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Report to Congressional Requesters

March 2013

CORPORATE TAX EXPENDITURES

Information on Estimated Revenue Losses and Related Federal Spending Programs

GAO

Accountability * Integrity * Reliability

GAO-13-339

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Highlights

Highlights of GAO-13-339, a report to congressional requesters

Why GAO Did This Study

Tax expenditures—special exemptions and exclusions, credits, deductions, deferrals, and preferential tax rates claimed by corporations, individuals, or both—support federal policy goals but result in revenue forgone by the federal government. Congress and the administration are reexamining tax expenditures used by corporations as part of corporate tax reform. GAO was asked to examine issues related to corporate tax expenditures. This report: (1) describes trends in the number of corporate tax expenditures and estimated corporate revenue losses since 1986; (2) describes the use of corporate tax expenditures in 2011; and (3) compares the size of corporate tax expenditures to federal spending by budget function and, for tax expenditures used only by corporations, identifies spending programs with similar purposes.

To address these objectives, GAO analyzed Department of the Treasury estimates of tax expenditure revenue losses from 1986 to 2011 and Internal Revenue Service 2010 data and interviewed agency officials. GAO also reviewed the legislative history and relevant studies to determine the reported purpose of corporate-only tax expenditures, and searched federal program lists to identify federal spending programs that appear to share a reported specific purpose similar to corporate-only tax expenditures. The programs identified as related were not reviewed by the agencies responsible for the programs.

What GAO Recommends

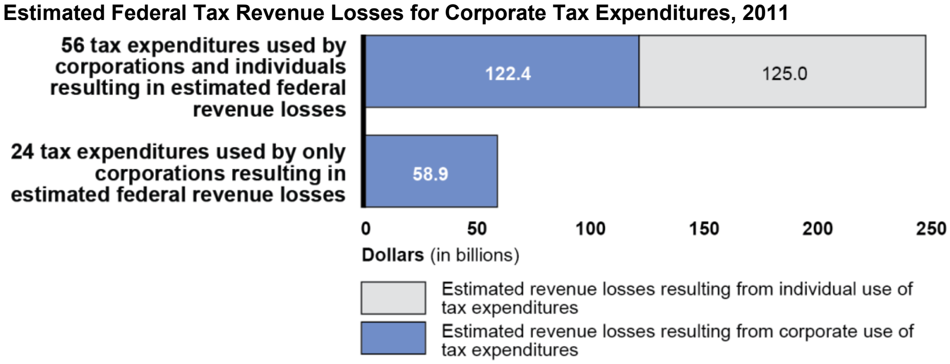
GAO made no recommendations in this report. Treasury provided technical comments that were incorporated, as appropriate; IRS had no comments.

View GAO-13-339. For more information, contact James R. White at (202) 512-9110 or whitej@gao.gov

What GAO Found

Estimated tax revenue that the federal government forgoes resulting from corporate tax expenditures increased over the past few decades as did the total number of corporate tax expenditures. In 2011, the Department of the Treasury estimated 80 tax expenditures resulted in the government forgoing corporate tax revenue totaling more than $181 billion. Many of these tax expenditures are broadly available to both corporate and individual taxpayers. More than two-thirds or 56 of the 80 tax expenditures used by corporations in 2011 were also used by individual taxpayers, such as other types of businesses not organized as corporations. Modifying any of these 56 tax expenditures as part of broader corporate tax reform would likely affect both corporate and individual taxpayers to some degree.

Estimated Federal Tax Revenue Losses for Corporate Tax Expenditures, 2011



Source: GAO analysis of Office of Management and Budget budget data on tax expenditures, fiscal year 2013.

Note: Sum of estimated revenue losses does not include outlay effects or reductions in excise tax receipts. Tax expenditures may be available to corporate and individual taxpayers, including other types of business entities other than corporations. According to the Department of the Treasury's estimates, some tax expenditures may be used by only corporate taxpayers and some by only individual taxpayers while other tax expenditures may be used by both corporate and individual taxpayers.

Corporate tax expenditures span a majority of federal mission areas, but their relative size differs across budget functions. The 80 corporate tax expenditures had estimated revenue losses in 12 of the 18 budget functions in 2011. Of the $181 billion in estimated corporate tax revenue losses, 81 percent was concentrated in the international affairs and housing and commerce budget functions, exceeding federal outlays in those budget functions. The 24 tax expenditures used only by corporations in 2011 provide support intended to encourage certain activities, such as energy production, or provide support for certain entity types, such as credit unions. A corporate tax expenditure may have multiple purposes: one narrowly focused on a specific activity or entity as well as broader or additional purposes pursuing national priorities or other activities. For example, 7 of the 24 corporate-only tax expenditures are aimed at encouraging or supporting specific energy sources and technologies, and these tax expenditures may also have broader national purposes such as promoting domestic energy production and energy security. In examining their narrowly focused reported purposes, one-third of the 24 corporate-only tax expenditures appear to share a similar purpose with at least one federal spending program.

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Abbreviations

CFDA	Catalog of Federal Domestic Assistance
CBO	Congressional Budget Office
CRS	Congressional Research Service
GDP	gross domestic product
GPRAMA	Government Performance and Results Act Modernization Act of 2010
IRS	Internal Revenue Service
SOI	Statistics of Income

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Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

March 18, 2013

The Honorable John Lewis
Ranking Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

The Honorable Lloyd Doggett
House of Representatives

Each year, the federal government makes a significant commitment to corporate income tax expenditures, which are reductions in the federal corporate income tax liability that result from special exemptions and exclusions from taxation, deductions, credits, deferrals of tax liability, or preferential tax rates. Estimated corporate revenue losses represent the amount of revenue the federal government forgoes as a result of corporate tax expenditures. Tax expenditures play a central role in a number of Congress's and the administration's proposals for corporate tax reform. Discussion regarding corporate tax reform has involved modifying or repealing certain tax expenditures as a way to broaden the corporate tax base and using the resulting revenue gains to offset reduced revenue from lowering the corporate income tax rate. However, there is little agreement on how much corporate tax rates should be reduced; which tax expenditures should be repealed or modified to offset such a rate cut; and what, if any, changes would be made to the individual income tax system to account for other types of business organizations and individual taxpayers that claim the same tax expenditures as corporations.

Corporate tax expenditures cover a wide range of federal policy goals and may have one or more purposes that are also pursued by federal spending programs. As we recently reported, reassessments of tax expenditures benefit from understanding whether there are related spending programs.[1]

[1] GAO, *Tax Expenditures: Background and Evaluation Criteria and Questions*, GAO-13-167SP (Washington, D.C.: Nov. 29, 2012).

You requested that we provide information describing corporate tax expenditures. Specifically, this report: (1) describes trends in the number of corporate tax expenditures and aggregate corporate revenue losses since 1986; (2) describes the use of corporate tax expenditures in 2011; and (3) compares the size of corporate tax expenditures to federal spending by budget function and, for tax expenditures used only by corporations, identifies spending programs with similar purposes.[2]

To identify how corporate tax expenditures have changed in terms of their numbers and aggregate revenue loss, we analyzed Department of the Treasury (Treasury) estimates for fiscal years 1986 through 2011. We aggregated estimated corporate and individual revenue losses and also identified the number of tax expenditures with only estimated corporate revenue losses, those with both corporate and individual revenue losses, and those with only individual revenue losses.[3]

To describe the use of corporate tax expenditures, including the number of taxpayers claiming corporate-only tax expenditures, we analyzed Treasury revenue loss estimates for 2011 for corporate and individual taxpayer groups.[4] We defined corporate tax expenditures as those that Treasury reported had estimated revenue losses for corporations in 2011; we describe any tax expenditures that Treasury estimated lost only

[2]The functional classification system is a way of grouping budgetary resources so that all budget authority and outlays of on-budget and off-budget federal entities and tax expenditures can be presented according to the national needs being addressed. National needs are grouped in 18 broad areas to provide a coherent and comprehensive basis for analyzing and understanding the budget. See GAO, *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP (Washington, D.C.: Sept. 1, 2005).

[3]While sufficiently reliable as a gauge of general magnitude, summing revenue loss estimates does not take into account any interactions between tax expenditures. In addition, revenue loss estimates do not incorporate any behavioral responses and, thus, do not represent the revenue amount that would be gained if a specific tax expenditure was repealed. For further discussion on summing of tax expenditure estimates and examples, see GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, GAO-05-690 (Washington, D.C.: Sept. 23, 2005).

