

## TAX EXPENDITURES FISCAL YEAR 2027

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 crucially on the baseline tax system against which the actual tax system is compared. The tax expenditure estimates presented in this document 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 document 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 2025–2035 using two methods of accounting: current tax receipt effects and present value effects. The present value approach provides estimates of the receipt effects for tax expenditures that generally involve deferrals of tax payments into the future.

### TAX EXPENDITURES IN THE INCOME TAX

#### Tax Expenditure Estimates

All tax expenditure estimates and descriptions presented here are based upon current tax law enacted as of July 31, 2025, and reflect the economic assumptions from the Midsession Review of the Fiscal Year 2026 Budget. In some cases, expired or repealed provisions are listed if their tax receipt effects occur in fiscal year 2025 or later.

The total receipt effects for tax expenditures for fiscal years 2025–2035 are displayed according to the Budget’s functional categories in Table 1. Descriptions of the specific tax expenditure provisions follow 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 receipt effects for these items are zero using the reference tax law. The alternative baseline concepts are discussed in detail below. The tax expenditure tables discussed herein can be obtained for current and previous years from the Department of the Treasury website.<sup>2</sup>

Tables 2A and 2B report separately the respective portions of the total receipt effects that arise under the corporate and individual income taxes. The location of the estimates under the corporate and individual 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 form of tax liability that the various provisions affect. The ultimate beneficiaries of corporate tax expenditures could be shareholders, employees, customers, or other providers of capital, depending on economic forces.

Table 3 ranks the major tax expenditures by the size of their 2026–2035 receipt effect. The first column provides the number of the provision in order to cross reference this table to Tables 1, 2A, and 2B, as well as to the descriptions below.

Some tax expenditure provisions increase governmental outlays in addition to leading to revenue losses. These outlay estimates are reported in Table 5.

#### Interpreting Tax Expenditure Estimates

The estimates shown for individual tax expenditures in Tables 1 through 3 do not necessarily equal the increase in federal receipts (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 the consequences of other tax provisions or government programs. For example, if capital gains were taxed at higher ordinary income tax rates, capital gain realizations would be expected to decline, which could result

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<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.

<sup>2</sup> <https://home.treasury.gov/policy-issues/tax-policy/tax-expenditures>.

in lower tax receipts depending on the elasticity of the capital gains tax rates. 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 receipts associated with other provisions. For example, even if behavior does not change, repeal of an itemized deduction could increase the receipt costs from other deductions because some taxpayers would be moved into higher tax brackets. Alternatively, repeal of an itemized deduction could lower the receipt 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 1 are the totals of corporate and individual income tax receipt effects reported in Tables 2A and 2B, and do not reflect any possible interactions between corporate and individual income tax receipts. For this reason, the estimates in Table 1 should be regarded as approximations.

And third, some of the reported estimates reflect the cumulative effects of several legislations enacted over time to expand and modify provisions targeting a particular economic activity or groups of taxpayers. Each successive enacted legislation may have increased or decreased tax expenditures depending on how an existing provision was modified. As an example, the One, Big, Beautiful Bill Act (OBBBA) modified several energy provisions. The tax expenditure estimates associated with these energy provisions capture the receipt effects of prior law and the adjustments introduced in OBBBA.

### **Present-Value Estimates**

The annual value of tax expenditures for tax deferrals is reported on a cash basis in all tables except Table 4. Cash-based estimates reflect the difference between taxes deferred in the current year and incoming receipts 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 over time, 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 receipt effects are presented in Table 4 for certain provisions that involve tax deferrals or other long-term receipt effects. These estimates complement the cash-based tax expenditure estimates presented in the other tables.

The present-value estimates represent the receipt effects, net of future tax payments that follow from activities undertaken during calendar year 2025 which cause the deferrals or other long-term receipt effects. For instance, a pension contribution in 2025 would cause a deferral of tax payments on wages in 2025 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2025 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.

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 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 taxing unit.

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



Both the normal tax and reference tax law baselines allow several major departures from a pure comprehensive income tax. For example, under the normal tax and reference tax law 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.
- Tax rates on noncorporate business income vary by level of income.
- Individual tax rates, including brackets and the standard deduction 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).
- The base erosion and anti-abuse tax (BEAT) for multinational corporations is treated as a minimum tax and considered part of the rate structure.

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

*Tax rates.* The separate schedules applying to the various taxpaying units and the Alternative Minimum Tax are treated as part of the baseline rate structure under both the reference tax law and normal tax methods.

*Income subject to the tax.* Income subject to tax is defined as gross income less the costs of earning that income. Under the reference tax law, 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>3</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 tax law and normal tax baselines.<sup>4</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.

### Descriptions of Income Tax Provisions

Descriptions of the individual and corporate income tax expenditures reported on in this document follow. These descriptions relate to current law as of July 31, 2025.

#### National Defense

**1. Exclusion of 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. For 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.

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<sup>3</sup> Gross income does, however, include transfer payments associated with past employment, such as Social Security benefits.

<sup>4</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.



## International Affairs

**2. *Exclusion of income earned abroad by U.S. citizens.***—Under the baseline tax system, all compensation received by U.S. citizens and residents 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 and residents 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 are provided housing by their employers, then they may also exclude the cost of such housing from their income to the extent that it exceeds 16 percent of the earned income exclusion limit. This housing exclusion is capped at 30 percent of the earned income exclusion limit, with geographical adjustments. 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 and residents 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. *Reduced tax rate on active income of controlled foreign corporations (normal tax method).***—Under the baseline tax system, worldwide income forms the tax base of U.S. corporations. In contrast, U.S. tax law exempts or preferentially taxes certain portions of this income. Under current law, certain active income from controlled foreign corporations (CFCs), called “net CFC tested income,” is taxed currently, even if it is not distributed. U.S. corporations generally receive a 40 percent deduction from U.S. tax on their net CFC tested income, resulting in a substantially reduced rate of tax. In addition, some active CFC income is excluded from tax, and distributions out of active income are no longer taxed upon repatriation. These reductions and exemptions from U.S. taxation are considered tax expenditures.

**5. *Deduction for foreign-derived intangible income derived from trade or business within the United States.***—Under the baseline tax system, the United States taxes income earned by U.S. corporations from serving foreign markets (e.g., exports of goods and services) at the full U.S. rate. Under current law, domestic corporations are allowed a deduction equal to 33.34 percent of “foreign-derived deduction eligible income,” which is essentially income from serving foreign markets (defined on a formulaic basis).

**6. *Interest Charge Domestic International Sales Corporations (IC-DISCs).***—Under the baseline tax system, taxpayer earnings are subject to tax using the regular tax rates applied to all taxpayers. In contrast, IC-DISCs allow a portion of income from exports to be taxed at the qualified dividend rate which is no higher than 20 percent (plus a 3.8 percent surtax for high-income taxpayers).

## General Science, Space, and Technology

**7. *Expensing of research and experimentation expenditures (normal tax method).***—The baseline tax system allows a deduction for the cost of producing income. It requires taxpayers to capitalize the costs associated with investments over time to better match the streams of income and associated costs. 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 tax law baseline system would allow 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. The Tax Code provides taxpayers an election to expense domestic R&E expenditures paid or incurred in taxable years beginning after December 31, 2024. Current law requires foreign R&E expenditures paid or incurred in taxable years beginning after December 31, 2021, to be capitalized and amortized over 15 years.

**8. *Credit for increasing research activities.***—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 up to 20 percent of qualified research expenditures in excess of a base amount. The base amount of the credit 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 equals 14 percent of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding taxable years.



## Energy

9. **Expensing of exploration and development costs, oil and gas.**—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 property. This ensures that the net income from the well or mine is measured appropriately each year. In contrast to this treatment, current law allows the immediate deduction, i.e., expensing, of 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). Because expensing allows recovery of costs sooner, it is more advantageous to the taxpayer than amortization. Expensing provisions for exploration expenditures apply only to properties for which a deduction for percentage depletion is allowable. For oil and gas wells, integrated oil companies may expense only 70 percent of intangible drilling costs and must amortize the remaining 30 percent over five years. Non-integrated oil companies may expense all such costs.

10. **Expensing of exploration and development costs, coal.**—This is similar to the above provision but limited to coal. Current law allows immediate deduction of eligible exploration and development costs for domestic coal mines and other natural fuel deposits.

11. **Excess of percentage over cost depletion, oil and gas.**—The baseline tax system would allow recovery of the costs of developing certain oil and gas 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 economic life, as is appropriate for measuring net income. In contrast, the Tax Code generally allows independent oil and gas 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 oil and gas 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 may provide more advantageous tax treatment than would cost depletion, which limits deductions to an investment's cost.

12. **Excess of percentage over cost depletion, coal.**—This is similar to the above provision but limited to coal.

13. **Exception from passive loss limitation for working interests in oil and gas properties.**—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, though 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.

14. **Enhanced oil recovery credit.**—A credit is provided equal to 15 percent of the taxpayer's costs for enhanced oil recovery on U.S. projects. If the reference price of oil for the previous calendar year is above \$28 (adjusted for inflation from 1990), the credit is reduced in proportion to the ratio of the excess over the \$28 threshold to \$6. Beyond a \$6 difference, the credit is fully phased out.

15. **Marginal wells credit.**—A credit is provided for crude oil and natural gas produced from a qualified marginal well. A marginal well is one that does not produce more than 1,095 barrel-of-oil equivalents per year, with this limit adjusted proportionately for the number of days the well is in production in a given year. The credit is no more than \$3.00 per barrel of qualified crude oil production and \$0.50 per thousand cubic feet of qualified natural gas production. The credit for natural gas is reduced in proportion to the amount by which the reference price of natural gas at the wellhead for the previous calendar year exceeds \$1.67 per thousand cubic feet and is zero for a reference price that exceeds \$2.00. The credit for crude oil is reduced in proportion to the amount by which the reference price of oil for the previous calendar year exceeds \$15.00 per barrel and is zero for a reference price that exceeds \$18.00. All dollar amounts are adjusted for inflation from 2004.

16. **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 its economic life. 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, a span of time that is generally shorter than the economic life of the assets.

17. **Capital gains treatment of royalties on coal.**—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. Current law allows capital gains realized by individuals to be taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8 percent surtax). Certain sales of coal under royalty contracts qualify for taxation as capital gains rather than ordinary income.





18. **Exclusion of interest on 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.

19. **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. As of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable.

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 for holding 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 that entitle the bond holder to a federal income tax credit in lieu of interest. 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. **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 zero-emission electricity produced at a facility that begin construction after 2024, with a 10-year credit period starting on the date the facility is placed in service. Wind and solar facilities that begin construction after July 4, 2026, are ineligible for the credit if placed in service after December 31, 2027. The credit for technologies other than wind and solar begins to phaseout after 2033. The credit rate is increased for facilities meeting certain wage and apprenticeship requirements. Two additional bonus credits worth 10 percent are available for projects that meet domestic content requirements and projects located in energy communities. The credit for zero-electricity production replaced the previous credit for electricity produced at certain renewable facilities that began construction before January 1, 2025.

23. **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 a credit for investments in clean electricity generation and storage facilities that achieve a net-zero greenhouse gas emissions rate. The credit is 30 percent for facilities that begin construction after 2024 and meet certain wage and apprenticeship requirements. Bonus credits of 10 percentage points each are available if projects meet domestic content requirements and are located in energy communities. There is also an allocated credit worth an additional 10 percentage points or 20 percentage points for certain projects located in low-income communities. Wind and solar facilities that begin construction after July 4, 2026, are ineligible for the credit if placed in service after December 31, 2027. The credit for technologies other than wind and solar begins to phaseout after 2033. Qualified fuel cell property which begins construction after December 31, 2025 is eligible for a 30 percent credit but not for bonus credits. The credit for investments in clean electricity generation and storage production replaced the previous credit for investments in certain renewable facilities that began construction before January 1, 2025.

24. **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 megawatts of capacity. The Treasury Department may allocate up to 6,000 megawatts of credit-eligible capacity. Any unutilized national capacity limitation shall be allocated after December 31, 2020, according to prioritization rules set forth by statute.

25. **Zero-emission nuclear power 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 per unit of electricity produced at a nuclear facility placed in service before enactment of the 2022 Inflation Reduction Act. The credit is based on the gross receipts of the facility, the electricity produced, any other federal/state/local zero-emissions credits or grants received, and whether the facility adopts certain labor standards. The credit applies to electricity produced and sold after December 31, 2023, and before January 1, 2033.



26. **Reduced tax rate for nuclear decommissioning funds.**—The baseline tax system would uniformly tax all returns to investments and not allow special rates for particular activities, investments, or industries. In contrast, the Tax Code provides a special 20 percent tax rate for investments made by Nuclear Decommissioning Reserve Funds.

27. **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 provided an income tax credit for qualified cellulosic biofuel production which was renamed the Second generation biofuel producer credit. This provision expired on December 31, 2024.

28. **Biodiesel and small agri-biodiesel producer tax 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. However, the Tax Code allowed an income tax credit for biodiesel and for biodiesel derived from virgin sources. In lieu of the biodiesel credit, the taxpayer could claim a refundable excise tax credit. In addition, a separate credit was available for qualified renewable diesel fuel mixtures. These provisions expired on December 31, 2024. Small agri-biodiesel producers are eligible for a separate income tax credit for biodiesel production, which expires December 31, 2026.

29. **Clean fuel production credit.**—The baseline tax system would not allow credits for particular activities, investments or industries. Instead, it would generally seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows an income tax credit for the production of qualifying transportation fuel with zero or low greenhouse gas emissions. The amount of the credit is calculated from the base amount, or alternate amount, of the credit and the emissions factor of a transportation fuel. Sustainable aviation fuel has a higher base amount for fuel produced and sold before January 1, 2026. Producers are eligible for larger credits as the emission of the fuels they produce approach zero. The credit applies to fuel produced after December 31, 2024 and sold on or before December 31, 2029. A sustainable aviation fuel-specific excise credit was available for fuel produced after December 31, 2022 and before January 1, 2025.

30. **Clean hydrogen 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 allows credits for the production of clean hydrogen. Clean hydrogen is defined in relation to its lifecycle greenhouse gas emissions rate; no credit is allowed for hydrogen with a lifecycle greenhouse gas emissions rate greater than 4 kilogram of carbon dioxide equivalent per kilogram of hydrogen. The credit applies to qualified clean hydrogen produced at a qualified clean hydrogen production facility during the 10-year period beginning on the date such facility was originally placed in service. Qualifying facilities must be placed in service before January 1, 2028.

31. **Tax credits for clean vehicles.**—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 allowed a credit for up to \$7,500 for a qualifying new plug-in electric vehicle or fuel cell vehicle acquired before October 1, 2025.

32. **Tax credits for refueling property.**—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 credits for alternative fuel vehicle refueling property of up to \$1,000 for individuals or \$100,000 per item for businesses or tax exempt organizations if placed in service before July 1, 2026.

33. **Allowance of deduction for certain energy efficient commercial building property.**—The baseline tax system would not allow deductions in lieu of 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 for certain energy efficient commercial building property. The basis of such property is reduced by the amount of the deduction. Starting in 2021, the maximum deduction amount per square foot will be increased by a cost-of-living adjustment. The property must begin construction by June 30, 2026 to qualify for the credit.

34. **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 provides a tax credit for eligible contractors who build or substantially reconstruct qualified new energy efficient homes of up to \$5000 per home. The amount of the credit depends on factors including the type of home, its energy efficiency, and whether prevailing wage requirements were satisfied during construction of multifamily units. Qualifying new energy efficient homes must be acquired before July 1, 2026.

35. **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 provided an investment tax credit for expenditures made on qualifying energy-efficient improvements, such as insulation, exterior windows and doors, heating, ventilation and air conditioning (HVAC) systems, heat pumps and energy audits. To qualify for the credit all property must be placed in service by the end of 2025.



36. **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, small wind property, and qualified battery storage technology used in or placed on a residence. The credit is 30 percent for property placed in service before January 1, 2020, 26 percent for property placed in service in 2020-2021, 30 percent for property placed in service in 2022-2025. To qualify for the credit all property must be placed in service by the end of 2025.

37. **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 \$12.3 billion in tax credits for qualified investments. Of the total \$12.3 billion, \$4 billion is reserved for projects located in energy communities.

38. **Advanced manufacturing production credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code provides credits of varying amounts for the production within the United States and sale of specified eligible components, including specified solar energy components, wind energy components, inverters, qualifying battery components, and applicable critical minerals. The production of an eligible component is only eligible for a credit if sold after 2022. For most eligible components, the credit is phased out from 2030 to 2032, with components no longer receiving any credit if sold after 2032. Wind energy components are not eligible after 2027. Critical minerals aside from metallurgical coal phase out between 2031 and 2033. Metallurgical coal is eligible for a credit through 2029. Eligibility is limited according to foreign entity rules after 2026.

### Natural Resources and Environment

39. **Expensing of exploration and development costs, nonfuel minerals.**—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.

40. **Excess of percentage over cost depletion, nonfuel minerals.**—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 receipts) 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 may provide more advantageous tax treatment than would cost depletion, which limits deductions to an investment's cost.

41. **Exclusion of interest on bonds for water, sewage, and hazardous waste 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 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.

42. **Capital gains treatment of certain timber 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. 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. Current law allows capital gains to be taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8 percent surtax).

43. **Expensing of multiperiod 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.

