BUDGET BASELINES, HISTORICAL DATA, AND ALTERNATIVES FOR THE FUTURE

JANUARY 1993

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 revenue decreases (relative to yields that it is assumed might otherwise be achieved) due to preferential provisions of the Federal tax laws, such as special exclusions, exemptions, deductions, credits, deferrals, or tax rates. Tax expenditures are an alternative to other Government policy instruments, such as direct expenditures and regulations.

Tax expenditures relating to the individual and corporate income taxes are considered first in this appendix, followed by tax expenditures relating to the unified transfer tax. The supplement at the end of the appendix presents major tax expenditures in the income tax ranked by revenue loss.

TAX EXPENDITURES IN THE INCOME TAX

Tax Expenditure Baselines

A tax expenditure is a preferential exception to the baseline provisions of the tax structure. The 1974 Act does not, however, specify the baseline provisions of the tax law. Deciding whether provisions are preferential exceptions, therefore, is a matter of judgment. As in prior years, this year's tax expenditure estimates are presented using two baselines: the *normal tax baseline*, which is used by the Joint Committee on Taxation, and the *reference tax law baseline*, which has been used by the Administration since 1983.

The normal tax baseline is 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. The normal tax baseline allows personal exemptions, a standard deduction, and deductions of the 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 closer to existing law. Reference law tax expenditures are limited to special exceptions in the tax code that serve programmatic functions. These functions correspond to specific budget categories such as national defense, health care, or farm subsidies. While tax expenditures under the reference law baseline are generally tax expenditures under the normal tax baseline, 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:

- *Income is taxable when realized in exchange.* Thus, neither the deferral of tax on unrealized capital gains nor the tax exclusion of imputed income (such as the rental value of owner-occupied housing or farmers' consumption of their own produce) is regarded as a tax expenditure. Both accrued and imputed income would be taxed under a comprehensive income tax.
- *There is a separate corporation income tax.* Under a comprehensive income tax, corporate income would be taxed only once—at the shareholder level, whether or not distributed in the form of dividends.
- *Values of assets and debt are not adjusted for inflation.* A comprehensive income tax would adjust the cost basis of capital assets and debt for changes in the price level during the time the assets or debt are held. 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).

While 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 it specifies the current maximum rate as the baseline for the corporate income tax. The lower tax rates applied to the first $75,000 of corporate income are thus regarded as a tax expenditure. Similarly, under the reference law baseline, preferential tax rates for capital gains generally do not yield a tax expenditure; only capital gains treatment of otherwise "ordinary income," such as that from coal and iron ore royalties and the sale of timber and certain agricultural products, is considered a tax expenditure. 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. The Federal income tax defines gross income to include: (1) consideration received in the exchange of goods and services, including labor services or property; and (2) the taxpayer's share of gross or net income earned and/or reported by another entity (such as a partnership). Under the reference tax rules, therefore, gross income does not include gifts—defined as receipts of money or property that are not consideration in an exchange—or most transfer payments, which are not a form of compensation.[1] 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.[2]
- *Capital recovery.* Under the reference tax law baseline, no tax expenditures arise from accelerated depreciation. Under the normal tax baseline, the depreciation allowance for machinery and equipment is determined using straight-line depreciation over tax lives equal to mid-values of the asset depreciation range (a depreciation system in effect from 1971 through 1980). The normal tax baseline for real property is computed using 40-year straight-line 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.

In addition to these areas of difference, the Joint Committee on Taxation considers a somewhat broader set of tax expenditures under its normal tax baseline than are considered here.

Outlay Equivalents

The concept of "outlay equivalents" complements "revenue losses" as a measure of the budget effect of tax expenditures. It is the amount of outlay that would be required to provide the taxpayer the same after-tax income as would be received through the tax preference. The outlay equivalent measure allows a comparison of the cost of the tax expenditure with that of a direct Federal outlay.

The measure is larger than the revenue loss estimate when the tax expenditure is judged to function as a Government payment for service. This occurs because an outlay program would increase the taxpayer's pre-tax income. For some tax expenditures, however, the revenue loss equals the outlay equivalent measure. This occurs when the tax expenditure is judged to function like a price reduction or tax deferral that does not directly enter the taxpayer's pre-tax income.[3]

Tax Expenditure Estimates

The Treasury Department prepared all tax expenditure estimates based upon income tax law enacted as of December 31, 1992. Expired or repealed provisions are not listed if their revenue effects result only from taxpayer activity in years before 1992.

Tax expenditure revenue loss estimates do not necessarily equal the increase in Federal revenues (or the reduction in budget deficits) that would accompany the repeal of the special provisions, for the following reasons:

- *Eliminating a tax expenditure may have incentive effects that alter economic behavior.* These incentives may affect the resulting magnitudes of the formerly subsidized activity or of other tax preferences or Government programs. For example, if deductibility of mortgage interest were limited, some taxpayers would hold smaller mortgages, with a concomitantly smaller effect on the budget than if no such limits were in force.
- *Tax expenditures are interdependent even without incentive effects.* For example, if the State and local interest exclusion alone were repealed, some taxpayers would be thrust into higher tax brackets,

[1] Gross income does, however, include transfer payments associated with past employ- such as social security benefits.

[2] the cases of individuals who hold "passive" equity interests in businesses, however, ro rata shares of sales and expense deductions reportable in a year are limited. assive business activity is defined 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.

[3] Budget outlay figures generally reflect the pre-tax price of the resources. In some instances, however, Government purchases or subsidies are exempted from tax by a special tax provision. When this occurs, the outlay figure understates the resource cost of the program and is, therefore, not comparable with other outlay amounts. For example, the outlays for certain military personnel allowances are not taxed. If this form of compensation were treated as part of the employee's taxable income, the Defense Department would have to make larger cash payments to its military personnel to leave them as well off after tax as they are now. The tax subsidy must be added to the tax-exempt budget outlay to make this element of national defense expenditures comparable with other outlays.

automatically increasing the size of the charitable contribution tax expenditure even if taxpayers did not make larger contributions. Alternatively, if both the interest exclusion and the charitable deduction were repealed simultaneously, the increase in tax liability would be greater than the sum of the two separate tax expenditures since each is estimated assuming that the other remains in force.

- *The annual value of tax expenditures for tax deferrals is prepared on a cash basis.* For example, the annual budget cost due to employers' contributions to employee pension plans is the sum of tax deferrals on two items—the employers' current year pension plan contributions and the current year pension fund asset earnings—less the taxes paid on pensions received. The resulting budget cost is sensitive to the relative magnitudes of these components, which can change over time. For instance, when changing activity levels cause payments of deferred taxes to exceed new tax deferrals, the tax expenditure estimated on a cash basis would be negative, even though there is a loss of revenue to the Government in present value terms from the new activity that qualifies for a tax deferral.
- *Repeal of some provisions could affect overall levels of income and rates of economic growth.* Changes in projected growth rates for aggregate national income and product could alter the tax base over the forecast period. All receipts and outlays in the budget are based, however, on projections of income and growth that, in effect, assume all existing laws will continue.

Tax Expenditures By Function

The 1992–94 outlay equivalent and revenue loss estimates of tax expenditures are displayed by the budget's functional categories in table 2–1. A description of the provisions follows the table.

Table 2–3 at the end of this appendix ranks the major tax expenditures by fiscal year 1994 revenue loss. Table 2–3 merges several individual entries provided in table 2–1; e.g., table 2–3 contains one merged entry for charitable contributions instead of the three separate entries found in table 2–1.

Listing revenue loss estimates under the corporation and individual headings does not imply that these categories of filers benefit from the special tax provisions in proportion to the respective tax expenditure amounts shown. Rather, these breakdowns show the specific tax accounts through which the various provisions are cleared. The ultimate beneficiaries of corporate tax expenditures, for example, could be stockholders, employees, customers, or others, depending on the circumstances.

Items treated as tax expenditures under the normal but not the reference tax rules are indicated by the designation "Normal tax" in the table. In these cases, a line designated as "Reference tax" shows that tax expenditures for this item would be zero using the reference tax rules.

Other Considerations

Additional tax expenditure analysis may be helpful to policy makers. In particular, discounted present value estimates of revenue losses would be useful complements to the cash basis tax expenditure estimates for provisions involving tax deferrals. A present value measure would reflect the future loss of tax revenue from new deferral activity occurring in the upcoming year.

The tax expenditure analysis could also be extended beyond the income and transfer taxes to include payroll and excise taxes. The exclusion of certain forms of compensation from the wage base, for instance, reduces payroll taxes, as well as income taxes. Payroll tax exclusions are complex to analyze, however, because they also affect social insurance benefits. Certain targeted excise tax provisions might also be considered tax expenditures. In this case challenges include determining an appropriate baseline.