[4]Tax expenditures may be available to corporate and individual taxpayers, including other types of business entities other than corporations. Treasury estimates the portion of revenue losses associated with corporate or individual taxpayers for each tax expenditure in its list. According to Treasury's estimates, some tax expenditures may be used by only corporate taxpayers and some by only individual taxpayers while other tax expenditures may be used by both corporate and individual taxpayers.

corporate tax revenue in 2011 as corporate-only tax expenditures. We also obtained, where available, estimates from the Internal Revenue Service (IRS) Statistics of Income (SOI) 2010 corporate sample on the number of corporate taxpayers claiming certain tax expenditures. These were the most recent estimates available at the time of our work. Similarly, we obtained publicly available fiscal year 2010 data from IRS's Tax Exempt and Government Entities division on certain corporate tax expenditures. To assess the reliability of the data and estimates, we reviewed agency documentation, interviewed agency officials, and reviewed our prior reports that have used the data and estimates. While we determined that the Treasury and IRS data and estimates were sufficiently reliable for our purposes, the IRS SOI corporate sample may not provide a precise estimate of the number of taxpayers claiming a tax expenditure when the number of taxpayers is very small.[5]

To compare corporate tax expenditures to federal spending by budget function, we summed the estimated revenue losses of corporate tax expenditures and compared them to federal outlays by budget function for 2011. To identify spending programs with reported purposes similar to corporate-only tax expenditures in 2011, we first identified the reported purpose of those tax expenditures by reviewing their legislative histories, our prior work, as well as work by the Congressional Research Service (CRS) and the Congressional Budget Office (CBO) that discussed the tax expenditures. We reviewed these sources for any discussion on the intent or rationale of the tax expenditures. For this report, we identified a narrow reported purpose, specific to the type of entity or activity that the corporate-only tax expenditures support or target. In identifying the narrow reported purposes we were not trying to discern the legislative intent. The corporate-only tax expenditures may have broader or additional purposes beyond the narrow reported purposes we identified. We used the narrow reported purposes as they allowed us to identify the tax and nontax programs that appear to most closely support the activity or entity the corporate-only tax expenditures support. We then searched the 2012 *Catalog of Federal Domestic Assistance* (CFDA) to identify federal spending programs that appear to share a similar reported

[5]When the number of taxpayers claiming a tax expenditure is small, even with a large sample such as the IRS SOI corporate sample, estimates for small subpopulations like these often have large confidence intervals. For three of the corporate-only tax expenditures, the estimated number of corporations claiming the expenditure was less than 17. See appendix I for additional detail on the IRS SOI corporate sample.

purpose based on the CFDA's program descriptions. Our list of nontax programs that appear to share a similar reported purpose has not been reviewed by the agencies responsible for them. We identified tax expenditures that appear to share a similar reported purpose by reviewing their descriptions in the fiscal year 2013 *Analytical Perspectives*, supplemented with the description in CRS's 2010 tax expenditures compendium, and Treasury and IRS reviewed our identification of related tax expenditures.[6] See appendix I for more information on our scope and methodology.

We conducted our work from October 2012 to March 2013 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

Background

Corporate tax expenditures are special tax provisions that are exceptions to the normal structure of the corporate income tax system.[7] They represent revenue the federal government forgoes from these tax provisions. The Congressional Budget and Impoundment Control Act of 1974 identified six types of tax provisions that are considered tax expenditures when they are exceptions to the normal tax structure, including exemptions, exclusions, deductions, credits, deferral, and preferential tax rates.[8] Treasury and the Joint Committee on Taxation

[6] Office of Management and Budget, A*nalytical Perspectives, Budget of the United States Government, Fiscal Year 2013*, (Washington, D.C.: 2012) and U.S. Congress, Senate Committee on the Budget, *Tax Expenditures: Compendium of Background Material on Individual Provisions*, S. Prt. 111-58. Prepared by CRS (Washington, D.C.: December 2010).

[7] The concept of tax expenditures extends beyond the income tax. Tax expenditures also exist for other types of taxes, such as excise and payroll taxes. For more detail on the normal structure of tax expenditures, see pg. 92 of GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, GAO-05-690 (Washington, D.C.: Sept. 23, 2005).

[8] Pub. L. No. 93-344, §3, 88 Stat. 297, 299 (July 12, 1974) (*codified at* 2 U.S.C. § 622(3)). Provisions must be compared to a "normal structure," or baseline, and the Congressional Budget and Impoundment Control Act did not define a specific baseline structure.

each compile an annual list of tax expenditures by budget function with estimates of the corporate and individual income tax revenue losses for each tax expenditure in their respective lists.[9] Treasury and the Joint Committee on Taxation calculate separately the estimated revenue losses for each tax expenditure under the assumptions that all other tax expenditures remain in the tax code and taxpayer behavior remains constant.[10] Thus, the estimated revenue losses do not represent the amount of revenue that would be gained if a particular tax expenditure was repealed, since repeal would probably change taxpayer behavior in some way that would affect revenue.

Corporate income tax expenditures are estimated for firms organized under the tax code as C corporations, which include most large, publicly held corporations, and have their profits taxed at the entity level under the corporate income tax system (filed on an IRS form 1120). Other types of businesses, such as partnerships and S corporations[11], are referred to as "pass-through" entities because for tax purposes the income earned by these businesses is attributed to or passed through to the owners of the business and are in general taxed only once under the individual income tax system. Treasury and the Joint Committee on Taxation classify the

[9]Office of Management and Budget, A*nalytical Perspectives, Budget of the United States Government, Fiscal Year 2013*, (Washington, D.C.: 2012); and Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2011-2015*, JCS-1-12, (Washington, D.C.: Jan. 17, 2012).

[10]While, in general, the tax expenditure lists Treasury and the Joint Committee on Taxation publish annually are similar, they differ somewhat in the number of tax expenditures reported and the estimated revenue losses for particular expenditures because the organizations use different (1) income tax baselines; (2) de minimis amounts, which is the minimum revenue loss threshold for Treasury and the Joint Committee on Taxation to report a tax expenditure; and (3) economic and technical assumptions. For more information on how Treasury and the Joint Committee on Taxation estimate revenue loss, see appendix III of GAO-05-690.

[11]S corporations are limited to no more than 100 shareholders and can only issue one class of stock. See CRS, *Business Organizational Choices: Taxation and Response to Legislative Changes*, (Washington, D.C.: Apr. 26, 2012).

estimated amounts of tax expenditures claimed (or used) by “pass-through” entities as individual income tax expenditures.[12]

The classification of a tax expenditure as corporate or individual, or both is based on the entity that claims or uses the particular tax provision or would report a type of income if it were not excluded from tax. This classification reflects what is referred to as the statutory incidence of the tax expenditure and shows which entities—corporations or individuals, or both—can directly reduce their tax liability because of the tax expenditure. However, as both Treasury and the Joint Committee on Taxation note, the benefits and outcomes from the tax expenditure may be intended to ultimately benefit people other than the direct recipients of the tax expenditure. To the extent that a tax expenditure leads to changes in the prices of particular goods or services, wages, or returns on investment, consumers, employees, or shareholders may see benefits that they otherwise would not have received. A classification based on ultimate beneficiaries would reflect what is known about the economic incidence of tax expenditures rather than the statutory incidence.[13] For example, the credit for low-income housing investments, while claimed largely by corporate taxpayers, is intended to ultimately benefit individuals by stimulating the production of affordable rental housing and thereby enabling low-income households to obtain potentially higher quality housing for lower rent than they would have otherwise.

Over the past decade, the number of corporate taxpayers has declined, partly because more businesses are organizing as “pass-through” entities than as C corporations. In tax year 2010, IRS reported that almost 1.7 million active C corporations filed an IRS form 1120, down from 1.9

[12]Limited liability companies, business entities organized under state law, are treated under IRS default rules as partnerships or disregarded entities, depending on the number of members. If a limited liability company chooses not to be classified under the default classification, it can elect to be taxed as a C corporation or S corporation. Under the last option the company’s income and expenses are simply attributed to its parent corporation. See GAO, *Business Tax Reform: Simplification and Increased Uniformity of Taxation Would Yield Benefits*, GAO-06-1113T (Washington, D.C.: Sept. 20, 2006).

[13]See Tax Policy Center, *How Big Are Total Individual Income Tax Expenditures, and Who Benefits from Them*? Discussion Paper No. 31 (December 2008) and GAO, *Understanding the Tax Reform Debate: Background, Criteria, & Questions*, GAO-05-1009SP (Washington, D.C.: Sept. 1, 2005).

million in tax year 2007 and 2.2 million in tax year 2000.[14] Measured relative to the economy as a share of gross domestic product (GDP), corporate income tax receipts increased in the years leading up to the economic recession that began in December 2007. During this period they increased from 2.1 percent of GDP in 2000 to 2.7 percent of GDP in 2007 and have since decreased to 1.2 percent of GDP in 2011.[15]

Both members of Congress and the administration have outlined potential frameworks and proposals for modifying and simplifying the corporate income tax system in recent years. A number of these proposals have involved modifying or repealing some corporate tax expenditures to broaden the corporate income tax base and using the resulting revenue offset to reduce corporate income tax rates. One notable challenge for broader corporate tax reform is the degree to which changes to tax expenditures affect other types of taxpayers claiming them as most corporate tax expenditures are also available to other types of business entities other than corporations.

In selecting activities to fund federal policy goals, Congress can choose to enact a tax expenditure rather than a spending program or vice versa for a variety of reasons. We have developed and highlighted criteria and questions for evaluating tax expenditures, including whether other policy tools, such as spending programs, are preferable to tax expenditures.[16] In addition, we have long reported that, once enacted, tax expenditures and their relative contributions toward achieving federal missions and goals are often less visible than spending programs, which are subject to a more systematic review of performance, including results.[17] More recently, the Government Performance and Results Act (GPRA)

[14]See IRS SOI, *Corporation Complete Report*. This data includes active corporations that filed a return on forms 1120, 1120-A (until 2006), 1120-F, 1120-L, and 1120-PC but not forms 1120S, 1120-REIT, and 1120- RIC.

[15]Trends in the number of and estimated revenue losses for corporate tax expenditures are discussed later in this report.

