16. TAX EXPENDITURES

The Congressional Budget Act of 1974 (Public Law 93–344) requires that a list of "tax expenditures" be included in the budget. Tax expenditures are defined in the law as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." These exceptions may be viewed as alternatives to other policy instruments, such as spending or regulatory programs.

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

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

Tax expenditures relating to the individual and corporate income taxes are estimated for fiscal years 2012–2018 using two methods of accounting: current revenue effects and present value effects. The present value approach provides estimates of the revenue effects for tax expenditures that generally involve deferrals of tax payments into the future.

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

TAX EXPENDITURES IN THE INCOME TAX

Tax Expenditure Estimates

All tax expenditure estimates presented here are based upon current tax law enacted as of December 31, 2012. Thus, the estimates assume that the Bush era tax cuts expire as scheduled under the Tax Relief, Unemployment, Insurance Reauthorization, and Job Creation Act of 2010. In most cases, expired or repealed provisions are not listed if their revenue effects result only from taxpayer activity occurring before fiscal year 2012. The estimates are based on the economic assumptions from the Mid-Session Review of the 2013 Budget. The estimates do not reflect the "American Taxpayer Relief Act of 2012" (ATRA), enacted into law on January 2, 2013, which extended many tax expenditures, changed income tax rates, and provided Alternative Minimum Tax relief. Given the late passage of the legislation, revised estimates will be included in the tax expenditure tables for the 2015 Budget. The tax-related provisions of ATRA are summarized in chapter 14 of this volume, "Governmental Receipts." In contrast to the general rule which drops expired provisions, and for the sake of continuity, the tables below show provisions that expired at the end of 2011 but were extended by ATRA.

The total revenue effects for tax expenditures for fiscal years 2012–2018 are displayed according to the Budget's functional categories in Table 16–1. Descriptions of the specific tax expenditure provisions follow the tables of estimates and the discussion of general features of the tax expenditure concept.

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

Table 16–2 reports separately the respective portions of the total revenue effects that arise under the individual and corporate income taxes separately. The location of the estimates under the individual and corporate headings does not imply that these categories of filers benefit from the special tax provisions in proportion to the respective tax expenditure amounts shown. Rather, these breakdowns show the 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 16–3 ranks the major tax expenditures by the size of their 2014–2018 revenue effect. The first column provides the number of the provision in order to cross reference this table to Tables 16–1 through 16–3, as well as to the descriptions below.

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

Interpreting Tax Expenditure Estimates

The estimates shown for individual tax expenditures in Tables 16–1, 16–2, and 16–3 do not necessarily equal the increase in Federal revenues (or the change in the budget balance) that would result from repealing these special provisions, for the following reasons.

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

Second, tax expenditures are interdependent even without incentive effects. Repeal of a tax expenditure provision can increase or decrease the tax revenues associated with other provisions. For example, even if behavior does not change, repeal of an itemized deduction could increase the revenue costs from other deductions because some taxpayers would be moved into higher tax brackets. Alternatively, repeal of an itemized deduction could lower the revenue cost from other deductions if taxpayers are led to claim the standard deduction instead of itemizing. Similarly, if two provisions were repealed simultaneously, the increase in tax liability could be greater or less than the sum of the two separate tax expenditures, because each is estimated assuming that the other remains in force. In addition, the estimates reported in Table 16–1 are the totals of individual and corporate income tax revenue effects reported in Table 16–2 and do not reflect any possible interactions between individual and corporate income tax receipts. For this reason, the estimates in Table 16–1 should be regarded as approximations.

Present-Value Estimates

The annual value of tax expenditures for tax deferrals is reported on a cash basis in all tables except Table 16–4. Cash-based estimates reflect the difference between taxes deferred in the current year and incoming revenues that are received due to deferrals of taxes from prior years. Although such estimates are useful as a measure of cash flows into the Government, they do not accurately reflect the true economic cost of these provisions. For example, for a provision where activity levels have changed, so that incoming tax receipts from past deferrals are greater than deferred receipts from new activity, the cash-basis tax expenditure estimate can be negative, despite the fact that in present-value terms current deferrals have a real cost to the Government. Alternatively, in the case of a newly enacted deferral provision, a cash-based estimate can overstate the real effect on receipts to the Government because the newly deferred taxes will ultimately be received.

Discounted present-value estimates of revenue effects are presented in Table 16–4 for certain provisions that involve tax deferrals or other long-term revenue effects. These estimates complement the cash-based tax expenditure estimates presented in the other tables.

The present-value estimates represent the revenue effects, net of future tax payments, that follow from activities undertaken during calendar year 2012 which cause the deferrals or other long-term revenue effects. For instance, a pension contribution in 2012 would cause a deferral of tax payments on wages in 2012 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2012 pension contribution and accrued earnings will be paid out and taxes will be due; these receipts are included in the present-value estimate. In general, this conceptual approach is similar to the one used for reporting the budgetary effects of credit programs, where direct loans and guarantees in a given year affect future cash flows.

Tax Expenditure Baselines

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

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

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

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

- Income is taxable only when it is realized in exchange. Thus, the deferral of tax on unrealized capital gains is not regarded as a tax expenditure. Accrued income would be taxed under a comprehensive income tax.

- There is a separate corporate income tax.

Table 16–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2012–2018
(In millions of dollars)

		Total from corporations and individuals							
		2012	2013	2014	2015	2016	2017	2018	2014–18
National Defense									
1	Exclusion of benefits and allowances to armed forces personnel	14,140	14,640	15,150	14,170	14,350	14,840	15,430	73,940
International affairs:									
2	Exclusion of income earned abroad by U.S. citizens	5,400	5,800	6,140	6,430	6,730	7,050	7,380	33,730
3	Exclusion of certain allowances for Federal employees abroad	1,070	1,120	1,180	1,240	1,300	1,370	1,430	6,520
4	Inventory property sales source rules exception	3,310	3,610	3,940	4,300	4,690	5,120	5,590	23,640
5	Deferral of income from controlled foreign corporations (normal tax method)	42,000	41,810	41,770	43,020	44,240	45,180	46,160	220,370
6	Deferred taxes for financial firms on certain income earned overseas	2,510	0	0	0	0	0	0	0
General science, space, and technology:									
7	Expensing of research and experimentation expenditures (normal tax method)	3,740	4,810	5,040	5,530	6,560	7,610	8,470	33,210
8	Credit for increasing research activities	4,390	2,320	2,130	1,970	1,820	1,680	1,530	9,130
Energy:									
9	Expensing of exploration and development costs, fuels	470	790	880	630	390	260	180	2,340
10	Excess of percentage over cost depletion, fuels	890	900	940	940	950	950	950	4,730
11	Alternative fuel production credit	20	10	0	0	0	0	0	0
12	Exception from passive loss limitation for working interests in oil and gas properties	10	10	10	10	10	10	10	50
13	Capital gains treatment of royalties on coal	90	80	60	80	90	100	110	440
14	Exclusion of interest on energy facility bonds	20	30	30	30	30	40	40	170
15	Energy production credit [1]	1,500	1,730	1,770	1,730	1,640	1,440	1,100	7,680
16	Energy investment credit [1]	1,040	1,270	1,360	1,670	1,880	1,110	240	6,260
17	Alcohol fuel credits [2]	140	110	50	30	10	10	0	100
18	Bio-Diesel and small agri-biodiesel producer tax credits [3]	10	0	0	0	0	0	0	0
19	Tax credit and deduction for clean-fuel burning vehicles	100	180	260	400	610	670	500	2,440
20	Exclusion of utility conservation subsidies	270	250	250	250	250	250	240	1,240
21	Credit for holding clean renewable energy bonds [4]	70	70	70	70	70	70	70	350
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–70	–180	–190	–180	–150	–120	–80	–720
23	Credit for investment in clean coal facilities	380	400	420	500	320	170	170	1,580
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	680	610	–90	–700	–830	–880	–800	–3,300
25	Natural gas distribution pipelines treated as 15-year property	110	100	100	100	110	120	120	550
26	Amortize all geological and geophysical expenditures over 2 years	90	110	110	90	80	70	70	420
27	Allowance of deduction for certain energy efficient commercial building property	70	70	40	20	0	0	–20	40
28	Credit for construction of new energy efficient homes	70	40	20	0	0	0	0	20
29	Credit for energy efficiency improvements to existing homes	780	0	0	0	0	0	0	0
30	Credit for energy efficient appliances	210	300	130	120	100	0	0	350
31	Credit for residential energy efficient property	910	1,010	1,140	1,270	1,420	600	0	4,430
32	Qualified energy conservation bonds [5]	20	30	30	30	30	30	30	150
33	Advanced energy property credit	580	460	110	0	–30	–50	–50	–20
34	Advanced nuclear power production credit	0	0	0	0	0	165	440	605
Natural resources and environment:									
35	Expensing of exploration and development costs, nonfuel minerals	50	60	60	80	80	80	90	390
36	Excess of percentage over cost depletion, nonfuel minerals	560	580	600	600	610	620	630	3,060
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	420	470	550	600	650	680	730	3,210
38	Capital gains treatment of certain timber income	90	80	60	80	90	100	110	440
39	Expensing of multiperiod timber growing costs	270	280	300	310	320	330	350	1,610
40	Tax incentives for preservation of historic structures	540	550	570	580	590	600	610	2,950
41	Exclusion of gain or loss on sale or exchange of certain brownfield sites	40	30	10	0	0	0	0	10
42	Industrial CO2 capture and sequestration tax credit	60	60	70	80	110	210	160	630
43	Deduction for endangered species recovery expenditures	20	20	20	20	30	30	30	130
Agriculture:									
44	Expensing of certain capital outlays	70	100	110	120	130	130	130	620
45	Expensing of certain multiperiod production costs	130	160	160	160	160	170	160	810

Table 16–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2012–2018—Continued
(In millions of dollars)