Table 2–1. ESTIMATES FOR TAX EXPENDITURES IN THE INCOME TAX

(In millions of dollars)

Description	Outlay Equivalents			Revenue loss					
				Corporations			Individuals		
	1992	1993	1994	1992	1993	1994	1992	1993	1994
National defense:									
Exclusion of benefits and allowances to armed forces personnel	2,325	2,370	2,400	—	—	—	1,990	2,030	2,055
International affairs:									
Exclusion of income earned abroad by United States citizens	1,275	1,405	1,545	—	—	—	920	1,010	1,225
Exclusion of income of foreign sales corporations	1,730	1,760	1,900	1,175	1,200	1,270	—	—	—
Deferral of income from controlled foreign corporations:									
Normal tax method	300	310	330	300	310	330	—	—	—
Reference tax method	—	—	—	—	—	—	—	—	—
Inventory property sales source rules exception	3,120	3,280	3,440	2,120	2,230	2,340	—	—	—
Interest allocation rules exception for certain financial operations	140	150	150	95	100	100	—	—	—
Total (after interactions)	6,045	6,375	6,795	....	....	....	....	....	....
General science, space, and technology:									
Expensing of research and development expenditures:									
Normal tax method	1,895	2,020	2,150	1,865	1,985	2,120	30	35	30
Reference tax method	—	—	—	—	—	—	—	—	—
Credit for increasing research activities	1,850	775	325	1,190	510	215	25	10	....
Suspension of the allocation of research and experimentation expenditures	900	355	—	250	—	—	—	—	—
Total (after interactions)	4,455	3,074	2,720	....	....	....	....	....	....
Energy:									
Expensing of exploration and development costs:									
Oil and gas	125	150	165	85	105	120	40	45	45
Other fuels	35	40	40	30	35	35	5	5	5
Excess of percentage over cost depletion:									
Oil and gas	1,260	1,450	1,610	355	435	500	530	580	625
Other fuels	265	280	295	160	170	180	15	15	20
Alternative fuel production credit	970	1,215	1,355	580	720	810	100	130	140
Exception from passive loss limitation for working interests in oil and gas properties	90	85	85	—	—	—	90	85	85
Capital gains treatment of royalties on coal	5	10	10	—	—	—	5	5	5
New technology credit	75	85	90	50	55	60	—	—	—
Alcohol fuel credit [1]	10	10	10	10	10	10	—	—	—
Credit and deduction for clean-fuel vehicles and properties	—	20	75	—	15	45	—	—	5
Exclusion of interest on State and local industrial development bonds for energy facilities	245	240	250	15	10	10	150	155	160
Total (after interactions)	2,175	2,585	2,865	....	....	....	....	....	....
Natural resources and environment:									
Expensing of exploration and development costs, nonfuel minerals	45	50	50	40	45	45	5	5	5
Excess of percentage over cost depletion, nonfuel minerals	330	365	400	230	255	280	25	25	25
Capital gains treatment of iron ore	*	*	*	—	—	—	*	*	*
Capital gains treatment of certain timber income	5	10	10	—	—	—	5	5	5
Special rules for mining reclamation reserves	50	50	50	45	45	45	5	5	5
Exclusion of interest on State and local IDBs for pollution control and sewage and waste disposal facilities	1,740	1,595	1,520	100	70	50	1,085	1,015	980
Tax incentives for preservation of historic structures	145	135	130	50	45	40	95	90	90
Expensing of multiperiod timber growing costs	440	470	500	245	260	275	195	210	225
Investment credit and seven-year amortization for reforestation expenditures	30	35	40	15	15	15	15	20	20
Total (after interactions)	2,730	2,660	2,645	....	....	....	....	....	....
Agriculture:									
Expensing of certain capital outlays	320	180	155	35	20	20	285	160	135
Expensing of certain multiperiod production costs	155	145	140	50	45	45	105	100	95
Treatment of loans forgiven solvent farmers as if insolvent	10	10	10	—	—	—	10	10	10
Capital gains treatment of certain income	60	65	75	—	—	—	45	50	55
Total (after interactions)	515	375	360	....	....	....	....	....	....
Commerce and housing credit:									
Exemption of credit union income	500	560	615	400	445	490	—	—	—

Table 2–1. ESTIMATES FOR TAX EXPENDITURES IN THE INCOME TAX—Continued

(In millions of dollars)

Description	Outlay Equivalents			Revenue loss					
				Corporations			Individuals		
	1992	1993	1994	1992	1993	1994	1992	1993	1994
Excess bad debt reserves of financial institutions	80	100	115	60	100	115	—	—	—
Exclusion of interest on life insurance savings	9,835	10,460	11,215	105	130	170	7,515	7,565	8,030
Special alternative tax on small property and casualty insurance companies	*	*	*	*	*	*	—	—	—
Tax exemption of certain insurance companies	150	155	160	105	110	115	—	—	—
Small life insurance company deduction	150	165	175	110	120	125	—	—	—
Exemption of RIC expenses from the 2% floor for miscellaneous itemized deductions	615	700	800	—	—	—	460	525	600
Exclusion of interest on small issue industrial development bonds	1,680	1,310	965	90	55	30	1,050	835	625
Exclusion of interest on owner-occupied mortgage subsidy bonds	2,340	2,170	1,950	665	620	565	1,210	1,115	995
Exclusion of interest on State and local debt for rental housing	1,585	1,465	1,415	90	65	50	990	930	915
Deductibility of mortgage interest on owner-occupied homes	42,730	45,145	48,145	—	—	—	42,730	45,145	48,145
Deductibility of State and local property tax on owner-occupied homes	12,245	13,100	14,015	—	—	—	12,245	13,100	14,015
Deferral of income from post 1987 installment sales	785	820	860	205	210	220	580	0	640
Capital gains (other than agriculture, timber, iron ore, and coal):									
Normal tax method	2,925	3,160	3,355	—	—	—	2,195	2,370	2,515
Reference tax method	—	—	—	—	—	—	—	—	—
Deferral of gains from sale of broadcasting facilities to minority owned business	240	260	280	240	260	280	*	*	*
Ordinary income treatment of loss from small business corporate stock sale	20	20	20	—	—	—	20	20	20
Deferral of capital gains on home sales	13,265	13,925	14,620	—	—	—	13,265	13,925	14,620
Exclusion of capital gains on home sales for persons age 55 and over	5,685	6,170	6,360	—	—	—	4,265	4,625	4,770
Step-up basis of capital gains at death	31,485	33,690	36,050	—	—	—	23,425	25,065	26,820
Carryover basis of capital gains on gifts	150	120	125	—	—	—	150	120	125
Accelerated depreciation on rental housing:									
Normal tax method	1,360	1,310	1,280	900	875	855	460	435	425
Reference tax method	—	—	—	—	—	—	—	—	—
Accelerated depreciation of buildings other than rental housing:									
Normal tax method	5,625	5,485	5,430	3,990	3,850	3,795	1,635	1,635	1,635
Reference tax method	—	—	—	—	—	—	—	—	—
Accelerated depreciation of machinery and equipment:									
Normal tax method	17,205	19,505	22,065	13,915	15,750	17,785	3,290	3,755	4,280
Reference tax method	—	—	—	—	—	—	—	—	—
Amortization of start-up costs:									
Normal tax method	185	190	195	50	50	50	135	140	145
Reference tax method	—	—	—	—	—	—	—	—	—
Reduced rates on the first $100,000 of corporate income:									
Normal tax method	4,515	5,075	5,495	2,980	3,350	3,625	—	—	—
Reference tax method	—	—	—	—	—	—	—	—	—
Exception from passive loss rules for $25,000 of rental loss	5,655	6,040	6,245	—	—	—	5,655	6,040	6,245
Treatment of Alaska Native Corporations	90	55	35	90	55	35	—	—	—
Permanent exceptions from imputed interest rules	135	140	140	—	—	—	135	140	140
Total (after interactions)	156,505	166,285	176,780	....	....	....	....	....	....
Transportation:									
Deferral of tax on shipping companies	10	10	15	10	10	15	—	—	—
Community and regional development									
Credit for low-income housing investments	1,130	1,370	1,530	340	410	460	780	950	1,060
Investment credit for rehabilitation of structures (other than historic)	95	90	90	30	30	30	65	60	60
Exclusion of interest on IDBs for airports, docks, and sports and convention facilities	850	860	895	245	250	265	435	435	450
Exemption of certain mutuals' and cooperatives' income	60	65	65	60	65	65	—	—	—
Total (after interactions)	2,135	2,385	2,580	....	....	....	....	....	....