44. **Tax incentives for preservation of historic structures.**—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 for certified rehabilitation activities. The taxpayer's recoverable basis must be reduced by the amount of the credit. The credit must be claimed ratably over the five years after the property is placed in service, for property placed in service after December 31, 2017.

45. **Carbon oxide sequestration 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 for qualified carbon oxide captured at a qualified facility and disposed of in secure geological storage. In addition, the provision allows a credit for qualified carbon oxide that is captured at a qualified facility and used as a tertiary injectant in a qualified enhanced oil or natural gas recovery project. The credit also allows for utilized captured carbon. The credit differs according to whether the carbon was





captured using equipment which was originally placed in service before February 9, 2018, or thereafter. Facilities must begin construction by the end of 2032 to be eligible.

**46. Deduction for endangered species recovery expenditures.**—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, 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 farmland, in accordance with site specific management actions included in species recovery plans approved pursuant to the Endangered Species Act of 1973.

### Agriculture

**47. Expensing of 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, for soil and water conservation measures, and certain other capital improvements under current law.

**48. Expensing of certain multiperiod 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 is exempt from the uniform cost capitalization rules (e.g., for costs for establishing orchards or structure improvements), thereby accelerating cost recovery.

**49. Treatment of loans forgiven for solvent farmers.**—Because loan forgiveness increases a debtors net worth 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 if the taxpayer is not insolvent. 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. Qualified farm debt that is forgiven, however, is excluded from income even when the taxpayer is solvent.

**50. Capital gains treatment of certain agriculture 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 20 percent (plus the 3.8 percent surtax). Certain agricultural income, such as unharvested crops, qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 20 percent maximum tax rate on capital gains (plus the 3.8 percent surtax).

**51. 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.

**52. Deferral of gain on sale 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.

**53. 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.

**54. Exemption of credit union income.**—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. However, in the Tax Code the earnings of credit unions not distributed to members as interest or dividends are exempt from the income tax.

**55. Exclusion of life insurance death benefits.**—Under the baseline tax system, individuals and corporations would pay taxes on their income when it is (actually or constructively) received or accrued. Nevertheless, current law generally excludes from tax amounts received under life insurance contracts if such amounts are paid by reason of the death of the insured.

**56. Exemption or special alternative tax for small property and casualty insurance companies.**—The baseline tax system would require corporations to 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 consist 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 a specified level of annual net written premiums generally may elect to pay tax only on their taxable investment income provided certain ownership diversification requirements are met. The underwriting income (premiums, less insurance losses and expenses) of electing companies is excluded from tax. The specified premium limit is indexed for inflation; for 2025, the premium limit is \$2.85 million.

**57. Tax exemption of insurance income earned by tax-exempt organizations.**—Under the baseline tax system, corporations pay taxes on their profits 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. Generally, the income generated by life and property and casualty insurance companies is subject to tax, albeit under special rules. However, income from insurance operations conducted by certain tax-exempt organizations, such as fraternal societies, voluntary employee benefit associations, and others are exempt from tax.

**58. 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 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 of deposit services.

**59. Exclusion of interest on owner-occupied mortgage subsidy 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 from tax. These bonds are generally subject to the state private-activity-bond annual volume cap.

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

**61. Deductibility of mortgage interest expense on owner-occupied residences.**—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 allows the owner-occupant to deduct mortgage interest paid on his or her primary residence and one secondary residence 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. In the case of taxable years beginning after December 31, 2017, (1) the \$1 million limit is reduced to \$750,000 for indebtedness incurred after December 15, 2017, and (2) the deduction for interest on home equity indebtedness is disallowed.

**62. Deductibility of state and local property tax 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 allows the owner-occupant to deduct property taxes paid on real property. In the case of taxable years beginning after December 31, 2024, and before January 1, 2030 (1) the deduction for foreign real property taxes paid is disallowed and (2) the deduction for taxes paid in any taxable year, which includes the deduction for property taxes on real property, is limited to \$40,000 (\$20,000 in the case of a married individual filing a separate return). The deduction limit phases down at a 30 percent rate beginning at \$500,000 of adjusted gross income until it reaches \$10,000 (\$5,000 in the case of a married individual filing a separate return). The \$40,000 deduction limit and \$500,000 phase-down start point increase by 1% in each year from 2026 to 2029. For taxable years beginning after December 31, 2029 the deduction limit is \$10,000 (\$5,000 in the case of a married individual filing a separate return).

**63. Deferral of income from 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.

**64. 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 filing 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.

**65. Exclusion of net imputed rental income.**—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.

**66. Exception from passive loss rules for \$25,000 of rental loss.**—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 certain 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.

**67. Credit for low-income housing investments.**—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 projects are eligible for a tax credit. The credit rate is set so that the present value of the credit is equal to at least 70 percent of the building's qualified basis 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.

**68. Accelerated depreciation on rental housing (normal tax method).**—Under a comprehensive 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 ensures that the net income from the rental property is measured appropriately each year. Current law allows depreciation that is accelerated relative to economic depreciation. However, the depreciation provisions of the Tax Code are part of the reference tax law and thus do not give rise to tax expenditures under reference tax law. Under normal tax baseline, in contrast, depreciation allowances reflect estimates of economic depreciation.

**69. 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 \$750,000 (\$375,000 in the case of a married individual filing a separate return) from a qualified principal residence. The provision applies to debt discharged after December 31, 2020, and before January 1, 2026.

**70. Discharge of business 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 qualified real property business indebtedness by taxpayers other than a C corporation. If the canceled debt is not reported as current income, however, the basis of the underlying property must be reduced by the amount canceled.

**71. Exceptions from imputed interest rules.**—Under the baseline tax system, holders (issuers) of debt instruments are generally required to report interest earned (paid) in the period it accrues, not when received. 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. But under current law, any debt associated with the sale of property worth less than \$250,000 is exempted from the general interest accounting rules. This general \$250,000 exception is not a tax expenditure under reference tax law but is under normal tax baseline. Current law also includes exceptions for certain property worth more than \$250,000. These are tax expenditure under



reference tax law and normal tax baselines. These exceptions include sales of personal residences worth more than \$250,000 and sales of farms and small businesses worth between \$250,000 and \$1 million.

**72. *Treatment of qualified dividends.***—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. For individuals, tax rates on regular income vary from 10 percent to 39.6 percent in the budget window (plus a 3.8 percent surtax on high income taxpayers), depending on the taxpayer's income. In contrast, under current law, qualified dividends are taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8 percent surtax).

**73. *Capital gains (except agriculture, timber, iron ore, and coal).***—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. Under current law, capital gains on assets held for more than one year are taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8 percent surtax).

**74. *Capital gains exclusion of small corporation stock.***—The baseline tax system would not allow deductions and exemptions or provide preferential treatment of certain sources of income or types of activities. In contrast, the Tax Code provides an exclusion for capital gains from qualified small business stock (QSBS) held by individuals. For QSBS issued after July 4, 2025, the exclusion equals 50 percent for stock held for three years; 75 percent for stock held for four years; and 100 percent for stock held for five years or more. For QSBS issued prior to July 4, 2025, the stock must be held for five years to qualify for the exclusion. The exclusion equals 50 percent for stock issued between August 11, 1993 and February 17, 2009; 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 July 4, 2025. Under current law, a qualified small business is a corporation whose gross assets never exceed \$75 million prior to and including the date of issuance of the stock. For QSBS issued prior to July 4, 2025, a qualified small business is a corporation whose gross assets never exceeded \$50 million prior to and including the date of issuance of the stock.

**75. *Step-up basis of capital gains at death.***—Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred at death. It would not allow for exempting gains upon transfer of the underlying assets to the heirs. 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 which becomes the basis for the heirs.

**76. *Carryover basis of capital gains on gifts.***—Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred 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.

**77. *Ordinary income treatment of loss from small business corporation stock sale.***—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.

**78. *Deferral of capital gains from like-kind exchanges.***—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. In contrast, current law allows the deferral of accrued gains on assets transferred in qualified like-kind exchanges.

**79. *Depreciation of buildings other than rental housing (normal tax method).***—Under a comprehensive 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 ensures that the net income from the property is measured appropriately each year. Current law allows depreciation deductions that differ from those under economic depreciation. However, the depreciation provisions of the Tax Code are part of the reference tax law and thus do not give rise to tax expenditures under reference tax law. Under normal tax baseline, in contrast, depreciation allowances reflect estimates of economic depreciation.

**80. *Accelerated depreciation of machinery and equipment (normal tax method).***—Under a comprehensive 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 ensures that the net income from the property is measured appropriately each year. Current law allows depreciation deductions that are accelerated relative to economic depreciation. In particular, in 2023, 80 percent of the purchase cost of qualified property is eligible to be expensed immediately; this percentage phases out to zero through 2027. Additionally, subject to investment limitations, the Tax Code allows up to \$1 million (indexed for inflation) in qualifying investments in tangible property and certain computer software to be expensed rather than depreciated over time. The depreciation provisions of the Tax Code are part of the reference tax law and thus do not give rise to tax expenditures under reference tax law. Under the normal tax baseline, in contrast, depreciation allowances reflect estimates of economic depreciation.





**81. *Exclusion of interest on small issue 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. *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 deductions and exemptions or preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allowed taxpayers to deduct up to (in general) \$15 million per production in non-capital expenditures incurred during the year. This provision is scheduled to expire at the end of 2025.

**83. *Allow 20-percent deduction to certain pass-through income.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow deductions and exemptions or 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 up to 20 percent of income attributable to domestic pass-through businesses, subject to certain limitations.

**84. *Advanced manufacturing 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 semiconductor manufacturing equipment within the United States. The credit is 25 percent for qualified property placed into service after December 31, 2022 and 35 percent for qualified property placed into service after December 31, 2025. Construction on a qualified facility must begin before January 1, 2027. Owners of facilities that qualify for the advanced manufacturing investment credit may elect to treat investment credits as a payment of tax equal to the amount of the credit.

**85. *Deduction of interest on car loans.***—The baseline tax system would not allow a deduction for qualified passenger vehicle loan interest. In contrast, under current law, taxpayers may deduct qualified passenger vehicle loan interest, up to \$10,000, from their taxable income. This deduction is phased out by \$200 for each \$1,000 (or portion thereof) by which the taxpayer's modified adjusted gross income exceeds \$100,000 (\$200,000 in the case of joint returns). Vehicle loan interest must meet certain conditions in order to be eligible for the deduction, including that the original use of the vehicle commences with the taxpayer (interest on used cars is not eligible) and that the vehicle undergoes final assembly in the U.S. This deduction is allowed for taxable years beginning after December 31, 2024, and ending before January 1, 2029.

## Transportation

**86. *Tonnage tax.***—The baseline tax system generally would tax all profits and income under the regular tax rate schedule. 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.

**87. *Deferral of tax on 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 (e.g., primarily construction, modernization and major repairs to ships, and repayment of loans to finance these investments).

**88. *Exclusion of reimbursed 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 2025, the maximum amount of the parking exclusion is \$325 per month. The tax expenditure estimate does not include any subsidy provided through employer-owned parking facilities. However, beginning in 2018, parking expenses are no longer deductible to employers.

**89. *Exclusion for employer-provided transit passes.***—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. Due to a parity to parking provision, the maximum amount of the transit exclusion is \$325 per month in 2025. However, beginning in 2018, transit expenses are no longer deductible to employers.

**90. *Tax credit for certain expenditures for maintaining railroad tracks.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code allowed eligible taxpayers to claim a credit





equal to the lesser of 40 percent of maintenance expenditures and the product of \$3,500 and the number of miles of railroad track owned or leased.

91. **Exclusion of interest on bonds for 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.

### Community and Regional Development

92. **Exclusion of interest for airport, dock, and similar 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.

93. **Exemption of certain mutuals' and cooperatives' income.**—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 receipts are derived from patron service charges.

94. **Empowerment zones.**—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, tax credits, and write-offs faster than economic depreciation. In contrast, the Tax Code allows qualifying businesses in designated economically depressed areas to receive tax benefits such as an employment credit and special tax-exempt financing. A taxpayer's ability to accrue new tax benefits for empowerment zones expires on December 31, 2025.

95. **New markets tax credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code allows taxpayers who make qualified equity investments in a community development entity (CDE), which then make qualified investments in low-income communities, to be eligible for a tax credit that is received over 7 years. The total equity investment available for the credit across all CDEs is generally \$5 billion for each calendar year.

96. **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.

97. **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 allowed local governments to issue up to \$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, local governments could issue up to \$15 billion in tax exempt Recovery Zone Facility Bonds. These bonds financed certain kinds of business development in areas of economic distress.

98. **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 on such bonds.

99. **Opportunity Zones.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow deferral or exclusion from income for investments made within certain geographic regions. In contrast, the Tax Code allows the temporary deferral of the recognition of capital gain until December 31, 2026, if invested prior to December 31, 2026, in a qualified opportunity fund which in turn invests in qualifying low-income communities designated as opportunity zones. For qualifying investments held at least 5 years, 10 percent of the deferred gain is excluded from income; this exclusion increases to 15 percent for investments held for at least 7 years. For investments in a qualified opportunity fund made after December 31, 2026, the temporary deferral lasts for 5 years, and for qualifying investments held at least 5 years, 10 percent of the deferred gain is excluded from income (30 percent in the case of an investment in a qualified rural opportunity fund). In addition, capital gains from the sale or exchange of an investment in a qualified opportunity fund held for at least 10 years are excluded from gross income, regardless of whether the qualifying investment in the qualified opportunity fund was made prior to or after December 31, 2026.

100. **Disaster Employee Retention Credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides employers located in certain presidentially declared disaster areas during the years 2017 through 2020 a 40 percent credit for up to \$6,000 in wages paid to each eligible employee while the business was inoperable as a result of the disaster. Only wages paid after the disaster occurred and within 150 days of the last



day of the incident period are eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed.

### Education, Training, Employment, and Social Services

101. **Exclusion of scholarship and fellowship income (normal tax method).**—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 tax 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.)

102. **Tax credits for post-secondary education expenses.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law in 2025, however, there are two credits for certain post-secondary education expenses. The American Opportunity Tax Credit (AOTC) allows a partially refundable credit of up to \$2,500 per eligible student for qualified tuition and related expenses paid. The AOTC may be claimed during each of the first four years of the student's post-secondary education. The Lifetime Learning Credit (LLC) allows a non-refundable credit for 20 percent of an eligible student's qualified tuition and fees, up to a maximum credit of \$2,000 per return. The LLC may be claimed during any year of the student's post-secondary education. Only one credit may be claimed per student per year. The combined credits are phased out for taxpayers with modified adjusted gross income between \$160,000 and \$180,000 if married filing jointly (\$80,000 and \$90,000 for other taxpayers), not indexed. Married individuals filing separate returns cannot claim either credit.

103. **Deductibility of 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 2025, the maximum deduction is phased down ratably for taxpayers with modified AGI between \$170,000 and \$200,000 if married filing jointly (\$85,000 and \$100,000 for other taxpayers). Married individuals filing separate returns cannot claim the deduction.

104. **Qualified tuition programs (includes Education 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. 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. Beginning in 2025, the definition of a qualified expense for section 529 accounts includes credentialing, licensing, and continuing education programs, including those in the trades. Rollovers to ABLE accounts are also permitted. Beginning in 2026, the definition of a qualified expense for primary or secondary education, including tuition at religious schools expands to \$20,000 for section 529 accounts and includes expenses for supplies, test preparation, equipment, and other related expenses.

105. **Exclusion of interest on student-loan bonds.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, interest earned on state and local bonds issued to finance student loans is tax-exempt under current law. The volume of all such private activity bonds that each state may issue annually is limited.

106. **Exclusion of interest on bonds for private nonprofit educational 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, under current law interest earned on state and local Government bonds issued to finance the construction of facilities used by private nonprofit educational institutions is not taxed.

107. **Credit for holders of zone academy bonds.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, financial institutions that own zone academy bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income. Proceeds from zone academy bonds may only be used to renovate, but not construct, qualifying schools and for certain other school purposes. The total amount of zone academy bonds that may be issued was 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 each year in 2011 through 2017.

108. **Exclusion of interest on savings bonds redeemed to finance educational expenses.**—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 \$149,250 and 179,250 if married filing jointly (\$99,500 and \$114,500 for other taxpayers) in 2025.

**109. *Deductibility of charitable contributions (education).***—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 that are similar to personal expenditures. 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 60 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

**110. *Exclusion of 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 it represents 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 per year. Employer-provided student loan payments are considered eligible educational assistance. The \$5,250 amount is indexed after 2026.

**111. *Special deduction for teacher expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code allows educators in both public and private elementary and secondary schools, who worked at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide, to subtract up to \$300 of qualified expenses when determining their adjusted gross income (AGI).

**112. *Deductibility of educator expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, starting in 2026, the Tax Code allows a new miscellaneous itemized deduction for unreimbursed educator expenses with no dollar cap. The itemized deduction is also extended to include equipment for health or physical education courses and equipment used by administrators or coaches in the course of coaching at the school.

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

**114. *Qualified school construction bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code was modified in 2009 to provide a tax credit in lieu of interest to holders of qualified school construction bonds. The national volume limit is \$22.4 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.

**115. *Work opportunity 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, the Tax Code provides employers with a tax credit for qualified wages paid to individuals. The credit applies to employees who began work on or before December 31, 2025 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. Also, certain categories of veterans are eligible for a higher maximum credit of up to \$9,600. Employers must reduce their deduction for wages paid by the amount of the credit claimed.