		Total from corporations and individuals							
		2012	2013	2014	2015	2016	2017	2018	2014–18
46	Treatment of loans forgiven for solvent farmers	40	40	40	40	40	40	40	200
47	Capital gains treatment of certain income	880	830	630	760	910	1,030	1,110	4,440
48	Income averaging for farmers	130	130	130	130	140	140	140	680
49	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100
50	Expensing of reforestation expenditures	60	70	80	80	80	90	100	430
	Commerce and housing:								
	Financial institutions and insurance:								
51	Exemption of credit union income	1,440	1,560	1,660	1,750	1,940	1,890	2,220	9,460
52	Exclusion of interest on life insurance savings	17,580	18,350	21,010	23,130	24,670	24,870	26,190	119,870
53	Special alternative tax on small property and casualty insurance companies	10	10	10	10	10	10	10	50
54	Tax exemption of certain insurance companies owned by tax-exempt organizations	800	830	830	830	850	850	850	4,210
55	Small life insurance company deduction	20	20	20	20	20	20	20	100
56	Exclusion of interest spread of financial institutions	150	1,400	2,330	2,660	2,910	3,170	3,400	14,470
	Housing:								
57	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,040	1,170	1,370	1,520	1,630	1,740	1,850	8,110
58	Exclusion of interest on rental housing bonds	880	990	1,170	1,290	1,370	1,470	1,570	6,870
59	Deductibility of mortgage interest on owner-occupied homes	81,890	93,090	101,470	112,730	126,950	142,040	156,990	640,180
60	Deductibility of State and local property tax on owner-occupied homes	15,460	20,310	25,160	26,110	27,330	28,690	29,740	137,030
61	Deferral of income from installment sales	900	1,080	1,160	1,350	1,560	1,730	1,850	7,650
62	Capital gains exclusion on home sales	30,900	38,130	45,870	48,790	52,310	56,070	60,160	263,200
63	Exclusion of net imputed rental income	68,230	74,080	75,520	80,880	88,260	93,330	98,690	436,680
64	Exception from passive loss rules for $25,000 of rental loss	10,200	12,250	14,420	16,070	16,950	17,730	18,510	83,680
65	Credit for low-income housing investments [6]	7,670	7,410	8,310	8,280	8,330	8,730	9,080	42,730
66	Accelerated depreciation on rental housing (normal tax method)	1,220	1,680	2,130	2,570	3,060	3,570	4,130	15,460
67	Discharge of mortgage indebtedness	1,930	650	0	0	0	0	0	0
	Commerce:								
68	Cancellation of indebtedness	150	110	90	70	50	–10	–70	130
69	Exceptions from imputed interest rules	50	50	50	50	50	50	50	250
70	Treatment of qualified dividends	29,750	20,240	0	0	0	0	0	0
71	Capital gains (except agriculture, timber, iron ore, and coal)	65,360	61,840	46,690	56,700	68,130	76,860	82,640	331,020
72	Capital gains exclusion of small corporation stock	50	130	370	720	750	500	410	2,750
73	Step-up basis of capital gains at death	15,490	21,170	27,100	28,460	29,870	31,370	32,970	149,770
74	Carryover basis of capital gains on gifts	2,830	3,550	3,540	4,230	4,980	5,620	6,100	24,470
75	Ordinary income treatment of loss from small business corporation stock sale	60	60	60	60	60	60	60	300
76	Accelerated depreciation of buildings other than rental housing (normal tax method)	–7,120	–7,540	–7,570	–7,370	–7,210	–7,130	–7,100	–36,380
77	Accelerated depreciation of machinery and equipment (normal tax method)	69,500	14,750	17,850	40,260	57,660	72,300	85,660	273,730
78	Expensing of certain small investments (normal tax method)	1,270	–530	–610	530	1,120	1,510	1,800	4,350
79	Graduated corporation income tax rate (normal tax method)	4,270	4,300	4,210	4,180	4,170	4,240	4,250	21,050
80	Exclusion of interest on small issue bonds	240	270	320	350	370	400	420	1,860
81	Deduction for US production activities	11,570	12,860	13,630	14,370	14,790	15,510	16,620	74,920
82	Special rules for certain film and TV production	130	80	50	20	10	0	0	80
	Transportation:								
83	Tonnage tax election for certain international shipping income [7]	60	60	70	70	70	80	80	370
84	Exclusion of reimbursed employee parking expenses	2,640	2,880	3,010	3,140	3,290	3,450	3,610	16,500
85	Exclusion for employer-provided transit passes	590	660	700	760	820	870	930	4,080
86	Tax credit for certain expenditures for maintaining railroad tracks	130	80	50	20	10	0	0	80
87	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	240	230	220	210	200	190	170	990
	Community and regional development:								
88	Investment credit for rehabilitation of structures (other than historic)	30	30	30	30	30	30	30	150
89	Exclusion of interest for airport, dock, and similar bonds	690	780	920	1,010	1,090	1,160	1,230	5,410
90	Exemption of certain mutuals' and cooperatives' income	130	130	140	140	140	150	150	720
91	Empowerment zones, the DC enterprise zone, and renewal communities	620	420	470	460	420	360	310	2,020

Table 16–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2012–2018—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2012	2013	2014	2015	2016	2017	2018	2014–18
92	New markets tax credit	930	930	910	880	840	710	460	3,800
93	Expensing of environmental remediation costs	–20	–180	–180	–170	–160	–160	–160	–830
94	Credit to holders of Gulf Tax Credit Bonds.	90	100	120	130	140	150	160	700
95	Recovery Zone Bonds [8]	10	10	20	30	30	30	30	140
96	Tribal Economic Development Bonds	0	30	50	50	50	50	60	260
	Education, training, employment, and social services:								
	Education:								
97	Exclusion of scholarship and fellowship income (normal tax method)	2,760	3,020	3,470	3,600	3,740	3,890	4,040	18,740
98	HOPE tax credit	0	430	4,310	4,270	4,150	4,180	4,030	20,940
99	Lifetime Learning tax credit	2,000	2,290	4,450	4,420	4,340	4,260	4,160	21,630
100	American Opportunity Tax Credit [9]	15,580	14,400	0	0	0	0	0	0
101	Education Individual Retirement Accounts	60	80	90	100	110	120	130	550
102	Deductibility of student-loan interest	1,450	1,460	880	880	910	940	910	4,520
103	Deduction for higher education expenses	720	0	0	0	0	0	0	0
104	Qualified tuition programs	1,980	2,020	2,270	2,520	2,690	2,870	3,060	13,410
105	Exclusion of interest on student-loan bonds	470	530	620	680	730	770	830	3,630
106	Exclusion of interest on bonds for private nonprofit educational facilities	2,150	2,440	2,870	3,160	3,400	3,610	3,870	16,910
107	Credit for holders of zone academy bonds [10]	200	200	180	160	130	120	110	700
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	10	10	10	10	20	20	20	80
109	Parental personal exemption for students age 19 or over	2,800	2,700	2,810	2,550	2,300	2,080	1,870	11,610
110	Deductibility of charitable contributions (education)	3,960	4,590	5,080	5,450	5,920	6,430	6,940	29,820
111	Exclusion of employer-provided educational assistance	670	240	0	0	0	0	0	0
112	Special deduction for teacher expenses	170	0	0	0	0	0	0	0
113	Discharge of student loan indebtedness	20	20	20	20	20	20	20	100
114	Qualified school construction bonds [11]	400	580	650	650	650	650	650	3,250
	Training, employment, and social services:								
115	Work opportunity tax credit	1,130	970	660	370	160	80	30	1,300
116	Employer provided child care exclusion	1,360	1,570	1,620	1,720	1,840	1,980	2,120	9,280
117	Employer-provided child care credit	10	10	0	0	0	0	0	0
118	Assistance for adopted foster children	530	530	560	590	630	670	710	3,160
119	Adoption credit and exclusion [12]	62	330	110	80	80	80	80	430
120	Exclusion of employee meals and lodging (other than military)	5,591	6,109	6,592	6,903	7,113	7,336	7,750	35,694
121	Child credit [13]	24,790	18,430	8,650	8,380	8,020	7,670	7,240	39,960
122	Credit for child and dependent care expenses	3,410	1,550	1,290	1,250	1,200	1,150	1,090	5,980
123	Credit for disabled access expenditures	20	20	20	20	20	20	20	100
124	Deductibility of charitable contributions, other than education and health	33,770	39,610	44,060	47,330	51,550	56,130	60,840	259,910
125	Exclusion of certain foster care payments	420	420	420	430	430	420	420	2,120
126	Exclusion of parsonage allowances	700	760	820	890	960	1,040	1,120	4,830
127	Employee retention credit for employers in certain federal disaster areas	10	0	0	0	0	0	0	0
	Health:								
128	Exclusion of employer contributions for medical insurance premiums and medical care [14]	184,320	202,530	212,820	224,610	239,620	256,850	272,360	1,206,260
129	Self-employed medical insurance premiums	5,210	6,140	6,740	7,160	7,650	8,240	8,860	38,650
130	Medical Savings Accounts / Health Savings Accounts	1,520	1,600	1,680	1,760	1,880	2,000	2,130	9,450
131	Deductibility of medical expenses	7,230	8,990	10,270	10,820	11,180	11,360	12,370	56,000
132	Exclusion of interest on hospital construction bonds	3,040	3,430	4,040	4,440	4,760	5,070	5,430	23,740
133	Refundable Premium Assistance Tax Credit [15]	0	0	0	–2,660	–3,810	–4,670	–4,930	–16,070
134	Credit for employee health insurance expenses of small business [16]	190	250	950	1,660	1,690	1,480	1,310	7,090
135	Deductibility of charitable contributions (health)	3,820	4,470	4,980	5,350	5,820	6,340	6,880	29,370
136	Tax credit for orphan drug research	840	1,000	1,190	1,410	1,680	2,010	2,390	8,680
137	Special Blue Cross/Blue Shield deduction	420	500	500	510	490	510	510	2,520
138	Tax credit for health insurance purchased by certain displaced and retired individuals [17]	10	10	0	0	0	0	0	0
139	Distributions from retirement plans for premiums for health and long-term care insurance	330	360	400	440	490	510	530	2,370

Table 16–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2012–2018—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2012	2013	2014	2015	2016	2017	2018	2014–18
Income security:									
140	Exclusion of railroad retirement system benefits	350	430	510	510	510	500	490	2,520
141	Exclusion of workers' compensation benefits	10,080	9,120	11,440	11,570	11,680	11,800	11,950	58,440
142	Exclusion of public assistance benefits (normal tax method)	720	750	780	810	840	870	910	4,210
143	Exclusion of special benefits for disabled coal miners	40	40	40	40	40	40	40	200
144	Exclusion of military disability pensions	110	150	160	160	160	160	160	800
	Net exclusion of pension contributions and earnings:								
145	Defined benefit employer plans	38,740	47,410	53,060	57,400	61,810	66,150	69,970	308,390
146	Defined contribution employer plans	51,830	68,820	79,720	90,870	98,650	103,140	105,490	477,870
147	Individual Retirement Accounts	16,180	21,240	19,260	19,370	20,620	21,970	23,360	104,580
148	Low and moderate income savers credit	1,110	1,180	1,220	1,243	1,250	1,270	1,270	6,253
149	Self-Employed plans	15,930	19,380	23,260	25,490	28,030	30,800	33,760	141,340
	Exclusion of other employee benefits:								
150	Premiums on group term life insurance	1,870	1,910	1,940	1,970	2,030	2,080	2,140	10,160
151	Premiums on accident and disability insurance	340	350	360	360	370	370	380	1,840
152	Income of trusts to finance supplementary unemployment benefits	20	20	30	40	50	60	70	250
153	Special ESOP rules	810	1,190	1,260	1,330	1,410	1,500	1,580	7,080
154	Additional deduction for the blind	30	40	40	50	50	50	50	240
155	Additional deduction for the elderly	2,080	2,870	3,260	3,330	3,400	3,490	3,540	17,020
156	Tax credit for the elderly and disabled	10	10	10	10	10	0	0	30
157	Deductibility of casualty losses	300	350	370	390	410	430	450	2,050
158	Earned income tax credit [18]	1,610	4,040	5,640	5,920	6,060	6,310	6,520	30,450
Social Security:									
	Exclusion of social security benefits:								
159	Social Security benefits for retired workers	22,170	27,920	32,910	34,330	35,550	36,830	38,340	177,960
160	Social Security benefits for disabled workers	7,510	8,960	9,970	10,280	10,560	10,810	11,060	52,680
161	Social Security benefits for spouses, dependents and survivors	3,740	3,970	4,130	4,230	4,370	4,490	4,550	21,770
Veterans benefits and services:									
162	Exclusion of veterans death benefits and disability compensation	4,240	5,210	6,880	7,480	8,140	8,860	9,640	41,000
163	Exclusion of veterans pensions	360	430	550	570	580	600	620	2,920
164	Exclusion of GI bill benefits	940	1,200	1,610	1,720	1,830	1,950	2,080	9,190
165	Exclusion of interest on veterans housing bonds	10	10	10	20	20	30	30	110
General purpose fiscal assistance:									
166	Exclusion of interest on public purpose State and local bonds	25,950	29,270	34,420	37,920	40,680	43,330	46,340	202,690
167	Build America Bonds [19]	0	0	0	0	0	0	0	0
168	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	29,480	43,940	51,560	54,520	58,200	62,200	65,660	292,140
Interest:									
169	Deferral of interest on U.S. savings bonds	980	1,020	1,080	1,090	1,100	1,120	1,130	5,520
Addendum: Aid to State and local governments:									
	Deductibility of:								
	Property taxes on owner-occupied homes	15,460	20,310	25,160	26,110	27,330	28,690	29,740	137,030
	Nonbusiness State and local taxes other than on owner-occupied homes	29,480	43,940	51,560	54,520	58,200	62,200	65,660	292,140
	Exclusion of interest on State and local bonds for:								
	Public purposes	25,950	29,270	34,420	37,920	40,680	43,330	46,340	202,690
	Energy facilities	20	30	30	30	30	40	40	170
	Water, sewage, and hazardous waste disposal facilities	420	470	550	600	650	680	730	3,210
	Small-issues	240	270	320	350	370	400	420	1,860
	Owner-occupied mortgage subsidies	1,040	1,170	1,370	1,520	1,630	1,740	1,850	8,110
	Rental housing	880	990	1,170	1,290	1,370	1,470	1,570	6,870
	Airports, docks, and similar facilities	690	780	920	1,010	1,090	1,160	1,230	5,410

Table 16–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2012–2018—Continued
(In millions of dollars)

	Total from corporations and individuals							
	2012	2013	2014	2015	2016	2017	2018	2014–18
Student loans	470	530	620	680	730	770	830	3,630
Private nonprofit educational facilities	2,150	2,440	2,870	3,160	3,400	3,610	3,870	16,910
Hospital construction	3,040	3,430	4,040	4,440	4,760	5,070	5,430	23,740
Veterans' housing	10	10	10	20	20	30	30	110
GO Zone and GO Zone mortgage	90	100	120	130	140	150	160	700
Credit for holders of zone academy bonds	200	200	180	160	130	120	110	700

1 Firms can tax an energy grant in lieu of the energy production credit or the energy investment credit for facilities placed in service in 2009 and 2010 or whose construction commenced in 2009 and 2010. The effect of the grant on outlays (in millions of dollars) is as follows: 2012 $5,080; 2013 $8,080; 2014 $4,710; 2015 $2,520; 2016 $1,580; 2017 $330; 2018 $0.

