[JOINT COMMITTEE PRINT]

ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 2007–2011

PREPARED FOR THE

HOUSE COMMITTEE ON WAYS AND MEANS

AND THE

SENATE COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

SEPTEMBER 24, 2007

U.S. GOVERNMENT PRINTING OFFICE

37–755 WASHINGTON : 2007 JCS–3–07

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

JOINT COMMITTEE ON TAXATION

110TH CONGRESS, 1ST SESSION

HOUSE

CHARLES B. RANGEL, New York,
Chairman
FORTNEY PETE STARK, California
SANDER M. LEVIN, Michigan
JIM McCRERY, Louisiana
WALLY HERGER, California

SENATE

MAX BAUCUS, Montana,
Vice Chairman
JOHN D. ROCKEFELLER IV, West Virginia
KENT CONRAD, North Dakota
CHARLES E. GRASSLEY, Iowa
ORRIN G. HATCH, Utah

CONTENTS

INTRODUCTION

This report[1] on tax expenditures for fiscal years 2007–2011 is prepared by the staff of the Joint Committee on Taxation ("Joint Committee staff") for the House Committee on Ways and Means and the Senate Committee on Finance. The report also is submitted to the House and Senate Committees on the Budget.

As in the case of earlier reports,[2] the estimates of tax expenditures in this report were prepared in consultation with the staff of the Office of Tax Analysis in the Treasury Department ("the Treasury"). The Treasury published its estimates of tax expenditures for fiscal years 2006–2012 in the Administration's budgetary statement of February 2007.[3] The lists of tax expenditures in this Joint Committee staff report and the Administration's budgetary statement overlap considerably; the differences are discussed in Part I of this report under the heading "Comparisons with Treasury."

The Joint Committee staff has made its estimates (as shown in Table 1) based on the provisions in tax law as enacted through August 31, 2007. Expired or repealed provisions are not listed unless they have continuing revenue effects that are associated with ongoing taxpayer activity. Proposed extensions or modifications of expiring provisions are not included until they have been enacted into law. The tax expenditure estimates in this report are based on the January 2007 Congressional Budget Office revenue baseline and Joint Committee staff projections of the gross income, deductions, and expenditures of individuals and corporations for calendar years 2006–2011.

Part I of this report contains a discussion of the concept of tax expenditures. Part II is a discussion of the measurement of tax expenditures. Estimates of tax expenditures for fiscal years 2007–2011 are presented in Table 1 in Part III. Table 2 shows the distribution of tax returns by income class, and Table 3 presents distributions of selected individual tax expenditures by income class.

---

[1] This report may be cited as follows: Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2007–2011* (JCS–3–07), September 24, 2007.

[2] Joint Committee on Taxation, *Estimates of Federal Tax Expenditures*, October 4, 1972 (JCS–28–72), June 1, 1973 (JCS–20–73), July 8, 1975 (JCS–11–75), March 15, 1976 (JCS–5–76), March 15, 1977 (JCS–10–77), March 14, 1978 (JCS–9–78), March 15, 1979 (JCS–9–79), March 6, 1980 (JCS–8–80), March 16, 1981 (JCS–7–81), March 8, 1982 (JCS–4–82), March 7, 1983 (JCS–4–83), November 9, 1984 (JCS–39–84), April 12, 1985 (JCS–8–85), March 1, 1986 (JCS–7–86), February 27, 1987 (JCS–3–87), March 8, 1988 (JCS–3–88), February 28, 1989 (JCS–4–89), March 9, 1990 (JCS–7–90), March 11, 1991 (JCS–4–91), April 24, 1992 (JCS–8–92), April 22, 1993 (JCS–6–93), November 9, 1994 (JCS–6–94), September 1, 1995 (JCS–21–95), November 26, 1996 (JCS–11–96), December 15, 1997 (JCS–22–97), December 14, 1998 (JCS–7–98), December 22, 1999 (JCS–13–99), April 6, 2001 (JCS–1–01), January 17, 2002 (JCS–1–02), December 19, 2002 (JCS–5–02), December 22, 2003 (JCS–8–03), January 12, 2005 (JCS–1–05), and April 25, 2006 (JCS–2–06).

[3] Office of Management and Budget, "Tax Expenditures," *Budget of the United States Government: Analytical Perspectives, Fiscal Year 2008*, February 5, 2007, pp. 285–327.

I. THE CONCEPT OF TAX EXPENDITURES

Overview

"Tax expenditures" are defined under the Congressional Budget and Impoundment Control Act of 1974 (the "Budget Act") 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." [4] Thus, tax expenditures include any reductions in income tax liabilities that result from special tax provisions or regulations that provide tax benefits to particular taxpayers.

Special income tax provisions are referred to as tax expenditures because they may be considered to be analogous to direct outlay programs, and the two can be considered as alternative means of accomplishing similar budget policy objectives. Tax expenditures are similar to those direct spending programs that are available as entitlements to those who meet the statutory criteria established for the programs.

Estimates of tax expenditures are prepared for use in budget analysis. They are a measure of the economic benefits that are provided through the tax laws to various groups of taxpayers and sectors of the economy. The estimates also may be useful in determining the relative merits of achieving specified public goals through tax benefits or direct outlays.

The legislative history of the Budget Act indicates that tax expenditures are to be defined with reference to a normal income tax structure (referred to here as "normal income tax law"). The determination of whether a provision is a tax expenditure is made on the basis of a broad concept of income that is larger in scope than "income" as defined under general U.S. income tax principles. The Joint Committee staff has used its judgment in distinguishing between those income tax provisions (and regulations) that can be viewed as a part of normal income tax law and those special provisions that result in tax expenditures. A provision traditionally has been listed as a tax expenditure by the Joint Committee staff if there is a reasonable basis for such classification and the provision results in more than a *de minimis* revenue loss, which solely for this purpose means a total revenue loss of at least $50 million over the five fiscal years 2007–2011. The Joint Committee staff emphasizes, however, that in the process of listing tax expenditures, no judgment is made, nor any implication intended, about the desirability of any special tax provision as a matter of public policy.

If a tax expenditure provision were eliminated, Congress might choose to continue financial assistance through other means rather than terminate all Federal assistance for the activity. If a replace-

[4] Congressional Budget and Impoundment Control Act of 1974 (Pub. L. No. 93–344), sec. 3(3).

ment spending program were enacted, the higher revenues received as a result of the elimination of a tax expenditure might not represent a net budget gain. A replacement program could involve direct expenditures, direct loans or loan guarantees, regulatory activity, a mandate, a different form of tax expenditure, or a general reduction in tax rates. Joint Committee staff estimates of tax expenditures do not anticipate such policy responses.

The Budget Act uses the term tax expenditure to refer to the special tax provisions that are contained in the Federal income taxes on individuals and corporations.[5] Other Federal taxes such as excise taxes, employment taxes, and estate and gift taxes may also have exceptions, exclusions, and credits, but those special tax provisions are not included in this report because they are not part of the income tax. Thus, for example, the income tax exclusion for employer-paid health insurance is included, but the Federal Insurance Contributions Act ("FICA") tax exclusion for employer-paid health insurance is not treated as a tax expenditure in this report.[6]

Some provisions in the Internal Revenue Code provide for special tax treatment that is less favorable than normal income tax law. Examples of such provisions include (1) the denial of deductions for certain lobbying expenses, (2) the denial of deductions for certain executive compensation, and (3) the two-percent floor on itemized deductions for unreimbursed employee expenses. Tax provisions that provide treatment less favorable than normal income tax law are not shown in this report because they are not included in the statutory definition of a tax expenditure.

Individual Income Tax

Under the Joint Committee staff methodology, the normal structure of the individual income tax includes the following major components: one personal exemption for each taxpayer and one for each dependent, the standard deduction, the existing tax rate schedule, and deductions for investment and employee business expenses. Most other tax benefits to individual taxpayers are classified as exceptions to normal income tax law.

The Joint Committee staff views the personal exemptions and the standard deduction as defining the zero-rate bracket that is a part of normal tax law. An itemized deduction that is not necessary for the generation of income is classified as a tax expenditure, but only to the extent that it, when added to a taxpayer's other itemized deductions, exceeds the standard deduction.

All employee compensation is subject to tax unless the tax code contains a specific exclusion for the income. Specific exclusions for employer-provided benefits include the following: coverage under

---

[5] The Federal income tax on individuals also applies to estates and trusts, which are subject to a separate income tax rate schedule (Section 1(c) of the Internal Revenue Code of 1986, the "Code"). Estates and trusts may benefit from some of the same tax expenditure provisions that apply to individuals. In Table 1 of this report, the tax expenditures that apply to estates and trusts have been included in the estimates of tax expenditures for individual taxpayers.

[6] Other analysts have explored applying the concept of tax expenditures to payroll and excise taxes. See, Jonathan Barry Forman, "Would a Social Security Tax Expenditure Budget Make Sense?" *Public Budgeting and Financial Management*, 5, 1993, pp. 311–335, and Bruce F. Davie, "Tax Expenditures in the Federal Excise Tax System," *National Tax Journal*, XLVII, March 1994, pp. 39–62. Prior to 2003, the President's budget contained a section that reviewed and tabulated estate and gift tax provisions that the Treasury considered tax expenditures. The Joint Committee staff considers estate and gift provisions as being outside of the normal income tax structure and thus omits them from its lists of tax expenditures.

accident and health plans,[7] accident and disability insurance, group term life insurance, educational assistance, tuition reduction benefits, transportation benefits (parking, van pools, and transit passes), dependent care assistance, adoption assistance, meals and lodging furnished for the convenience of the employer, employee awards, and other miscellaneous fringe benefits (*e.g.*, employee discounts, services provided to employees at no additional cost to employers, and *de minimis* fringe benefits). Each of these exclusions is classified as a tax expenditure in this report.

Under normal income tax law, employer contributions to pension plans and income earned on pension assets generally would be taxable to employees as the contributions are made and as the income is earned, and employees would not receive any deduction or exclusion for their pension contributions. Under present law, employer contributions to qualified pension plans and employee contributions made at the election of the employee through salary reduction are not taxed until distributed to the employee, and income earned on pension assets is not taxed until distributed. The tax expenditure for "net exclusion of pension contributions and earnings" is computed as the income taxes forgone on current tax-excluded pension contributions and earnings less the income taxes paid on current pension distributions (including the 10-percent additional tax paid on early withdrawals from pension plans).

