14. TAX EXPENDITURES

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

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

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

Tax expenditures relating to the individual and corporate income taxes are estimated for fiscal years 2015–2025 using two methods of accounting: current revenue effects and present value effects. The present value approach provides estimates of the revenue effects for tax expenditures that generally involve deferrals of tax payments into the future.

A discussion of performance measures and economic effects related to the assessment of the effect of tax expenditures on the achievement of program performance goals is presented in the Appendix. This section is a complement to the Government-wide performance plan required by the Government Performance and Results Act of 1992.

TAX EXPENDITURES IN THE INCOME TAX

Tax Expenditure Estimates

All tax expenditure estimates and their descriptions presented here are based upon current tax law enacted as of July 1, 2015 and reflect the economic assumptions from the Mid-Session Review of the 2016 Budget. In some cases, expired or repealed provisions are listed if their revenue effects occur in fiscal year 2015 or later. The estimates and their descriptions do not include the effects of the Protecting Americans from Tax Hikes Act of 2015 (PATH) which was enacted on December 17, 2015. Revised estimates reflecting the enacted legislation will be included in the tax expenditure tables in the 2018 Budget. In particular, PATH extended and modified expiring provisions in the tax code. In some instances the extensions were temporary in nature and are set to expire in a year or more, while in other instances the provisions were made permanent. Examples of permanent extensions include the research credit, the American Opportunity tax credit, the deduction for state and local general sales taxes, the expansion in the earned income tax credit, the increase in the limitation on expensing of real property, and the reduction in the earnings threshold for the refundable portion of the child tax credit. Temporary extensions include bonus depreciation, the work opportunity tax credit, the deduction for mortgage insurance premiums, and the exclusion for discharge of indebtedness on principal residence, among others. Expanded descriptions are available in the Receipts Chapter.

The total revenue effects for tax expenditures for fiscal years 2015–2025 are displayed according to the Budget's functional categories in Table 1. Descriptions of the specific tax expenditure provisions follow the discussion of general features of the tax expenditure concept.

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

Tables 2A and 2B report separately the respective portions of the total revenue effects that arise under the individual and corporate income taxes. The location of the estimates under the individual and corporate headings does not imply that these categories of filers benefit from the special tax provisions in proportion to the respective tax expenditure amounts shown. Rather, these breakdowns show the form of tax liability that the various provisions affect. The ultimate beneficiaries of corporate tax expenditures could be shareholders, employees, customers, or other providers of capital, depending on economic forces.

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

Table 3 ranks the major tax expenditures by the size of their 2016–2025 revenue effect. The first column provides the number of the provision in order to cross reference this table to Tables 1, 2A, and 2B, as well as to the descriptions below.

Interpreting Tax Expenditure Estimates

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

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

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

Present-Value Estimates

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

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

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

Tax Expenditure Baselines

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

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

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

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

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

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

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

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

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

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

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

Descriptions of Income Tax Provisions

Descriptions of the individual and corporate income tax expenditures reported on in this document follow. These descriptions relate to current law as of July 1, 2015.

National Defense

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

International Affairs

2. ***Exclusion of income earned abroad by U.S. citizens.***—Under the baseline tax system, all compensation received by U.S. citizens and residents is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as a housing allowance. In contrast to this treatment, U.S. tax law allows U.S. citizens and residents who live abroad, work in the private sector, and satisfy a foreign residency requirement to exclude up to $80,000, plus adjustments for inflation since 2004, in foreign earned income from U.S. taxes. In addition, if these taxpayers are provided housing by their employers, then they may also exclude the cost of such housing from their income to the extent that it exceeds 16 percent of the

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

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

Table 14–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2015–2025

(In millions of dollars)

	Total from corporations and individuals											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–25
National Defense												
1 Exclusion of benefits and allowances to armed forces personnel	13,680	14,220	13,170	13,310	13,780	14,340	14,970	15,640	16,360	17,130	17,950	150,870
International affairs:												
2 Exclusion of income earned abroad by U.S. citizens	5,990	6,280	6,600	6,930	7,280	7,640	8,020	8,420	8,840	9,290	9,750	79,050
3 Exclusion of certain allowances for Federal employees abroad	1,240	1,300	1,370	1,430	1,510	1,580	1,660	1,740	1,830	1,920	2,020	16,360
4 Inventory property sales source rules exception	3,890	4,210	4,560	4,940	5,350	5,790	6,270	6,790	7,350	7,960	8,620	61,840
5 Deferral of income from controlled foreign corporations (normal tax method)	64,560	67,780	71,170	74,730	78,470	82,390	86,510	90,840	95,380	100,150	105,160	852,580
6 Deferred taxes for financial firms on certain income earned overseas	4,470	0	0	0	0	0	0	0	0	0	0	0
General science, space, and technology:												
7 Expensing of research and experimentation expenditures (normal tax method)	7,900	6,350	5,820	6,270	6,830	7,310	7,600	7,840	8,120	8,450	8,820	73,410
8 Credit for increasing research activities	5,710	3,320	2,980	2,670	2,370	2,090	1,840	1,620	1,420	1,240	1,080	20,630
Energy:												
9 Expensing of exploration and development costs, fuels	660	470	460	510	560	600	580	570	600	620	580	5,550
10 Excess of percentage over cost depletion, fuels	650	710	860	1,010	1,150	1,240	1,290	1,400	1,540	1,690	1,810	12,700
11 Exception from passive loss limitation for working interests in oil and gas properties	40	40	40	40	40	30	30	30	30	30	30	340
12 Capital gains treatment of royalties on coal	110	120	130	130	130	140	140	150	150	160	170	1,420
13 Exclusion of interest on energy facility bonds	20	20	30	30	30	30	40	40	40	40	50	350
14 Energy production credit [1]	1,550	1,950	2,250	2,310	2,230	2,120	2,050	1,970	1,840	1,590	1,160	19,470
15 Energy investment credit [1]	1,010	1,470	970	250	40	130	320	440	510	530	400	5,060
16 Alcohol fuel credits [2]	20	0	0	0	0	0	0	0	0	0	0	0
17 Bio-Diesel and small agri-biodiesel producer tax credits [3]	70	30	20	10	0	0	0	0	0	0	0	60
18 Tax credits for clean-fuel burning vehicles and refueling property	540	550	670	820	810	700	500	290	140	130	160	4,770
19 Exclusion of utility conservation subsidies	430	450	470	490	520	540	570	590	620	650	680	5,580
20 Credit for holding clean renewable energy bonds [4]	70	70	70	70	70	70	70	70	70	70	70	700
21 Deferral of gain from dispositions of transmission property to implement FERC restructuring	–120	–220	–180	–150	–130	–110	–70	–20	0	0	0	–880
22 Credit for investment in clean coal facilities	40	160	400	440	230	30	–20	–20	–20	–10	–10	1,180
23 Temporary 50% expensing for equipment used in the refining of liquid fuels	–2,250	–2,050	–1,820	–1,500	–1,220	–970	–680	–420	–200	–40	0	–8,900
24 Natural gas distribution pipelines treated as 15-year property	160	160	160	170	170	170	150	80	–20	–120	–230	690
25 Amortize all geological and geophysical expenditures over 2 years	90	100	100	90	90	90	90	100	100	100	100	960
26 Allowance of deduction for certain energy efficient commercial building property	30	–10	–30	–30	–30	–30	–30	–30	–30	–30	–30	–280
27 Credit for construction of new energy efficient homes	60	20	0	0	0	0	0	0	0	0	0	20
28 Credit for energy efficiency improvements to existing homes	270	0	0	0	0	0	0	0	0	0	0	0
29 Credit for residential energy efficient property	850	770	460	180	40	0	0	0	0	0	0	1,450
30 Qualified energy conservation bonds [5]	30	30	30	30	30	30	30	30	30	30	30	300
31 Advanced energy property credit	60	10	–30	–30	–30	–10	0	0	0	0	0	–90
32 Advanced nuclear power production credit	0	140	140	140	340	620	690	690	690	580	550	4,580
33 Reduced tax rate for nuclear decommissioning funds	160	170	200	220	240	250	270	280	290	300	320	2,540
Natural resources and environment:												
34 Expensing of exploration and development costs, nonfuel minerals	10	0	10	30	50	60	60	70	70	50	50	450
35 Excess of percentage over cost depletion, nonfuel minerals	520	530	540	540	550	520	470	470	460	450	440	4,970
36 Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	450	490	550	620	690	730	780	860	920	980	1,060	7,680
37 Capital gains treatment of certain timber income	110	120	130	130	130	140	140	150	150	160	170	1,420
38 Expensing of multiperiod timber growing costs	320	330	350	370	380	400	420	420	430	430	450	3,980
39 Tax incentives for preservation of historic structures	450	460	470	470	480	490	510	520	530	540	540	5,010
40 Industrial CO_2 capture and sequestration tax credit	80	110	150	190	80	0	0	0	0	0	0	530
41 Deduction for endangered species recovery expenditures	20	30	30	30	30	40	50	50	50	50	70	430

Table 14–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2015–2025—Continued

(In millions of dollars)

		Total from corporations and individuals											
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–25
	Agriculture:												
42	Expensing of certain capital outlays	220	210	230	240	250	270	280	290	310	330	350	2,760
43	Expensing of certain multiperiod production costs	350	370	390	410	440	460	490	520	550	590	630	4,850
44	Treatment of loans forgiven for solvent farmers	40	40	40	40	40	40	40	40	40	40	40	400
45	Capital gains treatment of certain income	1,150	1,240	1,280	1,300	1,320	1,360	1,410	1,470	1,530	1,590	1,670	14,170
46	Income averaging for farmers	130	140	140	140	140	140	140	140	140	140	140	1,400
47	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	30	30	30	30	30	250
48	Expensing of reforestation expenditures	50	50	60	60	60	70	70	80	80	80	80	690
	Commerce and housing:												
	Financial institutions and insurance:												
49	Exemption of credit union income	1,690	2,300	2,200	2,200	2,350	2,440	2,700	2,890	2,980	3,120	3,570	26,750
50	Exclusion of interest on life insurance savings	17,450	18,870	23,380	28,950	33,790	37,820	41,010	43,550	45,750	47,820	49,900	370,840
51	Special alternative tax on small property and casualty insurance companies	30	30	40	40	40	40	50	50	50	50	60	450
52	Tax exemption of certain insurance companies owned by tax-exempt organizations	670	700	730	760	800	850	890	910	940	960	980	8,520
53	Small life insurance company deduction	30	30	30	40	40	40	40	40	40	50	50	400
54	Exclusion of interest spread of financial institutions	380	420	450	470	480	500	510	530	540	550	560	5,010
	Housing:												
55	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,250	1,350	1,530	1,700	1,900	2,020	2,190	2,380	2,550	2,730	2,940	21,290
56	Exclusion of interest on rental housing bonds	1,050	1,120	1,270	1,420	1,590	1,690	1,820	1,990	2,140	2,280	2,450	17,770
57	Deductibility of mortgage interest on owner-occupied homes	58,850	62,440	68,610	75,980	83,760	91,380	98,930	106,150	113,320	120,560	127,360	948,490
58	Deductibility of State and local property tax on owner-occupied homes	31,120	33,080	35,580	38,330	41,150	43,850	46,580	49,280	52,060	55,010	57,890	452,810
59	Deferral of income from installment sales	1,570	1,620	1,640	1,650	1,670	1,720	1,770	1,840	1,920	2,000	2,090	17,920
60	Capital gains exclusion on home sales	37,220	40,580	43,460	46,560	49,870	53,420	57,230	61,300	65,670	70,340	75,350	563,780
61	Exclusion of net imputed rental income	97,920	101,100	104,950	108,460	111,480	114,070	118,400	122,900	127,570	132,420	137,450	1,178,800
62	Exception from passive loss rules for $25,000 of rental loss	6,810	7,210	7,540	7,870	8,240	8,600	8,880	9,170	9,490	9,850	10,160	87,010
63	Credit for low-income housing investments	7,990	7,880	8,130	8,350	8,520	8,660	8,800	8,960	9,160	9,420	9,690	87,570
64	Accelerated depreciation on rental housing (normal tax method)	1,230	1,650	2,270	3,000	3,770	4,570	5,510	6,480	7,350	8,160	8,930	51,690
65	Discharge of mortgage indebtedness	1,100	0	0	0	0	0	0	0	0	0	0	0
	Commerce:												
66	Discharge of business indebtedness	–160	–120	–50	–10	0	10	30	40	50	50	50	50
67	Exceptions from imputed interest rules	40	50	60	60	60	70	70	80	80	80	90	700
68	Treatment of qualified dividends	25,650	25,530	26,470	27,490	28,590	29,760	31,030	32,380	33,810	35,310	36,880	307,250
69	Capital gains (except agriculture, timber, iron ore, and coal)	85,710	92,820	95,870	96,790	98,660	101,520	105,170	109,410	114,070	119,080	124,380	1,057,770
70	Capital gains exclusion of small corporation stock	220	380	620	800	780	680	580	490	430	390	360	5,510
71	Step-up basis of capital gains at death	54,850	58,270	61,910	65,770	69,870	74,220	78,850	83,770	88,990	94,540	100,440	776,630
72	Carryover basis of capital gains on gifts	2,490	2,740	3,010	3,300	3,620	3,970	4,340	4,750	5,170	5,530	5,820	42,250
73	Ordinary income treatment of loss from small business corporation stock sale	50	50	50	50	50	50	50	50	50	50	50	500
74	Deferral of gains from like-kind exchanges	6,980	7,320	7,700	8,090	8,480	8,920	9,360	9,830	10,320	10,830	11,380	92,230
75	Accelerated depreciation of buildings other than rental housing (normal tax method)	–9,300	–9,170	–9,390	–9,790	–10,440	–11,200	–11,930	–12,630	–13,350	–14,160	–14,690	–116,750
76	Accelerated depreciation of machinery and equipment (normal tax method)	–7,510	–8,870	12,180	26,230	35,920	42,260	45,710	47,770	48,950	51,610	54,570	356,330
77	Expensing of certain small investments (normal tax method)	–1,180	–2,290	–790	90	720	1,120	1,530	1,850	2,020	2,160	2,280	8,690
78	Graduated corporation income tax rate (normal tax method)	3,860	3,770	3,670	3,540	3,610	3,570	3,660	3,780	3,940	3,800	3,740	37,080
79	Exclusion of interest on small issue bonds	170	170	200	220	250	260	280	310	330	350	380	2,750
80	Deduction for US production activities	15,230	15,680	16,440	17,220	17,980	18,770	19,580	20,440	21,320	22,250	23,210	192,890
81	Special rules for certain film and TV production	190	110	60	30	10	0	0	0	0	0	0	210
	Transportation:												
82	Tonnage tax	70	70	80	80	90	90	90	100	100	100	110	910
83	Deferral of tax on shipping companies	20	20	20	20	20	20	20	20	20	20	20	200
84	Exclusion of reimbursed employee parking expenses	2,790	2,900	3,000	3,100	3,220	3,340	3,440	3,550	3,670	3,790	3,870	33,880