**116. *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, current law allows up to \$7,500 of employer-provided child care to be excluded from an employee's gross income even though the employer's costs for the child care are a deductible business expense.

**117. *Employer-provided child care credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, current law provides a credit equal to 40 percent of qualified expenses for employee child care (50 percent in the case of an eligible small business) 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 \$500,000 per taxable year (\$600,000 in the case of an eligible small business).

**118. *Assistance for adopted foster children.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Taxpayers who adopt eligible children from the public foster care system can receive monthly payments for the children's significant and varied needs and a reimbursement of up to \$2,000 for nonrecurring adoption expenses; special needs adoptions receive the maximum benefit even if that amount is not spent. These payments are excluded from gross income under current law.



**119. Adoption credit and exclusion.**—The baseline tax system would not allow credits for particular activities. In contrast, taxpayers can receive a tax credit for qualified adoption expenses under current law. Certain adoptions may qualify for the maximum credit, regardless of actual expenses. 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. Beginning in 2025, up to \$5,000 total (indexed) of qualified expenses are fully refundable in the year of the expense. Qualified expenses in excess of tax liability (after considering the \$5,000 of refundable expenses) can be carried forward for five years.

**120. Exclusion of employee meals and lodging (other than military).**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Furthermore, all compensation would generally be deductible by the employer. In contrast, under current law employer-provided meals and lodging are excluded from an employee's gross income. Additionally, beginning in 2018, employers are allowed a deduction for only 50 percent of the expenses of employer-provided meals, except that in 2021 and 2022, employers are eligible for a full deduction on restaurant meals provided to employees. Employer-provided lodging is fully deductible by the employer, in general.

**121. Credit for 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 a tax credit to parents who work or attend school and who have child and dependent care expenses. Expenditures up to a maximum \$3,000 for one dependent and \$6,000 for two or more dependents are eligible for a nonrefundable credit. In taxable year 2025, the credit is equal to 35 percent of qualified expenditures for taxpayers with incomes of up to \$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. Starting in taxable year 2026, the credit is equal to 50 percent of qualified expenditures for taxpayers with incomes of up to \$15,000. The credit is reduced to 35 percent at a rate of one percentage point for each \$2,000 of income beginning at \$15,000. It is further reduced to a minimum of 20 percent beginning at \$75,000 (\$150,000 for joint filers) at rates which depend on the filer's marital status.

**122. Credit for disabled access expenditures.**—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.

**123. Deductibility of charitable contributions, other than education and health.**—The baseline tax system would not allow a deduction for personal expenditures including charitable contributions. 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 60 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

**124. Exclusion of certain 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. Under current law, compensation received for this service is excluded from the gross incomes of foster parents; the expenses they incur are nondeductible.

**125. Exclusion of 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.

**126. Indian employment 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 employers with a tax credit for qualified wages paid to employees who are enrolled members of Indian tribes. The amount of the credit that could be claimed is 20 percent of the excess of qualified wages and health insurance costs paid by the employer in the current tax year over the amount of such wages and costs paid by the employer in 1993. Qualified wages and health insurance costs with respect to any employee for the taxable year could not exceed \$20,000. Employees have to live on or near the reservation where they work to be eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed. The credit does not apply to taxable years beginning after December 31, 2021.

**127. Employer-provided paid family and medical leave credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, current law provides a credit for certain firms that offer paid family and medical leave. The credit is equal either to a portion of wages paid to qualifying employees while on family and medical leave or a portion of premiums paid by taxpayers with respect to insurance policies that provide paid family and medical leave





to their employees. In order to qualify for the credit, an employer must have a written policy in place that provides at least two weeks of paid family and medical leave per year for full-time workers; additionally, employers must pay at least 50 percent of an employee's normal wages while they are on paid leave.

**128. Deduction for qualified tips.**—The baseline tax system would not allow a deduction for qualified tips. In contrast, under the Tax Code, taxpayers may deduct their qualified tips, up to \$25,000, from their taxable income. This deduction is phased out by \$100 for each \$1,000 by which the taxpayer's modified adjusted gross income exceeds \$150,000 (\$300,000 in the case of joint returns). Qualified tips used for the deduction must be received in an occupation which customarily and regularly received tips on or before December 31, 2024, and must not have been received in the course of a trade or business that is a specified service trade or business. The individual earning the qualified tips used to claim the deduction must have a social security number. In addition, married taxpayers must file a joint return to qualify for the deduction. This deduction is allowed for taxable years beginning after December 31, 2024, and ending before January 1, 2029.

**129. Deduction for qualified overtime income.**—The baseline tax system would not allow a deduction for qualified overtime compensation. In contrast, under the Tax Code, taxpayers may deduct their qualified overtime compensation, up to \$12,500 (\$25,000 in the case of joint returns), from their taxable income. This deduction is phased out by \$100 for each \$1,000 by which the taxpayer's modified adjusted gross income exceeds \$150,000 (\$300,000 in the case of joint returns). Qualified overtime compensation is overtime compensation paid to an individual under section 7 of the Fair Labor Standards Act of 1938 that is in excess of the regular rate at which the individual is employed. The individual earning the qualified overtime compensation used to claim the deduction must have a social security number. In addition, married taxpayers must file a joint return to qualify for the deduction. This deduction is allowed for taxable years beginning after December 31, 2024, and ending before January 1, 2029.

## Health

**130. Exclusion of employer contributions for medical insurance premiums and medical care.**—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 or Health Reimbursement Arrangements) are not included in employee gross income even though they are deducted as a business expense by the employer.

**131. 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 health insurance premiums paid for themselves, their spouse, dependents, and children up to age 26. 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.

**132. Health Savings Accounts and Medical 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 and generally would tax investment earnings. In contrast, individual contributions to Health Savings Accounts (HSAs) are allowed as a deduction in determining adjusted gross income whether the individual itemizes deductions, and employer contributions are excluded from income and employment taxes. Individuals are only eligible to contribute to an HSA if they are covered by a qualifying high deductible health plan. The sum of employer and employee contributions is subject to an annual contribution limit. Earnings from investments in the accounts are excluded from taxable income and distributions from the accounts used for medical expenses are not taxable. Archer Medical Savings Accounts (MSAs) are similar to Health Savings Accounts but have more restrictions. HSAs have therefore almost entirely replaced MSAs.

**133. Deductibility of medical 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 to the extent not compensated by insurance or otherwise.

**134. Exclusion of interest on 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.

**135. 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 percent and 400 percent 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 (1) the actual premiums paid by the taxpayer for such coverage or (2) 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. The American Rescue Plan Act of 2021 (P.L. 117-2) and the Inflation Reduction Act of 2022 (P.L. 117-169) temporarily increased the Premium Tax Credit. For 2021 through 2025, the legislation increased the Premium Tax Credit for currently eligible individuals and families, provided access to free benchmark plans for those earning 100 to 150 percent of the federal poverty level, and expanded eligibility to newly include individuals and families with income above 400 percent of the federal poverty level.

**136. 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-equivalent 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 up to two consecutive years for insurance purchased through a Health Insurance Exchange. The maximum tax credit is 50 percent of premiums paid by qualified taxable employers and 35 percent of premiums paid by qualified tax-exempt organizations.

**137. Deductibility of charitable contributions (health).**—The baseline tax system would not allow a deduction for personal expenditures including charitable contributions. 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.

**138. Tax credit for orphan drug research.**—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 25 percent of the costs for clinical testing required by the Food and Drug Administration for drugs that treat rare physical conditions or rare diseases.

**139. Special Blue Cross/Blue Shield tax benefits.**—The baseline tax system generally would tax all profits under the regular tax rate schedule using broadly applicable measures of baseline income. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, certain Blue Cross and Blue Shield (BC/BS) health insurance providers and certain other health insurers are provided with special tax benefits, provided that their percentage of total premium revenue expended on reimbursement for clinical services provided to enrollees or for activities that improve health care quality is not less than 85 percent for the taxable year. A qualifying insurer may take as a deduction 100 percent of any net increase in its unearned premium reserves, instead of the 80 percent allowed other insurers. A qualifying insurer is also allowed a special deduction equal to the amount by which 25 percent of its health-claim expenses exceeds its beginning-of-the-year accounting surplus. The deduction is limited to the insurer's taxable income determined without the special deduction.

**140. Distributions from retirement plans 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

**141. Child tax 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 child tax credit. In taxable years beginning in 2025, taxpayers may claim a \$2,200 per child partially refundable child tax credit. This amount is indexed. In 2025 up to \$1,700 per child of unclaimed credit due to insufficient tax liability may be refundable—taxpayers may claim a refund for 15 percent of earnings in excess of a \$2,500 floor, up to the lesser of the amount of unused credit or \$1,700 per child. A taxpayer may also claim a nonrefundable credit of \$500 for each qualifying child not eligible for the \$2,200 credit (those over sixteen and those without SSNs valid for work) and for each dependent relative. The total combined child and other dependent credit is phased out for taxpayers at the rate of \$50 per \$1,000 of modified AGI above \$400,000 if married filing jointly (\$200,000 for all other filers). To claim a credit, the filer (or at least one filer in the case of joint filers) must have an SSN valid for work at the time of filing.

**142. Other dependent tax credit.**—The baseline tax system would not allow credits for particular activities or targeted at specific groups. Under current law, however, qualifying taxpayers with dependents who don't qualify for the child tax credit may be able to claim a maximum of \$500 in credits for each dependent who meets certain conditions.

**143. Exclusion of railroad (Social Security equivalent) benefits.**—Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, the Social Security Equivalent



Benefit paid to railroad retirees and the disabled is not generally subject to the income tax unless the recipient's modified gross income reaches a certain threshold under current law. See provision number 161, Social Security benefits for retired and disabled workers and spouses, dependents, and survivors, for a discussion of the threshold.

**144. *Exclusion of 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 is not subject to the income tax under current law.

**145. *Exclusion of public assistance benefits (normal tax method).***—Under the reference tax law baseline, 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 a tax expenditure.

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

**147. *Exclusion of 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 disability pension income received by current disabled military retirees is excluded from their income subject to tax.

**148. *Defined benefit employer plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under current law certain contributions to defined benefit pension plans are excluded from an employee's gross income until the money is withdrawn, 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.

**149. *Defined contribution employer plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under the Tax Code, individual taxpayers and employers can make tax-preferred contributions to employer-provided 401(k) and similar plans (e.g. 403(b) plans and the Federal Government's Thrift Savings Plan). In 2025, an employee could exclude up to \$23,500 of wages from AGI under a qualified arrangement with an employer's 401(k) plan. Employees age 50 or over could exclude up to \$31,000 in contributions. The defined contribution plan limit, including both employee and employer contributions, is \$70,000 in 2025. The tax on contributions made by both employees and employers and the investment income earned by these plans is deferred until withdrawn.

**150. *Individual Retirement Accounts (IRAs).***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under the Tax Code, 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 \$7,000 in 2025; 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 if the workers or their spouses are active participants in an employer-provided retirement plan. Contributions and account earnings are includible in income when withdrawn from traditional IRAs. Roth IRA contributions are not deductible, but earnings and withdrawals are exempt from taxation. Income limits also apply to Roth IRA contributions.

**151. *Trump accounts.***—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 the Tax Code, children who have not yet reached the year of their 18<sup>th</sup> birthday are eligible to benefit from preferential tax treatment on investment gains through Trump accounts. The baseline tax system would also not treat an individual as having made a payment when no payment has been made. In contrast, under the Tax Code, an individual born in 2025-2028 for whom an election into the pilot program has been made is treated as having made a payment of \$1,000, which creates an overpayment, which is then refunded to the Trump account of the individual. Individuals, employers, nonprofits, and local governments may contribute to a child's Trump account until the year in which the beneficiary turns 18. Each account has a \$5,000 annual contribution limit (indexed beginning in 2028), which applies only to individual and employer contributions. Individuals can make contributions with after-tax income, while employers may contribute up to \$2,500 per employee to Trump accounts as a tax-deductible expense. Earnings on contributions made to a Trump account grow tax free. Distributions from the account are generally not allowed until the year in which the beneficiary reaches the age of 18, at which point the account will generally be subject to the rules that apply to traditional IRAs.

**152. *Low- and moderate-income saver's 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 \$79,000 for joint filers, \$59,250 for head of household filers, and \$39,500 for other filers in 2025. Starting in Tax Year 2027, the Saver's Credit, which is nonrefundable, is replaced with the Saver's Match, which is refundable.

153. **Self-employed plans.**—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. 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 \$70,000 in 2025. 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. **Small employer pension plan startup credit.**—The baseline tax system would not allow credits for particular activities or targeted at specific groups. However, under current law, certain small employers are eligible for a tax credit for the start-up cost of a new plan for the first three years in which the plan is maintained.

155. **Premiums on group term life insurance.**—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 (to the extent that the employer's share of the total costs does not exceed the cost of \$50,000 of such insurance) even though the employer's costs for the insurance are a deductible business expense.

156. **Premiums on accident and disability insurance.**—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 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.

157. **Exclusion of investment income from Supplementary Unemployment Benefit Trusts.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In addition, investment income would be taxed as earned. Under current law, employers may establish trusts to pay supplemental unemployment benefits to employees separated from employment. Investment income earned by such trusts is exempt from taxation.

158. **Exclusion of investment income from Voluntary Employee Benefit Associations trusts.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Under current law, employers may establish associations, or VEBAs, to pay employee benefits, which may include health benefit plans, life insurance, and disability insurance, among other employee benefits. Investment income earned by such trusts is exempt from taxation.

159. **Special Employee Stock Ownership Plan (ESOP) rules.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In addition, investment income would be taxed as earned. 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 the payment (deductible by firm) 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; (4) dividends paid to ESOP-held stock are deductible by the employer; and (5) earnings are not taxed as they accrue.

160. **Additional deduction for the blind.**—Under the baseline tax system, the standard deduction is allowed. An additional standard deduction for a targeted group within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are blind to claim an additional \$2,000 standard deduction if single or \$1,600 if married in 2025.

161. **Additional deduction for the elderly.**—Under the baseline tax system, the standard deduction is allowed. An additional standard deduction for a targeted group 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 \$2,000 standard deduction if single or \$1,600 per qualifying individual if married in 2025.

162. **Temporary additional deduction for the elderly.**—Under the baseline tax system, the standard deduction is allowed. An additional deduction for a targeted group within a given filing status and income group would not be allowed. ...In contrast, the TAX Code allows taxpayers who are 65 years or older to claim an additional \$6,000 "bonus" deduction if single and \$12,000 if married for tax years 2025 through 2028. This "bonus" deduction starts phasing out at \$75,000 if single and \$150,000 if married and is fully eliminated at \$175,000 if single and \$250,000 if married.

163. **Deductibility of casualty losses.**—Under the baseline tax system, neither the purchase of property nor insurance premiums to protect the property's 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. In the case of taxable years beginning after December 31, 2017, personal casualty losses are deductible only to the extent they are attributable to a federally declared disaster area or a state declared disaster.

**164. *Earned income tax credit (EITC).***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides an EITC to low-income workers at a maximum rate of 45 percent of income. In 2025, for a family with one qualifying child, the credit is 34 percent of the first \$12,730 of earned income. The credit is 40 percent of the first \$17,880 of income for a family with two qualifying children, and it is 45 percent of the first \$17,880 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 \$8,490 of earned income. The credit plateaus and then phases out with the greater of Adjusted Gross Income or earnings at income levels and rates which depend upon how many qualifying children are eligible and marital status. In 2025 the phaseout for joint filers with children begins at incomes \$7,120 higher than for other filers (\$7,110 for joint filers without children). Earned income tax credits in excess of tax liabilities are refundable to individuals.

**165. *Recovery rebate credits.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Coronavirus Aid, Relief, and Economic Security (CARES) Act provided rebates of \$1,200 (\$2,400 for married couples filing jointly) and \$500 per child for tax year 2020. The total rebate amount begins phasing out at adjusted gross income over \$75,000 (\$150,000 for married couples filing jointly, \$112,500 for heads of household). This was followed by the Consolidated Appropriations Act which provided rebates for tax year 2020 of \$600 per eligible taxpayer (\$1,200 for married couples filing jointly) plus an additional \$600 per child, with phase-out features similar to the CARES Act. The American Rescue Plan act provided another rebate credit of \$1,400 (\$2,800 for married couples filing jointly) and \$1,400 per dependent for tax year 2021. The phase out begins at the same thresholds as the CARES Act, but the full credit is phased out proportionately by \$80,000 of AGI (\$160,000 for married couples filing jointly, \$120,000 for heads of household).

### Social Security

**166. *Social Security benefits for retired and disabled workers and spouses, dependents, and survivors.***—The baseline tax system would tax Social Security benefits to the extent that contributions to Social Security were not previously taxed. Thus, the portion of Social Security benefits that is attributable to employer contributions and to earnings on employer and employee contributions (and not attributable to employee contributions which are taxed at the time of contribution) 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. Therefore, up to 85 percent of recipients' Social Security and Railroad Social Security Equivalent 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 Railroad Social Security Equivalent 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. Benefits paid to disabled workers and to spouses, dependents, and survivors are treated in a similar manner. Railroad Social Security Equivalent benefits are treated like Social Security benefits. See also provision number 143, Exclusion of railroad (Social Security equivalent) benefits.