Table 2–1. ESTIMATES FOR TAX EXPENDITURES IN THE INCOME TAX—Continued

(In millions of dollars)

Description	Outlay Equivalents			Revenue loss					
				Corporations			Individuals		
	1992	1993	1994	1992	1993	1994	1992	1993	1994
Education, training, employment, and social services:									
Exclusion of scholarship and fellowship income:									
Normal tax method	770	865	895	—	—	—	700	790	815
Reference tax method	—	—	—	—	—	—	—	—	—
Exclusion of interest on State and local student loan bonds	395	375	370	110	110	110	205	190	185
Exclusion of interest on State and local debt for private nonprofit educational facilities	950	990	1,035	275	290	310	485	500	520
Exclusion of interest on savings bonds transferred to educational institutions	5	5	10	*	*	*	*	5	5
Parental personal exemption for students age 19 or over	535	565	585	—	—	—	485	510	525
Deductibility of charitable contributions (education)	1,780	1,870	1,960	550	580	605	1,230	1,290	1,355
Exclusion of employer provided educational assistance	220	15	....	—	—	—	180	10	—
Total education (after interactions)	4,695	4,725	4,900	....	....	....	....	....	....
Exclusion of employer provided child care	720	805	885	—	—	—	555	615	680
Exclusion of employee meals and lodging (other than military)	565	600	640	—	—	—	465	490	525
Exclusion of contributions to prepaid legal services plans	65	5	....	—	—	—	55	5	....
Credit for child and dependent care expenses	3,215	3,385	3,585	—	—	—	2,550	2,685	2,845
Credit for disabled access expenditures	175	205	220	100	120	130	25	30	30
Targeted jobs credit	180	140	65	150	115	55	30	25	10
Total training and employment (after interactions)	4,990	5,210	5,470	....	....	....	....	....	....
Expensing of costs of removing certain architectural barriers to the handicapped	25	20	20	20	15	15	5	5	5
Deductibility of charitable contributions, other than education and health	11,875	12,470	13,090	690	725	760	11,185	11,745	12,330
Exclusion of certain foster care payments	25	30	35	—	—	—	20	25	30
Exclusion of parsonage allowances	275	305	335	—	—	—	220	245	275
Total social services (after interactions)	12,370	13,005	13,670	....	....	....	....	....	....
Grand total (after interactions)	22,055	22,940	24,040	....	....	....	....	....	....
Health:									
Exclusion of employer contributions for medical insurance premiums and medical care	52,120	57,270	63,225	—	—	—	41,950	46,055	50,820
Credit for child medical insurance premiums [2]	90	120	145	—	—	—	75	100	125
Exclusion of employer share of Hospital Insurance tax	11,270	12,220	13,325	—	—	—	8,705	9,420	12,230
Deductibility of medical expenses	3,225	3,445	3,735	—	—	—	2,690	2,840	3,035
Exclusion of interest on State and local debt for private nonprofit health facilities	1,665	1,710	1,770	480	500	525	850	865	890
Deductibility of charitable contributions (health)	1,610	1,690	1,775	350	370	390	1,260	1,320	1,385
Tax credit for orphan drug research	20	10	....	15	5	....	—	—	—
Special Blue Cross/Blue Shield deduction	185	80	15	135	60	10	—	—	—
Total (after interactions)	70,185	76,545	83,990	....	....	....	....	....	....
Income security:									
Exclusion of railroad retirement system benefits	410	420	430	—	—	—	410	420	430
Exclusion of workmen's compensation benefits	3,505	3,750	4,270	—	—	—	3,505	3,750	4,270
Exclusion of public assistance benefits:									
Normal tax method	460	510	540	—	—	—	460	510	540
Reference tax method	—	—	—	—	—	—	—	—	—
Exclusion of special benefits for disabled coal miners	100	100	100	—	—	—	100	100	100
Exclusion of military disability pensions	120	130	140	—	—	—	120	130	140
Net exclusion of pension contributions and earnings:									
Employer plans	68,310	71,845	70,475	—	—	—	50,980	53,840	52,600
Individual Retirement Accounts	7,530	6,975	6,410	—	—	—	5,695	5,210	4,740
Keogh plans	3,520	3,650	3,840	—	—	—	2,735	2,835	2,985
Exclusion of employer provided death benefits	30	30	35	—	—	—	25	25	30
Exclusion of other employee benefits:									
Premiums on group term life insurance	3,455	3,580	3,715	—	—	—	2,670	2,770	2,870
Premiums on accident and disability insurance	175	180	185	—	—	—	130	135	140
Income of trusts to finance supplementary unemployment benefits	35	35	35	—	—	—	35	35	35
Special ESOP rules (other than investment credit)	3,055	3,130	3,095	2,140	2,195	2,170	—	—	—

Table 2-1. ESTIMATES FOR TAX EXPENDITURES IN THE INCOME TAX—Continued

(In millions of dollars)

Description	Outlay equivalent			Revenue loss					
				Corporations			Individuals		
	1992	1993	1994	1992	1993	1994	1992	1993	1994
Additional deduction for the blind	45	50	50	—	—	—	40	40	40
Additional deduction for the elderly	1,885	1,915	1,945	—	—	—	1,560	1,585	1,605
Tax credit for the elderly and disabled	90	95	95	—	—	—	75	75	75
Deductibility of casualty losses	485	605	370	—	—	—	385	475	295
Earned income credit[3]	3,900	4,105	4,435	—	—	—	3,315	3,490	3,770
Total (after interactions)	95,230	99,145	98,225	....	....	....	....	....	....
Social security:									
Exclusion of social security benefits:									
OASI benefits for retired workers	17,445	18,190	19,025	—	—	—	17,445	18,190	19,025
Disability insurance benefits	1,485	1,655	1,810	—	—	—	1,485	1,655	1,810
Benefits for dependents and survivors	3,350	3,545	3,745	—	—	—	3,350	3,545	3,745
Total (after interactions)	22,280	23,390	24,580	....	....	....	....	....	....
Veterans benefits and services:									
Exclusion of veterans disability compensation	1,705	1,760	1,815	—	—	—	1,705	1,760	1,815
Exclusion of veterans pensions	80	80	80	—	—	—	80	80	80
Exclusion of GI bill benefits	45	50	50	—	—	—	45	50	50
Exclusion of interest on State and local debt for veterans housing	115	110	115	30	30	35	60	55	55
Total (after interactions)	1,945	2,000	2,060	....	....	....	....	....	....
General purpose fiscal assistance:									
Exclusion of interest on public purpose State and local debt	14,275	14,505	15,040	4,090	4,250	4,465	7,335	7,355	7,565
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	23,535	25,300	27,195	—	—	—	23,535	25,300	27,195
Tax credit for corporations receiving income from doing business in United States possessions	4,245	4,630	5,045	2,970	3,240	3,530	—	—	—
Total (after interactions)	42,055	44,435	47,280	....	....	....	....	....	....
Interest:									
Deferral of interest on savings bonds	1,335	1,405	1,475	—	—	—	1,335	1,405	1,475
Addendum—Aid to State and local governments:									
Deductibility of:									
Property taxes on owner-occupied homes	12,245	13,100	14,015	—	—	—	12,245	13,100	14,015
Nonbusiness State and local taxes other than on owner-occupied homes	23,535	25,300	27,195	—	—	—	23,535	25,300	27,195
Exclusion of interest on:									
Public purpose State and local debt	14,275	14,505	15,040	4,090	4,250	4,465	7,335	7,355	7,565
IDBs for certain energy facilities	245	240	250	15	10	10	—	—	—
IDBs for pollution control and sewage and waste disposal facilities	1,740	1,595	1,520	100	70	50	—	—	—
Small-issue IDBs	1,680	1,310	965	90	55	30	—	—	—
Owner-occupied mortgage revenue bonds	2,340	2,170	1,950	—	—	—	1,210	1,115	995
State and local debt for rental housing	1,585	1,465	1,415	90	65	50	—	—	—
IDBs for airports, docks, and sports and convention facilities	850	860	895	245	250	265	—	—	—
State and local student loan bonds	395	375	370	—	—	—	205	190	185
State and local debt for private nonprofit educational facilities	950	990	1,035	—	—	—	485	500	520
State and local debt for private nonprofit health facilities	1,665	1,710	1,770	—	—	—	850	865	890
State and local debt for veterans housing	115	110	115	—	—	—	60	55	55
Total (after interactions)	59,830	61,810	64,474	—	—	—	—	—	—

*$2.5 million or less. All estimates have been rounded to the nearest $5 million.

[1] In addition, the partial exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts of $545 million in 1992; $565 million in 1993; and $575 million in 1994.

[2] The figures in the table indicate the effect of the child medical insurance premium credit on receipts. The effect on outlays is: 1992, $420 million; 1993, $515 million; 1994, $590 million.

[3] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays is: 1992, $7,345 million; 1993, $8,395 million; 1994, $9,275 million.

National Defense

Benefits and allowances to armed forces personnel.—The housing and meals provided military personnel, either in cash or in kind, are excluded from income subject to tax.

International Affairs

Income earned abroad.—A U.S. citizen or resident alien who resides in a foreign country or who stays in one or more foreign countries for a minimum of 11 out of the past 12 months may exclude $70,000 per year of foreign-earned income. Eligible taxpayers also may exclude or deduct reasonable housing costs in excess of one-sixth of the salary of a civil servant at grade GS–14, step 1. These provisions do not apply to Federal employees working abroad; however, the tax expenditure estimate does reflect certain allowances that are excluded from their taxable income.

Income of Foreign Sales Corporations.—The Foreign Sales Corporation (FSC) provisions exempt from tax a portion of U.S. exporters' foreign trading income to reflect the FSC's sales functions as foreign corporations. These provisions conform to the General Agreement on Tariffs and Trade.

Income of U.S.-controlled foreign corporations.—The income of foreign corporations controlled by U.S. shareholders is not subject to U.S. taxation. The income becomes taxable only when the controlling U.S. shareholders receive dividends or other distributions from their foreign stockholding. Under the normal tax method, the currently attributable foreign source pre-tax income from such a controlling interest is subject to U.S. taxation, whether or not distributed. Thus, under the normal tax baseline the excess of controlled foreign corporation income over the amount distributed to a U.S. shareholder gives rise to a tax expenditure in the form of a tax deferral.