2 In addition, the alcohol fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2012 $3,540; 2013 $0; 2014 $0; 2015 $0; 2016 $0; 2017 $0; 2018 $0.

The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2012 $310; 2013 $10; 2014 $10; 2015 $0; 2016 $0; 2017 $0; 2018 $0.

3 In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2012 $800; 2013 $0; 2014 $0; 2015 $0; 2016 $0; 2017: $0; 2018 $0.

4 In addition, the provision has outlay effects of (in millions of dollars): 2012 $40; 2013 $50; 2014 $50; 2015 $50; 2016 $50; 2017 $50; 2018 $50.

5 In addition, the provision has outlay effects of (in millions of dollars): 2012 $50; 2013 $60; 2014 $60; 2015 $60; 2016 $60; 2017 $60; 2018 $60.

6 In addition, the credit for low-income housing investments has outlay effects (in millions of dollars) as follows: 2012 $180.

7 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.

8 In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2012 $160, 2013 $160, 2014 $160, 2015 $160, 2016 $160; and 2017 $160; 2018 $160.

9 The figures in the table indicate the effect of the American opportunity tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2012 $5,850; 2013 $6,450; 2014 $970

10 In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2012 $20; 2013 $30; 2014 $30; 2015 $30; 2016 $30; 2017 $30; and 2018 $30.

11 In addition, the provision for school construction bonds has outlay effects of (in millions of dollars): 2012 $780; 2013 $940; 2014 $940; 2015 $940; 2016 $940; 2017 $940, and 2018 $940.

12 The figures in the table indicate the effect of the adoption tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2012 $700; and 2013 $50.

13 The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2012 $22,620; 2013 $22,510; 2014 $1,750; 2015 $1,720; 2016 $1,720; 2017 $1,690; and 2018 1,660.

14 The figures in the table indicate the effect on income taxes of the employer contributions for health. In addition, the effect on payroll tax receipts (in millions of dollars) is as follows: 2012 $107,760; 2013 $111,120; 2014 $112,620; 2015 $116,500; 2016 $122,730; 2017 $130,170; 2018 $135,170.

15 In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 $32,270; 2015 $58,130; 2016 $71,470; 2017 $78,130; 2018 $82,150.

16 In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2012 $70; 2013 $60; 2014 $140; 2015 $240; 2016 $250; 2017 $220; 2018 $190.

17 The figures in the table indicate the effect of the health coverage tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2012 $130; 2013 $120; 2014 $30.

18 The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2012 $54,840; 2013 $54,360; 2014 $47,700; 2015 $49,000; 2016 $49,870; 2017 $50,740; and 2018 $51,510.

19 In addition, Build America Bonds have outlay effects of (in millions of dollars): 2012 $3,190; 2013 $3,190; 2014 $3,190; 2015 $3,190; 2016 $3,190; 2017 $3,190; and 2018 $3,190.

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

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

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2012–2018

(In millions of dollars)

		Corporations								Individuals							
		2012	2013	2014	2015	2016	2017	2018	2014–18	2012	2013	2014	2015	2016	2017	2018	2014–18
National Defense																	
1	Exclusion of benefits and allowances to armed forces personnel									14,140	14,640	15,150	14,170	14,350	14,840	15,430	73,940
International affairs:																	
2	Exclusion of income earned abroad by U.S. citizens									5400	5800	6140	6430	6730	7050	7380	33,730
3	Exclusion of certain allowances for Federal employees abroad									1070	1120	1180	1240	1300	1370	1430	6,520
4	Inventory property sales source rules exception	3,310	3,610	3,940	4,300	4,690	5,120	5,590	23,640								
5	Deferral of income from controlled foreign corporations (normal tax method)	42,000	41,810	41,770	43,020	44,240	45,180	46,160	220,370								
6	Deferred taxes for financial firms on certain income earned overseas	2,510	0	0	0	0	0	0	0								
General science, space, and technology:																	
7	Expensing of research and experimentation expenditures (normal tax method)	3,600	4,610	4,820	5,300	6,280	7,290	8,100	31,790	140	200	220	230	280	320	370	1,420
8	Credit for increasing research activities	4220	2320	2130	1970	1820	1680	1530	9,130	170							0
Energy:																	
9	Expensing of exploration and development costs, fuels	410	690	770	550	340	230	160	2,050	60	100	110	80	50	30	20	290
10	Excess of percentage over cost depletion, fuels	750	750	770	770	780	780	780	3,880	140	150	170	170	170	170	170	850
11	Alternative fuel production credit	20	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12	Exception from passive loss limitation for working interests in oil and gas properties									10	10	10	10	10	10	10	50
13	Capital gains treatment of royalties on coal									90	80	60	80	90	100	110	440
14	Exclusion of interest on energy facility bonds	10	10	10	10	10	10	10	50	10	20	20	20	20	30	30	120
15	Energy production credit [1]	1,480	1,710	1,750	1,710	1,620	1,420	1,080	7,580	20	20	20	20	20	20	20	100
16	Energy investment credit [1]	920	1150	1240	1550	1750	1030	210	5,780	120	120	120	120	130	80	30	480
17	Alcohol fuel credits [2]	110	80	40	20	10	10	0	80	30	30	10	10	0	0	0	20
18	Bio-Diesel and small agri-biodiesel producer tax credits [3]	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
19	Tax credit and deduction for clean-fuel burning vehicles	20	30	60	90	110	110	70	440	80	150	200	310	500	560	430	2,000
20	Exclusion of utility conservation subsidies	20	10	10	10	10	10	10	50	250	240	240	240	240	240	230	1,190
21	Credit for holding clean renewable energy bonds [4]	20	20	20	20	20	20	20	100	50	50	50	50	50	50	50	250
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–70	–180	–190	–180	–150	–120	–80	–720								
23	Credit for investment in clean coal facilities	360	380	400	480	310	160	160	1,510	20	20	20	20	10	10	10	70
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	680	610	–90	–700	–830	–880	–800	–3,300	0	0	0	0	0	0	0	0
25	Natural gas distribution pipelines treated as 15-year property	110	100	100	100	110	120	120	550	0	0	0	0	0	0	0	0
26	Amortize all geological and geophysical expenditures over 2 years	70	80	80	70	60	50	50	310	20	30	30	20	20	20	20	110
27	Allowance of deduction for certain energy efficient commercial building property	30	30	20	10	0	0	–10	20	40	40	20	10	0	0	–10	20
28	Credit for construction of new energy efficient homes	30	20	10	0	0	0	0	10	40	20	10	0	0	0	0	10
29	Credit for energy efficiency improvements to existing homes	0	0	0	0	0	0	0	0	780	0	0	0	0	0	0	0
30	Credit for energy efficient appliances	210	150	130	120	100	0	0	350	0	150	0	0	0	0	0	0
31	Credit for residential energy efficient property	0	0	0	0	0	0	0	0	910	1,010	1,140	1,270	1,420	600	0	4,430
32	Qualified energy conservation bonds [5]	10	10	10	10	10	10	10	50	10	20	20	20	20	20	20	100

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2012–2018—Continued

(In millions of dollars)

	Corporations								Individuals							
	2012	2013	2014	2015	2016	2017	2018	2014–18	2012	2013	2014	2015	2016	2017	2018	2014–18
33 Advanced Energy Property Credit	500	390	80	0	–20	–40	–40	–20	80	70	30	0	–10	–10	–10	0
34 Advanced nuclear power production credit	0	0	0	0	0	165	440	605	0	0	0	0	0	0	0	0
Natural resources and environment:																
35 Expensing of exploration and development costs, nonfuel minerals	50	60	60	70	70	70	80	350	0	0	0	10	10	10	10	40
36 Excess of percentage over cost depletion, nonfuel minerals	530	540	550	550	560	570	580	2,810	30	40	50	50	50	50	50	250
37 Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	110	110	120	140	150	150	160	720	310	360	430	460	500	530	570	2,490
38 Capital gains treatment of certain timber income									90	80	60	80	90	100	110	440
39 Expensing of multiperiod timber growing costs	170	170	180	180	190	200	210	960	100	110	120	130	130	130	140	650
40 Tax incentives for preservation of historic structures	490	500	510	520	530	540	550	2,650	50	50	60	60	60	60	60	300
41 Exclusion of gain or loss on sale or exchange of certain brownfield sites	30	20	10	0	0	0	0	10	10	10	0	0	0	0	0	0
42 Industrial CO2 capture and sequestration tax credit	60	60	70	80	110	210	160	630	0	0	0	0	0	0	0	0
43 Deduction for endangered species recovery expenditures	10	10	10	10	10	10	10	50	10	10	10	10	20	20	20	80
Agriculture:																
44 Expensing of certain capital outlays	0	10	10	10	10	10	0	40	70	90	100	110	120	120	130	580
45 Expensing of certain multiperiod production costs	10	10	10	10	10	10	0	40	120	150	150	150	150	160	160	770
46 Treatment of loans forgiven for solvent farmers									40	40	40	40	40	40	40	200
47 Capital gains treatment of certain income									880	830	630	760	910	1,030	1,110	4,440
48 Income averaging for farmers									130	130	130	130	140	140	140	680
49 Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100								
50 Expensing of reforestation expenditures	20	20	20	20	20	20	30	110	40	50	60	60	60	70	70	320
Commerce and housing:																
Financial institutions and insurance:																
51 Exemption of credit union income	1,440	1,560	1,660	1,750	1,940	1,890	2,220	9,460								
52 Exclusion of interest on life insurance savings	2500	3310	3710	4000	4270	4680	4970	21,630	15080	15040	17300	19130	20400	20190	21220	98,240
53 Special alternative tax on small property and casualty insurance companies	10	10	10	10	10	10	10	50								
54 Tax exemption of certain insurance companies owned by tax-exempt organizations	800	830	830	830	850	850	850	4,210								
55 Small life insurance company deduction	20	20	20	20	20	20	20	100								
56 Exclusion of interest spread of financial institutions									150	1,400	2,330	2,660	2,910	3,170	3,400	14,470
Housing:																
57 Exclusion of interest on owner-occupied mortgage subsidy bonds	270	270	300	350	370	390	410	1,820	770	900	1,070	1,170	1,260	1,350	1,440	6,290
58 Exclusion of interest on rental housing bonds	230	230	260	300	310	330	350	1,550	650	760	910	990	1,060	1,140	1,220	5,320
59 Deductibility of mortgage interest on owner-occupied homes									81,890	93,090	101,470	112,730	126,950	142,040	156,990	640,180
60 Deductibility of State and local property tax on owner-occupied homes									15,460	20,310	25,160	26,110	27,330	28,690	29,740	137,030
61 Deferral of income from installment sales									900	1,080	1,160	1,350	1,560	1,730	1,850	7,650
62 Capital gains exclusion on home sales									30,900	38,130	45,870	48,790	52,310	56,070	60,160	263,200
63 Exclusion of net imputed rental income									68,230	74,080	75,520	80,880	88,260	93,330	98,690	436,680
64 Exception from passive loss rules for $25,000 of rental loss									10,200	12,250	14,420	16,070	16,950	17,730	18510	83,680

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2012–2018—Continued

(In millions of dollars)