**167. *Credit for certain employer contributions to Social Security.***—Under the baseline tax system, employer contributions to Social Security represent labor cost and are deductible expenses. Under current law, however, certain employers are allowed a tax credit, instead of a deduction, against taxes paid on tips received from customers in connection with the providing, delivering, or serving of food or beverages for consumption, or for providing barbering and hair care, nail care, esthetics, and body and spa treatment services. The tip credit equals the full amount of the employer's share of FICA taxes paid on the portion of tips, when added to the employee's non-tip wages, in excess of \$5.15 per hour. The credit is available only with respect to FICA taxes paid on tips.

### Veterans Benefits and Services

**168. *Exclusion of 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.

**169. *Exclusion of veterans pensions.***—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.

**170. *Exclusion of 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.

**171. *Exclusion of interest on veterans 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, under current law, the interest earned on general obligation bonds issued by state and local governments to finance housing for veterans is excluded from taxable income.

### General Government

**172. *Exclusion of interest on 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 the 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. The interest on bonds issued by Indian tribal governments for essential governmental purposes is also tax-exempt.

**173. *Build America Bonds.***—The baseline tax system would not allow credits for particular activities or targeting specific groups. In contrast, the Tax Code in 2009 allowed state and local governments to issue taxable bonds through 2010 and receive a direct payment from Treasury equal to 35 percent of interest expenses. Alternatively, state and local governments could issue taxable bonds and the private lenders would receive the 35 percent credit which is included in taxable income.

**174. *Deductibility of nonbusiness state and local taxes other than on owner-occupied homes.***—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 estimates for this tax expenditure do not include the estimates for the deductibility of state and local property tax on owner-occupied homes, which are presented in provision number 62.) In the case of taxable years beginning after December 31, 2024, and before January 1, 2030(1) the deduction for foreign real property taxes paid is disallowed and (2) the deduction for taxes paid in any taxable year, which includes the deduction for property taxes on real property, is limited to \$40,000 (\$20,000 in the case of a married individual filing a separate return). The deduction limit phases down at a 30 percent rate beginning at \$500,000 of adjusted gross income until it reaches \$10,000 (\$5,000 in the case of a married individual filing a separate return). The \$40,000 deduction limit and \$500,000 phase-down start point increase by 1% in each year from 2026 to 2029. For taxable years beginning after December 31, 2029 the deduction limit is \$10,000 (\$5,000 in the case of a married individual filing a separate return).

### Interest

**175. *Deferral of interest on 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.





Table 1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2025-2035

				(in millions of dollars)											
				Total from corporations and individuals											
				2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026-2035
<b>National Defense</b>															
1 Exclusion of benefits and allowances to armed forces personnel				17,960	18,680	19,430	18,270	18,590	19,320	20,200	21,170	22,210	23,320	24,510	205,700
<b>International affairs:</b>															
2 Exclusion of income earned abroad by U.S. citizens				5,040	5,000	4,960	4,920	4,880	4,830	4,790	4,750	4,710	4,670	4,630	48,140
3 Exclusion of certain allowances for Federal employees abroad				290	300	300	310	320	320	330	340	350	350	360	3,280
4 Reduced tax rate on active income of controlled foreign corporations (normal tax method)				30,550	31,190	31,840	32,510	33,190	33,890	34,600	35,330	36,070	36,830	37,600	343,050
5 Deduction for foreign-derived intangible income derived from trade or business within the United States				19,020	19,600	20,540	21,620	22,870	24,230	25,620	27,060	28,610	30,150	31,750	252,050
6 Interest Charge Domestic International Sales Corporations (IC-DISCs)				1,670	1,770	1,860	1,950	2,040	2,120	2,170	2,250	2,340	2,440	2,540	21,480
<b>General science, space, and technology:</b>															
7 Expensing of research and experimentation expenditures (normal tax method)				21,650	47,260	27,620	13,180	6,230	4,440	4,970	5,530	6,150	6,820	7,560	129,760
8 Credit for increasing research activities				36,060	36,520	38,790	41,100	43,510	46,020	48,600	51,280	54,070	56,990	60,040	476,920
<b>Energy:</b>															
9 Expensing of exploration and development costs, oil and gas				70	80	170	200	140	100	220	250	210	340	340	2,050
10 Expensing of exploration and development costs, coal				0	10	10	10	10	10	10	20	10	30	30	150
11 Excess of percentage over cost depletion, oil and gas				1,210	1,370	1,470	1,490	1,520	1,530	1,620	1,680	1,710	1,840	1,900	16,130
12 Excess of percentage over cost depletion, coal				90	90	90	90	90	90	80	90	90	90	90	890
13 Exception from passive loss limitation for working interests in oil and gas properties				0	0	0	10	0	0	0	10	0	10	10	40
14 Enhanced oil recovery credit				140	170	430	770	1,100	1,380	1,540	1,590	1,610	1,620	1,640	11,850
15 Marginal wells credit				320	420	360	260	280	370	450	490	490	490	490	4,100
16 Amortize all geological and geophysical expenditures over 2 years				160	160	160	160	150	150	130	120	120	100	90	1,340
17 Capital gains treatment of royalties on coal				50	50	60	50	50	50	50	50	50	50	50	510
18 Exclusion of interest on energy facility bonds				0	0	0	0	0	0	0	0	0	0	0	0
19 Qualified energy conservation bonds 1/				30	30	30	30	30	30	30	30	30	30	30	300
20 Exclusion of utility conservation subsidies				70	70	70	60	60	60	60	60	60	60	60	620
21 Credit for holding clean renewable energy bonds 1/				70	70	70	70	70	70	50	50	50	50	50	600
22 Energy production credit 1/				9,850	11,610	13,290	13,680	13,990	13,560	12,820	11,400	10,940	9,590	7,320	118,200
23 Energy investment credit 1/				19,980	15,640	9,720	3,260	1,590	1,550	1,340	1,550	1,510	1,220	820	38,200
24 Advanced nuclear power production credit				210	240	270	280	280	280	240	110	20	0	0	1,720
25 Zero-emission nuclear power production credit 1/				2,590	1,700	1,550	2,450	2,270	2,000	1,780	2,040	700	60	0	14,550
26 Reduced tax rate for nuclear decommissioning funds				30	30	30	30	30	30	30	30	40	40	40	330
27 Alcohol fuel credits 2/				0	0	0	0	0	0	0	0	0	0	0	0
28 Bio-Diesel and small agri-biodiesel producer tax credits 3/				60	90	60	0	0	0	0	0	0	0	0	150
29 Clean fuel production credit 1/ 4/				1,260	12,470	11,370	12,400	13,480	2,690	690	0	0	0	0	53,100
30 Clean hydrogen production credit 1/				620	1,320	2,290	3,390	4,320	5,500	6,430	6,840	7,040	7,180	6,620	50,930
31 Tax credit for clean vehicles 1/				9,740	2,340	-690	-650	-380	-120	-10	0	0	0	0	490
32 Tax credits for refueling property 1/				370	360	100	0	0	0	0	0	0	0	0	460
33 Allowance of deduction for certain energy efficient commercial building property				700	850	570	290	20	-130	-170	-180	-180	-180	-180	710
34 Credit for construction of new energy efficient homes				910	700	220	0	0	0	0	0	0	0	0	920
35 Credit for energy efficiency improvements to existing homes				2,390	2,990	0	0	0	0	0	0	0	0	0	2,990
36 Credit for residential energy efficient property				7,710	2,280	800	0	0	0	0	0	0	0	0	3,080
37 Advanced energy property credit 1/				1,680	1,830	1,890	1,880	1,060	150	20	-30	-20	-10	-10	6,760
38 Advanced manufacturing production credit 1/				3,830	3,060	3,080	3,800	5,460	5,740	4,760	3,010	860	80	240	30,090
<b>Natural resources and environment:</b>															
39 Expensing of exploration and development costs, nonfuel minerals				10	10	10	20	10	10	20	30	20	40	40	210
40 Excess of percentage over cost depletion, nonfuel minerals				250	290	310	310	310	320	330	340	350	370	390	3,320
41 Exclusion of interest on bonds for water, sewage, and hazardous waste facilities				370	380	390	380	410	420	420	410	410	430	420	4,070
42 Capital gains treatment of certain timber income				200	200	210	220	230	240	250	260	280	290	300	2,480
43 Expensing of multiperiod timber growing costs				340	350	370	380	400	420	440	460	490	510	530	4,350
44 Tax incentives for preservation of historic structures				590	580	590	610	620	640	650	670	700	720	750	6,530
45 Carbon oxide sequestration credit 1/				590	1,040	1,620	2,350	3,000	3,940	4,700	5,340	5,650	5,780	5,870	39,290
46 Deduction for endangered species recovery expenditures				40	40	60	60	60	70	70	80	90	100	110	740
<b>Agriculture:</b>															
47 Expensing of certain capital outlays				130	130	130	130	130	130	130	140	140	150	150	1,360
48 Expensing of certain multiperiod production costs				290	290	290	300	300	300	300	310	330	340	350	3,110
49 Treatment of loans forgiven for solvent farmers				70	70	70	70	70	70	70	70	70	80	80	720
50 Capital gains treatment of certain agriculture income				2,020	2,040	2,130	2,170	2,270	2,400	2,530	2,660	2,810	2,960	3,110	25,080
51 Income averaging for farmers				210	220	220	220	220	220	220	220	220	220	220	2,200
52 Deferral of gain on sale of farm refiners				20	20	20	20	20	30	30	30	30	30	30	260
53 Expensing of reforestation expenditures				70	70	70	80	70	70	80	90	90	100	100	820
<b>Commerce and housing:</b>															
Financial institutions and insurance:															
54 Exemption of credit union income				2,460	2,590	2,740	2,880	3,070	3,270	3,430	3,470	3,610	3,620	3,690	32,370
55 Exclusion of life insurance death benefits				18,640	18,730	19,200	19,680	20,340	20,980	21,550	22,140	22,810	23,490	24,150	213,070
56 Exemption or special alternative tax for small property and casualty insurance companies				1,910	1,990	2,060	2,130	2,200	2,270	2,340	2,410	2,480	2,550	2,630	23,060
57 Tax exemption of insurance income earned by tax-exempt organizations				410	420	430	450	460	470	490	500	520	530	540	4,810
58 Exclusion of interest spread of financial institutions				23,860	24,010	24,490	24,910	25,240	25,720	26,190	26,600	26,970	27,280	27,590	259,000
Housing:															
59 Exclusion of interest on owner-occupied mortgage subsidy bonds				1,200	1,220	1,240	1,240	1,300	1,350	1,340	1,330	1,340	1,360	1,370	13,090
60 Exclusion of interest on rental housing bonds				2,960	3,010	3,030	3,060	3,210	3,320	3,300	3,270	3,290	3,330	3,380	32,200
61 Deductibility of mortgage interest on owner-occupied homes				23,880	24,520	23,480	23,930	24,580	16,350	13,160	13,740	13,890	14,010	14,140	181,800
62 Deductibility of State and local property tax on owner-occupied homes 5/				21,050	25,790	26,020	27,310	28,860	14,710	8,590	9,330	9,640	9,980	10,300	170,530
63 Deferral of income from installment sales				2,930	2,420	2,350	2,370	2,490	2,620	2,760	2,900	3,050	3,190	3,310	27,460
64 Capital gains exclusion on home sales				79,170	85,420	90,440	94,880	99,140	103,420	108,000	112,610	117,540	122,770	128,230	1,062,450
65 Exclusion of net imputed rental income				151,640	157,410	166,490	176,510	188,630	201,720	213,860	226,100	239,160	252,810	267,120	2,089,810
66 Exception from passive loss rules for \$25,000 of rental loss				8,330	8,610	8,840	9,140	9,370	9,620	9,920	10,410	10,990	11,560	12,120	100,580
67 Credit for low-income housing investments				14,450	15,270	16,140	17,030	18,000	19,020	20,010	21,030	22,140	23,390	24,450	196,480
68 Accelerated depreciation on rental housing (normal tax method)				3,780	4,360	5,010	5,690	6,440	7,250	8,100	8,940	9,770	10,570	11,360	77,490
69 Discharge of mortgage indebtedness				80	30	0	0	0	0	0	0	0	0	0	30
Commerce:															
70 Discharge of business indebtedness				-20	-20	-10	-20	-20	-30	-40	-40	-60	-70	-90	-400
71 Exceptions from imputed interest rules				80	100	90	90	90	80	80	80	80	80	80	850
72 Treatment of qualified dividends				32,500	34,170	36,060	38,170	40,140	42,400	44,650	46,980	49,670	52,190	54,850	439,280
73 Capital gains (except agriculture, timber, iron ore, and coal)				134,600	135,340	135,200	143,230	147,190	152,870	157,970	163,470	172,470	176,440	179,630	1,563,810
74 Capital gains exclusion of small corporation stock				4,570	4,700	4,930	5,320	6,040	6,610	7,090	7,410	7,770	8,160	8,540	66,570
75 Step-up basis of capital gains at death				36,430	40,260	43,520	46,840	50,610	54,250	57,790	61,920	66,900	71,080	76,260	569,430
76 Carryover basis of capital gains on gifts				5,310											



		Total from corporations and individuals											
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026-2035
78	Deferral of capital gains from like-kind exchanges	11,330	12,720	11,910	9,210	9,820	10,240	10,240	10,250	10,380	10,550	10,760	106,080
79	Depreciation of buildings other than rental housing (normal tax method)	1,110	2,400	3,810	4,720	5,160	5,770	4,900	4,570	5,120	5,810	6,340	48,600
80	Accelerated depreciation of machinery and equipment (normal tax method)	47,660	81,650	73,530	66,910	67,450	68,230	67,810	67,300	68,620	71,370	74,200	707,070
81	Exclusion of interest on small issue bonds	40	40	50	50	50	50	50	50	50	50	50	490
82	Special rules for certain film and TV production	0	-650	-520	-110	-10	0	0	0	0	0	0	-1,290
83	Allow 20-percent deduction to certain pass-through income	64,680	68,120	72,190	76,190	80,090	83,860	87,120	90,150	93,750	97,760	101,620	850,850
84	Advanced manufacturing investment credit 1/	20	2,300	5,790	6,600	6,300	3,610	-30	-890	-480	-140	10	23,070
85	Deduction for car interest payments	0	1,720	2,060	2,510	1,790	0	0	0	0	0	0	8,080
Transportation:													
86	Tonnage tax	180	170	160	170	170	170	170	170	180	180	190	1,730
87	Deferral of tax on shipping companies	-40	-30	-30	-30	-70	-50	-40	-40	-40	-40	-40	-410
88	Exclusion of reimbursed employee parking expenses	2,160	2,260	2,360	2,460	2,570	2,690	2,810	2,930	3,070	3,200	3,350	27,700
89	Exclusion for employer-provided transit passes	420	450	470	500	530	550	590	620	650	690	720	5,770
90	Tax credit for certain expenditures for maintaining railroad tracks	150	150	140	140	140	140	140	140	140	140	140	1,410
91	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	130	130	120	110	110	100	100	80	80	80	70	980
Community and regional development:													
92	Exclusion of interest for airport, dock, and similar bonds	1,580	1,600	1,610	1,640	1,710	1,770	1,760	1,740	1,750	1,780	1,810	17,170
93	Exemption of certain mutuals' and cooperatives' income	110	110	110	120	120	120	130	130	130	140	140	1,250
94	Empowerment zones	110	90	50	30	10	10	10	10	10	0	0	220
95	New markets tax credit	1,310	1,360	1,420	1,450	1,460	1,460	1,460	1,460	1,460	1,460	1,450	14,440
96	Credit to holders of Gulf and Midwest Tax Credit Bonds .	0	0	0	0	0	0	0	0	0	0	0	0
97	Recovery Zone Bonds 1/	10	10	10	10	10	10	20	20	20	20	20	150
98	Tribal Economic Development Bonds	0	0	0	0	0	0	0	0	0	0	0	0
99	Opportunity Zones	3,080	-7,750	-12,770	8,110	6,880	5,850	5,890	4,260	1,420	3,090	4,730	19,710
100	Disaster employee retention credit	40	50	20	20	10	10	10	10	10	10	10	160
Education, training, employment, and social services:													
Education:													
101	Exclusion of scholarship and fellowship income (normal tax method)	7,660	7,740	8,230	8,750	9,230	9,820	10,280	10,770	11,270	11,810	12,360	100,260
102	Tax credits for post-secondary education expenses 1/	10,940	10,310	10,190	10,040	9,860	9,790	9,670	9,460	9,230	8,990	8,780	96,320
103	Deductibility of student-loan interest	2,270	2,510	2,580	2,690	2,700	2,740	2,850	2,880	2,940	2,980	3,100	27,970
104	Qualified tuition programs (includes Education IRA)	3,320	3,420	3,660	3,900	4,230	4,570	4,870	5,180	5,530	5,900	6,290	47,550
105	Exclusion of interest on student-loan bonds	100	110	110	110	120	120	120	120	120	120	120	1,170
106	Exclusion of interest on bonds for private nonprofit educational facilities	2,780	2,840	2,850	2,880	3,020	3,120	3,110	3,070	3,100	3,140	3,180	30,310
107	Credit for holders of zone academy bonds 1/	60	50	50	40	40	40	30	30	30	30	20	360
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	40	50	50	50	50	50	60	60	60	60	70	560
109	Deductibility of charitable contributions to educational institutions	9,550	9,600	9,680	10,260	10,890	11,340	11,560	12,190	12,900	13,690	14,460	116,570
110	Exclusion of employer-provided educational assistance	1,190	1,560	1,850	1,980	2,140	2,290	2,430	2,580	2,760	2,930	3,100	23,620
111	Special deduction for teacher expenses	170	160	250	240	250	250	230	240	240	330	250	2,440
112	Deductibility of educator expenses	0	0	80	80	80	80	60	60	60	60	60	620
113	Discharge of student loan indebtedness	4,770	10,470	5,380	3,010	1,770	970	1,000	1,020	1,040	1,080	1,120	26,860
114	Qualified school construction bonds 1/	330	310	290	270	250	240	220	200	180	160	140	2,260
Training, employment, and social services:													
115	Work opportunity tax credit	2,140	1,360	510	330	250	190	150	110	80	70	40	3,090
116	Employer provided child care exclusion	850	820	850	920	980	1,050	1,120	1,190	1,260	1,310	1,370	10,870
117	Employer-provided child care credit	20	40	40	40	40	40	40	40	40	50	50	420
118	Assistance for adopted foster children	700	770	840	920	1,010	1,110	1,230	1,360	1,500	1,650	1,820	12,210
119	Adoption credit and exclusion	270	270	270	290	310	330	350	370	400	420	430	3,440
120	Exclusion of employee meals and lodging (other than military)	6,690	6,980	7,360	7,710	8,070	8,510	8,930	9,330	9,740	10,180	10,650	87,460
121	Credit for child and dependent care expenses 1/	3,220	4,190	4,650	4,650	4,660	4,670	4,670	4,680	4,690	4,690	4,690	46,240
122	Credit for disabled access expenditures	10	10	10	10	10	10	10	10	10	10	10	100
123	Deductibility of charitable contributions, other than education and health	51,360	51,650	52,030	55,150	58,540	60,970	62,140	65,540	69,390	73,620	77,770	626,800
124	Exclusion of certain foster care payments	1,000	1,080	1,190	1,300	1,430	1,570	1,740	1,920	2,120	2,330	2,570	17,250
125	Exclusion of parsonage allowances	1,140	1,200	1,270	1,340	1,410	1,480	1,560	1,640	1,730	1,820	1,920	15,370
126	Indian employment credit	20	20	20	20	0	0	0	0	0	0	0	60
127	Employer-provided paid family and medical leave credit	90	110	130	140	140	150	150	160	170	180	190	1,520
128	Exclusion of tip income	0	4,380	2,050	2,110	1,640	0	0	0	0	0	0	10,180
129	Exclusion of overtime income	0	17,040	13,900	14,240	10,880	0	0	0	0	0	0	56,060
Health:													
130	Exclusion of employer contributions for medical insurance premiums and medical care 6/	279,180	295,660	313,630	331,190	350,680	369,710	388,830	408,660	429,420	451,220	474,030	3,813,030
131	Self-employed medical insurance premiums	9,100	9,530	10,050	10,640	11,320	12,080	12,820	13,530	14,270	14,980	15,650	124,870
132	Medical Savings Accounts / Health Savings Accounts	13,880	14,870	15,820	16,570	17,330	17,990	18,570	19,170	19,850	20,570	21,280	182,020
133	Deductibility of medical expenses	13,470	13,790	14,650	15,980	17,760	18,810	20,110	21,780	23,600	25,610	27,770	199,860
134	Exclusion of interest on hospital construction bonds	3,310	3,370	3,390	3,420	3,590	3,720	3,690	3,660	3,690	3,730	3,780	36,040
135	Refundable Premium Assistance Tax Credit 1/	11,530	11,650	6,540	6,930	6,600	7,150	7,240	7,390	7,820	8,380	8,770	78,470
136	Credit for employee health insurance expenses of small business	0	0	0	0	0	0	0	0	0	0	0	0
137	Deductibility of charitable contributions to health institutions	7,570	7,610	7,670	8,130	8,630	8,990	9,160	9,660	10,230	10,850	11,460	92,390
138	Tax credit for orphan drug research	1,960	2,140	2,340	2,560	2,810	3,070	3,360	3,680	4,030	4,410	4,830	33,230
139	Special Blue Cross/Blue Shield tax benefits	470	510	540	580	630	670	720					