Source rule exceptions.—The worldwide income of U.S. persons is taxable by the United States and a credit for foreign taxes paid is allowed. The amount of foreign taxes that can be credited is limited to the pre-credit U.S. tax on the foreign source income. Two exceptions give rise to tax expenditures: sales of inventory property that reduces the U.S. tax of exporters; and, for financial institutions and certain financing operations of nonfinancial enterprises, an exception from the rules that require allocation of interest expenses between domestic and foreign activities of a U.S. taxpayer.

General Science, Space, and Technology

Expensing R&E expenditures.—Research and experimentation (R&E) projects can be viewed as investments because their benefits accrue for several years when they are successful. It is difficult, however, to identify whether a specific R&E project is completed and successful and, if it is successful, what its expected life will be. For these reasons, the statutory provision that these expenditures may be expensed is considered part of the reference law. Under the normal tax method, however, 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.

R&E credit.—Under legislation that expired on July 1, 1992, the tax credit was 20 percent of the qualified expenditures in excess of each year's base amount. This threshold was determined by multiplying a "fixed-base percentage" (limited to a maximum of .16 for existing companies) by the average amount of the company's gross receipts for the four preceding years. The "fixed-base percentage" was the ratio of R&E expenses to gross receipts for the 1984 to 1988 period. Start-up companies that did not both incur qualified expenses and have gross receipts in at least three of the base years were assigned a "fixed-base percentage" of .03. A similar credit with its own separate threshold was provided for taxpayers' basic research grants to universities. Beginning in 1989, the otherwise deductible qualified R&E expenditures were reduced by the amount of the credit.

Allocation of R&E expenditures.—Regulations issued in 1977 were designed to achieve a reasonable allocation of R&E expenses between corporations' domestic and foreign activities, but successive legislative actions suspended this requirement. Under legislation that expired on July 1, 1992, 64 percent of both U.S.- and foreign-based R&E expenses were allocated to their respective income sources. The remaining R&E expenses then had to be allocated on the basis of gross sales or gross income.

Energy

Exploration and development costs.—In the case of successful investments in domestic oil and gas wells, intangible drilling costs, such as wages, the costs of using machinery for grading and drilling, and the cost of unsalvageable materials used in constructing wells, may be expensed rather than amortized over the productive life of the property.

Integrated oil companies may currently deduct only 70 percent of such costs and amortize the remaining 30 percent over five years. The same rule applies to the exploration and development costs of surface stripping and the construction of shafts and tunnels for other fuel minerals.

Percentage depletion.—Independent fuel mineral producers and royalty owners are generally allowed to take percentage depletion deductions rather than cost depletion on limited quantities of output. Under cost depletion, outlays are deducted over the productive life of the property based on the fraction of the resource extracted. Under percentage depletion taxpayers deduct a percentage of gross income from mineral production at rates of 22 percent for uranium, 15 percent for oil, gas and oil shale, and 10 percent for coal. The deduction is limited to 50 percent of net income from the property, except for oil and gas where the deduction can be 100 percent of net property income. Production from geothermal deposits is eligible for percentage depletion at 65 percent of net income, but with no limit on output and no limitation with respect to qualified producers. Unlike depreciation or cost depletion, percentage depletion deductions can exceed the cost of the investment.

Alternative fuel production credit.—A nontaxable credit of $3 per barrel (in 1979 dollars) of oil-equivalent production is provided for several forms of alternative fuels. It is generally available as long as the price of oil stays below $29.50 (in 1979 dollars).

Oil and gas exception to passive loss limitation.—Although owners of working interests in oil and gas properties are subject to the alternative minimum tax, they are exempted from the "passive income" limitations. This means that the working interest-holder, who manages on behalf of himself and all other owners the development of wells and incurs all the costs of their operation, may aggregate negative taxable income from such interests with his income from all other sources. Thus, he will be relieved of the minimum tax rules limit on tax deferrals.

Capital gains treatment of royalties on coal.—Sales of certain coal under royalty contracts can be treated as capital gains. While the top statutory rate on ordinary income is 31 percent, the rates on capital gains are limited to 28 percent.

New technology credits.—A credit of 10 percent is available for investment in solar and geothermal energy facilities. In addition, a credit of 1.5 cents is provided per kilowatt hour of electricity produced from renewable resources such as wind and biomass.

Alcohol fuel credit.—Gasohol, a motor fuel composed of at least 10 percent alcohol, is exempt from 5.4 of the 14 cents per gallon Federal excise tax on gasoline. There is a corresponding income tax credit for alcohol used as a fuel in applications where the excise tax is not assessed. This credit, equal to a subsidy of 54 cents per gallon for alcohol used as a motor fuel, is intended to encourage substitution of alcohol for petroleum-based gasoline.

Credit and deduction for clean-fuel vehicles and property.—A tax credit of 10 percent is provided for electric vehicles. In addition, a deduction is provided for other clean-fuel burning vehicles as well as refueling property.

Tax-exempt bonds for energy facilities.—Certain energy facilities, such as municipal electric and gas utilities, may benefit from tax-exempt financing.

Natural Resources and Environment

Exploration and development costs.—As is true for fuel minerals, certain capital outlays associated with exploration and development of nonfuel minerals may be expensed rather than depreciated over the life of the asset.

Percentage depletion.—Most nonfuel mineral extractors also make use of percentage depletion rather than cost depletion, with percentage depletion rates ranging from 22 percent for sulphur down to 5 percent for sand and gravel.

Capital gains treatment of iron ore and of certain timber income.—Iron ore and certain timber sold under a royalty contract can be treated as capital gains.

Mining reclamation reserves.—Taxpayers are allowed to establish reserves to cover certain costs of mine reclamation and of closing solid waste disposal properties. Net increases in reserves may be taken as a deduction against taxable income.

Tax-exempt bonds for pollution control and waste disposal.—Interest on State and local government debt issued to finance private pollution control and waste disposal facilities was excludable from income subject to tax. This authorization was repealed for pollution control equipment and a cap placed on the amount of debt that could be issued for waste disposal facilities by the Tax Reform Act of 1986.

Historic preservation.—Expenditures to preserve and restore historic structures qualify for a 20 percent investment credit, but the depreciable basis must be reduced by the full amount of the credit taken.

Expensing multiperiod timber growing costs.—Generally, costs must be capitalized when goods are produced for inventory used in one's own trade or business, or under contract to another party. Timber production, however, was specifically exempted from these multiperiod cost capitalization rules, creating a special benefit derived from this deferral of taxable income.

Credit and seven-year amortization for reforestation.—A special 10 percent investment tax credit is allowed for up to $10,000 invested annually in clearing land and planting trees for the ultimate production of timber. The same amount of forestation investment may also be amortized over a seven-year period. Without this preference, the amount would have to be capitalized and could be recovered (deducted) only when the trees were sold or harvested 20 or more years later. Moreover, the amount of forestation investment that is amortizable is not reduced by any of the investment credit that is allowed.

Agriculture

Expensing certain capital outlays.—Farmers, except for certain agricultural corporations and partnerships, are allowed to deduct certain expenditures for feed and fertilizer, as well as for soil and water conservation measures. Expensing is allowed, even though these expenditures are for inventories held beyond the end of the year, or for capital improvements that would otherwise be capitalized.

Expensing multiperiod livestock and crop production costs.—The production of livestock and crops with a production period of less than two years is exempted from the uniform cost capitalization rules. Farmers establishing orchards, constructing farm facilities for their own use, or producing any goods for sale with a production period of two years or more may elect not to capitalize costs. If they do, they must apply straight-line depreciation to all depreciable property they use in farming.

Loans forgiven solvent farmers.—In 1986, farmers were granted special tax treatment by being forgiven the tax liability on certain forgiven debt. Normally, the amount of loan forgiveness is accounted for as a gain (income) of the debtor and he must either report the gain, or reduce his recoverable basis in the property to which the loan relates. If the debtor elects to reduce basis and the amount of forgiveness exceeds his basis in the property, the excess forgiveness is taxable. However, in the case of insolvent (bankrupt) debtors, the amount of loan forgiveness never results in an income tax liability.[4] Farmers with forgiven debt are considered insolvent for tax purposes, and thus qualify for income tax forgiveness.

Capital gains treatment of certain income.—Certain agricultural income, such as unharvested crops, can be treated as capital gains.

Commerce and Housing Credit

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 also have been classified under the energy, natural resources and environment, agriculture, or transportation categories.

Credit union income.—The earnings of credit unions not distributed to members as interest or dividends are exempt from income tax.

Bad debt reserves.—Only commercial banks with less than $500 million in assets, mutual savings banks, and savings and loan associations are permitted to deduct additions to bad debt reserves in excess of actually experienced losses. The deduction for additions to loss reserves allowed qualifying mutual savings banks and savings and loan associations is 8 percent of otherwise taxable income. To qualify, the thrift institutions must maintain a specified fraction of their assets in the form of mortgages, primarily residential.

Interest on life insurance savings.—Savings in the form of policyholder reserves are accumulated from premium payments and interest is earned on the reserves. Such interest income is not taxed as it accrues nor when received by beneficiaries upon the death of the insured.

