770	31,210
167	Exclusion of veterans pensions .....									240	300	340	370	390	420	440	1,960
168	Exclusion of GI bill benefits .....									810	1,030	1,190	1,280	1,350	1,420	1,470	6,710

**Table 17-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011-2017—Continued**

(In millions of dollars)

	Corporations								Individuals							
	2011	2012	2013	2014	2015	2016	2017	2013-17	2011	2012	2013	2014	2015	2016	2017	2013-17
169 Exclusion of interest on veterans housing bonds .....	0	0	10	10	10	10	10	50	10	10	10	20	20	20	20	90
<b>General purpose fiscal assistance:</b>																
170 Exclusion of interest on public purpose State and local bonds .....	7,570	7,800	10,510	12,460	13,360	13,820	14,370	64,520	18,620	21,280	25,700	30,310	33,560	35,750	37,660	162,980
171 Build America Bonds <sup>22</sup> .....	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 .....									41,060	33,180	46,260	56,980	60,500	63,880	67,430	295,050
<b>Interest:</b>																
173 Deferral of interest on U.S. savings bonds ...									1,190	1,200	1,250	1,330	1,340	1,360	1,370	6,650
<b>Addendum: Aid to State and local governments:</b>																
Deductibility of:																
Property taxes on owner-occupied homes .....																
									23,210	16,150	22,320	27,900	29,060	30,080	31,270	140,630
Nonbusiness State and local taxes other than on owner-occupied homes .....																
									41,060	33,180	46,260	56,980	60,500	63,880	67,430	295,050
Exclusion of interest on State and local bonds for:																
Public purposes .....																
	7,570	7,800	10,510	12,460	13,360	13,820	14,370	64,520	18,620	21,280	25,700	30,310	33,560	35,750	37,660	162,980
Energy facilities .....																
	10	10	10	10	10	10	30	70	10	20	20	20	30	30	30	130
Water, sewage, and hazardous waste disposal facilities .....																
	120	130	170	200	210	220	230	1,030	300	340	410	490	540	570	600	2,610
Small-issues .....																
	70	70	100	120	120	130	130	600	170	200	240	280	310	330	350	1,510
Owner-occupied mortgage subsidies .....																
	310	310	420	500	540	560	580	2,600	750	860	1,040	1,220	1,350	1,440	1,520	6,570
Rental housing .....																
	260	270	360	430	460	470	490	2,210	640	730	880	1,040	1,150	1,220	1,290	5,580
Airports, docks, and similar facilities .....																
	200	210	280	340	360	370	390	1,740	500	570	690	820	900	960	1,020	4,390
Student loans .....																
	140	140	190	230	240	250	260	1,170	340	390	470	550	610	650	680	2,960
Private nonprofit educational facilities ...																
	610	620	840	1,000	1,070	1,110	1,150	5,170	1,490	1,700	2,060	2,430	2,690	2,860	3,020	13,060
Hospital construction .....																
	900	920	1,240	1,470	1,580	1,630	1,700	7,620	2,200	2,520	3,040	3,580	3,970	4,230	4,450	19,270
Veterans' housing .....																
	0	0	10	10	10	10	10	50	10	10	10	20	20	20	20	90
GO Zone and GO Zone mortgage .....																
	20	20	10	10	10	10	10	50	60	50	40	40	40	40	30	190
Credit for holders of zone academy bonds .....																
	200	200	180	160	130	120	110	700								

<sup>1</sup> 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: 2011 \$3,510; 2012 \$4,130; 2013 \$3,850; 2014 \$3,210; 2015 \$1,230; 2016 \$290; 2017 \$110.

<sup>2</sup> In addition, the alcohol fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows:

2011 \$6,520; 2012 \$3,590; 2013 \$0; 2014 \$0; 2015 \$0; 2016 \$0; 2017 \$0.

The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows:

2011 \$160; 2012 \$170; 2013 \$0; 2014 \$0; 2015 \$0; 2016 \$0; 2017 \$0.

<sup>3</sup> In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows:

2011 \$760; 2012 \$210; 2013 \$0; 2014 \$0; 2015 \$0; 2016 \$0; 2017: \$0.

<sup>4</sup> In addition, the provision has outlay effects of (in millions of dollars):

2011 \$20; 2012 \$40; 2013 \$50; 2014 \$50; 2015 \$50; 2016 \$50; 2017 \$50.

<sup>5</sup> In addition, the provision has outlay effects of (in millions of dollars):

2011 \$30; 2012 \$50; 2013 \$60; 2014 \$60; 2015 \$60; 2016 \$60; 2017 \$60.