Under present law, social security and tier 1 railroad retirement benefits are partially excluded or fully excluded from gross income.[8] Under normal income tax law, retirees would be entitled to an exclusion for only the portion of the retirement benefits that represents a return of the payroll taxes that they paid during their working years. Thus, the exclusion of social security and railroad retirement benefits in excess of payroll tax payments is classified as a tax expenditure.

All Medicare benefits are excluded from taxation. The value of Medicare Part A insurance generally is greater than the Health Insurance ("HI") tax contributions that enrollees made during their working years, the value of Medicare Part B insurance generally is greater than the Part B premium that enrollees must pay, and the value of Medicare Part D (prescription drug) insurance generally is greater than the Part D premium that enrollees must pay. The exclusion of the value of Medicare Part A insurance in excess of HI tax contributions is classified as a tax expenditure, as is the exclusion of the value of Medicare Part B insurance in excess of Part B premiums, and the exclusion of the value of Part D insurance in excess of Part D premiums.

Public assistance benefits are excluded from gross income by statute or by Internal Revenue Service regulations. Table 1 contains tax expenditure estimates for workers' compensation benefits, special benefits for disabled coal miners, and cash public assistance

[7] Present law contains an exclusion for employer-provided coverage under accident and health plans (Code sec. 106) and an exclusion for benefits received by employees under employer-provided accident and health plans (Code sec. 105(b)). These two exclusions are viewed as a single tax expenditure. Under normal income tax law, the value of employer-provided accident and health coverage would be includable in the income of employees, but employees would not be subject to tax on the accident and health insurance benefits (reimbursements) that they might receive.

[8] For taxpayers with modified adjusted gross incomes above certain levels, up to 85 percent of social security and tier 1 railroad retirement benefits are includable in income.

benefits (which include Supplemental Security Income benefits and Temporary Assistance for Needy Families benefits).

The individual income tax does not include in gross income the imputed income that individuals receive from the services provided by owner-occupied homes and durable goods.[9] However, the Joint Committee staff does not classify this exclusion as a tax expenditure. The measurement of imputed income for tax purposes presents administrative problems and its exclusion from taxable income may be regarded as an administrative necessity.[10] Under normal income tax law, individuals would be allowed to deduct only the interest on indebtedness incurred in connection with a trade or business or an investment. Thus, the deduction for mortgage interest on a principal or second residence is classified as a tax expenditure.

The Joint Committee staff assumes that, for administrative feasibility, normal income tax law would tax capital gains in full in the year the gains are realized through sale, exchange, gift, or transfer at death. Thus, the deferral of tax until realization is not classified as a tax expenditure, but reduced rates of tax, further deferrals of tax (beyond the year of sale, exchange, gift, or transfer at death), and exclusions of certain capital gains are classified as tax expenditures. It also is assumed that normal income tax law would not provide for any indexing of the basis of capital assets for changes in the general price level. Thus, under normal income tax law (as under present law), the income tax would be levied on nominal gains as opposed to real gains in asset values.

There are many types of State and local government bonds and private purpose bonds that qualify for tax-exempt status for Federal income tax purposes. Table 1 contains a separate tax expenditure listing for each type of bond.

Under the Joint Committee staff view of normal tax law, compensatory stock options would be subject to regular income tax at the time the options are exercised and employers would receive a corresponding tax deduction.[11] The employee's income would be equal to the difference between the purchase price of the stock and the market price on the day the option is exercised. Present law provides for special tax treatment for incentive stock options and options acquired under employee stock purchase plans. When certain requirements are satisfied, (1) the income that is received at the time the option is exercised is excluded for purposes of the regular income tax but, in the case of an incentive stock option, included for purposes of the alternative minimum tax, (2) the gain from any subsequent sale of the stock is taxed as a capital gain, and (3) the employer does not receive a tax deduction with respect to the option. The special tax treatment provided to the employee

[9] The National Income and Product Accounts include estimates of this imputed income. The accounts appear in U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business,* published monthly. However, a taxpayer-by-taxpayer accounting of imputed income would be necessary for a tax expenditure estimate.

[10] If the imputed income from owner-occupied homes were included in adjusted gross income, it would be proper to include all mortgage interest deductions and related property tax deductions as part of the normal income tax structure, since interest and property tax deductions would be allowable as a cost of producing imputed income. It also would be appropriate to allow deductions for depreciation and maintenance expenses for owner-occupied homes.

[11] If the option has a readily ascertainable fair market value, normal law would tax the option at the time it is granted and the employer would be entitled to a deduction at that time.

is viewed as a tax expenditure by the Joint Committee staff, and an estimate of this tax expenditure is contained in Table 1. However, it should be noted that the revenue loss from the special tax treatment provided to the employee is accompanied by a significant revenue gain from the denial of the deduction to the employer.

The individual alternative minimum tax ("AMT") and the passive activity loss rules are not viewed by the Joint Committee staff as a part of normal income tax law. Instead, they are viewed as provisions that reduce the magnitude of the tax expenditures to which they apply. For example, the AMT reduces the value of the deduction for State and local income taxes (for those taxpayers subject to the AMT) by not allowing the deductions to be claimed in the calculation of AMT liability. Similarly, the passive loss rules defer otherwise allowable deductions and credits from passive activities until a time when the taxpayer has passive income or disposes of the assets associated with the passive activity. Exceptions to the individual AMT and the passive loss rules are not classified as tax expenditures by the Joint Committee staff because the effects of the exceptions already are incorporated in the estimates of related tax expenditures.

Business Income Taxation

Regardless of the legal form of organization (sole proprietorship, partnership, or S or C corporation), the same general principles are used in the computation of taxable business income. Thus, most business tax expenditures apply equally to unincorporated and incorporated businesses.

One of the most difficult issues in defining tax expenditures for business income relates to the tax treatment of capital costs. Under present law, capital costs may be recovered under a variety of alternative methods, depending upon the nature of the costs and the status of the taxpayer. For example, investments in equipment and structures may qualify for tax credits, expensing, accelerated depreciation, or straight-line depreciation. The Joint Committee staff generally classifies as tax expenditures cost recovery allowances that are more favorable than those provided under the alternative depreciation system (sec. 168(g)), which provides for straight-line recovery over tax lives that are longer than those permitted under the accelerated system. As indicated above, the Joint Committee staff assumes that normal income tax law would not provide for any indexing of the basis of capital assets. Thus, normal income tax law would not take into account the effects of inflation on tax depreciation.

The Joint Committee staff uses several accounting standards in evaluating the provisions in the Code that govern the recognition of business receipts and expenses. Under the Joint Committee staff view, normal income tax law is assumed to require the accrual method of accounting, the standard of "economic performance" (used in the Code to test whether liabilities are deductible), and the general concept of matching income and expenses. In general, tax provisions that do not satisfy all three standards are viewed as tax expenditures. For example, the deduction for contributions to taxpayer-controlled mining reclamation reserve accounts is viewed as a tax expenditure because the contributions do not satisfy the economic performance standard. (Adherence to the standard would require that the taxpayer make an irrevocable contribution toward future reclamation, involving a trust fund or similar mechanism, as occurs in a number of areas in the Code.) The deductions for contributions to nuclear decommissioning trust accounts and certain environmental settlement trust accounts are not viewed as a tax expenditure because the contributions are irrevocable (*i.e.*, they satisfy the economic performance standard). However, present law provides for a reduced rate of tax on the incomes of these two types of trust accounts, and these tax rate reductions are viewed as tax expenditures.

The Joint Committee staff assumes that normal income tax law would provide for the carryback and carryforward of net operating losses. The staff also assumes that the general limits on the number of years that such losses may be carried back or forward were chosen for reasons of administrative convenience and compliance concerns and may be assumed to represent normal income tax law. Exceptions to the general limits on carrybacks and carryforwards are viewed as tax expenditures.

Corporate Income Tax

The income of corporations (other than S corporations) generally is subject to the corporate income tax. The corporate income tax includes a graduated tax rate schedule. The lower tax rates in the schedule are classified by the Joint Committee staff as a tax expenditure (as opposed to normal income tax law) because they are intended to provide tax benefits to small business and, unlike the graduated individual income tax rates, are unrelated to concerns about ability of individuals to pay taxes.

Exceptions to the corporate alternative minimum tax are not viewed as tax expenditures because the effects of the AMT exceptions are already incorporated in the estimates of related tax expenditures.[12]

Certain income of pass-through entities is exempt from the corporate income tax. The income of sole proprietorships, S corporations, most partnerships, and other entities (such as regulated investment companies and real estate investment trusts) is taxed only at the individual level. The special tax rules for these pass-through entities are not classified as tax expenditures because the tax benefits are available to any entity that chooses to organize itself and operate in the required manner.

Nonprofit corporations that satisfy the requirements of Code section 501 also generally are exempt from corporate income tax. The tax exemption of certain nonprofit cooperative business organizations, such as trade associations, is not treated as a tax expenditure for the same reason applicable to for-profit pass-through business entities. With respect to other nonprofit organizations, such as charities, tax-exempt status is not classified as a tax expenditure because the nonbusiness activities of such organizations generally must predominate and their unrelated business activities are subject to tax. In general, the imputed income derived from nonbusiness activities conducted by individuals or collectively by certain

---

[12] See discussion of individual AMT on page 6.

nonprofit organizations is outside the normal income tax base. However, the ability of donors to such nonprofit organizations to claim a charitable contribution deduction is a tax expenditure, as is the exclusion of income granted to holders of tax-exempt financing issued by charities.

Recent Legislation

The Tax Increase Prevention and Reconciliation Act ("TIPRA") of 2005 (H.R. 4297), enacted on May 17, 2006 (Pub. L. No. 109–222), created three new tax expenditures:

—A tax exclusion was provided for the earnings of certain environmental settlement funds, effective for accounts and funds established after the date of enactment. The tax exclusion expires after December 31, 2010. In Table 1, this tax expenditure is listed as "Tax exclusion for earnings of certain environmental settlement funds."

