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ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 2006–2010

PREPARED FOR THE

HOUSE COMMITTEE ON WAYS AND MEANS

AND THE

SENATE COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

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INTRODUCTION

This report[1] on tax expenditures for fiscal years 2006–2010 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 2005–2011 in the Administration's budgetary statement of February 2006.[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 March 31, 2006. Expired or repealed provisions are not listed unless they have continuing revenue effects that are associated with ongoing taxpayer activity.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 2006 Congressional Budget Office revenue baseline and Joint Committee staff projections of the gross income, deductions, and expenditures of individuals and corporations for calendar years 2005–2010.

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 2006–2010 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.

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[1] This report may be cited as follows: Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2006–2010* (JCS–2–06), April 25, 2006.

[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), and January 12, 2005 (JCS–1–05).

[3] Office of Management and Budget, "Tax Expenditures," *Budget of the United States Government: Analytical Perspectives, Fiscal Year 2007*, February 6, 2006, pp. 285–328.

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 2006–2010. 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 can be 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

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[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 deduction for contributions to nuclear decommissioning trust accounts is 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 income of nuclear decommissioning trust accounts, and this reduced rate of tax is viewed as a tax expenditure.

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 nonprofit organizations is outside the normal income tax base.

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

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

H.R. 241 (Pub. L. No. 109–1), enacted on January 7, 2005, provided that cash contributions made in January 2005 for the relief of the December 26, 2004, Indian Ocean tsunami victims may be treated as if such contributions were made on December 31, 2004, and not in January 2005. In Table 1, the effects of this provision are reflected in the tax expenditure estimate for "Deduction for charitable contributions, other than for education and health."

H.R. 1134 (Pub. L. No. 109–7), enacted on April 25, 2005, modified section 139 to provide an exclusion for certain disaster mitigation payments, effective for amounts received before, on, or after the date of enactment. Under prior law, the section 139 exclusion was limited to disaster relief payments made to individuals for the reimbursement of living expenses, funeral expenses, transportation expenses, and residential repair or replacement expenses in connection with a qualified disaster.[13] The exclusion of disaster relief payments is not viewed as a tax expenditure by the Joint Committee staff because normal law is assumed to include an exclusion for payments that promote the general welfare by providing relief to disaster victims. The new exclusion for disaster mitigation payments is viewed as a tax expenditure because the payments are for the purpose of disaster preparation and the recipients are not disaster victims. This new tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (H.R. 3), enacted on August 10, 2005 (Pub. L. No. 109–59), created two new tax expenditures:

—A new income tax credit was provided for the cost of carrying tax-paid distilled spirits in wholesale inventories and in control-State bailment warehouses, effective for taxable years beginning after September 30, 2005.

—The Secretary of Transportation was permitted to allocate up to $15 billion of private-activity bond authority for qualified highway or surface freight transfer facilities. In Table 1, this new bond authority is reflected in the tax expenditure estimate for "Exclusion of interest on State and local government qualified private activity bonds for highway projects and rail-truck transfer facilities."

The Energy Tax Incentives Act of 2005 (H.R. 6), enacted on August 8, 2005 (Pub. L. No. 109–58), created a number of new tax expenditures, as follows:

—A tax credit was provided for the holders of clean renewable energy bonds ("CREBs"), which are a new category of bonds issued to finance capital expenditures incurred by qualified borrowers for facilities that qualify under section 45. The Secretary of the Treasury may allocate up to $800 million of CREBs to qualified projects. The authority to issue CREBs expires after December 31, 2007.

[13] Prior to the enactment of section 125, payments excludable under that section were generally excludable under administrative rulings as payments to promote the general welfare.

—A tax credit was provided for the production of electricity from qualifying advanced nuclear power facilities. The credit is equal to 1.8 cents per kilowatt-hour of electricity produced during the eight-year period starting when the facility is placed in service. The credit is effective for electricity produced in taxable years beginning after the date of enactment. This new tax expenditure is not listed in Table 1 because it is estimated that qualifying advanced nuclear power facilities will not be placed in service until after fiscal year 2010.

—Tax credits were provided for investments in qualified clean coal power generation facilities. The rate of the credit is 20 percent for qualified investments in integrated gasification combined cycle ("IGCC") projects, 15 percent for investments in other advanced coal-based electricity generation projects, and 20 percent for investments in certified gasification projects. The Secretary of the Treasury may allocate up to $800 million of credits for IGCC projects, up to $500 million of credits for other advanced coal-based projects, and up to $350 million of credits for certified gasification projects. In Table 1, this tax expenditure is listed as "Tax credits for investments in clean coal power generation facilities."

—Refiners were provided a temporary election to expense up to 50 percent of the cost of qualified property used in the refining of liquid fuels. The qualified property must be constructed pursuant to a binding contract in effect prior to January 1, 2008, the property must be placed in service before January 1, 2012, and certain other requirements must be satisfied. A cooperative organization may elect to pass the expensing deduction through to its owners.

—Two-year amortization was provided for certain geological and geophysical costs incurred in connection with oil and gas exploration. The amortization is effective for costs paid or incurred in taxable years beginning after the date of enactment.

—A deduction was provided for expenditures on qualified energy-efficient commercial building property. The deduction is effective for property placed in service after December 31, 2005, and prior to January 1, 2008.

—A tax credit was provided for the purchase of qualified energy efficiency improvements to existing homes. The credit applies to property placed in service after December 31, 2005, and prior to January 1, 2008.

—A tax credit was provided for the production of certain energy-efficient dishwashers, clothes washers, and refrigerators. The credit applies to appliances produced after December 31, 2005, and prior to January 1, 2008.

—A tax credit was provided for the purchase of qualified photovoltaic property and qualified solar water heating property that is used exclusively for purposes other than heating swimming pools and hot tubs. The credit applies to property placed in service after December 31, 2005, and prior to January 1, 2008. This tax expenditure is not listed in table 1 because the estimated revenue loss is below the *de minimis* amount.

—A tax credit was provided for eligible contractors for the construction of qualified energy-efficient homes. The credit applies to homes that are substantially completed after December 31, 2005, and purchased after December 31, 2005, and prior to January 1,

2008. This tax expenditure is not listed in table 1 because the estimated revenue loss is below the *de minimis* amount.

—Tax credits were provided for alternative technology vehicles. The tax credit for fuel cell vehicles is equal to a base amount that depends upon the weight class of the vehicle and, in the case of automobiles and light trucks, an additional credit amount that depends upon the rated fuel economy of the vehicle compared to a base fuel economy. The tax credit for alternative fuel vehicles applies to vehicles powered by natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, and any liquid that is at least 85 percent methanol, and is equal to 50 percent of the incremental cost of the vehicle plus an additional 30 percent if the vehicle meets certain emissions standards. Mixed fuel vehicles that use a combination of an alternative fuel and a petroleum-based fuel are eligible for a reduced credit. The tax credit for hybrid automobiles, hybrid light trucks, and lean-burn technology vehicles is equal to a fuel economy credit amount that varies with the rated fuel economy of the vehicle compared to a 2002 model year standard and a conservation credit based on estimated lifetime fuel savings. The tax credit for hybrid motor vehicles weighing more than 8,500 pounds is determined by the estimated increase in fuel economy and the incremental cost of the vehicle compared to a comparable vehicle that is powered solely by a gasoline or diesel engine and comparable in weight, size, and use of vehicle. All of these credits apply to vehicles placed in service after December 31, 2005. The tax credit for fuel cell vehicles expires for vehicles placed in service after December 31, 2014. The tax credits for alternative fuel vehicles, hybrid automobiles, hybrid light trucks, and lean-burn technology vehicles expire for vehicles placed in service after December 31, 2010. The tax credit for hybrid motor vehicles weighing more than 8,500 pounds expires for vehicles placed in service after December 31, 2009. In Table 1, the revenue effects of all of these credits are included in the tax expenditure estimate for "Tax credits for alternative technology vehicles."

—A tax credit was provided for the cost of installing clean-fuel vehicle refueling property to be used in a trade or business of the taxpayer or installed at the principal residence of the taxpayer. The credit is effective for property placed in service after December 31, 2005. The credit expires for hydrogen refueling property placed in service after December 31, 2014, and all other refueling property placed in service after December 31, 2009.