		Total from corporations and individuals											
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026-2035
161	Additional deduction for the elderly	7,530	8,220	8,720	9,410	11,090	12,320	12,720	13,450	14,260	14,820	15,680	120,690
162	Temporary additional deduction for the elderly	0	36,480	23,820	24,350	11,050	0	0	0	0	0	0	95,700
163	Deductibility of casualty losses	140	120	110	100	100	90	80	70	70	60	60	860
164	Earned income tax credit 1/	900	670	670	690	690	800	810	850	860	900	910	7,850
165	Recovery rebate credits 1/	1,000	70	0	0	0	0	0	0	0	0	0	70
<b>Social Security:</b>													
Exclusion of social security benefits:													
166	Social Security benefits for retired and disabled workers and spouses, dependents and survivors	37,540	37,820	41,350	44,340	48,950	54,520	56,660	59,020	60,810	62,230	63,780	529,480
167	Credit for certain employer contributions to social security	2,090	2,240	2,410	2,600	2,790	3,000	3,220	3,470	3,730	4,010	4,310	31,780
<b>Veterans benefits and services:</b>													
168	Exclusion of veterans death benefits and disability compensation	13,710	12,320	13,120	13,900	16,030	20,290	20,990	21,900	22,780	23,890	24,750	189,970
169	Exclusion of veterans pensions	190	120	110	100	110	160	150	140	140	130	120	1,280
170	Exclusion of GI bill benefits	1,660	1,700	1,790	1,850	1,990	2,270	2,330	2,400	2,460	2,550	2,620	21,960
171	Exclusion of interest on veterans housing bonds	30	30	40	40	40	40	40	40	40	40	40	390
<b>General purpose fiscal assistance:</b>													
172	Exclusion of interest on public purpose State and local bonds	39,740	40,480	40,690	41,110	43,060	44,630	44,290	43,870	44,170	44,820	45,420	432,540
173	Build America Bonds 1/	0	0	0	0	0	0	0	0	0	0	0	0
174	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes 5/	21,600	26,120	25,490	26,670	27,910	9,730	3,230	4,580	4,610	4,640	4,650	137,630
<b>Interest:</b>													
175	Deferral of interest on U.S. savings bonds	880	870	860	850	840	830	820	820	810	800	790	8,290
<b>Addendum: Aid to State and local governments:</b>													
Deductibility of:													
Property taxes on owner-occupied homes													
		21,050	25,790	26,020	27,310	28,860	14,710	8,590	9,330	9,640	9,980	10,300	170,530
Nonbusiness State and local taxes other than on owner-occupied homes													
		21,600	26,120	25,490	26,670	27,910	9,730	3,230	4,580	4,610	4,640	4,650	137,630
Exclusion of interest on State and local bonds for:													
Public purposes													
		39,740	40,480	40,690	41,110	43,060	44,630	44,290	43,870	44,170	44,820	45,420	432,540
Energy facilities													
		0	0	0	0	0	0	0	0	0	0	0	0
Water, sewage, and hazardous waste disposal facilities													
		370	380	390	380	410	420	420	410	410	430	420	4,070
Small-issues													
		40	40	50	50	50	50	50	50	50	50	50	490
Owner-occupied mortgage subsidies													
		1,200	1,220	1,240	1,240	1,300	1,350	1,340	1,330	1,340	1,360	1,370	13,090
Rental housing													
		2,960	3,010	3,030	3,060	3,210	3,320	3,300	3,270	3,290	3,330	3,380	32,200
Airports, docks, and similar facilities													
		1,580	1,600	1,610	1,640	1,710	1,770	1,760	1,740	1,750	1,780	1,810	17,170
Student loans													
		100	110	110	110	120	120	120	120	120	120	120	1,170
Private nonprofit educational facilities													
		2,780	2,840	2,850	2,880	3,020	3,120	3,110	3,070	3,100	3,140	3,180	30,310
Hospital construction													
		3,310	3,370	3,390	3,420	3,590	3,720	3,690	3,660	3,690	3,730	3,780	36,040
Veterans' housing													
		30	30	40	40	40	40	40	40	40	40	40	390

1/ See Table 5 for outlay estimates.

2/ The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2025 \$780 and \$0 thereafter.

3/ In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2025 \$3,200; and \$0 thereafter.

4/ In addition, the sustainable aviation fuel tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2025 \$50; and \$0 thereafter.

5/ These estimates differ from the combined effects of repealing deductions for both property taxes on owner occupied housing and other non-business taxes. The estimate of repealing both is (in millions of dollars):  
2025 \$41,200; 2026 \$46,560; 2027 \$46,330; 2028 \$48,790; 2029 \$51,520; 2030 \$29,420; 2031 \$21,390; 2032 \$23,730; 2033 \$24,840; 2034 \$26,020; and 2035 \$27,130.

6/ In addition, the employer contributions for health have effects on payroll tax receipts (in millions of dollars) as follows:  
2025 \$171,400; 2026 \$182,580; 2027 \$193,060; 2028 \$203,230; 2029 \$213,040; 2030 \$222,780; 2031 \$232,730; 2032 \$242,680; 2033 \$253,010; 2034 \$263,960; and 2035 \$275,350.



Table 2a. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2025-2035  
(in millions of dollars)

	Total from corporations											2026-2035
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	
<b>National Defense</b>												
1 Exclusion of benefits and allowances to armed forces personnel	0	0	0	0	0	0	0	0	0	0	0	0
<b>International affairs:</b>												
2 Exclusion of income earned abroad by U.S. citizens	0	0	0	0	0	0	0	0	0	0	0	0
3 Exclusion of certain allowances for Federal employees abroad	0	0	0	0	0	0	0	0	0	0	0	0
4 Reduced tax rate on active income of controlled foreign corporations (normal tax method)	30,550	31,190	31,840	32,510	33,190	33,890	34,600	35,330	36,070	36,830	37,600	343,050
5 Deduction for foreign-derived intangible income derived from trade or business within the United States	19,020	19,600	20,540	21,620	22,870	24,230	25,620	27,060	28,610	30,150	31,750	252,050
6 Interest Charge Domestic International Sales Corporations (IC-DISCs)	0	0	0	0	0	0	0	0	0	0	0	0
<b>General science, space, and technology:</b>												
7 Expensing of research and experimentation expenditures (normal tax method)	20,770	38,650	21,950	10,120	4,440	3,140	3,620	4,130	4,690	5,300	5,970	102,010
8 Credit for increasing research activities	33,020	33,430	35,480	37,550	39,710	41,950	44,250	46,630	49,100	51,680	54,360	434,140
<b>Energy:</b>												
9 Expensing of exploration and development costs, oil and gas	20	20	40	40	30	20	50	50	40	70	70	430
10 Expensing of exploration and development costs, coal	0	0	0	0	0	0	0	0	0	10	10	20
11 Excess of percentage over cost depletion, oil and gas	810	900	960	970	990	1,000	1,060	1,100	1,120	1,200	1,240	10,540
12 Excess of percentage over cost depletion, coal	60	60	60	60	60	60	50	60	60	60	60	590
13 Exception from passive loss limitation for working interests in oil and gas properties	0	0	0	0	0	0	0	0	0	0	0	0
14 Enhanced oil recovery credit	130	160	410	730	1,040	1,310	1,460	1,510	1,530	1,540	1,560	11,250
15 Marginal wells credit	260	340	290	210	220	300	360	390	390	390	390	3,280
16 Amortize all geological and geophysical expenditures over 2 years	50	50	50	50	50	50	40	40	40	30	30	430
17 Capital gains treatment of royalties on coal	0	0	0	0	0	0	0	0	0	0	0	0
18 Exclusion of interest on energy facility bonds	0	0	0	0	0	0	0	0	0	0	0	0
19 Qualified energy conservation bonds 1/	10	10	10	10	10	10	10	10	10	10	10	100
20 Exclusion of utility conservation subsidies	0	0	0	0	0	0	0	0	0	0	0	0
21 Credit for holding clean renewable energy bonds 1/	20	20	20	20	20	20	10	10	10	10	10	150
22 Energy production credit 1/	9,360	11,030	12,630	13,000	13,290	12,880	12,180	10,830	10,390	9,110	6,950	112,290
23 Energy investment credit 1/	18,280	14,340	8,940	3,030	1,490	1,440	1,240	1,420	1,390	1,120	760	35,170
24 Advanced nuclear power production credit	210	240	270	280	280	280	240	110	20	0	0	1,720
25 Zero-emission nuclear power production credit 1/	2,590	1,700	1,550	2,450	2,270	2,000	1,780	2,040	700	60	0	14,550
26 Reduced tax rate for nuclear decommissioning funds	30	30	30	30	30	30	30	30	40	40	40	330
27 Alcohol fuel credits 2/	0	0	0	0	0	0	0	0	0	0	0	0
28 Bio-Diesel and small agri-biodiesel producer tax credits 3/	30	40	20	0	0	0	0	0	0	0	0	60
29 Clean fuel production credit 1/ 4/	1,130	11,220	10,230	11,160	12,130	2,420	620	0	0	0	0	47,780
30 Clean hydrogen production credit 1/	580	1,250	2,170	3,210	4,090	5,210	6,100	6,490	6,690	6,820	6,290	48,320
31 Tax credit for clean vehicles 1/	9,530	2,290	-690	-650	-380	-120	-10	0	0	0	0	440
32 Tax credits for refueling property 1/	210	200	60	0	0	0	0	0	0	0	0	260
33 Allowance of deduction for certain energy efficient commercial building property	120	140	90	50	0	-20	-30	-30	-30	-30	-30	110
34 Credit for construction of new energy efficient homes	650	500	150	0	0	0	0	0	0	0	0	650
35 Credit for energy efficiency improvements to existing homes	0	0	0	0	0	0	0	0	0	0	0	0
36 Credit for residential energy efficient property	0	0	0	0	0	0	0	0	0	0	0	0
37 Advanced energy property credit 1/	1,520	1,660	1,720	1,710	970	140	20	-20	-10	-10	-10	6,170
38 Advanced manufacturing production credit 1/	3,640	2,910	2,930	3,610	5,190	5,450	4,520	2,860	820	80	230	28,600
<b>Natural resources and environment:</b>												
39 Expensing of exploration and development costs, nonfuel minerals	0	0	0	0	0	0	0	10	0	10	10	30
40 Excess of percentage over cost depletion, nonfuel minerals	170	190	200	200	200	210	220	220	230	240	250	2,160
41 Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	110	110	110	100	110	110	110	100	100	110	110	1,070
42 Capital gains treatment of certain timber income	0	0	0	0	0	0	0	0	0	0	0	0
43 Expensing of multiperiod timber growing costs	180	190	200	210	220	230	240	250	270	280	290	2,380
44 Tax incentives for preservation of historic structures	420	390	400	410	420	430	440	450	470	490	510	4,410
45 Carbon oxide sequestration credit 1/	560	980	1,530	2,220	2,840	3,730	4,450	5,060	5,350	5,480	5,560	37,200
46 Deduction for endangered species recovery expenditures	10	10	20	20	20	20	20	20	30	30	30	220
<b>Agriculture:</b>												
47 Expensing of certain capital outlays	10	10	10	10	10	10	10	10	10	10	10	100
48 Expensing of certain multiperiod production costs	20	20	20	20	20	20	20	20	30	30	30	230
49 Treatment of loans forgiven for solvent farmers	70	70	70	70	70	70	70	70	70	80	80	720
50 Capital gains treatment of certain agriculture income	20	20	20	20	20	30	30	30	30	30	30	260
51 Income averaging for farmers	210	220	220	220	220	220	220	220	220	220	220	2,200
52 Deferral of gain on sale of farm refiners	20	20	20	20	20	30	30	30	30	30	30	260
53 Expensing of reforestation expenditures	10	10	10	10	10	10	10	20	20	20	20	140
<b>Commerce and housing:</b>												
Financial institutions and insurance:												
54 Exemption of credit union income	2,460	2,590	2,740	2,880	3,070	3,270	3,430	3,470	3,610	3,620	3,690	32,370
55 Exclusion of life insurance death benefits	1,890	1,950	2,020	2,080	2,150	2,210	2,280	2,350	2,420	2,490	2,560	22,510
56 Exemption or special alternative tax for small property and casualty insurance companies	1,910	1,990	2,060	2,130	2,200	2,270	2,340	2,410	2,480	2,550	2,630	23,060
57 Tax exemption of insurance income earned by tax-exempt organizations	410	420	430	450	460	470	490	500	520	530	540	4,810
58 Exclusion of interest spread of financial institutions	0	0	0	0	0	0	0	0	0	0	0	0
Housing:												
59 Exclusion of interest on owner-occupied mortgage subsidy bonds	360	360	350	330	340	360	350	340	340	340	360	3,470
60 Exclusion of interest on rental housing bonds	890	890	850	820	850	880	860	830	830	840	900	8,550
61 Deductibility of mortgage interest on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
62 Deductibility of State and local property tax on owner-occupied homes 5/	0	0	0	0	0	0	0	0	0	0	0	0
63 Deferral of income from installment sales	0	0	0	0	0	0	0	0	0	0	0	0
64 Capital gains exclusion on home sales	0	0	0	0	0	0	0	0	0	0	0	0
65 Exclusion of net imputed rental income	0	0	0	0	0	0	0	0	0	0	0	0
66 Exception from passive loss rules for \$25,000 of rental loss	0	0	0	0	0	0	0	0	0	0	0	0
67 Credit for low-income housing investments	14,320	15,140	16,000	16,880	17,840	18,850	19,830	20,850	21,950	23,180	24,240	194,760
68 Accelerated depreciation on rental housing (normal tax method)	50	60	70	80	90	100	120	130	150	160	180	1,140
69 Discharge of mortgage indebtedness	0	0	0	0	0	0	0	0	0	0	0	0
Commerce:												
70 Discharge of business indebtedness	0	0	0	0	0	0	0	0	0	0	0	0
71 Exceptions from imputed interest rules	0	0	0	0	0	0	0	0	0	0	0	0
72 Treatment of qualified dividends	0	0	0	0	0	0	0	0	0	0	0	0
73 Capital gains (except agriculture, timber, iron ore, and coal)	0	0	0	0	0	0	0	0	0	0	0	0
74 Capital gains exclusion of small corporation stock	0	0	0	0	0	0	0	0	0	0	0	0
75 Step-up basis of capital gains at death	0	0	0	0	0	0	0	0	0	0	0	0
76 Carryover basis of capital gains on gifts	0	0	0	0	0	0	0	0	0	0	0	0
77 Ordinary income treatment of loss from small business corporation stock sale	0	0	0	0	0	0	0	0	0	0	0	0