[16]GAO, *Tax Expenditures: Background and Evaluation Criteria and Questions*, GAO-13-167SP (Washington, D.C.: Nov. 29, 2012).

[17]GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, GAO-05-690 (Washington, D.C.: Sept. 23, 2005), and *Tax Policy: Tax Expenditures Deserve More Scrutiny*, GAO/GGD/AIMD-94-122 (Washington, D.C.: June 3, 1994).

Modernization Act of 2010 (GPRAMA)[18] established a framework for providing a more crosscutting and integrated approach to focusing on results and improving government performance, including for tax expenditures. GPRAMA makes clear that the Office of Management and Budget, in coordination with federal agencies, is to identify, among other things, the various federal agencies, program activities, and tax expenditures that contribute to the federal government's performance plan that defines the level of performance to be achieved toward crosscutting priority goals. These crosscutting priority goals cover a limited number of policy areas as well as goals to improve management across the federal government. Moving forward, GPRAMA implementation can help inform tough choices in setting priorities as policymakers address the rapidly building fiscal pressures facing our national government.[19]

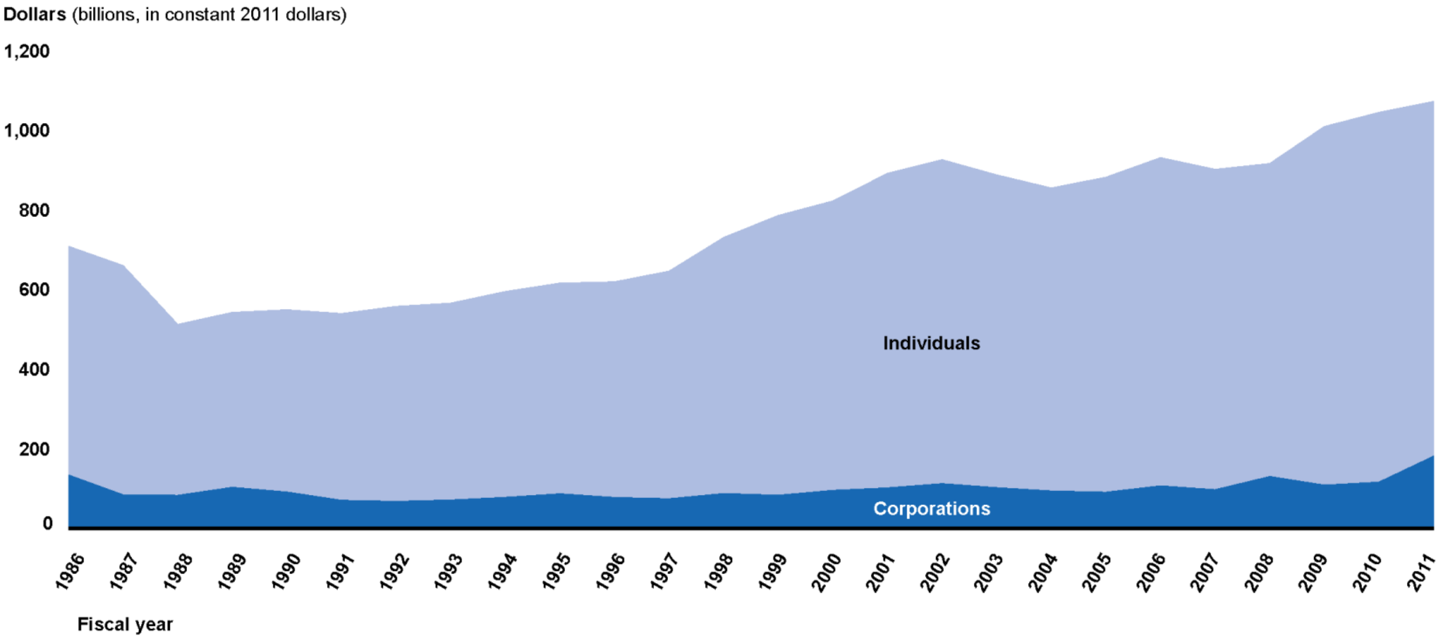
Estimated Revenue Losses from Corporate Tax Expenditures and the Number of Corporate Tax Expenditures Have Increased Since 1986

Estimated revenue losses from corporate tax expenditures have increased over the last few decades in constant dollars, as shown in figure 1. After decreasing in the years following the Tax Reform Act of 1986, due to changes to both tax rates and tax expenditures, corporate revenue losses increased thereafter. Individual revenue losses also increased, although at a faster pace than corporate revenue losses.

[18]Pub. L. No. 111-352, 124 Stat. 3866 (Jan. 4, 2011).

[19]GAO, *Managing for Results: Opportunities for Congress to Address Government Performance Issues*, GAO-12-215R (Washington, D.C.: Dec. 9, 2011) and *Managing for Results: GPRA Modernization Act Implementation Provides Important Opportunities to Address Government Challenges*, GAO-11-617T (Washington, D.C.: May 10, 2011).

Figure 1: Comparison of Estimated Federal Tax Revenue Loss Due to Tax Expenditures for Corporations and Individuals Reported by Treasury, 1986 through 2011



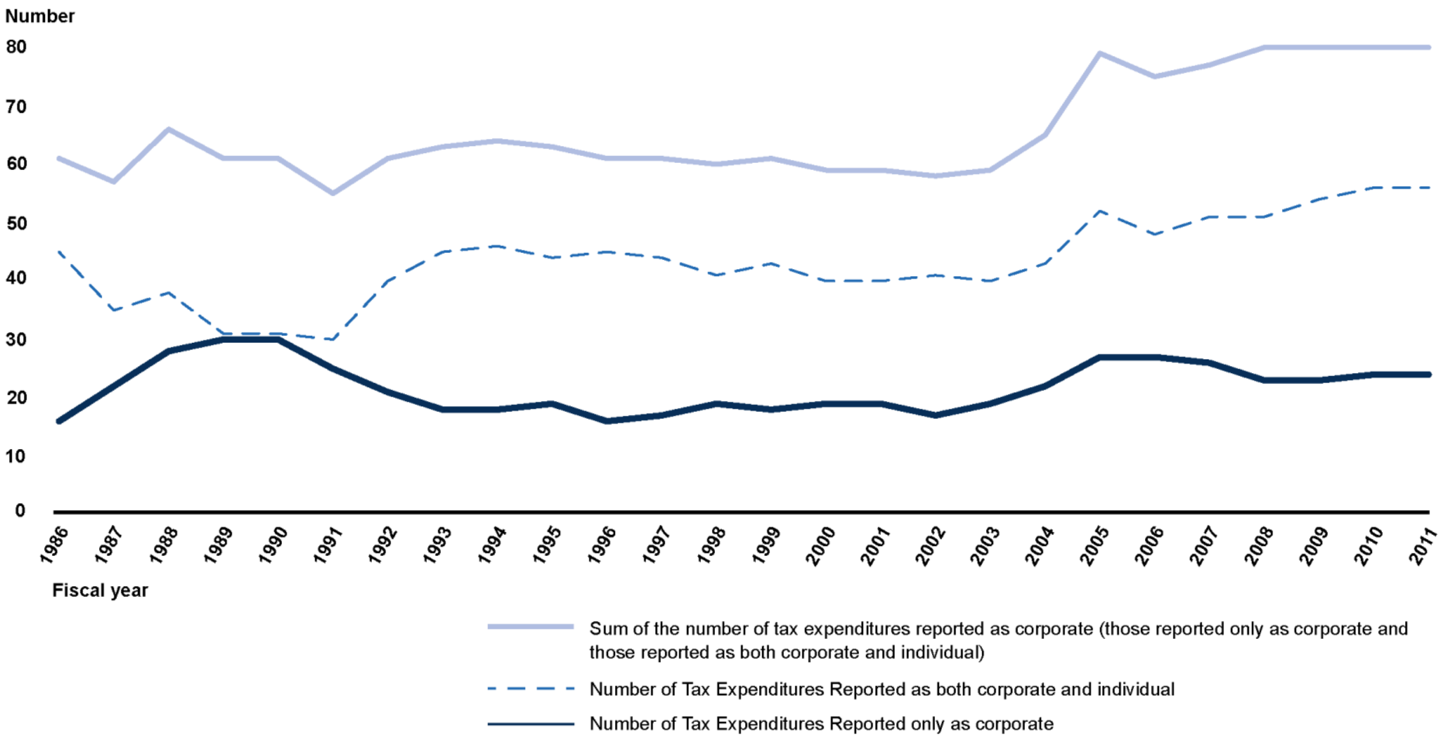
Source: GAO analysis of Office of Management and Budget reports, fiscal years 1988–2013.

Note: Sum of estimated revenue losses does not include outlay effects or reductions in excise tax receipts.

From 1986 through 2011, the number of tax expenditures with estimated corporate revenue losses increased from 61 in 1986 to 80 in 2011, as shown in figure 2.[20]

[20]The number of tax expenditures reflects all provisions reported by Treasury, including those enacted but effective for future fiscal years. Some provisions listed by Treasury as one tax expenditure may actually include multiple tax provisions aggregated together. In addition, fluctuations in the trend lines from year-to-year may reflect changes in Treasury's methodology rather than changes in tax law enacted.

Figure 2: Number of Corporate Tax Expenditures Reported by Treasury, 1986 through 2011



Source: GAO analysis of Office of Management and Budget budget reports, fiscal years 1988–2013.