—A temporary five-year carryback period was provided for a portion of the net operating losses of certain electric utility companies. The carryback applies to losses arising in taxable years ending in 2003, 2004, and 2005.

—A tax credit was provided for small agri-biodiesel fuel producers. The credit is 10 cents per gallon for up to 15 million gallons of agri-biodiesel produced by persons whose agri-biodiesel production capacity does not exceed 60 million gallons per year. The credit is effective for agri-biodiesel produced in taxable years ending after the date of enactment, and expires for fuel produced and sold by a small agri-biodiesel producer after December 31, 2008. In Table 1, this tax credit is reflected in the tax expenditure estimate for "Tax credits for biodiesel fuels."

The Energy Tax Incentives Act of 2005 also extended or modified some existing tax expenditures, as follows:

—Two modifications were made to the rules governing nuclear decommissioning reserve funds: the repeal of the cost-of-service requirement for deductible contributions, and the repeal of the limitation that a fund only accumulate amounts sufficient to pay for decommissioning costs incurred during the period that the fund is in existence. Both changes were effective for taxable years beginning after December 31, 2005. In Table 1, these changes are reflected in the tax expenditure estimate for "Special tax rate for nuclear decommissioning reserve funds."

—Section 169 was amended to permit the amortization of certified pollution control facilities used in connection with an electric generation plant which is primarily coal fired and which was not in operation before January 1, 2006. In Table 1, this provision is reflected in the tax expenditure estimate for "Amortization of certified pollution control facilities."

—Small refiner cooperatives were allowed to pass through to their owners the deduction permitted for the costs paid or incurred for the purpose of complying with the Highway Diesel Fuel Sulfur Control Requirements of the Environmental Protection Agency. The pass-through provision is effective as if included in the American Jobs Creation Act of 2004. In Table 1, this provision is reflected in the tax expenditure estimate for "Tax credit and deduction for small refiners with capital costs associated with EPA sulfur regulation compliance."

—A statutory seven-year recovery period and a class life of 14 years were provided for natural gas gathering pipelines, and a statutory 15-year recovery period and a class life of 35 years were provided for natural gas distribution lines, effective for property placed in service after April 11, 2005. In addition, a 15-year recovery period and a class life of 30 years were provided for certain property used in the transmission of electricity for sale, effective for property placed in service after April 11, 2005, but excluding property subject to a binding contract on or before April 11, 2005. In Table 1, these changes are reflected in the tax expenditure estimate for "Depreciation of equipment in excess of the alternative depreciation system."

—The tax credit for the production of non-conventional fuels was expanded to include coke and coke gas produced at facilities placed in service before January 1, 1993, or after June 30, 1998, and before January 1, 2010. The credit applies to coke and coke gas produced and sold during the period beginning on the latter of January 1, 2006, or the date the facility is placed in service, and ending on the date which is four years after such period began. The tax credit for the production of non-conventional fuels was also made a part of the general business credit, effective for taxable years ending after December 31, 2005.

—Several modifications were made to the tax credits for electricity produced from certain renewable resources. The tax credits for electricity produced from wind energy, closed-loop biomass, open-loop biomass, geothermal, small irrigation power, landfill gas, and trash combustion facilities, which were scheduled to expire for facilities placed in service after December 31, 2005, were extended to include facilities placed in service through December 31, 2007. The tax credit for electricity produced from solar facilities was not extended and expired as scheduled for facilities placed in service after December 31, 2005. The tax credit for electricity produced from refined coal facilities was not modified and is scheduled to expire for facilities placed in service after December 31, 2008. A new tax credit was provided for electricity produced from certain hydropower facilities that incorporate improvements, additions to capacity, or new capacity placed in service after the date of enactment and prior to January 1, 2009. A new tax credit was also provided for certain sales of Indian coal from qualified facilities, effective for sales during the period January 1, 2006, through December 31, 2012. Eligible cooperatives that receive any of these credits may now elect to pass any portion of the credits through to patrons, effective for taxable years ending after the date of enactment. In Table 1, all of these changes are reflected in the tax expenditure estimate for "Tax credits for electricity production from renewable resources."

—An extension was provided for the tax provision that allows taxpayers to elect to defer the recognition of gain from the disposition of electric transmission property to implement Federal Energy Regulatory Commission restructuring policy. The election was scheduled to expire for transactions occurring prior to January 1, 2007, and was extended to include transactions prior to January 1, 2008.

—An exception was provided for the general rule that tax-exempt bond-financed prepayments violate the arbitrage restrictions. The exception applies to prepayments for the purpose of obtaining a supply of natural gas for service area customers of a governmental utility. The exception is effective for bonds issued after the date of enactment. In Table 1, this change is reflected in the tax expenditure estimate for "Exclusion of interest on public purpose State and local government bonds."

—The definition of an independent oil and gas producer was modified by increasing the refinery run limitation from 50,000 to 75,000 barrels of crude oil per day. Independent oil and gas producers are allowed to claim percentage depletion deductions rather than cost depletion. In Table 1, this change is reflected in the tax expenditure estimate for "Excess of percentage over cost depletion: Oil and gas."

—The tax credit for solar energy business property was increased from 10 percent to 30 percent and the credit was extended to equipment that uses fiber-optic distributed sunlight to illuminate the inside of a structure, effective for periods after December 31, 2005, and before January 1, 2008, for property placed in service in taxable years ending after December 31, 2005. A tax credit was also provided for the purchase of qualified fuel cell power plants for businesses and the purchase of qualifying stationary microturbine power plants. Telecommunications companies may claim these credits notwithstanding their status as public utilities. These tax credits are effective for periods after December 31, 2005, and before January 1, 2008, for property placed in service in taxable years ending after December 31, 2005. The definition of solar energy property was modified to exclude property used to generate energy to heat swimming pools. In Table 1, all of these changes are incorporated in the tax expenditure estimate for the "Energy credit (Section 48)."

—An early termination was provided for the deduction for clean fuel vehicles and refueling property. The deduction was scheduled to expire for property placed in service after December 31, 2006, but was terminated for property placed in service after December 31, 2005. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The income tax credit and excise tax credit for biodiesel were scheduled to expire for fuel sold or used after December 31, 2006, but were extended to include fuel sold or used prior to January 1, 2011.

—The definition of a small ethanol producer was modified by increasing the limit on production capacity from 30 million gallons to 60 million gallons per year. Small ethanol producers are eligible for an excise tax credit of 10 cents per gallon. The modified definition is effective for taxable years ending after the date of enactment. In Table 1, this change is reflected in the tax expenditure estimate for "Tax credits for alcohol fuels."

—The research tax credit was modified as it applies to qualified energy research by providing that a taxpayer may claim a credit equal to 20 percent of expenditures on qualified energy research undertaken by an energy research consortium. In addition, the definition of contract research expenses was broadened to include 100 percent of amounts paid to eligible small businesses, universities, and Federal laboratories. These changes were effective for amounts paid or incurred after the date of enactment. However, the research tax credit expired for amounts paid or incurred after December 31, 2005, and is no longer listed in Table 1. There are revenue losses in fiscal years 2006 through 2010 that are associated with research credits earned in prior years and carried forward, but these revenue losses are not associated with ongoing taxpayer activity, and thus do not justify the inclusion of the research credit in Table 1.

The Katrina Emergency Tax Relief Act of 2005 (H.R. 3768), enacted on September 23, 2005 (Pub. L. No. 109–73), created a number of new tax expenditures and modified several tax expenditures. In the descriptions that follow, the term "Hurricane Katrina disaster area" means any area with respect to which a major disaster has been declared by the President before September 14, 2005, under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act by reason of Hurricane Katrina, and the term "core disaster area" means that portion of the Hurricane Katrina disaster area determined by the President to warrant individual or individual and public assistance from the Federal government under such Act. The new tax expenditures are as follows:

—An employee retention credit was provided for qualified wages paid by an eligible employer to an eligible employee. An eligible employer is an employer that (1) conducted an active trade or business in the core disaster area on August 28, 2005, (2) ceased operating such business for at least one day after August 28, 2005, and before January 1, 2006, as a result of damage sustained by reason of Hurricane Katrina, and (3) employed an average of no more than 200 employees during the taxable year. An eligible employee is an employee whose principal place of employment on August 28, 2005, was with an eligible employer in the core disaster area. Qualified wages are wages (up to a maximum of $6,000 per employee) that were paid or incurred after August 28, 2005, and before January 1, 2006, during the period beginning when the business became inoperable and ending when the business resumed significant operations. This new tax expenditure was later expanded to include employees affected by Hurricanes Rita and Wilma and modified to remove the employer size limitation. Thus, in Table 1, the tax expenditure is listed as "Tax credit for employee retention for employers affected by Hurricanes Katrina, Rita, and Wilma."