		Corporations								Individuals							
		2012	2013	2014	2015	2016	2017	2018	2014–18	2012	2013	2014	2015	2016	2017	2018	2014–18
65	Credit for low-income housing investments [6]	7,290	7,040	7,890	7,870	7,910	8,290	8,630	40,590	380	370	420	410	420	440	450	2,140
66	Accelerated depreciation on rental housing (normal tax method)	210	260	320	390	470	560	660	2,400	1,010	1,420	1,810	2,180	2,590	3,010	3,470	13,060
67	Discharge of mortgage indebtedness									1,930	650	0	0	0	0	0	0
	Commerce:																
68	Cancellation of indebtedness									150	110	90	70	50	–10	–70	130
69	Exceptions from imputed interest rules									50	50	50	50	50	50	50	250
70	Treatment of qualified dividends									29,750	20,240	0	0	0	0	0	0
71	Capital gains (except agriculture, timber, iron ore, and coal)									65,360	61,840	46,690	56,700	68,130	76,860	82,640	331,020
72	Capital gains exclusion of small corporation stock									50	130	370	720	750	500	410	2,750
73	Step-up basis of capital gains at death									15,490	21,170	27,100	28,460	29,870	31,370	32,970	149,770
74	Carryover basis of capital gains on gifts									2,830	3,550	3,540	4,230	4,980	5,620	6,100	24,470
75	Ordinary income treatment of loss from small business corporation stock sale									60	60	60	60	60	60	60	300
76	Accelerated depreciation of buildings other than rental housing (normal tax method)	–3,380	–3,310	–3,250	–3,200	–3,160	–3,150	–3,200	–15,960	–3,740	–4,230	–4,320	–4,170	–4,050	–3,980	–3,900	–20,420
77	Accelerated depreciation of machinery and equipment (normal tax method)	45,950	7,940	9,330	24,160	35,810	45,840	55,410	170,550	23,550	6,810	8,520	16,100	21,850	26,460	30,250	103,180
78	Expensing of certain small investments (normal tax method)	60	–160	–160	10	100	160	210	320	1,210	–370	–450	520	1,020	1,350	1,590	4,030
79	Graduated corporation income tax rate (normal tax method)	4,270	4,300	4,210	4,180	4,170	4,240	4,250	21,050								
80	Exclusion of interest on small issue bonds	60	60	70	80	80	90	90	410	180	210	250	270	290	310	330	1,450
81	Deduction for US production activities	8750	9730	10310	10870	11190	11730	12570	56,670	2,820	3,130	3,320	3,500	3,600	3,780	4050	18,250
82	Special rules for certain film and TV production	100	60	40	20	10	0	0	70	30	20	10	0	0	0	0	10
	Transportation:																
83	Tonnage tax election for certain international shipping income [7]	60	60	70	70	70	80	80	370								
84	Exclusion of reimbursed employee parking expenses									2,640	2,880	3,010	3,140	3,290	3,450	3,610	16,500
85	Exclusion for employer-provided transit passes									590	660	700	760	820	870	930	4,080
86	Tax credit for certain expenditures for maintaining railroad tracks	100	60	40	20	10	0	0	70	30	20	10	0	0	0	0	10
87	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	60	60	50	50	50	50	40	240	180	170	170	160	150	140	130	750
	Community and regional development:																
88	Investment credit for rehabilitation of structures (other than historic)	10	10	10	10	10	10	10	50	20	20	20	20	20	20	20	100
89	Exclusion of interest for airport, dock, and similar bonds	180	180	200	230	250	260	270	1,210	510	600	720	780	840	900	960	4,200
90	Exemption of certain mutuals' and cooperatives' income	130	130	140	140	140	150	150	720								
91	Empowerment zones, the DC enterprise zone, and renewal communities	230	140	150	140	120	100	80	590	390	280	320	320	300	260	230	1,430
92	New markets tax credit	910	910	890	860	820	690	450	3,710	20	20	20	20	20	20	10	90
93	Expensing of environmental remediation costs	–20	–150	–150	–140	–130	–130	–130	–680	0	–30	–30	–30	–30	–30	–30	–150
94	Credit to holders of Gulf Tax Credit Bonds.	20	20	30	30	30	30	40	160	70	80	90	100	110	120	120	540
95	Recovery Zone Bonds [8]	0	0	0	10	10	10	10	40	10	10	20	20	20	20	20	100
96	Tribal Economic Development Bonds	0	10	10	10	10	10	10	50	0	20	40	40	40	40	50	210

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2012–2018—Continued

(In millions of dollars)

	Corporations								Individuals							
	2012	2013	2014	2015	2016	2017	2018	2014–18	2012	2013	2014	2015	2016	2017	2018	2014–18
Education, training, employment, and social services:																
Education:																
97 Exclusion of scholarship and fellowship income (normal tax method)									2,760	3,020	3,470	3,600	3,740	3,890	4,040	18,740
98 HOPE tax credit									0	430	4,310	4,270	4,150	4,180	4,030	20,940
99 Lifetime Learning tax credit									2,000	2,290	4,450	4,420	4,340	4,260	4,160	21,630
100 American Opportunity Tax Credit [9]									15,580	14,400	0	0	0	0	0	0
101 Education Individual Retirement Accounts									60	80	90	100	110	120	130	550
102 Deductibility of student-loan interest									1,450	1,460	880	880	910	940	910	4,520
103 Deduction for higher education expenses									720	0	0	0	0	0	0	0
104 Qualified tuition programs									1,980	2,020	2,270	2,520	2,690	2,870	3,060	13,410
105 Exclusion of interest on student-loan bonds	120	120	140	160	170	170	180	820	350	410	480	520	560	600	650	2,810
106 Exclusion of interest on bonds for private nonprofit educational facilities	560	560	630	720	770	800	850	3,770	1,590	1,880	2,240	2,440	2,630	2,810	3,020	13,140
107 Credit for holders of zone academy bonds [10]	200	200	180	160	130	120	110	700								
108 Exclusion of interest on savings bonds redeemed to finance educational expenses									10	10	10	10	20	20	20	80
109 Parental personal exemption for students age 19 or over									2,800	2,700	2,810	2,550	2,300	2,080	1,870	11,610
110 Deductibility of charitable contributions (education)	690	740	790	840	890	940	980	4,440	3,270	3,850	4,290	4,610	5,030	5,490	5,960	25,380
111 Exclusion of employer-provided educational assistance									670	240	0	0	0	0	0	0
112 Special deduction for teacher expenses									170	0	0	0	0	0	0	0
113 Discharge of student loan indebtedness									20	20	20	20	20	20	20	100
114 Qualified school construction bonds [11]	110	150	160	160	160	160	160	800	290	430	490	490	490	490	490	2,450
Training, employment, and social services:																
115 Work opportunity tax credit	870	820	600	330	150	70	30	1,180	260	150	60	40	10	10	0	120
116 Employer provided child care exclusion									1360	1570	1620	1720	1840	1980	2120	9,280
117 Employer-provided child care credit	10	10	0	0	0	0	0	0								0
118 Assistance for adopted foster children									530	530	560	590	630	670	710	3,160
119 Adoption credit and exclusion [12]									62	330	110	80	80	80	80	430
120 Exclusion of employee meals and lodging (other than military)	0	0	0	0	0	0	0	0	5,591	6,109	6,592	6,903	7,113	7,336	7,750	35,694
121 Child credit [13]									24,790	18,430	8,650	8,380	8,020	7,670	7,240	39,960
122 Credit for child and dependent care expenses									3,410	1,550	1,290	1,250	1,200	1,150	1,090	5,980
123 Credit for disabled access expenditures	10	10	10	10	10	10	10	50	10	10	10	10	10	10	10	50
124 Deductibility of charitable contributions, other than education and health	1,510	1,600	1,690	1,770	1,860	1,940	2020	9,280	32,260	38,010	42,370	45,560	49,690	54,190	58,820	250,630
125 Exclusion of certain foster care payments									420	420	420	430	430	420	420	2,120
126 Exclusion of parsonage allowances									700	760	820	890	960	1,040	1,120	4,830
127 Employee retention credit for employers in certain federal disaster areas	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Health:																
128 Exclusion of employer contributions for medical insurance premiums and medical care [14]									184,320	202,530	212,820	224,610	239,620	256,850	272,360	1,206,260
129 Self-employed medical insurance premiums									5,210	6,140	6,740	7,160	7,650	8,240	8,860	38,650
130 Medical Savings Accounts / Health Savings Accounts									1,520	1,600	1,680	1,760	1,880	2,000	2,130	9,450
131 Deductibility of medical expenses									7,230	8,990	10,270	10,820	11,180	11,360	12,370	56,000

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2012–2018—Continued

(In millions of dollars)

		Corporations								Individuals							
		2012	2013	2014	2015	2016	2017	2018	2014–18	2012	2013	2014	2015	2016	2017	2018	2014–18
132	Exclusion of interest on hospital construction bonds	790	790	890	1,020	1,080	1,130	1,200	5,320	2,250	2,640	3,150	3,420	3,680	3,940	4,230	18,420
133	Refundable Premium Assistance Tax Credit[15]									0	0	0	–2,660	–3,810	–4,670	–4,930	–16,070
134	Credit for employee health insurance expenses of small business[16]	70	90	330	580	590	520	460	2,480	120	160	620	1,080	1,100	960	850	4,610
135	Deductibility of charitable contributions (health)	200	210	230	240	250	260	280	1,260	3,620	4,260	4,750	5,110	5,570	6,080	6,600	28,110
136	Tax credit for orphan drug research	840	1,000	1,190	1,410	1,680	2,010	2,390	8,680								
137	Special Blue Cross/Blue Shield deduction	420	500	500	510	490	510	510	2,520								
138	Tax credit for health insurance purchased by certain displaced and retired individuals[17]									10	10	0	0	0	0	0	0
139	Distributions from retirement plans for premiums for health and long-term care insurance									330	360	400	440	490	510	530	2,370
Income security:																	
140	Exclusion of railroad retirement system benefits									350	430	510	510	510	500	490	2,520
141	Exclusion of workers' compensation benefits									10,080	9,120	11,440	11,570	11,680	11,800	11,950	58,440
142	Exclusion of public assistance benefits (normal tax method)									720	750	780	810	840	870	910	4,210
143	Exclusion of special benefits for disabled coal miners									40	40	40	40	40	40	40	200
144	Exclusion of military disability pensions									110	150	160	160	160	160	160	800
	Net exclusion of pension contributions and earnings:																
145	Defined benefit employer plans									38,740	47,410	53,060	57,400	61,810	66,150	69,970	308,390
146	Defined contribution employer plans									51,830	68,820	79,720	90,870	98,650	103,140	105,490	477,870
147	Individual Retirement Accounts									16,180	21,240	19,260	19,370	20,620	21,970	23,360	104,580
148	Low and moderate income savers credit									1,110	1,180	1,220	1,243	1,250	1,270	1,270	6,253
149	Self-Employed plans									15930	19380	23260	25490	28030	30800	33760	141,340
	Exclusion of other employee benefits:																
150	Premiums on group term life insurance									1,870	1,910	1,940	1,970	2,030	2,080	2,140	10,160
151	Premiums on accident and disability insurance									340	350	360	360	370	370	380	1,840
152	Income of trusts to finance supplementary unemployment benefits									20	20	30	40	50	60	70	250
153	Special ESOP rules	740	1,090	1,160	1,230	1,310	1,390	1,470	6,560	70	100	100	100	100	110	110	520
154	Additional deduction for the blind									30	40	40	50	50	50	50	240
155	Additional deduction for the elderly									2,080	2,870	3,260	3,330	3,400	3,490	3,540	17,020
156	Tax credit for the elderly and disabled									10	10	10	10	10	0	0	30
157	Deductibility of casualty losses									300	350	370	390	410	430	450	2,050
158	Earned income tax credit[18]									1,610	4,040	5,640	5,920	6,060	6,310	6,520	30,450
Social Security:																	
	Exclusion of social security benefits:																
159	Social Security benefits for retired workers									22,170	27,920	32,910	34,330	35,550	36,830	38,340	177,960
160	Social Security benefits for disabled workers									7,510	8,960	9,970	10,280	10,560	10,810	11,060	52,680
161	Social Security benefits for spouses, dependents and survivors									3,740	3,970	4,130	4,230	4,370	4,490	4,550	21,770
Veterans benefits and services:																	
162	Exclusion of veterans death benefits and disability compensation									4,240	5,210	6,880	7,480	8,140	8,860	9,640	41,000
163	Exclusion of veterans pensions									360	430	550	570	580	600	620	2,920
164	Exclusion of GI bill benefits									940	1,200	1,610	1,720	1,830	1,950	2,080	9,190
165	Exclusion of interest on veterans housing bonds	0	0	0	0	0	10	10	20	10	10	10	20	20	20	20	90