		Total from corporations											
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026-2035
78	Deferral of capital gains from like-kind exchanges	180	180	190	200	220	240	240	230	230	240	250	2,220
79	Depreciation of buildings other than rental housing (normal tax method)	240	400	610	700	710	1,470	1,090	740	930	1,120	1,150	8,920
80	Accelerated depreciation of machinery and equipment (normal tax method)	20,230	32,590	25,700	22,600	22,700	22,770	21,930	21,090	21,470	22,710	23,720	237,280
81	Exclusion of interest on small issue bonds	10	10	10	10	10	10	10	10	10	10	10	100
82	Special rules for certain film and TV production	0	-450	-360	-80	-10	0	0	0	0	0	0	-900
83	Allow 20-percent deduction to certain pass-through income	0	0	0	0	0	0	0	0	0	0	0	0
84	Advanced manufacturing investment credit 1/	20	2,070	5,210	5,940	5,670	3,250	-30	-800	-430	-130	10	20,760
85	Deduction for car interest payments	0	0	0	0	0	0	0	0	0	0	0	0
Transportation:													
86	Tonnage tax	180	170	160	170	170	170	170	170	180	180	190	1,730
87	Deferral of tax on shipping companies	-30	-20	-20	-20	-50	-30	-30	-30	-30	-30	-30	-290
88	Exclusion of reimbursed employee parking expenses	-1,540	-1,610	-1,680	-1,760	-1,840	-1,920	-2,010	-2,100	-2,190	-2,290	-2,390	-19,790
89	Exclusion for employer-provided transit passes	-510	-530	-560	-590	-620	-660	-690	-730	-770	-810	-860	-6,820
90	Tax credit for certain expenditures for maintaining railroad tracks	100	100	90	90	90	90	90	90	90	90	90	910
91	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	30	30	30	20	20	20	20	10	10	10	10	180
Community and regional development:													
92	Exclusion of interest for airport, dock, and similar bonds	470	470	450	440	450	470	460	440	440	450	480	4,550
93	Exemption of certain mutuals' and cooperatives' income	110	110	110	120	120	120	130	130	130	140	140	1,250
94	Empowerment zones	80	60	30	20	10	10	10	10	10	0	0	160
95	New markets tax credit	1,280	1,330	1,390	1,420	1,430	1,430	1,430	1,430	1,430	1,430	1,420	14,140
96	Credit to holders of Gulf and Midwest Tax Credit Bonds .	0	0	0	0	0	0	0	0	0	0	0	0
97	Recovery Zone Bonds 1/	0	0	0	0	0	0	10	10	10	10	10	50
98	Tribal Economic Development Bonds	0	0	0	0	0	0	0	0	0	0	0	0
99	Opportunity Zones	560	-2,540	-930	1,410	1,180	1,040	1,080	550	310	640	880	3,620
100	Disaster employee retention credit	30	50	20	20	10	10	10	10	10	10	10	160
Education, training, employment, and social services:													
Education:													
101	Exclusion of scholarship and fellowship income (normal tax method)	0	0	0	0	0	0	0	0	0	0	0	0
102	Tax credits for post-secondary education expenses 1/	0	0	0	0	0	0	0	0	0	0	0	0
103	Deductibility of student-loan interest	0	0	0	0	0	0	0	0	0	0	0	0
104	Qualified tuition programs (includes Education IRA)	0	0	0	0	0	0	0	0	0	0	0	0
105	Exclusion of interest on student-loan bonds	30	30	30	30	30	30	30	30	30	30	30	300
106	Exclusion of interest on bonds for private nonprofit educational facilities	830	840	800	770	800	830	810	780	780	790	840	8,040
107	Credit for holders of zone academy bonds 1/	60	50	50	40	40	40	30	30	30	30	20	360
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	0	0	0	0	0	0	0	0	0	0	0	0
109	Deductibility of charitable contributions to educational institutions	0	0	0	0	0	0	0	0	0	0	0	0
110	Exclusion of employer-provided educational assistance	0	0	0	0	0	0	0	0	0	0	0	0
111	Special deduction for teacher expenses	0	0	0	0	0	0	0	0	0	0	0	0
112	Deductibility of educator expenses	0	0	0	0	0	0	0	0	0	0	0	0
113	Discharge of student loan indebtedness	0	0	0	0	0	0	0	0	0	0	0	0
114	Qualified school construction bonds 1/	0	0	0	0	0	0	0	0	0	0	0	0
Training, employment, and social services:													
115	Work opportunity tax credit	1,590	930	370	240	190	140	110	80	60	50	30	2,200
116	Employer provided child care exclusion	0	0	0	0	0	0	0	0	0	0	0	0
117	Employer-provided child care credit	20	30	30	30	30	30	30	30	30	40	40	320
118	Assistance for adopted foster children	0	0	0	0	0	0	0	0	0	0	0	0
119	Adoption credit and exclusion	0	0	0	0	0	0	0	0	0	0	0	0
120	Exclusion of employee meals and lodging (other than military)	-1,060	-1,110	-1,170	-1,230	-1,300	-1,360	-1,430	-1,500	-1,580	-1,660	-1,740	-14,080
121	Credit for child and dependent care expenses 1/	0	0	0	0	0	0	0	0	0	0	0	0
122	Credit for disabled access expenditures	0	0	0	0	0	0	0	0	0	0	0	0
123	Deductibility of charitable contributions, other than education and health	0	0	0	0	0	0	0	0	0	0	0	0
124	Exclusion of certain foster care payments	0	0	0	0	0	0	0	0	0	0	0	0
125	Exclusion of parsonage allowances	0	0	0	0	0	0	0	0	0	0	0	0
126	Indian employment credit	10	10	10	10	0	0	0	0	0	0	0	30
127	Employer-provided paid family and medical leave credit	70	90	100	110	110	120	120	130	140	140	150	1,210
128	Exclusion of tip income	0	0	0	0	0	0	0	0	0	0	0	0
129	Exclusion of overtime income	0	0	0	0	0	0	0	0	0	0	0	0
Health:													
130	Exclusion of employer contributions for medical insurance premiums and medical care 6/	0	0	0	0	0	0	0	0	0	0	0	0
131	Self-employed medical insurance premiums	0	0	0	0	0	0	0	0	0	0	0	0
132	Medical Savings Accounts / Health Savings Accounts	0	0	0	0	0	0	0	0	0	0	0	0
133	Deductibility of medical expenses	0	0	0	0	0	0	0	0	0	0	0	0
134	Exclusion of interest on hospital construction bonds	990	990	950	910	950	990	960	930	930	940	1,000	9,550
135	Refundable Premium Assistance Tax Credit 1/	0	0	0	0	0	0	0	0	0	0	0	0
136	Credit for employee health insurance expenses of small business	0	0	0	0	0	0	0	0	0	0	0	0
137	Deductibility of charitable contributions to health institutions	0	0	0	0	0	0	0	0	0	0	0	0
138	Tax credit for orphan drug research	1,960	2,140	2,340	2,560	2,810	3,070	3,360	3,680	4,030	4,410	4,830	33,230
139	Special Blue Cross/Blue Shield tax benefits	470	510	540	580	630	670	720	770	820	880	940	7,060
140	Distributions from retirement plans for premiums for health and long-term care insurance	0	0	0	0	0	0	0	0	0	0	0	0
Income security:													
141	Child credit 1/	0	0	0	0	0	0	0	0	0	0	0	0
142	Other Dependent Tax Credit	0	0	0	0	0	0	0	0	0	0	0	0
143	Exclusion of railroad retirement (Social Security equivalent) benefits	0	0	0	0	0	0	0	0	0	0	0	0
144	Exclusion of workers' compensation benefits	0	0	0	0	0	0	0	0	0	0	0	0
145	Exclusion of public assistance benefits (normal tax method)	0	0	0	0	0	0	0	0	0	0	0	0
146	Exclusion of special benefits for disabled coal miners	0	0	0	0	0	0	0	0	0	0	0	0
147	Exclusion of military disability pensions	0	0	0	0	0	0	0	0	0	0	0	0
Net exclusion of pension contributions and earnings:													
148	Defined benefit employer plans	0	0	0	0	0	0	0	0	0	0	0	0
149	Defined contribution employer plans	0	0	0	0	0	0	0	0	0	0	0	0
150	Individual Retirement Accounts	0	0	0	0	0	0	0	0	0	0	0	0
151	Trump Accounts	0	0	0	0	0	0	0	0	0	0	0	0
152	Low and moderate income savers credit	0	0	0	0	0	0	0	0	0	0	0	0
153	Self-Employed plans	0	0	0	0	0	0	0	0	0	0	0	0
154	Small employer pension plan startup credit	30	40	40	30	30	20	20	10	10	10	10	220
Exclusion of other employee benefits:													
155	Premiums on group term life insurance	0	0	0	0	0	0	0	0	0	0	0	0
156	Premiums on accident and disability insurance	0	0	0	0	0	0	0	0	0	0	0	0
157	Income of trusts to finance supplementary unemployment benefits	0	0	0	0	0	0	0	0	0	0	0	0
158	Income of trusts to finance voluntary employee benefits associations	1,400	1,470	1,550	1,630	1,720	1,810	1,910	2,010	2,120	2,230	2,460	18,910
159	Special Employee Stock Ownership Plan (ESOP) rules	260	270	280	290	300	310	320	320	330	340	350	3,110
160	Additional deduction for the blind	0	0	0	0	0	0	0	0	0	0	0	0



		Total from corporations											
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026-2035
161	Additional deduction for the elderly	0	0	0	0	0	0	0	0	0	0	0	0
162	Temporary additional deduction for the elderly	0	0	0	0	0	0	0	0	0	0	0	0
163	Deductibility of casualty losses	0	0	0	0	0	0	0	0	0	0	0	0
164	Earned income tax credit 1/	0	0	0	0	0	0	0	0	0	0	0	0
165	Recovery rebate credits 1/	0	0	0	0	0	0	0	0	0	0	0	0
<b>Social Security:</b>													
	Exclusion of social security benefits:	0	0	0	0	0	0	0	0	0	0	0	0
166	Social Security benefits for retired and disabled workers and spouses, dependents and survivors	0	0	0	0	0	0	0	0	0	0	0	0
167	Credit for certain employer contributions to social security	440	470	510	550	590	630	680	730	790	850	910	6,710
<b>Veterans benefits and services:</b>													
168	Exclusion of veterans death benefits and disability compensation	0	0	0	0	0	0	0	0	0	0	0	0
169	Exclusion of veterans pensions	0	0	0	0	0	0	0	0	0	0	0	0
170	Exclusion of GI bill benefits	0	0	0	0	0	0	0	0	0	0	0	0
171	Exclusion of interest on veterans housing bonds	10	10	10	10	10	10	10	10	10	10	10	100
<b>General purpose fiscal assistance:</b>													
172	Exclusion of interest on public purpose State and local bonds	11,900	11,930	11,430	10,950	11,370	11,880	11,520	11,140	11,100	11,300	12,040	114,660
173	Build America Bonds 1/	0	0	0	0	0	0	0	0	0	0	0	0
174	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes 5/	0	0	0	0	0	0	0	0	0	0	0	0
<b>Interest:</b>													
175	Deferral of interest on U.S. savings bonds	0	0	0	0	0	0	0	0	0	0	0	0
<b>Addendum: Aid to State and local governments:</b>													
Deductibility of:													
	Property taxes on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
	Nonbusiness State and local taxes other than on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
Exclusion of interest on State and local bonds for:													
	Public purposes	11,900	11,930	11,430	10,950	11,370	11,880	11,520	11,140	11,100	11,300	12,040	114,660
	Energy facilities	0	0	0	0	0	0	0	0	0	0	0	0
	Water, sewage, and hazardous waste disposal facilities	110	110	110	100	110	110	110	100	100	110	110	1,070
	Small-issues	10	10	10	10	10	10	10	10	10	10	10	100
	Owner-occupied mortgage subsidies	360	360	350	330	340	360	350	340	340	340	360	3,470
	Rental housing	890	890	850	820	850	880	860	830	830	840	900	8,550
	Airports, docks, and similar facilities	470	470	450	440	450	470	460	440	440	450	480	4,550
	Student loans	30	30	30	30	30	30	30	30	30	30	30	300
	Private nonprofit educational facilities	830	840	800	770	800	830	810	780	780	790	840	8,040
	Hospital construction	990	990	950	910	950	990	960	930	930	940	1,000	9,550
	Veterans' housing	10	10	10	10	10	10	10	10	10	10	10	100

See Table 1 footnotes for specific table information

Table 2b. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2025-2035  
(in millions of dollars)