Table 14–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2015–2025—Continued

(In millions of dollars)

		Total from corporations and individuals											
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–25
85	Exclusion for employer-provided transit passes	730	770	820	860	920	980	1,030	1,100	1,170	1,220	1,290	10,160
86	Tax credit for certain expenditures for maintaining railroad tracks	100	0	0	0	0	0	0	0	0	0	0	0
87	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	220	210	200	190	170	170	160	160	140	140	130	1,670
	Community and regional development:												
88	Investment credit for rehabilitation of structures (other than historic)	20	20	20	20	20	20	20	20	20	20	20	200
89	Exclusion of interest for airport, dock, and	740	800	900	1,010	1,130	1,200	1,300	1,410	1,510	1,610	1,730	12,600
90	Exemption of certain mutuals' and cooperatives'	140	140	150	150	150	160	160	160	170	170	170	1,580
91	Empowerment zones	100	40	30	30	30	20	10	10	10	10	10	200
92	New markets tax credit	1,200	1,230	1,130	910	640	420	230	20	–110	–160	–180	4,130
93	Credit to holders of Gulf Tax Credit Bonds.	240	250	290	310	360	370	410	440	480	510	550	3,970
94	Recovery Zone Bonds [6]	130	140	150	180	190	210	220	240	250	280	290	2,150
95	Tribal Economic Development Bonds	40	40	50	60	60	70	70	80	80	80	90	680
	Education, training, employment, and social services:												
	Education:												
96	Exclusion of scholarship and fellowship income (normal tax method)	3,130	3,250	3,360	3,450	3,510	3,640	3,770	3,900	4,040	4,190	4,340	37,450
97	HOPE tax credit	0	0	0	670	6,740	6,880	7,290	7,380	7,500	7,880	7,960	52,300
98	Lifetime Learning tax credit	2,270	2,450	2,460	2,660	4,340	4,410	4,500	4,530	4,590	4,660	4,690	39,290
99	American Opportunity Tax Credit [7]	13,470	13,430	13,500	12,190	0	0	0	0	0	0	0	39,120
100	Education Individual Retirement Accounts	30	30	40	40	40	40	40	40	50	50	50	420
101	Deductibility of student-loan interest	1,800	1,800	1,780	1,780	1,790	1,820	1,820	1,810	1,840	1,830	1,820	18,090
102	Deduction for higher education expenses	390	0	0	0	0	0	0	0	0	0	0	0
103	Qualified tuition programs	1,680	1,870	2,080	2,290	2,510	2,760	3,020	3,310	3,610	3,960	4,330	29,740
104	Exclusion of interest on student-loan bonds	490	530	600	670	750	800	860	940	1,000	1,080	1,150	8,380
105	Exclusion of interest on bonds for private nonprofit educational facilities	2,270	2,440	2,760	3,090	3,450	3,660	3,960	4,320	4,630	4,940	5,310	38,560
106	Credit for holders of zone academy bonds [8]	160	130	120	110	100	100	90	90	80	80	80	980
107	Exclusion of interest on savings bonds redeemed to finance educational expenses	30	30	30	30	30	30	40	40	40	40	40	350
108	Parental personal exemption for students age 19 or over	4,400	4,400	4,420	4,460	4,590	4,710	4,840	4,950	5,050	5,140	5,250	47,810
109	Deductibility of charitable contributions (education)	4,820	5,180	5,560	5,970	6,400	6,790	7,170	7,550	7,930	8,300	8,680	69,530
110	Exclusion of employer-provided educational assistance	800	850	890	940	980	1,030	1,080	1,130	1,190	1,240	1,300	10,630
111	Special deduction for teacher expenses	210	0	0	0	0	0	0	0	0	0	0	0
112	Discharge of student loan indebtedness	90	90	90	90	90	90	90	90	90	90	90	900
113	Qualified school construction bonds [9]	650	650	650	650	650	650	650	650	650	650	650	6,500
	Training, employment, and social services:												
114	Work opportunity tax credit	720	420	240	180	140	100	70	60	40	30	30	1,310
115	Employer provided child care exclusion	900	930	980	1,050	1,120	1,180	1,250	1,330	1,410	1,500	1,590	12,340
116	Employer-provided child care credit	10	10	10	10	20	20	20	20	20	20	20	170
117	Assistance for adopted foster children	560	540	560	580	610	630	650	680	710	740	770	6,470
118	Adoption credit and exclusion [10]	270	250	260	290	270	320	310	320	320	320	330	2,990
119	Exclusion of employee meals and lodging (other than military)	4,410	4,500	4,600	4,710	4,840	4,970	5,100	5,230	5,360	5,490	5,620	50,420
120	Credit for child and dependent care expenses	4,500	4,520	4,560	4,650	4,760	4,900	5,000	5,120	5,220	5,330	5,440	49,500
121	Credit for disabled access expenditures	10	10	10	10	20	20	20	20	20	20	20	170
122	Deductibility of charitable contributions, other than education and health	40,910	44,240	47,630	51,380	55,250	58,830	62,180	65,530	68,810	72,130	75,410	601,390
123	Exclusion of certain foster care payments	430	460	480	500	510	520	530	550	560	570	580	5,260
124	Exclusion of parsonage allowances	690	730	770	810	850	900	940	990	1,050	1,100	1,160	9,300
125	Indian employment credit	40	30	30	20	10	10	10	10	10	10	0	140
	Health:												
126	Exclusion of employer contributions for medical insurance premiums and medical care [11]	201,450	210,980	220,550	229,620	243,160	259,520	275,600	293,420	313,810	336,070	359,590	2,742,320
127	Self-employed medical insurance premiums	6,690	7,060	7,440	7,680	7,980	8,400	8,820	9,240	9,690	10,210	10,770	87,290
128	Medical Savings Accounts / Health Savings Accounts	4,810	5,730	6,830	8,060	9,560	11,390	13,550	16,130	19,190	22,830	27,150	140,420

Table 14–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2015–2025—Continued

(In millions of dollars)

		Total from corporations and individuals											
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–25
129	Deductibility of medical expenses	7,660	8,260	8,700	9,530	10,980	12,850	14,810	16,840	19,380	22,350	25,460	149,160
130	Exclusion of interest on hospital construction bonds	3,570	3,840	4,350	4,870	5,420	5,760	6,230	6,810	7,290	7,780	8,360	60,710
131	Refundable Premium Assistance Tax Credit [12]	1,960	2,340	3,870	4,880	6,880	7,580	7,810	8,140	8,430	8,730	9,090	67,750
132	Credit for employee health insurance expenses of small business [13]	513	544	543	517	453	395	301	358	242	181	78	3,612
133	Deductibility of charitable contributions (health)	4,620	4,990	5,390	5,810	6,240	6,640	7,030	7,400	7,770	8,150	8,520	67,940
134	Tax credit for orphan drug research	1,460	1,760	2,120	2,570	3,090	3,730	4,490	5,430	6,540	7,890	9,520	47,140
135	Special Blue Cross/Blue Shield deduction	250	250	260	270	280	290	300	320	330	340	350	2,990
136	Tax credit for health insurance purchased by certain displaced and retired individuals [14]	0	30	30	20	10	0	0	0	0	0	0	90
137	Distributions from retirement plans for premiums for health and long-term care insurance	400	440	460	480	500	520	540	560	580	600	620	5,300
	Income security:												
138	Child credit [15]	23,980	24,000	24,290	24,700	25,190	25,080	24,770	24,440	24,040	23,600	23,180	243,290
139	Exclusion of railroad retirement system benefits	300	300	300	290	280	270	250	240	220	190	170	2,510
140	Exclusion of workers' compensation benefits	9,720	9,820	9,920	10,010	10,110	10,220	10,320	10,420	10,530	10,630	10,730	102,710
141	Exclusion of public assistance benefits (normal tax method)	560	570	590	600	630	650	670	680	710	730	680	6,510
142	Exclusion of special benefits for disabled coal miners	30	30	20	20	20	10	10	10	10	10	0	140
143	Exclusion of military disability pensions	220	220	240	250	260	270	290	300	310	330	340	2,810
	Net exclusion of pension contributions and earnings:												
144	Defined benefit employer plans	66,620	66,600	66,760	67,020	66,180	64,820	63,190	60,910	58,470	55,930	52,650	622,530
145	Defined contribution employer plans	62,070	64,710	65,620	68,120	73,930	78,960	98,370	107,980	114,420	121,240	128,130	921,480
146	Individual Retirement Accounts	16,400	16,850	16,970	17,240	18,080	19,270	19,680	20,630	21,780	22,840	24,080	197,420
147	Low and moderate income savers credit	1,280	1,280	1,270	1,270	1,300	1,310	1,310	1,330	1,340	1,350	1,360	13,120
148	Self-Employed plans	25,490	28,030	30,800	33,760	37,030	40,480	44,020	47,870	52,060	56,610	61,560	432,220
	Exclusion of other employee benefits:												
149	Premiums on group term life insurance	2,340	2,450	2,560	2,610	2,700	2,800	2,900	3,000	3,110	3,240	3,350	28,720
150	Premiums on accident and disability insurance	310	320	320	330	330	330	340	340	340	350	350	3,350
151	Income of trusts to finance supplementary unemployment benefits	20	20	30	40	40	50	50	60	60	60	60	470
152	Special ESOP rules	1,890	2,000	2,100	2,210	2,320	2,450	2,580	2,710	2,860	3,010	3,160	25,400
153	Additional deduction for the blind	40	40	40	40	40	50	50	50	60	60	60	490
154	Additional deduction for the elderly	2,890	3,080	3,310	3,560	3,760	4,010	4,210	4,500	4,870	5,170	5,530	42,000
155	Tax credit for the elderly and disabled	10	10	10	10	10	10	10	0	0	0	0	60
156	Deductibility of casualty losses	350	370	390	410	430	450	460	470	490	500	520	4,490
157	Earned income tax credit [16]	2,120	2,820	2,340	3,040	1,820	1,910	1,980	2,080	2,180	2,280	2,380	22,830
	Social Security:												
	Exclusion of social security benefits:												
158	Social Security benefits for retired workers	25,780	26,900	28,280	29,490	30,730	31,760	32,510	33,130	33,690	34,340	34,590	315,420
159	Social Security benefits for disabled workers	8,280	8,490	8,580	8,730	8,970	9,210	9,500	9,840	10,190	10,540	10,870	94,920
160	Social Security benefits for spouses, dependents and survivors	4,060	4,160	4,310	4,440	4,610	4,750	4,870	5,000	5,140	5,310	5,420	48,010
161	Credit for certain employer contributions to social security	980	1,010	1,060	1,110	1,160	1,210	1,260	1,320	1,370	1,440	1,500	12,440
	Veterans benefits and services:												
162	Exclusion of veterans death benefits and disability compensation	6,150	6,760	7,250	7,590	7,870	8,170	8,460	8,770	9,080	9,400	9,740	83,090
163	Exclusion of veterans pensions	420	450	490	510	530	560	580	600	630	650	680	5,680
164	Exclusion of GI bill benefits	1,530	1,690	1,830	1,960	2,070	2,190	2,310	2,440	2,580	2,720	2,880	22,670
165	Exclusion of interest on veterans housing bonds	10	10	10	10	10	10	10	10	10	10	30	120
	General purpose fiscal assistance:												
166	Exclusion of interest on public purpose State and local bonds	29,430	31,700	35,900	40,180	44,810	47,550	51,430	56,190	60,140	64,220	69,030	501,150
167	Build America Bonds [17]	0	0	0	0	0	0	0	0	0	0	0	0
168	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	48,430	51,380	55,130	59,030	62,870	66,730	70,830	75,060	79,410	83,920	88,280	692,640
	Interest:												
169	Deferral of interest on U.S. savings bonds	1,020	1,010	1,000	990	980	970	960	950	940	930	920	9,650

Table 14–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2015–2025—Continued

(In millions of dollars)

	Total from corporations and individuals											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–25
Addendum: Aid to State and local governments:												
Deductibility of:												
Property taxes on owner-occupied homes	31,120	33,080	35,580	38,330	41,150	43,850	46,580	49,280	52,060	55,010	57,890	452,810
Nonbusiness State and local taxes other than on owner-occupied homes	48,430	51,380	55,130	59,030	62,870	66,730	70,830	75,060	79,410	83,920	88,280	692,640
Exclusion of interest on State and local bonds for:												
Public purposes	29,430	31,700	35,900	40,180	44,810	47,550	51,430	56,190	60,140	64,220	69,030	501,150
Energy facilities	20	20	30	30	30	30	40	40	40	40	50	350
Water, sewage, and hazardous waste disposal facilities	450	490	550	620	690	730	780	860	920	980	1,060	7,680
Small-issues	170	170	200	220	250	260	280	310	330	350	380	2,750
Owner-occupied mortgage subsidies	1,250	1,350	1,530	1,700	1,900	2,020	2,190	2,380	2,550	2,730	2,940	21,290
Rental housing	1,050	1,120	1,270	1,420	1,590	1,690	1,820	1,990	2,140	2,280	2,450	17,770
Airports, docks, and similar facilities	740	800	900	1,010	1,130	1,200	1,300	1,410	1,510	1,610	1,730	12,600
Student loans	490	530	600	670	750	800	860	940	1,000	1,080	1,150	8,380
Private nonprofit educational facilities	2,270	2,440	2,760	3,090	3,450	3,660	3,960	4,320	4,630	4,940	5,310	38,560
Hospital construction	3,570	3,840	4,350	4,870	5,420	5,760	6,230	6,810	7,290	7,780	8,360	60,710
Veterans' housing	10	10	10	10	10	10	10	10	10	10	30	120

[1] Firms can take an energy grant in lieu of the energy production credit or the energy investment credit for facilities placed in service in 2009 and 2010 or whose construction commenced in 2009 and 2010. The effect of the grant on outlays (in millions of dollars) is as follows: 2015 $2,300; 2016 $1,200; 2017 $650; and $0 thereafter.