—An additional personal exemption was provided for taxpayers who provide 60 days or more of free housing in their personal residence to individuals displaced by Hurricane Katrina. The exemption is $500 per displaced individual, up to a maximum of four such individuals. The additional exemption may be claimed only once and applies to taxable years beginning in 2005 and 2006.

—An exclusion was provided for the income from certain discharges of nonbusiness debt owed by individuals who were living in the core disaster area or the Hurricane Katrina disaster area on August 25, 2005, and suffered economic loss by reason of Hurricane Katrina. The exclusion applies to discharges made on or after August 25, 2005, and before January 1, 2007.

The Katrina Emergency Tax Relief Act of 2005 modified some existing tax expenditures, as follows:

—Special tax treatment was provided for qualified Hurricane Katrina distributions from qualified retirement plans, 403(b) annuities, and IRAs. These distributions are not subject to the 10-percent early withdrawal tax, the distributions may be included in income ratably over three years, and the distributions may be recontributed to an eligible retirement plan within three years. These provisions became effective on the date of enactment. In Table 1, these provisions are reflected in the estimates for the various pension and IRA tax expenditures listed under "Income Security."

—The work opportunity tax credit was broadened to include qualified Hurricane Katrina employees as a targeted group eligible for the credit, and the expiration date for the credit was waived for purposes of Hurricane Katrina employees. The credit applies to individuals who had a principal place of abode in the core disaster area on August 28, 2005, and during the two-year period beginning on that date, either (1) begin working in the core disaster area, or (2) are displaced from such abode and begin working outside the core disaster area. The work opportunity tax credit for other targeted groups expired for employees hired after December 31, 2005. However, the credit applies to wages paid to qualified employees during the first 12 months of employment. Thus employees hired in December 2005 will earn credits for their employers through November 2006. In Table 1, the tax expenditure estimate for the "Work opportunity tax credit" is based on credits earned for Hurricane Katrina employees working in 2006 and 2007, credits earned for other targeted groups of employees working in 2006, and credits earned in prior years and carried forward to taxable years beyond 2006.

—A temporary suspension was provided for certain limitations on charitable contributions by individuals and corporations. The suspension applies to qualified contributions made during the period August 28, 2005, through December 31, 2005. In the case of a corporation, the qualified contributions must be for relief efforts related to Hurricane Katrina. In Table 1, this suspension is reflected in the various tax expenditure estimates for deductions for charitable contributions.

—An increase in the standard mileage rate was provided for taxpayers who use a vehicle in providing donated services to charity for the provision of relief related to Hurricane Katrina. In addition, an exclusion was provided for certain mileage expense reimbursements received by volunteer drivers who are providing donated services to charity for the provision of relief related to Hurricane Katrina. These two provisions apply to services donated during the period August 25, 2005, through December 31, 2006. In Table 1, the effects of these two provisions are reflected in the various tax expenditure estimates for deductions for charitable contributions.

—The enhanced deduction for contributions of food inventories by C corporations was extended to all taxpayers, effective for contributions made after August 28, 2005, and before January 1, 2006. In Table 1, the effects of this deduction are reflected in the various tax expenditure estimates for deductions for charitable contributions.

—The enhanced deduction for contributions of food inventories was broadened to include contributions of books to certain public elementary and secondary schools, effective for contributions made after August 28, 2005, and before January 1, 2006. In Table 1, the effects of this deduction are reflected in the tax expenditure estimate for "Deduction for charitable contributions to educational institutions."

—A suspension was provided for certain limitations on personal casualty and theft losses. In general, such losses are deductible only if they exceed $100 per casualty or theft, and only to the extent that the sum of all such losses exceeds 10 percent of an individual taxpayer's adjusted gross income. These two limitations were suspended for casualty and theft losses that occurred on or after August 25, 2005, in the Hurricane Katrina disaster area and were attributable to the hurricane. In Table 1, the suspension of these limitations is reflected in the tax expenditure estimate for "Deduction for casualty and theft losses."

—The first-time homebuyer requirement for qualified mortgage bonds was waived for qualified Hurricane Katrina recovery residences, thereby authorizing the use of qualified mortgage bonds to finance purchases of such residences. The provision became effective on the date of enactment and applies to residences financed before January 1, 2008. 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 owner-occupied housing."

—The replacement period for deferral of recognition of gain on involuntary conversions of property was extended for property in the Hurricane Katrina disaster area that was involuntarily convered on or after August 25, 2005, by reason of Hurricane

Katrina. The replacement period for such property was extended from two years to five years, effective upon the date of enactment. In Table 1, this change is reflected in the tax expenditure estimate for "Deferral of gain on like-lind exchanges."

—Qualified individuals may elect to calculate their earned income credit and refundable child credit for the taxable year which includes August 25, 2005, using their earned income from the prior taxable year. Qualified individuals are (1) individuals who on August 25, 2005, had their principal place of abode in the core disaster area or (2) individuals who on such date were not in the core disaster area but lived in the Hurricane Katrina disaster area and were displaced from their homes. Qualified individuals are permitted to make the election only if their earned income for the taxable year which includes August 25, 2005, is less than their earned income for the preceding taxable year. In Table 1, the effects of this election are reflected in the tax expenditure estimates for "Earned income credit" and "Tax credit for children under age 17."

The Gulf Opportunity Zone Act of 2005 (H.R. 4440), enacted on December 21, 2005 (Pub. L. No. 109–135), created several new tax expenditures and modified some existing tax expenditures. In the descriptions that follow, the term "Gulf Opportunity Zone" refers to that portion of the Hurricane Katrina disaster area determined by the President to warrant individual or individual and public assistance from the Federal government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act by reason of Hurricane Katrina. The term "Hurricane Rita disaster area" means an area with respect to which a major disaster has been declared by the President before October 6, 2005, under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act by reason of Hurricane Rita. The term "Rita GO Zone" means that portion of the Hurricane Rita disaster area determined by the President to warrant individual or individual and public assistance from the Federal government under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act by reason of Hurricane Rita. The term "Hurricane Wilma disaster area" means an area with respect to which a major disaster has been declared by the President before November 14, 2005, under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act by reason of Hurricane Wilma. The term "Wilma GO Zone" means that portion of the Hurricane Wilma disaster area determined by the President to warrant individual or individual and public assistance from the Federal government under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act by reason of Hurricane Rita. The new tax expenditures are as follows:

—An additional first-year depreciation deduction was provided for qualified Gulf Opportunity Zone property. The deduction is effective for property placed in service on or after August 28, 2005, and expires for property placed in service after December 31, 2008.

—Partial expensing was provided for Gulf Opportunity Zone clean-up costs, defined as amounts paid or incurred for the removal of debris from, or the demolition of structures on, real property located in the Zone, effective for amounts paid or incurred on or after August 28, 2005, and before January 1, 2008.

—A 10-year carryback period was provided for casualty losses of Gulf Opportunity Zone public utility property by reason of Hurricane Katrina, effective for losses arising in taxable years ending on or after August 28, 2005.

—A five-year carryback period was provided for net operating losses attributable to various casualty losses and certain moving expenses, temporary housing expenses, repair expenses, and other expenses related to Hurricane Katrina, effective for losses paid or incurred after August 27, 2005, and before January 1, 2008.

—A tax credit was provided for the holders of Gulf Tax Credit Bonds, which are a new category of bonds that may be issued in calendar year 2006 by the States of Louisiana, Mississippi, and Alabama.

—Taxpayers who incurred casualty losses attributable to Hurricane Katrina with respect to public utility property located in the Gulf Opportunity Zone were provided the option to take such losses into account in the fifth taxable year preceding the taxable year in which the loss occurred, effective for taxable years ending on or after August 28, 2005. In Table 1, this tax expenditure is listed as "Five-year carryback period for casualty losses of public utility property attributable to Hurricane Katrina."

