FEDERAL RECEIPTS

13. 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 document are patterned on a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time.

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

Tax expenditures relating to the individual and corporate income taxes are estimated for fiscal years 2016–2026 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 1992.

TAX EXPENDITURES IN THE INCOME TAX

Tax Expenditure Estimates

All tax expenditure estimates and descriptions presented here are based upon current tax law enacted as of July 1, 2016 and reflect the economic assumptions from the Mid-Session Review of the 2017 Budget. In some cases, expired or repealed provisions are listed if their revenue effects occur in fiscal year 2016 or later.

The total revenue effects for tax expenditures for fiscal years 2016–2026 are displayed according to the Budget's functional categories in Table 1. Descriptions of the specific tax expenditure provisions follow the discussion of general features of the tax expenditure concept.

Two baseline concepts—the normal tax baseline and the reference tax law baseline—are used to identify and estimate tax expenditures.[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 below.

Tables 2A and 2B report separately the respective portions of the total revenue effects that arise under the individual and corporate income taxes. 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 3 ranks the major tax expenditures by the size of their 2017–2026 revenue effect. The first column provides the number of the provision in order to cross reference this table to Tables 1, 2A, and 2B, as well as to the descriptions below.

Interpreting Tax Expenditure Estimates

The estimates shown for individual tax expenditures in Tables 1 through 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

[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.

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 1 are the totals of individual and corporate income tax revenue effects reported in Tables 2A and 2B, and do not reflect any possible interactions between individual and corporate income tax receipts. For this reason, the estimates in Table 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 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 over time, so that incoming tax receipts from past deferrals are greater than deferred receipts from new activity, the cash-basis tax expenditure estimate can be negative, despite the fact that in present-value terms current deferrals have a real cost to the Government. Alternatively, in the case of a newly enacted deferral provision, a cash-based estimate can overstate the real effect on receipts to the Government because the newly deferred taxes will ultimately be received.

Discounted present-value estimates of revenue effects are presented in Table 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 2015 which cause the deferrals or other long-term revenue effects. For instance, a pension contribution in 2016 would cause a deferral of tax payments on wages in 2016 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2016 pension contribution and accrued earnings will be paid out and taxes will be due; these receipts are included in the present-value estimate. In general, this conceptual approach is similar to the one used for reporting the budgetary effects of credit programs, where direct loans and guarantees in a given year affect future cash flows.

Tax Expenditure Baselines

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

The normal tax baseline is patterned on a practical variant of a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time. The normal tax baseline allows 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.
- Tax rates on noncorporate business income 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]

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.

[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.

Descriptions of Income Tax Provisions

Descriptions of the individual and corporate income tax expenditures reported on in this document follow. These descriptions relate to current law as of July 1, 2016.

National Defense

1. ***Exclusion of benefits and allowances to armed forces personnel.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. 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.

International Affairs

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

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

Table 13–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2016-2026
(In millions of dollars)

		Total from corporations and individuals											
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2026
National Defense													
1	Exclusion of benefits and allowances to armed forces personnel	12,280	12,650	11,460	11,500	11,860	12,320	12,820	13,370	13,940	14,560	15,210	129,690
International affairs:													
2	Exclusion of income earned abroad by U.S. citizens	6,280	6,600	6,930	7,280	7,640	8,020	8,420	8,840	9,290	9,750	10,240	83,010
3	Exclusion of certain allowances for Federal employees abroad	1,300	1,370	1,430	1,500	1,580	1,660	1,740	1,830	1,920	2,020	2,120	17,170
4	Inventory property sales source rules exception	4,270	4,630	5,020	5,440	5,900	6,400	6,940	7,530	8,170	8,860	9,610	68,500
5	Deferral of income from controlled foreign corporations (normal tax method)	102,100	107,200	112,560	118,190	124,100	130,310	136,820	143,660	150,850	158,390	166,310	1,348,390
6	Deferred taxes for financial firms on certain income earned overseas	15,320	16,080	16,880	17,730	18,620	19,550	20,520	21,550	22,630	23,760	24,950	202,270
General science, space, and technology:													
7	Expensing of research and experimentation expenditures (normal tax method)	7,190	7,110	7,660	8,680	9,640	10,430	11,130	11,770	12,470	13,220	14,020	106,130
8	Credit for increasing research activities	10,350	11,150	11,850	12,580	13,350	14,170	15,040	15,990	16,980	18,040	19,160	148,310
Energy:													
9	Expensing of exploration and development costs, fuels	–450	–650	–290	–30	120	200	260	290	290	300	350	840
10	Excess of percentage over cost depletion, fuels	410	400	510	560	610	690	810	960	1,100	1,200	1,350	8,190
11	Exception from passive loss limitation for working interests in oil and gas properties	60	40	40	40	40	30	30	30	30	30	20	330
12	Capital gains treatment of royalties on coal	150	150	150	140	140	150	150	150	160	170	170	1,530
13	Exclusion of interest on energy facility bonds	10	20	20	10	20	30	30	30	30	30	30	250
14	Energy production credit [1]	1,400	1,770	2,320	2,970	3,570	4,110	4,470	4,650	4,710	4,610	4,400	37,580
15	Marginal wells credit	0	70	70	30	0	0	0	0	0	0	0	170
16	Energy investment credit [1]	1,190	2,440	3,450	3,830	3,920	3,720	2,950	2,000	1,150	550	290	24,300
17	Alcohol fuel credits [2]	10	10	0	0	0	0	0	0	0	0	0	10
18	Bio-Diesel and small agri-biodiesel producer tax credits [3]	30	20	0	0	0	0	0	0	0	0	0	20
19	Tax credits for clean-fuel burning vehicles and refueling property	480	550	660	650	480	410	360	270	200	190	210	3,980
20	Exclusion of utility conservation subsidies	430	450	470	490	520	540	570	590	620	650	680	5,580
21	Credit for holding clean renewable energy bonds [4]	70	70	70	70	70	70	70	70	70	70	70	700
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	60	–190	–270	–210	–190	–150	–120	–70	–20	0	0	–1,220
23	Credit for investment in clean coal facilities	160	400	440	230	30	–20	–20	–20	–10	–10	0	1,020
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	–1,760	–1,380	–1,140	–930	–740	–560	–370	–180	–40	0	0	–5,340
25	Natural gas distribution pipelines treated as 15-year property	140	140	150	150	150	120	60	–20	–100	–190	–270	190
26	Amortize all geological and geophysical expenditures over 2 years	70	60	60	60	70	80	90	70	60	40	40	630
27	Allowance of deduction for certain energy efficient commercial building property	80	10	–30	–30	–30	–30	–30	–30	–30	–30	–30	–260
28	Credit for construction of new energy efficient homes	210	170	70	30	10	0	0	0	0	0	0	280
29	Credit for energy efficiency improvements to existing homes	530	290	0	0	0	0	0	0	0	0	0	290
30	Credit for residential energy efficient property	1,450	1,460	1,500	1,550	1,470	1,270	640	150	20	0	0	8,060
31	Qualified energy conservation bonds [5]	30	30	30	30	30	30	30	30	30	30	30	300
32	Advanced Energy Property Credit	10	–30	–30	–30	–10	0	0	0	0	0	0	–100
33	Advanced nuclear power production credit	0	0	0	170	440	550	550	550	550	550	550	3,910
34	Reduced tax rate for nuclear decommissioning funds	160	190	220	240	250	270	280	290	300	320	330	2,690
Natural resources and environment:													
35	Expensing of exploration and development costs, nonfuel minerals	20	40	40	50	50	50	50	50	50	50	50	480
36	Excess of percentage over cost depletion, nonfuel minerals	430	420	430	440	440	440	430	430	420	410	390	4,250
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	420	450	470	500	540	610	670	700	740	780	800	6,260
38	Capital gains treatment of certain timber income	150	150	150	140	140	150	150	150	160	170	170	1,530
39	Expensing of multiperiod timber growing costs	330	340	360	380	390	420	420	430	430	440	440	4,050
40	Tax incentives for preservation of historic structures	460	470	470	480	490	510	520	530	540	540	550	5,100

Table 13–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2016-2026—Continued

(In millions of dollars)

		Total from corporations and individuals											
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2026
41	Industrial CO2 capture and sequestration tax credit	110	150	180	80	0	0	0	0	0	0	0	410
42	Deduction for endangered species recovery expenditures	30	30	30	30	40	50	50	50	50	70	70	470
	Agriculture:												
43	Expensing of certain capital outlays	210	230	240	250	270	280	290	310	330	350	360	2,910
44	Expensing of certain multiperiod production costs	370	390	410	440	460	490	520	550	590	630	660	5,140
45	Treatment of loans forgiven for solvent farmers	40	50	50	50	50	50	60	60	60	60	70	560
46	Capital gains treatment of certain income	1,470	1,480	1,450	1,440	1,440	1,460	1,500	1,540	1,600	1,670	1,740	15,320
47	Income averaging for farmers	140	150	160	170	180	180	190	200	210	220	230	1,890
48	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	30	30	30	30	30	250
49	Expensing of reforestation expenditures	60	60	60	60	70	80	80	80	80	90	90	750
	Commerce and housing:												
	Financial institutions and insurance:												
50	Exemption of credit union income	2,310	2,710	3,080	3,260	3,350	3,600	3,770	3,530	3,850	4,100	4,060	35,310
51	Exclusion and deferral of policyholder income earned on life insurance and annuity contracts	13,980	17,920	24,360	29,110	32,410	34,770	36,520	37,920	39,130	40,290	41,280	333,710
52	Exclusion or special alternative tax for small property and casualty insurance companies	50	50	50	60	60	60	60	70	70	70	80	630
53	Tax exemption of insurance income earned by tax-exempt organizations	690	720	740	780	830	870	890	910	930	950	970	8,590
54	Small life insurance company deduction	40	40	40	40	40	40	50	50	50	50	50	450
55	Exclusion of interest spread of financial institutions	470	500	510	530	550	570	580	590	600	610	620	5,660
	Housing:												
56	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,200	1,270	1,330	1,390	1,530	1,730	1,860	1,990	2,090	2,170	2,250	17,610
57	Exclusion of interest on rental housing bonds	1,030	1,100	1,150	1,200	1,320	1,490	1,600	1,710	1,800	1,870	1,940	15,180
58	Deductibility of mortgage interest on owner-occupied homes	61,190	64,110	68,090	73,590	79,990	86,570	93,030	99,300	105,110	110,480	115,650	895,920
59	Deductibility of State and local property tax on owner-occupied homes	34,470	36,540	38,940	41,590	44,410	47,170	49,930	52,770	55,670	58,560	61,280	486,860
60	Deferral of income from installment sales	1,620	1,630	1,620	1,620	1,630	1,660	1,700	1,750	1,820	1,890	1,970	17,290
61	Capital gains exclusion on home sales	43,310	46,130	48,470	50,920	53,500	56,200	59,050	62,040	65,180	68,470	71,940	581,900
62	Exclusion of net imputed rental income	105,610	109,620	112,670	114,740	116,270	119,520	122,870	126,310	129,850	133,480	137,220	1,222,550
63	Exception from passive loss rules for $25,000 of rental loss	7,120	7,480	7,800	8,080	8,290	8,490	8,670	8,820	8,980	9,250	9,370	85,230
64	Credit for low-income housing investments	8,630	8,740	8,850	8,950	9,090	9,280	9,490	9,730	10,010	10,290	10,200	94,630
65	Accelerated depreciation on rental housing (normal tax method)	1,610	2,200	2,920	3,660	4,440	5,290	6,170	6,930	7,660	8,360	9,060	56,690
66	Discharge of mortgage indebtedness	3,340	1,090	0	0	0	0	0	0	0	0	0	1,090
	Commerce:												
67	Discharge of business indebtedness	–150	–50	10	10	10	20	30	40	50	50	50	220
68	Exceptions from imputed interest rules	50	50	60	60	60	70	70	80	80	80	90	700
69	Treatment of qualified dividends	27,980	28,810	29,850	30,940	32,100	33,370	34,720	36,160	37,690	39,290	40,990	343,920
70	Capital gains (except agriculture, timber, iron ore, and coal)	109,530	110,270	108,560	107,620	107,780	109,210	111,760	115,240	119,500	124,450	129,800	1,144,190
71	Capital gains exclusion of small corporation stock	540	700	850	1,050	1,210	1,320	1,420	1,520	1,600	1,660	1,710	13,040
72	Step-up basis of capital gains at death	49,990	51,990	54,070	56,230	58,480	60,820	63,250	65,780	68,420	71,150	74,000	624,190
73	Carryover basis of capital gains on gifts	7,790	7,520	7,180	6,960	6,890	6,960	7,020	7,060	7,140	7,260	7,410	71,400
74	Ordinary income treatment of loss from small business corporation stock sale	50	50	50	50	50	50	50	50	50	50	50	500
75	Deferral of gains from like-kind exchanges	7,330	7,690	8,080	8,500	8,920	9,360	9,830	10,320	10,840	11,380	11,940	96,860
76	Depreciation of buildings other than rental housing (normal tax method)	–8,830	–9,000	–9,390	–10,010	–10,750	–11,420	–12,090	–12,750	–13,490	–13,950	–14,360	–117,210
77	Accelerated depreciation of machinery and equipment (normal tax method)	44,630	47,080	50,320	52,420	–11,620	–20,710	–830	11,810	23,160	32,860	40,480	224,970
78	Expensing of certain small investments (normal tax method)	3,920	3,580	3,660	3,840	7,730	8,350	7,470	7,210	7,140	7,250	7,570	63,800
79	Graduated corporation income tax rate (normal tax method)	3,300	3,000	2,650	2,460	2,370	2,360	2,380	2,380	2,380	2,410	2,250	24,640
80	Exclusion of interest on small issue bonds	150	160	170	170	190	220	240	260	270	280	280	2,240

Table 13–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2016-2026—Continued

(In millions of dollars)