Small property and casualty insurance companies.—Insurance companies that have annual net premium incomes of less than $350,000 are exempted from tax; those with $350,000 to $2,100,000 of net premium incomes may elect to pay tax only on the income earned by their investment portfolio.

Insurance companies owned by exempt organizations.—Generally, the income generated by life and property and casualty insurance companies is subject to tax, albeit by special rules. Insurance operations conducted by such exempt organizations as fraternal societies and voluntary employee benefit associations, however, are exempted from tax.

Mutual funds (RIC) expenses.—Individuals may deduct miscellaneous expenses only to the extent that they exceed 2 percent of their adjusted gross income.

[4] The insolvent taxpayer's carryover losses and unused credits are extinguished first, and then his basis in assets reduced to no less than amounts still owed creditors. Finally, the remainder of the forgiven debt is excluded from tax.

Certain costs incurred by individuals in managing their personal securities portfolios are among the miscellaneous deductions allowed taxpayers who itemize deductions. Mutual funds (or regulated investment companies) perform these portfolio management functions for their shareholders and pay out their portfolio incomes net of these expenses. Shareholders are permitted to report their fund income net of management expenses; thus, they are thereby able to deduct portfolio management expenses without regard to the miscellaneous deduction limitation.

Small issue industrial development bonds.—The interest on small issue industrial development bonds (IDBs) issued by State and local governments to finance private business property is excluded from income subject to tax. Depreciable property financed with small issue IDBs must be depreciated, however, using the straight-line method. The tax exemption of small issue bonds expired in 1986, except for small issue IDBs exclusively issued to finance manufacturing facilities for which the tax exemption expired on July 1, 1992. The budget cost of these bonds continues as long as they are outstanding.

There were limits imposed on the amount of tax-exempt State and local government bonds that could be issued to fund private activity. The volume cap for single-family mortgage revenue bonds and multifamily rental housing bonds was combined with the cap for student loans and IDBs. The cap was set at $50 per capita or a minimum of $150 million for each State.

Mortgage housing bonds.—Interest on all mortgage revenue bonds issued through June 30, 1992 by State and local governments is exempt from taxation. Proceeds were used to finance homes purchased by first-time buyers—with low to moderate incomes—of dwellings with prices under 90 percent of the average area purchase price. The annual volume of mortgage revenue bonds is restricted to the unified volume cap discussed in the small issue IDB section above.

States were authorized to issue mortgage credit certificates (MCCs) in lieu of qualified mortgage revenue bonds because the bonds were relatively inefficient subsidies to first-time home buyers. MCCs entitled home buyers to income tax credits for a specified percentage of interest on qualified mortgage loans. In this way, the entire amount of the subsidy flowed directly to the home buyer without being partly diverted to financial middlemen or bondholders. A State could not issue an aggregate annual amount of MCCs greater than 25 percent of its annual ceiling for qualified mortgage bonds. Because of the relationship between MCCs and qualified mortgage bonds, their estimates are presented as one line item in the tables.

Rental housing bonds.—State and local government issues of IDBs are restricted to multifamily rental housing projects in which 20 percent (15 percent in targeted areas) of the units are reserved for families whose income does not exceed 50 percent of the area's median income; or 40 percent for families with incomes of no more than 60 percent of the area median income. Other tax-exempt bonds for multifamily rental projects are generally issued with the requirement that all tenants must be low or moderate income families. Rental housing bonds are subject to the volume cap discussed in the small issue IDB section above.

Interest and taxes on owner-occupied homes.—Owner-occupants of homes may deduct mortgage interest and property taxes on their primary and secondary residences as itemized nonbusiness deductions. The mortgage interest deduction is limited to interest on debt no greater than the owner's basis in the residence and, for debt incurred after October 13, 1987, it is limited to 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 debt does not exceed the fair market value of the residence. Mortgage interest deductions on personal residences are tax expenditures because the taxpayers are not required to report the value of owner-occupied housing services as gross income.

Real property installment sales.—Dealers in real and personal property, i.e., sellers that regularly hold property for sale or resale, cannot defer taxable income from installment sales until the receipt of the loan repayment. Nondealers, defined as sellers of real property used in their business, are required to pay interest to the Federal Government 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 $5,000,000 is, therefore, a tax expenditure.

Capital gains (other than agriculture, timber, iron ore and coal).—While the top statutory rate on ordinary income is 31 percent, the rates on capital gains are limited to 28 percent. This treatment is considered a tax expenditure under the normal tax method but not under the reference law method.

Deferral of gains from sale of broadcasting facility to minority owned business.—The voluntary sale of assets generally requires the seller to pay tax on the gain that has accrued over the period of ownership. However, in the case of an involuntary sale, as when

an owner's property must be sold in a condemnation ...ceeding, or to implement a change in a government's regulatory policy, the owner is permitted to defer payment of tax, provided the proceeds are reinvested in similar property within a specified period. In 1979, the Federal Communications Commission instituted a policy of encouraging minority group ownership of broadcast licenses. Since that time, the tax laws have been interpreted to permit voluntary sellers of licensed broadcasting facilities to defer payment of capital gains tax when the buyer has been certified as a "minority business," in effect treating the sale as "involuntary."

Ordinary income treatment of losses from sale of small business corporate stock shares.—Up to $100,000 in losses from the sale of such stock may be treated as ordinary losses, and therefore not be subject to the $3,000 annual capital loss write-off limit if the corporation's capitalization is less than $1 million.

Capital gains on home sales.—When a primary residence is sold, the homeowner can defer paying a capital gains tax on the proceeds by purchasing or constructing a home of value at least equal to that of the prior home (net of sales and qualified fix-up expenses) within two years. This deferral is a tax expenditure.

Capital gains on sales by owners aged 55 or older.—A taxpayer who is 55 years of age or older at the time of the sale of his residence may elect to exclude from tax up to $125,000 of the gain from its sale. This is a once-in-a-lifetime election. In effect, this provision converts some prior deferrals of tax into forgiveness of tax.

Step-up in basis of capital gains at death.—Capital gains on assets held at the owner's death are not subject to capital gains taxes. The cost basis of the appreciated assets is adjusted upward to the market value at the owner's date of death. The step-up in the heir's cost basis means that, in effect, the capital gain is forgiven.

Carryover basis of capital gains on gifts.—When a gift is made, the transferred property carries to the donee the donor's basis—the cost that was incurred when the property was first acquired. The carryover of the donor's basis allows a continued deferral of unrealized capital gains.

Accelerated depreciation of real property, machinery and equipment.—As previously noted, the tax depreciation allowance provisions are part of the reference law ...es, and thus do not cause tax expenditures under ... reference method. Under the normal tax method, however, a 40-year tax life for depreciable real property is the norm, so the statutory depreciation periods in effect since 1987 for residential and nonresidential properties of 27.5 and 31.5 years, respectively, give rise to tax expenditures. Statutory depreciation of machinery and equipment also is somewhat accelerated relative to the normal tax baseline. In addition, tax expenditures arise from pre-1987 tax allowances for real and personal property.

Business start-up costs.—When an individual or corporation acquires or otherwise enters into a new business, certain start-up expenses, such as the costs of investigating opportunities and legal services, are normally incurred. The taxpayer may elect to amortize these outlays over 60 months although they are similar to other payments he makes for nondepreciable intangible assets that are not recoverable until the business is sold. Under the normal tax method this gives rise to a tax expenditure, while under the reference method it does not.

Graduated corporation income tax rate schedule.—The schedule is graduated, with rates of 15 percent on the first $50,000 of taxable income, 25 percent on the next $25,000, and a rate of 34 percent on income over $75,000. As compared with a flat 34 percent tax rate, the lower rates provide a $11,750 reduction in tax liability for corporations with taxable incomes of $75,000. This benefit is recaptured in the cases of corporations with taxable incomes exceeding $100,000. This is accomplished by a 5 percent additional tax on corporate incomes in excess of $100,000, but less than $335,000. At this point the $11,750 is fully recaptured. Since this rate schedule is part of the reference tax law, it does not give rise to 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 rates do yield a tax expenditure under this concept.

Passive loss real estate exemption.—The Tax Reform Act of 1986 disallowed the offset of passive losses against income from other sources. Losses up to $25,000 attributable to certain rental real estate activity, however, were exempted from this rule.

Treatment of Alaskan Native Corporations losses.—Tax law restricts the ability of profitable corporations to reduce their tax liabilities by merging or buying corporations with accumulated net operating losses (NOLs) and as yet unrefunded claims to investment credits. Alaska Native Corporations have a limited exemption (fifteen years after the NOL or credit claim was first experienced) from these restrictions that includes NOLs and credits claimable prior to April 26, 1988.

Imputed interest rules.—Under reference law rules commonly referred to as original issue discount (OID),

both the holder and seller of a financial contract are generally required to report interest earned in the period it accrues, not when the contract payments are made. Moreover, the amount of interest accruable is determined by the actual price paid for the contract, not by the stated or nominal principal and interest stipulated in the contract.[5]

Exceptions to the general rules for accounting for interest expense or income include the following: (a) permission for the mortgagor of his personal residence to treat the discount from the nominal principal of his mortgage loan, commonly called "points," as prepaid interest which is deductible in the year paid, not the year accrued; and (b) sellers of farms and small businesses worth less than $1 million, in exchange for the purchaser's debt obligation, are exempted from the OID rules. This is $750,000 more than the $250,000 exemption that the reference tax law generally allows for such transactions.