—A temporary income exclusion was provided for the value of in-kind lodging provided for a month to a qualified employee (and spouse and dependents) by or on behalf of a qualified employer, with the employer receiving an income tax credit of 30 percent of the value of the excluded lodging. A qualified employee is an individual who had a principal residence in the Gulf Opportunity Zone on August 28, 2005, and performed substantially all of his or her employment services in the Zone for an employer with a trade or business in the Zone. The provision applies to lodging provided during the period beginning on the first day of the first month after the date of enactment and ending on the date that is six months after such first day. In Table 1, this tax expenditure is listed as "Tax credit for Gulf Opportunity Zone employers providing in-kind lodging for employees and income exclusion for the employees."

The Gulf Opportunity Zone Act modified or extended a number of existing tax expenditures, as follows:

—The States of Alabama, Louisiana, and Mississippi were authorized to issue qualified Gulf Opportunity Zone private activity bonds to finance the construction and rehabilitation of residential and nonresidential property. The maximum amount of the bonds that may be issued in each State is limited to $2,500 multiplied by the population of the State. The bonds must be issued after the date of enactment and before January 1, 2011. In Table 1, this new bond authority is reflected in the tax expenditure estimate for "Exclusion of interest on public purpose State and local government bonds."

—An additional advance refunding was permitted for certain governmental and qualified 501(c)(3) bonds issued by the States of Alabama, Louisiana, and Mississippi, or any political subdivision thereof, notwithstanding the general prohibition on the advance refunding of such bonds. The advance refunding is effective for bonds issued after the date of enactment and before January 1, 2011. In Table 1, this new bond authority is reflected in the tax expenditure estimate for "Exclusion of interest on public purpose State and local government bonds."

—The limits on section 179 expensing were increased for qualified Gulf Opportunity Zone property acquired on or after August 28, 2005, and placed in service on or before December 31, 2007. In Table 1, the effects of this increase are reflected in the tax expenditure estimate for "Expensing under section 179 of depreciable business property."

—A number of modifications were made to the low-income housing credit. Some of the modifications only apply to property within the Gulf Opportunity Zone while others also apply to property in the Rita and Wilma Gulf Opportunity Zones. The modifications have various effective dates. In Table 1, the effects of these modifications are reflected in the tax expenditure estimate for "Tax credit for low-income housing."

—The expensing of environmental remediation costs, which was scheduled to expire for costs paid or incurred after December 31, 2005, was extended for two years (through December 31, 2007) for qualified contaminated sites located in the Gulf Opportunity Zone.

—The tax credit for rehabilitation expenditures was increased for certified historic structures and qualified rehabilitation buildings in the Gulf Opportunity Zone, effective for costs incurred on or after August 28, 2005, and before January 1, 2009.

—The expensing limit for reforestation expenditures was doubled for qualified timber property located in the Gulf, Rita, and Wilma Opportunity Zones. The effective dates vary depending upon the Zone in which the property is located. The expensing expires for costs paid or incurred after December 31, 2007. In Table 1, the effects of this expensing are reflected in the tax expenditure estimate for "Amortization and expensing of reforestation expenditures."

—For the purpose of the five-year carryback rule for net losses from farming, the definition of a farming loss was broadened to include certain losses attributable to qualified timber property located in the Gulf or Rita Opportunity Zones. The proposal is effective for taxable years ending on or after August 28, 2005, for losses occurring after August 28, 2005 (in the Gulf Opportunity Zone; after September 23, 2005 (in the Rita Zone); after October 23, 2005 (in the Wilma Zone), and before January 1, 2007. In Table 1, the effects of this provision are reflected in the tax expenditure estimate for "Five-year carryback period for net operating losses attributable to farming."

—Additional allocations were provided for the new markets tax credit, in the amounts of $300 million for 2005 and 2006 and $400 million for 2007, to be allocated among qualified community development entities to make qualified low-income community investments within the Gulf Opportunity Zone. In Table 1, these new allocations are reflected in the tax expenditure estimate for "New markets tax credit."

—A temporary expansion of the Hope and Lifetime Learning credits was provided for students attending an eligible education institution located in the Gulf Opportunity Zone, effective for taxable years beginning in 2005 or 2006. In Table 1, the effects of this expansion are reflected in the tax expenditure estimate for "Tax credits for tuition for post-secondary education."

—An extension was provided for the waiver of the first-time homebuyer requirement with respect to qualified Hurricane Katrina recovery residences financed with qualified mortgage bonds. The extension applies to financing provided through December 31, 2010. In Table 1, the effects of this extension 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 Secretary of the Treasury was authorized to extend beyond December 31, 2005, on a case-by-case basis, the placed-in-service date for bonus depreciation, for property placed in service or manufactured in the Gulf, Rita, or Wilma Opportunity Zones. The authority extends only to circumstances in which the taxpayer was unable to meet the December 31, 2005, deadline as a result of Hurricane Katrina, Rita, or Wilma. In Table 1, this extension is reflected in the tax expenditure estimate for "Depreciation of equipment in excess of the alternative depreciation system."

—The special tax treatment for qualified Hurricane Katrina distributions from qualified retirement plans, 403(b) annuities, and IRAs was expanded to include any "qualified hurricane distribution," defined to include distributions related to Hurricanes Rita and Wilma, effective upon date of enactment. In Table 1, this expansion is reflected in the various pension and IRA tax expenditures listed under "Income Security."

—The employee retention credit for employers affected by Hurricane Katrina was extended to include employers affected by Hurricanes Rita and Wilma and the employer size limitation was eliminated. The retention credit is effective for wages paid after September 23, 2005, in the case of Hurricane Rita and wages paid after October 23, 2005, in the case of Hurricane Wilma.

—The temporary suspension of certain limitations on charitable contributions made by individuals and corporations, which applied to contributions for relief efforts related to Hurricane Katrina, was broadened to include relief efforts related to Hurricanes Rita and Wilma. In Table 1, this broadened suspension of limitations is reflected in the various tax expenditure estimates for deductions for charitable contributions.

—The suspension of certain limitations on personal casualty and theft losses, which applied to losses occurring in the Hurricane Katrina disaster area, was broadened to include losses occurring in the Hurricane Rita disaster area on or after September 23, 2005, and losses occurring in the Hurricane Wilma disaster area on or after October 23, 2005. In Table 1, this broadened suspension of limitations is reflected in the tax expenditure estimate for "Deduction for casualty and theft losses."

—The Hurricane Katrina look-back rules for calculating the earned income credit and refundable child credit were broadened to include qualified individuals affected by Hurricanes Rita and Wilma. The look-back rules apply to Hurricane Rita individuals in taxable years that include September 23, 2005, and Hurricane Wilma individuals in taxable years that include October 23, 2005. In Table 1, the effects of this broadening of the look-back rules are reflected in the tax expenditure estimates for "Earned income credit" and "Tax credit for children under age 17."

—The waiver of the first-time homebuyer requirement for qualified Hurricane Katrina recovery residences was extended to include residences located in the Rita and Wilma Gulf Opportunity Zones, thereby authorizing the use of qualified mortgage bonds to finance the purchases of residences in these zones, and other rules governing the mortgage bonds were liberalized. The broadened waiver and other liberalized rules apply to residences financed before January 1, 2011. In Table 1, the broadened waiver and liberalized rules 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 option to treat combat pay that is otherwise excluded from gross income under section 112 as earned income for purposes of the earned income credit, which was scheduled to expire for taxable years ending after December 31, 2005, was extended for one year, and is now effective for taxable years ending before January 1, 2006. In Table 1, the effect of this extension is reflected in the tax expenditure estimate for "Earned income credit."

Expiring Tax Expenditure Provisions

A number of tax expenditure provisions expired in 2005 or are scheduled to expire in 2006:

—The above-the-line deduction for teacher classroom expenses expired for expenses incurred in taxable years beginning after December 31, 2005. This tax expenditure is no longer listed in Table 1.

—The above-the-line deduction for qualified tuition and related expenses (section 222) expired for taxable years beginning after December 31, 2005. This tax expenditure is no longer listed in Table 1.