		Total from corporations and individuals											
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2026
81	Deduction for US production activities	15,860	16,420	17,160	17,900	18,650	19,440	20,250	21,110	21,990	22,910	23,880	199,710
82	Special rules for certain film and TV production	280	200	110	60	30	0	0	0	0	0	0	400
Transportation:													
83	Tonnage tax	70	80	80	90	90	90	100	100	110	110	120	970
84	Deferral of tax on shipping companies	20	20	20	20	20	20	20	20	20	20	20	200
85	Exclusion of reimbursed employee parking expenses	2,940	3,060	3,170	3,280	3,410	3,520	3,610	3,750	3,850	4,020	4,160	35,830
86	Exclusion for employer-provided transit passes	1,010	1,080	1,140	1,210	1,290	1,370	1,440	1,520	1,600	1,630	1,690	13,970
87	Tax credit for certain expenditures for maintaining railroad tracks	140	60	0	0	0	0	0	0	0	0	0	60
88	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	210	200	190	170	170	160	160	140	140	130	130	1,590
Community and regional development:													
89	Investment credit for rehabilitation of structures (other than historic)	20	20	20	20	20	20	20	20	20	20	20	200
90	Exclusion of interest for airport, dock, and similar bonds	680	720	750	790	870	980	1,060	1,120	1,190	1,230	1,280	9,990
91	Exemption of certain mutuals' and cooperatives' income	140	150	150	150	150	160	160	160	170	170	180	1,600
92	Empowerment zones	140	110	50	30	30	10	10	10	0	0	0	250
93	New markets tax credit	1,290	1,300	1,200	1,050	980	890	760	610	440	280	90	7,600
94	Credit to holders of Gulf Tax Credit Bonds.	230	240	250	260	300	320	350	380	400	420	430	3,350
95	Recovery Zone Bonds [6]	130	130	140	140	160	180	190	210	220	230	240	1,840
96	Tribal Economic Development Bonds	40	40	40	40	50	50	60	60	70	70	70	550
Education, training, employment, and social services:													
	Education:												
97	Exclusion of scholarship and fellowship income (normal tax method)	3,290	3,410	3,500	3,560	3,690	3,820	3,960	4,100	4,240	4,400	4,550	39,230
98	Tax credits and deductions for postsecondary education expenses [7]	15,530	15,620	15,450	15,590	15,720	15,730	15,720	15,720	15,690	15,630	15,520	156,390
99	Education Individual Retirement Accounts	30	40	40	40	40	40	40	50	50	50	50	440
100	Deductibility of student-loan interest	1,950	1,970	2,010	2,050	2,130	2,150	2,200	2,270	2,290	2,330	2,410	21,810
101	Qualified tuition programs	1,740	1,920	2,110	2,300	2,490	2,700	2,910	3,140	3,390	3,650	3,930	28,540
102	Exclusion of interest on student-loan bonds	440	460	480	500	560	620	680	730	760	790	820	6,400
103	Exclusion of interest on bonds for private nonprofit educational facilities	2,260	2,380	2,490	2,600	2,870	3,230	3,490	3,730	3,920	4,080	4,220	33,010
104	Credit for holders of zone academy bonds [8]	160	170	180	170	150	130	110	90	80	60	50	1,190
105	Exclusion of interest on savings bonds redeemed to finance educational expenses	30	30	30	30	30	40	40	40	40	50	50	380
106	Parental personal exemption for students age 19 or over	4,220	4,210	4,310	4,470	4,600	4,720	4,830	4,940	5,030	5,100	5,180	47,390
107	Deductibility of charitable contributions (education)	5,110	5,480	5,890	6,330	6,730	7,100	7,490	7,860	8,250	8,630	9,000	72,760
108	Exclusion of employer-provided educational assistance	850	900	950	990	1,040	1,090	1,140	1,200	1,260	1,320	1,380	11,270
109	Special deduction for teacher expenses	210	210	210	210	220	220	260	270	270	270	270	2,410
110	Discharge of student loan indebtedness	90	100	100	100	110	110	110	110	120	120	120	1,100
111	Qualified school construction bonds [9]	650	650	650	650	650	650	650	650	650	650	650	6,500
	Training, employment, and social services:												
112	Work opportunity tax credit	1,160	1,310	1,350	1,390	1,010	480	300	230	170	130	100	6,470
113	Employer provided child care exclusion	950	1,000	1,060	1,140	1,200	1,280	1,350	1,440	1,530	1,620	1,710	13,330
114	Employer-provided child care credit	10	10	10	10	10	10	10	10	10	10	10	100
115	Assistance for adopted foster children	560	580	610	650	680	720	760	800	840	890	930	7,460
116	Adoption credit and exclusion	300	310	320	340	360	350	370	360	370	370	380	3,530
117	Exclusion of employee meals and lodging (other than military)	4,540	4,650	4,770	4,910	5,040	5,170	5,300	5,430	5,560	5,700	5,830	52,360
118	Credit for child and dependent care expenses	4,570	4,600	4,710	4,860	4,990	5,090	5,200	5,300	5,420	5,530	5,650	51,350
119	Credit for disabled access expenditures	10	10	10	10	10	10	10	10	10	10	10	100
120	Deductibility of charitable contributions, other than education and health	44,070	47,450	51,180	55,030	58,590	61,930	65,250	68,510	71,820	75,090	78,270	633,120
121	Exclusion of certain foster care payments	450	480	500	520	540	560	580	600	610	630	650	5,670
122	Exclusion of parsonage allowances	940	990	1,040	1,090	1,150	1,210	1,280	1,340	1,410	1,490	1,570	12,570
123	Indian employment credit	50	40	20	20	20	20	10	10	10	10	10	170

Table 13–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2016-2026—Continued

(In millions of dollars)

		Total from corporations and individuals											
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2026
124	Credit for employer differential wage payments	0	0	0	10	10	10	20	20	20	20	20	130
	Health:												
125	Exclusion of employer contributions for medical insurance premiums and medical care [10]	210,190	222,030	235,830	250,760	265,170	280,990	297,880	315,770	334,890	355,060	376,330	2,934,710
126	Self-employed medical insurance premiums	7,170	7,590	7,960	8,320	8,870	9,410	9,880	10,350	10,830	11,350	11,920	96,480
127	Medical Savings Accounts / Health Savings Accounts	5,730	6,850	8,160	9,720	11,570	13,770	16,410	19,530	23,230	27,650	32,920	169,810
128	Deductibility of medical expenses	7,970	8,680	9,920	11,550	13,450	15,610	17,970	20,850	24,250	27,790	32,090	182,160
129	Exclusion of interest on hospital construction bonds	3,480	3,670	3,840	4,010	4,430	4,990	5,370	5,740	6,040	6,290	6,510	50,890
130	Refundable Premium Assistance Tax Credit [11]	2,070	2,410	3,170	3,810	4,620	5,700	6,010	6,170	6,500	6,710	6,900	52,000
131	Credit for employee health insurance expenses of small business [12]	160	160	170	150	140	100	120	90	60	30	20	1,040
132	Deductibility of charitable contributions (health)	4,980	5,360	5,780	6,220	6,620	7,000	7,380	7,740	8,110	8,490	8,850	71,550
133	Tax credit for orphan drug research	1,720	2,060	2,480	2,970	3,570	4,280	5,130	6,160	7,390	8,880	10,650	53,570
134	Special Blue Cross/Blue Shield tax benefits	630	610	610	610	600	590	570	540	510	460	400	5,500
135	Tax credit for health insurance purchased by certain displaced and retired individuals [13]	30	30	20	10	0	0	0	0	0	0	0	60
136	Distributions from retirement plans for premiums for health and long-term care insurance	440	460	480	500	520	540	560	580	600	620	650	5,510
	Income security:												
137	Child credit [14]	24,180	24,460	24,710	24,710	24,520	24,140	23,750	23,300	22,820	22,330	21,840	236,580
138	Exclusion of railroad retirement (Social Security equivalent) benefits	300	310	310	300	290	270	260	240	220	200	180	2,580
139	Exclusion of workers' compensation benefits	10,030	10,100	10,170	10,240	10,320	10,390	10,460	10,530	10,610	10,680	10,760	104,260
140	Exclusion of public assistance benefits (normal tax method)	570	590	600	620	640	670	680	700	730	740	690	6,660
141	Exclusion of special benefits for disabled coal miners	30	20	20	20	20	10	10	10	10	10	10	140
142	Exclusion of military disability pensions	230	240	250	260	270	290	300	310	330	340	360	2,950
	Net exclusion of pension contributions and earnings:												
143	Defined benefit employer plans	70,400	70,690	70,980	70,970	69,880	68,360	66,180	63,730	61,360	58,340	54,710	655,200
144	Defined contribution employer plans	61,770	64,610	69,420	76,450	81,250	89,270	95,350	112,370	117,620	122,660	129,460	958,460
145	Individual Retirement Accounts	16,410	17,900	19,170	20,680	22,310	23,970	25,200	26,560	26,550	26,720	26,800	235,860
146	Low and moderate income savers credit	1,270	1,240	1,260	1,270	1,290	1,320	1,330	1,350	1,350	1,360	1,380	13,150
147	Self-Employed plans	28,050	30,820	33,780	37,050	40,500	44,040	47,890	52,080	56,640	61,590	66,980	471,370
	Exclusion of other employee benefits:												
148	Premiums on group term life insurance	2,460	2,580	2,680	2,780	2,880	2,980	3,080	3,190	3,310	3,430	3,550	30,460
149	Premiums on accident and disability insurance	320	320	330	330	330	340	340	340	350	350	350	3,380
150	Income of trusts to finance supplementary unemployment benefits	20	20	30	40	40	40	50	50	50	50	50	420
151	Income of trusts to finance voluntary employee benefits associations	1,110	1,170	1,220	1,280	1,340	1,400	1,470	1,540	1,610	1,690	1,770	14,490
152	Special ESOP rules	2,030	2,090	2,150	2,210	2,290	2,350	2,430	2,510	2,580	2,670	2,750	24,030
153	Additional deduction for the blind	40	40	40	40	50	50	50	60	60	70	80	540
154	Additional deduction for the elderly	2,940	3,110	3,350	3,560	3,800	4,000	4,260	4,600	4,900	5,250	5,620	42,450
155	Tax credit for the elderly and disabled	10	10	10	10	10	10	10	0	0	0	0	60
156	Deductibility of casualty losses	370	390	400	410	420	440	450	460	470	480	490	4,410
157	Earned income tax credit [15]	1,550	1,760	1,820	3,780	3,890	2,080	2,200	2,330	2,430	2,560	2,660	25,510
	Social Security:												
	Exclusion of social security benefits:												
158	Social Security benefits for retired and disabled workers and spouses, dependents and survivors	36,140	38,440	40,580	42,920	44,850	46,530	48,140	49,700	51,380	53,260	55,330	471,130
159	Credit for certain employer contributions to social security	1,000	1,030	1,080	1,120	1,170	1,220	1,270	1,330	1,380	1,440	1,500	12,540
	Veterans benefits and services:												
160	Exclusion of veterans death benefits and disability compensation	6,770	7,290	7,720	7,980	8,250	8,520	8,780	9,060	9,340	9,630	9,930	86,500
161	Exclusion of veterans pensions	440	470	500	520	540	560	590	610	630	650	680	5,750
162	Exclusion of GI bill benefits	1,550	1,690	1,790	1,880	1,960	2,050	2,140	2,240	2,340	2,440	2,550	21,080
163	Exclusion of interest on veterans housing bonds	10	10	10	10	10	10	10	10	20	20	20	130

Table 13–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2016-2026—Continued

(In millions of dollars)

	Total from corporations and individuals											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2026
General purpose fiscal assistance:												
164 Exclusion of interest on public purpose State and local bonds	28,890	30,500	31,910	33,350	36,780	41,420	44,640	47,700	50,180	52,250	54,050	422,780
165 Build America Bonds [16]	0	0	0	0	0	0	0	0	0	0	0	0
166 Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	56,230	59,750	63,340	67,230	71,710	75,950	80,170	84,600	89,100	93,590	97,830	783,270
Interest:												
167 Deferral of interest on U.S. savings bonds	980	970	960	950	940	940	930	920	910	900	890	9,310
Addendum: Aid to State and local governments:												
Deductibility of:												
Property taxes on owner-occupied homes	34,470	36,540	38,940	41,590	44,410	47,170	49,930	52,770	55,670	58,560	61,280	486,860
Nonbusiness State and local taxes other than on owner-occupied homes	56,230	59,750	63,340	67,230	71,710	75,950	80,170	84,600	89,100	93,590	97,830	783,270
Exclusion of interest on State and local bonds for:												
Public purposes	28,890	30,500	31,910	33,350	36,780	41,420	44,640	47,700	50,180	52,250	54,050	422,780
Energy facilities	10	20	20	10	20	30	30	30	30	30	30	250
Water, sewage, and hazardous waste disposal facilities	420	450	470	500	540	610	670	700	740	780	800	6,260
Small-issues	150	160	170	170	190	220	240	260	270	280	280	2,240
Owner-occupied mortgage subsidies	1,200	1,270	1,330	1,390	1,530	1,730	1,860	1,990	2,090	2,170	2,250	17,610
Rental housing	1,030	1,100	1,150	1,200	1,320	1,490	1,600	1,710	1,800	1,870	1,940	15,180
Airports, docks, and similar facilities	680	720	750	790	870	980	1,060	1,120	1,190	1,230	1,280	9,990
Student loans	440	460	480	500	560	620	680	730	760	790	820	6,400
Private nonprofit educational facilities	2,260	2,380	2,490	2,600	2,870	3,230	3,490	3,730	3,920	4,080	4,220	33,010
Hospital construction	3,480	3,670	3,840	4,010	4,430	4,990	5,370	5,740	6,040	6,290	6,510	50,890
Veterans' housing	10	10	10	10	10	10	10	10	20	20	20	130

[1] Firms can take an energy grant in lieu of the energy production credit or the energy investment credit for facilities whose construction began in 2009, 2010, or 2011. The effect of the grant on outlays (in millions of dollars) is as follows: 2016 $750; 2017 $500; and $0 thereafter.

[2] The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2016 $590; 2017 $290 and $0 thereafter.

[3] In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2016 $2,650; 2017 $2,810 and $0 thereafter.

[4] In addition, the credit for holding clean renewable energy bonds has outlay effects of (in millions of dollars): 2016 $30; 2017 $30; 2018 $30; 2019 $30; 2020 $30; 2021 $30; 2022 $30; 2023 $30; 2024 $30; 2025, $30; and 2026 $30.

[5] In addition, the qualified energy conservation bonds have outlay effects of (in millions of dollars): 2016 $40; 2017 $40; 2018 $40; 2019 $40; 2020 $40; 2021 $40; 2022 $40; 2023 $40; 2024 $40; 2025, $40; and 2026 $40.

[6] In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2016 $220; 2017 $220; 2018 $220; 2019 $220; 2020 $220; 2021 $220; 2022 $220; 2023 $220; 2024 $220; 2025, $220; and 2026 $220.

[7] In addition, the tax credits and deductions for postsecondary education expenses have outlay effects of (in millions of dollars): 016 $4,630; 2017 $4,530; 2018 $4,570; 2019 $4,630; 2020 $4,660; 2021 $4,710; 2022 $4,760; 2023 $4,800; 2024 $4,840; 2025 $4,860; and 2026 $4,870

[8] In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2016 $60; 2017 $60; 2018 $60; 2019 $60; 2020 $60; 2021 $60; 2022 $60; 2023 $60; 2024 $60; 2025 $60; and 2026 $60.

[9] In addition, the provision for school construction bonds has outlay effects of (in millions of dollars): 2016 $680; 2017 $730; 2018 $730; 2019 $730; 2020 $730; 2021 $730; 2022 $730; 2023 $730; 2024 $730; 2025 $730; and 2026 $730.