Note: Tax expenditures may be available to corporate and individual taxpayers, including other types of business entities other than corporations. According to Treasury's estimates, some tax expenditures may be used by only corporate taxpayers and some by only individual taxpayers while other tax expenditures may be used by both corporate and individual taxpayers.

More Than Two-Thirds of Corporate Tax Expenditures Are Also Used by Individuals

Estimated corporate revenue losses in 2011, which totaled $181.4 billion, were approximately the same size as the amount of corporate income tax revenue the federal government collected that year. Individual tax revenue losses totaled $891 billion in 2011, and included tax expenditures used by other types of business entities that pass through to individual taxpayers. According to Treasury's 2011 estimates, 80 tax expenditures had corporate revenue losses. Of those, two expenditures accounted for 65 percent of all estimated corporate revenues losses in 2011 while another five tax expenditures—each with at least $5 billion or more in estimated revenue loss for 2011—accounted for an additional 21 percent of corporate revenue loss estimates. Table 1 shows the seven largest corporate tax expenditures in 2011.

Table 1: Seven Largest Corporate Tax Expenditures, 2011

Tax expenditure	Federal revenue loss estimates resulting from corporations (dollars in billions)	Share of total estimated corporate tax revenue losses
Accelerated depreciation of machinery and equipment[a]	$76.1	42%
Deferral of income from controlled foreign corporations	41.4	23
Deduction for US production activities[b]	9.8	5
Credit for increasing research activities[c]	8.3	5
Exclusion of interest on public purpose State and local bonds[d]	7.6	4
Deferred taxes for financial firms on certain income earned overseas	6.2	3
Credit for low-income housing investments[e]	5.8	3
Total	**$155.3**	**86%**

Source: GAO analysis of Office of Management and Budget budget data on tax expenditures, fiscal year 2013.

Note: Totals may not add due to rounding.

[a]Also had estimated individual revenue losses of $42.4 billion in 2011.

[b]Also had estimated individual revenue losses of about $3.3 billion in 2011.

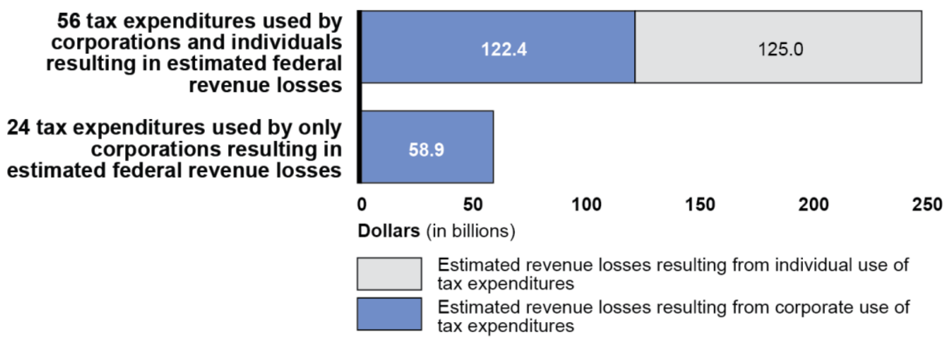
[c]Also had estimated individual revenue losses of $460 million in 2011.

[d]Also had estimated individual revenue losses of about $18.6 billion in 2011.

[e]Also had estimated individual revenue losses of $310 million in 2011. In addition, the credit for low-income housing investments has outlay effects of nearly $3.5 billion in 2011.

A majority of corporate tax expenditures are not isolated to the corporate income tax system but also apply to other types of businesses, including “pass-through” entities. Of the 80 tax expenditures used by corporations, 56 were also used by individuals, as shown in figure 3. Modifying any of these 56 tax expenditures as part of broader corporate tax reform would likely affect both corporate and individual taxpayers to some degree. However, the percentage of corporate taxpayers using these tax expenditures varies considerably across the 56 tax expenditures. For example, some tax expenditures are predominately used by corporations, such as the alcohol fuels credit, with estimated corporate revenue losses comprising 96 percent of the tax expenditure’s estimated $500 million income tax revenue loss in 2011.[21] Others are used predominantly by individuals, such as the exclusion of utility conservation subsidies, where corporations account for less than 5 percent of the $220 million estimated revenue loss in 2011. See appendix II for more information on these 56 tax expenditures' estimated corporate revenue losses in 2011.

Figure 3: Estimated Federal Tax Revenue Losses Resulting from Corporate Tax Expenditures, 2011



Source: GAO analysis of Office of Management and Budget budget data on tax expenditures, fiscal year 2013.

Note: Sum of estimated revenue losses does not include outlay effects or reductions in excise tax receipts. Tax expenditures may be available to corporate and individual taxpayers, including other types of business entities other than corporations. According to Treasury's estimates, some tax expenditures may be used by only corporate taxpayers and some by only individual taxpayers while other tax expenditures may be used by both corporate and individual taxpayers.

The remaining 24 tax expenditures had only estimated corporate revenue losses in 2011. Some tax expenditures are limited to C corporations based on requirements in the Internal Revenue Code, which is why they have only corporate revenue losses, while others may not be restricted to

[21] In addition, the alcohol fuel mixture credit also results in a reduction in excise tax receipts of $6.52 billion in 2011 according to Treasury's estimates.

C corporations but are only used by corporations in practice.[22] Modifying only those tax expenditures used by corporations as part of corporate tax reform may limit the changes to tax expenditures claimed only by corporate taxpayers but would limit somewhat the degree to which the corporate tax base could be broadened to pay for a corporate tax rate cut. See appendix III for a list of corporate-only tax expenditures. The number of corporations claiming a particular corporate-only tax expenditure varies. For example, in 2010 almost 12,000 organizations claimed the tax exemption for certain insurance companies owned by tax-exempt organizations ($200 million in corporate tax revenue losses in 2011) while 5 corporations claimed the credit for energy efficient appliances ($280 million in corporate tax revenue losses in 2011).[23] See appendix IV for the numbers of users for 11 corporate-only tax expenditures where data were available.

[22]According to Treasury officials, two of the corporate-only tax expenditures are limited to C corporations or those treated as C corporations by the Internal Revenue Code. These tax expenditures include the graduated corporation income tax rate, which applies only to corporations, and the credit for holders of zone academy bonds, which is available only to certain types of corporations investing in school construction. See 26 U.S.C. §§ 11, 54E, 1397E. Four additional tax expenditures are restricted to corporations even though the recipients may not be organized as corporations. The Internal Revenue Code requires insurance companies to file as C corporations for federal corporate income tax purposes irrespective of their legal form of organization (sec. 7701(a)(3)).Treasury also assumes for two tax expenditures that all organizations claiming the tax expenditure would file their tax returns under the federal corporate income tax system if the tax expenditure was removed. The remaining 16 tax expenditures could be used by individuals and "pass-through" entities. Treasury estimated that these tax expenditures had 2011 revenue losses only for corporations or that the estimated individual revenue losses were less than Treasury's de minimus reporting threshold of $5 million.

[23]For the number of recipients claiming tax expenditures, tax exemption data are fiscal year 2010 data while tax credit and deduction data is 2010 corporate tax year data. For corporate tax expenditures, the corporations may not be the sole or ultimate beneficiaries intended to benefit from the special tax treatment. For example, in addition to the manufacturers directly claiming the credit for energy efficient appliances, consumers would benefit from any increased supply and lower prices for energy efficient appliances.

Corporate Tax Expenditures Span Many Budget Functions; One-Third of Corporate-Only Tax Expenditures Share a Similar Purpose with Federal Spending Programs

Corporate Tax Expenditures Span Many Budget Functions, and Estimated Corporate Revenue Losses Are Concentrated in Two Budget Functions

Corporate tax expenditures span a majority of federal mission areas, but their relative size differs across budget functions. The 80 corporate tax expenditures had estimated revenue losses in 12 of the 18 budget functions in 2011, as shown in table 2. Of the $181 billion in estimated corporate tax revenue losses, 81 percent was concentrated in the international affairs and housing and commerce budget functions. In these two budget functions, estimated corporate revenue losses were more than federal outlays.

Table 2: Numbers and Estimated Federal Revenue Losses Resulting from Corporate Tax Expenditures by Budget Function, 2011

Budget function	Number of corporate tax expenditures	Estimated corporate tax revenue losses (dollars in billions)[a]	Federal outlays (dollars in billions)
Commerce and housing	16	$96.3	$(12.6)[b]
International affairs	3	50.8	45.7
General science, space, and technology	2	9.3	29.5
General purpose fiscal assistance	1	7.6	7.5
Energy	20	6.1	12.2
Education, training, employment, and social services	10	4.0	101.2
Health	5	2.8	372.5
Community and regional development	8	1.8	23.8
Natural resources and environment	8	1.5	45.5
Income security	1	1.0	597.4
Transportation	3	0.2	93.0

Budget function	Number of corporate tax expenditures	Estimated corporate tax revenue losses (dollars in billions)[a]	Federal outlays (dollars in billions)
Agriculture	3	0.04	20.7
Total	**80**	**$181.4[c]**	**$1,336.2**

Source: GAO analysis of Office of Management and Budget budget data on tax expenditures and federal outlays, fiscal year 2013.