[2] The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2015 $630; and $0 thereafter.

[3] In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2015 $1,870; and $0 thereafter.

[4] In addition, the inventory property sales source rules exception has outlay effects of (in millions of dollars):
2015 $30; 2016 $30; 2017 $30; 2018 $30; 2019 $30; 2020 $30; 2021 $30; 2022 $30; 2023 $30; 2024 $30; and 2025 $30.

[5] In addition, the deferral of income from controlled foreign corporations (normal tax method) has outlay effects of (in millions of dollars):
2015 $30; 2016 $30; 2017 $30; 2018 $30; 2019 $30; 2020 $30; 2021 $30; 2022 $30; 2023 $30; 2024 $30; 2025 $30.

[6] In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows:
2015 $220; 2016 $220; 2017 $220; 2018 $220; 2019 $220; 2020 $220; 2021 $220; 2022 $220; 2023 $220; 2024 $220; and 2025 $220.

[7] In addition, the expensing of research and experimentation expenditures has outlay effects of (in millions of dollars):
2015 $4,200; 2016 $4,360; 2017 $4,490; 2018 $4,630; and 2019 $2,620.

[8] In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars):
2015 $50; 2016 $50; 2017 $50; 2018 $50; 2019 $50; 2020 $50; 2021 $50; 2022 $50; 2023 $50; 2024 $50; and 2025 $50.

[9] In addition, the provision for school construction bonds has outlay effects of (in millions of dollars):
2015 $740; 2016 $740; 2017 $740; 2018 $740; 2019 $740; 2020 $740; 2021 $740; 2022 $740; 2023 $740; 2024 $740; and 2025 $740.

[10] In addition, the adoption tax credit has outlay effects of (in millions of dollars): 2015 $30 and $0 thereafter.

[11] In addition, the employer contributions for health have effects on payroll tax receipts (in millions of dollars) as follows: 2015 $127,500; 2016 $131,380; 2017 $135,470;
2018 $140,080; 2019 $147,360; 2020 $156,090; 2021 $164,510; 2022 $172,600; 2023 $181,400; 2024 $190,900; and 2025 $200,930.

[12] In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows:
2015 $20,730; 2016 $38,030; 2017 $53,030; 2018 $75,400; 2019 $88,990; 2020 $95,320; 2021 $100,580; 2022 $106,400; 2023 $110,970; 2024 $115,910; and 2025 $121,040.

[13] In addition, the small business credit provision has outlay effects (in millions of dollars) as follows:
2015 $70; 2016 $80; 2017 $70; 2018 $70; 2019 $60; 2020 $50; 2021 $30; 2022 $30; 2023 $20; 2024 $20; and 2025 $10.

[14] In addition, the effect of the health coverage tax credit on receipts has outlay effects of (in millions of dollars)
2015 $0; 2016 $10; 2017 $20; 2018 $30; 2019 $30; 2020 $10; and $0 thereafter.

[15] In addition, the effect of the child tax credit on receipts has outlay effects of (in millions of dollars):
2015 $26,990; 2016 $27,060; 2017 $27,050; 2018 $26,890; 2019 $ 15,330; 2020 $15,240; 2021 $15,340; 2022 $15,340; 2023 $15,390; 2024 $15,430; and 2025 $15,400.

[16] In addition, the earned income tax credit on receipts has outlay effects of (in millions of dollars):
2015 $61,880; 2016 $63,370; 2017 $63,100; 2018 $63,380; 2019 $ 61,620; 2020 $63,670; 2021 $63,040; 2022 $64,520; 2023 $66,090; 2024 $67,700; and 2025 $69,120.

[17] In addition, the Build America Bonds have outlay effects of (in millions of dollars):
2015 $3,800; 2016 $3,800; 2017 $3,800; 2018 $3,800, 2019 $3,800; 2020 $3,800; 2021 $3,800; 2022 $3,800; 2023 $3,800; 2024 $3,800; and 2025 $3,800.

Note: Provisions with estimates denoted normal tax method have no revenue loss under the reference tax law method. All estimates have been rounded to the nearest $10 million. Provisions with estimates that rounded to zero in each year are not included in the table.

Table 14–2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2015–2025
(In millions of dollars)

	Total from corporations											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–25
National Defense												
1 Exclusion of benefits and allowances to armed forces personnel	0	0	0	0	0	0	0	0	0	0	0	0
International affairs:												
2 Exclusion of income earned abroad by U.S. citizens	0	0	0	0	0	0	0	0	0	0	0	0
3 Exclusion of certain allowances for Federal employees abroad	0	0	0	0	0	0	0	0	0	0	0	0
4 Inventory property sales source rules exception	3,890	4,210	4,560	4,940	5,350	5,790	6,270	6,790	7,350	7,960	8,620	61,840
5 Deferral of income from controlled foreign corporations (normal tax method)	64,560	67,780	71,170	74,730	78,470	82,390	86,510	90,840	95,380	100,150	105,160	852,580
6 Deferred taxes for financial firms on certain income earned overseas	4,470	0	0	0	0	0	0	0	0	0	0	0
General science, space, and technology:												
7 Expensing of research and experimentation expenditures (normal tax method)	7,130	5,730	5,410	5,840	6,360	6,810	7,070	7,300	7,560	7,870	8,210	68,160
8 Credit for increasing research activities	5,420	3,160	2,840	2,540	2,250	1,990	1,750	1,540	1,350	1,180	1,020	19,620
Energy:												
9 Expensing of exploration and development costs, fuels	500	360	350	390	430	460	430	420	440	450	420	4,150
10 Excess of percentage over cost depletion, fuels	520	570	690	810	920	990	1,030	1,120	1,230	1,350	1,450	10,160
11 Exception from passive loss limitation for working interests in oil and gas properties	0	0	0	0	0	0	0	0	0	0	0	0
12 Capital gains treatment of royalties on coal	0	0	0	0	0	0	0	0	0	0	0	0
13 Exclusion of interest on energy facility bonds	10	10	10	10	10	10	10	10	10	10	10	100
14 Energy production credit [1]	1,160	1,460	1,690	1,730	1,670	1,590	1,540	1,480	1,380	1,190	870	14,600
15 Energy investment credit [1]	810	1,180	780	200	30	100	260	350	410	420	320	4,050
16 Alcohol fuel credits [2]	10	0	0	0	0	0	0	0	0	0	0	0
17 Bio-Diesel and small agri-biodiesel producer tax credits [3]	40	20	10	10	0	0	0	0	0	0	0	40
18 Tax credits for clean-fuel burning vehicles and refueling property	210	220	280	310	280	220	130	50	20	30	50	1,590
19 Exclusion of utility conservation subsidies	30	30	30	30	30	30	30	30	30	30	30	300
20 Credit for holding clean renewable energy bonds [4]	20	20	20	20	20	20	20	20	20	20	20	200
21 Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–120	–220	–180	–150	–130	–110	–70	–20	0	0	0	–880
22 Credit for investment in clean coal facilities	40	140	360	400	210	30	–20	–20	–20	–10	–10	1,060
23 Temporary 50% expensing for equipment used in the refining of liquid fuels	–2,250	–2,050	–1,820	–1,500	–1,220	–970	–680	–420	–200	–40	0	–8,900
24 Natural gas distribution pipelines treated as 15-year property	160	160	160	170	170	170	150	80	–20	–120	–230	690
25 Amortize all geological and geophysical expenditures over 2 years	70	80	80	70	70	70	70	80	80	80	80	760
26 Allowance of deduction for certain energy efficient commercial building property	10	0	–10	–10	–10	–10	–10	–10	–10	–10	–10	–90
27 Credit for construction of new energy efficient homes	20	10	0	0	0	0	0	0	0	0	0	10
28 Credit for energy efficiency improvements to existing homes	0	0	0	0	0	0	0	0	0	0	0	0
29 Credit for residential energy efficient property	0	0	0	0	0	0	0	0	0	0	0	0
30 Qualified energy conservation bonds [5]	10	10	10	10	10	10	10	10	10	10	10	100
31 Advanced energy property credit	50	10	–20	–20	–20	–10	0	0	0	0	0	–60
32 Advanced nuclear power production credit	0	140	140	140	340	620	690	690	690	580	550	4,580
33 Reduced tax rate for nuclear decommissioning funds	160	170	200	220	240	250	270	280	290	300	320	2,540
Natural resources and environment:												
34 Expensing of exploration and development costs, nonfuel minerals	10	0	10	30	50	60	60	60	60	50	50	430
35 Excess of percentage over cost depletion, nonfuel minerals	490	500	510	510	520	490	450	450	440	430	420	4,720
36 Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	130	170	190	200	210	200	200	220	230	240	270	2,130
37 Capital gains treatment of certain timber income	0	0	0	0	0	0	0	0	0	0	0	0
38 Expensing of multiperiod timber growing costs	190	200	210	230	240	250	260	260	270	270	280	2,470
39 Tax incentives for preservation of historic structures	380	390	400	400	410	420	430	440	450	460	460	4,260
40 Industrial CO2 capture and sequestration tax credit	80	110	150	190	80	0	0	0	0	0	0	530
41 Deduction for endangered species recovery expenditures	10	10	10	10	10	20	20	20	20	20	30	170

Table 14–2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2015–2025—Continued

(In millions of dollars)

		Total from corporations											
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–25
	Agriculture:												
42	Expensing of certain capital outlays	10	10	20	20	20	20	20	20	20	30	30	210
43	Expensing of certain multiperiod production costs	20	20	30	30	30	30	40	40	40	50	50	360
44	Treatment of loans forgiven for solvent farmers	0	0	0	0	0	0	0	0	0	0	0	0
45	Capital gains treatment of certain income	0	0	0	0	0	0	0	0	0	0	0	0
46	Income averaging for farmers	0	0	0	0	0	0	0	0	0	0	0	0
47	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	30	30	30	30	30	250
48	Expensing of reforestation expenditures	20	20	20	20	20	30	30	30	30	30	30	260
	Commerce and housing:												
	Financial institutions and insurance:												
49	Exemption of credit union income	1,690	2,300	2,200	2,200	2,350	2,440	2,700	2,890	2,980	3,120	3,570	26,750
50	Exclusion of interest on life insurance savings	1,630	1,740	2,020	2,350	2,630	2,860	3,040	3,210	3,360	3,520	3,680	28,410
51	Special alternative tax on small property and casualty insurance companies	30	30	40	40	40	40	50	50	50	50	60	450
52	Tax exemption of certain insurance companies owned by tax-exempt organizations	670	700	730	760	800	850	890	910	940	960	980	8,520
53	Small life insurance company deduction	30	30	30	40	40	40	40	40	40	50	50	400
54	Exclusion of interest spread of financial institutions	0	0	0	0	0	0	0	0	0	0	0	0
	Housing:												
55	Exclusion of interest on owner-occupied mortgage subsidy bonds	360	460	530	550	580	550	570	610	640	680	750	5,920
56	Exclusion of interest on rental housing bonds	300	380	440	460	490	460	470	510	540	570	620	4,940
57	Deductibility of mortgage interest on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
58	Deductibility of State and local property tax on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
59	Deferral of income from installment sales	0	0	0	0	0	0	0	0	0	0	0	0
60	Capital gains exclusion on home sales	0	0	0	0	0	0	0	0	0	0	0	0
61	Exclusion of net imputed rental income	0	0	0	0	0	0	0	0	0	0	0	0
62	Exception from passive loss rules for $25,000 of rental loss	0	0	0	0	0	0	0	0	0	0	0	0
63	Credit for low-income housing investments	7,590	7,490	7,720	7,930	8,090	8,230	8,360	8,510	8,700	8,950	9,210	83,190
64	Accelerated depreciation on rental housing (normal tax method)	190	260	370	500	630	770	920	1,080	1,220	1,350	1,470	8,570
65	Discharge of mortgage indebtedness	0	0	0	0	0	0	0	0	0	0	0	0
	Commerce:												
66	Discharge of business indebtedness	0	0	0	0	0	0	0	0	0	0	0	0
67	Exceptions from imputed interest rules	0	0	0	0	0	0	0	0	0	0	0	0
68	Treatment of qualified dividends	0	0	0	0	0	0	0	0	0	0	0	0
69	Capital gains (except agriculture, timber, iron ore, and coal)	0	0	0	0	0	0	0	0	0	0	0	0
70	Capital gains exclusion of small corporation stock	0	0	0	0	0	0	0	0	0	0	0	0
71	Step-up basis of capital gains at death	0	0	0	0	0	0	0	0	0	0	0	0
72	Carryover basis of capital gains on gifts	0	0	0	0	0	0	0	0	0	0	0	0
73	Ordinary income treatment of loss from small business corporation stock sale	0	0	0	0	0	0	0	0	0	0	0	0
74	Deferral of gains from like-kind exchanges	5,450	5,720	6,010	6,310	6,620	6,960	7,300	7,670	8,050	8,450	8,880	71,970
75	Accelerated depreciation of buildings other than rental housing (normal tax method)	–3,890	–3,850	–4,020	–4,280	–4,620	–5,000	–5,330	–5,630	–5,940	–6,290	–6,520	–51,480
76	Accelerated depreciation of machinery and equipment (normal tax method)	–5,850	–7,250	6,410	15,890	22,610	27,120	29,640	31,210	32,150	34,040	36,130	227,950
77	Expensing of certain small investments (normal tax method)	–230	–380	–200	–80	10	70	130	180	200	220	230	380
78	Graduated corporation income tax rate (normal tax method)	3,860	3,770	3,670	3,540	3,610	3,570	3,660	3,780	3,940	3,800	3,740	37,080
79	Exclusion of interest on small issue bonds	50	60	70	70	80	70	70	80	80	90	100	770
80	Deduction for US production activities	11,540	11,850	12,440	13,040	13,610	14,210	14,820	15,470	16,140	16,840	17,570	145,990
81	Special rules for certain film and TV production	150	90	50	20	10	0	0	0	0	0	0	170
	Transportation:												
82	Tonnage tax	70	70	80	80	90	90	90	100	100	100	110	910
83	Deferral of tax on shipping companies	20	20	20	20	20	20	20	20	20	20	20	200