[10] In addition, the employer contributions for health have effects on payroll tax receipts (in millions of dollars) as follows: 2016 $130,380; 2017 $136,600; 2018 $144,110; 2019 $151,860; 2020 $158,700; 2021 $166,540; 2022 $175,190; 2023 $184,390; 2024 $194,210; 2025 $204,590; and 2026 $215,340.

[11] In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2016 $24,230; 2017 $32,240; 2018 $40,620; 2019 $51,220; 2020 $64,670; 2021 $70,140; 2022 $74,150; 2023 $77,420; 2024 $81,060; 2025 $84,670; and 2026 $88,980.

[12] In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2016 $30; 2017 $30; 2018 $30; 2019 $30; 2020 $30; 2021 $20; 2022 $20; 2023 $20; 2024 $10; 2025 $10; and 2026 $0.

[13] In addition, the effect of the health coverage tax credit on receipts has outlay effects of (in millions of dollars) 2016 $10; 2017 $20; 2018 $30; 2019 $30; 2020 $10; and $0 thereafter.

[14] In addition, the effect of the child tax credit on receipts has outlay effects of (in millions of dollars): 2016 $29,990; 2017 $29,980; 2018 $29,620; 2019 $ 29,300; 2020 $29,100; 2021 $29,270; 2022 $29,360; 2023 $29,560 2024 $29,630; 2025 $29,720; and 2026 $29,800.

[15] In addition, the earned income tax credit on receipts has outlay effects of (in millions of dollars): 2016 $62,150; 2017 $62,070; 2018 $61,770; 2019 $ 60,130; 2020 $60,540; 2021 $63,880; 2022 $65,310; 2023 $67,020; 2024 $68,560; 2025 $70,080; and 2026 $71,560.

[16] In addition, the Build America Bonds have outlay effects of (in millions of dollars): 2016 $3,350; 2017 $3,610; 2018 $3,610, 2019 $3,610; 2020 $3,610; 2021 $3,610; 2022 $3,610; 2023 $3,610; 2024 $3,610; 2025, $3,610; and 2026 $3,610.

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 13–2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2016-2026

(In millions of dollars)

		Total from corporations											
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-26
National Defense													
1	Exclusion of benefits and allowances to armed forces personnel	0	0	0	0	0	0	0	0	0	0	0	0
International affairs:													
2	Exclusion of income earned abroad by U.S. citizens	0	0	0	0	0	0	0	0	0	0	0	0
3	Exclusion of certain allowances for Federal employees abroad	0	0	0	0	0	0	0	0	0	0	0	0
4	Inventory property sales source rules exception	4,270	4,630	5,020	5,440	5,900	6,400	6,940	7,530	8,170	8,860	9,610	68,500
5	Deferral of income from controlled foreign corporations (normal tax method)	102,100	107,200	112,560	118,190	124,100	130,310	136,820	143,660	150,850	158,390	166,310	1,348,390
6	Deferred taxes for financial firms on certain income earned overseas	15,320	16,080	16,880	17,730	18,620	19,550	20,520	21,550	22,630	23,760	24,950	202,270
General science, space, and technology:													
7	Expensing of research and experimentation expenditures (normal tax method)	6,350	6,300	6,910	7,930	8,800	9,520	10,150	10,740	11,370	12,060	12,790	96,570
8	Credit for increasing research activities	9,580	10,230	10,840	11,500	12,190	12,920	13,700	14,540	15,420	16,360	17,350	135,050
Energy:													
9	Expensing of exploration and development costs, fuels	-320	-470	-210	-20	90	150	190	210	210	220	260	630
10	Excess of percentage over cost depletion, fuels	330	320	410	450	490	550	650	770	880	960	1,080	6,560
11	Exception from passive loss limitation for working interests in oil and gas properties	0	0	0	0	0	0	0	0	0	0	0	0
12	Capital gains treatment of royalties on coal	0	0	0	0	0	0	0	0	0	0	0	0
13	Exclusion of interest on energy facility bonds	0	10	10	0	0	10	10	10	10	0	0	60
14	Energy production credit 1/	1,050	1,330	1,740	2,230	2,680	3,080	3,350	3,490	3,530	3,460	3,300	28,190
15	Marginal wells credit	0	20	20	10	0	0	0	0	0	0	0	
16	Energy investment credit 1/	890	1,830	2,590	2,870	2,940	2,790	2,210	1,500	860	410	220	18,220
17	Alcohol fuel credits 2/	0	0	0	0	0	0	0	0	0	0	0	0
18	Bio-Diesel and small agri-biodiesel producer tax credits 3/	20	10	0	0	0	0	0	0	0	0	0	10
19	Tax credits for clean-fuel burning vehicles and refueling property	130	150	170	130	90	80	60	40	30	40	50	840
20	Exclusion of utility conservation subsidies	30	30	30	30	30	30	30	30	30	30	30	300
21	Credit for holding clean renewable energy bonds 4/	20	20	20	20	20	20	20	20	20	20	20	200
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	60	-190	-270	-210	-190	-150	-120	-70	-20	0	0	-1,220
23	Credit for investment in clean coal facilities	140	360	400	210	30	-20	-20	-20	-10	-10	0	920
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	-1,760	-1,380	-1,140	-930	-740	-560	-370	-180	-40	0	0	-5,340
25	Natural gas distribution pipelines treated as 15-year property	140	140	150	150	150	120	60	-20	-100	-190	-270	190
26	Amortize all geological and geophysical expenditures over 2 years	50	40	40	40	50	60	60	50	40	30	30	440
27	Allowance of deduction for certain energy efficient commercial building property	20	0	-10	-10	-10	-10	-10	-10	-10	-10	-10	-90
28	Credit for construction of new energy efficient homes	50	50	20	10	0	0	0	0	0	0	0	80
29	Credit for energy efficiency improvements to existing homes	0	0	0	0	0	0	0	0	0	0	0	0
30	Credit for residential energy efficient property	0	0	0	0	0	0	0	0	0	0	0	0
31	Qualified energy conservation bonds 5/	10	10	10	10	10	10	10	10	10	10	10	100
32	Advanced Energy Property Credit	10	-20	-20	-20	-10	0	0	0	0	0	0	-70
33	Advanced nuclear power production credit	0	0	0	170	440	550	550	550	550	550	550	3,910
34	Reduced tax rate for nuclear decommissioning funds	160	190	220	240	250	270	280	290	300	320	330	2,690
Natural resources and environment:													
35	Expensing of exploration and development costs, nonfuel minerals	20	40	40	50	50	50	50	50	50	50	50	480
36	Excess of percentage over cost depletion, nonfuel minerals	410	400	410	420	420	420	410	410	400	390	370	4,050
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	120	130	130	120	120	140	140	130	130	130	120	1,290
38	Capital gains treatment of certain timber income	0	0	0	0	0	0	0	0	0	0	0	0
39	Expensing of multiperiod timber growing costs	200	210	230	240	250	260	260	270	270	280	280	2,550

Table 13–2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2016-2026—Continued

(In millions of dollars)

		Total from corporations											
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-26
40	Tax incentives for preservation of historic structures	390	400	400	410	420	430	440	450	460	460	470	4,340
41	Industrial CO2 capture and sequestration tax credit	110	150	180	80	0	0	0	0	0	0	0	410
42	Deduction for endangered species recovery expenditures	10	10	10	10	20	20	20	20	20	30	30	190
Agriculture:													
43	Expensing of certain capital outlays	10	20	20	20	20	20	20	20	30	30	30	230
44	Expensing of certain multiperiod production costs	20	30	30	30	30	40	40	40	50	50	50	390
45	Treatment of loans forgiven for solvent farmers	0	0	0	0	0	0	0	0	0	0	0	0
46	Capital gains treatment of certain income	0	0	0	0	0	0	0	0	0	0	0	0
47	Income averaging for farmers	0	0	0	0	0	0	0	0	0	0	0	0
48	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	30	30	30	30	30	250
49	Expensing of reforestation expenditures	20	20	20	20	30	30	30	30	30	30	30	270
Commerce and housing:													
	Financial institutions and insurance:												
50	Exemption of credit union income	2,310	2,710	3,080	3,260	3,350	3,600	3,770	3,530	3,850	4,100	4,060	35,310
51	Exclusion and deferral of policyholder income earned on life insurance and annuity contracts	1,470	1,740	2,140	2,470	2,730	2,960	3,160	3,360	3,550	3,740	3,930	29,780
52	Exclusion or special alternative tax for small property and casualty insurance companies	50	50	50	60	60	60	60	70	70	70	80	630
53	Tax exemption of insurance income earned by tax-exempt organizations	690	720	740	780	830	870	890	910	930	950	970	8,590
54	Small life insurance company deduction	40	40	40	40	40	40	50	50	50	50	50	450
55	Exclusion of interest spread of financial institutions	0	0	0	0	0	0	0	0	0	0	0	0
	Housing:												
56	Exclusion of interest on owner-occupied mortgage subsidy bonds	350	380	370	330	350	390	380	380	360	350	350	3,640
57	Exclusion of interest on rental housing bonds	300	330	320	290	300	340	330	320	310	300	300	3,140
58	Deductibility of mortgage interest on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
59	Deductibility of State and local property tax on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
60	Deferral of income from installment sales	0	0	0	0	0	0	0	0	0	0	0	0
61	Capital gains exclusion on home sales	0	0	0	0	0	0	0	0	0	0	0	0
62	Exclusion of net imputed rental income	0	0	0	0	0	0	0	0	0	0	0	0
63	Exception from passive loss rules for $25,000 of rental loss	0	0	0	0	0	0	0	0	0	0	0	0
64	Credit for low-income housing investments	8,200	8,300	8,410	8,500	8,640	8,820	9,020	9,240	9,510	9,780	9,690	89,910
65	Accelerated depreciation on rental housing (normal tax method)	260	370	500	630	770	920	1,070	1,200	1,320	1,430	1,540	9,750
66	Discharge of mortgage indebtedness												0
	Commerce:												
67	Discharge of business indebtedness	0	0	0	0	0	0	0	0	0	0	0	0
68	Exceptions from imputed interest rules	0	0	0	0	0	0	0	0	0	0	0	0
69	Treatment of qualified dividends	0	0	0	0	0	0	0	0	0	0	0	0
70	Capital gains (except agriculture, timber, iron ore, and coal)	0	0	0	0	0	0	0	0	0	0	0	0
71	Capital gains exclusion of small corporation stock	0	0	0	0	0	0	0	0	0	0	0	0
72	Step-up basis of capital gains at death	0	0	0	0	0	0	0	0	0	0	0	0
73	Carryover basis of capital gains on gifts	0	0	0	0	0	0	0	0	0	0	0	0
74	Ordinary income treatment of loss from small business corporation stock sale	0	0	0	0	0	0	0	0	0	0	0	0
75	Deferral of gains from like-kind exchanges	5,720	6,000	6,310	6,630	6,960	7,300	7,670	8,050	8,460	8,880	9,320	75,580
76	Depreciation of buildings other than rental housing (normal tax method)	-3,760	-3,920	-4,170	-4,490	-4,860	-5,170	-5,460	-5,750	-6,080	-6,280	-6,450	-52,630
77	Accelerated depreciation of machinery and equipment (normal tax method)	28,570	30,490	33,010	34,750	-5,150	-10,650	1,960	10,000	17,260	23,490	28,430	163,590
78	Expensing of certain small investments (normal tax method)	340	290	300	310	1,150	1,250	990	880	810	780	790	7,550

Table 13–2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2016-2026—Continued

(In millions of dollars)

		Total from corporations											
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-26
79	Graduated corporation income tax rate (normal tax method)	3,300	3,000	2,650	2,460	2,370	2,360	2,380	2,380	2,380	2,410	2,250	24,640
80	Exclusion of interest on small issue bonds	40	50	50	40	40	50	50	50	50	50	40	470
81	Deduction for US production activities	12,080	12,510	13,080	13,640	14,210	14,810	15,430	16,080	16,750	17,450	18,190	152,150
82	Special rules for certain film and TV production	220	160	90	50	20	0	0	0	0	0	0	320
	Transportation:												
83	Tonnage tax	70	80	80	90	90	90	100	100	110	110	120	970
84	Deferral of tax on shipping companies	20	20	20	20	20	20	20	20	20	20	20	200
85	Exclusion of reimbursed employee parking expenses	0	0	0	0	0	0	0	0	0	0	0	0
86	Exclusion for employer-provided transit passes	0	0	0	0	0	0	0	0	0	0	0	0
87	Tax credit for certain expenditures for maintaining railroad tracks	110	50	0	0	0	0	0	0	0	0	0	50
88	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	50	50	50	40	40	40	40	30	30	30	30	380
	Community and regional development:												
89	Investment credit for rehabilitation of structures (other than historic)	10	10	10	10	10	10	10	10	10	10	10	100
90	Exclusion of interest for airport, dock, and similar bonds	200	210	210	190	200	220	220	210	210	200	200	2,070
91	Exemption of certain mutuals' and cooperatives' income	140	150	150	150	150	160	160	160	170	170	180	1,600
92	Empowerment zones	70	50	20	10	10	0	0	0	0	0	0	90
93	New markets tax credit	1,260	1,270	1,170	1,030	960	870	740	590	430	270	80	7,410
94	Credit to holders of Gulf Tax Credit Bonds.	70	70	70	60	70	70	70	70	70	70	70	690
95	Recovery Zone Bonds 6/	40	40	40	30	40	40	40	40	40	40	40	390
96	Tribal Economic Development Bonds	10	10	10	10	10	10	10	10	10	10	10	100
	Education, training, employment, and social services:												
	Education:												
97	Exclusion of scholarship and fellowship income (normal tax method)	0	0	0	0	0	0	0	0	0	0	0	0
98	Tax credits and deductions for postsecondary education expenses 7/	0	0	0	0	0	0	0	0	0	0	0	0
99	Education Individual Retirement Accounts	0	0	0	0	0	0	0	0	0	0	0	0
100	Deductibility of student-loan interest	0	0	0	0	0	0	0	0	0	0	0	0
101	Qualified tuition programs	0	0	0	0	0	0	0	0	0	0	0	0
102	Exclusion of interest on student-loan bonds	130	140	130	120	130	140	140	140	130	130	130	1,330
103	Exclusion of interest on bonds for private nonprofit educational facilities	660	710	690	620	650	730	720	710	680	660	660	6,830
104	Credit for holders of zone academy bonds 8/	160	170	180	170	150	130	110	90	80	60	50	1,190
105	Exclusion of interest on savings bonds redeemed to finance educational expenses	0	0	0	0	0	0	0	0	0	0	0	0
106	Parental personal exemption for students age 19 or over	0	0	0	0	0	0	0	0	0	0	0	0
107	Deductibility of charitable contributions (education)	820	860	900	950	1,000	1,040	1,100	1,150	1,210	1,270	1,330	10,810
108	Exclusion of employer-provided educational assistance	0	0	0	0	0	0	0	0	0	0	0	0
109	Special deduction for teacher expenses	0	0	0	0	0	0	0	0	0	0	0	0
110	Discharge of student loan indebtedness	0	0	0	0	0	0	0	0	0	0	0	0
111	Qualified school construction bonds 9/	160	160	160	160	160	160	160	160	160	160	160	1,600
	Training, employment, and social services:												
112	Work opportunity tax credit	830	920	950	980	680	350	230	180	130	100	80	4,600
113	Employer provided child care exclusion	0	0	0	0	0	0	0	0	0	0	0	0
114	Employer-provided child care credit	10	10	10	10	10	10	10	10	10	10	10	100
115	Assistance for adopted foster children	0	0	0	0	0	0	0	0	0	0	0	0
116	Adoption credit and exclusion	0	0	0	0	0	0	0	0	0	0	0	0
117	Exclusion of employee meals and lodging (other than military)	0	0	0	0	0	0	0	0	0	0	0	0
118	Credit for child and dependent care expenses	0	0	0	0	0	0	0	0	0	0	0	0
119	Credit for disabled access expenditures	0	0	0	0	0	0	0	0	0	0	0	0
120	Deductibility of charitable contributions, other than education and health	1,720	1,790	1,860	1,930	2,010	2,090	2,170	2,250	2,340	2,430	2,530	21,400