Table 16–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2012–2018—Continued

(In millions of dollars)

	Corporations								Individuals							
	2012	2013	2014	2015	2016	2017	2018	2014–18	2012	2013	2014	2015	2016	2017	2018	2014–18
General purpose fiscal assistance:																
166 Exclusion of interest on public purpose State and local bonds	6,750	6,720	7,570	8,720	9,240	9,670	10,240	45,440	19,200	22,550	26,850	29,200	31,440	33,660	36,100	157,250
167 Build America Bonds [19]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
168 Deductibility of nonbusiness State and local taxes other than on owner-occupied homes									29,480	43,940	51,560	54,520	58,200	62,200	65,660	292,140
Interest:																
169 Deferral of interest on U.S. savings bonds									980	1,020	1,080	1,090	1,100	1,120	1,130	5,520
Addendum: Aid to State and local governments:																
Deductibility of:																
Property taxes on owner-occupied homes									15,460	20,310	25,160	26,110	27,330	28,690	29,740	137,030
Nonbusiness State and local taxes other than on owner-occupied homes									29,480	43,940	51,560	54,520	58,200	62,200	65,660	292,140
Exclusion of interest on State and local bonds for:																
Public purposes	6,750	6,720	7,570	8,720	9,240	9,670	10,240	45,440	19,200	22,550	26,850	29,200	31,440	33,660	36,100	157,250
Energy facilities	10	10	10	10	10	10	10	50	10	20	20	20	20	30	30	120
Water, sewage, and hazardous waste disposal facilities	110	110	120	140	150	150	160	720	310	360	430	460	500	530	570	2,490
Small-issues	60	60	70	80	80	90	90	410	180	210	250	270	290	310	330	1,450
Owner-occupied mortgage subsidies	270	270	300	350	370	390	410	1,820	770	900	1,070	1,170	1,260	1,350	1,440	6,290
Rental housing	230	230	260	300	310	330	350	1,550	650	760	910	990	1,060	1,140	1,220	5,320
Airports, docks, and similar facilities	180	180	200	230	250	260	270	1,210	510	600	720	780	840	900	960	4,200
Student loans	120	120	140	160	170	170	180	820	350	410	480	520	560	600	650	2,810
Private nonprofit educational facilities	560	560	630	720	770	800	850	3,770	1,590	1,880	2,240	2,440	2,630	2,810	3,020	13,140
Hospital construction	790	790	890	1,020	1,080	1,130	1,200	5,320	2,250	2,640	3,150	3,420	3,680	3,940	4,230	18,420
Veterans' housing	0	0	0	0	0	10	10	20	10	10	10	20	20	20	20	90
GO Zone and GO Zone mortgage	20	20	30	30	30	30	40	160	70	80	90	100	110	120	120	540
Credit for holders of zone academy bonds	200	200	180	160	130	120	110	700								

1 Firms can tax an energy grant in lieu of the energy production credit or the energy investment credit for facilities placed in service in 2009 and 2010 or whose construction commenced in 2009 and 2010. The effect of the grant on outlays (in millions of dollars) is as follows: 2012 $5,080; 2013 $8,080; 2014 $4,710; 2015 $2,520; 2016 $1,580; 2017 $330; 2018 $0.

2 In addition, the alcohol fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2012 $3,540; 2013 $0; 2014 $0; 2015 $0; 2016 $0; 2017 $0; 2018 $0. The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2012 $310; 2013 $10; 2014 $10; 2015 $0; 2016 $0; 2017 $0; 2018 $0.

3 In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2012 $800; 2013 $0; 2014 $0; 2015 $0; 2016 $0; 2017: $0; 2018 $0.

4 In addition, the provision has outlay effects of (in millions of dollars): 2012 $40; 2013 $50; 2014 $50; 2015 $50; 2016 $50; 2017 $50; 2018 $50.

5 In addition, the provision has outlay effects of (in millions of dollars): 2012 $50; 2013 $60; 2014 $60; 2015 $60; 2016 $60; 2017 $60; 2018 $60.

6 In addition, the credit for low-income housing investments has outlay effects (in millions of dollars) as follows: 2012 $180.

7 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.

8 In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2012 $160, 2013 $160, 2014 $160, 2015 $160, 2016 $160; and 2017 $160; 2018 $160.

9 The figures in the table indicate the effect of the American opportunity tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2012 $5,850; 2013 $6,450; 2014 $970

10 In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2012 $20; 2013 $30; 2014 $30; 2015 $30; 2016 $30; 2017 $30; and 2018 $30.

11 In addition, the provision for school construction bonds has outlay effects of (in millions of dollars): 2012 $780; 2013 $940; 2014 $940; 2015 $940; 2016 $940; 2017 $940, and 2018 $940.

12 The figures in the table indicate the effect of the adoption tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2012 $700; and 2013 $50.

13 The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2012 $22,620; 2013 $22,510; 2014 $1,750; 2015 $1,720; 2016 $1,720; 2017 $1,690; and 2018 1,660.

14 The figures in the table indicate the effect on income taxes of the employer contributions for health. In addition, the effect on payroll tax receipts (in millions of dollars) is as follows: 2012 $107,760; 2013 $111,120; 2014 $112,620; 2015 $116,500; 2016 $122,730; 2017 $130,170; 2018 $135,170.

15 In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 $32,270; 2015 $58,130; 2016 $71,470; 2017 $78,130; 2018 $82,150.

16 In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2012 $70; 2013 $60; 2014 $140; 2015 $240; 2016 $250; 2017 $220; 2018 $190.

17 The figures in the table indicate the effect of the health coverage tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2012 $130; 2013 $120; 2014 $30.

18 The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2012 $54,840; 2013 $54,360; 2014 $47,700; 2015 $49,000; 2016 $49,870; 2017 $50,740; and 2018 $51,510.

19 In addition, Build America Bonds have outlay effects of (in millions of dollars): 2012 $3,190; 2013 $3,190; 2014 $3,190; 2015 $3,190; 2016 $3,190; 2017 $3,190; and 2018 $3,190.

Table 16–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2014-2018 PROJECTED REVENUE EFFECT

(In millions of dollars)

	Provision	2014	2014-18
128	Exclusion of employer contributions for medical insurance premiums and medical care	212,820	1,206,260
59	Deductibility of mortgage interest on owner-occupied homes	101,470	640,180
146	Defined contribution employer plans	79,720	477,870
63	Exclusion of net imputed rental income	75,520	436,680
71	Capital gains (except agriculture, timber, iron ore, and coal)	46,690	331,020
145	Defined benefit employer plans	53,060	308,390
168	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	51,560	292,140
77	Accelerated depreciation of machinery and equipment (normal tax method)	17,850	273,730
62	Capital gains exclusion on home sales	45,870	263,200
124	Deductibility of charitable contributions, other than education and health	44,060	259,910
5	Deferral of income from controlled foreign corporations (normal tax method)	41,770	220,370
166	Exclusion of interest on public purpose State and local bonds	34,420	202,690
159	Social Security benefits for retired workers	32,910	177,960
73	Step-up basis of capital gains at death	27,100	149,770
149	Self-Employed plans	23,260	141,340
60	Deductibility of State and local property tax on owner-occupied homes	25,160	137,030
52	Exclusion of interest on life insurance savings	21,010	119,870
147	Individual Retirement Accounts	19,260	104,580
64	Exception from passive loss rules for $25,000 of rental loss	14,420	83,680
81	Deduction for US production activities	13,630	74,920
1	Exclusion of benefits and allowances to armed forces personnel	15,150	73,940
141	Exclusion of workers' compensation benefits	11,440	58,440
131	Deductibility of medical expenses	10,270	56,000
160	Social Security benefits for disabled workers	9,970	52,680
65	Credit for low-income housing investments	8,310	42,730
162	Exclusion of veterans death benefits and disability compensation	6,880	41,000
121	Child credit	8,650	39,960
129	Self-employed medical insurance premiums	6,740	38,650
120	Exclusion of employee meals and lodging (other than military)	6,592	35,694
2	Exclusion of income earned abroad by U.S. citizens	6,140	33,730
7	Expensing of research and experimentation expenditures (normal tax method)	5,040	33,210
158	Earned income tax credit	5,640	30,450
110	Deductibility of charitable contributions (education)	5,080	29,820
135	Deductibility of charitable contributions (health)	4,980	29,370
74	Carryover basis of capital gains on gifts	3,540	24,470
132	Exclusion of interest on hospital construction bonds	4,040	23,740
4	Inventory property sales source rules exception	3,940	23,640
161	Social Security benefits for spouses, dependents and survivors	4,130	21,770
99	Lifetime Learning tax credit	4,450	21,630
79	Graduated corporation income tax rate (normal tax method)	4,210	21,050
98	HOPE tax credit	4,310	20,940
97	Exclusion of scholarship and fellowship income (normal tax method)	3,470	18,740
155	Additional deduction for the elderly	3,260	17,020
106	Exclusion of interest on bonds for private nonprofit educational facilities	2,870	16,910
84	Exclusion of reimbursed employee parking expenses	3,010	16,500
66	Accelerated depreciation on rental housing (normal tax method)	2,130	15,460
56	Exclusion of interest spread of financial institutions	2,330	14,470
104	Qualified Tuition Programs	2,270	13,410
109	Parental personal exemption for students age 19 or over	2,810	11,610
150	Premiums on group term life insurance	1,940	10,160
51	Exemption of credit union income	1,660	9,460
130	Medical Savings Accounts / Health Savings Accounts	1,680	9,450
116	Employer provided child care exclusion	1,620	9,280
164	Exclusion of GI bill benefits	1,610	9,190
8	Credit for increasing research activities	2,130	9,130
136	Tax credit for orphan drug research	1,190	8,680

Table 16–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2014-2018 PROJECTED REVENUE EFFECT—Continued

(In millions of dollars)

	Provision	2014	2014-18
57	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,370	8,110
15	New technology credit	1,770	7,680
61	Deferral of income from installment sales	1,160	7,650
134	Credit for employee health insurance expenses of small business.	950	7,090
153	Special ESOP rules	1,260	7,080
58	Exclusion of interest on rental housing bonds	1,170	6,870
3	Exclusion of certain allowances for Federal employees abroad	1,180	6,520
16	Energy investment credit	1,360	6,260
148	Low and moderate income savers credit	1,220	6,253
122	Credit for child and dependent care expenses	1,290	5,980
169	Deferral of interest on U.S. savings bonds	1,080	5,520
89	Exclusion of interest for airport, dock, and similar bonds	920	5,410
126	Exclusion of parsonage allowances	820	4,830
10	Excess of percentage over cost depletion, fuels	940	4,730
102	Deductibility of student-loan interest	880	4,520
47	Capital gains treatment of certain income	630	4,440
31	30% credit for residential purchases/installations of solar and fuel cells	1,140	4,430
78	Expensing of certain small investments (normal tax method)	-610	4,350
54	Tax exemption of certain insurance companies owned by tax-exempt organizations	830	4,210
142	Exclusion of public assistance benefits (normal tax method)	780	4,210
85	Exclusion for employer-provided transit passes	700	4,080
92	New markets tax credit	910	3,800
105	Exclusion of interest on student-loan bonds	620	3,630
114	Qualified school construction bonds	650	3,250
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	550	3,210
118	Assistance for adopted foster children	560	3,160
36	Excess of percentage over cost depletion, nonfuel minerals	600	3,060
40	Tax incentives for preservation of historic structures	570	2,950
163	Exclusion of veterans pensions	550	2,920
72	Capital gains exclusion of small corporation stock	370	2,750
137	Special Blue Cross/Blue Shield deduction	500	2,520
140	Exclusion of railroad retirement system benefits	510	2,520
19	Tax credit and deduction for clean-fuel burning vehicles	260	2,440
139	Distributions from retirement plans for premiums for health and long-term care insurance	400	2,370
9	Expensing of exploration and development costs, fuels	880	2,340
125	Exclusion of certain foster care payments	420	2,120
157	Deductibility of casualty losses	370	2,050
91	Empowerment zones, Enterprise communities, and Renewal communities	470	2,020
80	Exclusion of interest on small issue bonds	320	1,860
151	Premiums on accident and disability insurance	360	1,840
39	Expensing of multiperiod timber growing costs	300	1,610
23	Credit for investment in clean coal facilities	420	1,580
115	Work opportunity tax credit	660	1,300
20	Exclusion of utility conservation subsidies	250	1,240
87	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	220	990
45	Expensing of certain multiperiod production costs	160	810
144	Exclusion of military disability pensions	160	800
90	Exemption of certain mutuals' and cooperatives' income	140	720
94	Credit to holders of Gulf Tax Credit Bonds.	120	700
107	Credit for holders of zone academy bonds	180	700
48	Income averaging for farmers	130	680
42	Industrial CO2 capture and sequestration tax credit	70	630
44	Expensing of certain capital outlays	110	620
34	Advanced nuclear power production credit	0	605
25	Natural gas distribution pipelines treated as 15-year property	100	550
101	Education Individual Retirement Accounts	90	550