<sup>6</sup> In addition, the credit for low-income housing investments has outlay effects (in millions of dollars) as follows:

2010 \$1940; 2011 \$3480; 2012 \$180.

<sup>7</sup> The figures in the table indicate the effect of the homebuyer credits on receipts. The effect of the credits on outlays (in millions of dollars) is as follows:

2010 \$8,670; 2011 \$2,760; 2012 \$310; 2013 \$0; 2014 \$0; 2015 \$0; 2016 \$0; and 2017 \$0.

<sup>8</sup> These figures do not account for the tonnage tax which shipping companies may opt into in lieu of the corporate income tax.

The tonnage tax reduces the cost of this tax expenditure by \$20 per year in each year of the budget.

<sup>9</sup> In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows:  
2011 \$160; 2012 \$160; 2013 \$160; 2014 \$160; 2015 \$160; 2016 \$160; and 2017 \$160.

<sup>10</sup> The figures in the table indicate the effect of the American opportunity tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:  
2011 \$5,770; 2012 \$6,560; 2013 \$7,850.

<sup>11</sup> In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars):  
2011 \$10; 2012 \$20; 2013 \$30; 2014 \$30; 2015 \$30; 2016 \$30; 2017 \$30.

<sup>12</sup> In addition, the provision for school construction bonds has outlay effects of (in millions of dollars):  
2011 \$430; 2012 \$780; 2013 \$940; 2014 \$940; 2015 \$940; 2016 \$940; 2017 \$940.

<sup>13</sup> 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:  
2011 \$1,150 and 2012 \$540.

<sup>14</sup> 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:  
2011 \$22,890; 2012 \$22,660; 2013 \$22,390; 2014 \$1,670; 2015 \$1,680; 2016 \$1,420; and 2017 \$1,650.

<sup>15</sup> 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:  
2011 \$13,876.

<sup>16</sup> 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:  
2011 \$104,800; 2012 \$108,850; 2013 \$113,690; 2014 \$117,160; 2015 \$122,260; 2016 \$129,280; and 2017 \$136,760.

<sup>17</sup> 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.

<sup>18</sup> In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows:  
2014 \$21,550; 2015 \$43,260; 2016 \$55,900; and 2017 \$61,800.

<sup>19</sup> In addition, the small business credit provision has outlay effects (in millions of dollars) as follows:  
2011 \$30; 2012 \$110; 2013 \$130; 2014 \$180; 2015 \$210; 2016 \$180; and 2017 \$150.

<sup>20</sup> 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:  
2011 \$190; 2012 \$150; 2013 \$140; 2014 \$40; 2015 \$0; 2016 \$0; and 2017 \$0.

<sup>21</sup> 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:  
2011 \$55,670; 2012 \$52,120; 2013 \$52,500; 2014 \$46,570; 2015 \$47,270; 2016 \$47,900; and 2017 \$48,790.

<sup>22</sup> In addition, Build America Bonds have outlay effects of (in millions of dollars):  
2011 \$3,190; 2012 \$3,190; 2013 \$3,190; 2014 \$3,190; 2015 \$3,190; 2016 \$3,190; and 2017 \$3,190.

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 2013-2017 PROJECTED REVENUE EFFECT**  
(In millions of dollars)