TRANSPORTATION

Shipping companies that are U.S. flag carriers.—Certain companies that operate U.S. flag vessels receive a deferral of income taxes on that portion of their income used for shipping purposes, primarily construction, modernization and major repairs to ships, and repayment of loans to finance these qualified investments. Once indefinite, the deferral has been limited to 25 years since January 1, 1987.

COMMUNITY AND REGIONAL DEVELOPMENT

Low-income housing investment.—Through 1989, a tax credit for investment in new, substantially rehabilitated, and certain unrehabilitated low-income housing was structured to have a present value of 70 percent of construction or rehabilitation costs incurred and was allowed over 10 years. For Federally subsidized projects and those involving unrehabilitated existing low income housing, the credit was structured to have a present value of 30 percent. Beginning on January 1, 1990 and continuing through June 30, 1992, the credit was extended at a present value of 70 percent, including projects financed with other Federal subsidies, but only if substantial rehabilitation was done. Notwithstanding the capital grant character of this subsidy, the investor's recoverable basis was not reduced by the substantial credit allowed.

Rehabilitation of structures.—A 10 percent investment tax credit is available for the rehabilitation of buildings that are used for business or productive activities and that were erected before 1936 for other than residential purposes. A full reduction by the amount of the credit is required in the taxpayer's recoverable basis.

Tax-exempt bonds for airports and similar facilities.—Government-owned airports, docks and wharves, as well as high-speed rail facilities that need not be government-owned, may continue to be financed with tax-exempt bond issues. These bonds are not covered by a volume cap.

Exemption of certain mutuals' and cooperatives' income.—The incomes of mutual and cooperative telephone and electric companies are exempted from tax if at least 85 percent of their revenues are derived from patron service charges.

EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

Scholarship and fellowship income.—Scholarships and fellowships are not excluded from taxable income to the extent they exceed tuition and course-related expenses of the grantee. 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 reference law method, the exclusion is not a tax expenditure because this method does not include either gifts or price reductions in a taxpayer's gross income. Under the normal tax method, however, the exclusion is considered a tax expenditure because under this method gift-like transfers of government funds—and many scholarships are derived directly or indirectly from government funding—are included in gross income.

Tax-exempt bonds for educational purposes.—Interest on State and local government debt issued to finance student loans or the construction of facilities used by private nonprofit educational institutions is excluded from income subject to tax. The aggregate volume of such private activity bonds that each State may issue during any calendar year is limited.

U.S. savings bonds for education.—Interest on U.S. savings bonds, issued after December 31, 1989, may be excluded from tax if the bonds, plus accrued interest, are transferred to an educational institution as payment for educational expenses. The exclusion from tax is phased out for joint returns with adjusted gross incomes of $68,250 to $98,250 and $45,500 to $60,500 for single and head of household returns in 1993.

Dependent students age 19 or older.—Taxpayers can claim personal exemptions for dependent children age 19 or over who receive parental support payments of $1,000 or more per year, are full-time students, and

[5] Thus, when a borrower on December 31, 1992, issues a promise to pay $1,000 plus interest at 10 percent on December 30, 1993, for a total repayment of $1,100, and accepts $900 from a lender in exchange for the contract, the rules require that both parties: (a) recognize that $900 is the amount lent, so that the effective loan interest rate is not the nominal 10 percent rate but is 22.2 percent; and (b) both report $200 as interest paid or received in 1993, as the case may be.

do not claim a personal exemption on their own tax returns. This preferential arrangement usually generates tax savings because the students' marginal tax rates are more often than not lower than their parents' marginal tax rates.

Charitable contributions.—Contributions to charitable, religious, and certain other nonprofit organizations are allowed as an itemized deduction for individuals, generally up to 50 percent of adjusted gross income. Taxpayers who donate capital assets to charitable or educational organizations can deduct the assets' current value without the taxation of any appreciation in value. Corporations can also deduct charitable contributions up to 10 percent of their pre-tax income. Tax expenditures resulting from the deductibility of contributions are shown separately for educational and other institutions. Contributions to health institutions are reported under the health function.

Employer provided benefits.—Many employers provide employee benefits that were not counted in employee income. The employers' costs for these benefits are deductible business expenses. The exclusion from an employee's income of the value of educational assistance, child care, meals and lodging, legal service plans, as well as ministers' housing allowances and the rental value of parsonages are tax expenditures. The exclusions for educational assistance and legal services expired on July 1, 1992. Health and other insurance benefits are reported under the health and income security functions.

Child and dependent care expenses.—A tax credit may be claimed by married couples for child and dependent care expenses incurred when one spouse works full time and the other works at least part time or goes to school. The credit may also be claimed by divorced or separated parents who have custody of children, and by single parents. Expenditures up to a maximum $2,400 for one dependent and $4,800 for two or more dependents are eligible for the credit. The credit is equal to 30 percent of qualified expenditures for taxpayers with incomes of $10,000 or less. The credit is reduced to a minimum of 20 percent by one percentage point for each $2,000 of income between $10,000 and $28,000.

Disabled access expenditures.—OBRA provided for a credit of 50 percent of eligible disabled access expenditures in excess of $250. The credit is limited to $5,000.

Targeted jobs credit.—Employers may claim a tax credit for qualified wages paid to individuals who began work before July 1, 1992, and who are certified as members of various targeted groups. The amount of the credit that may be claimed is 40 percent of the first $3,000 paid during the first year of employment. The 40 percent credit also applies to the summer employment wages paid 16 and 17 year old youths who are members of low income families. Employers must reduce their deduction for wages paid by the amount of the credit claimed.

Costs of removing architectural barriers to the handicapped.—The investment cost of making any business accessible to persons suffering physical or mental disabilities may be deducted, rather than capitalized as part of the taxpayer's basis in such property and recovered by subsequent depreciation allowances, as is generally required.

Foster care payments.—Foster parents provide a home and care for children who are wards of the State, under contract with the State. Compensation received for this service is explicitly excluded from the gross incomes of foster parents, making the expenses they incur nondeductible. This activity is, in effect, tax-exempt.

HEALTH

Employer paid medical insurance and expenses.—Employee compensation, in the form of payments by employers for health insurance premiums and other medical expenses, is deducted as a business expense by employers, but it is not included in employee gross income.

Child health insurance.—The earned income tax credit provides for a credit equal to 6 percent for certain health insurance expenses for certain policies that cover children. The maximum credit will be $465 in 1993 and is phased out at a rate of 4.285 percent through $23,050 of adjusted gross income.

Employer share of hospital insurance tax.—The employer's payment of 1.45 percent of employees' wages (up to $135,000 in 1993) into the Hospitalization Trust Fund, which finances medicare benefits, is not included in employees' reportable compensation.

Medical care expenses.—Personal expenditures for medical care (including the costs of prescription drugs) exceeding 7.5 percent of the taxpayer's adjusted gross income are deductible.

Tax-exempt bonds for hospital construction.—Interest earned on State and local government debt issued to finance hospital construction is excluded from income subject to tax.

Charitable contributions to health institutions.—Contributions to nonprofit health institutions are allowed as a deduction for individuals and corporations. Tax expenditures resulting from the deductibility of

contributions to other charitable institutions are listed under the education, training, employment, and social services function.

Orphan drugs.—To encourage the development of drugs for the treatment of rare diseases or physical conditions, a tax credit was granted equal to 50 percent of the costs for clinical testing that had to be completed before manufacture and distribution were approved by the Food and Drug Administration. Because the drug firm was not required to reduce its deduction for testing expenses (an R&D expenditure) by the amount of this credit, the private cost of clinically testing orphan drugs was reduced to little more than 24 cents per $1 expended. This tax expenditure expired June 30, 1992.

Blue Cross and Blue Shield.—Although these organizations are not qualified as exempt, they are provided exceptions from otherwise applicable insurance company income tax accounting rules that effectively eliminate their tax liabilities.

INCOME SECURITY

Railroad retirement benefits.—These benefits are not generally subject to the income tax unless the recipient's gross income reaches a certain threshold discussed more fully under the social security function.

Workmen's compensation benefits.—Workmen's compensation provides payments to disabled workers. These benefits, although income to the recipients, are a tax preference because they are not subject to the income tax.

Public assistance benefits.—The exclusion from taxable income of public assistance benefits received by individuals is listed as a tax expenditure under the normal tax method because, under this method, cash transfers from government are included in gross income. In contrast, gifts not conditioned on the performance of services, including transfers from government, are not taxable under the reference law. Therefore, under the reference tax method, the tax exclusion for public assistance benefits is not shown as a tax expenditure.

Special benefits for disabled coal miners.—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.

Military disability pensions.—Most of the military pension income received by current disabled retired veterans is excluded from their income subject to tax.

Pension contributions and earnings.—Certain employer contributions to pension plans, along with individual contributions to individual retirement accounts (IRAs) and amounts set aside by the self-employed, are excluded from adjusted gross income in the year of contribution. The investment income earned by pension funds and other qualifying retirement plans is not taxable when earned, and this deferral is, therefore, also a tax expenditure.