—Reduced rates of tax were provided for gains from the sale or exchange of self-created musical works, effective for sales or exchanges in taxable years beginning after the date of enactment and before January 1, 2011. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—Taxpayers were given the option of electing five-year amortization of expenses paid or incurred for the creation or acquisition of musical compositions, effective for expenses paid or incurred for property placed in service in taxable years beginning after 2005 and before 2011. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

The Tax Increase Prevention and Reconciliation Act of 2005 also extended or modified some existing tax expenditures, as follows:

—The $100,000 limit on the expensing of depreciable tangible personal property by a small business, which was scheduled to expire for taxable years beginning after 2007, was extended for two years, and other modifications were made to the expensing provision. In Table 1, these changes are reflected in the tax expenditure estimate for "Expensing under section 179 of depreciable business property."

—Reduced rates of tax on dividends and long-term capital gains of individuals, which were scheduled to expire for taxable years beginning after 2008, were extended for two years.

—The temporary exceptions from subpart F foreign personal holding income, which were scheduled to expire for taxable years after 2006, were extended for two years. In Table 1, this change is reflected in the tax expenditure estimates for "Deferral of active income of controlled foreign corporations" and "Deferral of certain active financing income."

—The present-law provision providing for the deferral of active income of controlled foreign corporations was expanded by providing look-through treatment of payments between controlled foreign corporations, effective for taxable years of foreign corporations beginning after December 31, 2005, and before January 1, 2009.

—Certain changes were made to the rules governing qualified veterans' mortgage bonds, including changes to the definition of an eligible veteran, and new State volume limits were provided for qualified veterans' mortgage bonds issued by the States of Alaska, Oregon, and Wisconsin in calendar years 2006 through 2010, with the program expiring after 2010. In Table 1, these changes are reflected in the tax expenditure estimate for "Exclusion of interest on State and local government qualified private activity bonds for owner-occupied housing."

—An exception to the tax-exempt bond arbitrage restrictions for certain bonds secured by income from investments in the Texas Permanent University Fund was codified and extended. In Table 1, this change is reflected in the tax expenditure estimate for "Exclusion of interest on State and local government qualified private activity bonds for private non-profit and qualified public educational facilities."

—The timing of the $20 million capital expenditure limitation on qualified small issue bonds was accelerated from bonds issued after September 30, 2009, to bonds issued after December 31, 2006. In Table 1, this change is reflected in the tax expenditure estimate for "Exclusion of interest on State and local government small issue qualified private activity bonds."

—The exception to the interest imputation rule for below-market loans to qualified continuing care facilities was broadened by eliminating the dollar cap and making other modifications, effective for calendar years 2005 through 2010, with respect to loans made before, on, or after such date. In Table 1, this change is reflected in the tax expenditure estimate for "Exemptions from imputed interest rules."

—The exemption amounts for the alternative minimum tax were increased to: (1) $62,550 in the case of married individuals filing a joint return and surviving spouses; (2) $42,500 in the case of unmarried individuals other than surviving spouses; and (3) $31,275 in the case of married individuals filing a separate return, effective for taxable years beginning in 2006. In addition, the provision allowing nonrefundable personal credits to the full extent of the individual's regular and alternative minimum tax, which was scheduled to expire for taxable years beginning after December 31, 2005, was extended for one year. In Table 1, these changes to the alternative minimum tax are reflected in the estimates of the various tax expenditures whose benefits are limited by the alternative minimum tax.

—The two-year amortization period for geological and geophysical expenditures associated with oil and gas exploration was extended to five years for certain major integrated oil companies, effective for amounts paid or incurred after the date of enactment.

—New requirements were imposed on pooled financing bonds as a condition of tax exemption, effective for bonds issued after the date of enactment. In Table 1, these new requirements are reflected in the estimates of all of the tax expenditure provisions that relate to the exclusion of interest on State and local government bonds.

—The income limits on conversions of traditional IRAs to Roth IRAs were eliminated, effective for taxable years beginning after 2009. In Table 1, this change is reflected in the tax expenditure estimate for "Net exclusion of pension contributions and earnings: Individual retirement plans."

—The foreign sales corporation and extraterritorial income binding contract relief provisions were repealed, effective for taxable years beginning after the date of enactment. Thus, the tax expenditure for "Exclusion of extraterritorial income" is no longer listed in Table 1.

—The wage limitation applicable to the deduction for domestic production activities was modified, effective for taxable years beginning after the date of enactment.

—An inflation adjustment was provided for the foreign earned income exclusion and adjustments were made to the exclusion for housing costs, effective for taxable years beginning after 2005. In Table 1, these changes are reflected in the tax expenditure estimate for "Exclusion of income earned abroad by U.S. citizens."

The Heroes Earned Retirement Opportunities Act (H.R. 1499), enacted on May 29, 2006 (Pub. L. No. 109–227), provided that for purposes of applying the limit on IRA contributions, an individual's gross income is determined without regard to the exclusion for combat pay, effective for taxable years beginning after 2003.

The Pension Protection Act of 2006 (H.R. 4), enacted on August 17, 2006 (Pub. L. No. 109–280), made changes to the rules governing the tax treatment of pensions and IRAs and permanently extended the pension and IRA provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001. In Table 1, these changes are reflected in the various tax expenditure estimates for pensions and IRAs.

The Pension Protection Act of 2006 also modified two other tax expenditures, as follows:

—An exception was provided for the service area limitation rules as they apply to the local furnishing of electric energy or gas for bonds issued prior to May 31, 2006, to finance the Lake Dorothy hydroelectric project in Alaska, effective on the date of enactment. In Table 1, this change is reflected in the tax expenditure estimate for "Exclusion of interest on State and local government qualified private activity bonds for energy production facilities."

—Various rules governing the tax treatment of qualified tuition programs, which were scheduled to expire after 2010, were permanently extended. In Table 1, these changes are reflected in the tax expenditure estimate for "Exclusion of tax on earnings of qualified tuition programs."

The Tax Relief and Health Care Act of 2006 (H.R. 6111), enacted on December 20, 2006 (Pub. L. No. 109–432), created several new tax expenditures:

—A new tax credit was provided for corporate income earned in American Samoa, effective for the first two taxable years of a corporation beginning after December 31, 2005. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—A special depreciation allowance was provided for cellulosic biomass ethanol plant property, effective for property placed in service after the date of enactment and before January 1, 2013. This provision is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—Partial expensing was provided for investments in advanced mine safety equipment, effective for costs paid or incurred after the date of enactment with respect to property placed in service on or before December 31, 2008. This provision is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—A credit was provided for costs incurred in training qualified mine rescue team employees, effective for taxable years beginning after December 31, 2005, and before January 1, 2009. This provision is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—A deduction was provided for premiums paid or accrued for qualified mortgage insurance, effective for mortgage insurance contracts issued on or after January 1, 2007, and amounts paid or accrued on such contracts during 2007. This tax expenditure is listed in Table 1.

—A 25-percent exclusion from gross income was provided for capital gains from the conservation sale of a qualifying mineral or geothermal interest located on eligible Federal land, effective for sales occurring on or after the date of enactment. This provision is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

The Tax Relief and Health Care Act of 2006 also extended or modified some existing tax expenditures, as follows:

—The above-the-line deduction for qualified higher education expenses, which was scheduled to expire for taxable years beginning after December 31, 2005, was extended for two years.

—The new markets tax credit, which was scheduled to expire after calendar year 2007, was extended through 2008 and up to $3.5 billion in qualified equity investments will be permitted in 2008.

—The option to deduct State and local sales taxes (in lieu of State and local income taxes), which was scheduled to expire for sales taxes paid after December 31, 2005, was extended for two years.

—The tax credit for increasing research activities, which expired on December 31, 2005, was extended for two years (for amounts paid or incurred after December 31, 2005, and before January 1, 2008). The Act also made certain modifications to the research credit.

—The work opportunity tax credit and the welfare-to-work tax credit expired for individuals who began work for an employer after December 31, 2005. The Act extended the two credits unchanged through 2006 and combined the two credits (with changes) for 2007. The combined credit expires for individuals who begin work for an employer after December 31, 2007. The combined credit is listed in Table 1 as the "Work opportunity tax credit."

—The election to treat combat pay as earned income for purposes of the earned income credit, which was scheduled to expire for taxable years ending after December 31, 2006, was extended for one year.

—The tax credit for holders of qualified zone academy bonds, which was scheduled to expire for bonds issued after December 31, 2005, was extended to include bonds issued through December 31, 2007, and arbitrage requirements and spending requirements were imposed on all such bonds issued after the date of enactment with respect to allocations of the annual aggregate bond cap for calendar years after 2005.

—The above-the-line deduction for teacher classroom expenses, which was scheduled to expire for taxable years beginning after December 31, 2005, was extended for two years.

—The expensing of environmental remediation costs, which was scheduled to expire for expenses paid or incurred after December 31, 2005, was extended for two years and the definition of hazardous substance was expanded to include petroleum products.

—The various tax incentives for investments in the District of Columbia, which were scheduled to expire after December 31, 2005, were extended for two years.

—The tax credit for Indian reservation employment, which was scheduled to expire for taxable years ending after December 31, 2005, was extended for two years.

—Accelerated depreciation for business property on Indian reservations, which was scheduled to expire for property placed in service after December 31, 2005, was extended for two years.

—Fifteen-year straight-line cost recovery for qualified leasehold improvements and qualified restaurant property, which was scheduled to expire for property placed in service after December 31, 2005, was extended for two years. In Table 1, this is reflected in the tax expenditure estimate for "Depreciation of buildings other than rental housing in excess of alternative depreciation system."

—The enhanced deduction for charitable contributions of scientific property used for research and computer technology and equipment, which was scheduled to expire for taxable years beginning after December 31, 2005, was extended for two years and expanded to include property assembled by the taxpayer. In Table 1, these changes are reflected in the tax expenditure estimate for the "Deduction for charitable contributions to educational institutions."

—The provision allowing certain individuals to establish new Archer Medical Savings Accounts ("MSAs"), which was scheduled to expire after December 31, 2005, was extended for two years. The tax expenditure for Archer MSAs is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The suspension of the 100-percent-of-net-income limitation on percentage depletion for oil and natural gas from marginal properties, which was scheduled to expire for taxable years after December 31, 2005, was extended for two years.

—The placed-in-service date for additional first-year depreciation for Gulf Opportunity Zone ("GO zone") property, which was scheduled to expire for property placed in service after December 31, 2008, was extended for progress expenditures made prior to 2010 for certain structures.