	Provision	2013	2013-17
132	Exclusion of employer contributions for medical insurance premiums and medical care .....	180,580	1,012,320
59	Deductibility of mortgage interest on owner-occupied homes .....	100,910	606,420
150	401(k)-type plans .....	72,740	428,760
78	Accelerated depreciation of machinery and equipment (normal tax method) .....	33,180	374,640
63	Exclusion of net imputed rental income .....	51,080	337,380
72	Capital gains (except agriculture, timber, iron ore, and coal) .....	62,040	321,470
149	Employer plans .....	52,330	298,040
172	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes .....	46,260	295,050
126	Deductibility of charitable contributions, other than education and health .....	39,770	238,720
170	Exclusion of interest on public purpose State and local bonds .....	36,210	227,500
5	Deferral of income from controlled foreign corporations (normal tax method) .....	41,810	216,020
74	Step-up basis of capital gains at death .....	23,860	182,210
62	Capital gains exclusion on home sales .....	23,440	171,110
163	Social Security benefits for retired workers .....	25,620	149,280
52	Exclusion of interest on life insurance savings .....	25,150	140,630
60	Deductibility of State and local property tax on owner-occupied homes .....	22,320	140,630
153	Self-Employed plans .....	19,580	112,200
151	Individual Retirement Accounts .....	19,650	100,080
64	Exception from passive loss rules for \$25,000 of rental loss .....	15,380	99,810
82	Deduction for US production activities .....	14,500	81,080
1	Exclusion of benefits and allowances to armed forces personnel .....	14,900	68,980
135	Deductibility of medical expenses .....	9,910	63,170
122	Exclusion of employee meals and lodging (other than military) .....	10,290	53,240
123	Child credit .....	18,390	53,130
164	Social Security benefits for disabled workers .....	8,230	45,110
145	Exclusion of workers' compensation benefits .....	7,790	42,970
65	Credit for low-income housing investments .....	7,380	39,300
133	Self-employed medical insurance premiums .....	5,970	37,760
7	Expensing of research and experimentation expenditures (normal tax method) .....	5,070	33,270
2	Exclusion of income earned abroad by U.S. citizens .....	5,800	32,160
166	Exclusion of veterans death benefits and disability compensation .....	5,650	31,210
111	Deductibility of charitable contributions (education) .....	4,610	27,470
100	Lifetime Learning tax credit .....	3,920	27,210
139	Deductibility of charitable contributions (health) .....	4,490	26,970
136	Exclusion of interest on hospital construction bonds .....	4,280	26,890
99	HOPE tax credit .....	580	23,710
4	Inventory property sales source rules exception .....	3,730	22,140
71	Treatment of qualified dividends .....	21,900	21,900
165	Social Security benefits for spouses, dependents and survivors .....	3,890	20,190
80	Graduated corporation income tax rate (normal tax method) .....	3,300	18,670
107	Exclusion of interest on bonds for private nonprofit educational facilities .....	2,900	18,230
85	Exclusion of reimbursed employee parking expenses .....	3,290	17,970
98	Exclusion of scholarship and fellowship income (normal tax method) .....	3,290	17,690
162	Earned income tax credit .....	3,155	17,162
159	Additional deduction for the elderly .....	2,780	16,600
75	Carryover basis of capital gains on gifts .....	2,070	16,440
8	Credit for increasing research activities .....	4,230	14,190
101	Lifetime Learning tax credit .....	13,710	13,710
110	Parental personal exemption for students age 19 or over .....	2,800	13,410
16	Energy investment credit .....	1,510	12,210
134	Medical Savings Accounts / Health Savings Accounts .....	2,070	11,820
138	Credit for employee health insurance expenses of small business .....	1,750	11,680
154	Premiums on group term life insurance .....	2,120	11,020
105	Qualified Tuition Programs .....	1,890	10,390
15	New technology credit .....	1,900	9,330
57	Exclusion of interest on owner-occupied mortgage subsidy bonds .....	1,460	9,170

**Table 17-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2013-2017 PROJECTED REVENUE EFFECT—Continued**  
(In millions of dollars)