Table 13–2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2016-2026—Continued
(In millions of dollars)

		Total from corporations											
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-26
121	Exclusion of certain foster care payments	0	0	0	0	0	0	0	0	0	0	0	0
122	Exclusion of parsonage allowances	0	0	0	0	0	0	0	0	0	0	0	0
123	Indian employment credit	30	20	10	10	10	10	0	0	0	0	0	60
124	Credit for employer differential wage payments	0	0	0	10	10	10	10	10	10	10	10	80
Health:													
125	Exclusion of employer contributions for medical insurance premiums and medical care 10/	0	0	0	0	0	0	0	0	0	0	0	0
126	Self-employed medical insurance premiums	0	0	0	0	0	0	0	0	0	0	0	0
127	Medical Savings Accounts / Health Savings Accounts	0	0	0	0	0	0	0	0	0	0	0	0
128	Deductibility of medical expenses	0	0	0	0	0	0	0	0	0	0	0	0
129	Exclusion of interest on hospital construction bonds	1,010	1,090	1,070	960	1,010	1,130	1,100	1,090	1,050	1,020	1,020	10,540
130	Refundable Premium Assistance Tax Credit 11/	0	0	0	0	0	0	0	0	0	0	0	0
131	Credit for employee health insurance expenses of small business 12/	60	60	70	60	60	50	50	40	20	10	10	430
132	Deductibility of charitable contributions (health)	230	240	250	260	270	290	300	310	320	340	350	2,930
133	Tax credit for orphan drug research	1,700	2,040	2,450	2,940	3,530	4,230	5,080	6,100	7,320	8,790	10,550	53,030
134	Special Blue Cross/Blue Shield tax benefits	630	610	610	610	600	590	570	540	510	460	400	5,500
135	Tax credit for health insurance purchased by certain displaced and retired individuals 13/	0	0	0	0	0	0	0	0	0	0	0	0
136	Distributions from retirement plans for premiums for health and long-term care insurance	0	0	0	0	0	0	0	0	0	0	0	0
Income security:													
137	Child credit 14/	0	0	0	0	0	0	0	0	0	0	0	0
138	Exclusion of railroad retirement (Social Security equivalent) benefits	0	0	0	0	0	0	0	0	0	0	0	0
139	Exclusion of workers' compensation benefits	0	0	0	0	0	0	0	0	0	0	0	0
140	Exclusion of public assistance benefits (normal tax method)	0	0	0	0	0	0	0	0	0	0	0	0
141	Exclusion of special benefits for disabled coal miners	0	0	0	0	0	0	0	0	0	0	0	0
142	Exclusion of military disability pensions	0	0	0	0	0	0	0	0	0	0	0	0
	Net exclusion of pension contributions and earnings:												
143	Defined benefit employer plans	0	0	0	0	0	0	0	0	0	0	0	0
144	Defined contribution employer plans	0	0	0	0	0	0	0	0	0	0	0	0
145	Individual Retirement Accounts	0	0	0	0	0	0	0	0	0	0	0	0
146	Low and moderate income savers credit	0	0	0	0	0	0	0	0	0	0	0	0
147	Self-Employed plans	0	0	0	0	0	0	0	0	0	0	0	0
	Exclusion of other employee benefits:												
148	Premiums on group term life insurance	0	0	0	0	0	0	0	0	0	0	0	0
149	Premiums on accident and disability insurance	0	0	0	0	0	0	0	0	0	0	0	0
150	Income of trusts to finance supplementary unemployment benefits	0	0	0	0	0	0	0	0	0	0	0	0
151	Income of trusts to finance voluntary employee benefits associations	0	0	0	0	0	0	0	0	0	0	0	0
152	Special ESOP rules	1,910	1,970	2,030	2,090	2,160	2,220	2,290	2,370	2,440	2,520	2,600	22,690
153	Additional deduction for the blind	0	0	0	0	0	0	0	0	0	0	0	0
154	Additional deduction for the elderly	0	0	0	0	0	0	0	0	0	0	0	0
155	Tax credit for the elderly and disabled	0	0	0	0	0	0	0	0	0	0	0	0
156	Deductibility of casualty losses	0	0	0	0	0	0	0	0	0	0	0	0
157	Earned income tax credit 15/	0	0	0	0	0	0	0	0	0	0	0	0
Social Security:													
	Exclusion of social security benefits:												
158	Social Security benefits for retired and disabled workers and spouses, dependents and survivors	0	0	0	0	0	0	0	0	0	0	0	0
159	Credit for certain employer contributions to social security	470	490	510	530	550	580	600	630	650	680	710	5,930
Veterans benefits and services:													
160	Exclusion of veterans death benefits and disability compensation	0	0	0	0	0	0	0	0	0	0	0	0

Table 13–2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2016-2026—Continued

(In millions of dollars)

		Total from corporations											
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-26
161	Exclusion of veterans pensions	0	0	0	0	0	0	0	0	0	0	0	0
162	Exclusion of GI bill benefits	0	0	0	0	0	0	0	0	0	0	0	0
163	Exclusion of interest on veterans housing bonds	0	0	0	0	0	0	0	0	0	0	0	0
General purpose fiscal assistance:													
164	Exclusion of interest on public purpose State and local bonds	8,400	9,080	8,860	8,000	8,360	9,390	9,170	9,040	8,740	8,490	8,440	87,570
165	Build America Bonds 16/	0	0	0	0	0	0	0	0	0	0	0	0
166	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
Interest:													
167	Deferral of interest on U.S. savings bonds	0	0	0	0	0	0	0	0	0	0	0	0
Addendum: Aid to State and local governments:													
	Deductibility of:												
	Property taxes on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
	Nonbusiness State and local taxes other than on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
	Exclusion of interest on State and local bonds for:												
	Public purposes	8,400	9,080	8,860	8,000	8,360	9,390	9,170	9,040	8,740	8,490	8,440	87,570
	Energy facilities	0	10	10	0	0	10	10	10	10	0	0	60
	Water, sewage, and hazardous waste disposal facilities	120	130	130	120	120	140	140	130	130	130	120	1,290
	Small-issues	40	50	50	40	40	50	50	50	50	50	40	470
	Owner-occupied mortgage subsidies	350	380	370	330	350	390	380	380	360	350	350	3,640
	Rental housing	300	330	320	290	300	340	330	320	310	300	300	3,140
	Airports, docks, and similar facilities	200	210	210	190	200	220	220	210	210	200	200	2,070
	Student loans	130	140	130	120	130	140	140	140	130	130	130	1,330
	Private nonprofit educational facilities	660	710	690	620	650	730	720	710	680	660	660	6,830
	Hospital construction	1,010	1,090	1,070	960	1,010	1,130	1,100	1,090	1,050	1,020	1,020	10,540
	Veterans' housing	0	0	0	0	0	0	0	0	0	0	0	0

See Table 1 footnotes for specific table information

Table 13–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2016–2026

(In millions of dollars)

		Total from individuals											
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017–2026
National Defense													
1	Exclusion of benefits and allowances to armed forces personnel	12,280	12,650	11,460	11,500	11,860	12,320	12,820	13,370	13,940	14,560	15,210	129,690
International affairs:													
2	Exclusion of income earned abroad by U.S. citizens	6,280	6,600	6,930	7,280	7,640	8,020	8,420	8,840	9,290	9,750	10,240	83,010
3	Exclusion of certain allowances for Federal employees abroad	1,300	1,370	1,430	1,500	1,580	1,660	1,740	1,830	1,920	2,020	2,120	17,170
4	Inventory property sales source rules exception	0	0	0	0	0	0	0	0	0	0	0	0
5	Deferral of income from controlled foreign corporations (normal tax method)	0	0	0	0	0	0	0	0	0	0	0	0
6	Deferred taxes for financial firms on certain income earned overseas	0	0	0	0	0	0	0	0	0	0	0	0
General science, space, and technology:													
7	Expensing of research and experimentation expenditures (normal tax method)	840	810	750	750	840	910	980	1,030	1,100	1,160	1,230	9,560
8	Credit for increasing research activities	770	920	1,010	1,080	1,160	1,250	1,340	1,450	1,560	1,680	1,810	13,260
Energy:													
9	Expensing of exploration and development costs, fuels	–130	–180	–80	–10	30	50	70	80	80	80	90	210
10	Excess of percentage over cost depletion, fuels	80	80	100	110	120	140	160	190	220	240	270	1,630
11	Exception from passive loss limitation for working interests in oil and gas properties	60	40	40	40	40	30	30	30	30	30	20	330
12	Capital gains treatment of royalties on coal	150	150	150	140	140	150	150	150	160	170	170	1,530
13	Exclusion of interest on energy facility bonds	10	10	10	10	20	20	20	20	20	30	30	190
14	Energy production credit [1]	350	440	580	740	890	1,030	1,120	1,160	1,180	1,150	1,100	9,390
15	Marginal wells credit	0	50	50	20	0	0	0	0	0	0	0	
16	Energy investment credit [1]	300	610	860	960	980	930	740	500	290	140	70	6,080
17	Alcohol fuel credits [2]	10	10	0	0	0	0	0	0	0	0	0	10
18	Bio-Diesel and small agri-biodiesel producer tax credits [3]	10	10	0	0	0	0	0	0	0	0	0	10
19	Tax credits for clean-fuel burning vehicles and refueling property	350	400	490	520	390	330	300	230	170	150	160	3,140
20	Exclusion of utility conservation subsidies	400	420	440	460	490	510	540	560	590	620	650	5,280
21	Credit for holding clean renewable energy bonds [4]	50	50	50	50	50	50	50	50	50	50	50	500
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	0	0	0	0	0	0	0	0	0	0	0	0
23	Credit for investment in clean coal facilities	20	40	40	20	0	0	0	0	0	0	0	100
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	0	0	0	0	0	0	0	0	0	0	0	0
25	Natural gas distribution pipelines treated as 15-year property	0	0	0	0	0	0	0	0	0	0	0	0
26	Amortize all geological and geophysical expenditures over 2 years	20	20	20	20	20	20	30	20	20	10	10	190
27	Allowance of deduction for certain energy efficient commercial building property	60	10	–20	–20	–20	–20	–20	–20	–20	–20	–20	–170
28	Credit for construction of new energy efficient homes	160	120	50	20	10	0	0	0	0	0	0	200
29	Credit for energy efficiency improvements to existing homes	530	290	0	0	0	0	0	0	0	0	0	290
30	Credit for residential energy efficient property	1,450	1,460	1,500	1,550	1,470	1,270	640	150	20	0	0	8,060
31	Qualified energy conservation bonds [5]	20	20	20	20	20	20	20	20	20	20	20	200
32	Advanced Energy Property Credit	0	–10	–10	–10	0	0	0	0	0	0	0	–30
33	Advanced nuclear power production credit	0	0	0	0	0	0	0	0	0	0	0	0
34	Reduced tax rate for nuclear decommissioning funds	0	0	0	0	0	0	0	0	0	0	0	0
Natural resources and environment:													
35	Expensing of exploration and development costs, nonfuel minerals	0	0	0	0	0	0	0	0	0	0	0	0
36	Excess of percentage over cost depletion, nonfuel minerals	20	20	20	20	20	20	20	20	20	20	20	200
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	300	320	340	380	420	470	530	570	610	650	680	4,970
38	Capital gains treatment of certain timber income	150	150	150	140	140	150	150	150	160	170	170	1,530
39	Expensing of multiperiod timber growing costs	130	130	130	140	140	160	160	160	160	160	160	1,500

Table 13–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2016–2026—Continued

(In millions of dollars)