		Total from individuals											
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026-2035
<b>National Defense</b>													
1	Exclusion of benefits and allowances to armed forces personnel	17,960	18,680	19,430	18,270	18,590	19,320	20,200	21,170	22,210	23,320	24,510	205,700
<b>International affairs:</b>													
2	Exclusion of income earned abroad by U.S. citizens	5,040	5,000	4,960	4,920	4,880	4,830	4,790	4,750	4,710	4,670	4,630	48,140
3	Exclusion of certain allowances for Federal employees abroad	290	300	300	310	320	320	330	340	350	350	360	3,280
4	Reduced tax rate on active income of controlled foreign corporations (normal tax method)	0	0	0	0	0	0	0	0	0	0	0	0
5	Deduction for foreign-derived intangible income derived from trade or business within the United States	0	0	0	0	0	0	0	0	0	0	0	0
6	Interest Charge Domestic International Sales Corporations (IC-DISCs)	1,670	1,770	1,860	1,950	2,040	2,120	2,170	2,250	2,340	2,440	2,540	21,480
<b>General science, space, and technology:</b>													
7	Expensing of research and experimentation expenditures (normal tax method)	880	8,610	5,670	3,060	1,790	1,300	1,350	1,400	1,460	1,520	1,590	27,750
8	Credit for increasing research activities	3,040	3,090	3,310	3,550	3,800	4,070	4,350	4,650	4,970	5,310	5,680	42,780
<b>Energy:</b>													
9	Expensing of exploration and development costs, oil and gas	50	60	130	160	110	80	170	200	170	270	270	1,620
10	Expensing of exploration and development costs, coal	0	10	10	10	10	10	10	20	10	20	20	130
11	Excess of percentage over cost depletion, oil and gas	400	470	510	520	530	530	560	580	590	640	660	5,590
12	Excess of percentage over cost depletion, coal	30	30	30	30	30	30	30	30	30	30	30	300
13	Exception from passive loss limitation for working interests in oil and gas properties	0	0	0	10	0	0	0	10	0	10	10	40
14	Enhanced oil recovery credit	10	10	20	40	60	70	80	80	80	80	80	600
15	Marginal wells credit	60	80	70	50	60	70	90	100	100	100	100	820
16	Amortize all geological and geophysical expenditures over 2 years	110	110	110	110	100	100	90	80	80	70	60	910
17	Capital gains treatment of royalties on coal	50	50	60	50	50	50	50	50	50	50	50	510
18	Exclusion of interest on energy facility bonds	0	0	0	0	0	0	0	0	0	0	0	0
19	Qualified energy conservation bonds 1/	20	20	20	20	20	20	20	20	20	20	20	200
20	Exclusion of utility conservation subsidies	70	70	70	60	60	60	60	60	60	60	60	620
21	Credit for holding clean renewable energy bonds 1/	50	50	50	50	50	50	40	40	40	40	40	450
22	Energy production credit 1/	490	580	660	680	700	680	640	570	550	480	370	5,910
23	Energy investment credit 1/	1,700	1,300	780	230	100	110	100	130	120	100	60	3,030
24	Advanced nuclear power production credit	0	0	0	0	0	0	0	0	0	0	0	0
25	Zero-emission nuclear power production credit 1/	0	0	0	0	0	0	0	0	0	0	0	0
26	Reduced tax rate for nuclear decommissioning funds	0	0	0	0	0	0	0	0	0	0	0	0
27	Alcohol fuel credits 2/	0	0	0	0	0	0	0	0	0	0	0	0
28	Bio-Diesel and small agri-biodiesel producer tax credits 3/	30	50	40	0	0	0	0	0	0	0	0	90
29	Clean fuel production credit 1/ 4/	130	1,250	1,140	1,240	1,350	270	70	0	0	0	0	5,320
30	Clean hydrogen production credit 1/	40	70	120	180	230	290	330	350	350	360	330	2,610
31	Tax credit for clean vehicles 1/	210	50	0	0	0	0	0	0	0	0	0	50
32	Tax credits for refueling property 1/	160	160	40	0	0	0	0	0	0	0	0	200
33	Allowance of deduction for certain energy efficient commercial building property	580	710	480	240	20	-110	-140	-150	-150	-150	-150	600
34	Credit for construction of new energy efficient homes	260	200	70	0	0	0	0	0	0	0	0	270
35	Credit for energy efficiency improvements to existing homes	2,390	2,990	0	0	0	0	0	0	0	0	0	2,990
36	Credit for residential energy efficient property	7,710	2,280	800	0	0	0	0	0	0	0	0	3,080
37	Advanced energy property credit 1/	160	170	170	170	90	10	0	-10	-10	0	0	590
38	Advanced manufacturing production credit 1/	190	150	150	190	270	290	240	150	40	0	10	1,490
<b>Natural resources and environment:</b>													
39	Expensing of exploration and development costs, nonfuel minerals	10	10	10	20	10	10	20	20	20	30	30	180
40	Excess of percentage over cost depletion, nonfuel minerals	80	100	110	110	110	110	110	120	120	130	140	1,160
41	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	260	270	280	280	300	310	310	310	310	320	310	3,000
42	Capital gains treatment of certain timber income	200	200	210	220	230	240	250	260	280	290	300	2,480
43	Expensing of multiperiod timber growing costs	160	160	170	170	180	190	200	210	220	230	240	1,970
44	Tax incentives for preservation of historic structures	170	190	190	200	200	210	210	220	230	230	240	2,120
45	Carbon oxide sequestration credit 1/	30	60	90	130	160	210	250	280	300	300	310	2,090
46	Deduction for endangered species recovery expenditures	30	30	40	40	40	50	50	60	60	70	80	520
<b>Agriculture:</b>													
47	Expensing of certain capital outlays	120	120	120	120	120	120	120	130	130	140	140	1,260
48	Expensing of certain multiperiod production costs	270	270	270	280	280	280	280	290	300	310	320	2,880
49	Treatment of loans forgiven for solvent farmers	0	0	0	0	0	0	0	0	0	0	0	0
50	Capital gains treatment of certain agriculture income	2,000	2,020	2,110	2,150	2,250	2,370	2,500	2,630	2,780	2,930	3,080	24,820
51	Income averaging for farmers	0	0	0	0	0	0	0	0	0	0	0	0
52	Deferral of gain on sale of farm refiners	0	0	0	0	0	0	0	0	0	0	0	0
53	Expensing of reforestation expenditures	60	60	60	70	60	60	70	70	70	80	80	680
<b>Commerce and housing:</b>													
Financial institutions and insurance:													
54	Exemption of credit union income	0	0	0	0	0	0	0	0	0	0	0	0
55	Exclusion of life insurance death benefits	16,750	16,780	17,180	17,600	18,190	18,770	19,270	19,790	20,390	21,000	21,590	190,560
56	Exemption or special alternative tax for small property and casualty insurance companies	0	0	0	0	0	0	0	0	0	0	0	0
57	Tax exemption of insurance income earned by tax-exempt organizations	0	0	0	0	0	0	0	0	0	0	0	0
58	Exclusion of interest spread of financial institutions	23,860	24,010	24,490	24,910	25,240	25,720	26,190	26,600	26,970	27,280	27,590	259,000
Housing:													
59	Exclusion of interest on owner-occupied mortgage subsidy bonds	840	860	890	910	960	990	990	990	1,000	1,020	1,010	9,620
60	Exclusion of interest on rental housing bonds	2,070	2,120	2,180	2,240	2,360	2,440	2,440	2,440	2,460	2,490	2,480	23,650
61	Deductibility of mortgage interest on owner-occupied homes	23,880	24,520	23,480	23,930	24,580	16,350	13,160	13,740	13,890	14,010	14,140	181,800
62	Deductibility of State and local property tax on owner-occupied homes 5/	21,050	25,790	26,020	27,310	28,860	14,710	8,590	9,330	9,640	9,980	10,300	170,530
63	Deferral of income from installment sales	2,930	2,420	2,350	2,370	2,490	2,620	2,760	2,900	3,050	3,190	3,310	27,460
64	Capital gains exclusion on home sales	79,170	85,420	90,440	94,880	99,140	103,420	108,000	112,610	117,540	122,770	128,230	1,062,450
65	Exclusion of net imputed rental income	151,640	157,410	166,490	176,510	188,630	201,720	213,860	226,100	239,160	252,810	267,120	2,089,810
66	Exception from passive loss rules for \$25,000 of rental loss	8,330	8,610	8,840	9,140	9,370	9,620	9,920	10,410	10,990	11,560	12,120	100,580
67	Credit for low-income housing investments	130	130	140	150	160	170	180	180	190	210	210	1,720
68	Accelerated depreciation on rental housing (normal tax method)	3,730	4,300	4,940	5,610	6,350	7,150	7,980	8,810	9,620	10,410	11,180	76,350
69	Discharge of mortgage indebtedness	80	30	0	0	0	0	0	0	0	0	0	30
Commerce:													
70	Discharge of business indebtedness	-20	-20	-10	-20	-20	-30	-40	-40	-60	-70	-90	-400
71	Exceptions from imputed interest rules	80	100	90	90	90	80	80	80	80	80	80	850
72	Treatment of qualified dividends	32,500	34,170	36,060	38,170	40,140	42,400	44,650	46,980	49,670	52,190	54,850	439,280
73	Capital gains (except agriculture, timber, iron ore, and coal)	134,600	135,340	135,200	143,230	147,190	152,870	157,970	163,470	172,470	176,440	179,630	1,563,810
74	Capital gains exclusion of small corporation stock	4,570	4,700	4,930	5,320	6,040	6,610	7,090	7,410	7,770	8,160	8,540	66,570
75	Step-up basis of capital gains at death	36,430	40,260	43,520	46,840	50,610	54,250	57,790	61,920	66,900	71,080	76,260	569,430
76	Carryover basis of capital gains on gifts	5,310	5,820	6,150	6,010	5,950	6,000	6,170	6,500	6,580	6,550	6,760	62,490
77	Ordinary income treatment of loss from small business corporation stock sale	80	80	80	80	90	90	90	100	100	100	100	910



		Total from individuals											
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026-2035
78	Deferral of capital gains from like-kind exchanges	11,150	12,540	11,720	9,010	9,600	10,000	10,000	10,020	10,150	10,310	10,510	103,860
79	Depreciation of buildings other than rental housing (normal tax method)	870	2,000	3,200	4,020	4,450	4,300	3,810	3,830	4,190	4,690	5,190	39,680
80	Accelerated depreciation of machinery and equipment (normal tax method)	27,430	49,060	47,830	44,310	44,750	45,460	45,880	46,210	47,150	48,660	50,480	469,790
81	Exclusion of interest on small issue bonds	30	30	40	40	40	40	40	40	40	40	40	390
82	Special rules for certain film and TV production	0	-200	-160	-30	0	0	0	0	0	0	0	-390
83	Allow 20-percent deduction to certain pass-through income	64,680	68,120	72,190	76,190	80,090	83,860	87,120	90,150	93,750	97,760	101,620	850,850
84	Advanced manufacturing investment credit 1/	0	230	580	660	630	360	0	-90	-50	-10	0	2,310
85	Deduction for car interest payments	0	1,720	2,060	2,510	1,790	0	0	0	0	0	0	8,080
Transportation:													
85	Tonnage tax	0	0	0	0	0	0	0	0	0	0	0	0
87	Deferral of tax on shipping companies	-10	-10	-10	-10	-20	-20	-10	-10	-10	-10	-10	-120
88	Exclusion of reimbursed employee parking expenses	3,700	3,870	4,040	4,220	4,410	4,610	4,820	5,030	5,260	5,490	5,740	47,490
89	Exclusion for employer-provided transit passes	930	980	1,030	1,090	1,150	1,210	1,280	1,350	1,420	1,500	1,580	12,590
90	Tax credit for certain expenditures for maintaining railroad tracks	50	50	50	50	50	50	50	50	50	50	50	500
91	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	100	100	90	90	90	80	80	70	70	70	60	800
Community and regional development:													
92	Exclusion of interest for airport, dock, and similar bonds	1,110	1,130	1,160	1,200	1,260	1,300	1,300	1,300	1,310	1,330	1,330	12,620
93	Exemption of certain mutuals' and cooperatives' income	0	0	0	0	0	0	0	0	0	0	0	0
94	Empowerment zones	30	30	20	10	0	0	0	0	0	0	0	60
95	New markets tax credit	30	30	30	30	30	30	30	30	30	30	30	300
96	Credit to holders of Gulf and Midwest Tax Credit Bonds .	0	0	0	0	0	0	0	0	0	0	0	0
97	Recovery Zone Bonds 1/	10	10	10	10	10	10	10	10	10	10	10	100
98	Tribal Economic Development Bonds	0	0	0	0	0	0	0	0	0	0	0	0
99	Opportunity Zones	2,520	-5,210	-11,840	6,700	5,700	4,810	4,810	3,710	1,110	2,450	3,850	16,090
100	Disaster employee retention credit	10	0	0	0	0	0	0	0	0	0	0	0
Education, training, employment, and social services:													
Education:													
101	Exclusion of scholarship and fellowship income (normal tax method)	7,660	7,740	8,230	8,750	9,230	9,820	10,280	10,770	11,270	11,810	12,360	100,260
102	Tax credits for post-secondary education expenses 1/	10,940	10,310	10,190	10,040	9,860	9,790	9,670	9,460	9,230	8,990	8,780	96,320
103	Deductibility of student-loan interest	2,270	2,510	2,580	2,690	2,700	2,740	2,850	2,880	2,940	2,980	3,100	27,970
104	Qualified tuition programs (includes Education IRA)	3,320	3,420	3,660	3,900	4,230	4,570	4,870	5,180	5,530	5,900	6,290	47,550
105	Exclusion of interest on student-loan bonds	70	80	80	80	90	90	90	90	90	90	90	870
106	Exclusion of interest on bonds for private nonprofit educational facilities	1,950	2,000	2,050	2,110	2,220	2,290	2,300	2,290	2,320	2,350	2,340	22,270
107	Credit for holders of zone academy bonds 1/	0	0	0	0	0	0	0	0	0	0	0	0
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	40	50	50	50	50	50	60	60	60	60	70	560
109	Deductibility of charitable contributions to educational institutions	9,550	9,600	9,680	10,260	10,890	11,340	11,560	12,190	12,900	13,690	14,460	116,570
110	Exclusion of employer-provided educational assistance	1,190	1,560	1,850	1,980	2,140	2,290	2,430	2,580	2,760	2,930	3,100	23,620
111	Special deduction for teacher expenses	170	160	250	240	250	250	230	240	240	330	250	2,440
112	Deductibility of educator expenses	0	0	80	80	80	80	60	60	60	60	60	620
113	Discharge of student loan indebtedness	4,770	10,470	5,380	3,010	1,770	970	1,000	1,020	1,040	1,080	1,120	26,860
114	Qualified school construction bonds 1/	330	310	290	270	250	240	220	200	180	160	140	2,260
Training, employment, and social services:													
115	Work opportunity tax credit	550	430	140	90	60	50	40	30	20	20	10	890
116	Employer provided child care exclusion	850	820	850	920	980	1,050	1,120	1,190	1,260	1,310	1,370	10,870
117	Employer-provided child care credit	0	10	10	10	10	10	10	10	10	10	10	100
118	Assistance for adopted foster children	700	770	840	920	1,010	1,110	1,230	1,360	1,500	1,650	1,820	12,210
119	Adoption credit and exclusion	270	270	270	290	310	330	350	370	400	420	430	3,440
120	Exclusion of employee meals and lodging (other than military)	7,750	8,090	8,530	8,940	9,370	9,870	10,360	10,830	11,320	11,840	12,390	101,540
121	Credit for child and dependent care expenses 1/	3,220	4,190	4,650	4,650	4,660	4,670	4,670	4,680	4,690	4,690	4,690	46,240
122	Credit for disabled access expenditures	10	10	10	10	10	10	10	10	10	10	10	100
123	Deductibility of charitable contributions, other than education and health	51,360	51,650	52,030	55,150	58,540	60,970	62,140	65,540	69,390	73,620	77,770	626,800
124	Exclusion of certain foster care payments	1,000	1,080	1,190	1,300	1,430	1,570	1,740	1,920	2,120	2,330	2,570	17,250
125	Exclusion of parsonage allowances	1,140	1,200	1,270	1,340	1,410	1,480	1,560	1,640	1,730	1,820	1,920	15,370
126	Indian employment credit	10	10	10	10	0	0	0	0	0	0	0	30
127	Employer-provided paid family and medical leave credit	20	20	30	30	30	30	30	30	30	40	40	310
128	Exclusion of tip income	0	4,380	2,050	2,110	1,640	0	0	0	0	0	0	10,180
129	Exclusion of overtime income	0	17,040	13,900	14,240	10,880	0	0	0	0	0	0	56,060
Health:													
130	Exclusion of employer contributions for medical insurance premiums and medical care 6/	279,180	295,660	313,630	331,190	350,680	369,710	388,830	408,660	429,420	451,220	474,030	3,813,030
131	Self-employed medical insurance premiums	9,100	9,530	10,050	10,640	11,320	12,080	12,820	13,530	14,270	14,980	15,650	124,870
132	Medical Savings Accounts / Health Savings Accounts	13,880	14,870	15,820	16,570	17,330	17,990	18,570	19,170	19,850	20,570	21,280	182,020
133	Deductibility of medical expenses	13,470	13,790	14,650	15,980	17,760	18,810	20,110	21,780	23,600	25,610	27,770	199,860
134	Exclusion of interest on hospital construction bonds	2,320	2,380	2,440	2,510	2,640	2,730	2,730	2,730	2,760	2,790	2,780	26,490
135	Refundable Premium Assistance Tax Credit 1/	11,530	11,650	6,540	6,930	6,600	7,150	7,240	7,390	7,820	8,380	8,770	78,470
136	Credit for employee health insurance expenses of small business	0	0	0	0	0	0	0	0	0	0	0	0
137	Deductibility of charitable contributions to health institutions	7,570	7,610	7,670	8,130	8,630	8,990	9,160	9,660	10,230	10,850	11,460	92,390
138	Tax credit for orphan drug research	0	0	0	0	0	0	0	0	0	0	0	0
139	Special Blue Cross/Blue Shield tax benefits	0	0	0	0	0	0	0	0	0	0	0	0
140	Distributions from retirement plans for premiums for health and long-term care insurance	500	590	630	650	660	670	670	680	690	700	710	6,650
Income security:													
141	Child credit 1/	32,810	37,250	41,090	40,520	42,660	39,220	41,300	41,910	44,170	44,750	47,220	420,090
142	Other Dependent Tax Credit	8,940	8,660	8,710	8,760	8,740	8,750	8,700	8,630	8,550			

		Total from individuals											
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026-2035
161	Additional deduction for the elderly	7,530	8,220	8,720	9,410	11,090	12,320	12,720	13,450	14,260	14,820	15,680	120,690
162	Temporary additional deduction for the elderly	0	36,480	23,820	24,350	11,050	0	0	0	0	0	0	95,700
163	Deductibility of casualty losses	140	120	110	100	100	90	80	70	70	60	60	860
164	Earned income tax credit 1/	900	670	670	690	690	800	810	850	860	900	910	7,850
165	Recovery rebate credits 1/	1,000	70	0	0	0	0	0	0	0	0	0	70
<b>Social Security:</b>													
Exclusion of social security benefits:													
166	Social Security benefits for retired and disabled workers and spouses, dependents and survivors	37,540	37,820	41,350	44,340	48,950	54,520	56,660	59,020	60,810	62,230	63,780	529,480
167	Credit for certain employer contributions to social security	1,650	1,770	1,900	2,050	2,200	2,370	2,540	2,740	2,940	3,160	3,400	25,070
<b>Veterans benefits and services:</b>													
168	Exclusion of veterans death benefits and disability compensation	13,710	12,320	13,120	13,900	16,030	20,290	20,990	21,900	22,780	23,890	24,750	189,970
169	Exclusion of veterans pensions	190	120	110	100	110	160	150	140	140	130	120	1,280
170	Exclusion of GI bill benefits	1,660	1,700	1,790	1,850	1,990	2,270	2,330	2,400	2,460	2,550	2,620	21,960
171	Exclusion of interest on veterans housing bonds	20	20	30	30	30	30	30	30	30	30	30	290
<b>General purpose fiscal assistance:</b>													
172	Exclusion of interest on public purpose State and local bonds	27,840	28,550	29,260	30,160	31,690	32,750	32,770	32,730	33,070	33,520	33,380	317,880
173	Build America Bonds 1/	0	0	0	0	0	0	0	0	0	0	0	0
174	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes 5/	21,600	26,120	25,490	26,670	27,910	9,730	3,230	4,580	4,610	4,640	4,650	137,630
<b>Interest:</b>													
175	Deferral of interest on U.S. savings bonds	880	870	860	850	840	830	820	820	810	800	790	8,290
<b>Addendum: Aid to State and local governments:</b>													
Deductibility of:													
Property taxes on owner-occupied homes													
Nonbusiness State and local taxes other than on owner-occupied homes													
Exclusion of interest on State and local bonds for:													
Public purposes													
Energy facilities													
Water, sewage, and hazardous waste disposal facilities													
Small-issues													
Owner-occupied mortgage subsidies													
Rental housing													
Airports, docks, and similar facilities													
Student loans													
Private nonprofit educational facilities													
Hospital construction													
Veterans' housing													