	Provision	2013	2013-17
157	Special ESOP rules .....	1,700	9,100
118	Employer provided child care exclusion .....	1,580	8,970
140	Tax credit for orphan drug research .....	1,120	8,520
58	Exclusion of interest on rental housing bonds .....	1,240	7,790
61	Deferral of income from installment sales .....	1,350	7,300
124	Credit for child and dependent care expenses .....	1,620	7,040
10	Excess of percentage over cost depletion, fuels .....	1,260	6,860
168	Exclusion of GI bill benefits .....	1,190	6,710
173	Deferral of interest on U.S. savings bonds .....	1,250	6,650
3	Exclusion of certain allowances for Federal employees abroad .....	1,120	6,210
51	Exemption of credit union income .....	1,160	6,130
90	Exclusion of interest for airport, dock, and similar bonds .....	970	6,130
79	Expensing of certain small investments (normal tax method) .....	940	6,040
152	Low and moderate income savers credit .....	1,130	5,510
103	Deductibility of student-loan interest .....	900	5,130
31	30% credit for residential purchases/installations of solar and fuel cells .....	1,030	5,000
128	Exclusion of parsonage allowances .....	770	4,520
47	Capital gains treatment of certain income .....	830	4,310
93	New markets tax credit .....	930	4,280
106	Exclusion of interest on student-loan bonds .....	660	4,130
146	Exclusion of public assistance benefits (normal tax method) .....	750	4,010
73	Capital gains exclusion of small corporation stock .....	280	3,850
56	Exclusion of interest spread of financial institutions .....	600	3,730
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities .....	580	3,640
66	Accelerated depreciation on rental housing (normal tax method) .....	90	3,480
120	Assistance for adopted foster children .....	560	3,230
40	Tax incentives for preservation of historic structures .....	570	3,170
86	Exclusion for employer-provided transit passes .....	560	3,170
141	Special Blue Cross/Blue Shield deduction .....	590	3,130
36	Excess of percentage over cost depletion, nonfuel minerals .....	590	3,040
97	Tribal Economic Development Bonds .....	480	3,040
9	Expensing of exploration and development costs, fuels .....	790	2,950
115	Qualified school construction bonds .....	580	2,530
92	Empowerment zones, Enterprise communities, and Renewal communities .....	460	2,330
143	Distributions from retirement plans for premiums for health and long-term care insurance .....	360	2,200
19	Tax credit and deduction for clean-fuel burning vehicles .....	180	2,110
81	Exclusion of interest on small issue bonds .....	340	2,110
127	Exclusion of certain foster care payments .....	400	1,980
161	Deductibility of casualty losses .....	350	1,980
167	Exclusion of veterans pensions .....	340	1,960
155	Premiums on accident and disability insurance .....	360	1,830
23	Credit for investment in clean coal facilities .....	410	1,710
39	Expensing of multiperiod timber growing costs .....	280	1,520
144	Exclusion of railroad retirement system benefits .....	290	1,260
116	Work opportunity tax credit .....	620	1,190
54	Tax exemption of certain insurance companies owned by tax-exempt organizations .....	210	1,080
20	Exclusion of utility conservation subsidies .....	210	1,020
88	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities .....	230	1,000
45	Expensing of certain multiperiod production costs .....	170	900
42	Industrial CO2 capture and sequestration tax credit .....	60	840
121	Adoption credit and exclusion .....	380	730
33	Advanced Energy Property Credit .....	380	700
108	Credit for holders of zone academy bonds .....	180	700
44	Expensing of certain capital outlays .....	110	660
148	Exclusion of military disability pensions .....	130	660
91	Exemption of certain mutuals' and cooperatives' income .....	120	620
26	Amortize all geological and geophysical expenditures over 2 years .....	160	480

**Table 17-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2013-2017 PROJECTED REVENUE EFFECT—Continued**  
(In millions of dollars)

	Provision	2013	2013-17
48	Income averaging for farmers .....	90	480
102	Education Individual Retirement Accounts .....	80	480
30	Credit for energy efficient appliances .....	140	460
25	Natural gas distribution pipelines treated as 15-year property .....	90	440
13	Capital gains treatment of royalties on coal .....	80	430
38	Capital gains treatment of certain timber income .....	80	430
50	Expensing of reforestation expenditures .....	80	430
35	Expensing of exploration and development costs, nonfuel minerals .....	70	420
21	Credit for holding clean renewable energy bonds .....	70	350
76	Ordinary income treatment of loss from small business corporation stock sale .....	60	300
156	Income of trusts to finance supplementary unemployment benefits .....	40	300
67	Discharge of mortgage indebtedness .....	250	250
70	Exceptions from imputed interest rules .....	50	250
95	Credit to holders of Gulf Tax Credit Bonds .....	50	240
158	Additional deduction for the blind .....	40	240
17	Alcohol fuel credits .....	110	210
27	Allowance of deduction for certain energy efficient commercial building property .....	100	210
14	Exclusion of interest on energy facility bonds .....	30	200
53	Special alternative tax on small property and casualty insurance companies .....	40	200
147	Exclusion of special benefits for disabled coal miners .....	40	200
83	Special rules for certain film and TV production .....	80	160
87	Tax credit for certain expenditures for maintaining railroad tracks .....	80	160
32	Qualified energy conservation bonds .....	30	150
55	Small life insurance company deduction .....	30	150
169	Exclusion of interest on veterans housing bonds .....	20	140
12	Exception from passive loss limitation for working interests in oil and gas properties .....	30	130
109	Exclusion of interest on savings bonds redeemed to finance educational expenses .....	20	130
43	Deduction for endangered species recovery expenditures .....	20	120
46	Treatment of loans forgiven for solvent farmers .....	20	100
49	Deferral of gain on sale of farm refiners .....	20	100
84	Deferral of tax on shipping companies .....	20	100
89	Investment credit for rehabilitation of structures (other than historic) .....	20	100
114	Discharge of student loan indebtedness .....	20	100
125	Credit for disabled access expenditures .....	20	100
34	Advanced nuclear power production credit .....	0	80
28	Credit for construction of new energy efficient homes .....	20	70
41	Exclusion of gain or loss on sale or exchange of certain brownfield sites .....	30	40
112	Exclusion of employer-provided educational assistance .....	40	40
160	Tax credit for the elderly and disabled .....	10	40
11	Alternative fuel production credit .....	10	10
142	Tax credit for health insurance purchased by certain displaced and retired individuals .....	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
29	Credit for energy efficiency improvements to existing homes .....	0	0
96	Recovery Zone Bonds .....	0	0
104	Deduction for higher education expenses .....	0	0
113	Special deduction for teacher expenses .....	0	0
117	Welfare-to-work tax credit .....	0	0
119	Employer-provided child care credit .....	0	0
129	Employee retention credit for employers affected by Hurricane Katrina, Rita, and Wilma .....	0	0
130	Exclusion for benefits provided to volunteer EMS and firefighters .....	0	0
131	Making work pay tax credit .....	0	0
171	Build America Bonds .....	0	0
94	Expensing of environmental remediation costs .....	-170	-730
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy .....	-180	-820
69	Cancellation of indebtedness .....	-20	-1,100