Table 14–2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2015–2025—Continued

(In millions of dollars)

		Total from corporations											
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–25
84	Exclusion of reimbursed employee parking expenses	0	0	0	0	0	0	0	0	0	0	0	0
85	Exclusion for employer-provided transit passes	0	0	0	0	0	0	0	0	0	0	0	0
86	Tax credit for certain expenditures for maintaining railroad tracks	90	0	0	0	0	0	0	0	0	0	0	0
87	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	50	50	50	50	40	40	40	40	30	30	30	400
	Community and regional development:												
88	Investment credit for rehabilitation of structures (other than historic)	10	10	10	10	10	10	10	10	10	10	10	100
89	Exclusion of interest for airport, dock, and similar bonds	210	270	310	330	350	330	340	360	380	400	440	3,510
90	Exemption of certain mutuals' and cooperatives' income	140	140	150	150	150	160	160	160	170	170	170	1,580
91	Empowerment zones	40	20	10	10	10	10	0	0	0	0	0	60
92	New markets tax credit	1,170	1,200	1,110	890	620	410	220	20	–110	–160	–180	4,020
93	Credit to holders of Gulf Tax Credit Bonds.	70	80	100	100	110	100	110	110	120	130	140	1,100
94	Recovery Zone Bonds [6]	40	50	50	60	60	60	60	60	60	70	70	600
95	Tribal Economic Development Bonds	10	10	20	20	20	20	20	20	20	20	20	190
	Education, training, employment, and social services:												
	Education:												
96	Exclusion of scholarship and fellowship income (normal tax method)	0	0	0	0	0	0	0	0	0	0	0	0
97	HOPE tax credit	0	0	0	0	0	0	0	0	0	0	0	0
98	Lifetime Learning tax credit	0	0	0	0	0	0	0	0	0	0	0	0
99	American Opportunity Tax Credit [7]	0	0	0	0	0	0	0	0	0	0	0	0
100	Education Individual Retirement Accounts	0	0	0	0	0	0	0	0	0	0	0	0
101	Deductibility of student-loan interest	0	0	0	0	0	0	0	0	0	0	0	0
102	Deduction for higher education expenses	0	0	0	0	0	0	0	0	0	0	0	0
103	Qualified tuition programs	0	0	0	0	0	0	0	0	0	0	0	0
104	Exclusion of interest on student-loan bonds	140	180	210	220	230	220	220	240	250	270	290	2,330
105	Exclusion of interest on bonds for private nonprofit educational facilities	650	830	960	1,000	1,060	1,000	1,030	1,110	1,160	1,230	1,350	10,730
106	Credit for holders of zone academy bonds [8]	160	130	120	110	100	100	90	90	80	80	80	980
107	Exclusion of interest on savings bonds redeemed to finance educational expenses	0	0	0	0	0	0	0	0	0	0	0	0
108	Parental personal exemption for students age 19 or over	0	0	0	0	0	0	0	0	0	0	0	0
109	Deductibility of charitable contributions (education)	860	900	940	980	1,030	1,070	1,120	1,170	1,220	1,270	1,320	11,020
110	Exclusion of employer-provided educational assistance	0	0	0	0	0	0	0	0	0	0	0	0
111	Special deduction for teacher expenses	0	0	0	0	0	0	0	0	0	0	0	0
112	Discharge of student loan indebtedness	0	0	0	0	0	0	0	0	0	0	0	0
113	Qualified school construction bonds [9]	160	160	160	160	160	160	160	160	160	160	160	1,600
	Training, employment, and social services:												
114	Work opportunity tax credit	540	300	170	130	100	70	50	40	30	20	20	930
115	Employer provided child care exclusion	0	0	0	0	0	0	0	0	0	0	0	0
116	Employer-provided child care credit	10	10	10	10	20	20	20	20	20	20	20	170
117	Assistance for adopted foster children	0	0	0	0	0	0	0	0	0	0	0	0
118	Adoption credit and exclusion [10]	0	0	0	0	0	0	0	0	0	0	0	0
119	Exclusion of employee meals and lodging (other than military)	0	0	0	0	0	0	0	0	0	0	0	0
120	Credit for child and dependent care expenses	0	0	0	0	0	0	0	0	0	0	0	0
121	Credit for disabled access expenditures	0	0	0	0	0	0	0	0	0	0	0	0
122	Deductibility of charitable contributions, other than education and health	1,800	1,890	1,970	2,060	2,150	2,250	2,340	2,450	2,550	2,650	2,750	23,060
123	Exclusion of certain foster care payments	0	0	0	0	0	0	0	0	0	0	0	0
124	Exclusion of parsonage allowances	0	0	0	0	0	0	0	0	0	0	0	0
125	Indian employment credit	20	10	10	10	0	0	0	0	0	0	0	30
	Health:												
126	Exclusion of employer contributions for medical insurance premiums and medical care [11]	0	0	0	0	0	0	0	0	0	0	0	0

Table 14–2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2015–2025—Continued

(In millions of dollars)

		Total from corporations											
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–25
127	Self-employed medical insurance premiums	0	0	0	0	0	0	0	0	0	0	0	0
128	Medical Savings Accounts / Health Savings Accounts	0	0	0	0	0	0	0	0	0	0	0	0
129	Deductibility of medical expenses	0	0	0	0	0	0	0	0	0	0	0	0
130	Exclusion of interest on hospital construction bonds	1,020	1,300	1,510	1,580	1,660	1,580	1,620	1,750	1,830	1,930	2,130	16,890
131	Refundable Premium Assistance Tax Credit [12]	0	0	0	0	0	0	0	0	0	0	0	0
132	Credit for employee health insurance expenses of small business [13]	137	154	162	160	149	129	113	118	82	56	25	1,148
133	Deductibility of charitable contributions (health)	240	250	270	280	290	300	320	330	340	360	380	3,120
134	Tax credit for orphan drug research	1,450	1,750	2,110	2,550	3,070	3,710	4,470	5,400	6,510	7,850	9,480	46,900
135	Special Blue Cross/Blue Shield deduction	250	250	260	270	280	290	300	320	330	340	350	2,990
136	Tax credit for health insurance purchased by certain displaced and retired individuals [14]	0	0	0	0	0	0	0	0	0	0	0	0
137	Distributions from retirement plans for premiums for health and long-term care insurance	0	0	0	0	0	0	0	0	0	0	0	0
Income security:													
138	Child credit [15]	0	0	0	0	0	0	0	0	0	0	0	0
139	Exclusion of railroad retirement system benefits	0	0	0	0	0	0	0	0	0	0	0	0
140	Exclusion of workers' compensation benefits	0	0	0	0	0	0	0	0	0	0	0	0
141	Exclusion of public assistance benefits (normal tax method)	0	0	0	0	0	0	0	0	0	0	0	0
142	Exclusion of special benefits for disabled coal miners	0	0	0	0	0	0	0	0	0	0	0	0
143	Exclusion of military disability pensions	0	0	0	0	0	0	0	0	0	0	0	0
	Net exclusion of pension contributions and earnings:												
144	Defined benefit employer plans	0	0	0	0	0	0	0	0	0	0	0	0
145	Defined contribution employer plans	0	0	0	0	0	0	0	0	0	0	0	0
146	Individual Retirement Accounts	0	0	0	0	0	0	0	0	0	0	0	0
147	Low and moderate income savers credit	0	0	0	0	0	0	0	0	0	0	0	0
148	Self-Employed plans	0	0	0	0	0	0	0	0	0	0	0	0
	Exclusion of other employee benefits:												
149	Premiums on group term life insurance	0	0	0	0	0	0	0	0	0	0	0	0
150	Premiums on accident and disability insurance	0	0	0	0	0	0	0	0	0	0	0	0
151	Income of trusts to finance supplementary unemployment benefits	0	0	0	0	0	0	0	0	0	0	0	0
152	Special ESOP rules	1,780	1,880	1,980	2,090	2,200	2,320	2,450	2,580	2,720	2,870	3,020	24,110
153	Additional deduction for the blind	0	0	0	0	0	0	0	0	0	0	0	0
154	Additional deduction for the elderly	0	0	0	0	0	0	0	0	0	0	0	0
155	Tax credit for the elderly and disabled	0	0	0	0	0	0	0	0	0	0	0	0
156	Deductibility of casualty losses	0	0	0	0	0	0	0	0	0	0	0	0
157	Earned income tax credit [16]	0	0	0	0	0	0	0	0	0	0	0	0
Social Security:													
	Exclusion of social security benefits:												
158	Social Security benefits for retired workers	0	0	0	0	0	0	0	0	0	0	0	0
159	Social Security benefits for disabled workers	0	0	0	0	0	0	0	0	0	0	0	0
160	Social Security benefits for spouses, dependents and survivors	0	0	0	0	0	0	0	0	0	0	0	0
161	Credit for certain employer contributions to social security	430	440	460	490	510	530	550	580	600	630	660	5,450
Veterans benefits and services:													
162	Exclusion of veterans death benefits and disability compensation	0	0	0	0	0	0	0	0	0	0	0	0
163	Exclusion of veterans pensions	0	0	0	0	0	0	0	0	0	0	0	0
164	Exclusion of GI bill benefits	0	0	0	0	0	0	0	0	0	0	0	0
165	Exclusion of interest on veterans housing bonds	0	0	0	0	0	0	0	0	0	0	10	10
General purpose fiscal assistance:													
166	Exclusion of interest on public purpose State and local bonds	8,410	10,750	12,450	13,030	13,750	13,020	13,350	14,430	15,070	15,940	17,560	139,350
167	Build America Bonds [17]	0	0	0	0	0	0	0	0	0	0	0	0

Table 14–2A. ESTIMATES OF TOTAL CORPORATE INCOME TAX EXPENDITURES FOR FISCAL YEARS 2015–2025—Continued

(In millions of dollars)

	Total from corporations											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–25
168 Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
Interest:												
169 Deferral of interest on U.S. savings bonds	0	0	0	0	0	0	0	0	0	0	0	0
Addendum: Aid to State and local governments:												
Deductibility of:												
Property taxes on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
Nonbusiness State and local taxes other than on owner-occupied homes	0	0	0	0	0	0	0	0	0	0	0	0
Exclusion of interest on State and local bonds for:												
Public purposes	8,410	10,750	12,450	13,030	13,750	13,020	13,350	14,430	15,070	15,940	17,560	139,350
Energy facilities	10	10	10	10	10	10	10	10	10	10	10	100
Water, sewage, and hazardous waste disposal facilities	130	170	190	200	210	200	200	220	230	240	270	2,130
Small-issues	50	60	70	70	80	70	70	80	80	90	100	770
Owner-occupied mortgage subsidies	360	460	530	550	580	550	570	610	640	680	750	5,920
Rental housing	300	380	440	460	490	460	470	510	540	570	620	4,940
Airports, docks, and similar facilities	210	270	310	330	350	330	340	360	380	400	440	3,510
Student loans	140	180	210	220	230	220	220	240	250	270	290	2,330
Private nonprofit educational facilities	650	830	960	1,000	1,060	1,000	1,030	1,110	1,160	1,230	1,350	10,730
Hospital construction	1,020	1,300	1,510	1,580	1,660	1,580	1,620	1,750	1,830	1,930	2,130	16,890
Veterans' housing	0	0	0	0	0	0	0	0	0	0	10	10

See Table 1 footnotes for specific table information

Table 14–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2015–2025
(In millions of dollars)