		Total from individuals											
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017–2026
40	Tax incentives for preservation of historic structures	70	70	70	70	70	80	80	80	80	80	80	760
41	Industrial CO2 capture and sequestration tax credit	0	0	0	0	0	0	0	0	0	0	0	0
42	Deduction for endangered species recovery expenditures	20	20	20	20	20	30	30	30	30	40	40	280
Agriculture:													
43	Expensing of certain capital outlays	200	210	220	230	250	260	270	290	300	320	330	2,680
44	Expensing of certain multiperiod production costs	350	360	380	410	430	450	480	510	540	580	610	4,750
45	Treatment of loans forgiven for solvent farmers	40	50	50	50	50	50	60	60	60	60	70	560
46	Capital gains treatment of certain income	1,470	1,480	1,450	1,440	1,440	1,460	1,500	1,540	1,600	1,670	1,740	15,320
47	Income averaging for farmers	140	150	160	170	180	180	190	200	210	220	230	1,890
48	Deferral of gain on sale of farm refiners	0	0	0	0	0	0	0	0	0	0	0	0
49	Expensing of reforestation expenditures	40	40	40	40	40	50	50	50	50	60	60	480
Commerce and housing:													
	Financial institutions and insurance:												
50	Exemption of credit union income	0	0	0	0	0	0	0	0	0	0	0	0
51	Exclusion and deferral of policyholder income earned on life insurance and annuity contracts	12,510	16,180	22,220	26,640	29,680	31,810	33,360	34,560	35,580	36,550	37,350	303,930
52	Exclusion or special alternative tax for small property and casualty insurance companies	0	0	0	0	0	0	0	0	0	0	0	0
53	Tax exemption of insurance income earned by tax-exempt organizations	0	0	0	0	0	0	0	0	0	0	0	0
54	Small life insurance company deduction	0	0	0	0	0	0	0	0	0	0	0	0
55	Exclusion of interest spread of financial institutions	470	500	510	530	550	570	580	590	600	610	620	5,660
	Housing:												
56	Exclusion of interest on owner-occupied mortgage subsidy bonds	850	890	960	1,060	1,180	1,340	1,480	1,610	1,730	1,820	1,900	13,970
57	Exclusion of interest on rental housing bonds	730	770	830	910	1,020	1,150	1,270	1,390	1,490	1,570	1,640	12,040
58	Deductibility of mortgage interest on owner-occupied homes	61,190	64,110	68,090	73,590	79,990	86,570	93,030	99,300	105,110	110,480	115,650	895,920
59	Deductibility of State and local property tax on owner-occupied homes	34,470	36,540	38,940	41,590	44,410	47,170	49,930	52,770	55,670	58,560	61,280	486,860
60	Deferral of income from installment sales	1,620	1,630	1,620	1,620	1,630	1,660	1,700	1,750	1,820	1,890	1,970	17,290
61	Capital gains exclusion on home sales	43,310	46,130	48,470	50,920	53,500	56,200	59,050	62,040	65,180	68,470	71,940	581,900
62	Exclusion of net imputed rental income	105,610	109,620	112,670	114,740	116,270	119,520	122,870	126,310	129,850	133,480	137,220	1,222,550
63	Exception from passive loss rules for $25,000 of rental loss	7,120	7,480	7,800	8,080	8,290	8,490	8,670	8,820	8,980	9,250	9,370	85,230
64	Credit for low-income housing investments	430	440	440	450	450	460	470	490	500	510	510	4,720
65	Accelerated depreciation on rental housing (normal tax method)	1,350	1,830	2,420	3,030	3,670	4,370	5,100	5,730	6,340	6,930	7,520	46,940
66	Discharge of mortgage indebtedness	3,340	1,090	0	0	0	0	0	0	0	0	0	1,090
	Commerce:												
67	Discharge of business indebtedness	–150	–50	10	10	10	20	30	40	50	50	50	220
68	Exceptions from imputed interest rules	50	50	60	60	60	70	70	80	80	80	90	700
69	Treatment of qualified dividends	27,980	28,810	29,850	30,940	32,100	33,370	34,720	36,160	37,690	39,290	40,990	343,920
70	Capital gains (except agriculture, timber, iron ore, and coal)	109,530	110,270	108,560	107,620	107,780	109,210	111,760	115,240	119,500	124,450	129,800	1,144,190
71	Capital gains exclusion of small corporation stock	540	700	850	1,050	1,210	1,320	1,420	1,520	1,600	1,660	1,710	13,040
72	Step-up basis of capital gains at death	49,990	51,990	54,070	56,230	58,480	60,820	63,250	65,780	68,420	71,150	74,000	624,190
73	Carryover basis of capital gains on gifts	7,790	7,520	7,180	6,960	6,890	6,960	7,020	7,060	7,140	7,260	7,410	71,400
74	Ordinary income treatment of loss from small business corporation stock sale	50	50	50	50	50	50	50	50	50	50	50	500
75	Deferral of gains from like-kind exchanges	1,610	1,690	1,770	1,870	1,960	2,060	2,160	2,270	2,380	2,500	2,620	21,280
76	Depreciation of buildings other than rental housing (normal tax method)	–5,070	–5,080	–5,220	–5,520	–5,890	–6,250	–6,630	–7,000	–7,410	–7,670	–7,910	–64,580
77	Accelerated depreciation of machinery and equipment (normal tax method)	16,060	16,590	17,310	17,670	–6,470	–10,060	–2,790	1,810	5,900	9,370	12,050	61,380
78	Expensing of certain small investments (normal tax method)	3,580	3,290	3,360	3,530	6,580	7,100	6,480	6,330	6,330	6,470	6,780	56,250

Table 13–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2016–2026—Continued

(In millions of dollars)

		Total from individuals											
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017–2026
79	Graduated corporation income tax rate (normal tax method)	0	0	0	0	0	0	0	0	0	0	0	0
80	Exclusion of interest on small issue bonds	110	110	120	130	150	170	190	210	220	230	240	1,770
81	Deduction for US production activities	3,780	3,910	4,080	4,260	4,440	4,630	4,820	5,030	5,240	5,460	5,690	47,560
82	Special rules for certain film and TV production	60	40	20	10	10	0	0	0	0	0	0	80
Transportation:													
83	Tonnage tax	0	0	0	0	0	0	0	0	0	0	0	0
84	Deferral of tax on shipping companies	0	0	0	0	0	0	0	0	0	0	0	0
85	Exclusion of reimbursed employee parking expenses	2,940	3,060	3,170	3,280	3,410	3,520	3,610	3,750	3,850	4,020	4,160	35,830
86	Exclusion for employer-provided transit passes	1,010	1,080	1,140	1,210	1,290	1,370	1,440	1,520	1,600	1,630	1,690	13,970
87	Tax credit for certain expenditures for maintaining railroad tracks	30	10	0	0	0	0	0	0	0	0	0	10
88	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	160	150	140	130	130	120	120	110	110	100	100	1,210
Community and regional development:													
89	Investment credit for rehabilitation of structures (other than historic)	10	10	10	10	10	10	10	10	10	10	10	100
90	Exclusion of interest for airport, dock, and similar bonds	480	510	540	600	670	760	840	910	980	1,030	1,080	7,920
91	Exemption of certain mutuals' and cooperatives' income	0	0	0	0	0	0	0	0	0	0	0	0
92	Empowerment zones	70	60	30	20	20	10	10	10	0	0	0	160
93	New markets tax credit	30	30	30	20	20	20	20	20	10	10	10	190
94	Credit to holders of Gulf Tax Credit Bonds.	160	170	180	200	230	250	280	310	330	350	360	2,660
95	Recovery Zone Bonds [6]	90	90	100	110	120	140	150	170	180	190	200	1,450
96	Tribal Economic Development Bonds	30	30	30	30	40	40	50	50	60	60	60	450
Education, training, employment, and social services:													
	Education:												
97	Exclusion of scholarship and fellowship income (normal tax method)	3,290	3,410	3,500	3,560	3,690	3,820	3,960	4,100	4,240	4,400	4,550	39,230
98	Tax credits and deductions for postsecondary education expenses [7]	15,530	15,620	15,450	15,590	15,720	15,730	15,720	15,720	15,690	15,630	15,520	156,390
99	Education Individual Retirement Accounts	30	40	40	40	40	40	40	50	50	50	50	440
100	Deductibility of student-loan interest	1,950	1,970	2,010	2,050	2,130	2,150	2,200	2,270	2,290	2,330	2,410	21,810
101	Qualified tuition programs	1,740	1,920	2,110	2,300	2,490	2,700	2,910	3,140	3,390	3,650	3,930	28,540
102	Exclusion of interest on student-loan bonds	310	320	350	380	430	480	540	590	630	660	690	5,070
103	Exclusion of interest on bonds for private nonprofit educational facilities	1,600	1,670	1,800	1,980	2,220	2,500	2,770	3,020	3,240	3,420	3,560	26,180
104	Credit for holders of zone academy bonds [8]	0	0	0	0	0	0	0	0	0	0	0	0
105	Exclusion of interest on savings bonds redeemed to finance educational expenses	30	30	30	30	30	40	40	40	40	50	50	380
106	Parental personal exemption for students age 19 or over	4,220	4,210	4,310	4,470	4,600	4,720	4,830	4,940	5,030	5,100	5,180	47,390
107	Deductibility of charitable contributions (education)	4,290	4,620	4,990	5,380	5,730	6,060	6,390	6,710	7,040	7,360	7,670	61,950
108	Exclusion of employer-provided educational assistance	850	900	950	990	1,040	1,090	1,140	1,200	1,260	1,320	1,380	11,270
109	Special deduction for teacher expenses	210	210	210	210	220	220	260	270	270	270	270	2,410
110	Discharge of student loan indebtedness	90	100	100	100	110	110	110	110	120	120	120	1,100
111	Qualified school construction bonds [9]	490	490	490	490	490	490	490	490	490	490	490	4,900
	Training, employment, and social services:												
112	Work opportunity tax credit	330	390	400	410	330	130	70	50	40	30	20	1,870
113	Employer provided child care exclusion	950	1,000	1,060	1,140	1,200	1,280	1,350	1,440	1,530	1,620	1,710	13,330
114	Employer-provided child care credit	0	0	0	0	0	0	0	0	0	0	0	0
115	Assistance for adopted foster children	560	580	610	650	680	720	760	800	840	890	930	7,460
116	Adoption credit and exclusion	300	310	320	340	360	350	370	360	370	370	380	3,530
117	Exclusion of employee meals and lodging (other than military)	4,540	4,650	4,770	4,910	5,040	5,170	5,300	5,430	5,560	5,700	5,830	52,360
118	Credit for child and dependent care expenses	4,570	4,600	4,710	4,860	4,990	5,090	5,200	5,300	5,420	5,530	5,650	51,350
119	Credit for disabled access expenditures	10	10	10	10	10	10	10	10	10	10	10	100

Table 13–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2016–2026—Continued

(In millions of dollars)

		Total from individuals											
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017–2026
120	Deductibility of charitable contributions, other than education and health	42,350	45,660	49,320	53,100	56,580	59,840	63,080	66,260	69,480	72,660	75,740	611,720
121	Exclusion of certain foster care payments	450	480	500	520	540	560	580	600	610	630	650	5,670
122	Exclusion of parsonage allowances	940	990	1,040	1,090	1,150	1,210	1,280	1,340	1,410	1,490	1,570	12,570
123	Indian employment credit	20	20	10	10	10	10	10	10	10	10	10	110
124	Credit for employer differential wage payments	0	0	0	0	0	0	10	10	10	10	10	50
	Health:												
125	Exclusion of employer contributions for medical insurance premiums and medical care [10]	210,190	222,030	235,830	250,760	265,170	280,990	297,880	315,770	334,890	355,060	376,330	2,934,710
126	Self-employed medical insurance premiums	7,170	7,590	7,960	8,320	8,870	9,410	9,880	10,350	10,830	11,350	11,920	96,480
127	Medical Savings Accounts / Health Savings Accounts	5,730	6,850	8,160	9,720	11,570	13,770	16,410	19,530	23,230	27,650	32,920	169,810
128	Deductibility of medical expenses	7,970	8,680	9,920	11,550	13,450	15,610	17,970	20,850	24,250	27,790	32,090	182,160
129	Exclusion of interest on hospital construction bonds	2,470	2,580	2,770	3,050	3,420	3,860	4,270	4,650	4,990	5,270	5,490	40,350
130	Refundable Premium Assistance Tax Credit [11]	2,070	2,410	3,170	3,810	4,620	5,700	6,010	6,170	6,500	6,710	6,900	52,000
131	Credit for employee health insurance expenses of small business [12]	100	100	100	90	80	50	70	50	40	20	10	610
132	Deductibility of charitable contributions (health)	4,750	5,120	5,530	5,960	6,350	6,710	7,080	7,430	7,790	8,150	8,500	68,620
133	Tax credit for orphan drug research	20	20	30	30	40	50	50	60	70	90	100	540
134	Special Blue Cross/Blue Shield tax benefits	0	0	0	0	0	0	0	0	0	0	0	0
135	Tax credit for health insurance purchased by certain displaced and retired individuals [13]	30	30	20	10	0	0	0	0	0	0	0	60
136	Distributions from retirement plans for premiums for health and long-term care insurance	440	460	480	500	520	540	560	580	600	620	650	5,510
	Income security:												
137	Child credit [14]	24,180	24,460	24,710	24,710	24,520	24,140	23,750	23,300	22,820	22,330	21,840	236,580
138	Exclusion of railroad retirement (Social Security equivalent) benefits	300	310	310	300	290	270	260	240	220	200	180	2,580
139	Exclusion of workers' compensation benefits	10,030	10,100	10,170	10,240	10,320	10,390	10,460	10,530	10,610	10,680	10,760	104,260
140	Exclusion of public assistance benefits (normal tax method)	570	590	600	620	640	670	680	700	730	740	690	6,660
141	Exclusion of special benefits for disabled coal miners	30	20	20	20	20	10	10	10	10	10	10	140
142	Exclusion of military disability pensions	230	240	250	260	270	290	300	310	330	340	360	2,950
	Net exclusion of pension contributions and earnings:	0	0	0	0	0	0	0	0	0	0	0	0
143	Defined benefit employer plans	70,400	70,690	70,980	70,970	69,880	68,360	66,180	63,730	61,360	58,340	54,710	655,200
144	Defined contribution employer plans	61,770	64,610	69,420	76,450	81,250	89,270	95,350	112,370	117,620	122,660	129,460	958,460
145	Individual Retirement Accounts	16,410	17,900	19,170	20,680	22,310	23,970	25,200	26,560	26,550	26,720	26,800	235,860
146	Low and moderate income savers credit	1,270	1,240	1,260	1,270	1,290	1,320	1,330	1,350	1,350	1,360	1,380	13,150
147	Self-Employed plans	28,050	30,820	33,780	37,050	40,500	44,040	47,890	52,080	56,640	61,590	66,980	471,370
	Exclusion of other employee benefits:	0	0	0	0	0	0	0	0	0	0	0	0
148	Premiums on group term life insurance	2,460	2,580	2,680	2,780	2,880	2,980	3,080	3,190	3,310	3,430	3,550	30,460
149	Premiums on accident and disability insurance	320	320	330	330	330	340	340	340	350	350	350	3,380
150	Income of trusts to finance supplementary unemployment benefits	20	20	30	40	40	40	50	50	50	50	50	420
151	Income of trusts to finance voluntary employee benefits associations	1,110	1,170	1,220	1,280	1,340	1,400	1,470	1,540	1,610	1,690	1,770	14,490
152	Special ESOP rules	120	120	120	120	130	130	140	140	140	150	150	1,340
153	Additional deduction for the blind	40	40	40	40	50	50	50	60	60	70	80	540
154	Additional deduction for the elderly	2,940	3,110	3,350	3,560	3,800	4,000	4,260	4,600	4,900	5,250	5,620	42,450
155	Tax credit for the elderly and disabled	10	10	10	10	10	10	10	0	0	0	0	60
156	Deductibility of casualty losses	370	390	400	410	420	440	450	460	470	480	490	4,410
157	Earned income tax credit [15]	1,550	1,760	1,820	3,780	3,890	2,080	2,200	2,330	2,430	2,560	2,660	25,510
	Social Security:												
	Exclusion of social security benefits:												
158	Social Security benefits for retired and disabled workers and spouses, dependents and survivors	36,140	38,440	40,580	42,920	44,850	46,530	48,140	49,700	51,380	53,260	55,330	471,130
159	Credit for certain employer contributions to social security	530	540	570	590	620	640	670	700	730	760	790	6,610
	Veterans benefits and services:												