**Table 17-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2013-2017 PROJECTED REVENUE EFFECT—Continued**  
(In millions of dollars)

	Provision	2013	2013-17
24	Temporary 50% expensing for equipment used in the refining of liquid fuels .....	530	-3,020
67	Credit for homebuyer .....	-1,150	-3,140
137	Refundable Premium Assistance Tax Credit .....	0	-10,510
77	Accelerated depreciation of buildings other than rental housing (normal tax method) .....	-7,370	-35,790

- 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 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 in-

**Table 17-4. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 2011**  
(In millions of dollars)

	Provision	2011 Present Value of Revenue Loss
5	Deferral of income from controlled foreign corporations (normal tax method) .....	24,420
7	Expensing of research and experimentation expenditures (normal tax method) .....	3,400
21	Credit for holding clean renewable energy bonds .....	310
9	Expensing of exploration and development costs - fuels .....	280
35	Expensing of exploration and development costs - nonfuels .....	60
39	Expensing of multiperiod timber growing costs .....	120
45	Expensing of certain multiperiod production costs - agriculture .....	230
44	Expensing of certain capital outlays - agriculture .....	150
50	Expensing of reforestation expenditures .....	30
52	Deferral of income on life insurance and annuity contracts .....	19,240
66	Accelerated depreciation on rental housing .....	8,100
77	Accelerated depreciation of buildings other than rental .....	-10,990
78	Accelerated depreciation of machinery and equipment .....	27,085
79	Expensing of certain small investments (normal tax method) .....	190
108	Credit for holders of zone academy bonds .....	160
65	Credit for low-income housing investments .....	6,580
105	Deferral for state prepaid tuition plans .....	4,300
149	Exclusion of pension contributions - employer plans .....	82,920
150	Exclusion of 401(k) contributions .....	89,190
151	Exclusion of IRA contributions and earnings .....	1,290
151	Exclusion of Roth earnings and distributions .....	3,570
151	Exclusion of non-deductible IRA earnings .....	140
153	Exclusion of contributions and earnings for Self-Employed plans .....	3,380
170	Exclusion of interest on public-purpose bonds .....	18,720
	Exclusion of interest on non-public purpose bonds .....	6,320
173	Deferral of interest on U.S. savings bonds .....	260

come. 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.<sup>2</sup> 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.<sup>3</sup>

*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 December 31, 2011. Legislation enacted in 2011 extended and expanded the work opportunity credit to employers for hiring unemployed veterans, as well as changed the calculation of modified Adjusted Gross Income (AGI) in determining certain federal health care program eligibility.

<sup>2</sup> Gross income does, however, include transfer payments associated with past employment, such as Social Security benefits.

<sup>3</sup> 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.

### 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, plus adjustments for inflation since 2004, 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 such expenses to the extent that they do not exceed 30 percent of the earned income inclusion, with geographical adjustments, over 16 percent of the earned income limit. If taxpayers do not receive a specific allowance for housing expenses, they may deduct housing expenses up to the amount by which foreign earned income exceeds their foreign earned income exclusion.

**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 expensing 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. The research credit expired on December 31, 2011.

### 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. With the exception of liquefied hydrogen, these facilities must be placed in service before January 1, 2011.

**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.

An exception from the passive loss limitation is provided for a working interest in an oil or gas property that the taxpayer holds directly or through an entity that does not limit the liability of the taxpayer with respect to the interest. Thus, taxpayers can deduct losses from such working interests against nonpassive income without regard to whether they materially participate in the activity.

**13. Capital gains treatment of royalties on coal.**—For individuals in 2011, 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. Beginning in 2013, the top preferential tax rate on capital gains will be 20 percent.