Table 16–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2014-2018 PROJECTED REVENUE EFFECT—Continued
(In millions of dollars)

	Provision	2014	2014-18
13	Capital gains treatment of royalties on coal	60	440
38	Capital gains treatment of certain timber income	60	440
50	Expensing of reforestation expenditures	80	430
119	Adoption credit and exclusion	110	430
26	Amortize all geological and geophysical expenditures over 2 years	110	420
35	Expensing of exploration and development costs, nonfuel minerals	60	390
83	Deferral of tax on shipping companies	70	370
21	Credit for holding clean renewable energy bonds	70	350
30	Credit for energy efficient appliances	130	350
75	Ordinary income treatment of loss from small business corporation stock sale	60	300
96	Tribal Economic Development Bonds	50	260
69	Exceptions from imputed interest rules	50	250
152	Income of trusts to finance supplementary unemployment benefits	30	250
154	Additional deduction for the blind	40	240
46	Treatment of loans forgiven for solvent farmers	40	200
143	Exclusion of special benefits for disabled coal miners	40	200
14	Exclusion of interest on energy facility bonds	30	170
32	Qualified energy conservation bonds	30	150
88	Investment credit for rehabilitation of structures (other than historic)	30	150
95	Recovery Zone Bonds	20	140
43	Deduction for endangered species recovery expenditures	20	130
68	Cancellation of indebtedness	90	130
165	Exclusion of interest on veterans housing bonds	10	110
17	Alcohol fuel credits	50	100
49	Deferral of gain on sale of farm refiners	20	100
55	Small life insurance company deduction	20	100
113	Discharge of student loan indebtedness	20	100
123	Credit for disabled access expenditures	20	100
82	Special rules for certain film and TV production	50	80
86	Tax credit for certain expenditures for maintaining railroad tracks	50	80
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	10	80
12	Exception from passive loss limitation for working interests in oil and gas properties	10	50
53	Special alternative tax on small property and casualty insurance companies	10	50
27	Allowance of deduction for certain energy efficient commercial building property	40	40
156	Tax credit for the elderly and disabled	10	30
28	Credit for construction of new energy efficient homes	20	20
41	Exclusion of gain or loss on sale or exchange of certain brownfield sites	10	10
6	Deferred taxes for financial firms on certain income earned overseas	0	0
11	Alternative fuel production credit	0	0
18	Bio-Diesel and small agri-biodiesel producer tax credits	0	0
29	Credit for energy efficiency improvements to existing homes	0	0
67	Discharge of mortgage indebtedness	0	0
70	Treatment of qualified dividends	0	0
100	Lifetime Learning tax credit	0	0
103	Deduction for higher education expenses	0	0
111	Exclusion of employer-provided educational assistance	0	0
112	Special deduction for teacher expenses	0	0
117	Employer-provided child care credit	0	0
127	Employee retention credit for employers affected by Hurricane Katrina, Rita, and Wilma	0	0
138	Tax credit for health insurance purchased by certain displaced and retired individuals	0	0
167	Build America Bonds	0	0
33	Advanced Energy Property Credit	110	-20
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	-190	-720
93	Expensing of environmental remediation costs	-180	-830
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	-90	-3,300
133	Refundable Premium Assistance Tax Credit	0	-16,070
76	Accelerated depreciation of buildings other than rental housing (normal tax method)	-7,570	-36,380

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

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

Tax rates. The separate schedules applying to the various taxpaying units are included in the reference law baseline. Thus, corporate tax rates below the maximum statutory rate do not give rise to a tax expenditure. The normal tax baseline is similar, except that, by convention, it specifies the current maximum rate as the baseline for the corporate income tax. The lower tax rates applied to the first $10 million of corporate income are thus regarded as a tax expenditure under the normal tax. By convention, the Alternative Minimum Tax is treated as part of the baseline rate structure under both the reference and normal tax methods.

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

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

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

Table 16–4. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 2012

(In millions of dollars)

	Provision	2012 Present Value of Revenue Loss
5	Deferral of income from controlled foreign corporations (normal tax method)	21,000
7	Expensing of research and experimentation expenditures (normal tax method)	2380
21	Credit for holding clean renewable energy bonds	310
9	Expensing of exploration and development costs - fuels	220
35	Expensing of exploration and development costs - nonfuels	60
39	Expensing of multiperiod timber growing costs	130
45	Expensing of certain multiperiod production costs - agriculture	-140
44	Expensing of certain capital outlays - agriculture	-100
50	Expensing of reforestation expenditures	30
52	Deferral of income on life insurance and annuity contracts	16,530
66	Accelerated depreciation on rental housing	7,270
76	Accelerated depreciation of buildings other than rental housing	-17,740
77	Accelerated depreciation of machinery and equipment	4,750
78	Expensing of certain small investments (normal tax method)	-220
107	Credit for holders of zone academy bonds	160
65	Credit for low-income housing investments	6,630
104	Deferral for state prepaid tuition plans	3,510
145	Defined benefit employer plans	92,570
146	Defined contribution employer plans	64,170
147	Exclusion of IRA contributions and earnings	1,030
147	Exclusion of Roth earnings and distributions	3,160
147	Exclusion of non-deductible IRA earnings	100
149	Exclusion of contributions and earnings for Self-Employed plans	2,540
166	Exclusion of interest on public-purpose bonds	15,170
	Exclusion of interest on non-public purpose bonds	5,460
169	Deferral of interest on U.S. savings bonds	223

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

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

Descriptions of Income Tax Provisions

Descriptions of the individual and corporate income tax expenditures reported on in this chapter follow. These descriptions relate to current law as of December 31, 2012.

National Defense

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

2. ***Income earned abroad.***—Under the baseline tax system, all compensation received by U.S. citizens is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as a housing allowance. In contrast to this treatment, U.S. tax law allows U.S. citizens who live abroad, work in the private sector, and satisfy a foreign residency requirement to exclude up to $80,000, plus adjustments for inflation since 2004, in foreign earned income from U.S. taxes. In addition, if these taxpayers receive a specific allowance for foreign housing from their employers, then they may also exclude such expenses to the extent that they do not exceed 30 percent of the earned income inclusion, with geographical adjustments, over 16 percent of the earned income limit. If taxpayers do not receive a specific allowance for housing expenses, they may deduct housing expenses up to the amount by which foreign earned income exceeds their foreign earned income exclusion.

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

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

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

6. ***Exceptions under subpart F for active financing income.***—The United States generally taxes the worldwide income of U.S. persons and business entities. The baseline tax system would not allow the deferral of tax or other relief targeted at particular industries or activities. In contrast, under current law, financial firms may defer taxes on income earned overseas in an active business. This provision expired at the end of 2011, but ATRA extended it through December 31, 2013 (extension not shown in the tables).

General Science, Space, and Technology

7. ***Expensing R&E expenditures.***—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 law baseline tax system would allow of expensing of R&E expenditures. In contrast, under the normal tax method, the expensing of R&E expenditures is viewed as a tax expenditure. The baseline assumed for the normal tax method is that all R&E expenditures are successful and have an expected life of five years.

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

The base amount 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 is equal to 14 percent (12 percent prior to 2009) of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding taxable years. Prior to January 1, 2009, taxpayers could also elect an alternative incremental credit regime. Under the alternative incremental credit regime the taxpayer was assigned a three-tiered fixed base percentage that is lower than the fixed-base percentage that would otherwise apply, and the credit rate was reduced. The rates for the alternative incremental credit ranged from 3 percent to 5 percent. Under current law as of December 31, the research credit expired on December 31, 2011. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables.)

Energy

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

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

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

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

11. ***Alternative fuel production credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides a credit of $3 per oil-equivalent barrel of production (in 2004 dollars) for coke or coke gas during a four-year period for qualified facilities. Qualifying facilities producing coke and coke gas must be placed in service by December 31, 2009.

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

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

13. ***Capital gains treatment of royalties on coal.***— 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 in 2012, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. In contrast, current law allows capital gains realized by individuals

to be taxed at a preferentially low rate that is no higher than 15 percent. Certain sales of coal under royalty contracts qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 15 percent maximum tax rate on capital gains. Beginning in 2013, the top statutory preferential tax rate on capital gains will be 20 percent.

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

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

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

17. ***Alcohol fuel credits.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides an income tax credit for ethanol derived from renewable sources and used as fuel. In lieu of the alcohol mixture credit, the taxpayer may claim a refundable excise tax credit. In addition, small ethanol producers are eligible for a separate income tax credit for ethanol production and a separate income tax credit is available for qualified cellulosic biofuel production. With the exception of the cellulosic biofuel credit, these provisions expired on December 31, 2011. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

18. ***Bio-Diesel tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows an income tax credit for bio-diesel used or sold and for bio-diesel derived from virgin sources. In lieu of the bio-diesel credit, the taxpayer may claim a refundable excise tax credit. In addition, small agri-biodiesel producers are eligible for a separate income tax credit for ethanol production and a separate credit is available for qualified renewable diesel fuel mixtures. This provision expired on December 31, 2011. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

19. ***Credit for alternative motor vehicles and refueling property.***—The baseline tax system would not allow credits or deductions for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a number of credits for certain types of vehicles and property. These are available for hydrogen alternative fuel vehicle refueling property, fuel cell vehicles and plug-in electric-drive motor vehicles. The credits for non-hydrogen alternative fuel vehicle refueling property, plug-in conversions, and low-speed, motorcycle, and three-wheeled plug-in electric vehicles expire on December 31, 2011. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

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

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

22. ***Deferral of gain from dispositions of transmission property to implement FERC restructuring policy.***—The baseline tax system generally would tax gains from sale of property when realized. It would not allow an exception for particular activities or individuals. However, the Tax Code allows utilities to defer gains from the sale of their transmission assets to a FERC-approved independent transmission company. The sale of property must be made prior to January 1, 2012. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

23. ***Credit for investment in clean coal facilities.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particu-

lar activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides investment tax credits for clean coal facilities producing electricity and for industrial gasification combined cycle projects.

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

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

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

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

28. ***Credit for construction of new energy efficient homes.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows contractors a tax credit of $2,000 for the construction of a qualified new energy-efficient home that has an annual level of heating and cooling energy consumption at least 50 percent below the annual consumption of a comparable dwelling unit. The credit equals $1,000 in the case of a new manufactured home that meets a 30 percent standard. This provision expired on December 31, 2011. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

29. ***Credit for energy efficiency improvements to existing homes.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code provides an investment tax credit for expenditures made on insulation, exterior windows, and doors that improve the energy efficiency of homes and meet certain standards. The Tax Code also provides a credit for purchases of advanced main air circulating fans, natural gas, propane, or oil furnaces or hot water boilers, and other qualified energy efficient property. This provision expired on December 31, 2011. However, ATRA extended the provision through December 31, 2013 (extension not shown in tables.)