—The tax credits for electricity production from certain renewable resources, which were generally scheduled to expire for property placed in service after December 31, 2007, were extended for one year.

—The authority to issue clean renewable energy bonds, which was scheduled to expire for bonds issued after December 31, 2007, was extended to include bonds issued through December 31, 2008, and the national limitation on the issuance of such bonds was increased by $400 million. In Table 1, this change is reflected in the tax expenditure estimate for "Tax credit for holders of clean renewable energy bonds."

—The advanced coal credit was modified by changing the performance requirement relating to the removal of sulfur dioxide from subbituminous coal, effective for advanced coal project certification applications submitted after October 2, 2006. In Table 1, this modification is reflected in the tax expenditure estimate for the "Energy credit."

—The deduction for expenditures on energy efficient commercial building property, which was scheduled to expire for property placed in service after December 31, 2007, was extended for one year.

—The tax credit for the construction of energy efficient new homes, which was scheduled to expire for homes purchased after December 31, 2007, was extended for one year.

—The tax credit for the residential purchase of qualified photovoltaic and solar water heating property, which was scheduled to expire for property placed in service after December 31, 2007, was extended for one year.

—The business solar and fuel cell energy credit, which was scheduled to expire for property purchased after December 31, 2007, was extended for one year. In Table 1, this change is reflected in the tax expenditure estimate for "Energy credit."

—The tax credit for producing fuel from a non-conventional source was modified by repealing the phaseout of the coke credit, which was based on the reference price of oil. This repeal of the phaseout is estimated to have no effect on the tax expenditure estimate for the "Tax credit for producing fuel from a non-conventional source."

—Certain modifications were made to the rules governing health savings accounts ("HSAs"), with varying effective dates. In Table 1, all of these modifications are reflected in the tax expenditure estimate for "Health savings accounts."

—The deduction for income attributable to domestic production activities (sec. 199) was expanded to include income attributable to production activities in Puerto Rico, effective for the first two taxable years beginning after December 31, 2005, and before January 1, 2008.

—The tax exclusion for the earnings of certain environmental settlement funds established in consent decrees for the sole purpose of resolving claims under the Comprehensive Environmental Response, Compensation, and Liability Act, which was scheduled to expire for funds established after December 31, 2010, was made permanent.

—The TIPRA changes to the rules governing qualified veterans' mortgage bonds, including changes to the definition of an eligible veteran, and new State volume limits for qualified veterans' mortgage bonds issued by the States of Alaska, Oregon, and Wisconsin, which were scheduled to expire after 2010, were made permanent. In Table 1, these changes are reflected in the tax expenditure estimate for "Exclusion of interest on State and local government qualified private activity bonds for owner-occupied housing."

—The reduced rate of tax on gains from the sale of certain self-created musical works, which was scheduled to expire for works sold or exchanged after December 31, 2010, was made permanent. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The exception to the tax-exempt bond arbitrage restrictions for certain bonds secured by income from investments in the Texas Permanent University Fund, which was codified and extended by TIPRA, was made permanent. In Table 1, this change is reflected in the tax expenditure for "Exclusion of interest on State and local government qualified private activity bonds for private non-profit and qualified public educational facilities."

—The rules applicable to loans financed with qualified veterans' mortgage bonds were modified to permit the financing of mortgages to veterans without regard to the first-time home buyer requirement. In Table 1, this change is reflected in the tax expenditure estimate for "Exclusion of interest on State and local government private activity bonds for owner-occupied housing."

—Certain eligibility requirements for the exclusion of capital gains on sales of principal residences were modified for specified employees of the intelligence community, effective for sales or exchanges after the date of enactment and before January 1, 2011.

—The deferral of recognition of gain on sales of property to comply with certain conflict of interest requirements was extended to judicial officers who receive a certificate of divestiture from the Judicial Conference of the United States. The provision applies to sales after the date of enactment. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The definition of qualified railroad track expenditures was modified for purposes of the tax credit for certain expenditures on railroad track maintenance, effective for expenditures paid or incurred during taxable years beginning after December 31, 2004, and before January 1, 2008.

—The broadening of the exception to the interest imputation rule for below-market loans to qualified continuing care facilities, which was scheduled to expire after 2010, was made permanent. In Table 1, this change is reflected in the tax expenditure estimate for "Exemptions from imputed interest rules."

The Small Business and Work Opportunity Tax Act of 2007 (H.R. 2206), enacted on May 25, 2007 (Pub. L. No. 110–28), made a number of changes to existing tax expenditures:

—The work opportunity tax credit, which was scheduled to expire for individuals who begin work for an employer after December 31, 2007, was extended for 44 months (to include individuals who begin work for an employer before September 1, 2011), and other changes were made to expand the targeted groups of employees, effective for individuals who begin work for an employer after the date of enactment.

—The $100,000 limit on the expensing of depreciable tangible personal property by a small business was increased to $125,000 for taxable years beginning in 2007 through 2010, and the $125,000 limit was indexed for inflation in taxable years beginning after 2007 and before 2011. In Table 1, these changes are reflected in the tax expenditure estimate for "Expensing under section 179 of depreciable business property."

—The minimum wage for purposes of the employer tax credit for Social Security taxes paid with respect to employee cash tips was increased from $2.13 per hour to $5.15 per hour, effective for tips received for services performed after December 31, 2006.

—The alternative minimum tax was modified by providing that alternative minimum tax liability may be offset by the work opportunity tax credit and the employer tax credit for Social Security taxes paid with respect to employee cash tips, effective for taxable years beginning after December 31, 2006. In Table 1, this change is reflected in the tax expenditure estimates for the "Work opportunity tax credit" and the "Tax credit for employer-paid FICA taxes on tips."

—The increased expensing limit for Gulf Opportunity Zone property, which was scheduled to expire for property placed in service after December 31, 2007, was extended to include property placed in service in 2008. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The placed-in-service dates for the enhanced low-income housing credit for property located in the GO Zone, the Rita GO Zone, and the Wilma GO Zone, which were scheduled to end after 2008, were extended for an additional two years. In Table 1, this extension is reflected in the tax expenditure estimate for "Tax credit for low-income housing."

—The qualified mortgage bond rules were modified to provide that a qualified GO Zone repair or reconstruction loan is treated as a qualified rehabilitation loan. In Table 1, this change is reflected in the tax expenditure estimate for "Exclusion of interest on State and local government private activity bonds for owner-occupied housing."

Expiring Tax Expenditure Provisions

A number of tax expenditure provisions expired in 2006 or are scheduled to expire in 2007:

—The tax credit for qualified electric vehicles expired for property placed in service after December 31, 2006. This tax expenditure is no longer listed in Table 1.

—The election to treat combat pay as earned income for purposes of the earned income credit is scheduled to expire for taxable years ending after December 31, 2007.

—The tax credit for increasing research activities is scheduled to expire for amounts paid or incurred after December 31, 2007.

—The tax credit for Indian reservation employment is scheduled to expire for taxable years ending after December 31, 2007.

—The tax credit for certain expenditures on railroad track maintenance is scheduled to expire for taxable years beginning after December 31, 2007.

—The above-the-line deduction for teacher classroom expenses is scheduled to expire for taxable years beginning after December 31, 2007.

—The deduction for premiums on qualified mortgage insurance is scheduled to expire for amounts paid or accrued on qualified contracts after December 31, 2007.

—The option to deduct State and local sales taxes (in lieu of State and local income taxes) is scheduled to expire for sales taxes paid after December 31, 2007.

—Fifteen-year straight-line cost recovery for qualified leasehold improvements and qualified restaurant property is scheduled to expire for property placed in service after December 31, 2007. In Table 1, this is reflected in the tax expenditure estimate for "Depreciation of buildings other than rental housing in excess of alternative depreciation system."

—Seven-year cost recovery for certain motorsports racetrack property is scheduled to expire for property placed in service after December 31, 2007. In Table 1, this is reflected in the tax expenditure estimate for "Depreciation of buildings other than rental housing in excess of alternative depreciation system."

—Accelerated depreciation for business property on Indian reservations is scheduled to expire for property placed in service after December 31, 2007.

—The enhanced charitable deduction for contributions of food inventory is scheduled to expire for contributions made after December 31, 2007. In Table 1, this is reflected in the tax expenditure estimate for "Deduction for charitable contributions, other than for education and health."

—The enhanced charitable deduction for contributions of book inventories to public schools is scheduled to expire for contributions made after December 31, 2007. In Table 1, this is reflected in the tax expenditure estimate for "Deduction for charitable contributions to educational institutions."

—The enhanced deduction for qualified computer contributions to schools is scheduled to expire for contributions made in taxable years beginning after December 31, 2007. In Table 1, this is reflected in the tax expenditure estimate for "Deduction for charitable contributions to educational institutions."

—The expensing of environmental remediation costs is scheduled to expire for expenses paid or incurred after December 31, 2007.

—The deduction for income attributable to domestic production activities in Puerto Rico is scheduled to expire for taxable years beginning after December 31, 2007.

—After December 31, 2007, no new contributions may be made to Archer MSAs except by individuals who previously made Archer MSA contributions and by employees of small employers with prior Archer MSA participation. The tax expenditure for Archer medical savings accounts is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The above-the-line deduction for qualified higher education expenses is scheduled to expire for taxable years beginning after December 31, 2007.

—The tax credit for the purchase of qualified energy efficiency improvements to existing homes is scheduled to expire for property placed in service after December 31, 2007.

—The tax credit for the production of energy-efficient appliances is scheduled to expire for appliances produced after December 31, 2007.

—The tax credit for producing fuels from a non-conventional source expires for fuel sold after December 31, 2007.

—The higher deduction limit for charitable donations of property interests made for conservation purposes is scheduled to expire for contributions made in taxable years after December 31, 2007.

—The deferral of gain from the disposition of electric transmission property to implement Federal Energy Regulation Commission restructuring policy is scheduled to expire for taxable years beginning after December 31, 2007.

—The suspension of the 100-percent-of-net-income limitation on percentage depletion for oil and gas from marginal properties is scheduled to expire for taxable years beginning after December 31, 2007.

—The tax credit for holders of qualified zone academy bonds is scheduled to expire for bonds issued after December 31, 2007.

—The various tax incentives for investments in the District of Columbia are scheduled to expire after December 31, 2007.