**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. With the exception of the cellulosic biofuel credit, these provisions expired on December 31, 2011.

**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 bio-diesel 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. This provision expired on December 31, 2011.

**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 fuel vehicle refueling property, fuel cell vehicles and plug-ins (including plug-in electric vehicles, plug-in electric drive motor vehicles, and plug-in conversion kits). The credits for advanced lean burn technology, and for hybrid and alternative motor vehicles, expired on December 31, 2010, while the credit for non-hydrogen refueling stations expired on December 31, 2011.

**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 March 2010, issuers of the unused authorization of such bonds could 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. The sale of property must be made prior to January 1, 2012.

**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. This provision expired on December 31, 2011.

**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. This provision expired on December 31, 2011.

**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. This provision expired on December 31, 2011.

**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 March 2010, issuers of the unused authorization of such bonds could 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.

**34. Advanced nuclear power facilities production credit.**—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 tax credit equal to 1.8 cents times the number of kilowatt hours of electricity produced at a qualifying advanced nuclear power facility. A taxpayer may claim no more than \$125 million per 1,000 MW of capacity. The Treasury Department may allocate up to 6,000 megawatts of credit-eligible capacity.

## Natural Resources and Environment

35. **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.

36. **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.

37. **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.

38. **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 2011, 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. Beginning in 2013, the top preferential tax rate on capital gains will be 20 percent.

39. **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.

40. **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. The taxpayer's recoverable basis must be reduced by the amount of the credit.

Qualified GO (Gulf Opportunity) Zone expenditures qualify for a 26 percent credit.

41. **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.

42. **Industrial CO<sub>2</sub> 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.

43. **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

44. **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.

45. **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.

46. **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.

47. **Capital gains treatment of certain income.**—For individuals in 2011, 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. . Beginning in 2013, the top preferential tax rate on capital gains will be 20 percent.

**48. *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.

**49. *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.

**50. *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.

**51. *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.

**52. *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.

**53. *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.

**54. *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.

**55. *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.

**56. *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 non-profit 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.

**57. *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.

**58. 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 multi-family rental housing projects to be tax-exempt.

**59. 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 and also 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 equal to a proportion of their interest expense.

**60. 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 and also allows the owner-occupant to deduct property taxes paid on his or her primary and secondary residences.

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

**62. Capital gains exclusion on home sales.**—The baseline tax system would not allow deductions and exemptions for certain types of income. In contrast, the Tax Code allows homeowners to exclude from gross income up to \$250,000 (\$500,000 in the case of a married couple fil-

ing a joint return) of the capital gains from the sale of a principal residence. To qualify, the taxpayer must have owned and used the property as the taxpayer's principal residence for a total of at least two of the five years preceding the date of sale. In addition, the exclusion may not be used more than once every two years.

**63. 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.

**64. 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.

**65. 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.

**66. 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.

**67. 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 (\$1 million in the case of a married individual filing a separate return) from a qualified principal residence. The provision applies to debt discharged after January 1, 2007, and before January 1, 2013.

**68. 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.

**69. 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.

**70. 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.

**71. Treatment of qualified dividends.**—For individuals in 2011, 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, in 2011 qualified dividends were taxed at a preferentially low rate that is no higher than 15 percent. Beginning in 2013, dividends will be taxed as ordinary income.

**72. Capital gains (other than agriculture, timber, and coal).**—For individuals in 2011, 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, in 2011 capital gains on assets held for more than one year were taxed at a preferentially low rate that is no higher than 15 percent. Beginning in 2013, the top preferential tax rate on capital gains will be 20 percent.

**73. 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, 2012. A qualified small business is a corporation whose gross assets do not exceed \$50 million as of the date of issuance of the stock.

**74. 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.

**75. 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.

**76. 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.

**77. 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.

**78. 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.

**79. 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.

**80. 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.

**81. 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.

**82. 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.

**83. 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.

### Transportation

**84. 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, modernization and major repairs to ships, and re-

payment of loans to finance these investments. U.S. shipping companies may choose to be subject to a tonnage tax based on gross shipping weight in lieu of an income tax, in which case profits would not be subject to tax under the regular tax rate schedule.

**85. 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 2012, the maximum amount of the parking exclusion will be \$240 per month. The tax expenditure estimate does not include any subsidy provided through employer-owned parking facilities.

**86. 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. This parity provision was to sunset on December 31, 2010, but was extended by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 ("TRUIRJCA," Pub. L. 111-312) through December 31, 2011. The maximum amount of the exclusion in 2012 is set at \$125 per month.