Table 13–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2016–2026—Continued
(In millions of dollars)

		Total from individuals											
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017–2026
160	Exclusion of veterans death benefits and disability compensation	6,770	7,290	7,720	7,980	8,250	8,520	8,780	9,060	9,340	9,630	9,930	86,500
161	Exclusion of veterans pensions	440	470	500	520	540	560	590	610	630	650	680	5,750
162	Exclusion of GI bill benefits	1,550	1,690	1,790	1,880	1,960	2,050	2,140	2,240	2,340	2,440	2,550	21,080
163	Exclusion of interest on veterans housing bonds	10	10	10	10	10	10	10	10	20	20	20	130
General purpose fiscal assistance:													
164	Exclusion of interest on public purpose State and local bonds	20,490	21,420	23,050	25,350	28,420	32,030	35,470	38,660	41,440	43,760	45,610	335,210
165	Build America Bonds [16]	0	0	0	0	0	0	0	0	0	0	0	0
166	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	56,230	59,750	63,340	67,230	71,710	75,950	80,170	84,600	89,100	93,590	97,830	783,270
Interest:													
167	Deferral of interest on U.S. savings bonds	980	970	960	950	940	940	930	920	910	900	890	9,310
Addendum: Aid to State and local governments:													
	Deductibility of:												
	Property taxes on owner-occupied homes	34,470	36,540	38,940	41,590	44,410	47,170	49,930	52,770	55,670	58,560	61,280	486,860
	Nonbusiness State and local taxes other than on owner-occupied homes	56,230	59,750	63,340	67,230	71,710	75,950	80,170	84,600	89,100	93,590	97,830	783,270
	Exclusion of interest on State and local bonds for:												
	Public purposes	20,490	21,420	23,050	25,350	28,420	32,030	35,470	38,660	41,440	43,760	45,610	335,210
	Energy facilities	10	10	10	10	20	20	20	20	20	30	30	190
	Water, sewage, and hazardous waste disposal facilities	300	320	340	380	420	470	530	570	610	650	680	4,970
	Small-issues	110	110	120	130	150	170	190	210	220	230	240	1,770
	Owner-occupied mortgage subsidies	850	890	960	1,060	1,180	1,340	1,480	1,610	1,730	1,820	1,900	13,970
	Rental housing	730	770	830	910	1,020	1,150	1,270	1,390	1,490	1,570	1,640	12,040
	Airports, docks, and similar facilities	480	510	540	600	670	760	840	910	980	1,030	1,080	7,920
	Student loans	310	320	350	380	430	480	540	590	630	660	690	5,070
	Private nonprofit educational facilities	1,600	1,670	1,800	1,980	2,220	2,500	2,770	3,020	3,240	3,420	3,560	26,180
	Hospital construction	2,470	2,580	2,770	3,050	3,420	3,860	4,270	4,650	4,990	5,270	5,490	40,350
	Veterans' housing	10	10	10	10	10	10	10	10	20	20	20	130

See Table 1 footnotes for specific table information

Table 13-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2017-2026 PROJECTED REVENUE EFFECT
(In millions of dollars)

	Provision	2017	2018	2017-2026
125	Exclusion of employer contributions for medical insurance premiums and medical care [10]	222,030	235,830	2,934,710
5	Deferral of income from controlled foreign corporations (normal tax method)	107,200	112,560	1,348,390
62	Exclusion of net imputed rental income	109,620	112,670	1,222,550
70	Capital gains (except agriculture, timber, iron ore, and coal)	110,270	108,560	1,144,190
144	Defined contribution employer plans	64,610	69,420	958,460
58	Deductibility of mortgage interest on owner-occupied homes	64,110	68,090	895,920
166	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	59,750	63,340	783,270
143	Defined benefit employer plans	70,690	70,980	655,200
120	Deductibility of charitable contributions, other than education and health	47,450	51,180	633,120
72	Step-up basis of capital gains at death	51,990	54,070	624,190
61	Capital gains exclusion on home sales	46,130	48,470	581,900
59	Deductibility of State and local property tax on owner-occupied homes	36,540	38,940	486,860
147	Self-Employed plans	30,820	33,780	471,370
158	Social Security benefits for retired and disabled workers and spouses, dependents and survivors	38,440	40,580	471,130
164	Exclusion of interest on public purpose State and local bonds	30,500	31,910	422,780
69	Treatment of qualified dividends	28,810	29,850	343,920
51	Exclusion and deferral of policyholder income earned on life insurance and annuity contracts	17,920	24,360	333,710
137	Child credit [14]	24,460	24,710	236,580
145	Individual Retirement Accounts	17,900	19,170	235,860
77	Accelerated depreciation of machinery and equipment (normal tax method)	47,080	50,320	224,970
6	Deferred taxes for financial firms on certain income earned overseas	16,080	16,880	202,270
81	Deduction for US production activities	16,420	17,160	199,710
128	Deductibility of medical expenses	8,680	9,920	182,160
127	Medical Savings Accounts / Health Savings Accounts	6,850	8,160	169,810
98	Tax credits and deductions for postsecondary education expenses [7]	15,620	15,450	156,390
8	Credit for increasing research activities	11,150	11,850	148,310
1	Exclusion of benefits and allowances to armed forces personnel	12,650	11,460	129,690
7	Expensing of research and experimentation expenditures (normal tax method)	7,110	7,660	106,130
139	Exclusion of workers' compensation benefits	10,100	10,170	104,260
75	Deferral of gains from like-kind exchanges	7,690	8,080	96,860
126	Self-employed medical insurance premiums	7,590	7,960	96,480
64	Credit for low-income housing investments	8,740	8,850	94,630
160	Exclusion of veterans death benefits and disability compensation	7,290	7,720	86,500
63	Exception from passive loss rules for $25,000 of rental loss	7,480	7,800	85,230
2	Exclusion of income earned abroad by U.S. citizens	6,600	6,930	83,010
107	Deductibility of charitable contributions (education)	5,480	5,890	72,760
132	Deductibility of charitable contributions (health)	5,360	5,780	71,550
73	Carryover basis of capital gains on gifts	7,520	7,180	71,400
4	Inventory property sales source rules exception	4,630	5,020	68,500
78	Expensing of certain small investments (normal tax method)	3,580	3,660	63,800
65	Accelerated depreciation on rental housing (normal tax method)	2,200	2,920	56,690
133	Tax credit for orphan drug research	2,060	2,480	53,570
117	Exclusion of employee meals and lodging (other than military)	4,650	4,770	52,360
130	Refundable Premium Assistance Tax Credit [11]	2,410	3,170	52,000
118	Credit for child and dependent care expenses	4,600	4,710	51,350
129	Exclusion of interest on hospital construction bonds	3,670	3,840	50,890
106	Parental personal exemption for students age 19 or over	4,210	4,310	47,390
154	Additional deduction for the elderly	3,110	3,350	42,450
97	Exclusion of scholarship and fellowship income (normal tax method)	3,410	3,500	39,230
14	Energy production credit [1]	1,770	2,320	37,580
85	Exclusion of reimbursed employee parking expenses	3,060	3,170	35,830
50	Exemption of credit union income	2,710	3,080	35,310
103	Exclusion of interest on bonds for private nonprofit educational facilities	2,380	2,490	33,010
148	Premiums on group term life insurance	2,580	2,680	30,460
101	Qualified tuition programs	1,920	2,110	28,540
157	Earned income tax credit [15]	1,760	1,820	25,510
79	Graduated corporation income tax rate (normal tax method)	3,000	2,650	24,640
16	Energy investment credit [1]	2,440	3,450	24,300
152	Special ESOP rules	2,090	2,150	24,030

Table 13-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2017-2026 PROJECTED REVENUE EFFECT—Continued
(In millions of dollars)

	Provision	2017	2018	2017-2026
100	Deductibility of student-loan interest	1,970	2,010	21,810
162	Exclusion of GI bill benefits	1,690	1,790	21,080
56	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,270	1,330	17,610
60	Deferral of income from installment sales	1,630	1,620	17,290
3	Exclusion of certain allowances for Federal employees abroad	1,370	1,430	17,170
46	Capital gains treatment of certain income	1,480	1,450	15,320
57	Exclusion of interest on rental housing bonds	1,100	1,150	15,180
151	Income of trusts to finance voluntary employee benefits associations	1,170	1,220	14,490
86	Exclusion for employer-provided transit passes	1,080	1,140	13,970
113	Employer provided child care exclusion	1,000	1,060	13,330
146	Low and moderate income savers credit	1,240	1,260	13,150
71	Capital gains exclusion of small corporation stock	700	850	13,040
122	Exclusion of parsonage allowances	990	1,040	12,570
159	Credit for certain employer contributions to social security	1,030	1,080	12,540
108	Exclusion of employer-provided educational assistance	900	950	11,270
90	Exclusion of interest for airport, dock, and similar bonds	720	750	9,990
167	Deferral of interest on U.S. savings bonds	970	960	9,310
53	Tax exemption of insurance income earned by tax-exempt organizations	720	740	8,590
10	Excess of percentage over cost depletion, fuels	400	510	8,190
30	Credit for residential energy efficient property	1,460	1,500	8,060
93	New markets tax credit	1,300	1,200	7,600
115	Assistance for adopted foster children	580	610	7,460
140	Exclusion of public assistance benefits (normal tax method)	590	600	6,660
111	Qualified school construction bonds [9]	650	650	6,500
112	Work opportunity tax credit	1,310	1,350	6,470
102	Exclusion of interest on student-loan bonds	460	480	6,400
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	450	470	6,260
161	Exclusion of veterans pensions	470	500	5,750
121	Exclusion of certain foster care payments	480	500	5,670
55	Exclusion of interest spread of financial institutions	500	510	5,660
20	Exclusion of utility conservation subsidies	450	470	5,580
136	Distributions from retirement plans for premiums for health and long-term care insurance	460	480	5,510
134	Special Blue Cross/Blue Shield tax benefits	610	610	5,500
44	Expensing of certain multiperiod production costs	390	410	5,140
40	Tax incentives for preservation of historic structures	470	470	5,100
156	Deductibility of casualty losses	390	400	4,410
36	Excess of percentage over cost depletion, nonfuel minerals	420	430	4,250
39	Expensing of multiperiod timber growing costs	340	360	4,050
19	Tax credits for clean-fuel burning vehicles and refueling property	550	660	3,980
33	Advanced nuclear power production credit	0	0	3,910
116	Adoption credit and exclusion	310	320	3,530
149	Premiums on accident and disability insurance	320	330	3,380
94	Credit to holders of Gulf Tax Credit Bonds.	240	250	3,350
142	Exclusion of military disability pensions	240	250	2,950
43	Expensing of certain capital outlays	230	240	2,910
34	Reduced tax rate for nuclear decommissioning funds	190	220	2,690
138	Exclusion of railroad retirement (Social Security equivalent) benefits	310	310	2,580
109	Special deduction for teacher expenses	210	210	2,410
80	Exclusion of interest on small issue bonds	160	170	2,240
47	Income averaging for farmers	150	160	1,890
95	Recovery Zone Bonds [6]	130	140	1,840
91	Exemption of certain mutuals' and cooperatives' income	150	150	1,600
88	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	200	190	1,590
12	Capital gains treatment of royalties on coal	150	150	1,530
38	Capital gains treatment of certain timber income	150	150	1,530
104	Credit for holders of zone academy bonds [8]	170	180	1,190
110	Discharge of student loan indebtedness	100	100	1,100
66	Discharge of mortgage indebtedness	1,090	0	1,090
131	Credit for employee health insurance expenses of small business [12]	160	170	1,040

Table 13-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2017-2026 PROJECTED REVENUE EFFECT—Continued

(In millions of dollars)

	Provision	2017	2018	2017-2026
23	Credit for investment in clean coal facilities	400	440	1,020
83	Tonnage tax	80	80	970
9	Expensing of exploration and development costs, fuels	–650	–290	840
49	Expensing of reforestation expenditures	60	60	750
21	Credit for holding clean renewable energy bonds [4]	70	70	700
68	Exceptions from imputed interest rules	50	60	700
26	Amortize all geological and geophysical expenditures over 2 years	60	60	630
52	Exclusion or special alternative tax for small property and casualty insurance companies	50	50	630
45	Treatment of loans forgiven for solvent farmers	50	50	560
96	Tribal Economic Development Bonds	40	40	550
153	Additional deduction for the blind	40	40	540
74	Ordinary income treatment of loss from small business corporation stock sale	50	50	500
35	Expensing of exploration and development costs, nonfuel minerals	40	40	480
42	Deduction for endangered species recovery expenditures	30	30	470
54	Small life insurance company deduction	40	40	450
99	Education Individual Retirement Accounts	40	40	440
150	Income of trusts to finance supplementary unemployment benefits	20	30	420
41	Industrial CO2 capture and sequestration tax credit	150	180	410
82	Special rules for certain film and TV production	200	110	400
105	Exclusion of interest on savings bonds redeemed to finance educational expenses	30	30	380
11	Exception from passive loss limitation for working interests in oil and gas properties	40	40	330
31	Qualified energy conservation bonds [5]	30	30	300
29	Credit for energy efficiency improvements to existing homes	290	0	290
28	Credit for construction of new energy efficient homes	170	70	280
13	Exclusion of interest on energy facility bonds	20	20	250
48	Deferral of gain on sale of farm refiners	20	20	250
92	Empowerment zones	110	50	250
67	Discharge of business indebtedness	–50	10	220
84	Deferral of tax on shipping companies	20	20	200
89	Investment credit for rehabilitation of structures (other than historic)	20	20	200
25	Natural gas distribution pipelines treated as 15-year property	140	150	190
15	Marginal wells credit	70	70	170
123	Indian employment credit	40	20	170
141	Exclusion of special benefits for disabled coal miners	20	20	140
124	Credit for employer differential wage payments	0	0	130
163	Exclusion of interest on veterans housing bonds	10	10	130
114	Employer-provided child care credit	10	10	100
119	Credit for disabled access expenditures	10	10	100
87	Tax credit for certain expenditures for maintaining railroad tracks	60	0	60
135	Tax credit for health insurance purchased by certain displaced and retired individuals [13]	30	20	60
155	Tax credit for the elderly and disabled	10	10	60
18	Bio-Diesel and small agri-biodiesel producer tax credits [3]	20	0	20
17	Alcohol fuel credits [2]	10	0	10
165	Build America Bonds [16]	0	0	0
32	Advanced Energy Property Credit	–30	–30	–100
27	Allowance of deduction for certain energy efficient commercial building property	10	–30	–260
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–190	–270	–1,220
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	–1,380	–1,140	–5,340
76	Depreciation of buildings other than rental housing (normal tax method)	–9,000	–9,390	–117,210

See Table 1 footnotes for specific table information

4. ***Inventory property sales source rules exception.***—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 to foreign sources than would be the case if the allocation of earnings was based on actual economic activity.