		Total from individuals											
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2025
National Defense													
1	Exclusion of benefits and allowances to armed forces personnel	13,680	14,220	13,170	13,310	13,780	14,340	14,970	15,640	16,360	17,130	17,950	150,870
International affairs:													
2	Exclusion of income earned abroad by U.S. citizens	5,990	6,280	6,600	6,930	7,280	7,640	8,020	8,420	8,840	9,290	9,750	79,050
3	Exclusion of certain allowances for Federal employees abroad	1,240	1,300	1,370	1,430	1,510	1,580	1,660	1,740	1,830	1,920	2,020	16,360
4	Inventory property sales source rules exception	0	0	0	0	0	0	0	0	0	0	0	0
5	Deferral of income from controlled foreign corporations (normal tax method)	0	0	0	0	0	0	0	0	0	0	0	0
6	Deferred taxes for financial firms on certain income earned overseas	0	0	0	0	0	0	0	0	0	0	0	0
General science, space, and technology:													
7	Expensing of research and experimentation expenditures (normal tax method)	770	620	410	430	470	500	530	540	560	580	610	5,250
8	Credit for increasing research activities	290	160	140	130	120	100	90	80	70	60	60	1,010
Energy:													
9	Expensing of exploration and development costs, fuels	160	110	110	120	130	140	150	150	160	170	160	1,400
10	Excess of percentage over cost depletion, fuels	130	140	170	200	230	250	260	280	310	340	360	2,540
11	Exception from passive loss limitation for working interests in oil and gas properties	40	40	40	40	40	30	30	30	30	30	30	340
12	Capital gains treatment of royalties on coal	110	120	130	130	130	140	140	150	150	160	170	1,420
13	Exclusion of interest on energy facility bonds	10	10	20	20	20	20	30	30	30	30	40	250
14	Energy production credit [1]	390	490	560	580	560	530	510	490	460	400	290	4,870
15	Energy investment credit [1]	200	290	190	50	10	30	60	90	100	110	80	1,010
16	Alcohol fuel credits [2]	10	0	0	0	0	0	0	0	0	0	0	0
17	Bio-Diesel and small agri-biodiesel producer tax credits [3]	30	10	10	0	0	0	0	0	0	0	0	20
18	Tax credits for clean-fuel burning vehicles and refueling property	330	330	390	510	530	480	370	240	120	100	110	3,180
19	Exclusion of utility conservation subsidies	400	420	440	460	490	510	540	560	590	620	650	5,280
20	Credit for holding clean renewable energy bonds [4]	50	50	50	50	50	50	50	50	50	50	50	500
21	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	0	0	0	0	0	0	0	0	0	0	0	0
22	Credit for investment in clean coal facilities	0	20	40	40	20	0	0	0	0	0	0	120
23	Temporary 50% expensing for equipment used in the refining of liquid fuels	0	0	0	0	0	0	0	0	0	0	0	0
24	Natural gas distribution pipelines treated as 15-year property	0	0	0	0	0	0	0	0	0	0	0	0
25	Amortize all geological and geophysical expenditures over 2 years	20	20	20	20	20	20	20	20	20	20	20	200
26	Allowance of deduction for certain energy efficient commercial building property	20	–10	–20	–20	–20	–20	–20	–20	–20	–20	–20	–190
27	Credit for construction of new energy efficient homes	40	10	0	0	0	0	0	0	0	0	0	10
28	Credit for energy efficiency improvements to existing homes	270	0	0	0	0	0	0	0	0	0	0	0
29	Credit for residential energy efficient property	850	770	460	180	40	0	0	0	0	0	0	1,450
30	Qualified energy conservation bonds [5]	20	20	20	20	20	20	20	20	20	20	20	200
31	Advanced energy property credit	10	0	–10	–10	–10	0	0	0	0	0	0	–30
32	Advanced nuclear power production credit	0	0	0	0	0	0	0	0	0	0	0	0
33	Reduced tax rate for nuclear decommissioning funds	0	0	0	0	0	0	0	0	0	0	0	0
Natural resources and environment:													
34	Expensing of exploration and development costs, nonfuel minerals	0	0	0	0	0	0	0	10	10	0	0	20
35	Excess of percentage over cost depletion, nonfuel minerals	30	30	30	30	30	30	20	20	20	20	20	250
36	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	320	320	360	420	480	530	580	640	690	740	790	5,550
37	Capital gains treatment of certain timber income	110	120	130	130	130	140	140	150	150	160	170	1,420
38	Expensing of multiperiod timber growing costs	130	130	140	140	140	150	160	160	160	160	170	1,510
39	Tax incentives for preservation of historic structures	70	70	70	70	70	70	80	80	80	80	80	750
40	Industrial CO2 capture and sequestration tax credit	0	0	0	0	0	0	0	0	0	0	0	0

Table 14–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2015–2025—Continued

(In millions of dollars)

		Total from individuals											
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2025
41	Deduction for endangered species recovery expenditures	10	20	20	20	20	20	30	30	30	30	40	260
Agriculture:													
42	Expensing of certain capital outlays	210	200	210	220	230	250	260	270	290	300	320	2,550
43	Expensing of certain multiperiod production costs	330	350	360	380	410	430	450	480	510	540	580	4,490
44	Treatment of loans forgiven for solvent farmers	40	40	40	40	40	40	40	40	40	40	40	400
45	Capital gains treatment of certain income	1,150	1,240	1,280	1,300	1,320	1,360	1,410	1,470	1,530	1,590	1,670	14,170
46	Income averaging for farmers	130	140	140	140	140	140	140	140	140	140	140	1,400
47	Deferral of gain on sale of farm refiners	0	0	0	0	0	0	0	0	0	0	0	0
48	Expensing of reforestation expenditures	30	30	40	40	40	40	40	50	50	50	50	430
Commerce and housing:													
	Financial institutions and insurance:												
49	Exemption of credit union income	0	0	0	0	0	0	0	0	0	0	0	0
50	Exclusion of interest on life insurance savings	15,820	17,130	21,360	26,600	31,160	34,960	37,970	40,340	42,390	44,300	46,220	342,430
51	Special alternative tax on small property and casualty insurance companies	0	0	0	0	0	0	0	0	0	0	0	0
52	Tax exemption of certain insurance companies owned by tax-exempt organizations	0	0	0	0	0	0	0	0	0	0	0	0
53	Small life insurance company deduction	0	0	0	0	0	0	0	0	0	0	0	0
54	Exclusion of interest spread of financial institutions	380	420	450	470	480	500	510	530	540	550	560	5,010
	Housing:												
55	Exclusion of interest on owner-occupied mortgage subsidy bonds	890	890	1,000	1,150	1,320	1,470	1,620	1,770	1,910	2,050	2,190	15,370
56	Exclusion of interest on rental housing bonds	750	740	830	960	1,100	1,230	1,350	1,480	1,600	1,710	1,830	12,830
57	Deductibility of mortgage interest on owner-occupied homes	58,850	62,440	68,610	75,980	83,760	91,380	98,930	106,150	113,320	120,560	127,360	948,490
58	Deductibility of State and local property tax on owner-occupied homes	31,120	33,080	35,580	38,330	41,150	43,850	46,580	49,280	52,060	55,010	57,890	452,810
59	Deferral of income from installment sales	1,570	1,620	1,640	1,650	1,670	1,720	1,770	1,840	1,920	2,000	2,090	17,920
60	Capital gains exclusion on home sales	37,220	40,580	43,460	46,560	49,870	53,420	57,230	61,300	65,670	70,340	75,350	563,780
61	Exclusion of net imputed rental income	97,920	101,100	104,950	108,460	111,480	114,070	118,400	122,900	127,570	132,420	137,450	1,178,800
62	Exception from passive loss rules for $25,000 of rental loss	6,810	7,210	7,540	7,870	8,240	8,600	8,880	9,170	9,490	9,850	10,160	87,010
63	Credit for low-income housing investments	400	390	410	420	430	430	440	450	460	470	480	4,380
64	Accelerated depreciation on rental housing (normal tax method)	1,040	1,390	1,900	2,500	3,140	3,800	4,590	5,400	6,130	6,810	7,460	43,120
65	Discharge of mortgage indebtedness	1,100	0	0	0	0	0	0	0	0	0	0	0
	Commerce:												
66	Discharge of business indebtedness	–160	–120	–50	–10	0	10	30	40	50	50	50	50
67	Exceptions from imputed interest rules	40	50	60	60	60	70	70	80	80	80	90	700
68	Treatment of qualified dividends	25,650	25,530	26,470	27,490	28,590	29,760	31,030	32,380	33,810	35,310	36,880	307,250
69	Capital gains (except agriculture, timber, iron ore, and coal)	85,710	92,820	95,870	96,790	98,660	101,520	105,170	109,410	114,070	119,080	124,380	1,057,770
70	Capital gains exclusion of small corporation stock	220	380	620	800	780	680	580	490	430	390	360	5,510
71	Step-up basis of capital gains at death	54,850	58,270	61,910	65,770	69,870	74,220	78,850	83,770	88,990	94,540	100,440	776,630
72	Carryover basis of capital gains on gifts	2,490	2,740	3,010	3,300	3,620	3,970	4,340	4,750	5,170	5,530	5,820	42,250
73	Ordinary income treatment of loss from small business corporation stock sale	50	50	50	50	50	50	50	50	50	50	50	500
74	Deferral of gains from like-kind exchanges	1,530	1,600	1,690	1,780	1,860	1,960	2,060	2,160	2,270	2,380	2,500	20,260
75	Accelerated depreciation of buildings other than rental housing (normal tax method)	–5,410	–5,320	–5,370	–5,510	–5,820	–6,200	–6,600	–7,000	–7,410	–7,870	–8,170	–65,270
76	Accelerated depreciation of machinery and equipment (normal tax method)	–1,660	–1,620	5,770	10,340	13,310	15,140	16,070	16,560	16,800	17,570	18,440	128,380
77	Expensing of certain small investments (normal tax method)	–950	–1,910	–590	170	710	1,050	1,400	1,670	1,820	1,940	2,050	8,310
78	Graduated corporation income tax rate (normal tax method)	0	0	0	0	0	0	0	0	0	0	0	0
79	Exclusion of interest on small issue bonds	120	110	130	150	170	190	210	230	250	260	280	1,980
80	Deduction for US production activities	3,690	3,830	4,000	4,180	4,370	4,560	4,760	4,970	5,180	5,410	5,640	46,900
81	Special rules for certain film and TV production	40	20	10	10	0	0	0	0	0	0	0	40
Transportation:													
82	Tonnage tax	0	0	0	0	0	0	0	0	0	0	0	0

Table 14–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2015–2025—Continued

(In millions of dollars)

		Total from individuals											
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2025
83	Deferral of tax on shipping companies	0	0	0	0	0	0	0	0	0	0	0	0
84	Exclusion of reimbursed employee parking expenses	2,790	2,900	3,000	3,100	3,220	3,340	3,440	3,550	3,670	3,790	3,870	33,880
85	Exclusion for employer-provided transit passes	730	770	820	860	920	980	1,030	1,100	1,170	1,220	1,290	10,160
86	Tax credit for certain expenditures for maintaining railroad tracks	10	0	0	0	0	0	0	0	0	0	0	0
87	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	170	160	150	140	130	130	120	120	110	110	100	1,270
Community and regional development:													
88	Investment credit for rehabilitation of structures (other than historic)	10	10	10	10	10	10	10	10	10	10	10	100
89	Exclusion of interest for airport, dock, and similar bonds	530	530	590	680	780	870	960	1,050	1,130	1,210	1,290	9,090
90	Exemption of certain mutuals' and cooperatives' income	0	0	0	0	0	0	0	0	0	0	0	0
91	Empowerment zones	60	20	20	20	20	10	10	10	10	10	10	140
92	New markets tax credit	30	30	20	20	20	10	10	0	0	0	0	110
93	Credit to holders of Gulf Tax Credit Bonds.	170	170	190	210	250	270	300	330	360	380	410	2,870
94	Recovery Zone Bonds [6]	90	90	100	120	130	150	160	180	190	210	220	1,550
95	Tribal Economic Development Bonds	30	30	30	40	40	50	50	60	60	60	70	490
Education, training, employment, and social services:													
	Education:												
96	Exclusion of scholarship and fellowship income (normal tax method)	3,130	3,250	3,360	3,450	3,510	3,640	3,770	3,900	4,040	4,190	4,340	37,450
97	HOPE tax credit	0	0	0	670	6,740	6,880	7,290	7,380	7,500	7,880	7,960	52,300
98	Lifetime Learning tax credit	2,270	2,450	2,460	2,660	4,340	4,410	4,500	4,530	4,590	4,660	4,690	39,290
99	American Opportunity Tax Credit [7]	13,470	13,430	13,500	12,190	0	0	0	0	0	0	0	39,120
100	Education Individual Retirement Accounts	30	30	40	40	40	40	40	40	50	50	50	420
101	Deductibility of student-loan interest	1,800	1,800	1,780	1,780	1,790	1,820	1,820	1,810	1,840	1,830	1,820	18,090
102	Deduction for higher education expenses	390	0	0	0	0	0	0	0	0	0	0	0
103	Qualified tuition programs	1,680	1,870	2,080	2,290	2,510	2,760	3,020	3,310	3,610	3,960	4,330	29,740
104	Exclusion of interest on student-loan bonds	350	350	390	450	520	580	640	700	750	810	860	6,050
105	Exclusion of interest on bonds for private nonprofit educational facilities	1,620	1,610	1,800	2,090	2,390	2,660	2,930	3,210	3,470	3,710	3,960	27,830
106	Credit for holders of zone academy bonds [8]	0	0	0	0	0	0	0	0	0	0	0	0
107	Exclusion of interest on savings bonds redeemed to finance educational expenses	30	30	30	30	30	30	40	40	40	40	40	350
108	Parental personal exemption for students age 19 or over	4,400	4,400	4,420	4,460	4,590	4,710	4,840	4,950	5,050	5,140	5,250	47,810
109	Deductibility of charitable contributions (education)	3,960	4,280	4,620	4,990	5,370	5,720	6,050	6,380	6,710	7,030	7,360	58,510
110	Exclusion of employer-provided educational assistance	800	850	890	940	980	1,030	1,080	1,130	1,190	1,240	1,300	10,630
111	Special deduction for teacher expenses	210	0	0	0	0	0	0	0	0	0	0	0
112	Discharge of student loan indebtedness	90	90	90	90	90	90	90	90	90	90	90	900
113	Qualified school construction bonds [9]	490	490	490	490	490	490	490	490	490	490	490	4,900
	Training, employment, and social services:												
114	Work opportunity tax credit	180	120	70	50	40	30	20	20	10	10	10	380
115	Employer provided child care exclusion	900	930	980	1,050	1,120	1,180	1,250	1,330	1,410	1,500	1,590	12,340
116	Employer-provided child care credit	0	0	0	0	0	0	0	0	0	0	0	0
117	Assistance for adopted foster children	560	540	560	580	610	630	650	680	710	740	770	6,470
118	Adoption credit and exclusion [10]	270	250	260	290	270	320	310	320	320	320	330	2,990
119	Exclusion of employee meals and lodging (other than military)	4,410	4,500	4,600	4,710	4,840	4,970	5,100	5,230	5,360	5,490	5,620	50,420
120	Credit for child and dependent care expenses	4,500	4,520	4,560	4,650	4,760	4,900	5,000	5,120	5,220	5,330	5,440	49,500
121	Credit for disabled access expenditures	10	10	10	10	20	20	20	20	20	20	20	170
122	Deductibility of charitable contributions, other than education and health	39,110	42,350	45,660	49,320	53,100	56,580	59,840	63,080	66,260	69,480	72,660	578,330
123	Exclusion of certain foster care payments	430	460	480	500	510	520	530	550	560	570	580	5,260
124	Exclusion of parsonage allowances	690	730	770	810	850	900	940	990	1,050	1,100	1,160	9,300
125	Indian employment credit	20	20	20	10	10	10	10	10	10	10	0	110
Health:													