**87. 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.

**88. 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

**89. Rehabilitation of structures.**—The baseline tax system would uniformly tax all returns to invest-

ments 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. Qualified GO Zone expenditures qualify for a 13 percent credit.

**90. *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.

**91. *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.

**92. *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. A taxpayer's ability to accrue new tax benefits for Empowerment Zones and the DC Enterprise Zone expired December 31, 2011. A taxpayer's ability to accrue new tax benefits for Renewal Communities expired December 31, 2009.

**93. *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. A CDE must first receive an allocation of tax credit from Treasury before it can sell the tax credit to the investor in exchange for the equity investment. The total equity investment available for the credit across all CDEs is \$5 billion in 2011, the last year for which allocations can be made.

**94. *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.

**95. *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.

**96. *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.

**97. *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**

**98. *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).

**99. *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 (dollar amounts are for 2011). The credit only covers tuition and fees paid during the first two years of a student's

post-secondary education. In 2011, the credit is phased out ratably for taxpayers with modified AGI between \$102,000 and \$122,000 if married filing jointly (\$51,000 and \$61,000 for other taxpayers), indexed.

100. **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. In 2011, the credit is phased out ratably for taxpayers with modified AGI between \$102,000 and \$122,000 if married filing jointly (\$51,000 and \$61,000 for other taxpayers), indexed. The credit applies to both undergraduate and graduate students.

101. **American Opportunity Tax Credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the American Opportunity tax credit allows a partially refundable credit of up to \$2,500 per eligible student for qualified tuition and related expenses paid during 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). The credit is available for qualified expenses incurred in tax years beginning on or after January 1, 2009 and on or before December 31, 2012.

102. **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 2011 is \$2,000 per beneficiary. In 2011, the maximum contribution is phased down ratably for taxpayers with modified AGI between \$190,000 and \$220,000 if married filing jointly (\$95,000 and \$110,000 for other taxpayers).

103. **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. In general, interest may only be deducted for the first five years in which interest payments are required, and the maximum deduction is phased down ratably for taxpayers with modified AGI between \$60,000 and \$75,000 if married filing jointly (\$40,000 to \$55,000 for other taxpayers), indexed from 2001. However, for tax years beginning on January 1, 2001 and before December 31, 2011, the first five year requirement is suspended, and the phase down range for the deduction is raised. In 2011, the maximum deduction is phased down ratably for taxpayers with modified AGI between \$120,000 and \$150,000 if married filing jointly (\$60,000 and \$75,000 for other taxpayers).

104. **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 2011 for qualified higher education expenses for taxpayers with adjusted gross income up to \$130,000 on a joint return (\$65,000 for other taxpayers). Taxpayers with adjusted gross income up to \$160,000 on a joint return (\$80,000 for other taxpayers) may deduct up to \$2,000. This provision expired on December 31, 2011.

105. **Qualified tuition programs.**—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, prepaid room and board plans, and college savings plans, which allow persons to pay in advance or save 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.

106. **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.

107. **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.

108. **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, the total amount of zone academy bonds that may be issued is limited to \$1.4 billion in 2009 and 2010 as of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable. An additional \$0.4 billion of these bonds with a tax credit was authorized to be issued before January 1, 2011.

109. **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 \$106,650 and \$136,650 if married filing jointly (\$71,000 and \$86,100 for other taxpayers) in 2011.

**110. *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 and 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.

**111. *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.

**112. *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. The maximum exclusion is \$5,250 per taxpayer.

**113. *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, 2011.

**114. *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.

**115. *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 vol-

ume limit is \$22.4 billion over 2009 and 2010. As of March 2010, issuers of such bonds could opt to receive direct payment with the yield becoming fully taxable.

**116. *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 December 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. The credit was extended to certain recently discharged unemployed veterans through December 31, 2012 with a maximum credit of \$9,600 for hiring eligible veterans.

**117. *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.

**118. *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.

**119. *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.

**120. *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 var-

ied needs and a reimbursement of up to \$2,000 for non-recurring adoption expenses; special needs adoptions receive the maximum benefit even if that amount not spent. These payments are excluded from gross income under current law.

**121. 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 \$13,360 per child for 2011, 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 provided or reimbursed by an employer 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.

**122. 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.

**123. 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. Any unclaimed credit due to insufficient tax liability may be refundable — taxpayers may claim a refund for 15 percent of earnings in excess of a \$3,000 floor, up to the amount of unused credit. Alternatively, taxpayers with three or more children may claim a refund of the amount of payroll taxes paid in excess of EITC received (up to the amount of unused credit) if this results in a larger refund. The maximum credit declines to \$500 in 2013 and later years and refundability is restricted to taxpayers who are eligible for the credit under the alternative calculation. The credit is phased out for taxpayers at the rate of \$50 per \$1,000 of modified AGI above \$110,000 (\$75,000 for single or head of household filers and \$55,000 for married taxpayers filing separately).