5. ***Deferral of income from controlled foreign corporations (normal tax method).***—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. ***Deferred taxes for financial firms on certain income earned overseas.***—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, the Tax Code allows financial firms to defer taxes on income earned overseas in an active business.

General Science, Space, and Technology

7. ***Expensing of research and experimentation expenditures (normal tax method).***—The baseline tax system allows a deduction for the cost of producing income. It requires taxpayers to capitalize the costs associated with investments over time to better match the streams of income and associated costs. Research and experimentation (R&E) projects can be viewed as investments because, if successful, their benefits accrue for several years. It is often difficult, however, to identify whether a specific R&E project is successful and, if successful, what its expected life will be. Because of this ambiguity, the reference law baseline tax system would allow expensing of R&E expenditures. In contrast, under the normal tax method, the expensing of R&E expenditures is viewed as a tax expenditure. The baseline assumed for the normal tax method is that all R&E expenditures are successful and have an expected life of five years.

8. ***Credit for increasing research activities.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows an R&E credit of up to 20 percent of qualified research expenditures in excess of a base amount. The base amount of the credit is generally determined by multiplying a "fixed-base percentage" by the average amount of the company's gross receipts for the prior four years. The taxpayer's fixed base percentage generally is the ratio of its research expenses to gross receipts for 1984 through 1988. Taxpayers can elect the alternative simplified credit regime, which equals 14 percent of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding taxable years.

Energy

9. ***Expensing of exploration and development costs.***—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 amortization. Integrated oil companies may deduct only 70 percent of such costs and must amortize the remaining 30 percent over five years. Non-integrated oil companies may expense all such costs. 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. ***Excess of percentage over cost 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 economic 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 fossil fuel 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. ***Exception from passive loss limitation for working interests in oil and gas properties.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as

Table 13–4. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 2016

(In millions of dollars)

	Provision	2016 Present Value of Revenue Loss
5	Deferral of income from controlled foreign corporations (normal tax method)	60,600
7	Expensing of research and experimentation expenditures (normal tax method)	3,090
21	Credit for holding clean renewable energy bonds	0
9	Expensing of exploration and development costs - fuels	150
35	Expensing of exploration and development costs - nonfuels	10
39	Expensing of multiperiod timber growing costs	120
44	Expensing of certain multiperiod production costs - agriculture	–140
43	Expensing of certain capital outlays - agriculture	–100
49	Expensing of reforestation expenditures	30
51	Exclusion and deferral of policyholder income earned on life insurance and annuity contracts [1]	12,720
65	Accelerated depreciation on rental housing	17,470
76	Depreciation of buildings other than rental	–3,430
77	Accelerated depreciation of machinery and equipment	20,250
78	Expensing of certain small investments (normal tax method)	940
104	Credit for holders of zone academy bonds	160
64	Credit for low-income housing investments	6,190
101	Qualified tuition programs	3,790
143	Defined benefit employer plans	30,510
144	Defined contribution employer plans	72,100
145	Exclusion of IRA contributions and earnings	1,390
145	Exclusion of Roth earnings and distributions	4,540
145	Exclusion of non-deductible IRA earnings	450
147	Exclusion of contributions and earnings for Self-Employed plans	5,120
164	Exclusion of interest on public-purpose bonds	14,900
	Exclusion of interest on non-public purpose bonds	3,880
170	Deferral of interest on U.S. savings bonds	260

[1] Estimate is for annuities only. Life insurance earnings are mostly excluded from taxable income.

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.

12. ***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, tax rates on regular income vary from 10 percent to 39.6 percent (plus a 3.8-percent surtax on high income taxpayers), 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 20 percent (plus the 3.8-percent surtax). Certain sales of coal under royalty contracts qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 20 percent maximum tax rate on capital gains.

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

14. ***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. Wind facilities must have begun construction before January 1, 2020. Facilities that begin construction in 2017 receive 80 percent of the credit,

facilities that begin construction in 2018 receive 60 percent of the credit, and facilities that begin construction in 2019 receive 40 percent of the credit. Qualified facilities producing electricity from sources other than wind must begin construction before January 1, 2017. In addition to the electricity production credit, an income tax credit is allowed for the production of refined coal for facilities placed in service before January 1, 2012. The Tax Code also provided an income tax credit for Indian coal facilities. . The Indian coal facilities credit expires on December 31, 2016.

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

16. ***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. A temporary credit of up to 30 percent is available for certain qualified property placed in service before January 1, 2017. For solar energy, a temporary credit is available for property for which construction begins before January 1, 2022, and which is placed in service before January 1, 2024. The credit is 30 percent for property that begins construction before 2020, 26 percent for property that begins construction in 2020, and 22 percent for property that begins construction in 2021. A permanent 10 percent credit is available for geothermal property placed in service after December 31, 2017 and for qualified solar property for which construction begins after December 31, 2021 or that is placed in service after December 31, 2023. . Owners of renewable power facilities that qualify for the energy production credit may instead elect to take an energy investment credit at a rate specified by law.

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 provided an income tax credit for qualified cellulosic biofuel production which was renamed the Second generation biofuel producer credit. This provision expires on December 31, 2016.

18. ***Bio-diesel and small agri-biodiesel producer tax credits.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allowed an income tax credit for Bio-diesel and for Bio-diesel derived from virgin sources. In lieu of the Bio-diesel credit, the taxpayer could claim a refundable excise tax credit. In addition, small agri-biodiesel producers were eligible for a separate income tax credit for biodiesel production and a separate credit was available for qualified renewable diesel fuel mixtures. This provision expires on December 31, 2016.

19. ***Tax credits for clean-fuel burning vehicles and refueling property.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows credits for plug-in electric-drive motor vehicles, alternative fuel vehicle refueling property, two-wheeled plug-in electric vehicles, and fuel cell motor vehicles. These provisions, except for the plug-in electric-drive motor vehicle credit, expire after December 31, 2016.

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

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

22. ***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 allowed electric utilities to defer gains from the sale of their transmission assets to a FERC-approved independent transmission company. The sale of property must have been made prior to January 1, 2017.

23. ***Credit for investment in clean coal facilities.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. 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 provided 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. Qualified refinery property must have been placed in service before January 1, 2014.

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 its economic life. However, the Tax Code allows geological and geophysical expenditures incurred in connection with oil and gas exploration in the United States to be amortized over two years for non-integrated oil companies, a span of time that is generally shorter than the economic life of the assets.

27. ***Allowance of deduction for certain energy efficient commercial building property.***—The baseline tax system would not allow deductions in lieu of normal depreciation allowances for particular investments in particular industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a deduction for certain energy efficient commercial building property. The basis of such property is reduced by the amount of the deduction. This provision expires on December 31, 2016.

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 allowed contractors a tax credit of $2,000 for the construction of a qualified new energy-efficient home that had an annual level of heating and cooling energy consumption at least 50 percent below the annual consumption under the 2006 International Energy Conservation Code. The credit equaled $1,000 in the case of a new manufactured home that met a 30 percent standard or requirements for EPA's Energy Star homes. This provision expires on December 31, 2016.

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 provided an investment tax credit for expenditures made on insulation, exterior windows, and doors that improved the energy efficiency of homes and met certain standards. The Tax Code also provided 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 expires on December 31, 2016.

30. ***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 used in or placed on a residence. The credit for qualified solar electric and solar water heating property is 30 percent for property placed in service before January 1, 2020, 26 percent for property placed in service in 2020, and 22 percent for property placed in service in 2021. The credit for fuel cell, small wind, and geothermal heat pump property is 30 percent for property placed in service before January 1, 2017.

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

32. ***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.

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

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

Natural Resources and Environment

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

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, tax rates on regular income vary from 10 percent to 39.6 percent (plus a 3.8-percent surtax on high income taxpayers), 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 20 percent (plus the 3.8-percent surtax).

39. ***Expensing of 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. ***Tax incentives for preservation of historic structures.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, expenditures to preserve and restore certified historic structures qualify for an investment tax credit of 20 percent under current law for certified rehabilitation activities. The taxpayer's recoverable basis must be reduced by the amount of the credit.

41. ***Industrial CO*2 *capture and sequestration tax credit***.—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows a credit for qualified carbon dioxide captured at a qualified facility and disposed of in secure geological storage. In addition, the provision allows a credit for qualified carbon dioxide that is captured at a qualified facility and used as a tertiary injectant in a qualified enhanced oil or natural gas recovery project. The credit is not allowed after the end of the calendar year in which 75 million metric tons of qualified carbon dioxide are certified as having been taken into account.

42. ***Deduction for endangered species recovery expenditures.***—The baseline tax system would not allow deductions in addition to normal depreciation allowances for particular investments in particular industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, under current law farmers can deduct up to 25 percent of their gross income for expenses incurred as a result of site and habitat improvement activities that will benefit endangered species on their farm land, in accordance with site specific management actions included in species recovery plans approved pursuant to the Endangered Species Act of 1973.

Agriculture

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

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

45. ***Treatment of loans forgiven for solvent farmers.***—Because loan forgiveness increases a debtors net worth the baseline tax system requires debtors to include the amount of loan forgiveness as income or else reduce their recoverable basis in the property related to the loan. If the amount of forgiveness exceeds the basis, the excess forgiveness is taxable if the taxpayer is not insolvent. For bankrupt debtors, the amount of loan forgiveness reduces carryover losses, unused credits, and then basis, with the remainder of the forgiven debt excluded from taxation. Qualified farm debt that is forgiven, however, is excluded from income even when the taxpayer is solvent.

46. ***Capital gains treatment of certain income.***—For individuals, tax rates on regular income vary from 10 percent to 39.6 percent (plus a 3.8-percent surtax on high income taxpayers), depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is

no higher than 20 percent (plus the 3.8-percent surtax). Certain agricultural income, such as unharvested crops, qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 20 percent maximum tax rate on capital gains.

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

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

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

Commerce and Housing

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

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

51. ***Exclusion and deferral of policyholder income earned on life insurance and annuity contracts.***— Under the baseline tax system, individuals and corporations generally 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 credited to 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 amounts paid for the cost of life insurance protection are credited to investment in the contract). Any remaining distributed income is tax-deferred because, in general, it was not taxed when earned. Investment income credited to annuities is taxed only when distributed, and therefore also benefits from tax deferral.

52. ***Exclusion or special alternative tax for small property and casualty insurance companies.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. 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 generally may elect to pay tax only on their taxable investment income.

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

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

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

56. ***Exclusion of interest on owner-occupied mortgage subsidy bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance homes purchased by first-

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

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

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

59. ***Deduction for property taxes on real property.***—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 real property.

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

61. ***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.

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

63. ***Exception from passive loss rules for $25,000 of rental loss.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as those in which the taxpayer does not materially participate and there are numerous additional considerations brought to bear on the determination of which activities are passive for a given taxpayer. Losses are limited in an attempt to limit tax sheltering activities. Passive losses that are unused may be carried forward and applied against future passive income. In contrast to the general restrictions on passive losses, the Tax Code exempts certain owners of rental real estate activities from "passive income" limitations. The exemption is limited to $25,000 in losses and phases out for taxpayers with income between $100,000 and $150,000.

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

65. ***Accelerated depreciation on rental housing.***—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 eco-

nomic value due to wear and tear or obsolescence. This insures that the net income from the rental property is measured appropriately each year. Current law allows depreciation that is accelerated relative to economic depreciation. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, in contrast, depreciation allowances reflect estimates of economic depreciation.

66. ***Discharge of mortgage indebtedness.***—Under the baseline tax system, all income would generally be taxed under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allowed 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 applied to debt discharged after January 1, 2007, and before January 1, 2017.

67. ***Discharge of business indebtedness.***—Under the baseline tax system, all income would generally be taxed under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for any discharge of qualified real property business indebtedness by taxpayers other than a C corporation. If the canceled debt is not reported as current income, however, the basis of the underlying property must be reduced by the amount canceled.

68. ***Exceptions from imputed interest rules.***—Under the baseline tax system, holders (issuers) of debt instruments are generally required to report interest earned (paid) in the period it accrues, not when received. In addition, the amount of interest accrued is determined by the actual price paid, not by the stated principal and interest stipulated in the instrument. But under current law, any debt associated with the sale of property worth less than $250,000 is exempted from the general interest accounting rules. This general $250,000 exception is not a tax expenditure under reference law but is under normal law. Current law also includes exceptions for certain property worth more than $250,000. These are tax expenditure under reference law and normal law. These exceptions include, sales of personal residences worth more than $250,000, and sales of farms and small businesses worth between $250,000 and $1 million.

69. ***Treatment of qualified dividends.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. For individuals, tax rates on regular income vary from 10 percent to 39.6 percent (plus a 3.8-percent surtax on high income taxpayers), depending on the taxpayer's income. In contrast, under current law, qualified dividends are taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8-percent surtax).

70. ***Capital gains (except agriculture, timber, iron ore, and coal).***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. For individuals, tax rates on regular income vary from 10 percent to 39.6 percent (plus a 3.8-percent surtax on high income taxpayers), depending on the taxpayer's income. In contrast, under current law, capital gains on assets held for more than one year are taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8-percent surtax).

71. ***Capital gains exclusion of small corporation stock.***—The baseline tax system would not allow deductions and exemptions, or provide preferential treatment of certain sources of income or types of activities. In contrast, the Tax Code provided an exclusion of 50 percent, applied to ordinary rates with a maximum of 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. A qualified small business is a corporation whose gross assets do not exceed $50 million as of the date of issuance of the stock.

72. ***Step-up basis of capital gains at death.***—Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred at death. It would not allow for exempting gains upon transfer of the underlying assets to the heirs. In contrast, capital gains on assets held at the owner's death are not subject to capital gains tax under current law. The cost basis of the appreciated assets is adjusted to the market value at the owner's date of death which becomes the basis for the heirs.

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

74. ***Deferral of capital gains from like-kind exchanges.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates, or deferral of tax, to apply to certain types or sources of income. In contrast, current law allows the deferral of accrued gains on assets transferred in qualified like-kind exchanges.

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

76. ***Depreciation of buildings other than rental housing.***—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. Current law allows depreciation deductions that differ from those under economic depreciation. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, in contrast, 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. Current law allows depreciation deductions that are accelerated relative to economic depreciation. 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, in contrast 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.***—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. ***Exclusion of interest on small issue bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on small issue industrial development bonds (IDBs) issued by State and local governments to finance manufacturing facilities to be tax exempt. Depreciable property financed with small issue IDBs must be depreciated, however, using the straight-line method. The annual volume of small issue IDBs is subject to the unified volume cap discussed in the mortgage housing bond section above.

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, the Tax Code allowed taxpayers to deduct up to $15 million per production ($20 million in certain distressed areas) in non-capital expenditures incurred during the year. This provision expires at the end of 2016.