Limited amounts (about $8,990 in 1993) can be excluded from an employee's adjusted gross income under a qualified cash or deferred arrangement with the employer (401(k) plan). An employee's own contribution of no more than $9,500 or the 401(k) limitation (whichever is greater) may be excluded annually from an employee's adjusted gross income when placed in a tax-sheltered annuity (403(b) plan).

Employees may deduct annual contributions to an IRA of $2,000 (or 100 percent of compensation, if less), or $2,250 on a joint return with only one spouse earning income, if: (a) neither the individual or spouse is an active participant in an employer-provided retirement plan; or (b) their adjusted gross income falls below $40,000 ($25,000 for a single taxpayer). The allowable IRA deduction is phased out between $40,000 and $50,000 for a joint return and $25,000 and $35,000 for a single return. Beyond these income limits, nondeductible contributions to IRAs are available to taxpayers who are active participants in employer-provided retirement plans. Self-employed persons can make deductible contributions to their own retirement (Keogh) plans equal to 25 percent of their income, up to a maximum of $30,000 per year.

Employer provided insurance benefits.—Many employers cover part or all the cost of premiums or payments for: (a) employees' life insurance benefits; (b) accident and disability benefits; (c) death benefits; and (d) supplementary unemployment benefits. The amounts are deductible by the employers and are excluded as well from employees' gross incomes for tax purposes.

Employer Stock Ownership Plan (ESOP) provisions.—A special type of employee benefit plan, organized as a trust, is tax-exempt. 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. 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 (percentages of employees' cash compensation); (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) ESOPs' lenders may exclude half the interest from their gross income; (4) employees who sell appreciated company stock to the ESOP may defer any taxes due until they withdraw benefits; and (5) dividends paid to ESOP-held stock are deductible by the employer.

Support of the aged and the blind.—Taxpayers who are blind or 65 years of age or older may take an additional $900 standard deduction if single, or $700 if married. In addition, individuals who are 65 years of age or older, or who are permanently disabled, can take a tax credit equal to 15 percent of the sum of their earned and retirement income. Qualified income is limited to no more than $2,500 for single individuals or married couples filing a joint return where only one spouse is 65 years of age or older, and up to $3,750 for joint returns where both spouses are 65 years of age or older. 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.

Casualty losses.—Neither the purchase of property nor insurance premiums to protect its value are deductible as costs of earning income; therefore, reimbursement for insured loss of such property is not reportable as a part of gross income. However, a special provision permits relief for taxpayers suffering an uninsured loss. They may deduct casualty and theft losses of more than $100 each, but only to the extent that total losses during the year exceed 10 percent of adjusted gross income.

Earned income credit.—This credit may be claimed by low-income workers with minor dependents. For 1993, the credit is 18.5 percent (19.5 percent if two or more minors are present) of the first $7,750 of earned income. When the taxpayer's income exceeds $12,200, the credit is phased out at the rate of 12.57 percent (13.93 percent if two or more minors are present) and is completely phased out at $23,050 of adjusted gross income. The credit is increased by a "supplemental young child" credit of 5 percent of the first $7,750 of earned income which is phased out at a rate of 3.57 percent. The supplemental credit is also completely phased out at $23,050 of adjusted gross income. The maximum amount of income on which the earned income credit may be taken is adjusted for inflation, as is the income level at which the phase-out begins.

In any tax year, the amount of the credit must be reduced by the minimum tax liability of the taxpayer. As refundable credits, earned income tax credits in excess of tax liabilities are paid by the Federal Government to individuals. This portion of the credit is included in outlays, while the amount that offsets tax liabilities is shown as a tax expenditure.

Social Security

OASI benefits for retired workers.—Social security benefits that exceed the beneficiary's contributions out of taxed income are deferred employee compensation and the deferral of tax on that compensation is a tax expenditure. These additional retirement benefits are paid for partly by employers' contributions that were not included in employees' taxable compensation. Up to one-half of any recipient's social security benefits and tier 1 railroad retirement benefits are included in the income tax base if a recipient's "modified adjusted gross income" plus one-half of his or her social security and railroad retirement benefits exceed a certain base amount: $32,000 for those filing joint tax returns; $25,000 for single persons; and zero for those married filing separately if they did not live apart from their spouse for the entire year. Modified AGI is equal to AGI plus foreign or U.S. possession income and tax-exempt interest, both excluded from AGI. If the modified AGI exceeds the specified base amount, either one-half of the excess or one-half of the social security or railroad retirement benefits is included in income subject to tax, whichever is less. This limits the tax expenditure to the portion of the benefit which is still excluded.

Social Security benefits for the disabled, dependents and survivors.—Benefit payments from the Social Security Trust Fund, for disability and for dependents and survivors, are excluded from the beneficiaries' gross incomes, and thus give rise to tax expenditures.

Veterans Benefits and Services

Veterans benefits.—All compensation due to death or disability and pensions paid by the Veterans Administration are excluded from taxable income.

Tax-exempt mortgage bonds for veterans.—Interest earned on general obligation bonds issued by State and local governments to finance housing for veterans is excluded from taxable income. The issuance of such bonds is limited, however, to five preexisting State programs and to amounts based upon previous volume levels for the period January 1, 1979 to June 22, 1984. Furthermore, future issues are limited to veterans who served on active duty before 1977.

General Government

Public purpose State and local debt.—Interest on State and local government debt, issued to finance government activities, is excluded from Federal taxation. State and local governments, therefore, can sell debt

obligations at a lower interest cost than would be possible if such interest were subject to tax. Only the excluded interest on bonds for public purposes, such as schools, roads, and sewers, is included here.

Nonbusiness State and local taxes excluding homeowner property taxes.—The deductibility of nonbusiness State and local taxes gives indirect assistance to these governments by reducing the costs of the services they provide and, thus, the burden on their taxpayers. Although general sales taxes may no longer be deducted, State and local income taxes still may be deducted.

Business income earned in U.S. possessions.—Under certain conditions, U.S. corporations receiving income from an active trade or business, or from investments located in a U.S. possession, can claim a special credit against U.S. tax otherwise due.

INTEREST

U.S. savings bonds.—The interest on U.S. savings bonds is not taxable until the bonds are redeemed, thereby deferring tax liability. The deferral is equivalent to an interest-free loan and, therefore, it is a tax expenditure.

TAX EXPENDITURES IN THE UNIFIED TRANSFER TAX

Exceptions to the general terms of the Federal unified transfer tax favor particular transferees or dispositions of transferors, similar to Federal direct expenditure or loan programs. The transfer tax provisions identified as tax expenditures satisfy the reference law criteria for inclusion in the tax expenditure budget that were described above. There is no generally accepted normal tax baseline for transfer taxes.

Unified Transfer Tax Reference Rules

The reference tax rules for the unified transfer tax from which departures represent tax expenditures include:

- *Definition of the taxpaying unit.* The payment of the tax is the liability of the transferor whether the transfer of cash or property was made by gift or bequest.
- *Definition of the tax base.* The base for the tax is the transferor's cumulative, taxable lifetime gifts made plus the net estate at death. Gifts in the tax base are all annual transfers in excess of $10,000 to any donee except the donor's spouse. Excluded are, however, payments on behalf of family members' educational and medical expenses, as well as the cost of ceremonial gatherings and celebrations that are not in honor of the donor.
- *Property valuation.* In general, property is valued at its fair market value at the time it is transferred. This is not necessarily the case in the valuation of property for transfer tax purposes. Executors of estates are provided the option to value assets at the time of the testator's death or up to six months later.
- *Tax rate schedule.* A single graduated tax rate schedule applies to all taxable transfers. This is reflected in the name of the "unified transfer tax" that has replaced the former separate gift and estate taxes. The tax rates vary from 18 percent on the first $10,000 of aggregate taxable transfers, to 50 percent on amounts exceeding $2.5 million. A $192,800 lifetime credit is provided against the tax in determining the final amount of transfer taxes that are due and payable. This allows each taxpayer to make a $600,000 tax-free transfer of assets that otherwise would be liable to the unified transfer tax.[6]
- *Time when tax is due and payable.* Donors are required to pay the tax annually as gifts are made. The generation-skipping transfer tax is payable by the donees whenever they accede to the gift. The net estate tax liability is due and payable within nine months after the decedent's death. The Internal Revenue Service may grant an extension of up to 10 years for a reasonable cause. Interest is charged on the unpaid tax liability at a rate equal to the cost of Federal short-term borrowing, plus three percentage points.

Tax Expenditures by Function

The 1991–93 estimates of tax expenditures in the Federal unified transfer tax are displayed by functional category in table 2–2. Outlay equivalent estimates are similar to revenue loss estimates for transfer tax expenditures and, therefore, are not shown separately. A description of the provisions follows.