—The tax credit for corporate income earned in American Samoa is scheduled to expire for taxable years beginning after December 31, 2007. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

Comparisons with Treasury Department

The Joint Committee staff and Treasury lists of tax expenditures differ in three respects. First, the Treasury uses a different classification of those provisions that can be considered a part of normal income tax law under both the individual and business income taxes. In general, the Joint Committee staff methodology involves a broader definition of the normal income tax base. Thus, the Joint Committee list of tax expenditures includes some provisions that are not contained in the Treasury list. The cash method of accounting by certain businesses provides an example. The Treasury considers the cash accounting option for certain businesses to be a part of normal income tax law, but the Joint Committee staff methodology treats it as a departure from normal income tax law that constitutes a tax expenditure.

Second, the Joint Committee staff and Treasury estimates of tax expenditures span slightly different sets of years. The Treasury's estimates cover a 7-year period—the last fiscal year, the current fiscal year when the President's budget is submitted, and the next five fiscal years, *i.e.,* fiscal years 2006–2012. The Joint Committee staff estimates cover the current fiscal year and the succeeding four fiscal years, *i.e.,* fiscal years 2007–2011.

Third, the Joint Committee staff list excludes those provisions that are estimated to result in revenue losses below the *de minimis* amount, *i.e.* less than $50 million over the five fiscal years 2007 through 2011. The Treasury rounds all yearly estimates to the nearest $10 million and excludes those provisions with estimates that round to zero in each year, *i.e.,* provisions that result in less than $5 million in revenue loss in each of the years 2006 through 2012.

In some cases, two or more of the tax expenditure items in the Treasury list have been combined into a single item in the Joint Committee staff list, and vice versa. The Table 1 descriptions of some tax expenditures also may vary from the descriptions used by the Treasury.

The following tax provisions are viewed as tax expenditures by the Joint Committee staff but are not listed in Table 1 because the estimated revenue losses for fiscal years 2007 through 2011 are below the *de minimis* amount ($50 million):

Energy

—Deferral of gain from the disposition of electric transmission property to implement Federal Energy Regulatory Commission restructuring policy
—Expensing of tertiary injectants
—Tax credit for production of electricity from qualifying advanced nuclear power facilities
—Tax credit for the residential purchase of qualified photovoltaic and solar water heating property
—Tax credit for the construction of energy-efficient new homes
—Five-year carryback period for certain net operating losses of electric utility companies
—Special depreciation allowance for cellulosic biomass ethanol plant property
—Partial expensing of investments in advanced mine safety equipment
—Tax credit for costs incurred in training qualified mine rescue team employees

Natural Resources and Environment

—Amortization of certified pollution control facilities
—Partial exclusion from gross income for capital gains from the conservation sale of a qualifying mineral or geothermal interest located on eligible Federal land

Agriculture

—Cash accounting for agriculture
—Deferral of tax on gains from the sale of stock in a qualified refiner or processor to an eligible farmer's cooperative

Financial institutions

—Bad debt reserves of financial institutions
—Exclusion of investment income from structured settlement arrangements

Insurance companies

—Special alternative tax on small property and casualty insurance companies

Other business and commerce

—Deferral of gain on sales of property to comply with conflict-of-interest requirements
—Exclusion of income from discharge of indebtedness incurred in connection with qualified real property
—Partial expensing of Gulf Opportunity Zone clean-up costs
—Five-year carryback period for losses attributable to various expenses related to Hurricane Katrina
—Reduced rates of tax on gains from the sale of self-created musical works

—Amortization of expenses for the creation or acquisition of musical compositions
—Tax credit for corporate income earned in American Samoa

Community and Regional Development

—Tax credit for holders of Gulf Tax Credit Bonds

Education and Training

—Exclusion of interest on educational savings bonds

Social services

—Exclusion of restitution payments received by victims of the Nazi regime and the victims' heirs and estates

Health

—Archer medical savings accounts

Income security

—Tax credit for new retirement plan expenses of small businesses
—Exclusion of cancellation of indebtedness income of Hurricane Katrina victims
—Tax credit for the elderly and disabled

II. MEASUREMENT OF TAX EXPENDITURES

Tax Expenditure Estimates Generally

A tax expenditure is measured by the difference between tax liability under present law and the tax liability that would result from a recomputation of tax without benefit of the tax expenditure provision. Taxpayer behavior is assumed to remain unchanged for tax expenditure estimate purposes.[13]

The tax expenditure estimates in this report are based on the January 2007 Congressional Budget Office revenue baseline and Joint Committee staff projections of the gross income, deductions, and expenditures of individuals and corporations for calendar years 2006–2011. These projections are used to compute tax liabilities for the present-law revenue baseline and tax liabilities for the alternative baseline that assumes that the tax expenditure provision does not exist.

Internal Revenue Service ("IRS") statistics from recent tax returns are used to develop projections of the tax credits, deductions, and exclusions that will be claimed under the present-law baseline. These IRS statistics show the actual usage of the various tax expenditure provisions. In the case of some tax expenditures, such as the earned income credit, there is evidence that some taxpayers are not claiming all of the benefits to which they are entitled, while others are filing claims that exceed their entitlements. The tax expenditure estimates in this report are based on projections of actual claims under the various tax provisions, not the tax benefits to which taxpayers are entitled.

Some tax expenditure estimates are based partly on statistics for income, deductions, and expenses for prior years. Accelerated depreciation is an example. Estimates for this tax expenditure are based on the difference between tax depreciation deductions under present law and the deductions that would have been claimed in the current year if investments in the current year and all prior years had been depreciated using the alternative (normal income tax law) depreciation system.

Each tax expenditure is estimated separately, under the assumption that all other tax expenditures remain in the tax code. If two or more tax expenditures were estimated simultaneously, the total change in tax liability could be smaller or larger than the sum of the amounts shown for each item separately, as a result of interactions among the tax expenditure provisions.

Year-to-year differences in the estimates for each tax expenditure reflect changes in tax law, including phaseouts of tax expenditure provisions and changes that alter the definition of the normal in-

[13] An alternative way to measure tax expenditures is to express their values in terms of "outlay equivalents." An outlay equivalent is the dollar size of a direct spending program that would provide taxpayers with net benefits that would equal what they now receive from a tax expenditure.

come tax structure, such as the tax rate schedule, the personal exemption amount, and the standard deduction. Some of the estimates for this tax expenditure report may differ from estimates made in previous years because of changes in law and economic conditions, the availability of better data, and improved estimating techniques.

Tax Expenditures versus Revenue Estimates

A tax expenditure estimate is not the same as a revenue estimate for the repeal of the tax expenditure provision for three reasons. First, unlike revenue estimates, tax expenditure estimates do not incorporate the effects of the behavioral changes that are anticipated to occur in response to the repeal of a tax expenditure provision. Second, tax expenditure estimates are concerned with changes in the tax liabilities of taxpayers. Because the tax expenditure focus is on tax liabilities as opposed to Federal government tax receipts, there is no concern for the timing of tax payments. Revenue estimates are concerned with changes in Federal tax receipts that are affected by the timing of tax payments. Third, some of the tax provisions that provide an exclusion from income also apply to the FICA tax base, and the repeal of the income tax provision would automatically increase FICA tax revenues as well as income tax revenues. There may also be interactions between income tax provisions and other Federal taxes such as excise taxes and the estate and gift tax.

If a tax expenditure provision were repealed, it is likely that the repeal would be made effective for taxable years beginning after a certain date. Because most individual taxpayers have taxable years that coincide with the calendar year, the repeal of a provision affecting the individual income tax most likely would be effective for taxable years beginning after December 31 of a certain year. However, the Federal government's fiscal year begins October 1. Thus, the revenue estimate for repeal of a provision would show a smaller revenue gain in the first fiscal year than in subsequent fiscal years. This is due to the fact that the repeal would be effective after the start of the Federal government's fiscal year. The revenue estimate might also reflect some delay in the timing of the revenue gains as a result of the taxpayer tendency to postpone or forgo changes in tax withholding and estimated tax payments.

Comparisons with Treasury Department

The Joint Committee staff and the Treasury use differing methodologies for the estimation of tax expenditures. Thus, the estimates in Table 1 are not necessarily comparable with the estimates prepared by the Treasury.

Under the Joint Committee staff methodology, each tax expenditure is measured by the difference between tax liability under present law and the tax liability that would result if the tax expenditure provision were repealed and taxpayers were allowed to take advantage of any of the remaining tax expenditure provisions that apply to the income or the expenses associated with the repealed tax expenditure. For example, the tax expenditure provision for the exclusion of employer-paid health insurance is measured by the difference between tax liability under present law and the tax liability that would result if the exclusion were repealed and taxpayers were allowed to claim the next best tax treatment for the previously excluded employer-paid health insurance. This next best tax treatment could be the inclusion of the employer-paid health insurance as an itemized medical deduction on Schedule A.[14]

Under the Treasury methodology, each tax expenditure is measured by the difference between tax liability under present law and the tax liability that would result if the tax expenditure provision were repealed and taxpayers were prohibited from taking advantage of any of the remaining tax expenditure provisions that apply to the income or the expenses associated with the repealed tax expenditure. For example, the tax expenditure provision for the exclusion for employer-paid health insurance is measured by the difference between tax liability under present law and the tax liability that would result if the exclusion were repealed and taxpayers were required to include all of the employer-paid health insurance in income, with no offsetting deductions (i.e., no deductibility on Schedule A).

The Joint Committee staff and the Treasury estimates of tax expenditures may also differ as a result of differing data sources and differences in baseline projections of incomes and expenses. The Treasury's tax expenditure estimates are based on the Administrations economic forecast. The Joint Committee staff estimates are based on the economic forecast prepared by the Congressional Budget Office.

[14] If the exclusion were repealed, the value of the employer-paid health insurance would be included in income and taxpayers would be treated as having purchased the insurance themselves. Thus, the insurance expense would be deductible as an itemized medical expense on Schedule A, subject to the itemized medical deduction floor (7.5 percent of the taxpayer's adjusted gross income).

III. TAX EXPENDITURE ESTIMATES

Tax expenditures are grouped in Table 1 in the same functional categories as outlays in the Federal budget. Estimates are shown separately for individuals and corporations. Those tax expenditures that do not fit clearly into any single budget category have been placed in the most appropriate category.

Several of the tax expenditure items involve small amounts of revenue, and those estimates are indicated in Table 1 by footnote 1. For each of these items, the footnote means that the tax expenditure is less than $50 million in the fiscal year.