Table 14–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2015–2025—Continued

(In millions of dollars)

		Total from individuals											
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2025
126	Exclusion of employer contributions for medical insurance premiums and medical care [11]	201,450	210,980	220,550	229,620	243,160	259,520	275,600	293,420	313,810	336,070	359,590	2,742,320
127	Self-employed medical insurance premiums	6,690	7,060	7,440	7,680	7,980	8,400	8,820	9,240	9,690	10,210	10,770	87,290
128	Medical Savings Accounts / Health Savings Accounts	4,810	5,730	6,830	8,060	9,560	11,390	13,550	16,130	19,190	22,830	27,150	140,420
129	Deductibility of medical expenses	7,660	8,260	8,700	9,530	10,980	12,850	14,810	16,840	19,380	22,350	25,460	149,160
130	Exclusion of interest on hospital construction bonds	2,550	2,540	2,840	3,290	3,760	4,180	4,610	5,060	5,460	5,850	6,230	43,820
131	Refundable Premium Assistance Tax Credit [12]	1,960	2,340	3,870	4,880	6,880	7,580	7,810	8,140	8,430	8,730	9,090	67,750
132	Credit for employee health insurance expenses of small business [13]	376	390	381	357	304	266	188	240	160	125	53	2,464
133	Deductibility of charitable contributions (health)	4,380	4,740	5,120	5,530	5,950	6,340	6,710	7,070	7,430	7,790	8,140	64,820
134	Tax credit for orphan drug research	10	10	10	20	20	20	20	30	30	40	40	240
135	Special Blue Cross/Blue Shield deduction	0	0	0	0	0	0	0	0	0	0	0	0
136	Tax credit for health insurance purchased by certain displaced and retired individuals [14]	0	30	30	20	10	0	0	0	0	0	0	90
137	Distributions from retirement plans for premiums for health and long-term care insurance	400	440	460	480	500	520	540	560	580	600	620	5,300
Income security:													
138	Child credit [15]	23,980	24,000	24,290	24,700	25,190	25,080	24,770	24,440	24,040	23,600	23,180	243,290
139	Exclusion of railroad retirement system benefits	300	300	300	290	280	270	250	240	220	190	170	2,510
140	Exclusion of workers' compensation benefits	9,720	9,820	9,920	10,010	10,110	10,220	10,320	10,420	10,530	10,630	10,730	102,710
141	Exclusion of public assistance benefits (normal tax method)	560	570	590	600	630	650	670	680	710	730	680	6,510
142	Exclusion of special benefits for disabled coal miners	30	30	20	20	20	10	10	10	10	10	0	140
143	Exclusion of military disability pensions	220	220	240	250	260	270	290	300	310	330	340	2,810
	Net exclusion of pension contributions and earnings:												
144	Defined benefit employer plans	66,620	66,600	66,760	67,020	66,180	64,820	63,190	60,910	58,470	55,930	52,650	622,530
145	Defined contribution employer plans	62,070	64,710	65,620	68,120	73,930	78,960	98,370	107,980	114,420	121,240	128,130	921,480
146	Individual Retirement Accounts	16,400	16,850	16,970	17,240	18,080	19,270	19,680	20,630	21,780	22,840	24,080	197,420
147	Low and moderate income savers credit	1,280	1,280	1,270	1,270	1,300	1,310	1,310	1,330	1,340	1,350	1,360	13,120
148	Self-Employed plans	25,490	28,030	30,800	33,760	37,030	40,480	44,020	47,870	52,060	56,610	61,560	432,220
	Exclusion of other employee benefits:												
149	Premiums on group term life insurance	2,340	2,450	2,560	2,610	2,700	2,800	2,900	3,000	3,110	3,240	3,350	28,720
150	Premiums on accident and disability insurance	310	320	320	330	330	330	340	340	340	350	350	3,350
151	Income of trusts to finance supplementary unemployment benefits	20	20	30	40	40	50	50	60	60	60	60	470
152	Special ESOP rules	110	120	120	120	120	130	130	130	140	140	140	1,290
153	Additional deduction for the blind	40	40	40	40	40	50	50	50	60	60	60	490
154	Additional deduction for the elderly	2,890	3,080	3,310	3,560	3,760	4,010	4,210	4,500	4,870	5,170	5,530	42,000
155	Tax credit for the elderly and disabled	10	10	10	10	10	10	10	0	0	0	0	60
156	Deductibility of casualty losses	350	370	390	410	430	450	460	470	490	500	520	4,490
157	Earned income tax credit [16]	2,120	2,820	2,340	3,040	1,820	1,910	1,980	2,080	2,180	2,280	2,380	22,830
Social Security:													
	Exclusion of social security benefits:												
158	Social Security benefits for retired workers	25,780	26,900	28,280	29,490	30,730	31,760	32,510	33,130	33,690	34,340	34,590	315,420
159	Social Security benefits for disabled workers	8,280	8,490	8,580	8,730	8,970	9,210	9,500	9,840	10,190	10,540	10,870	94,920
160	Social Security benefits for spouses, dependents and survivors	4,060	4,160	4,310	4,440	4,610	4,750	4,870	5,000	5,140	5,310	5,420	48,010
161	Credit for certain employer contributions to social security	550	570	600	620	650	680	710	740	770	810	840	6,990
Veterans benefits and services:													
162	Exclusion of veterans death benefits and disability compensation	6,150	6,760	7,250	7,590	7,870	8,170	8,460	8,770	9,080	9,400	9,740	83,090
163	Exclusion of veterans pensions	420	450	490	510	530	560	580	600	630	650	680	5,680
164	Exclusion of GI bill benefits	1,530	1,690	1,830	1,960	2,070	2,190	2,310	2,440	2,580	2,720	2,880	22,670
165	Exclusion of interest on veterans housing bonds	10	10	10	10	10	10	10	10	10	10	20	110
General purpose fiscal assistance:													
166	Exclusion of interest on public purpose State and local bonds	21,020	20,950	23,450	27,150	31,060	34,530	38,080	41,760	45,070	48,280	51,470	361,800
167	Build America Bonds [17]	0	0	0	0	0	0	0	0	0	0	0	0

Table 14–2B. ESTIMATES OF TOTAL INDIVIDUAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2015–2025—Continued

(In millions of dollars)

		Total from individuals											
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2025
168	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	48,430	51,380	55,130	59,030	62,870	66,730	70,830	75,060	79,410	83,920	88,280	692,640
Interest:													
169	Deferral of interest on U.S. savings bonds	1,020	1,010	1,000	990	980	970	960	950	940	930	920	9,650
Addendum: Aid to State and local governments:													
	Deductibility of:												
	Property taxes on owner-occupied homes	31,120	33,080	35,580	38,330	41,150	43,850	46,580	49,280	52,060	55,010	57,890	452,810
	Nonbusiness State and local taxes other than on owner-occupied homes	48,430	51,380	55,130	59,030	62,870	66,730	70,830	75,060	79,410	83,920	88,280	692,640
	Exclusion of interest on State and local bonds for:												
	Public purposes	21,020	20,950	23,450	27,150	31,060	34,530	38,080	41,760	45,070	48,280	51,470	361,800
	Energy facilities	10	10	20	20	20	20	30	30	30	30	40	250
	Water, sewage, and hazardous waste disposal facilities	320	320	360	420	480	530	580	640	690	740	790	5,550
	Small-issues	120	110	130	150	170	190	210	230	250	260	280	1,980
	Owner-occupied mortgage subsidies	890	890	1,000	1,150	1,320	1,470	1,620	1,770	1,910	2,050	2,190	15,370
	Rental housing	750	740	830	960	1,100	1,230	1,350	1,480	1,600	1,710	1,830	12,830
	Airports, docks, and similar facilities	530	530	590	680	780	870	960	1,050	1,130	1,210	1,290	9,090
	Student loans	350	350	390	450	520	580	640	700	750	810	860	6,050
	Private nonprofit educational facilities	1,620	1,610	1,800	2,090	2,390	2,660	2,930	3,210	3,470	3,710	3,960	27,830
	Hospital construction	2,550	2,540	2,840	3,290	3,760	4,180	4,610	5,060	5,460	5,850	6,230	43,820
	Veterans' housing	10	10	10	10	10	10	10	10	10	10	20	110

See Table 1 footnotes for specific table information

Table 14–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2016-2025 PROJECTED REVENUE EFFECT

(In millions of dollars)

	Provision	2016	2017	2016-2025
126	Exclusion of employer contributions for medical insurance premiums and medical care	210,980	220,550	2,742,320
61	Exclusion of net imputed rental income	101,100	104,950	1,178,800
69	Capital gains (except agriculture, timber, iron ore, and coal)	92,820	95,870	1,057,770
57	Deductibility of mortgage interest on owner-occupied homes	62,440	68,610	948,490
145	Defined contribution employer plans	64,710	65,620	921,480
5	Deferral of income from controlled foreign corporations (normal tax method)	67,780	71,170	852,580
71	Step-up basis of capital gains at death	58,270	61,910	776,630
168	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	51,380	55,130	692,640
144	Defined benefit employer plans	66,600	66,760	622,530
122	Deductibility of charitable contributions, other than education and health	44,240	47,630	601,390
60	Capital gains exclusion on home sales	40,580	43,460	563,780
166	Exclusion of interest on public purpose State and local bonds	31,700	35,900	501,150
58	Deductibility of State and local property tax on owner-occupied homes	33,080	35,580	452,810
148	Self-Employed plans	28,030	30,800	432,220
50	Exclusion of interest on life insurance savings	18,870	23,380	370,840
76	Accelerated depreciation of machinery and equipment (normal tax method)	-8,870	12,180	356,330
158	Social Security benefits for retired workers	26,900	28,280	315,420
68	Treatment of qualified dividends	25,530	26,470	307,250
136	Child credit	24,000	24,290	243,290
146	Individual Retirement Accounts	16,850	16,970	197,420
80	Deduction for US production activities	15,680	16,440	192,890
1	Exclusion of benefits and allowances to armed forces personnel	14,220	13,170	150,870
129	Deductibility of medical expenses	8,260	8,700	149,160
128	Medical Savings Accounts / Health Savings Accounts	5,730	6,830	140,420
140	Exclusion of workers' compensation benefits	9,820	9,920	102,710
159	Social Security benefits for disabled workers	8,490	8,580	94,920
74	Deferral of gains from like-kind exchanges	7,320	7,700	92,230
63	Credit for low-income housing investments	7,880	8,130	87,570
127	Self-employed medical insurance premiums	7,060	7,440	87,290
62	Exception from passive loss rules for $25,000 of rental loss	7,210	7,540	87,010
162	Exclusion of veterans death benefits and disability compensation	6,760	7,250	83,090
2	Exclusion of income earned abroad by U.S. citizens	6,280	6,600	79,050
7	Expensing of research and experimentation expenditures (normal tax method)	6,350	5,820	73,410
109	Deductibility of charitable contributions (education)	5,180	5,560	69,530
133	Deductibility of charitable contributions (health)	4,990	5,390	67,940
131	Refundable Premium Assistance Tax Credit	2,340	3,870	67,750
4	Inventory property sales source rules exception	4,210	4,560	61,840
130	Exclusion of interest on hospital construction bonds	3,840	4,350	60,710
97	HOPE tax credit	0	0	52,300
64	Accelerated depreciation on rental housing (normal tax method)	1,650	2,270	51,690
119	Exclusion of employee meals and lodging (other than military)	4,500	4,600	50,420
120	Credit for child and dependent care expenses	4,520	4,560	49,500
160	Social Security benefits for spouses, dependents and survivors	4,160	4,310	48,010
108	Parental personal exemption for students age 19 or over	4,400	4,420	47,810
134	Tax credit for orphan drug research	1,760	2,120	47,140
72	Carryover basis of capital gains on gifts	2,740	3,010	42,250
154	Additional deduction for the elderly	3,080	3,310	42,000
98	Lifetime Learning tax credit	2,450	2,460	39,290
99	Lifetime Learning tax credit	13,430	13,500	39,120
105	Exclusion of interest on bonds for private nonprofit educational facilities	2,440	2,760	38,560
96	Exclusion of scholarship and fellowship income (normal tax method)	3,250	3,360	37,450
78	Graduated corporation income tax rate (normal tax method)	3,770	3,670	37,080
84	Exclusion of reimbursed employee parking expenses	2,900	3,000	33,880
103	Qualified Tuition Programs	1,870	2,080	29,740
149	Premiums on group term life insurance	2,450	2,560	28,720