—The option to deduct State and local sales taxes in lieu of State and local income taxes expired for taxable years beginning after December 31, 2005. In Table 1, this change is reflected in the tax expenditure estimate for "Deduction for non-business State and local government income, sales, and personal property taxes."

—The enhanced deduction for corporate contributions of computer equipment to public libraries and elementary and secondary schools expired for contributions made after December 31, 2005. In Table 1, this expiration is reflected in the tax expenditure estimate for "Deduction for charitable contributions to educational institutions."

—The authority to issue qualified zone academy bonds expired for obligations issued after December 31, 2005. The tax expenditure estimate in Table 1 reflects the tax credits that will be earned by the holders of bonds issued prior to the expiration.

—The tax incentives for the District of Columbia enterprise zone expired after December 31, 2005. This tax expenditure is no longer listed in Table 1.

—The tax incentives for the New York City Liberty Zone include (1) an additional first-year depreciation deduction for qualified Liberty Zone property, which expires for property placed in service after December 31, 2009; (2) the authority to issue tax-exempt private activity bonds, which was extended by the Working Families Tax Relief Act of 2004 and expires after December 31, 2009; (3) a work opportunity tax credit for Liberty Zone employees, which expired for work performed after December 31, 2003; (4) the authority for one additional advance refunding for certain bonds for facilities located in New York City, which was extended by the Working Families Tax Relief Act of 2004 and expires after December 31, 2005; (5) an increase in section 179 expensing for qualified property used in the Liberty Zone, which expires for taxable years beginning after December 31, 2006; and (6) a five-year recovery period for Liberty Zone leasehold improvement property, which expires for property placed in service after December 31, 2006. In Table 1, these expirations are reflected in the tax expenditure estimate for "New York City Liberty Zone tax incentives."

—The tax credit for research and experimentation expenses expired for expenses paid or incurred after December 31, 2005. This tax expenditure is no longer listed in Table 1.

—The wage credit for Indian reservation employment expired for wages incurred after December 31, 2005. This tax expenditure is not listed in Table 1 because the estimated revenue loss in fiscal year 2006 is below the *de minimis* amount.

—The 15-year straight-line cost recovery for qualified leasehold improvement property and qualified restaurant property expires for property placed in service after December 31, 2005. In Table 1, these expirations are reflected in the tax expenditure estimate for "Depreciation of buildings other than rental housing in excess of the alternative depreciation system."

—The deduction for clean-fuel vehicles and refueling property expired for property placed in service after December 31, 2005. This tax expenditure is no longer listed in Table 1.

—The tax credit for Puerto Rico and possession income and Puerto Rico economic activity expires for taxable years beginning after 2005. In Table 1, this expiration is reflected in the tax expenditure estimate for this provision.

—After December 31, 2005, no new contributions may be made to Archer Medical Savings Accounts ("MSAs") except by individuals who previously made Archer MSA contributions and by employees of small employers with prior Archer MSA participation. The Archer MSA 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 seven-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 2005–2011. The Joint Committee staff estimates cover the current fiscal year and the succeeding four fiscal years, *i.e.*, fiscal years 2006–2010.

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 2006 through 2010. 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 2005 through 2011.

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 is a list of tax provisions that are contained in the Joint Committee staff list of tax expenditures (and are shown in Table 1) but are not contained in the Treasury list:

National defense

—Deduction for overnight-travel expenses of National Guard and Reserve Members

Energy

—Five-year carryback period for certain net operating losses of electric utility companies

Natural resources and environment

—Exclusion of contributions in aid of construction for water and sewer utilities
—Special rules for mining reclamation reserves
—Special tax rate for nuclear decommissioning reserve funds
—Amortization of certified pollution control facilities
—Amortization and expensing of reforestation expenditures

Agriculture

—Exclusion of cost-sharing payments
—Five-year carryback period for net operating losses attributable to farming

Insurance companies

—Special treatment of life insurance company reserves
—Deduction of unpaid loss reserves of property and casualty companies

Other business and commerce

—Expensing of magazine circulation expenditures
—Special rules for magazine, paperback book, and record returns
—Completed contract rules

—Cash accounting, other than agriculture
—Deferral of gain on like-kind exchanges
—Exception from net operating loss limitations for corporations in bankruptcy
—Tax credit for employer-paid FICA taxes on tips
—Tax credit for the cost of carrying tax-paid distilled spirits in wholesale inventories

Employment

—Exclusion of miscellaneous fringe benefits
—Exclusion of employee awards
—Exclusion of income earned by voluntary employee beneficiary associations
—Deferral of taxation on spread on acquisition of stock under incentive stock option plans and employee stock purchase plans

Health

—Exclusion of medical care and Tricare medical insurance for military dependents, retirees, and retiree dependents

Medicare

—Exclusion of Medicare Hospital Insurance (Part A)
—Exclusion of Medicare Supplementary Medical Insurance (Part B)
—Exclusion of Medicare prescription drug insurance (Part D)
—Exclusion of certain subsidies to employers who maintain prescription drug plans for Medicare enrollees

The following tax provisions are not included in the Joint Committee staff list of tax expenditures or the Treasury list. However, these provisions are viewed as tax expenditures by the Joint Committee staff. These provisions are not listed in Table 1 because the estimated revenue losses for fiscal years 2005 through 2009 are below the *de minimis* amount ($50 million):

Energy

—Tax credit for enhanced oil recovery costs
—Expensing of tertiary injectants
—Tax credit for the residential purchase of qualified photovoltaic and solar water heating property
—Tax credit for electric vehicles

Agriculture

—Cash accounting for agriculture

Financial institutions

—Exclusion of investment income from structured settlement arrangements

Community and Regional Development

—Wage credit for Indian Reservation employment

Social services

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

Income security

—Exclusion of survivor annuities paid to families of public safety officers killed in the line of duty
—Exclusion of disaster mitigation payments

The following is a list of the tax provisions that are included in the Treasury list and are viewed as tax expenditures by the Joint Committee staff but are excluded from Table 1 because the estimated revenue losses for fiscal years 2005 through 2009 are below the *de minimis* amount ($50 million):

Energy

—Tax credit for production of electricity from qualifying advanced nuclear power facilities
—Tax credit for the construction of energy-efficient new homes

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

Insurance companies

—Special alternative tax on small property and casualty insurance companies
—Tax exemption for certain small insurance companies

Other business and commerce

—Exclusion of income from discharge of indebtedness incurred in connection with qualified real property

Community and Regional Development

—Expensing of environmental remediation costs ("Brownfields")

Health

—Archer medical savings accounts

There are five additional tax expenditure provisions in the Treasury list that are not included in the Joint Committee staff list. Two of the provisions involve exceptions to the passive loss rules: the exception for working interests in oil and gas properties, and the exception for up to $25,000 of rental losses. The Joint Committee staff does not classify these two provisions as tax expenditures; the effects of the passive loss rules (and exceptions to the rules) are included in the estimates of the tax expenditure provisions that are affected by the rules.[14] The third and fourth provisions are the tax exemption for certain mutual and cooperative telephone and electric companies and the exclusion of gain on the sale or exchange

[14] See discussion of the alternative minimum tax and passive loss rules, above on page 6.

of certain brownfield sites by certain tax-exempt organizations. These two provisions are not in the Joint Committee staff list because the special tax rules for pass-through entities are assumed to be a part of normal tax law.[15] The fifth provision in the Treasury list that is not in the Joint Committee staff list is the alternative fuel and fuel mixture tax credit. This tax credit is not in the Joint Committee staff list because it is a credit against excise tax and has no effect on income tax liabilities.

[15] See discussion on pages 7–8, above.

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.[15]

The tax expenditure estimates in this report are based on the January 2006 Congressional Budget Office revenue baseline and Joint Committee staff projections of the gross income, deductions, and expenditures of individuals and corporations for calendar years 2005–2010. 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

[15] 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. The Treasury Department presents estimates of outlay equivalents in the President's budget in addition to presenting estimates in the same manner as the Joint Committee staff.

provisions and changes that alter the definition of the normal income 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.