Table 2 presents projections of tax return information for each of nine income classes on the number of all returns (including filing and nonfiling units), the number of taxable returns, the number of returns with itemized deductions, and the amount of tax liability.

Table 3 provides distributional estimates by income class for some of the tax expenditures that affect individual taxpayers. Not all tax expenditures that affect individuals are shown in this table because of the difficulty in making reliable estimates of the income distribution of items that do not appear on tax returns under present law.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2007–2011

[Billion of dollars]

Function	Corporations					Individuals					Total 2007–11
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011	
National Defense											
Exclusion of benefits and allowances to Armed Forces personnel	....	....	....	....	....	3.0	3.2	3.3	3.4	3.9	16.8
Exclusion of military disability benefits	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
Deduction for overnight-travel expenses of National Guard and Reserve Members	....	....	....	....	....	(1)	(1)	(1)	(1)	0.1	0.2
International Affairs											
Exclusion of income earned abroad by U.S. citizens	....	....	....	....	....	3.8	4.0	4.2	4.4	4.6	21.0
Exclusion of certain allowances for Federal employees abroad	....	....	....	....	....	0.6	0.7	0.7	0.8	0.8	3.6
Deferral of active income of controlled foreign corporations	5.8	6.4	7.0	7.5	7.9	....	....	....	....	....	34.6
Inventory property sales source rule exception	6.4	6.6	6.8	7.0	7.2	....	....	....	....	....	34.0
Deferral of certain active financing income	2.3	2.6	0.8	....	....	....	....	....	....	....	5.7
General Science, Space, and Technology											
Tax credit for increasing research activities	5.0	3.2	1.9	1.5	1.0	0.1	0.1	(1)	(1)	(1)	12.8
Expensing of research and experimental expenditures	1.3	2.2	4.6	5.8	6.2	(1)	(1)	0.1	0.1	0.1	20.9
Energy											
Expensing of exploration and development costs:											
Oil and gas	1.1	0.8	0.6	0.5	0.5	(1)	(1)	(1)	(1)	(1)	3.5
Other fuels	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Excess of percentage over cost depletion:											
Oil and gas	1.1	1.2	1.2	1.2	1.2	(1)	(1)	(1)	(1)	(1)	5.9
Other fuels	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.7

Tax credit and deduction for small refiners with capital costs associated with EPA sulfur regulation compliance	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	0.1
Tax credit for enhanced oil recovery costs	0.1	(1)	(1)	(1)	(1)	0.1	(1)	(1)	(1)	(1)	0.3
Tax credit for producing fuels from a non-conventional source	3.7	1.4	(1)	(1)	(1)	0.8	0.3	(1)	(1)	(1)	6.2
Tax credits for alcohol fuels (2)	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	0.2
Tax credits for biodiesel fuels (3)	0.1	0.1	(1)	....	....	....	....	....	....	....	0.2
Exclusion of interest on State and local government qualified private activity bonds for energy production facilities	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.5
Exclusion of energy conservation subsidies provided by public utilities	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Energy credit (Section 48)	0.1	0.1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Tax credits for electricity production from renewable resources	1.0	1.5	1.8	1.6	1.4	0.1	0.1	0.1	0.1	0.1	7.8
Tax credit for holders of clean renewable energy bonds	(1)	(1)	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.3
Tax credits for investments in clean coal power generation facilities	0.1	0.1	0.2	0.2	0.3	....	....	....	....	....	0.8
Expensing of the cost of property used in the refining of liquid fuels	(4)	0.2	0.5	0.7	0.6	....	....	....	....	....	2.1
Amortization of geological and geophysical expenditures associated with oil and gas exploration	0.1	0.2	0.2	0.2	0.1	(1)	0.1	0.1	0.1	(1)	1.1
Deduction for expenditures on energy-efficient commercial building property	(1)	0.1	(1)	(4)	(4)	(1)	0.1	(1)	(4)	(4)	0.2
Tax credit for the purchase of qualified energy efficiency improvements to existing homes	....	....	....	....	....	0.3	0.2	....	....	....	0.6
Tax credit for the production of energy-efficient appliances	0.1	(1)	....	....	....	....	....	....	....	....	0.2
Tax credits for alternative technology vehicles	0.1	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.1	(1)	0.9

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2007–2011—Continued

[Billion of dollars]

Function	Corporations					Individuals					Total 2007–11
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011	
Tax credit for clean-fuel vehicle refueling property	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Natural Resources and Environment											
Expensing of exploration and development costs, nonfuel minerals	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.5
Excess of percentage over cost depletion, nonfuel minerals	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.1
Expensing of timber-growing costs	0.2	0.2	0.2	0.2	0.2	(1)	(1)	(1)	(1)	(1)	1.1
Exclusion of interest on State and local government qualified private activity bonds for sewage, water, and hazardous waste facilities	0.2	0.2	0.2	0.2	0.2	0.4	0.5	0.5	0.5	0.6	3.5
Special rules for mining reclamation reserves	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Special tax rate for nuclear decommissioning reserve funds	0.6	0.7	0.8	0.8	0.9	....	....	....	....	....	3.8
Exclusion of contributions in aid of construction for water and sewer utilities	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	0.2
Tax exclusion for earnings of certain environmental settlement funds	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	0.1
Amortization and expensing of reforestation expenditures	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.6
Agriculture											
Expensing of soil and water conservation expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1	0.2
Expensing of fertilizer and soil conditioner costs	(1)	(1)	(1)	(1)	(1)	0.2	0.1	0.1	0.1	0.1	0.6

Expensing of the costs of raising dairy and breeding cattle	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.5
Exclusion of cost-sharing payments	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of cancellation of indebtedness income of farmers	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
Income averaging for farmers and fisherman	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Five-year carryback period for net operating losses attributable to farming	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Commerce and Housing											
Financial institutions:											
Exemption of credit union income	1.6	1.7	1.8	1.9	1.9	....	....	....	....	....	8.9
Insurance companies:											
Exclusion of investment income on life insurance and annuity contracts	2.5	2.6	2.7	2.7	2.8	26.1	26.8	27.5	28.2	28.9	150.9
Small life insurance company taxable income adjustment	0.1	0.1	0.1	0.1	0.1	....	....	....	....	....	0.3
Special treatment of life insurance company reserves	2.0	2.0	2.1	2.2	2.3	....	....	....	....	....	10.7
Deduction of unpaid property loss reserves for property and casualty insurance companies	3.4	3.5	3.6	3.6	3.7	....	....	....	....	....	17.8
Special deduction for Blue Cross and Blue Shield companies	1.0	1.0	1.0	1.1	1.1	....	....	....	....	....	5.2
Tax exemption for certain small insurance companies	0.1	0.1	0.1	0.1	0.1	....	....	....	....	....	0.3
Housing:											
Deduction for mortgate interest on owner-occupied residences	....	....	....	....	....	73.7	79.9	85.2	90.5	101.0	430.2
Deduction for property taxes on owner-occupied residences	....	....	....	....	....	16.8	14.3	14.2	13.9	27.9	87.1
Exclusion of capital gains on sales of principal residences	....	....	....	....	....	28.5	29.0	30.1	31.1	34.9	153.5
Exclusion of interest on State and local government qualified private activity bonds for owner-occupied housing	0.4	0.4	0.4	0.4	0.4	0.9	1.0	1.1	1.1	1.2	7.4

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2007–2011—Continued

[Billion of dollars]

Function	Corporations					Individuals					Total 2007–11
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011	
Exclusion of interest on State and local government qualified private activity bonds for rental housing	0.2	0.2	0.2	0.2	0.2	0.5	0.5	0.6	0.6	0.6	4.0
Depreciation of rental housing in excess of alternative depreciation system	0.4	0.5	0.5	0.6	0.7	3.9	4.4	4.9	5.4	6.0	27.4
Tax credit for low-incoming housing	4.4	4.6	4.9	5.3	5.7	0.7	0.7	0.7	0.8	0.8	28.7
Tax credit for rehabilitation of historic structures	0.3	0.3	0.3	0.4	0.4	0.1	0.1	0.2	0.2	0.2	2.2
Tax credit for rehabilitation of structures, other than historic structures	(1)	(1)	(1)	1.0	1.0	0.1	0.1	0.1	0.2	0.2	0.8
Tax credit for Gulf Opportunity Zone employers providing in-kind lodging for employees and income exclusion for the employees	0.1	....	....	....	....	0.1	....	....	....	....	0.2
Deduction for premiums for qualified mortgage insurance	....	....	....	....	....	(1)	0.1	(1)	(1)	(1)	0.1
Other business and commerce:											
Reduced rates of tax on dividends and long-term capital gains	....	....	....	....	....	127.1	127.9	131.0	146.6	99.3	631.9
Exclusion of capital gains at death	....	....	....	....	....	51.9	53.7	57.5	60.1	56.7	279.9
Carryover basis of capital gains on gifts	....	....	....	....	....	5.5	5.7	5.9	6.1	6.0	29.2
Deferral of gain on non-dealer installment sales	3.3	1.7	0.9	0.8	1.0	2.3	1.2	0.6	0.5	0.9	13.2
Deferral of gain on like-kind exchanges	3.3	3.3	3.3	3.3	3.4	1.0	1.0	1.0	1.1	1.0	21.7
Depreciation of buildings other than rental housing in excess of alternative depreciation system	0.6	0.7	0.7	0.7	0.7	0.6	0.7	0.7	0.7	0.7	6.7