**124. 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 parents who work or attend school and who have child and dependent care expenses a tax credit. In 2011, 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.

**125. 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.

**126. 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.

**127. 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.

**128. 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.

**129. Provide an employee retention credit to employers affected by certain natural disasters.** -- 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 selected areas affected by natural disasters such as hurricanes Katrina, Rita, Wilma, and Ike. This provision expired on December 31, 2009.

**130. 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. This provision expired on December 31, 2010.

131. **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

132. **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.

133. **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.

134. **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 2011, \$3,050 for taxpayers with individual coverage and \$6,150 for taxpayers with family coverage). Thus, HSAs have largely replaced MSAs.

135. **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 ei-

ther 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.

136. **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.

137. **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.

138. **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.

139. **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.

140. **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.

141. **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.

142. **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 and a subsequent extension increased the credit to 80 percent in coverage months preceding March 2011. The Trade Adjustment Assistance Extension Act of 2011 extended an enhanced credit of 72.5% through December 2013, but eliminated the credit entirely beginning January 1, 2014.

143. **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

144. **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.

145. **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, al-

though income to the recipients, are not subject to the income tax under current law.

146. **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.

147. **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.

148. **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.

149. **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 contributions to defined benefit pension plans are excluded from an employee's gross income even though employers can deduct their contributions. In addition, the tax on the investment income earned by defined benefit pension plans is deferred until the money is withdrawn.

150. **401(k) type 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 and employers 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 2011, 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 401(k)-type plan contribution limit including both employee and employer contributions is \$49,000 in 2011 (indexed). The tax on contributions made by both employees and employers and the investment income earned by 401(k)-type plans is deferred until withdrawn.

151. **Individual Retirement Accounts (IRAs).**—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 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 2011 (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. 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.

**152. *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 \$56,500 for joint filers, \$42,375 for head of household filers, and \$28,250 for other filers in 2011.

**153. *Self-Employed 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 plans equal to 25 percent of their income, up to a maximum of \$49,000 in 2011. Total plan contributions are limited to 25 percent of a firm's total wages. The tax on the investment income earned by self-employed SEP, SIMPLE, and qualified plans is deferred until withdrawn.

**154. *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.

**155. *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.

**156. *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.

**157. *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.

**158. *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 \$1,450 standard deduction if single, or \$1,150 if married in 2011.

**159. *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 \$1,450 standard deduction if single, or \$1,150 if married in 2011.

**160. *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 disabled, and up to \$7,500 for joint returns where both spouses are 65 years of age or older and disabled. 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.

**161. *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.

162. **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 \$9,100 of earned income in 2011. The credit is 40 percent of the first \$12,780 of income for a family with two or more qualifying children. The credit is 45 percent of the first \$12,780 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.

### 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. The

election to deduct sales taxes instead of income taxes expires at the end of 2011.

### 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.<sup>4</sup> 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 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

<sup>4</sup> 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.

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 expendi-

tures 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 submitted a report in 2010 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, a world-class education for all Americans, and fairness in the tax code. Some of these proposals are highlighted below.

*Reduce the value of certain tax expenditures.* The Administration proposes to limit the tax rate at which

upper-income taxpayers can use itemized deductions and other tax preferences to reduce tax liability to a maximum of 28 percent. This limitation would affect only married taxpayers filing a joint return with income adjusted for these tax preferences of over \$250,000 (at 2009 levels) and single taxpayers with income over \$200,000 (at 2009 levels). The limit would apply to all itemized deductions, tax-exempt interest, employer-sponsored health insurance, deductions and income exclusions for employee retirement contributions, and certain above-the-line deductions, effective for taxable years beginning after December 31, 2012. 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.

*Extend the EITC for larger families, expand the child and dependent care tax credit, and provide for automatic enrollment in individual retirement accounts.* Although these reforms would increase the cost of these tax expenditures, they would increase the equity of the overall tax system and provide benefits to low and middle income families.

*Allow a range of tax expenditures to expire.* The Tax Reconciliation, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 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 Making Work Pay Credit, the sales tax deduction for new cars and trucks, the above-the-line deduction for property taxes up to \$500 for taxpayers who do not itemize, and the exemption from taxes for the first \$2,400 of unemployment benefits were allowed to expire.