Notes: Budget functions are sorted by estimated corporate revenue losses. The national defense, social security, veterans benefits and services, and net interest budget functions had no corporate tax expenditures. While Treasury classifies each of the tax expenditures it lists under a particular budget function, some tax expenditures, such as those in the commerce and housing budget function may be claimed by various industries and potentially cut across multiple budget functions.

[a]The sum of estimated revenue losses does not include outlay effects or reductions in excise tax receipts. Outlay-equivalent estimates—the amount of outlays required to deliver the same after-tax income as provided through the tax expenditure—may provide for a more appropriate comparison to federal spending than estimated revenue losses if particular outlays represent taxable income to the recipient. However, Treasury no longer estimates outlay equivalent values for tax expenditures and therefore estimated revenue losses were used instead.

[b]The outlays are negative for this budget function as the present value of expected government collections for loan guarantee programs exceeds the present value of expected payments over the course of the loan guarantee in this particular year.

[c]Fifty six of the 80 corporate tax expenditures also had individual revenue losses from individual taxpayers and other business entities using these tax expenditures totaling $125 billion in 2011.

Corporate-Only Tax Expenditures Support Certain Activities or Entities and May Seek to Contribute to Broader National Results

Corporate-only tax expenditures generally support or encourage a specific type of entity or activity. See appendix V for the reported purposes for the 24 corporate-only tax expenditures that were the basis for our identification of related federal activities. Some of these tax expenditures have multiple reported purposes that are broader and in pursuit of national priorities. For example, seven corporate-only tax expenditures are aimed at encouraging or supporting the production of specific energy sources or the development of technology or infrastructure for certain energy sectors. These tax expenditures also have broader purposes such as promoting domestic energy production and energy security.

Other corporate-only tax expenditures provide support for certain types of entities, such as insurance companies or credit unions. Beyond providing support for these entities, these corporate-only tax expenditures may have additional purposes, which are different or broader in scope, related to why these types of entities receive tax support. However some of these tax expenditures were granted to entities prior to World War II and the rationale for continuing support to these entities may have changed over time, making it difficult to determine the purpose of providing the support. Our previous work highlighted the changing historical basis for one of these tax expenditures—the tax exemption of credit union income—as shown in figure 4.

Figure 4: Historical Basis for the Tax Exemption of Credit Union Income

Unlike other depository institutions, credit unions are exempt from federal corporate income taxes. Congress originally granted tax-exempt status to credit unions in 1937 because of their similarity to other mutually owned financial institutions that were tax-exempt at that time. While the other institutions lost their exemption in the Revenue Act of 1951, credit unions specifically remained exempted. The act's legislative history is silent regarding why the tax-exempt status of credit unions was not revoked. More recently, the Credit Union Membership Access Act of 1998 indicates that credit unions continue to be exempt because of their cooperative, not-for-profit structure, which is distinct from other depository institutions, and because credit unions historically have emphasized serving people of modest means.

Source: GAO, *Financial Institutions: Issues Regarding the Tax-Exempt Status of Credit Unions*, GAO-06-220T (Washington, D.C.: Nov. 3, 2005).

One-Third of the Tax Expenditures Used Only by Corporations Appear to Share a Similar Purpose with Federal Spending Programs

Of the 24 corporate-only tax expenditures, one-third appear to share a similar purpose with federal spending programs. The largest number of these tax expenditures support purposes related to energy- and natural resources and environment-related purposes. These tax expenditures can be broken into two groups: (1) those aimed at encouraging fossil fuel production and development, and (2) those that are intended to encourage technology development, renewable energy, or energy efficiency. We identified related spending programs that appear to share a similar reported purpose with tax expenditures for the second category, but none for the first. See appendix VI for a summary list of related federal spending programs and activities.

While we identified related federal spending programs based on reported purposes specific to the entity or activity being supported, a number of these tax expenditures may also have one or more reported purposes that pursue broader or different aims. If a broader reported purpose was used, the extent of related spending programs identified may change considerably. For example, the bio-diesel and small agri-biodiesel producer tax credits, one of the corporate-only tax expenditures in 2011, have a specific reported purpose of encouraging production of biodiesel fuels, and we identified three federal spending programs that appear to share a similar purpose. Using a broader purpose for this tax expenditure would likely increase the number of federal spending programs identified that have a similar purpose. For example, our prior work on renewable energy identified nearly 700 federal initiatives related to renewable energy, including the bio-diesel and small agri-biodiesel producer tax credits.[24] Applying an even broader national purpose, such as encouraging domestic energy production, could further increase the number of federal spending programs, as well as other federal activities, such as federal regulations and tax expenditures, which may share a similar purpose. Alternatively, applying a different purpose, such as supporting rural and farm areas, could lead to identifying different federal programs that may share a similar purpose.

Agency Comments and Our Evaluation

We provided a draft of this report to the Secretary of the Treasury and the Acting Commissioner of Internal Revenue for comment. Treasury provided technical comments which we incorporated; IRS had no comments on the report.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to interested congressional committees, the Secretary of the Treasury, the Acting Commissioner of Internal Revenue, and other interested parties. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

[24] GAO, *Renewable Energy: Federal Agencies Implement Hundreds of Initiatives*, GAO-12-260 (Washington, D.C.: Feb. 27, 2012).

If you have any questions on this report, please contact me at (202) 512-9110 or whitej@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix VII.

James R. White
Director, Tax Issues
Strategic Issues

Appendix I: Objectives, Scope, and Methodology

This report: (1) describes trends in the number of corporate tax expenditures and aggregate corporate revenue losses since 1986; (2) describes the use of corporate tax expenditures in 2011; and (3) compares the size of corporate tax expenditures to federal spending by budget function and, for tax expenditures used only by corporations, identifies spending programs with similar purposes.

Trend Analysis of Treasury Tax Expenditure Estimates

To identify how corporate tax expenditures have changed in terms of their numbers and aggregate estimated revenue losses, we analyzed tax expenditure estimates developed by the Department of the Treasury (Treasury) and reported by the Office of Management and Budget in the Federal Budget's *Analytical Perspectives* for fiscal years 1986 through 2011. For this period, we determined which tax expenditures had estimates only for corporations, for both corporations and individuals, and only for individuals.[1] We then summed the estimated revenue losses and the number of tax expenditures by taxpayer group to determine changes over time in trend data and to see how the amounts differed between these taxpayer groups.[2] We converted all sums for each fiscal year into 2011 constant dollars to adjust for inflation using the chain price indexes reported in the fiscal year 2013 federal budget. While sufficiently reliable as a gauge of general magnitude, summing revenue loss estimates does not take into account any interactions between tax expenditures. In addition, revenue loss estimates do not incorporate any behavioral

[1]Although the tax expenditure concept can also be applied to other kinds of taxes, such as excise taxes, this report only covers tax expenditures for the federal income tax system. Tax expenditures may be available to corporate and individual taxpayers, including other types of business entities other than corporations. Treasury estimates the portion of revenue losses associated with corporate or individual taxpayers for each tax expenditure in its list. According to Treasury's estimates, some tax expenditures may be used by only corporate taxpayers and some by only individual taxpayers while other tax expenditures may be used by both corporate and individual taxpayers.

[2]The number of tax expenditures reflects all provisions reported by Treasury, including those enacted but effective for future fiscal years. Some provisions listed by Treasury as one tax expenditure may actually include multiple tax provisions aggregated together. In addition, fluctuations in the trend lines from year-to-year may reflect changes in Treasury's methodology rather than changes in tax law enacted. See GAO-05-690.

responses and, thus, do not represent the revenue amount that would be gained if a specific tax expenditure was repealed.[3]

Fiscal Year 2011 Analysis of Treasury Tax Expenditure Estimates and Internal Revenue Service Data on Number of Recipients

For 2011, we analyzed those tax expenditures with only estimated corporate revenue losses and those with both corporate and individual revenue losses.[4] For this study, we defined corporate tax expenditures as those that Treasury reported had estimated revenue losses for corporations in 2011; we describe any tax expenditures that Treasury estimated lost only corporate tax revenue as corporate-only tax expenditures. We did not conduct a legal analysis to determine which tax expenditures are available only to corporations.

To describe the number of taxpayers claiming corporate-only tax expenditures, we obtained estimates, where available, from the Internal Revenue Service (IRS) Statistics of Income (SOI) 2010 corporate sample on the number of corporate taxpayers claiming each of the corporate-only tax expenditures. These were the most recent estimates available at the time of our work. Data compiled by IRS SOI is based on a stratified, random sample of 63,630 corporate income tax returns for 2010 from corporations that end their corporate year from July 1, 2010, through June 30, 2011. These estimates are subject to sampling errors. Based on the number of sampled returns and the coefficients of variation provided by SOI, we estimate that the upper bound of a 95 percent confidence interval for the estimated total number is less than 830 corporations for the following tax expenditures: alternative fuel production credit, bio-diesel and small agri-biodiesel producer tax credits, credit for energy efficient appliances, employer-provided child care credit, tax credit for orphan drug research, small life insurance company deduction, and Special Blue Cross/Blue Shield deduction. For our report, IRS SOI provided data on C corporations, and we excluded S corporations that pass through to

[3]For further discussion on summing of tax expenditure estimates and examples, see GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, GAO-05-690 (Washington, D.C.: Sept. 23, 2005).