Depreciation of equipment in excess of the alternative depreciation system	1.8	6.2	11.1	16.5	21.4	−0.3	0.8	2.3	4.1	5.6	69.6
Expensing under section 179 of depreciable business property	0.4	0.3	0.2	0.2	0.0	2.9	2.2	1.6	1.7	−0.1	9.5
Amortization of business startup costs	(1)	(1)	(1)	(1)	(1)	0.7	0.8	0.8	0.9	0.9	4.1
Reduced rates on first $10,000,000 of corporate taxable income	3.5	3.5	3.5	3.4	3.4	....	....	....	....	....	17.3
Exemptions from imputed interest rules	(1)	(1)	(1)	(1)	(1)	0.4	0.4	0.4	0.5	0.5	2.2
Expensing of magazine circulation expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Special rules for magazines, paperback book, and record returns	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Completed contract rules	0.4	0.4	0.5	0.6	0.6	(1)	(1)	(1)	(1)	(1)	2.5
Cash accounting, other than agriculture	(1)	(1)	(1)	(1)	(1)	0.8	0.8	0.9	0.9	1.0	4.4
Exclusion of interest on State and local government small-issue qualified private activity bonds	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.4	0.4	0.4	2.5
Exception from net operating loss limitations for corporations in bankruptcy proceedings	0.5	0.5	0.5	0.5	0.5	....	....	....	....	....	2.5
Tax credit for employer-paid FICA taxes on tips	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	2.5
Deduction of certain film and television production costs	0.1	0.1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.4
Deduction for income attributable to domestic production activities	3.9	5.5	5.9	7.4	8.8	1.3	1.8	2.0	2.6	3.4	42.6
Tax credit for the cost of carrying tax-paid distilled spirits in wholesale inventories	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	0.1
Additional first-year depreciation for Gulf Opportunity Zone property	0.9	0.4	0.1	0.0	−0.1	0.4	0.2	0.0	0.0	0.0	1.8
Tax credit for employers for retention of employees affected by Hurricanes Katrina, Rita, and Wilma	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	....	0.1

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2007-2011—Continued

[Billion of dollars]

Function	Corporations					Individuals					Total 2007–11
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011	
Transportation											
Exclusion of interest on State and local government qualified private activity bonds for highway projects and rail-truck transfer facilities	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Tax credit for certain expenditures on railroad track maintenance	0.1	0.1	0.1	(1)	(1)	....	....	....	....	....	0.3
Deferral of tax on capital construction funds of shipping companies	0.1	0.1	0.1	0.1	0.1	....	....	....	....	....	0.5
Exclusion of employer-paid transportation benefits	....	....	....	....	....	4.7	4.8	4.9	5.1	5.2	24.7
Community and Regional Development											
New York City Liberty Zone tax incentives	0.1	0.1	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.7
Empowerment zone tax incentives	0.2	0.2	0.2	0.2	0.1	0.4	0.4	0.5	0.3	0.1	2.6
Renewal community tax incentives	0.3	0.4	0.4	0.2	(1)	0.4	0.4	0.4	0.2	(1)	4.3
New markets tax credit	0.3	0.4	0.4	0.4	0.3	0.4	0.5	0.5	0.5	0.4	4.2
District of Columbia tax incentives	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.2	0.6
Expensing of environmental remediation costs (“Brownfields”)	0.1	(1)	(1)	(1)	(1)	0.2	(1)	(4)	(4)	(4)	0.1
Accelerated depreciation for business property on Indian reservations	0.2	0.2	(1)	−0.1	−0.1	0.1	0.1	(1)	(4)	0.1	0.6
Tax credit for Indian reservation employment	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of interest on state and local qualified private activity bonds for green buildings and sustainable design projects	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1

Exclusion of interest on State and local government qualified private activity bonds for private airports, docks, and mass-communting facilities	0.3	0.3	0.4	0.4	0.4	0.8	0.9	0.9	0.9	1.0	6.2
Education, Training, Employment, and Social Services											
Education and training:											
Tax credits for tuition for post-secondary education	....	....	....	....	....	3.1	4.4	4.9	4.7	5.5	22.6
Deduction for interest of student loans	....	....	....	....	....	0.9	0.9	0.9	1.0	0.5	4.3
Deduction for higher education expenses	....	....	....	....	....	2.2	0.6	....	....	....	2.9
Exclusion of earnings of Coverdell education savings accounts	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
Exclusion of tax on earnings of qualified tuition programs	....	....	....	....	....	0.6	0.7	0.9	1.0	1.2	4.4
Exclusion of scholarship and fellowship income	....	....	....	....	....	1.6	1.7	1.8	1.9	2.0	9.0
Exclusion of income attributable to the discharge of certain student loan debt and NHSC Educational Loan repayments	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of employer-provided education assistance benefits	....	....	....	....	....	0.8	0.8	0.9	0.9	0.2	3.7
Exclusion of employer-provided tuition reduction benefits	....	....	....	....	....	0.2	0.2	0.2	0.2	0.2	1.1
Parental personal exemption for students age 19 to 23	....	....	....	....	....	0.4	0.1	0.1	(1)	0.4	1.0
Exclusion of interest on State and local government qualified private activity bonds for student loans	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.4	0.4	0.4	2.5
Exclusion of interest on State and local government qualified private activity bonds for private nonprofit and qualified public educational facilities	0.4	0.5	0.5	0.5	0.6	1.1	1.2	1.3	1.4	1.4	8.9

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2007–2011—Continued

[Billion of dollars]

Function	Corporations					Individuals					Total 2007–11
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011	
Tax credit for holders of qualified zone academy bonds	0.1	0.1	0.1	0.1	0.1						0.6
Deduction for charitable contributions to educational institutions	0.7	0.8	0.8	0.8	0.8	5.9	6.2	6.5	6.9	7.3	36.8
Above-the-line deduction for teacher classroom expenses						0.2	0.1				0.3
Employment:											
Exclusion of employee meals and lodging (other than military)						0.9	0.9	1.0	1.0	1.0	5.0
Exclusion of benefits provided under cafeteria plans [5]						30.0	33.6	36.8	40.3	44.8	185.5
Exclusion of housing allowances for ministers						0.6	0.6	0.6	0.7	0.7	3.2
Exclusion of miscellaneous fringe benefits						6.6	7.0	7.2	7.5	8.4	36.7
Exclusion of employee awards						0.2	0.2	0.2	0.2	0.2	0.9
Exclusion of income earned by voluntary employees' beneficiary associations						2.0	2.0	2.1	2.1	2.2	10.4
Special tax provisions for employee stock ownership plans (ESOPs)	0.8	0.9	1.0	1.1	1.2	0.3	0.3	0.3	0.3	0.3	6.5
Work opportunity tax credit	0.4	0.5	0.5	0.6	0.5	0.1	0.1	0.1	0.1	0.1	3.1
Deferral of taxation on spread on acquisition of stock under incentive stock option plans and employee stock purchase plans [6]						0.4	0.4	0.3	0.2	0.3	1.5
Social services:											
Tax credit for children under age 17 [7]						45.0	44.8	44.8	44.8	21.9	201.3

Tax credit for child and dependent care and exclusion of employer-provided child care [8]	....	....	....	....	....	3.0	2.6	2.6	2.5	2.5	13.2
Tax credit for employer-provided dependent care	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Exclusion of certain foster care payments	....	....	....	....	....	0.6	0.7	0.7	0.8	0.8	3.7
Adoption credit and employee adoption benefits exclusion	....	....	....	....	....	0.7	0.7	0.7	0.8	0.2	3.1
Deduction for charitable contributions, other than for education and health	1.8	1.9	1.9	1.9	1.9	32.0	33.6	35.3	37.1	39.6	187.0
Tax credit for disabled access expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Health											
Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums [9]	....	....	....	....	....	105.7	116.5	126.0	135.6	144.7	628.5
Exclusion of medical care and TRICARE medical insurance for military dependents, retirees, and retiree dependents not enrolled in Medicare	....	....	....	....	....	1.6	2.1	2.2	2.3	2.5	10.7
Exclusion of health insurance benefits for military retirees and retiree dependents enrolled in Medicare	....	....	....	....	....	0.8	1.2	1.3	1.4	1.7	6.4
Deduction for health insurance premiums and long-term care insurance premiums by the self-employed	....	....	....	....	....	3.8	4.4	4.9	5.3	5.9	24.3
Deduction for medical expenses and long-term care expenses	....	....	....	....	....	8.4	9.5	10.8	12.4	16.7	57.9
Exclusion of workers' compensation benefits (medical benefits)	....	....	....	....	....	7.5	8.1	8.8	9.5	10.3	44.2
Health savings accounts	....	....	....	....	....	0.3	0.6	0.9	1.2	1.6	4.6
Exclusion of interest on State and local government qualified private activity bonds for private nonprofit hospital facilities	0.7	0.7	0.8	0.8	0.9	1.8	1.9	2.0	2.1	2.2	14.0

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 2007–2011—Continued

[Billion of dollars]

Function	Corporations					Individuals					Total 2007–11
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011	
Deduction for charitable contributions to health organizations	0.9	0.9	0.9	0.9	0.9	4.0	4.3	4.5	4.7	5.0	27.0
Tax credit for orphan drug research	0.3	0.3	0.3	0.3	0.4	(1)	(1)	(1)	(1)	(1)	1.6
Tax credit for purchase of health insurance by certain displaced persons						0.2	0.2	0.2	0.2	0.2	1.0
Medicare											
Exclusion of Medicare benefits:											
Hospital insurance (Part A)						20.1	21.7	23.5	25.6	30.2	121.1
Supplementary medical insurance (Part B)						14.5	15.6	16.3	17.6	20.9	84.9
Prescription drug insurance (Part D)						5.3	5.5	6.0	6.8	8.4	32.0
Exclusion of certain subsidies to employers who maintain prescription drug plans for Medicare enrollees	1.0	1.1	1.1	1.1	1.1						5.3
Income Security											
Exclusion of workers' compensation benefits (disability and survivors payments)						2.6	2.7	2.7	2.7	3.0	13.7
Exclusion of damages on account of personal physical injuries or physical sickness						1.5	1.5	1.5	1.5	1.6	7.5
Exclusion of special benefits for disabled coal miners						0.1	(1)	(1)	(1)	(1)	0.2
Exclusion of cash public assistance benefits						2.9	3.0	3.0	3.1	3.4	15.4
Net exclusion of pension contributions and earnings:											
Employer plans						108.6	114.1	120.4	126.7	137.5	607.3
Individual retirement plans						15.5	17.0	18.5	20.0	23.2	94.1
Plans covering partners and sole proprietors (sometimes referred to as "Keogh plans")						8.8	9.5	10.6	11.5	14.1	54.5