See Table 1 footnotes for specific table information



**Table 3. INCOME TAX EXPENDITURES RANKED BY TOTAL  
FISCAL YEAR 2026-2035 PROJECTED REVENUE EFFECT**

(in millions of dollars)

	Provision	2025	2026	2026-35
130	Exclusion of employer contributions for medical insurance premiums and medical care 6/	279,180	295,660	3,813,030
65	Exclusion of net imputed rental income	151,640	157,410	2,089,810
149	Defined contribution employer plans	142,820	156,480	2,064,360
73	Capital gains (except agriculture, timber, iron ore, and coal)	134,600	135,340	1,563,810
64	Capital gains exclusion on home sales	79,170	85,420	1,062,450
83	Allow 20-percent deduction to certain pass-through income	64,680	68,120	850,850
148	Defined benefit employer plans	69,650	71,430	724,740
80	Accelerated depreciation of machinery and equipment (normal tax method)	47,660	81,650	707,070
123	Deductibility of charitable contributions, other than education and health	51,360	51,650	626,800
75	Step-up basis of capital gains at death	36,430	40,260	569,430
166	Social Security benefits for retired and disabled workers and spouses, dependents and survivors	37,540	37,820	529,480
8	Credit for increasing research activities	36,060	36,520	476,920
153	Self-Employed plans	32,180	35,260	465,170
150	Individual Retirement Accounts	28,430	32,100	448,470
72	Treatment of qualified dividends	32,500	34,170	439,280
172	Exclusion of interest on public purpose State and local bonds	39,740	40,480	432,540
141	Child credit 1/	32,810	37,250	420,090
4	Reduced tax rate on active income of controlled foreign corporations (normal tax method)	30,550	31,190	343,050
58	Exclusion of interest spread of financial institutions	23,860	24,010	259,000
5	Deduction for foreign-derived intangible income derived from trade or business within the United States	19,020	19,600	252,050
55	Exclusion of life insurance death benefits	18,640	18,730	213,070
1	Exclusion of benefits and allowances to armed forces personnel	17,960	18,680	205,700
133	Deductibility of medical expenses	13,470	13,790	199,860
67	Credit for low-income housing investments	14,450	15,270	196,480
168	Exclusion of veterans death benefits and disability compensation	13,710	12,320	189,970
132	Medical Savings Accounts / Health Savings Accounts	13,880	14,870	182,020
61	Deductibility of mortgage interest on owner-occupied homes	23,880	24,520	181,800
62	Deductibility of State and local property tax on owner-occupied homes 5/	21,050	25,790	170,530
174	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes 5/	21,600	26,120	137,630
7	Expensing of research and experimentation expenditures (normal tax method)	21,650	47,260	129,760
131	Self-employed medical insurance premiums	9,100	9,530	124,870
161	Additional deduction for the elderly	7,530	8,220	120,690
22	Energy production credit 1/	9,850	11,610	118,200
109	Deductibility of charitable contributions to educational institutions	9,550	9,600	116,570
78	Deferral of capital gains from like-kind exchanges	11,330	12,720	106,080
66	Exception from passive loss rules for \$25,000 of rental loss	8,330	8,610	100,580
101	Exclusion of scholarship and fellowship income (normal tax method)	7,660	7,740	100,260
144	Exclusion of workers' compensation benefits	9,550	9,620	98,270
102	Tax credits for post-secondary education expenses 1/	10,940	10,310	96,320
162	Temporary additional deduction for the elderly	0	36,480	95,700
137	Deductibility of charitable contributions to health institutions	7,570	7,610	92,390
120	Exclusion of employee meals and lodging (other than military)	6,690	6,980	87,460
142	Other Dependent Tax Credit	8,940	8,660	86,280
135	Refundable Premium Assistance Tax Credit 1/	11,530	11,650	78,470
68	Accelerated depreciation on rental housing (normal tax method)	3,780	4,360	77,490
74	Capital gains exclusion of small corporation stock	4,570	4,700	66,570
76	Carryover basis of capital gains on gifts	5,310	5,820	62,490
129	Exclusion of overtime income	0	17,040	56,060
29	Clean fuel production credit 1/ 4/	1,260	12,470	53,100
30	Clean hydrogen production credit 1/	620	1,320	50,930
79	Depreciation of buildings other than rental housing (normal tax method)	1,110	2,400	48,600
2	Exclusion of income earned abroad by U.S. citizens	5,040	5,000	48,140
104	Qualified tuition programs (includes Education IRA)	3,320	3,420	47,550
121	Credit for child and dependent care expenses 1/	3,220	4,190	46,240
155	Premiums on group term life insurance	3,680	3,790	44,570
45	Carbon oxide sequestration credit 1/	590	1,040	39,290
23	Energy investment credit 1/	19,980	15,640	38,200
134	Exclusion of interest on hospital construction bonds	3,310	3,370	36,040
138	Tax credit for orphan drug research	1,960	2,140	33,230
54	Exemption of credit union income	2,460	2,590	32,370

Provision		2025	2026	2026-35
60	Exclusion of interest on rental housing bonds	2,960	3,010	32,200
167	Credit for certain employer contributions to social security	2,090	2,240	31,780
106	Exclusion of interest on bonds for private nonprofit educational facilities	2,780	2,840	30,310
38	Advanced manufacturing production credit 1/	3,830	3,060	30,090
152	Low and moderate income savers credit	1,780	1,540	28,690
103	Deductibility of student-loan interest	2,270	2,510	27,970
88	Exclusion of reimbursed employee parking expenses	2,160	2,260	27,700
63	Deferral of income from installment sales	2,930	2,420	27,460
113	Discharge of student loan indebtedness	4,770	10,470	26,860
50	Capital gains treatment of certain agriculture income	2,020	2,040	25,080
110	Exclusion of employer-provided educational assistance	1,190	1,560	23,620
84	Advanced manufacturing investment credit 1/	20	2,300	23,070
56	Exemption or special alternative tax for small property and casualty insurance companies	1,910	1,990	23,060
170	Exclusion of GI bill benefits	1,660	1,700	21,960
6	Interest Charge Domestic International Sales Corporations (IC-DISCs)	1,670	1,770	21,480
156	Premiums on accident and disability insurance	1,840	1,870	21,120
99	Opportunity Zones	3,080	-7,750	19,710
158	Income of trusts to finance voluntary employee benefits associations	1,400	1,470	18,910
124	Exclusion of certain foster care payments	1,000	1,080	17,250
92	Exclusion of interest for airport, dock, and similar bonds	1,580	1,600	17,170
11	Excess of percentage over cost depletion, oil and gas	1,210	1,370	16,130
125	Exclusion of parsonage allowances	1,140	1,200	15,370
151	Trump Accounts	0	5,600	14,600
25	Zero-emission nuclear power production credit 1/	2,590	1,700	14,550
95	New markets tax credit	1,310	1,360	14,440
59	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,200	1,220	13,090
118	Assistance for adopted foster children	700	770	12,210
14	Enhanced oil recovery credit	140	170	11,850
116	Employer provided child care exclusion	850	820	10,870
128	Exclusion of tip income	0	4,380	10,180
145	Exclusion of public assistance benefits (normal tax method)	830	870	10,040
175	Deferral of interest on U.S. savings bonds	880	870	8,290
85	Deduction for car interest payments	0	1,720	8,080
164	Earned income tax credit 1/	900	670	7,850
139	Special Blue Cross/Blue Shield tax benefits	470	510	7,060
37	Advanced energy property credit 1/	1,680	1,830	6,760
140	Distributions from retirement plans for premiums for health and long-term care insurance	500	590	6,650
44	Tax incentives for preservation of historic structures	590	580	6,530
89	Exclusion for employer-provided transit passes	420	450	5,770
57	Tax exemption of insurance income earned by tax-exempt organizations	410	420	4,810
43	Expensing of multiperiod timber growing costs	340	350	4,350
15	Marginal wells credit	320	420	4,100
41	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	370	380	4,070
159	Special Employee Stock Ownership Plan (ESOP) rules	290	300	3,510
119	Adoption credit and exclusion	270	270	3,440
40	Excess of percentage over cost depletion, nonfuel minerals	250	290	3,320
3	Exclusion of certain allowances for Federal employees abroad	290	300	3,280
48	Expensing of certain multiperiod production costs	290	290	3,110
115	Work opportunity tax credit	2,140	1,360	3,090
36	Credit for residential energy efficient property	7,710	2,280	3,080
35	Credit for energy efficiency improvements to existing homes	2,390	2,990	2,990
42	Capital gains treatment of certain timber income	200	200	2,480
111	Special deduction for teacher expenses	170	160	2,440
114	Qualified school construction bonds 1/	330	310	2,260
154	Small employer pension plan startup credit	320	380	2,260
51	Income averaging for farmers	210	220	2,200
9	Expensing of exploration and development costs, oil and gas	70	80	2,050
86	Tonnage tax	180	170	1,730
24	Advanced nuclear power production credit	210	240	1,720
147	Exclusion of military disability pensions	150	130	1,700
127	Employer-provided paid family and medical leave credit	90	110	1,520
90	Tax credit for certain expenditures for maintaining railroad tracks	150	150	1,410
47	Expensing of certain capital outlays	130	130	1,360
16	Amortize all geological and geophysical expenditures over 2 years	160	160	1,340

Provision		2025	2026	2026-35
143	Exclusion of railroad retirement (Social Security equivalent) benefits	160	140	1,290
169	Exclusion of veterans pensions	190	120	1,280
93	Exemption of certain mutuals' and cooperatives' income	110	110	1,250
105	Exclusion of interest on student-loan bonds	100	110	1,170
91	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	130	130	980
34	Credit for construction of new energy efficient homes	910	700	920
77	Ordinary income treatment of loss from small business corporation stock sale	80	80	910
12	Excess of percentage over cost depletion, coal	90	90	890
163	Deductibility of casualty losses	140	120	860
71	Exceptions from imputed interest rules	80	100	850
53	Expensing of reforestation expenditures	70	70	820
160	Additional deduction for the blind	50	50	760
46	Deduction for endangered species recovery expenditures	40	40	740
49	Treatment of loans forgiven for solvent farmers	70	70	720
33	Allowance of deduction for certain energy efficient commercial building property	700	850	710
20	Exclusion of utility conservation subsidies	70	70	620
112	Deductibility of educator expenses	0	0	620
21	Credit for holding clean renewable energy bonds 1/	70	70	600
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	40	50	560
17	Capital gains treatment of royalties on coal	50	50	510
157	Income of trusts to finance supplementary unemployment benefits	50	50	510
31	Tax credit for clean vehicles 1/	9,740	2,340	490
81	Exclusion of interest on small issue bonds	40	40	490
32	Tax credits for refueling property 1/	370	360	460
117	Employer-provided child care credit	20	40	420
171	Exclusion of interest on veterans housing bonds	30	30	390
107	Credit for holders of zone academy bonds 1/	60	50	360
26	Reduced tax rate for nuclear decommissioning funds	30	30	330
19	Qualified energy conservation bonds 1/	30	30	300
52	Deferral of gain on sale of farm refiners	20	20	260
94	Empowerment zones	110	90	220
39	Expensing of exploration and development costs, nonfuel minerals	10	10	210
100	Disaster employee retention credit	40	50	160
10	Expensing of exploration and development costs, coal	0	10	150
28	Bio-Diesel and small agri-biodiesel producer tax credits 3/	60	90	150
97	Recovery Zone Bonds 1/	10	10	150
146	Exclusion of special benefits for disabled coal miners	20	20	120
122	Credit for disabled access expenditures	10	10	100
165	Recovery rebate credits 1/	1,000	70	70
126	Indian employment credit	20	20	60
13	Exception from passive loss limitation for working interests in oil and gas properties	0	0	40
69	Discharge of mortgage indebtedness	80	30	30
18	Exclusion of interest on energy facility bonds	0	0	0
27	Alcohol fuel credits 2/	0	0	0
96	Credit to holders of Gulf and Midwest Tax Credit Bonds .	0	0	0
98	Tribal Economic Development Bonds	0	0	0
136	Credit for employee health insurance expenses of small business	0	0	0
173	Build America Bonds 1/	0	0	0
70	Discharge of business indebtedness	-20	-20	-400
87	Deferral of tax on shipping companies	-40	-30	-410
82	Special rules for certain film and TV production	0	-650	-1,290

See Table 1 footnotes for specific table information

**Table 4. PRESENT VALUE OF SELECTED TAX EXPENDITURES  
FOR ACTIVITY IN CALENDAR YEAR 2025**

(in millions of dollars)

Provision		Present Value of Revenue Loss
7	Expensing of research and experimentation expenditures (normal tax method)	4,360
9	Expensing of exploration and development costs, oil and gas	1,230
10	Expensing of exploration and development costs, coal	110
39	Expensing of exploration and development costs, nonfuel minerals	120
43	Expensing of multiperiod timber growing costs	320
47	Expensing of certain capital outlays - agriculture	200
48	Expensing of certain multiperiod production costs	420
53	Expensing of reforestation expenditures	60
67	Credit for low-income housing investments	14,450
68	Accelerated depreciation on rental housing	6,850
79	Depreciation of buildings other than rental	5,150
80	Accelerated depreciation of machinery and equipment	52,780
104	Qualified tuition programs	6,980
148	Defined benefit employer plans	92,570
149	Defined contribution employer plans	215,440
150	Exclusion of IRA contributions and earnings	2,620
	Exclusion of Roth earnings and distributions	800
	Exclusion of non-deductible IRA earnings	790
153	Exclusion of contributions and earnings for Self-Employed plans	8,660
172	Exclusion of interest on public purpose State and local bonds	18,800
	Exclusion of interest on non-public purpose bonds 1/	7,760
175	Deferral of interest on U.S. savings bonds	90

1/ Includes all components, other than public purpose, listed under 'Exclusion of interest on State and local bonds' in the Addendum to Table 1.



**Table 5. ESTIMATES OF OUTLAY TAX EXPENDITURES FOR FISCAL YEARS 2025-2035**

(in millions of dollars)

		Total											
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2026-2035
<b>Energy:</b>													
19	Qualified energy conservation bonds	30	30	30	30	30	30	30	30	30	30	30	300
21	Credit for holding clean renewable energy bonds	40	40	30	30	30	30	30	30	30	30	30	310
22	Energy production credit	0	10	10	10	10	10	10	10	10	10	10	100
23	Energy investment credit	730	500	390	220	60	40	50	40	50	40	30	1,420
25	Zero-emission nuclear power production credit	0	500	470	440	670	440	320	240	350	0	0	3,430
29	Clean fuel production credit	10	690	610	650	710	180	0	0	0	0	0	2,840
30	Clean hydrogen production credit	470	970	1,650	2,400	3,000	3,810	4,410	4,710	4,970	5,090	4,610	35,620
31	Tax credits for clean vehicles	2,900	790	0	0	0	0	0	0	0	0	0	790
32	Tax credits for refueling property	0	10	0	0	0	0	0	0	0	0	0	10
37	Advanced energy property credit	0	0	0	0	0	0	0	0	0	0	0	0
38	Advanced manufacturing production credit	220	3,680	3,000	3,090	3,030	2,760	2,340	2,070	1,480	360	50	21,860
<b>Natural resources and environment:</b>													
45	Carbon oxide sequestration credit	40	760	1,170	1,690	2,140	2,820	3,340	3,870	4,170	4,300	4,360	28,620
<b>Commerce and housing:</b>													
84	Advanced manufacturing investment credit	620	1,780	3,680	4,410	4,290	2,750	700	60	40	20	10	17,740
<b>Community and regional development:</b>													
97	Recovery Zone Bonds	50	50	50	50	50	40	40	40	40	40	30	430
<b>Education, training, employment, and social services:</b>													
Education:													
102	Tax credits for post-secondary education expenses	2,570	2,570	2,570	2,600	2,570	2,540	2,440	2,390	2,350	2,310	2,270	24,610
107	Credit for holders of zone academy bonds	30	30	30	30	30	30	30	30	30	30	30	300
114	Qualified school construction bonds	550	540	540	530	520	510	500	510	510	500	500	5,160
Training, employment, and social services:													
119	Adoption credit and exclusion	580	430	430	430	430	440	430	440	460	470		3,960
<b>Health:</b>													
135	Refundable Premium Assistance Tax Credit	109,520	89,510	83,660	83,470	86,450	89,370	94,540	99,920	105,140	110,540	116,310	958,910
<b>Income security:</b>													
141	Child credit	42,540	45,170	48,650	48,840	51,330	49,710	52,100	53,080	55,820	56,770	59,760	521,230
164	Earned income tax credit	67,730	68,860	71,670	73,290	75,730	78,250	80,840	83,680	86,340	89,300	92,310	800,270
165	Recovery rebate credits	1,000	70										70
<b>General purpose fiscal assistance:</b>													
173	Build America Bonds	2,170	2,130	2,090	2,050	2,010	1,970	1,930	1,890	1,850	1,810	1,770	19,500

1/ See Table 1 for corresponding revenue loss estimates.