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 2006–2010

[Billions of dollars]

Function	Corporations					Individuals					Total 2006–10
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	
National Defense											
Exclusion of benefits and allowances to Armed Forces personnel	....	....	....	....	....	2.8	2.8	2.9	3.0	3.0	14.5
Exclusion of military disablity benefits	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.4
Deduction for overnight-travel expenses of National Guard and Reserve Members	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.3
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	0.6	0.7	0.7	0.8	3.4
Exclusion of extraterritorial income	3.9	1.9	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	6.2
Deferral of active income of controlled foreign corporations	3.4	5.8	6.4	7.0	7.5	....	....	....	....	....	30.1
Inventory property sales source rule exception	6.2	6.4	6.6	6.8	7.0	....	....	....	....	....	33.0
Deferral of certain active financing income	1.1	1.7	....	....	....	....	....	....	....	....	2.8
General Science, Space, and Technology											
Expensing of research and experimental expenditures	2.0	3.7	5.5	6.0	5.8	(1)	0.1	0.1	0.1	0.1	29.4
Energy											
Expensing of exploration and development costs:											
Oil and gas	1.1	1.6	1.2	0.8	0.6	(1)	(1)	(1)	(1)	(1)	5.4
Other fuels	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Excess of percentage over cost depletion:											
Oil and gas	1.0	1.0	0.9	0.9	0.9	(1)	(1)	(1)	(1)	(1)	4.7
Other fuels	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.6

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 production of non-conventional fuels	2.7	3.2	1.2	(1)	(1)	1.0	1.0	0.2	(1)	(1)	8.8
Tax credit for alcohol fuels [2]	(1)	(1)	(1)	(1)	(1)	......	......	......	......	......	0.2
Tax credit for biodiesel fuels [3]	(1)	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)	(1)	0.1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Tax credit for electricity production from renewable resources	2.0	3.7	5.5	6.0	5.8	0.1	0.1	0.1	0.1	0.1	29.4
Deferral of gain from the disposition of electric transmission property to implement Federal Energy Regulatory Commission restructuring policy	0.6	0.5	(4)	−0.3	−0.3	......	......	......	......	......	0.4
Tax credit for holders of clean renewable energy bonds	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Tax credits for investments in clean coal power generation facilities	(1)	0.1	0.1	0.2	0.2	......	......	......	......	......	0.5
Expensing of the cost of property used in the refining of liquid fuels	(1)	(1)	0.1	0.2	0.3	......	......	......	......	......	0.7
Amortization of geological and geophysical costs associated with oil and gas exploration	(4)	0.1	0.2	0.2	0.1	(4)	(1)	0.1	0.1	(1)	0.8
Deduction for expenditures on energy-efficient commercial building property	(1)	0.1	(1)	(4)	(4)	(1)	0.1	(1)	(4)	(4)	0.3
Tax credit for the purchase of qualified energy efficiency improvements to existing homes	......	......	......	......	......	0.1	0.3	0.2	......	......	0.6
Tax credit for the production of energy-efficient appliances	0.1	0.1	......	......	......	......	......	......	......	......	0.2
Tax credits for alternative technology vehicles	0.1	0.1	(1)	(1)	(1)	0.2	0.2	0.1	0.1	(1)	0.8

Table 1.—Tax Expenditure Estimates by Budget Function, Fiscal Years 2006–2010—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 2006–10
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	
Tax credit for clean-fuel vehicle refueling property	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Five-year carryback period for certain net operating losses of electric utility companies	0.1	(1)	(1)	(4)	(4)	....	....	....	....	....	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)	0.4
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	1.0
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	0.4	0.5	0.5	0.5	3.3
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	0.5	0.6	0.7	0.8	0.8	....	....	....	....	....	3.4
Exclusion of contributions in aid of construction for water and sewer utilities	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	0.2
Amortization of certified pollution control facilities	(1)	(1)	0.1	0.1	0.1	....	....	....	....	....	0.3
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)	(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	0.7

Expensing of the costs of raising dairy and breeding cattle	(1)	(1)	(4)	(4)	(1)	0.1	(1)	(4)	(4)	(1)	0.2
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	0.4
Income averaging for farmers and fishermen	....	....	....	....	....	(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)	0.1
Commerce and Housing											
Financial institutions:											
Exemption of credit union income	1.7	1.8	1.9	2.0	2.1	....	....	....	....	....	9.3
Insurance companies:											
Exclusion of investment income on life insurance and annuity contracts	2.5	2.5	2.6	2.7	2.7	25.5	26.1	26.8	27.5	28.2	147.1
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	1.9	2.0	2.0	2.1	2.2	....	....	....	....	....	10.2
Deduction of unpaid property loss reserves for property and casualty insurance companies	3.4	3.4	3.5	3.6	3.6	....	....	....	....	....	17.5
Special deduction for Blue Cross and Blue Shield companies	0.9	1.0	1.0	1.0	1.0	....	....	....	....	....	5.0
Housing:											
Deduction for mortgage interest on owner-occupied residences	....	....	....	....	....	69.4	75.6	80.7	85.9	91.1	402.7
Deduction for property taxes on owner-occupied residences	....	....	....	....	....	19.9	13.8	13.5	13.4	13.2	73.8
Exclusion of capital gains on sales of principal residences	....	....	....	....	....	24.1	25.2	25.7	26.3	27.1	128.4
Exclusion of interest on State and local government qualified private activity bonds for owner-occupied housing	0.3	0.4	0.4	0.4	0.4	0.9	1.0	1.0	1.1	1.1	7.0

Table 1.—Tax Expenditure Estimates by Budget Function, Fiscal Years 2006–2010—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 2006–10
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	
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	0.5	0.6	0.6	3.7
Depreciation of rental housing in excess of alternative depreciation system	0.4	0.5	0.6	0.7	0.8	4.0	4.6	5.3	6.1	7.0	29.9
Tax credit for low-income housing	3.4	3.6	3.8	4.1	4.4	1.4	1.5	1.6	1.7	1.9	27.4
Tax credit for rehabilitation of historic structures	0.3	0.3	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.1	2.2
Tax credit for rehabilitation of structures, other than historic structures	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.5
Additional exemption for housing provided to individuals displaced by Hurricane Katrina	....	....	....	....	....	0.1	(1)	....	....	....	0.1
Tax credit for Gulf Opportunity Zone employers providing in-kind lodging for employees and income exclusion for the employees	0.1	(1)	....	....	....	0.1	(1)	....	....	....	0.2
Other business and commerce:											
Reduced rates of tax on dividends and long-term capital gains	....	....	....	....	....	92.2	94.5	101.7	99.6	50.2	438.1
Exclusion of capital gains at death	....	....	....	....	....	50.9	51.9	53.2	69.7	64.5	290.2
Carryover basis of capital gains on gifts	....	....	....	....	....	5.4	5.5	5.7	7.6	56.1	80.3
Deferral of gain on non-dealer installment sales	0.6	0.7	0.7	0.7	0.8	0.5	0.5	0.5	0.6	0.6	6.2
Deferral of gain on like-kind exchanges	2.0	2.1	2.2	2.4	2.5	0.8	0.8	0.9	0.8	1.0	15.5
Depreciation of buildings other than rental housing in excess of alternative depreciation system	0.4	0.6	0.8	1.1	1.4	0.4	0.5	0.7	1.0	1.3	8.3

Depreciation of equipment in excess of the alternative depreciation system	5.7	11.0	17.7	23.4	27.7	−2.2	0.1	2.2	4.3	6.1	96.0
Expensing under section 179 of depreciable business property	0.6	0.6	−0.1	−0.4	−0.2	2.8	2.6	0.1	−0.8	−0.4	4.8
Amortization of business startup costs	(1)	(1)	(1)	(1)	(1)	0.7	0.7	0.8	0.8	0.9	3.9
Reduced rates on first $10,000,000 of corporate taxable income	4.3	4.3	4.3	4.3	4.3	....	....	....	....	....	21.6
Permanent exemption from imputed interest rules	(1)	(1)	(1)	(1)	(1)	0.4	0.4	0.4	0.4	0.5	2.1
Expensing of magazine circulation expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Special rules for magazine, paperback book, and record returns	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Completed contract rules	0.3	0.3	0.4	0.4	0.5	(1)	(1)	(1)	(1)	(1)	1.9
Cash accounting, other than agriculture	(1)	(1)	(1)	(1)	(1)	0.8	0.8	0.8	0.9	0.9	4.2
Exclusion of interest on State and local government small-issue qualified private activity bonds	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.4	0.4	2.3
Exception from net operating loss limitations for corporations in bankruptcy proceedings	0.6	0.6	0.6	0.6	0.6	....	....	....	....	....	3.0
Tax credit for employer-paid FICA taxes on tips	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.5	3.1
Deduction of certain film and television production costs	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Production activity deduction	2.7	3.9	5.5	5.9	7.4	0.9	1.3	1.8	2.0	2.6	34.0
Tax credit for the cost of carrying tax-paid distilled spirits in wholesale inventories	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	0.1
Partial expensing of Gulf Opportunity Zone clean-up costs	(1)	(1)	(1)	(4)	(4)	(1)	(1)	(1)	(4)	(4)	0.1
Additional first-year depreciation for Gulf Opportunity Zone property	0.9	0.9	0.4	−0.1	−0.2	0.4	0.4	0.2	(4)	−0.1	2.9
Ten-year carryback period for casualty losses of public utility property attributable to Hurricane Katrina	0.2	(1)	(4)	(4)	(4)	....	....	....	....	....	0.2