Table 14–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2016-2025 PROJECTED REVENUE EFFECT—Continued

(In millions of dollars)

	Provision	2016	2017	2016-2025
49	Exemption of credit union income	2,300	2,200	26,750
152	Special ESOP rules	2,000	2,100	25,400
157	Earned income tax credit	2,820	2,340	22,830
164	Exclusion of GI bill benefits	1,690	1,830	22,670
55	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,350	1,530	21,290
8	Credit for increasing research activities	3,320	2,980	20,630
14	New technology credit	1,950	2,250	19,470
101	Deductibility of student-loan interest	1,800	1,780	18,090
59	Deferral of income from installment sales	1,620	1,640	17,920
56	Exclusion of interest on rental housing bonds	1,120	1,270	17,770
3	Exclusion of certain allowances for Federal employees abroad	1,300	1,370	16,360
45	Capital gains treatment of certain income	1,240	1,280	14,170
147	Low and moderate income savers credit	1,280	1,270	13,120
10	Excess of percentage over cost depletion, fuels	710	860	12,700
89	Exclusion of interest for airport, dock, and similar bonds	800	900	12,600
161	Credit for certain employer contributions to social security	1,010	1,060	12,440
115	Employer provided child care exclusion	930	980	12,340
110	Exclusion of employer-provided educational assistance	850	890	10,630
85	Exclusion for employer-provided transit passes	770	820	10,160
169	Deferral of interest on U.S. savings bonds	1,010	1,000	9,650
124	Exclusion of parsonage allowances	730	770	9,300
77	Expensing of certain small investments (normal tax method)	-2,290	-790	8,690
52	Tax exemption of certain insurance companies owned by tax-exempt organizations	700	730	8,520
104	Exclusion of interest on student-loan bonds	530	600	8,380
36	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	490	550	7,680
141	Exclusion of public assistance benefits (normal tax method)	570	590	6,510
113	Qualified school construction bonds	650	650	6,500
117	Assistance for adopted foster children	540	560	6,470
163	Exclusion of veterans pensions	450	490	5,680
19	Exclusion of utility conservation subsidies	450	470	5,580
9	Expensing of exploration and development costs, fuels	470	460	5,550
70	Capital gains exclusion of small corporation stock	380	620	5,510
138	Distributions from retirement plans for premiums for health and long-term care insurance	440	460	5,300
123	Exclusion of certain foster care payments	460	480	5,260
15	Energy investment credit	1,470	970	5,060
39	Tax incentives for preservation of historic structures	460	470	5,010
54	Exclusion of interest spread of financial institutions	420	450	5,010
35	Excess of percentage over cost depletion, nonfuel minerals	530	540	4,970
43	Expensing of certain multiperiod production costs	370	390	4,850
18	Tax credits for clean-fuel burning vehicles	550	670	4,770
32	Advanced nuclear power production credit	140	140	4,580
156	Deductibility of casualty losses	370	390	4,490
92	New markets tax credit	1,230	1,130	4,130
38	Expensing of multiperiod timber growing costs	330	350	3,980
93	Credit to holders of Gulf Tax Credit Bonds.	250	290	3,970
132	Credit for employee health insurance expenses of small business.	544	543	3,612
150	Premiums on accident and disability insurance	320	320	3,350
118	Adoption credit and exclusion	250	260	2,990
135	Special Blue Cross/Blue Shield deduction	250	260	2,990
143	Exclusion of military disability pensions	220	240	2,810
42	Expensing of certain capital outlays	210	230	2,760
79	Exclusion of interest on small issue bonds	170	200	2,750
33	Advanced nuclear power production credit	170	200	2,540
139	Exclusion of railroad retirement system benefits	300	300	2,510
94	Recovery Zone Bonds	140	150	2,150

Table 14–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2016-2025 PROJECTED REVENUE EFFECT—Continued
(In millions of dollars)

	Provision	2016	2017	2016-2025
87	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	210	200	1,670
90	Exemption of certain mutuals' and cooperatives' income	140	150	1,580
29	30% credit for residential purchases/installations of solar and fuel cells	770	460	1,450
12	Capital gains treatment of royalties on coal	120	130	1,420
37	Capital gains treatment of certain timber income	120	130	1,420
46	Income averaging for farmers	140	140	1,400
114	Work opportunity tax credit	420	240	1,310
22	Credit for investment in clean coal facilities	160	400	1,180
106	Credit for holders of zone academy bonds	130	120	980
25	Amortize all geological and geophysical expenditures over 2 years	100	100	960
82	Tonnage tax	70	80	910
112	Discharge of student loan indebtedness	90	90	900
20	Credit for holding clean renewable energy bonds	70	70	700
67	Exceptions from imputed interest rules	50	60	700
24	Natural gas distribution pipelines treated as 15-year property	160	160	690
48	Expensing of reforestation expenditures	50	60	690
95	Tribal Economic Development Bonds	40	50	680
40	Industrial CO2 capture and sequestration tax credit	110	150	530
73	Ordinary income treatment of loss from small business corporation stock sale	50	50	500
153	Additional deduction for the blind	40	40	490
151	Income of trusts to finance supplementary unemployment benefits	20	30	470
34	Expensing of exploration and development costs, nonfuel minerals	0	10	450
51	Special alternative tax on small property and casualty insurance companies	30	40	450
41	Deduction for endangered species recovery expenditures	30	30	430
100	Education Individual Retirement Accounts	30	40	420
44	Treatment of loans forgiven for solvent farmers	40	40	400
53	Small life insurance company deduction	30	30	400
13	Exclusion of interest on energy facility bonds	20	30	350
107	Exclusion of interest on savings bonds redeemed to finance educational expenses	30	30	350
11	Exception from passive loss limitation for working interests in oil and gas properties	40	40	340
30	Qualified energy conservation bonds	30	30	300
47	Deferral of gain on sale of farm refiners	20	20	250
81	Special rules for certain film and TV production	110	60	210
83	Deferral of tax on shipping companies	20	20	200
88	Investment credit for rehabilitation of structures (other than historic)	20	20	200
91	Empowerment zones	40	30	200
116	Employer-provided child care credit	10	10	170
121	Credit for disabled access expenditures	10	10	170
125	Indian employment credi	30	30	140
142	Exclusion of special benefits for disabled coal miners	30	20	140
165	Exclusion of interest on veterans housing bonds	10	10	120
137	Tax credit for health insurance purchased by certain displaced and retired individuals	30	30	90
17	Bio-Diesel and small agri-biodiesel producer tax credits	30	20	60
155	Tax credit for the elderly and disabled	10	10	60
66	Discharge of business indebtedness	-120	-50	50
27	Credit for construction of new energy efficient homes	20	0	20
6	Deferred taxes for financial firms on certain income earned overseas	0	0	0
16	Alcohol fuel credits	0	0	0
28	Credit for energy efficiency improvements to existing homes	0	0	0
65	Discharge of mortgage indebtedness	0	0	0
86	Tax credit for certain expenditures for maintaining railroad tracks	0	0	0
102	Deduction for higher education expenses	0	0	0
111	Special deduction for teacher expenses	0	0	0
167	Build America Bonds	0	0	0
31	Advanced Energy Property Credit	10	-30	-90

Table 14–3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2016-2025 PROJECTED REVENUE EFFECT—Continued
(In millions of dollars)

	Provision	2016	2017	2016-2025
26	Allowance of deduction for certain energy efficient commercial building property	-10	-30	-280
21	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	-220	-180	-880
23	Temporary 50% expensing for equipment used in the refining of liquid fuels	-2,050	-1,820	-8,900
75	Accelerated depreciation of buildings other than rental housing (normal tax method)	-9,170	-9,390	-116,750

earned income exclusion limit. This housing exclusion is capped at 30 percent of the earned income exclusion limit, with geographical adjustments. If taxpayers do not receive a specific allowance for housing expenses, they may deduct housing expenses up to the amount by which foreign earned income exceeds their foreign earned income exclusion.

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

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

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

6. ***Deferred taxes for financial firms on certain income earned overseas.***—The United States generally taxes the worldwide income of U.S. persons and business entities. The baseline tax system would not allow the deferral of tax or other relief targeted at particular industries or activities. In contrast, the Tax Code allowed financial firms to defer taxes on income earned overseas in an active business. This provision expired at the end of 2014.

General Science, Space, and Technology

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

8. ***Credit for increasing research activities.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allowed an R&E credit of up to 20 percent of qualified research expenditures in excess of a base amount. The base amount of the credit was generally determined by multiplying a “fixed-base percentage” by the average amount of the company’s gross receipts for the prior four years. The taxpayer’s fixed base percentage generally was the ratio of its research expenses to gross receipts for 1984 through 1988. Taxpayers could elect the alternative simplified credit regime, which equaled 14 percent of qualified research expenses that exceeded 50 percent of the average qualified research expenses for the three preceding taxable years. The credit does not apply to expenses paid or incurred after December 31, 2014.

Table 14–4. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 2015

(In millions of dollars)

	Provision	2015 Present Value of Revenue Loss
5	Deferral of income from controlled foreign corporations (normal tax method)	44,630
7	Expensing of research and experimentation expenditures (normal tax method)	3,030
20	Credit for holding clean renewable energy bonds	0
9	Expensing of exploration and development costs - fuels	338
35	Expensing of exploration and development costs - nonfuels	63
39	Expensing of multiperiod timber growing costs	110
44	Expensing of certain multiperiod production costs - agriculture	-80
43	Expensing of certain capital outlays - agriculture	-30
49	Expensing of reforestation expenditures	20
51	Deferral of income on life insurance and annuity contracts 1/	13,920
65	Accelerated depreciation on rental housing	14,780
76	Accelerated depreciation of buildings other than rental	–11,280
77	Accelerated depreciation of machinery and equipment	12,130
78	Expensing of certain small investments (normal tax method)	550
107	Credit for holders of zone academy bonds	160
64	Credit for low-income housing investments	5,760
104	Deferral for state prepaid tuition plans	3,790
145	Defined benefit employer plans	24,960
146	Defined contribution employer plans	67,150
147	Exclusion of IRA contributions and earnings	1,350
147	Exclusion of Roth earnings and distributions	4,720
147	Exclusion of non-deductible IRA earnings	420
149	Exclusion of contributions and earnings for Self-Employed plans	4,960
167	Exclusion of interest on public-purpose bonds	12,420
	Exclusion of interest on non-public purpose bonds	4,170
170	Deferral of interest on U.S. savings bonds	250

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

Energy

9. ***Expensing of exploration and development costs.***—Under the baseline tax system, the costs of exploring and developing oil and gas wells would be capitalized and then amortized (or depreciated) over an estimate of the economic life of the well. This insures that the net income from the well is measured appropriately each year. In contrast to this treatment, current law allows intangible drilling costs for successful investments in domestic oil and gas wells (such as wages, the cost of using machinery for grading and drilling, and the cost of unsalvageable materials used in constructing wells) to be deducted immediately, i.e., expensed. Because it allows recovery of costs sooner, expensing is more generous for the taxpayer than would be amortization. Integrated oil companies may deduct only 70 percent of such costs and must amortize the remaining 30 percent over five years. Non-integrated oil companies may expense all such costs. The same rule applies to the exploration and development costs of surface stripping and the construction of shafts and tunnels for other fuel minerals.

10. ***Excess of percentage over cost depletion.***—The baseline tax system would allow recovery of the costs of developing certain oil and mineral properties using cost depletion. Cost depletion is similar in concept to depreciation, in that the costs of developing or acquiring the asset are capitalized and then gradually reduced over an estimate of the asset's economic life, as is appropriate for measuring net income. In contrast, the Tax Code generally allows independent fuel and mineral producers and royalty owners to take percentage depletion deductions rather than cost depletion on limited quantities of output. Under percentage depletion, taxpayers deduct a percentage of gross income from mineral production. In certain cases the deduction is limited to a fraction of the asset's net income. Over the life of an investment, percentage depletion deductions can exceed the cost of the investment. Consequently, percentage depletion offers more generous tax treatment than would cost depletion, which would limit deductions to an investment's cost.

11. ***Exception from passive loss limitation for working interests in oil and gas properties.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as those in which the taxpayer does not materially participate, and there are numerous additional considerations brought to bear on the determination of which activities

are passive for a given taxpayer. Losses are limited in an attempt to limit tax sheltering activities. Passive losses that are unused may be carried forward and applied against future passive income. An exception from the passive loss limitation is provided for a working interest in an oil or gas property that the taxpayer holds directly or through an entity that does not limit the liability of the taxpayer with respect to the interest. Thus, taxpayers can deduct losses from such working interests against nonpassive income without regard to whether they materially participate in the activity.

12. ***Capital gains treatment of royalties on coal.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. For individuals, tax rates on regular income vary from 10 percent to 39.6 percent (plus a 3.8-percent surtax on high income taxpayers), depending on the taxpayer's income. In contrast, current law allows capital gains realized by individuals to be taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8-percent surtax). Certain sales of coal under royalty contracts qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 20 percent maximum tax rate on capital gains.

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

14. ***Energy production credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides a credit for certain electricity produced from wind energy, biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, or qualified hydropower and sold to an unrelated party. Qualified facilities must have begun construction before January 1, 2015. In addition to the electricity production credit, an income tax credit is allowed for the production of refined coal for facilities placed in service before January 1, 2012. The Tax Code also provided an income tax credit for Indian coal facilities placed in service before January 1, 2009. The Indian coal facilities credit expired on December 31, 2014.