[4]In the fiscal year 2013 *Analytical Perspectives*, Treasury listed 173 tax expenditures. Three tax expenditures listed by Treasury did not have estimates for corporations or individuals in 2011 but did have estimates in future fiscal years and three tax expenditures had no estimates for corporations or individuals in any of the estimated fiscal years. Some of the tax expenditures identified as having corporate revenue losses in 2011 may have expired at the end of calendar year 2011 or 2012.

individual taxpayers. C corporations include active corporations filing tax forms 1120, 1120-F, 1120-L, and 1120-PC but not tax forms 1120S, 1120-REIT, and 1120-RIC. Overall, IRS SOI was able to provide estimates for nine tax credits or deductions because these tax expenditures were reported on an isolated line of an IRS form. However, for two of those tax credits, the requirement to protect taxpayer information forced IRS to exclude estimates of the number of tax recipients of those credits.[5]

We also obtained publicly available fiscal year 2010 data from IRS's Tax Exempt and Government Entities division on four corporate-only tax expenditures. These corporate-only tax expenditures were tax exemptions and included the exemption of credit union income, tax exemption of certain insurance companies owned by tax-exempt organizations, exemption of certain mutuals' and cooperatives' income, and special alternative tax on small property and casualty insurance companies. For three of the four tax expenditures that we obtained publicly available data on the number of organizations claiming the tax exemption, the data represented only a portion of organizations to which the exemption applies as reporting requirements differ within each of these tax expenditures. From these two sources, IRS SOI estimates and publicly available data from IRS's Tax Exempt and Government Entities division, we were able to obtain data on the number of taxpayers claiming 13 of the 24 corporate-only tax expenditures, including credits, deductions, or exemptions. IRS was not able to provide data on the remaining eleven tax expenditures generally because they could not be isolated on an IRS form. To assess the reliability of the data and estimates, we reviewed agency documentation, interviewed agency officials, and reviewed our prior reports that have used the data and estimates. While we determined that the Treasury and IRS data and estimates were sufficiently reliable for our purposes, the IRS SOI corporate sample may not provide a precise estimate of the number of

[5]Federal tax information—tax returns and return information—are kept confidential under section 6103 of the Internal Revenue Code except as specifically authorized by Congress. Section 6103 specifies what federal tax information can be disclosed, to whom, and for what purposes.

taxpayers claiming a tax expenditure when the number of taxpayers is very small.[6]

Comparison of Estimated Revenue Losses and Federal Outlays and Reported Purpose and Those Federal Activities That Appear to Share a Similar Purpose

To analyze how large corporate tax expenditures are in comparison to federal spending by budget function, we summed the estimated revenue losses for those tax expenditures with corporate revenue losses in fiscal year 2011 by budget function from the fiscal year 2013 *Analytical Perspectives*. We compared them to federal outlays by budget function in fiscal year 2011, using data from the President's fiscal year 2013 budget. Outlay-equivalent estimates—the amount of outlays required to deliver the same after-tax income as provided through the tax expenditure—may provide for a more appropriate comparison to federal spending than estimated revenue losses if particular outlays represent taxable income to the recipient. However, Treasury no longer estimates outlay equivalent values for tax expenditures and therefore, estimated revenue losses were used instead.

For this report we identified related programs based on a narrow reported purpose specific to the type of entity or activity that the corporate-only tax expenditures support or target. The corporate-only tax expenditures may have additional broader or different purposes. Using the narrow reported purposes allowed us to identify the tax and nontax programs that appear to most closely support the activity or entity the corporate-only tax expenditures support. We defined the narrow reported purpose as providing support for a certain activity or entity or in some cases, where the materials we reviewed discussed the tax expenditure as intended to encourage or increase a certain activity, we described the reported purpose as encouraging that type of activity. To identify the reported purpose of corporate-only tax expenditures, we reviewed their legislative histories and prior work by GAO, the Congressional Research Service (CRS), including the CRS's 2010 tax expenditure compendium, and the Congressional Budget Office (CBO) that discussed the intended purpose or rationale of the tax expenditure.[7] However, in identifying the narrow

[6] When the number of taxpayers claiming a tax expenditure is small, even with a large sample such as the IRS SOI corporate sample, estimates for small subpopulations like these often have large confidence intervals. For three of the corporate-only tax expenditures, the estimated number of corporations claiming the expenditure was less than 17.

[7] U.S. Congress, Senate Committee on the Budget, *Tax Expenditures: Compendium of Background Material on Individual Provisions*, S. Prt. 111-58. Prepared by CRS (Washington, D.C.: December 2010).

reported purposes we were not trying to discern legislative intent. For some tax expenditures, the reported purpose may be clear from reviewing these sources, while for others the reported purpose may be more difficult to determine. Some tax expenditures support a certain type of entity but the reported purpose or rationale for providing support to that entity is difficult to determine or may have changed over time. Therefore, we describe the reported purpose as support for a type of entity, and we did not reconstruct the historical basis for providing such support.[8]

To identify federal spending programs that appear to share a similar reported purpose, we searched the October 2012 version of the *Catalog of Federal Domestic Assistance* (CFDA) using terms from the description of the corporate-only tax expenditures. We reviewed programs listed under the same budget functions and reviewed the descriptions of the programs initially identified to determine if they appear to share a similar reported purpose. We identified related tax expenditures by reviewing the fiscal year 2013 *Analytical Perspectives*, supplemented with the description in CRS's 2010 tax expenditure compendium.[9]

For the inventory of related federal spending programs and tax expenditures, we collected descriptive information about each program, including (1) the name of the program, (2) the administering or implementing agencies or entities, and (3) the type of assistance provided. This information was collected from the October 2012 CFDA, fiscal year 2013 *Analytical Perspectives*, and agency documentation.[10] The data we collected from the October 2012 CFDA for each of these three data elements was entered in the CFDA by the federal agencies responsible for the programs, but the agencies responsible did not verify

[8]We used one prior GAO report as an example of the historical rationale of one corporate tax expenditure. See GAO, *Financial Institutions: Issues Regarding the Tax-Exempt Status of Credit Unions*, GAO-06-220T (Washington, D.C: Nov. 3. 2005).

[9] Office of Management and Budget, A*nalytical Perspectives, Budget of the United States Government, Fiscal Year 2013*, (Washington, D.C.: 2012) and U.S. Congress, Senate Committee on the Budget, *Tax Expenditures: Compendium of Background Material on Individual Provisions*, S. Prt. 111-58. Prepared by CRS (Washington, D.C.: December 2010). Treasury's and CRS's tax expenditure lists were generally similar as CRS's relies on upon the Joint Committee on Taxation's tax expenditure list.

[10]We obtained data from IRS for the tax expenditures identified as related, from the Department of Energy for the Integrated Biorefineries Program, and for the standards and regulations identified as related from the Department of Energy and the Environmental Protection Agency.

our analysis of those data or identification of related programs. After reviewing CFDA documentation, our prior reports that have used the data, and spot checking these three data element against other publicly available agency documentation, we determined the data were reliable for our purposes. In reporting the administering or implementing agencies or entities, we generally reported the federal department level rather than the sub-department level agency except for IRS and the Environmental Protection Agency. In addition, for reporting the type of assistance, we grouped the types of assistance into the following categories: grant, cooperative agreement, direct payment, direct loan, guaranteed loan, insured loan, regulation/standard, tax exclusions, exemptions, or deductions, tax credits, deferrals of tax, and preferential tax rates. In some cases, the CFDA identified the programs we identified as providing multiple types of assistance listed above.

The list of nontax programs we identified that appear to share a similar specific reported purpose has not been reviewed by the agencies responsible for them. Treasury and IRS reviewed our identification of related tax expenditures. The list of tax and nontax programs, shown in appendix VI, does not represent a comprehensive list of related federal activities for several reasons:

- The CFDA may not capture certain types of federal activities, such as regulations or standards. Based on our prior work, we were able to identify some regulatory programs which we believe also appear to share a similar reported purpose to the tax expenditures in our scope.

- The federal spending programs and activities identified may also have multiple reported purposes, and only a component of the program or activity may appear to specifically share a similar reported purpose to the tax expenditure.

- Using a broader or different reported purpose to identify federal activities that appear to share a similar reported purpose would likely alter the makeup of activities that appear to be related.