Tax credit for certain individuals for elective deferrals and IRA contributions	....	....	....	....	....	0.9	0.9	0.9	0.9	0.9	4.4
Exclusion of other employee benefits:											
Premiums on group term life insurance	....	....	....	....	....	2.6	2.6	2.7	2.7	2.7	13.3
Premiums on accident and disability insurance	....	....	....	....	....	2.8	2.9	3.0	3.1	3.4	15.3
Additional standard deduction for the blind and the elderly	....	....	....	....	....	1.7	1.6	1.7	1.8	2.2	8.9
Deduction for casualty and theft losses	....	....	....	....	....	0.8	0.3	0.3	0.3	0.3	2.0
Earned income credit (EIC)	....	....	....	....	....	44.7	46.5	47.9	48.9	46.9	234.9
Exclusion of survivor annuities paid to families of public safety officers killed in the line of duty	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of disaster mitigation payments	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Social Security and Railroad Retirement											
Exclusion of untaxed social security and railroad retirement benefits	....	....	....	....	....	22.4	23.1	24.0	25.0	30.6	125.1
Veterans' Benefits and Services											
Exclusion of veterans' disability compensation	....	....	....	....	....	3.1	3.3	3.5	3.6	3.8	17.2
Exclusion of veterans' pensions	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
Exclusion of veterans' readjustment benefits	....	....	....	....	....	0.3	0.3	0.4	0.4	0.4	1.8
Exclusion of interest on State and local government qualified private activity bonds for veterans' housing	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.4
General Purpose Fiscal Assistance											
Exclusion of interest on public purpose State and local government bonds	7.8	8.4	8.8	9.2	9.6	20.0	21.5	22.5	23.6	24.7	156.0
Deduction of nonbusiness State and local government income taxes, sales taxes, and personal property taxes [10]	....	....	....	....	....	33.9	29.6	29.6	30.0	52.0	175.1
Interest											
Deferral of interest on savings bonds	....	....	....	....	....	1.1	1.2	1.2	1.2	1.3	6.0

[1] Positive tax expenditure of less than $50 million.

[2] In addition, the credit from excise tax for alcohol fuels results in a reduction in excise tax receipts, net of income tax effect, of $10.9 billion over the fiscal years 2007 through 2011.

[3] In addition, the credit from excise tax for biodiesel fuels results in a reduction in excise tax receipts, net of income tax effect, of less than $50 million in each of the fiscal years 2007 through 2011.

[4] Negative tax expenditure of less than $50 million.

[5] Estimate includes amounts of employer-provided health insurance purchased through cafeteria plans and employer-provided child care purchased through dependent care flexible spending accounts. These amounts are also included in other line items in this table.

[6] Tax expenditure estimate does not include offsetting denial of corporate deduction for qualified stock option compensation.

[7] Tax expenditure estimate includes refundable amounts, amounts used to offset income taxes, and amounts used to offset other taxes. The amount of refundable child tax credit and earned income tax credit used to offset taxes other than income tax or paid out as refunds is: $58.1 billion in 2007, $59.6 billion in 2008, $61.0 billion in 2009, $62.0 billion in 2010, and $48.9 in 2011.

[8] Estimate includes employer-provided child care purchased through dependent care flexible spending accounts.

[9] Estimate includes employer-provided health insurance purchased through cafeteria plans.

[10] Deduction for state and local sales taxes expires after December 31, 2007.

Note.—Details may not add to totals due to rounding.

Source: Joint Committee on Taxation.

Table 2.—Distribution by Income Class of All Returns, Taxable Returns, Itemized Returns, and Tax Liability at 2006 Rates and 2006 Law and 2006 Income Levels [1]

[Money amounts in millions of dollars, returns in thousands]

Income Class [2]	All Returns [3]	Taxable Returns	Itemized Returns	Tax Liability
Below $10,000	26,394	293	590	−$6,755
$10,000 to $20,000	23,074	5,181	1,179	−15,354
$20,000 to $30,000	15,893	7,349	2,015	−6,247
$30,000 to $40,000	14,482	8,939	3,020	6,505
$40,000 to $50,000	12,323	9,181	3,762	19,683
$50,000 to $75,000	22,777	19,639	9,847	78,143
$75,000 to $100,000	14,575	14,165	8,772	89,575
$100,000 to $200,000	18,520	18,430	15,101	249,920
$200,000 and over	5,138	5,130	4,754	576,758
Total	**153,177**	**88,306**	**49,038**	**$992,229**

[1] Tax law as in effect on December 31, 2006, is applied to the 2006 level and sources of income and their distribution among taxpayers.

[2] The income concept used to place tax returns into classes is adjusted gross income ("AGI") plus: (a) tax-exempt interest, (b) employer contributions for health plans and life insurance, (c) employer share of FICA tax, (d) workers' compensation, (e) nontaxable Social Security benefits, (f) insurance value of Medicare benefits, (g) alternative minimum tax preference items, and (h) excluded income of U.S. citizens living abroad.

[3] Includes filing and nonfiling units. Filing units include all taxable and nontaxable returns. Nonfiling units include individuals with income that is exempt from Federal income taxation (e.g., transfer payments, interest from tax-exempt bonds, etc.). Excludes individuals who are dependents of other taxpayers and taxpayers with negative income.

Note.—Details may not add to totals due to rounding.

Source: Joint Committee on Taxation.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2006 Rates and 2006 Income Levels [1]

[Money amounts in millions of dollars, returns in thousands]

Income Class [2]	Medical Deduction		Real Estate Tax Deduction	
	Returns	Amount	Returns	Amount
Below $10,000	9	(3)	373	0
$10,000 to $20,000	210	$38	797	$29
$20,000 to $30,000	642	186	1,339	128
$30,000 to $40,000	1,007	364	2,137	324
$40,000 to $50,000	1,223	586	2,777	625
$50,000 to $75,000	2,542	1,822	8,004	2,859
$75,000 to $100,000	1,747	1,608	7,637	3,592
$100,000 to $200,000	1,434	2,595	13,858	11,529
$200,000 and over	110	711	4,459	5,449
Total	**8,924**	**7,911**	**41,381**	**$24,536**

Footnotes appear at the end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2006 Rates and 2006 Income Levele [1]—Continued

[Money amounts in millions of dollars, returns in thousands]

Income Class [2]	State and local income, sales and personal property tax deduction		Charitable contributions deduction	
	Returns	Amount	Returns	Amount
Below $10,000	18	0	2	(3)
$10,000 to $20,000	394	$22	252	$23
$20,000 to $30,000	1,284	114	938	141
$30,000 to $40,000	2,415	300	1,871	371
$40,000 to $50,000	3,448	642	2,711	664
$50,000 to $75,000	9,707	3,163	8,122	2,956
$75,000 to $100,000	9,054	4,022	7,837	3,676
$100,000 to $200,000	15,195	15,250	14,120	11,826
$200,000 over	3,772	20,573	4,567	19,365
Total	**45,286**	**$44,086**	**40,420**	**$39,022**

Footnoes appear at the end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2006 Rates and 2006 Income Levels [1]—Continued

[Money amounts in millions of dollars, returns in thousands]

Income Class [2]	Child Care Credit		Earned Income Credit [4]	
	Returns	Amount	Returns	Amount
Below $10,000	1	0	5,747	$6,650
$10,000 to $20,000	112	$26	6,407	16,349
$20,000 to $30,000	455	228	4,808	11,353
$30,000 to $40,000	553	302	4,067	6,446
$40,000 to $50,000	603	370	1,815	1,987
$50,000 to $75,000	1,193	636	534	475
$75,000 to $100,000	1,011	534	9	5
$100,000 to $200,000	1,866	984	3	5
$200,000 over over	362	188	0	0
Total	**6,157**	**3,268**	**23,391**	**43,270**

Footnotes appear at the end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2006 Rates and 2006 Income Levels [1]—Continued

[Money amounts in millions of dollars, returns in thousands]

Income Class [2]	Untaxed Social Security and Railroad Retirement benefits		Child Tax Credit [4]	
	Returns	Amount	Returns	Amount
Below $10,000	151	$4	304	$421
$10,000 to $20,000	8,295	2,939	3,018	1,669
$20,000 to $30,000	2,698	2,555	4,148	4,925
$30,000 to $40,000	2,263	2,774	4,225	6,274
$40,000 to $50,000	2,255	2,919	3,298	5,403
$50,000 to $75,000	5,392	6,554	6,066	10,237
$75,000 to $100,000	3,356	2,652	4,541	7,713
$100,000 to $200,000	3,122	842	5,688	8,743
$200,000 and over	948	348	15	10
Total	**28,479**	**$21,587**	**31,302**	**$45,393**

Footnotes appear at the end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2006 Rates and 2006 Income Levels [1]—Continued

[Money amounts in millions of dollars, returns in thousands]

Income Class [2]	Education credits		Student loan interest deduction	
	Returns	Amount	Returns	Amount
Below $10,000	2	(3)	35	$2
$10,000 to $20,000	556	$119	259	16
$20,000 to $30,000	941	404	464	37
$30,000 to $40,000	967	531	707	69
$40,000 to $50,000	932	531	767	95
$50,000 to $75,000	1,492	972	1,602	191
$75,000 to $100,000	1,343	1,002	1,036	120
$100,000 to $200,000	866	589	1,516	249
$200,000 and over	(5)	(3)	....	....
Total	**7,100**	**$4,148**	**6,387**	**$779**

Footnotes appear at the end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2006 Rates and 2006 Income levels [1]—Continued

[Money amounts in millions of dollars, returns in thousands]

Income Class [2]	Mortgage interest deduction	
	Returns	Amount
Below $10,000	12	$1
$10,000 to $20,000	237	65
$20,000 to $30,000	733	330
$30,000 to $40,000	1,515	814
$40,000 to $50,000	2,261	1,523
$50,000 to $75,000	6,929	6,827
$75,000 to $100,000	6,957	8,360
$100,000 to $200,000	12,888	27,936
$200,000 and over	3,759	19,663
Total	**35,292**	**$65,518**

Footnotes for Table 3:

[1] Excludes individuals who are dependents of other taxpayers and taxpayers with negative income.

[2] The income concept used to place tax returns into classes is adjusted gross income ("AGI") plus: (a) tax-exempt interest, (b) employer contributions for health plans and life insurance, (c) employer share of FICA tax, (d) workers' compensation, (e) nontaxable Social Security benefits, (f) insurance value of Medicare benefits, (g) alternative minimum tax preference items, and (h) excluded income of U.S. citizens living abroad.

[3] Less than $500,000.

[4] Includes the refundable portion.

[5] Less than 500 returns.

Note.—Details may not add to totals due to rounding.

Source: Joint Committee on Taxation.