Table 1.—Tax Expenditure Estimates by Budget Function, Fiscal Years 2006–2010—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 2006–10
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	
Five-year carryback period for casualty losses of public utility property attributable to Hurricane Katrina	0.1	(1)	(4)	(4)	(4)	....	....	....	....	....	0.1
Five-year carryback period for losses attributable to various expenses related to Hurricane Katrina	1.0	0.3	−0.1	−0.2	−0.2	....	....	....	....	....	0.9
Tax credit for employers for retention of employees affected by Hurricanes Katrina, Rita, and Wilma	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	....	0.2
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
Provide a 50-percent tax credit for certain expenditures for maintaining railroad tracks	0.1	0.1	0.1	0.1	(1)	....	....	....	....	....	0.4
Deferral of tax on capital construction funds of shipping companies	0.1	0.1	0.1	0.1	0.1	....	....	....	....	....	0.4
Exclusion of employer-paid transportation benefits	....	....	....	....	....	4.2	4.3	4.4	4.5	4.7	22.1
Community and Regional Development											
New York City Liberty Zone tax incentives	0.4	0.2	0.1	(4)	−0.1	−0.1	0.2	0.1	0.2	0.1	1.0
Empowerment zone tax incentives	0.3	0.4	0.4	0.4	0.2	0.4	0.4	0.4	0.5	0.3	3.7
Renewal community tax incentives	0.2	0.2	0.2	0.2	0.2	0.3	0.4	0.4	0.4	0.3	2.9
New markets tax credit	0.2	0.3	0.4	0.3	0.3	0.3	0.4	0.5	0.5	0.4	3.7
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-commuting facilities	0.3	0.3	0.3	0.3	0.4	0.7	0.8	0.8	0.9	0.9	5.8
Education, Training, Employment, and Social Services											
Education and training:											
Tax credits for tuition for post-secondary education	....	....	....	....	....	4.9	5.2	5.1	5.0	5.0	25.2
Deduction for interest on student loans	....	....	....	....	....	0.8	0.9	0.9	0.9	1.0	4.5
Exclusion of tax on earnings of Coverdell education savings accounts	....	....	....	....	....	0.1	0.1	0.1	0.2	0.2	0.7
Exclusion of interest on educational savings bonds	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of tax on earnings of qualified tuition programs	....	....	....	....	....	0.7	0.8	0.9	1.0	1.0	4.3
Exclusion of scholarship and fellowship income	....	....	....	....	....	1.5	1.6	1.7	1.8	1.9	8.5
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	0.9	0.9	0.9	0.9	4.4
Exclusion of employer-provided tuition reduction benefits	....	....	....	....	....	0.2	0.2	0.2	0.2	0.2	1.0
Parental personal exemption for students age 19 to 23	....	....	....	....	....	0.5	0.2	0.2	0.1	(1)	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	0.3	0.4	0.4	2.3
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	0.5	1.1	1.2	1.2	1.3	1.3	8.4

Table 1.—Tax Expenditure Estimates by Budget Function, Fiscal Years 2006–2010—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 2006–10
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	
Tax credit for holders of qualified zone academy bonds	0.1	0.1	0.1	0.1	0.1	....	....	....	....	....	0.5
Deduction for charitable contributions to educational institutions	0.7	0.7	0.7	0.8	0.8	5.3	5.9	6.3	6.8	7.1	35.1
Employment:											
Exclusion of employee meals and lodging (other than military)	....	....	....	....	....	0.9	0.9	0.9	1.0	1.0	4.9
Exclusion of benefits provided under cafeteria plans [5]	....	....	....	....	....	27.9	30.6	33.4	36.6	40.0	168.5
Exclusion of housing allowances for ministers	....	....	....	....	....	0.5	0.5	0.5	0.6	0.6	2.7
Exclusion of miscellaneous fringe benefits	....	....	....	....	....	6.6	6.8	7.0	7.2	7.7	35.2
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	....	....	....	....	....	3.3	3.4	3.5	3.7	3.8	17.6
Special tax provisions for employee stock ownership plans (ESOPs)	0.8	0.9	0.9	1.0	1.1	0.3	0.3	0.3	0.3	0.3	6.2
Work opportunity tax credit	0.2	0.1	0.1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.8
Welfare-to-work tax credit	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	....	0.2
Deferral of taxation and capital gains treatment on spread on acquisition of stock under incentive stock option plans and employee stock purchase plans [6]	....	....	....	....	....	0.4	0.4	0.4	0.2	0.1	1.5
Social services:											
Tax credit for children under age 17 [7]	....	....	....	....	....	46.0	45.9	46.1	46.0	46.0	230.0
Tax credit for child and dependent care and exclusion of employer-provided child care (8)	....	....	....	....	....	3.1	2.7	2.7	2.6	2.5	13.5

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	0.6	0.7	0.7	0.8	3.4
Adoption credit and employee adoption benefits exclusion	....	....	....	....	....	0.4	0.5	0.5	0.5	0.5	2.4
Deduction for charitable contributions, other than for education and health	1.7	1.7	1.7	1.8	1.8	29.1	31.9	34.2	36.8	38.4	179.1
Tax credit for disabled access expenditures	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.4
Health											
Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums [9]	....	....	....	....	....	90.6	99.7	107.0	114.5	122.2	534.0
Exclusion of medical care and TRICARE medical insurance for military dependents, retirees, and retiree dependents	....	....	....	....	....	1.9	2.0	2.1	2.3	2.5	10.9
Deduction for health insurance premiums and long-term care insurance premiums by the self-employed	....	....	....	....	....	3.8	4.2	4.5	4.9	5.2	22.6
Deduction for medical expenses and long-term care expenses	....	....	....	....	....	7.3	8.2	9.5	10.7	12.1	47.8
Exclusion of workers' compensation benefits (medical benefits)	....	....	....	....	....	6.5	6.9	7.4	8.0	8.5	37.3
Health savings accounts	....	....	....	....	....	0.1	0.3	0.6	0.9	1.2	3.2
Exclusion of interest on State and local government qualified private activity bonds for private nonprofit hospital facilities	0.6	0.7	0.7	0.8	0.8	1.7	1.8	1.9	2.0	2.1	13.1
Deduction for charitable contributions to health organizations	0.8	0.8	0.9	0.9	0.9	3.7	4.0	4.3	4.7	4.8	25.8
Tax credit for orphan drug research	0.2	0.3	0.3	0.3	0.3	....	....	....	....	....	1.4
Tax credit for purchase of health insurance by certain displaced persons	....	....	....	....	....	0.2	0.2	0.2	0.2	0.3	1.2
Medicare											
Exclusion of Medicare benefits:											
Hospital insurance (Part A)	....	....	....	....	....	18.5	20.7	22.5	24.5	26.7	112.9
Supplementary medical insurance (Part B)	....	....	....	....	....	12.5	14.2	15.4	16.7	18.1	76.9