We conducted our work from October 2012 to March 2013 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

Appendix II: Fifty-Six Tax Expenditures with Estimated Corporate and Individual Revenue Losses Reported by Treasury, by Largest Estimated Corporate Revenue Losses, 2011

Tax expenditure	Estimated corporate revenue losses (dollars in millions)	Corporate share of total estimated revenue losses[a]	Budget function
Accelerated depreciation of machinery and equipment	$76,140	64.2%	Commerce and housing
Deduction for U.S. production activities	9,840	74.9	Commerce and housing
Credit for increasing research activities	8,300	94.7	General science, space, and technology
Exclusion of interest on public purpose State and local bonds	7,570	28.9	General purpose fiscal assistance
Credit for low-income housing investments[b]	5,840	95.0	Commerce and housing
Exclusion of interest on life insurance savings	2,420	11.0	Commerce and housing
Deductibility of charitable contributions, other than education and health[c]	1,430	4.8	Education, training, employment, and social services
Energy production credit[d]	1,410	90.4	Energy
Special Employee Stock Ownership Plan rules	1,030	68.7	Income security
Excess of percentage over cost depletion, fuels	1,010	84.9	Energy
Expensing of research and experimentation expenditures	960	*	General science, space, and technology
Exclusion of interest on hospital construction bonds	900	29.0	Health
Work opportunity tax credit	860	77.5	Education, training, employment, and social services
New markets tax credit	800	97.6	Community and regional development
Deductibility of charitable contributions (education)[c]	650	18.5	Education, training, employment, and social services
Exclusion of interest on bonds for private nonprofit educational facilities	610	29.0	Education, training, employment, and social services
Energy investment credit[d]	560	80.0	Energy
Excess of percentage over cost depletion, nonfuel minerals	550	94.8	Natural resources and environment
Alcohol fuel credits[e]	480	96.0	Energy
Tax incentives for preservation of historic structures	470	92.2	Natural resources and environment
Empowerment zones, the D.C. enterprise zone, and renewal communities	450	45.9	Community and regional development

Tax expenditure	Estimated corporate revenue losses (dollars in millions)	Corporate share of total estimated revenue losses[a]	Budget function
Expensing of exploration and development costs, fuels	440	88.0	Energy
Advanced Energy Property Credit	390	90.7	Energy
Exclusion of interest on owner-occupied mortgage subsidy bonds	310	29.2	Commerce and housing
Credit for employee health insurance expenses of small business[f]	270	32.5	Health
Exclusion of interest on rental housing bonds	260	28.9	Commerce and housing
Exclusion of interest for airport, dock, and similar bonds	200	28.6	Community and regional development
Deductibility of charitable contributions (health)[c]	190	5.6	Health
Expensing of environmental remediation costs	170	85.0	Community and regional development
Expensing of multiperiod timber growing costs	160	64.0	Natural resources and environment
Exclusion of interest on student-loan bonds	140	29.2	Education, training, employment, and social services
Special rules for certain film and TV production	130	81.3	Commerce and housing
Tax credit for certain expenditures for maintaining railroad tracks	130	81.3	Transportation
Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	120	28.6	Natural resources and environment
Amortize all geological and geophysical expenditures over 2 years	100	83.3	Energy
Exclusion of interest on small issue bonds	70	29.2	Commerce and housing
Allowance of deduction for certain energy efficient commercial building property	60	75.0	Energy
Qualified school construction bonds[g]	60	28.6	Education, training, employment, and social services
Tribal Economic Development Bonds	60	35.3	Community and regional development
Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	60	24.0	Transportation
Exclusion of gain or loss on sale or exchange of certain brownfield sites	40	66.7	Natural resources and environment
Tax credit and deduction for clean-fuel burning vehicles	40	44.4	Energy

Tax expenditure	Estimated corporate revenue losses (dollars in millions)	Corporate share of total estimated revenue losses[a]	Budget function
Employee retention credit for employers in certain federal disaster areas	20	66.7	Education, training, employment, and social services
Credit to holders of Gulf Tax Credit Bonds.	20	25.0	Community and regional development
Credit for holding clean renewable energy bonds[h]	20	28.6	Energy
Credit for construction of new energy efficient homes	20	40.0	Energy
Exclusion of interest on energy facility bonds	10	50.0	Energy
Deduction for endangered species recovery expenditures	10	50.0	Natural resources and environment
Investment credit for rehabilitation of structures (other than historic)	10	50.0	Community and regional development
Credit for disabled access expenditures	10	50.0	Education, training, employment, and social services
Exclusion of utility conservation subsidies	10	4.5	Energy
Expensing of certain multiperiod production costs	10	7.7	Agriculture
Expensing of reforestation expenditures	10	16.7	Agriculture
Accelerated depreciation on rental housing	(20)	14.3	Commerce and housing
Expensing of certain small investments	(40)	*	Commerce and housing
Accelerated depreciation of buildings other than rental housing	(3,300)	45.3%	Commerce and housing
Total	**$122,470**		

Source: GAO analysis of Office of Management and Budget budget data on tax expenditures, fiscal year 2013.

Note: Estimated revenue losses were negative for either corporations or individuals, meaning corporate revenue losses made up greater than 100 percent of the sum of both.

[a]The total includes estimated individual revenue losses.

[b]In addition, the credit for low-income housing investments has outlay effects of $3,480 million in 2011.

[c]Treasury estimates separate the deductibility of charitable contributions into three separate tax expenditures, deductibility for charitable contributions (health), deductibility for charitable contributions (education), deductibility for charitable contributions, other than health and education.

[d]Firms can request an energy grant in lieu of the energy production credit or the energy investment credit for facilities placed in service in 2009 and 2010 or whose construction commenced in 2009 and 2010.The effect of the grant on outlays was $3,510 million in 2011. See Office of Management and Budget, A*nalytical Perspectives, Budget of the United States Government, Fiscal Year 2013*, (Washington, D.C.: 2012).

[e]In addition, the alcohol fuel mixture credit results in a reduction in excise tax receipts of $6,520 million in 2011.

[f]In addition, the small business credit provision has outlay effects of $30 million in 2011.

[g]In addition, the provision for school construction bonds has outlay effects of $430 million in 2011.

[h]In addition, the provision has outlay effects of $20 million in 2011.

Appendix III: Twenty-Four Tax Expenditures with Only Estimated Corporate Revenue Losses Reported by Treasury, by Largest Estimated Corporate Revenue Losses, 2011

Tax expenditure	Estimated corporate revenue losses (dollars in millions)	Estimated revenue losses as a percentage of all corporate revenue losses	Budget function
Deferral of income from controlled foreign corporations	$41,410	22.82%	International affairs
Deferred taxes for financial firms on certain income earned overseas	6,180	3.41	International affairs
Graduated corporation income tax rate	3,280	1.81	Commerce and housing
Inventory property sales source rules exception	3,160	1.74	International affairs
Exemption of credit union income	1,110	0.61	Commerce and housing
Tax credit for orphan drug research	770	0.42	Health
Special Blue Cross/Blue Shield deduction	715	0.39	Health
Temporary 50 percent expensing for equipment used in the refining of liquid fuels	670	0.37	Energy
Credit for investment in clean coal facilities	370	0.20	Energy
Credit for energy efficient appliances	280	0.15	Energy
Tax exemption of certain insurance companies owned by tax-exempt organizations	200	0.11	Commerce and housing
Credit for holders of zone academy bonds[a]	200	0.11	Education, training, employment, and social services
Deferral of gain from dispositions of transmission property to implement Federal Energy Regulatory Commission restructuring policy	120	0.07	Energy
Natural gas distribution pipelines treated as 15-year property	120	0.07	Energy
Exemption of certain mutuals' and cooperatives' income	110	0.06	Community and regional development
Expensing of exploration and development costs, nonfuel minerals	60	0.03	Natural resources and environment
Industrial carbon dioxide (CO_2) capture and sequestration tax credit	60	0.03	Natural resources and environment
Special alternative tax on small property and casualty insurance companies	40	0.02	Commerce and housing
Small life insurance company deduction	30	0.02	Commerce and housing
Bio-diesel and small agri-biodiesel producer tax credits[b]	20	0.01	Energy
Deferral of gain on sale of farm refiners	20	0.01	Agriculture
Deferral of tax on shipping companies[c]	20	0.01	Transportation
Alternative fuel production credit	10	0.01	Energy

Tax expenditure	Estimated corporate revenue losses (dollars in millions)	Estimated revenue losses as a percentage of all corporate revenue losses	Budget function
Employer-provided child care credit	10	0.01	Education, training, employment, and social services
Total	**$58,965**	**32.50%**	

Source: GAO analysis of Office of Management and Budget budget data on tax expenditures, fiscal year 2013.

[a]In addition, the credit for holders of zone academy bonds had outlay effects totaling $10 million in 2011.

[b]In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts of $760 million in 2011.

[c]These figures do not account for the tonnage tax which shipping companies may opt into in lieu of the corporate income tax. The tonnage tax reduces the cost of this tax expenditure by $20 per year in each year of the budget.

Appendix IV: Number of Corporate Taxpayer Recipients for Corporate-Only Tax Expenditures, 2010

Tax expenditure	Number of taxpayer recipients
Tax exemption of certain insurance companies owned by tax-exempt organizations	11,749[a]
Exemption of certain mutuals' and cooperatives' income[b]	6,996[a]
Exemption of credit union income[c]	3,570[a]
Special alternative tax on small property and casualty insurance companies[d]	1,812[a]
Bio-diesel and small agri-biodiesel producer tax credits	426
Small life insurance company deduction	325
Employer-provided child care credit	216
Tax credit for orphan drug research	99
Alternative fuel production credit	16[e]
Special Blue Cross/Blue Shield deduction	14
Credit for energy efficient appliances	5

Source: GAO analysis of Internal Revenue Service Statistics of Income Corporate Tax File Data estimates, 2010 and IRS Tax Exempt and Government Entities, Exempt Organizations, fiscal year 2011.

Note: Data on tax credits and deductions are from IRS SOI corporate file and includes active corporations that filed a return on forms 1120, 1120-F, 1120-L, and 1120-PC but not forms 1120S, 1120-REIT, and 1120-RIC. For two tax credits, IRS had data on the number of tax recipients but to avoid disclosure of specific taxpayers could not report this data because there were so few taxpayers claiming those tax credits. Based on the number of sampled returns and the coefficients of variation provided by Internal Revenue Service Statistics of Income, we estimate that the upper bound of a 95 percent confidence interval for the estimated total number is less than 830 corporations for the following tax expenditures: alternative fuel production credit, bio-diesel and small agri-biodiesel producer tax credits, credit for energy efficient appliances, employer-provided child care credit, tax credit for orphan drug research, small life insurance company deduction, and Special Blue Cross/Blue Shield deduction. Data on exemptions are from IRS Tax Exempt and Government Entities, Exempt Organizations division. Information from tax-exempt organization returns is available to the public and not subject to IRS disclosure regulations.