NATURAL RESOURCES AND ENVIRONMENT

Donations of conservation easements.—Bequests for conservation are excluded from taxable estates. A conservation bequest is the value of property and easements (in perpetuity) to such property the use of which is restricted to any one or more of the following: the public for outdoor recreation; protection of the natural habitats of fish, wildlife, plants, etc.; scenic enjoyment of the public; and preservation of historic land areas

[6] An additional tax, at a flat rate of 55 percent, is imposed on lifetime, generation-skipping transfers in excess of $1 million. It is considered a generation-skipping transfer whenever the transferee is at least two generations younger than the transferor, as it would be in the case of transfers to grandchildren or great-grandchildren. The liability of this tax is on the recipients of the transfer.

Table 2-2. ESTIMATES FOR TAX EXPENDITURES IN THE FEDERAL UNIFIED TRANSFER TAX
(In millions of dollars)

Description	Fiscal Years		
	1992	1993	1994
Natural Resources and Environment:			
Deductions for donations of conservation easements	*	*	*
Agriculture:			
Special use valuation of farm real property	65	70	75
Tax deferral of closely held farms	55	55	55
Commerce:			
Special use valuation of real property used in closely held businesses	20	20	25
Tax deferral of closely held business	10	10	10
Education, training, employment, and social services:			
Deduction for charitable contributions (education)	465	500	525
Deduction for charitable contributions (other than education and health)	1,380	1,480	1,555
Health:			
Deduction for charitable contributions (health)	425	455	480
General government:			
Credit for State death taxes	2,645	2,775	2,915
Grand Total (after interactions)	4,810	5,095	5,355

*$2.5 million or less. All estimates are rounded to the nearest $5 million.

and structures. Similar conservation gifts are excluded from the gift tax base and are also deductible from the donor's otherwise taxable income in the year of the gift.

AGRICULTURE

Special use valuation of farms.—Farmland owned and operated by a decedent and/or a member of the family may be valued for estate tax purposes on the basis of its "continued use" as a farm if: the farmland is at least 25 percent of the decedent's gross estate; the entire value of all farm property is at least 50 percent of the gross estate; and family heirs to the farm agree to continue to operate the property as a farm for at least 10 years. Since continued use valuation of farmland is frequently substantially less than the fair market value, the resulting reduction in tax liability serves as a subsidy to the continued operation of family farms.

Tax deferral of closely held farms.—Decedents' estates may use a preferential, extended installment payment period of five to 15 years to discharge estate tax liabilities if the value of the farm properties exceeds 35 percent of the net estates. The interest charged is only 4 percent for the first five years, rather than the standard Federal short-term borrowing rate plus three percentage points, which applies during the last 10 years of the repayment period.

COMMERCE AND HOUSING CREDIT

Special use valuation of closely held businesses.—The two estate tax incentives to family farming are also available to the estates of owners of nonfarm family businesses. If the same three conditions previously described are met, the real property in their estates is eligible for continued use valuation.

Tax deferral of closely held businesses.—Nonfarm family businesses that satisfy the net estate requirements qualify for preferential 15 year deferred estate tax payment. Also, the redemption of stock, required to pay funeral and administrative expenses and estate and gift taxes, may be characterized as a sale of stock. This applies in those cases where the family business is incorporated and only the closely held corporation stock, rather than the business assets, appear in the decedent's estate. This subjects to tax only the appreciation in the value of the stock whereas, under reference tax law rules, all of the proceeds generally would be taxed as a dividend. To be eligible for this special provision, the value of stock in closely held corporations must exceed 35 percent of the decedent's gross estate, less debt and funeral expenses.

EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

Bequests to tax-exempt organizations.—These bequests are deductible from decedent's otherwise taxable lifetime transfers.

HEALTH

Bequests to health providers.—Such bequests, that are exempt from the income tax, are deductible from otherwise taxable lifetime transfers of decedents.

GENERAL GOVERNMENT

State and local death taxes.—A credit is allowed for state death taxes against any Federal estate tax that otherwise would be due. The amount of the state death tax credit is determined by a rate schedule that reaches a limit of 16 percent of the taxable estate in excess of $60,000. This provision is intended to restrain states from competing for wealthy individuals' official domicile.

Supplement

Table 2–3. ESTIMATES FOR MAJOR TAX EXPENDITURES IN THE INCOME TAX

(In millions of dollars)

Description	1994
Net exclusion of employer plans pension contributions and earnings	52,600
Exclusion of employer contributions for medical insurance premiums and medical care	50,820
Deductibility of mortgage interest on owner-occupied homes	48,145
Accelerated depreciation (normal tax method)	28,775
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	27,195
Step-up basis of capital gains at death	26,820
Exclusion of OASI benefits for retired workers	19,025
Deductibility of charitable contributions	16,825
Deferral of capital gains on home sales	14,620
Deductibility of State and local property tax on owner-occupied homes	14,015
Exclusion of employer share of Hospital Insurance tax	12,230
Exclusion of interest on public purpose State and local debt	12,030
Exclusion of interest on life insurance savings	8,200
Exception from passive loss rules for $25,000 of rental loss	6,245
Exclusion of capital gains on home sales for persons age 55 and over	4,770
Net exclusion of IRA pension contributions and earnings	4,740
Exclusion of workmen's compensation benefits	4,270
Exclusion of social security benefits for dependents and survivors	3,745
Reduced rates on the first $100,000 of corporate income (normal tax method)	3,625
Tax credit for corporations receiving income from doing business in United States possessions	3,530
Earned income credit [1]	3,480
Deductibility of medical expenses	3,035
Exclusion of Keogh pension contributions and earnings	2,985
Exclusion of premiums on group term life insurance	2,870
Credit for child and dependent care expenses	2,845
Preferential treatment of capital gains (normal tax method)	2,580
Inventory property sales source rules exception	2,340
Special ESOP rules (other than investment credit)	2,170
Expensing of research and development expenditures (normal tax method)	2,150
Exclusion of benefits and allowances to armed forces personnel	2,055
Exclusion of veterans disability compensation	1,815
Exclusion of disability insurance benefits	1,810
Excess of percentage over cost depletion, fuels and nonfuel minerals	1,630
Additional deduction for the elderly	1,605
Exclusion of interest on owner-occupied mortgage subsidy bonds	1,560
Credit for low-income housing investments	1,520
Deferral of interest on savings bonds	1,475
Exclusion of interest on State and local debt for private nonprofit health facilities	1,415
Exclusion of income of foreign sales corporations	1,270
Exclusion of income earned abroad by United States citizens	1,225
Exclusion of interest on State and local IDBs for pollution control and sewage and waste disposal facilities	1,030
Exclusion of interest on State and local debt for rental housing	965
Alternative fuel production credit	950
Deferral of income from post 1987 installment sales	860
Exclusion of interest on State and local debt for private nonprofit educational facilities	830
Exclusion of scholarship and fellowship income (normal tax method)	815
Exclusion of interest on IDBs for airports, docks, and sports and convention facilities	715
Exclusion of employer provided child care	680
Exclusion of interest on small issue industrial development bonds	655
Exemption of RIC expenses from the 2% floor for miscellaneous itemized deductions	600
Exclusion of public assistance benefits (normal tax method)	540
Exclusion of employee meals and lodging (other than military)	525
Parental personal exemption for students age 19 or over	525
Expensing of multiperiod timber growing costs	500
Exemption of credit union income	490
Exclusion of railroad retirement system benefits	430
Deferral of income from controlled foreign corporations (normal tax method)	330

Table 2–3. ESTIMATES FOR MAJOR TAX EXPENDITURES IN THE INCOME TAX—Continued

(In millions of dollars)

Description	1994
Deductibility of casualty losses	295
Exclusion of interest on State and local student loan bonds	295
Deferral of gains from sale of broadcasting facilities to minority owned business	280
Exclusion of parsonage allowances	275
Expensing of exploration and development costs, fuels and nonfuel minerals	255
Credit for increasing research activities	215
Amortization of start-up costs (normal tax method)	195
Credit for child medical insurance premiums [2]	170
Exclusion of interest on State and local industrial development bonds for energy facilities	170
Credit for disabled acess expenditures	160
Expensing of certain capital outlays	155
Exclusion of premiums on accident and disability insurance	140
Exclusion of military disability pensions	140
Permanent exceptions from imputed interest rules	140
Expensing of certain multiperiod production costs	140
Tax incentives for preservation of historic structures	130
Carryover basis of capital gains on gifts	125
Small life insurance company deduction	125
Tax exemption of certain insurance companies	115
Excess bad debt reserves of financial institutions	115
Exclusion of special benefits for disabled coal miners	100
Interest allocation rules exception for certain financial operations	100
Exclusion of interest on State and local debt for veterans housing	90
Investment credit for rehabilitation of structures (other than historic)	90
Exception from passive loss limitation for working interests in oil and gas properties	85
Exclusion of veterans pensions	80
Tax credit for the elderly and disabled	75
Targeted jobs credit	65
Exemption of certain mutuals' and cooperatives' income	65
New technology credit	60
Credit and deduction for clean-fuel vehicles and properties	50
Exclusion of GI bill benefits	50
Special rules for mining reclamation reserves	50

Note: All estimates are rounded to the nearest $5 million.

[1] The figures in the table indicate the effect of the earned income tax credit on receipts. The increase in 1994 outlays is $9,275 million.

[2] The figures in the table indicate the effect of the child medical insurance premium credit on receipts. The increase in 1994 outlays is $590 million.