Table 1.—Tax Expenditure Estimates by Budget Function, Fiscal Years 2006–2010—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 2006–10
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	
Prescription drug insurance (Part D)	....	....	....	....	....	3.4	6.2	7.5	8.3	9.5	34.9
Exclusion of certain subsidies to employers who maintain prescription drug plans for Medicare enrollees	0.7	1.2	1.4	1.5	1.6	....	....	....	....	....	6.3
Income Security											
Exclusion of workers' compensation benefits (disability and survivors payments)	....	....	....	....	....	2.5	2.6	2.7	2.7	2.8	13.2
Exclusion of damages on account of personal physical injuries or physical sickness	....	....	....	....	....	1.4	1.5	1.5	1.5	1.5	7.4
Exclusion of special benefits for disabled coal miners	....	....	....	....	....	0.1	0.1	(1)	(1)	(1)	0.2
Exclusion of cash public assistance benefits	....	....	....	....	....	3.4	3.6	3.7	3.9	4.0	18.6
Net exclusion of pension contributions and earnings:											
Employer plans	....	....	....	....	....	104.1	110.2	115.2	120.8	126.7	577.1
Individual retirement plans	....	....	....	....	....	11.2	14.0	15.5	16.9	18.4	76.0
Plans covering partners and sole proprietors (sometimes referred to as "Keogh plans")	....	....	....	....	....	9.4	10.3	10.8	11.3	11.6	53.4
Tax credit for certain individuals for elective deferrals and IRA contributions	....	....	....	....	....	0.9	0.6	(1)	....	....	1.5
Tax credit for new retirement plan expenses of small businesses	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of other employee benefits:											
Premiums on group term life insurance	....	....	....	....	....	2.5	2.6	2.6	2.7	2.7	13.1
Premiums on accident and disability insurance	....	....	....	....	....	2.6	2.8	2.9	3.0	3.1	14.4
Additional standard deduction for the blind and the elderly	....	....	....	....	....	1.6	1.6	1.7	1.7	1.8	8.4

Tax credit for the elderly and disabled	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Deduction for casualty and theft losses	....	....	....	....	....	0.7	0.8	0.3	0.3	0.3	2.4
Earned income credit (EIC)	....	....	....	....	....	42.1	42.8	43.5	44.5	45.4	218.3
Exclusion of cancellation of indebtedness income of Hurricane Katrina victims	....	....	....	....	....	0.2	0.1	....	....	....	0.3
Social Security and Railroad Retirement											
Exclusion of untaxed social security and railroad retirement benefits	....	....	....	....	....	23.1	24.1	24.8	25.9	27.2	125.1
Veterans' Benefits and Services											
Exclusion of veterans' disability compensation	....	....	....	....	....	3.6	3.8	3.9	4.0	4.0	19.2
Exclusion of veterans' pensions	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.6
Exclusion of veterans' readjustment benefits	....	....	....	....	....	0.2	0.3	0.3	0.3	0.3	1.3
Exclusion of interest on State and local government qualified private activity bonds for veterans' housing	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
General Purpose Fiscal Assistance											
Exclusion of interest on public purpose State and local government bonds	7.3	7.8	8.2	8.6	9.0	18.7	20.1	21.1	22.1	23.1	146.0
Deduction of nonbusiness State and local government income, sales, and personal property taxes (10)	....	....	....	....	....	36.8	27.3	27.3	28.1	28.9	148.5
Tax credit for Puerto Rico and possession income, and Puerto Rico economic activity	0.3	....	....	....	....	....	....	....	....	....	0.3
Interest											
Deferral of interest on savings bonds	....	....	....	....	....	1.1	1.1	1.2	1.2	1.2	5.8

[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 $11.1 billion over the fiscal years 2006 through 2010.
[3] In addition, the credit from excise tax for biodiesel results in a reduction in excise tax receipts, net of income tax effect, of less than $50 million in each of the fiscal years 2006 through 2010.
[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: $50.1 billion in 2006, $51.5 billion in 2007, $51.4 billion in 2008, $52.2 billion in 2009, and $53.2 in 2010.

[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, 2005.

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 2005 Rates and 2005 Law and 2005 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	21,665	409	558	–$6,385
$10,000 to $20,000	20,100	5,912	1,254	–14,505
$20,000 to $30,000	17,742	7,961	2,297	–5,406
$30,000 to $40,000	15,541	9,195	3,369	8,330
$40,000 to $50,000	13,129	9,750	4,312	22,253
$50,000 to $75,000	22,469	19,550	10,244	78,638
$75,000 to $100,000	13,690	13,362	8,691	87,524
$100,000 to $200,000	16,322	16,241	13,446	231,480
$200,000 and over	4,227	4,219	3,906	458,779
Total	**144,885**	**86,599**	**48,077**	**$860,708**

[1] Tax law as in effect on December 31, 2005, is applied to the 2005 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 2005 Rates and 2005 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	5	(3)	372	(3)
$10,000 to $20,000	180	$35	864	$30
$20,000 to $30,000	526	174	1,618	162
$30,000 to $40,000	880	320	2,414	350
$40,000 to $50,000	1,161	552	3,340	732
$50,000 to $75,000	2,490	1,716	8,534	2,929
$75,000 to $100,000	1,647	1,488	7,689	3,478
$100,000 to $200,000	1,290	2,395	12,356	9,646
$200,000 and over	90	617	3,679	4,630
Total	**8,269**	**$7,297**	**40,866**	**$21,957**

Footnotes appear at the end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2005 Rates and 2005 Income Levels [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 contribution deduction	
	Returns	Amount	Returns	Amount
Below $10,000	20	$1	1	([3])
$10,000 to $20,000	447	25	289	$29
$20,000 to $30,000	1,479	141	1,114	165
$30,000 to $40,000	2,696	378	2,098	410
$40,000 to $50,000	3,885	777	3,115	711
$50,000 to $75,000	10,113	3,300	8,440	3,000
$75,000 to $100,000	8,946	4,081	7,801	3,462
$100,000 to $200,000	13,401	13,387	12,598	10,301
$200,000 and over	3,192	17,881	3,747	17,851
Total	**44,178**	**$39,969**	**39,209**	**$35,930**

Footnotes appear at the end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2005 Rates and 2005 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	(3)	5,410	$6,161
$10,000 to $20,000	60	$18	6,302	15,659
$20,000 to $30,000	331	160	5,011	11,496
$30,000 to $40,000	624	362	3,833	5,493
$40,000 to $50,000	586	347	1,547	1,293
$50,000 to $75,000	1,270	649	181	202
$75,000 to $100,000	1,076	552	9	9
$100,000 to $200,000	1,627	841	3	2
$200,000 and over	313	161	....	....
Total	**5,888**	**$3,090**	**22,296**	**$40,315**

Footnotes appear at the end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2005 Rates and 2005 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	14	$2	188	$211
$10,000 to $20,000	4,396	1,875	3,252	1,846
$20,000 to $30,000	3,469	2,389	4,509	5,300
$30,000 to $40,000	3,334	3,652	4,248	6,433
$40,000 to $50,000	2,809	3,572	3,506	5,821
$50,000 to $75,000	5,482	7,201	6,363	10,938
$75,000 to $100,000	2,918	2,095	4,554	7,912
$100,000 to $200,000	2,744	764	5,001	7,619
$200,000 and over	679	263	10	8
Total	**25,845**	**$21,813**	**31,631**	**$46,088**

Footnotes appear at the end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2005 Rates and 2005 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	6	(3)	33	$2
$10,000 to $20,000	754	$165	316	17
$20,000 to $30,000	994	438	526	41
$30,000 to $40,000	1,069	529	749	71
$40,000 to $50,000	1,013	538	823	108
$50,000 to $75,000	1,517	878	1,590	188
$75,000 to $100,000	1,466	969	1,054	129
$100,000 to $200,000	635	357	1,241	210
$200,000 and over	(5)	(3)	....	....
Total	**7,453**	**$3,875**	**6,332**	**$766**

Footnotes appear at the end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2005 Rates and 2005 Income Levels [1]—Continued

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

Income Class [2]	Mortgage interest deduction	
	Returns	Amount
Below $10,000	342	$4
$10,000 to $20,000	754	83
$20,000 to $30,000	1,459	426
$30,000 to $40,000	2,262	982
$40,000 to $50,000	3,112	1,914
$50,000 to $75,000	8,073	7,545
$75,000 to $100,000	7,326	8,587
$100,000 to $200,000	11,656	25,081
$200,000 and over	3,188	17,475
Total	**38,171**	**$62,097**

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.