30. ***Credit for energy efficient appliances.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides tax credits for the manufacture of efficient dishwashers, clothes washers, and refrigerators. The size of the credit depends on the efficiency of the appliance. This provision expired on December 31, 2011. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

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

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

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

34. ***Advanced nuclear power facilities production credit.***—The baseline tax system would not allow credits or deductions for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a tax credit equal to 1.8 cents times the number of kilowatt hours of electricity produced at a qualifying advanced nuclear power facility. A taxpayer may claim no more than $125 million per 1,000 MW of capacity. The Treasury Department may allocate up to 6,000 megawatts of credit-eligible capacity.

Natural Resources and Environment

35. ***Exploration and development costs.***—The baseline tax system allows the taxpayer to deduct the depreciation of an asset according to the decline in its economic value over time. However, certain capital outlays

associated with exploration and development of nonfuel minerals may be expensed rather than depreciated over the life of the asset.

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

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

38. ***Capital gains treatment of certain timber.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. However, under current law certain timber sales can be treated as a capital gain rather than ordinary income and therefore subject to the lower capital-gains tax rate. For individuals in 2012, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent. Beginning in 2013, the top statutory preferential tax rate on capital gains will be 20 percent.

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

40. ***Historic preservation.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, expenditures to preserve and restore certified historic structures qualify for an investment tax credit of 20 percent under current law for certified rehabilitation activities. The taxpayer's recoverable basis must be reduced by the amount of the credit. Qualified GO (Gulf Opportunity) Zone expenditures qualify for a 26 percent credit.

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

42. ***Industrial CO*2 *capture and sequestration tax credit***.—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows a credit of $20 per metric ton for qualified carbon dioxide captured at a qualified facility and disposed of in secure geological storage. In addition, the provision allows a credit of $10 per metric ton of qualified carbon dioxide that is captured at a qualified facility and as a tertiary injectant in a qualified enhanced oil or natural gas recovery project.

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

Agriculture

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

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

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

47. ***Capital gains treatment of certain income.***—For individuals in 2012, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law as of December 31, 2012 allowed capital gains to be taxed at a

preferentially low rate that was no higher than 15 percent. Certain agricultural income, such as unharvested crops, qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 15 percent maximum tax rate on capital gains. Under ATRA, beginning in 2013, the top statutory preferential tax rate on capital gains will be 20 percent. However, the tables do not show the changes under ATRA.

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

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

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

Commerce and Housing

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

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

52. ***Deferral of income on life insurance and annuity contracts.***—Under the baseline tax system, individuals and corporations pay taxes on their income when it is (actually or constructively) received or accrued, depending on their method of accounting. Nevertheless, the Tax Code provides favorable tax treatment for investment income earned within qualified life insurance and annuity contracts. In general, investment income earned on qualified life insurance contracts held until death is permanently exempt from income tax. Investment income distributed prior to the death of the insured is tax-exempt to the extent that investment in the contract is overstated (because premiums paid for the cost of life insurance protection are credited to investment in the contract), while the remaining distributed amounts are tax-deferred because income is not taxed on a current basis, but is recognized only when distributed from the contract. Investment income earned on annuities benefits from tax deferral.

53. ***Small property and casualty insurance companies.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, stock non-life insurance companies are generally exempt from tax if their gross receipts for the taxable year do not exceed $600,000 and more than 50 percent of such gross receipts 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 $1.2 million of annual net premiums may elect to pay tax only on their taxable investment income.

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

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

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

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

purchased by first-time, low-to-moderate-income buyers to be exempt. These bonds are generally subject to the State private-activity-bond annual volume cap.

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

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

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

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

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

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

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

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

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

66. ***Accelerated depreciation of residential rental property.***—Under an economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the rental property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the reference

law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

67. ***Discharge of mortgage indebtedness.***—Under the baseline tax system, all income would generally be taxed under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for any discharge of indebtedness of up to $2 million ($1 million in the case of a married individual filing a separate return) from a qualified principal residence. The provision applies to debt discharged after January 1, 2007, and before January 1, 2013. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables.)

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

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

70. ***Treatment of qualified dividends.***— 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 in 2012, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. In contrast, qualified dividends were taxed at a preferentially low rate that is no higher than 15 percent. Beginning in 2013, dividends would have been once again taxed as ordinary income. However, ATRA set a permanent statutory maximum tax rate of 20 percent (change not shown in the tables.)

71. ***Capital gains (other than agriculture, timber, 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. For individuals in 2012, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. In contrast, capital gains on assets held for more than one year were taxed at a preferentially low rate that is no higher than 15 percent. Beginning in 2013, the top statutory preferential tax rate on capital gains will be 20 percent.

72. ***Capital gains exclusion for small business 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 of 50 percent (from a 28 percent tax rate) for capital gains from qualified small business stock held by individuals for more than 5 years; 75 percent for stock issued after February 17, 2009 and before September 28, 2010; and 100 percent for stock issued after September 27, 2010 and before January 1, 2012. A qualified small business is a corporation whose gross assets do not exceed $50 million as of the date of issuance of the stock. ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

73. ***Step-up in basis of capital gains at death.***— Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred at death or by gift. 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.

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

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

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

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

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

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

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

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

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

Transportation

83. ***Deferral of tax on U.S. shipping companies.***—The baseline tax system generally would tax all profits and income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows certain companies that operate U.S. flag vessels to defer income taxes on that portion of their income used for shipping purposes, primarily construction, modernization and major repairs to ships, and repayment of loans to finance these investments. U.S. shipping companies may choose to be subject to a tonnage tax based on gross shipping weight in lieu of an income tax, in which case profits would not be subject to tax under the regular tax rate schedule.

84. ***Exclusion of employee parking expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from taxable income for employee parking expenses that are paid for by the employer or that are received by the employee in lieu of wages. In 2012, the maximum amount of the parking exclusion is $240 per month. The tax expenditure estimate does not include any subsidy provided through employer-owned parking facilities.

85. ***Exclusion of employee transit pass expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for passes, tokens, fare cards, and vanpool expenses that are paid for by an employer or that are received by the employee in lieu of wages to defray an employee's commuting costs. Under current law as of December 31, 2012, the maximum amount of the transit exclusion was $125 per month. However, ATRA extended parity of employer-provided parking and transit benefits through 2013 (retroactive through 2012), meaning that the maximum amount of transit exclusion is $240 per month in 2012 and 2013 (extension not shown in tables.)

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

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

ity to finance qualified highway or surface freight transfer facilities. The authority to issue these bonds expires on December 31, 2015.

Community and Regional Development

88. ***Rehabilitation of structures.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code allows a 10-percent investment tax credit for the rehabilitation of buildings that are used for business or productive activities and that were erected before 1936 for other than residential purposes. The taxpayer's recoverable basis must be reduced by the amount of the credit. Qualified GO Zone expenditures qualify for a 13 percent credit.

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

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

91. ***Empowerment zones and renewal communities.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income, tax credits, and write-offs faster than economic depreciation. In contrast, under current law qualifying businesses in designated economically depressed areas can receive tax benefits such as an employer wage credit, increased expensing of investment in equipment, special tax-exempt financing, accelerated depreciation, and certain capital gains incentives. A taxpayer's ability to accrue new tax benefits for Empowerment Zones and the DC Enterprise Zone expired December 31, 2011. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

92. ***New markets tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, under current law taxpayers who make qualified equity investments in a community development entity (CDE), which then makes qualified investments in low-income communities, are eligible for a tax credit received over 7 years. A CDE must first receive an allocation of tax credit from Treasury before it can sell the tax credit to the investor in exchange for the equity investment. The total equity investment available for the credit across all CDEs is $5 billion in 2011, the last year for which allocations can be made. However, ATRA extended the provision for two more years (extension not shown in tables.)

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

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

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

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

Education, Training, Employment, and Social Services

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

(many scholarships are derived directly or indirectly from Government funding).

98. ***HOPE tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable HOPE tax credit allows a credit for 100 percent of an eligible student's first $1,200 of tuition and fees and 50 percent of the next $1,200 of tuition and fees. The credit only covers tuition and fees paid during the first two years of a student's post-secondary education. In 2012, the credit is phased out ratably for taxpayers with modified AGI between $104,000 and $124,000 if married filing jointly ($52,000 and $62,000 for other taxpayers), indexed.

99. ***Lifetime Learning tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable Lifetime Learning tax credit allows a credit for 20 percent of an eligible student's tuition and fees, up to a maximum credit per return of $2,000. In 2012, the credit is phased out ratably for taxpayers with modified AGI between $104,000 and $124,000 if married filing jointly ($52,000 and $62,000 for other taxpayers), indexed. The credit applies to both undergraduate and graduate students.

100. ***American Opportunity Tax Credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law in 2012, however, the American Opportunity tax credit allows a partially refundable credit of up to $2,500 per eligible student for qualified tuition and related expenses paid during each of the first four years of the student's post-secondary education. The credit is phased out for taxpayers with modified adjusted gross income between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return). The credit expired at the end of 2012, but was extended for five years under ATRA (extension not shown in tables.)

101. ***Education Individual Retirement Accounts (IRA).***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. While contributions to an education IRA are not tax-deductible under current law, investment income earned by education IRAs is not taxed when earned, and investment income from an education IRA is tax-exempt when withdrawn to pay for a student's education expenses. The maximum contribution to an education IRA in 2012 is $2,000 per beneficiary. In 2012, the maximum contribution is phased down ratably for taxpayers with modified AGI between $190,000 and $220,000 if married filing jointly ($95,000 and $110,000 for other taxpayers).

102. ***Student-loan interest.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct non-business interest expenses. In contrast, taxpayers may claim an above-the-line deduction of up to $2,500 on interest paid on an education loan. In general, interest may only be deducted for the first five years in which interest payments are required, and the maximum deduction is phased down ratably for taxpayers with modified AGI between $60,000 and $75,000 if married filing jointly ($40,000 to $55,000 for other taxpayers), indexed from 2001. However, for tax years beginning on January 1, 2001 and before December 31, 2011, the first five year requirement is suspended, and the phase down range for the deduction is raised. In 2012, the maximum deduction is phased down ratably for taxpayers with modified AGI between $125,000 and $155,000 if married filing jointly ($60,000 and $75,000 for other taxpayers).

103. ***Deduction for higher education expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides a maximum annual deduction of $4,000 in 2011 for qualified higher education expenses for taxpayers with adjusted gross income up to $130,000 on a joint return ($65,000 for other taxpayers). Taxpayers with adjusted gross income up to $160,000 on a joint return ($80,000 for other taxpayers) may deduct up to $2,000. This provision expired on December 31, 2011. However, ATRA extended the provision through December 2013 (extension not shown in the tables.)

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

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

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

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

unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable. An additional $0.4 billion of these bonds with a tax credit was authorized to be issued before January 1, 2011. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

108. ***U.S. savings bonds for education.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, interest earned on U.S. savings bonds issued after December 31, 1989 is tax-exempt if the bonds are transferred to an educational institution to pay for educational expenses. The tax exemption is phased out for taxpayers with AGI between $109,250 and $139,250 if married filing jointly ($72,850 and $87,850 for other taxpayers) in 2012.

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

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

111. ***Employer-provided educational assistance.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, employer-provided educational assistance is excluded from an employee's gross income even though the employer's costs for this assistance are a deductible business expense. The maximum exclusion is $5,250 per taxpayer.

112. ***Special deduction for teacher expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law educators in both public and private elementary and secondary schools, who work at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide, may subtract up to $250 of qualified expenses when figuring their adjusted gross income (AGI). This provision expired on December 31, 2011. However, ATRA extended the provision through December 31, 2013 (extension not shown in the tables.)