Transportation

83. ***Tonnage tax.***—The baseline tax system generally would tax all profits and income under the regular tax rate schedule. U.S. shipping companies may choose to be subject to a tonnage tax based on gross shipping weight in lieu of an income tax, in which case profits would not be subject to tax under the regular tax rate schedule.

84. ***Deferral of tax on shipping companies.***—The baseline tax system generally would tax all profits and income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows certain companies that operate U.S. flag vessels to defer income taxes on that portion of their income used for shipping purposes (e.g., primarily construction, modernization and major repairs to ships, and repayment of loans to finance these investments).

85. ***Exclusion of reimbursed employee parking expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from taxable income for employee parking expenses that are paid for by the employer or that are received by the employee in lieu of wages. In 2016, the maximum amount of the parking exclusion is $255 per month. The tax expenditure estimate does not include any subsidy provided through employer-owned parking facilities.

86. ***Exclusion for employer-provided transit passes.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for passes, tokens, fare cards, and vanpool expenses that are paid for by an employer or that are received by the employee in lieu of wages to defray an employee's commuting costs. Due to a parity to parking provision, the maximum amount of the transit exclusion is $255 per month in 2016.

87. ***Tax credit for certain expenditures for maintaining railroad tracks.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code allowed eligible taxpayers to 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. This provision applies to maintenance expenditures in taxable years beginning before January 1, 2017.

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

Community and Regional Development

89. ***Investment credit for 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.

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

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

92. ***Empowerment zones.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income, tax credits, and write-offs faster than economic depreciation. In contrast, the Tax Code allowed qualifying businesses in designated economically depressed areas to receive tax benefits such as an employment credit, increased expensing of investment in equipment, special tax-exempt financing, and certain capital gains incentives. A taxpayer's ability to accrue new tax benefits for empowerment zones expires on December 31, 2016.

93. ***New markets tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code allowed taxpayers who made qualified equity investments in a community development entity (CDE), which then made qualified investments in low-income communities, to be eligible for a tax credit that is received over 7 years. The total equity investment available for the credit across all CDEs is $3.5 billion for each calendar year 2010 through 2019, the last year for which credit allocations are authorized.

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

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 on such bonds.

Education, Training, Employment, and Social Services

97. ***Exclusion of 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. ***Tax credits and deductions for post-secondary education expenses.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law in 2016, however, there were two credits and one deduction for certain postsecondary education expenses. 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 $160,000 and $180,000 if married filing jointly ($80,000 and $90,000 for other taxpayers), not indexed. The Lifetime Learning Credit allows a non-refundable credit for 20 percent of an eligible student's qualified tuition and fees, up to a maximum credit per return of $2,000. In 2016, the credit is phased out ratably for taxpayers with modified AGI between $110,000 and $130,000 if married filing jointly ($55,000 and $65,000 for other taxpayers), indexed. The credit can be claimed in any year in which post-secondary education expenses are incurred. The deduction for post-secondary education expenses provides a maximum deduction of $4,000 for qualified post-secondary education expenses for taxpayers with modified adjusted gross income up to $130,000 if married filing jointly ($65,000 for other taxpayers). Taxpayers with modified adjusted gross income up to $160,000 if married filing jointly ($80,000 for other taxpayers) could deduct up to $2,000 of qualified post-secondary education expenses. This provision expired on December 31, 2016.

99. ***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 2016 is $2,000 per beneficiary. In 2016, 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).

100. ***Deductibility of student loan interest.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct non-business interest expenses. In contrast, taxpayers may claim an above-the-line deduction of up to $2,500 on interest paid on an education loan. In 2016, the maximum deduction is phased down ratably for taxpayers with modified AGI between $130,000 and $160,000 if married filing jointly ($65,000 and $80,000 for other taxpayers).

101. ***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.

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

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

104. ***Credit for holders of zone academy bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, financial institutions that own zone academy bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income. Proceeds from zone academy bonds may only be used to renovate, but not construct, qualifying schools and for certain other school purposes. The total amount of zone academy bonds that may be issued was limited to $1.4 billion in 2009 and 2010. As of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable. An additional $0.4 billion of these bonds with a tax credit was authorized to be issued each year in 2011 through 2016.

105. ***Exclusion of interest on savings bonds redeemed to finance educational expenses.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, interest earned on U.S. savings bonds issued after December 31, 1989 is tax-exempt if the bonds are transferred to an educational institution to pay for educational expenses. The tax exemption is phased out for taxpayers with AGI between $116,300 and $146,300 if married filing jointly ($77,550 and $92,550 for other taxpayers) in 2016.

106. ***Parental personal exemption for students age 19 or over.***—Under the baseline tax system, a personal exemption would be allowed for the taxpayer, as well as for the taxpayer's spouse and dependents who do not claim a personal exemption on their own tax returns. To be considered a dependent, a child would have to be under age 19. In contrast, the Tax Code allows taxpayers to claim personal exemptions for children aged 19 to 23, as long as the children are full-time students and reside with the taxpayer for over half the year (with exceptions for temporary absences from home, such as for school attendance).

107. ***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 that are similar to personal expenditures. Moreover, taxpayers who donate capital assets to educational institutions can deduct the asset's current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

108. ***Exclusion of employer-provided educational assistance.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because 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.

109. ***Special deduction for teacher expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code allowed educators in both public and private elementary and secondary schools, who worked at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide, to subtract up to $250 of qualified expenses, indexed to 2014, when determining their adjusted gross income (AGI).

110. ***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.

111. ***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.

112. ***Work opportunity tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides employers with a tax credit for qualified wages paid to individuals. The credit applies to employees who began work on or before December 31, 2020 and who are certified as members of various targeted groups. The amount of the credit that can be claimed is 25 percent of qualified wages for employment less than 400 hours and 40 percent for employment of 400 hours or more. Generally, the maximum credit per employee is $2,400 and can only be claimed on the first year of wages an individual earns from an employer. However, the credit for long-term welfare recipients can be claimed on second year wages as well and has a $9,000 maximum. Also, certain categories of veterans are eligible for a higher maximum credit of up to $9,600. Employers must reduce their deduction for wages paid by the amount of the credit claimed.

113. ***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.

114. ***Employer-provided child care credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, current law provides a credit equal to 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.

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

116. ***Adoption credit and exclusion.***—The baseline tax system would not allow credits for particular activities. In contrast, taxpayers can receive a tax credit for qualified adoption expenses under current law. 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.

117. ***Exclusion of employee 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.

118. ***Credit for child and dependent care expenses.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides parents who work or attend school and who have child and dependent care expenses a tax credit. 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 up to $15,000. The credit is reduced to a minimum of 20 percent by one percentage point for each $2,000 of income in excess of $15,000.

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

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

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

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

123. ***Indian employment credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides employers with a tax credit for qualified wages paid to employees who are enrolled members of Indian tribes. The amount of the credit that could be claimed is 20 percent of the excess of qualified wages and health insurance costs paid by the employer in the current tax year over the amount of such wages and costs paid by the employer in 1993. Qualified wages and health insurance costs with respect to any employee for the taxable year could not exceed $20,000. Employees have to live on or near the reservation where he or she work to be eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed. The credit does not apply to taxable years beginning after December 31, 2016.

124. Credit for employer differential wage payments.—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides employers with a 20 percent tax credit for eligible differential wages paid to employees who are members of the uniformed services while on active duty for more than 30 days. The amount of eligible differential wage payments made to a qualified employee in a taxable year is capped at $20,000. Employers must reduce their deduction for wages paid by the amount of the credit claimed.

Health

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

126. ***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.

127. ***Medical Savings Accounts 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 and generally would tax investment earnings. 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 2016, $3,350 for taxpayers with individual coverage and $6,750 for taxpayers with family coverage). Thus, HSAs have largely replaced MSAs.

128. ***Deductibility of medical expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law personal expenditures for medical care (including the costs of prescription drugs) exceeding 7.5 percent of the taxpayer's adjusted gross income are deductible. 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. Beginning in 2017, the 10-percent threshold will apply to all taxpayers, including those over 65.

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

130. ***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 (1) the actual premiums paid by the taxpayer for such coverage or (2) the difference between the cost of a statutorily-identified benchmark plan offered on the exchange and a required payment by the taxpayer that increases with income.

131. ***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 years 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 increases to 50 percent of premiums paid by qualified taxable employers and 35 percent of premiums paid by qualified tax-exempt organizations.

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

133. ***Tax credit for orphan drug research.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, under current law drug firms can claim a tax credit of 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.

134. ***Special Blue Cross/Blue Shield tax benefits.***—The baseline tax system generally would tax all profits under the regular tax rate schedule using broadly applicable measures of baseline income. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, Blue Cross and Blue Shield health insurance providers in existence on August 16, 1986 and certain other nonprofit health insurers are provided with special tax benefits, provided that their percentage of total premium revenue expended on reimbursement for clinical services provided to enrollees or for activities that improve health care quality is not less than 85 percent for the taxable year. Qualifying insurers may take as a deduction 100 percent of any net increase in their unearned premium reserves, instead of the 80 percent allowed other insurers. Qualifying insurers are also allowed a special deduction equal to the amount by which 25 percent of an insurer's health-claim expenses exceeds its beginning-of-the-year accounting surplus. The deduction is limited to the insurer's taxable income determined without the special deduction.

135. ***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 Tax Code provides a refundable tax credit of 72.5 percent for the purchase of health insurance coverage by individuals eligible for Trade Adjustment Assistance and certain Pension Benefit Guarantee Corporation pension recipients. This provision will expire on December 31, 2019.

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

Income Security

137. ***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 the Earned Income Tax Credit 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).

138. ***Exclusion of railroad Social Security equivalent benefits.***—Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, the Social Security Equivalent Benefit paid to railroad retirees is not generally subject to the income tax unless the recipient's gross income reaches a certain threshold under current law. See provision number 158, Social Security benefits for retired workers, for discussion of the threshold.

139. ***Exclusion of workers' compensation benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. However, workers compensation is not subject to the income tax under current law.

140. ***Exclusion of 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.

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

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

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

144. ***Defined contribution employer plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under 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 2016, an employee could exclude up to $18,000 of wages from AGI under a qualified arrangement with an employer's 401(k) plan. Employees age 50 or over could exclude up to $24,000 in contributions. The defined contribution plan limit, including both employee and employer contributions, is $53,000 in 2016. The tax on contributions made by both employees and employers and the investment income earned by these plans is deferred until withdrawn.

145. ***Individual Retirement Accounts (IRAs).***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under 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 $5,500 in 2016; 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.

146. ***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 $61,500 for joint filers, $46,125 for head of household filers, and $30,750 for other filers in 2016.

147. ***Self-employed plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under current law self-employed individuals can make deductible contributions to their own retirement plans equal to 25 percent of their income, up to a maximum of $53,000 in 2016. 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.

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

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

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

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

152. ***Special ESOP rules.***—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 addition, investment income would be taxed as earned. In contrast, employer-paid contributions (the value of stock issued to the ESOP) are deductible by the employer as part of employee compensation costs. They are not included in the employees' gross income for tax purposes, however, until they are paid out as benefits. In addition, the following special income tax provisions for ESOPs are intended to increase ownership of corporations by their employees: (1) annual employer contributions are subject to less restrictive limitations than other qualified retirement plans; (2) ESOPs may borrow to purchase employer stock, guaranteed by their agreement with the employer that the debt will be serviced by 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; (4) dividends paid to ESOP-held stock are deductible by the employer; and (5) earnings are not taxed as they accrue.

153. ***Additional deduction for the blind.***—Under the baseline tax system, the standard deduction is allowed. An additional standard deduction for a targeted group within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are blind to claim an additional $1,550 standard deduction if single, or $1,250 if married in 2016.

154. ***Additional deduction for the elderly.***—Under the baseline tax system, the standard deduction is allowed. An additional standard deduction for a targeted group within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years or older to claim an additional $1,550 standard deduction if single, or $1,250 if married in 2016.

155. ***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 non-refundable 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 or disabled, and up to $7,500 for joint returns where both spouses are 65 years of age or older or 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.

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

157. ***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 $9,920 of earned income in 2016. The credit is 40 percent of the first $13,930 of income for a family with two qualifying children, and it is 45 percent of the first $13,930 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 $6,610 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. In 2016, the phase-down for married filers begins at incomes $5,550 greater than for otherwise similar unmarried filers. Earned income tax

credits in excess of tax liabilities owed through the individual income tax system are refundable to individuals.

Social Security

158. ***Social Security benefits for retired and disabled workers and spouses, dependents, and survivors.***—The baseline tax system would tax Social Security benefits to the extent that contributions to Social Security were not previously taxed. Thus, the portion of Social Security benefits that is attributable to employer contributions and to earnings on employer and employee contributions (and not attributable to employee contributions which are taxed at the time of contribution) would be subject to tax. In contrast, the Tax Code may not tax all of the Social Security benefits that exceed the beneficiary's contributions from previously taxed income. Actuarially, previously taxed contributions generally do not exceed 15 percent of benefits, even for retirees receiving the highest levels of benefits. Therefore, up to 85 percent of recipients' Social Security and Railroad Social Security Equivalent retirement benefits are included in (phased into) the income tax base if the recipient's provisional income exceeds certain base amounts. (Provisional income is equal to other items included in adjusted gross income plus foreign or U.S. possession income, tax-exempt interest, and one half of Social Security and Railroad Social Security Equivalent retirement benefits.) The untaxed portion of the benefits received by taxpayers who are below the income amounts at which 85 percent of the benefits are taxable is counted as a tax expenditure. Benefits paid to disabled workers and to spouses, dependents, and survivors are treated in a similar manner. Railroad Social Security Equivalent benefits are treated like Social Security benefits. See also provision number 138, Exclusion of railroad Social Security equivalent benefits.

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

Veterans Benefits and Services

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

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

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

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

General Government

164. ***Exclusion of interest on public purpose State and local bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law 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.

165. ***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 could issue taxable bonds and the private lenders receive the 35-percent credit which is included in taxable income.

166. ***Deductibility of nonbusiness State and local taxes other than on owner-occupied homes.***—Under the baseline tax system, a deduction for personal consumption expenditures would not be allowed. In contrast, the Tax Code allows taxpayers who itemize their deductions to claim a deduction for State and local income taxes (or, at the taxpayer's election, State and local sales taxes) and property taxes, even though these taxes primarily pay for services that, if purchased directly by taxpayers, would not be deductible. (The estimates for this tax expenditure do not include the estimates for the

deductibility of State and local property tax on owner-occupied homes. See item 59.)

Interest

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

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. 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.

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 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 example, 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:

- 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.

- 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.

- 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 to lay the foundation for the analysis of tax expenditures comprehensively, alongside evaluations of the effectiveness of direct spending initiatives.