[a]Fiscal year 2010 data, Internal Revenue Service Tax Exempt and Government Entities, Exempt Organizations.

[b]Includes only benevolent life insurance associations.

[c]State chartered credit unions exempt from federal income tax under section 501(c) (14) (A) of the Internal Revenue Code are required to file an annual information returns while Federally chartered credits unions are tax exempt under section 501(c) (1) but are not required to file an annual information return and therefore Internal Revenue Service does not report the number of Federally chartered credit unions.

[d]Includes only mutual insurance companies.

[e]According to the Internal Revenue Service Statistics of Income division, estimate should be used with caution due to small number sampled returns claiming this credit.

Appendix V: Reported Purpose Supporting a Specific Activity or Entity for 24 Corporate-Only Tax Expenditures

Number	Tax expenditure	Reported purpose
1	Inventory property sales source rules exception	Support for firms that produce goods domestically and export
2	Deferral of income from controlled foreign corporations	Support for firms that operate in foreign countries
3	Deferred taxes for financial firms on certain income earned overseas	Support for firms that operate in foreign countries
4	Alternative fuel production credit	Encourage production of nonconventional fuels
5	Bio-diesel and small agri-biodiesel producer tax credits	Encourage production of biodiesel fuels
6	Deferral of gain from dispositions of transmission property to implement Federal Energy Regulatory Commission restructuring policy	Support for independent transmission companies
7	Credit for investment in clean coal facilities	Encourage development of clean coal technologies
8	Temporary 50 percent expensing for equipment used in the refining of liquid fuels	Encourage development of fossil fuel refinery capacity
9	Natural gas distribution pipelines treated as 15-year property	Encourage development of natural gas pipeline infrastructure
10	Credit for energy efficient appliances	Encourage production of energy efficient appliances
11	Expensing of exploration and development costs, nonfuel minerals	Encourage nonfuel mineral exploration and development
12	Industrial carbon dioxide (CO_2) capture and sequestration tax credit	Encourage development of carbon capture and sequestration technologies
13	Deferral of gain on sale of farm refiners	Support to facilitate transfer of refiners and processors to farmers' cooperatives
14	Exemption of credit union income	Support for firms organized as credit unions
15	Special alternative tax on small property and casualty insurance companies	Support for small property and casualty insurance companies
16	Tax exemption of certain insurance companies owned by tax-exempt organizations	Support for insurance companies owned by tax-exempt organizations
17	Small life insurance company deduction	Support for small life insurance companies
18	Graduated corporation income tax rate	Support for small businesses and encourage corporate form of legal organization
19	Deferral of tax on shipping companies	Support for domestic shipbuilding and registry under U.S. flag
20	Exemption of certain mutuals' and cooperatives' income	Support for certain mutuals' and cooperatives' such as life insurance associations and telephone and electric companies
21	Credit for holders of zone academy bonds	Support for school renovation, equipment, teacher training, and course materials in economically distressed areas
22	Employer-provided child care credit	Encourage development of on-site employer child care facilities
23	Tax credit for orphan drug research	Encourage drug research and development for rare diseases
24	Special Blue Cross/Blue Shield deduction	Support for Blue Cross/Blue Shield organizations

Source: GAO analysis of Congressional Budget Office, Congressional Research Service, and GAO studies and legislative history.

Note: See appendix I for more detail on our methodology.

Appendix VI: Federal Activities That Appear to Share a Similar Purpose to 24 Corporate-Only Tax Expenditures

Number	Tax expenditure	Related federal activities	Administering agency	Type of assistance
1	Inventory property sales source rules exception	Export Guarantee Program	Department of Agriculture	Guaranteed/ insured loan
		Emerging Markets Program	Department of Agriculture	Direct payment
		Foreign Market Development Cooperator Program	Department of Agriculture	Direct payment
		Market Access Program	Department of Agriculture	Direct payment
		Technical Assistance for Specialty Crops Program	Department of Agriculture	Direct payment
		Quality Samples Program	Department of Agriculture	Direct payment
		CCC’s Dairy Export Incentive Program	Department of Agriculture	Direct payment
2	Deferral of income from controlled foreign corporations	Deferred taxes for financial firms on certain income earned overseas	Internal Revenue Service	Deferral of tax
3	Deferred taxes for financial firms on certain income earned overseas	Deferral of income from controlled foreign corporations	Internal Revenue Service	Deferral of tax
4	Alternative fuel production credit	None identified	-	-
5	Bio-diesel and small agri-biodiesel producer tax credits	Bioenergy Program for Advanced Biofuels	Department of Agriculture	Direct payment
		Biorefinery Assistance	Department of Agriculture	Guaranteed/ insured loan
		Integrated Biorefineries	Department of Energy	Grant
6	Deferral of gain from dispositions of transmission property to implement Federal Energy Regulatory Commission restructuring policy	None identified	-	-
7	Credit for investment in clean coal facilities	Clean Coal Power Initiative	Department of Energy	Cooperative agreement
		Carbon Capture and Storage - FutureGen 2.0	Department of Energy	Cooperative agreement
		Industrial carbon dioxide (CO_2) capture and sequestration tax credit	Internal Revenue Service	Tax credit
		Qualified energy conservation bonds	Internal Revenue Service	Tax credit
		Advanced energy property credit	Internal Revenue Service	Tax credit
8	Temporary 50 percent expensing for equipment used in the refining of liquid fuels	None identified	-	-

Number	Tax expenditure	Related federal activities	Administering agency	Type of assistance
9	Natural gas distribution pipelines treated as 15-year property	None identified	-	-
10	Credit for energy efficient appliances	Energy Efficient Appliance Rebate Program	Department of Energy	Grant
		Building Technologies Program Appliance & Equipment Standards	Department of Energy	Regulation/standard
		Energy Star	Department of Energy/Environmental Protection Agency	Regulation/standard
11	Expensing of exploration and development costs, nonfuel minerals	Minerals Resources External Research Program	Department of the Interior	Cooperative agreement
		U.S. Geological Survey Research and Data Collection	Department of the Interior	Cooperative agreement
		Minerals and Mining on Indian Lands	Department of the Interior	Cooperative agreement and technical assistance
		Excess of percentage over cost depletion, nonfuel minerals	Internal Revenue Service	Tax exclusion, exemption, or deduction
12	Industrial carbon dioxide (CO_2) capture and sequestration tax credit	Carbon Capture and Storage - FutureGen 2.0	Department of Energy	Cooperative agreement
		Industrial Carbon Capture and Storage (CCS) Application	Department of Energy	Cooperative agreement
		Credit for investment in clean coal facilities	Internal Revenue Service	Tax credit
		Qualified energy conservation bonds	Internal Revenue Service	Tax exclusion, exemption, or deduction
		Advanced energy property credit	Internal Revenue Service	Tax credit
		Geologic Sequestration of Carbon Dioxide	Environmental Protection Agency	Regulation/standard
13	Deferral of gain on sale of farm refiners	None identified	-	-
14	Exemption of credit union income	None identified	-	-
15	Special alternative tax on small property and casualty insurance companies	None identified	-	-
16	Tax exemption of certain insurance companies owned by tax-exempt organizations	None identified	-	-
17	Small life insurance company deduction	None identified	-	-

Number	Tax expenditure	Related federal activities	Administering agency	Type of assistance
18	Graduated corporation income tax rate	None identified	-	-
19	Deferral of tax on shipping companies	Federal Ship Financing Guarantees	Department of Transportation	Guaranteed/insured Loan
		Capital Construction Fund	Department of Transportation	Deferral of tax
		Construction Reserve Fund	Department of Transportation	Deferral of tax
		Assistance to Small Shipyards	Department of Transportation	Direct payment
		Fisheries Finance Program	Department of Commerce	Direct loan
20	Exemption of certain mutuals' and cooperatives' income	None identified	-	-
21	Credit for holders of zone academy bonds	Qualified school construction bonds	Internal Revenue Service	Tax credit
22	Employer-provided child care credit	Employer provided child care exclusion	Internal Revenue Service	Tax exclusion, exemption, or deduction
23	Tax credit for orphan drug research	National Center for Advancing Translational Sciences	Department of Health and Human Services	Grant
		National Center for Research Resources	Department of Health and Human Services	Grant
24	Special Blue Cross/Blue Shield deduction	None identified	-	-

Source: GAO analysis of Catalog of Federal Domestic Assistance and agency documentation.

Note: The list of nontax programs we identified that appear to share a similar specific reported purpose has not been reviewed by the agencies responsible for them. See appendix I for more detail on our methodology.

Appendix VII: GAO Contact and Staff Acknowledgments

GAO Contact

James R. White, (202) 512-9110 or whitej@gao.gov

Staff Acknowledgments

In addition to the contact name above, MaryLynn Sergent (Assistant Director), Jason Vassilicos (Analyst-in-Charge), Kevin Daly, Robert Gebhart, Lois Hanshaw, Natalie Maddox, Donna Miller, Karen O'Conor, Mark Ryan, and Elwood D. White all made contributions to this report.

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