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

114. ***Qualified school construction bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code was modified in 2009 to provide a tax credit in lieu of interest to holders of qualified school construction bonds. The national volume limit is $22.4 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 (WOTC).***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides employers with a tax credit for qualified wages paid to individuals. The credit applies to employees who begin work on or before December 31, 2011 and who are certified as members of various targeted groups. The amount of the credit that can be claimed is 25 percent of qualified wages for employment less than 400 hours and 40 percent for employment of 400 hours or more. Generally, the maximum credit per employee is $2,400 and can only be claimed on the first year of wages an individual earns from an employer. However, the credit for long-term welfare recipients can be claimed on second year wages as well and has a $9,000 maximum. Employees must work at least 120 hours to be eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed. The credit was extended to certain recently discharged unemployed veterans through December 31, 2012 with a maximum credit of $9,600 for hiring eligible veterans. ATRA extended the provision through December 31, 2013 (extension not shown in the tables).

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, under current law up to $5,000 of employer-provided child care is excluded from an employee's gross income even though the employer's costs for the child care are a deductible business expense.

117. ***Employer-provided child care credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, current law provides a credit equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services. Employer deductions for such expenses are reduced by

the amount of the credit. The maximum total credit is limited to $150,000 per taxable year.

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 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. Instead, taxpayers can receive a tax credit for qualified adoption expenses under current law. The maximum credit is $12,650 per child for 2012, and is phased-out ratably for taxpayers with modified AGI between $189,710 and $229,710. The credit amounts and the phase-out thresholds are indexed for inflation. Taxpayers may also exclude qualified adoption expenses provided or reimbursed by an employer from income, subject to the same maximum amounts and phase-out as the credit. The same expenses cannot qualify for tax benefits under both programs; however, a taxpayer may use the benefits of the exclusion and the tax credit for different expenses.

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

121. ***Child credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. Under current law, however, taxpayers with children under age 17 can qualify for a $1,000 partially refundable per child credit. Any unclaimed credit due to insufficient tax liability may be refundable – taxpayers may claim a refund for 15 percent of earnings in excess of a $3,000 floor, up to the amount of unused credit. Alternatively, taxpayers with three or more children may claim a refund of the amount of payroll taxes paid in excess of EITC received (up to the amount of unused credit) if this results in a larger refund. The credit is phased out for taxpayers at the rate of $50 per $1,000 of modified AGI above $110,000 ($75,000 for single or head of household filers and $55,000 for married taxpayers filing separately). The maximum credit had been scheduled to decline to $500 in 2013 under current law as of December 31 2012, but ATRA made the $1,000 maximum credit permanent. However, the tables do not show the changes under ATRA.

122. ***Child and dependent care expenses.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides parents who work or attend school and who have child and dependent care expenses a tax credit. In 2012, expenditures up to a maximum $3,000 for one dependent and $6,000 for two or more dependents are eligible for the credit. The credit is equal to 35 percent of qualified expenditures for taxpayers with incomes of $15,000. The credit is reduced to a minimum of 20 percent by one percentage point for each $2,000 of income in excess of $15,000.

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

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

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

126. ***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.

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

Health

128. ***Employer-paid medical insurance and expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law, employer-paid health insurance premiums and other medical expenses (including long-term care)

are deducted as a business expense by employers, but they are not included in employee gross income.

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

130. ***Medical and health savings accounts.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Also, the baseline tax system would not allow a deduction for personal expenditures. In contrast, individual contributions to Archer Medical Savings Accounts (Archer MSAs) and Health Savings Accounts (HSAs) are allowed as a deduction in determining adjusted gross income whether or not the individual itemizes deductions. Employer contributions to Archer MSAs and HSAs are excluded from income and employment taxes. Archer MSAs and HSAs require that the individual have coverage by a qualifying high deductible health plan. Earnings from the accounts are excluded from taxable income. Distributions from the accounts used for medical expenses are not taxable. The rules for HSAs are generally more flexible than for Archer MSAs and the deductible contribution amounts are greater (in 2012, $3100 for taxpayers with individual coverage and $6,250 for taxpayers with family coverage). Thus, HSAs have largely replaced MSAs.

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

132. ***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.

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

134. ***Credit for employee health insurance expenses of small business.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides a tax credit to qualified small employers that make a certain level of non-elective contributions towards the purchase of certain health insurance coverage for its employees. To receive a credit, an employer must have fewer than 25 full-time-equivalent employees whose average annual full-time-equivalent wages from the employer are less than $50,000 (indexed for taxable years after 2013). However, to receive a full credit, an employer must have no more than 10 full-time employees, and the average wage paid to these employees must be no more than $25,000 (indexed for taxable years after 2013). A qualifying employer may claim the credit for any taxable year beginning in 2010, 2011, 2012, and 2013 and for up to two years for insurance purchased through a Health Insurance Exchange thereafter. For taxable beginning in 2010, 2011, 2012, and 2013, the maximum credit is 35 percent of premiums paid by qualified taxable employers and 25 percent of premiums paid by qualified tax-exempt organizations. For taxable years beginning in 2014 and later years, the maximum tax credit will increase to 50 percent of premiums paid by qualified taxable employers and 35 percent of premiums paid by qualified tax-exempt organizations.

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

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

137. ***Blue Cross and Blue Shield.***—The baseline tax system generally would tax all profits under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, Blue Cross and Blue Shield health insurance providers in existence on August 16, 1986 and certain other nonprofit health insurers are provided exceptions from otherwise applicable insurance company income tax

accounting rules that substantially reduce their tax liabilities, provided that their percentage of total premium revenue expended on reimbursement for clinical services provided to enrollees is not less than 85 percent for the taxable year.

138. ***Tax credit for health insurance purchased by certain displaced and retired individuals.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Trade Act of 2002 provides a refundable tax credit of 65 percent for the purchase of health insurance coverage by individuals eligible for Trade Adjustment Assistance and certain Pension Benefit Guarantee Corporation pension recipients. The American Recovery and Reinvestment Act and a subsequent extension increased the credit to 80 percent in coverage months preceding March 2011. The Trade Adjustment Assistance Extension Act of 2011 extended an enhanced credit of 72.5% through December 2013, but eliminated the credit entirely beginning January 1, 2014.

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

Income Security

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

141. ***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.

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

143. ***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.

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

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

146. ***Defined contribution employer plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law individual taxpayers and employers can make tax-preferred contributions to employer-provided 401(k) and similar plans (e.g. 403(b) plans and the Federal Government's Thrift Savings Plan). In 2012, an employee could exclude up to $17,000 (indexed) of wages from AGI under a qualified arrangement with an employer's 401(k) plan. Employees age 50 or over could exclude up to $22,500 in contributions (indexed). The defined contribution plan limit, including both employee and employer contributions, is $50,000 in 2012 (indexed). The tax on contributions made by both employees and employers and the investment income earned by these plans is deferred until withdrawn.

147. ***Individual Retirement Accounts (IRAs).***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law individual taxpayers can take advantage of traditional and Roth IRAs to defer or otherwise reduce the tax on the return to their retirement savings. The IRA contribution limit is $5,000 in 2012 (indexed); taxpayers age 50 or over are allowed to make additional "catch-up" contributions of $1,000. Contributions to a traditional IRA are generally deductible but the deduction is phased out for workers with incomes above certain levels who, or whose spouses, are active participants in an employer-provided retirement plan. Contributions and account earnings are includible in income when withdrawn from traditional IRAs. Roth IRA contributions are not deductible, but earnings and withdrawals are exempt from taxation. Income limits also apply to Roth IRA contributions.

148. ***Low and moderate-income savers' credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides an additional incentive for lower-income taxpayers to save through a nonrefundable credit of up to 50 percent on IRA and other retirement contributions of up to $2,000. This credit is in addition to any deduction or exclusion. The credit is completely phased out by $57,500 for joint filers, $43,125 for head of household filers, and $28,750 for other filers in 2012.

149. ***Self-Employed plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income.

In contrast, under current law self-employed individuals can make deductible contributions to their own retirement plans equal to 25 percent of their income, up to a maximum of $50,000 in 2012. 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.

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

151. ***Employer-provided accident and disability benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, and 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.

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

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

154. ***Additional deduction for the blind.***—Under the baseline tax system, the standard deduction is allowed. An additional standard deductions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are blind to claim an additional $1,450 standard deduction if single, or $1,150 if married in 2012.

155. ***Additional deduction for the elderly.***—Under the baseline tax system, the standard deduction is allowed. An additional standard deductions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years or older to claim an additional $1,450 standard deduction if single, or $1,150 if married in 2012.

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

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

158. ***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. For a family with one qualifying child, the credit is 34 percent of the first $9,320 of earned income in 2012. The credit is 40 percent of the first $13,090 of income for a family with two qualifying children, and it is 45 percent of the first $13,090 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 $6,210 of earned income. The credit is phased out at income levels and rates which depend upon how many qualifying children are eligible and marital status. Earned income tax credits in excess of tax liabilities owed through the individual income tax system are refundable to individuals. After 2012, the additional benefit for families with three or more children was to be eliminated. However, ATRA permanently extended this provision (extension not shown in the tables).

Social Security

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

160. ***Social Security benefits for the disabled.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, benefit payments from the Social Security Trust Fund for disability are fully or partially excluded from a beneficiary's gross incomes. (See provision number 161, Social Security benefits for retired workers.)

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

Veterans Benefits and Services

162. ***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.

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

164. ***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.

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

General Government

166. ***Public purpose State and local bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local government bonds issued to finance public-purpose construction (e.g., schools, roads, sewers), equipment acquisition, and other public purposes is tax-exempt. Interest on bonds issued by Indian tribal governments for essential governmental purposes is also tax-exempt.

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

168. ***Deductibility of certain nonbusiness State and local taxes.***—Under the baseline tax system, a deduction for personal consumption expenditures would not be allowed. In contrast, the Tax Code allows taxpayers who itemize their deductions to claim a deduction for State and local income taxes (or, at the taxpayer's election, state and local sales taxes) and property taxes, even though these taxes primarily pay for services that, if purchased directly by taxpayers, would not be deductible. ATRA extended the provision through December 31, 2013 (extension not shown in the tables.)

Interest

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

APPENDIX

Performance Measures and the Economic Effects of Tax Expenditures

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

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

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

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

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

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

A Framework for Evaluating the Effectiveness of Tax Expenditures

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

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

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

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

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

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

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

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

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

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

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

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

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

Current Administration Proposals on Tax Expenditures

The Administration considers performance measurement, evaluations, and the economic effects of tax expenditures each year in its deliberation for the Budget and proposals are informed by these analyses. The President's National Commission on Fiscal Responsibility and Reform submitted a report in 2010 in which they said that the income tax system is unduly complicated and that the government should "sharply reduce rates, broaden the base, simplify the tax code, and reduce the many 'tax expenditures' —another name for spending through the tax code."

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

Reduce the value of certain tax expenditures. The Administration proposes to limit the tax rate at which upper-income taxpayers can use itemized deductions and other tax preferences to reduce tax liability to a maximum of 28 percent. This limitation would affect only married taxpayers filing a joint return with income adjusted for these tax preferences of over $250,000 (at 2014 levels) and single taxpayers with income over $200,000 (at 2014 levels). The limit would apply to all itemized deductions, tax-exempt interest, employer-sponsored health insurance, deductions and income exclusions for employee retirement contributions, and certain above-the-line deductions, effective for taxable years beginning after December 31, 2013. These are among the largest tax expenditures. This proposal would make the tax code more equitable because the value of the tax expenditure as a percentage of the deduction is proportional to one's tax bracket, so it is less valuable to those in lower brackets.

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

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

Make permanent the American Opportunity Tax Credit (AOTC), the expansion of the EITC for larger families, EITC marriage penalty relief, and the refundability of the child tax credit. These provisions were extended through 2017 in ATRA and the Budget assumes in its baseline that these provisions would be permanently extended. Although permanent extension would increase the cost of these tax expenditures, it would increase the equity of the overall tax system and provide benefits to low and middle income families.

Allow a range of tax expenditures to expire. The Tax Reconciliation, Unemployment Insurance Reauthorization, the Job Creation Act of 2010, and ATRA, have extended many provisions of the tax code, including many provisions identified as tax expenditures in this chapter. However, a number of provisions identified as tax expenditures have been allowed to expire. For instance, the Making Work Pay Credit, the sales tax deduction for new cars and trucks, the above-the-line deduction for property taxes up to $500 for taxpayers who to not itemize, and the exemption from taxes for the first $2,400 of unemployment benefits were allowed to expire.