15. ***Energy investment credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code provides credits for investments in solar and geothermal energy property, qualified fuel cell power plants, stationary microturbine power plants, geothermal heat pumps, small wind property and combined heat and power property. A temporary credit of up to 30 percent is available for qualified property placed in service before January 1, 2017. A permanent 10 percent credit is available for qualified solar and geothermal property placed in service after this date. Owners of renewable power facilities that qualify for the energy production credit may instead elect to take an energy investment credit.

16. ***Alcohol fuel credits.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provided an income tax credit for qualified cellulosic biofuel production which was renamed the Second generation biofuel producer credit. This provision expired on December 31, 2014.

17. ***Bio-diesel and small agri-biodiesel producer tax credits.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allowed an income tax credit for Bio-diesel and for Bio-diesel derived from virgin sources. In lieu of the Bio-diesel credit, the taxpayer could claim a refundable excise tax credit. In addition, small agri-biodiesel producers were eligible for a separate income tax credit for biodiesel production and a separate credit was available for qualified renewable diesel fuel mixtures. This provision expired on December 31, 2014.

18. ***Tax credits for clean-fuel burning vehicles and refueling property.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a credit for plug-in electric-drive motor vehicles. Credits for alternative fuel vehicle refueling property and fuel cell vehicles expired on December 31, 2014.

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

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

21. ***Deferral of gain from dispositions of transmission property to implement FERC restructuring***

policy.—The baseline tax system generally would tax gains from sale of property when realized. It would not allow an exception for particular activities or individuals. However, the Tax Code allowed electric utilities to defer gains from the sale of their transmission assets to a FERC-approved independent transmission company. The sale of property must have been made prior to January 1, 2015.

22. ***Credit for investment in clean coal facilities.***—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides investment tax credits for clean coal facilities producing electricity and for industrial gasification combined cycle projects.

23. ***Temporary 50 percent expensing for equipment used in the refining of liquid fuels.***—The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over its economic life. However, the Tax Code provided for an accelerated recovery of the cost of certain investments in refineries by allowing partial expensing of the cost, thereby giving such investments a tax advantage. Qualified refinery property must have been placed in service before January 1, 2014.

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

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

26. ***Allowance of deduction for certain energy efficient commercial building property.***—The baseline tax system would not allow deductions in addition to normal depreciation allowances for particular investments in particular industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allowed a deduction, per square foot, for certain energy efficient commercial buildings. This provision expired on December 31, 2014.

27. ***Credit for construction of new energy efficient homes.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allowed contractors a tax credit of $2,000 for the construction of a qualified new energy-efficient home that had an annual level of heating and cooling energy consumption at least 50 percent below the annual consumption under the 2006 International Energy Conservation Code. The credit equaled $1,000 in the case of a new manufactured home that met a 30 percent standard or requirements for EPA's Energy Star homes. This provision expired on December 31, 2014.

28. ***Credit for energy efficiency improvements to existing homes.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code provided an investment tax credit for expenditures made on insulation, exterior windows, and doors that improved the energy efficiency of homes and met certain standards. The Tax Code also provided a credit for purchases of advanced main air circulating fans, natural gas, propane, or oil furnaces or hot water boilers, and other qualified energy efficient property. This provision expired on December 31, 2014.

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

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

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

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

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

Natural Resources and Environment

34. ***Expensing of exploration and development costs.***—The baseline tax system allows the taxpayer to deduct the depreciation of an asset according to the decline in its economic value over time. However, certain capital outlays associated with exploration and development of nonfuel minerals may be expensed rather than depreciated over the life of the asset.

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

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

37. ***Capital gains treatment of certain timber.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. However, under current law certain timber sales can be treated as a capital gain rather than ordinary income and therefore subject to the lower capital-gains tax rate. For individuals, tax rates on regular income vary from 10 percent to 39.6 percent (plus a 3.8-percent surtax on high income taxpayers), depending on the taxpayer's income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 20 percent (plus the 3.8-percent surtax).

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

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

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

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

Agriculture

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

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

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

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

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

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

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

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

Commerce and Housing

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

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

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

51. ***Special alternative tax on small property and casualty insurance companies.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, stock non-life insurance companies are generally exempt from tax if their gross receipts for the taxable year do not exceed $600,000 and more than 50 percent of such gross receipts consist of premiums. Mutual non-life insurance companies are generally tax-exempt if their annual gross receipts do not exceed $150,000 and more than 35 percent of gross receipts consist of premiums. Also, non-life insurance companies with no more than $1.2 million of annual net premiums may elect to pay tax only on their taxable investment income.

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

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

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

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

tax. These bonds are generally subject to the State private-activity-bond annual volume cap.

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

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

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

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

60. ***Capital gains exclusion on home sales.***—The baseline tax system would not allow deductions and exemptions for certain types of income. In contrast, the Tax Code allows homeowners to exclude from gross income up to $250,000 ($500,000 in the case of a married couple filing a joint return) of the capital gains from the sale of a principal residence. To qualify, the taxpayer must have owned and used the property as the taxpayer's principal residence for a total of at least two of the five years preceding the date of sale. In addition, the exclusion may not be used more than once every two years.

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

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

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

64. ***Accelerated depreciation on rental housing.***—Under an economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the rental property is

measured appropriately each year. Current law allows depreciation that is accelerated relative to economic depreciation. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, in contrast, depreciation allowances reflect estimates of economic depreciation.

65. ***Discharge of mortgage indebtedness.***—Under the baseline tax system, all income would generally be taxed under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allowed an exclusion from a taxpayer's taxable income for any discharge of indebtedness of up to $2 million ($1 million in the case of a married individual filing a separate return) from a qualified principal residence. The provision applied to debt discharged after January 1, 2007, and before January 1, 2015.

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

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

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

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

70. ***Capital gains exclusion of small corporation stock.***—The baseline tax system would not allow deductions and exemptions, or provide preferential treatment of certain sources of income or types of activities. In contrast, the Tax Code provided an exclusion of 50 percent, applied to ordinary rates with a maximum of a 28 percent tax rate, for capital gains from qualified small business stock held by individuals for more than 5 years; 75 percent for stock issued after February 17, 2009 and before September 28, 2010; and 100 percent for stock issued after September 27, 2010 and before January 1, 2015. A qualified small business is a corporation whose gross assets do not exceed $50 million as of the date of issuance of the stock.

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

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

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

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

75. ***Accelerated depreciation of buildings other than rental housing.***—Under an economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the property

is measured appropriately each year. Current law allows depreciation deductions that are accelerated relative to economic depreciation. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, in contrast, depreciation allowances reflect estimates of economic depreciation.

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

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

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

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

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

81. ***Special rules for certain film and TV production.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow deductions and exemptions or preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allowed taxpayers to deduct up to $15 million per production ($20 million in certain distressed areas) in non-capital expenditures incurred during the year. This provision expired at the end of 2014.

Transportation

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

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

84. ***Exclusion of reimbursed employee parking expenses.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from taxable income for employee parking expenses that are paid for by the employer or that are received by the employee in lieu of wages. In 2015, the maximum amount of the parking exclusion is $250 per month. The tax expenditure estimate does not include any subsidy provided through employer-owned parking facilities.

85. ***Exclusion for employer-provided transit passes.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for passes, tokens, fare cards, and vanpool expenses that are paid for by an employer or that are received by the employee in lieu of wages to defray an employee's commuting costs. The maximum amount of the transit exclusion is $130 per month in 2015. (There had been a parity provision that had temporary resulted in a higher maximum equal to those for parking passes for several years, but it expired on December 31, 2014).

86. ***Tax credit for certain expenditures for maintaining railroad tracks.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code allowed eligible taxpayers to claim a credit equal to the lesser of 50 percent of maintenance expenditures and the prod-

uct of $3,500 and the number of miles of track owned or leased. This provision expired at the end of 2014.

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

Community and Regional Development

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

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

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

91. ***Empowerment zones.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income, tax credits, and write-offs faster than economic depreciation. In contrast, the Tax Code allowed qualifying businesses in designated economically depressed areas to receive tax benefits such as an employment credit, increased expensing of investment in equipment, special tax-exempt financing, and certain capital gains incentives. A taxpayer's ability to accrue new tax benefits for empowerment zones expired on December 31, 2014.

92. ***New markets tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code allowed taxpayers who made qualified equity investments in a community development entity (CDE), which then made qualified investments in low-income communities, to be eligible for a tax credit that is received over 7 years. The total equity investment available for the credit across all CDEs was $3.5 billion for 2014, the last year for which credit allocations could be made.

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

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

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

Education, Training, Employment, and Social Services

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

97. ***HOPE tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable HOPE tax credit allows a credit for 100 percent of an eligible student's first $1,300 of tuition and fees and 50 percent of the next $1,300 of tuition and fees (2015 levels, indexed). The credit only covers tuition and fees paid during the first two years of a student's post-sec-

ondary education. In 2015, the credit is phased out ratably for taxpayers with modified AGI between $110,000 and $130,000 if married filing jointly ($55,000 and $65,000 for other taxpayers), indexed. This credit is replaced by the American Opportunity Tax Credit for 2009 through 2017. See provision number 99, American Opportunity Tax Credit.

98. ***Lifetime Learning tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable Lifetime Learning tax credit allows a credit for 20 percent of an eligible student's tuition and fees, up to a maximum credit per return of $2,000. In 2015, the credit is phased out ratably for taxpayers with modified AGI between $110,000 and $130,000 if married filing jointly ($55,000 and $65,000 for other taxpayers), indexed. The credit applies to both undergraduate and graduate students.

99. ***American Opportunity Tax Credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law in 2015, however, the American Opportunity Tax Credit allows a partially refundable credit of up to $2,500 per eligible student for qualified tuition and related expenses paid during each of the first four years of the student's post-secondary education. The credit is phased out for taxpayers with modified adjusted gross income between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return). The credit expires at the end of 2017.

100. ***Education Individual Retirement Accounts (IRA).***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. While contributions to an education IRA are not tax-deductible under current law, investment income earned by education IRAs is not taxed when earned, and investment income from an education IRA is tax-exempt when withdrawn to pay for a student's education expenses. The maximum contribution to an education IRA in 2015 is $2,000 per beneficiary. In 2015, the maximum contribution is phased down ratably for taxpayers with modified AGI between $190,000 and $220,000 if married filing jointly ($95,000 and $110,000 for other taxpayers).

101. ***Deductibility of student loan interest.***—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct non-business interest expenses. In contrast, taxpayers may claim an above-the-line deduction of up to $2,500 on interest paid on an education loan. In 2015, the maximum deduction is phased down ratably for taxpayers with modified AGI between $130,000 and $160,000 if married filing jointly ($65,000 and $80,000 for other taxpayers).

102. ***Deduction for higher education expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provided a maximum annual deduction of $4,000 for qualified higher education expenses for taxpayers with adjusted gross income up to $130,000 on a joint return ($65,000 for other taxpayers). Taxpayers with adjusted gross income up to $160,000 on a joint return ($80,000 for other taxpayers) could deduct up to $2,000. This provision expired on December 31, 2014.

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

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

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

106. ***Credit for holders of zone academy bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, financial institutions that own zone academy bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income. Proceeds from zone academy bonds may only be used to renovate, but not construct, qualifying schools and for certain other school purposes. The total amount of zone academy bonds that may be issued was limited to $1.4 billion in 2009 and 2010. As of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable. An additional $0.4 billion of these bonds with a tax credit was authorized to be issued before January 1, 2015.

107. ***Exclusion of interest on savings bonds redeemed to finance educational expenses.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, interest earned on U.S. savings bonds issued after December 31, 1989 is tax-exempt if the bonds are transferred to an educational institution to pay for educational expenses. The tax exemption is phased out for taxpayers with AGI between $115,751 and $145,749 if married filing jointly ($77,200 and $92,199 for other taxpayers) in 2015.

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

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

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

111. ***Special deduction for teacher expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code allowed educators in both public and private elementary and secondary schools, who worked at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide, to subtract up to $250 of qualified expenses when determining their adjusted gross income (AGI). This provision expired on December 31, 2014.

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

113. ***Qualified school construction bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code was modified in 2009 to provide a tax credit in lieu of interest to holders of qualified school construction bonds. The national volume limit is $22.4 billion over 2009 and 2010. As of March 2010, issuers of such bonds could opt to receive direct payment with the yield becoming fully taxable.

114. ***Work opportunity tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides employers with a tax credit for qualified wages paid to individuals. The credit applies to employees who began work on or before December 31, 2014 and who are certified as members of various targeted groups. The amount of the credit that can be claimed is 25 percent of qualified wages for employment less than 400 hours and 40 percent for employment of 400 hours or more. Generally, the maximum credit per employee is $2,400 and can only be claimed on the first year of wages an individual earns from an employer. However, the credit for long-term welfare recipients can be claimed on second year wages as well and has a $9,000 maximum. Also, certain categories of veterans are eligible for a higher maximum credit of up to $9,600. Employers must reduce their deduction for wages paid by the amount of the credit claimed.

115. ***Employer-provided child care exclusion.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law up to $5,000 of employer-provided child care is excluded from an employee's gross income even though the employer's costs for the child care are a deductible business expense.

116. ***Employer-provided child care credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, current law provides a credit equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services. Employer deductions for such expenses are reduced by the amount of the credit. The maximum total credit is limited to $150,000 per taxable year.

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

118. ***Adoption credit and exclusion.***—The baseline tax system would not allow credits for particular activities. In contrast, taxpayers can receive a tax credit for qualified adoption expenses under current law. Taxpayers may also exclude qualified adoption expenses provided or reimbursed by an employer from income, subject to the same maximum amounts and phase-out as the credit. The same expenses cannot qualify for tax benefits under both programs; however, a taxpayer may use the

benefits of the exclusion and the tax credit for different expenses.

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

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

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

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

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

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

125. ***Indian employment credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provided employers with a tax credit for qualified wages paid to employees who were enrolled members of Indian tribes. The amount of the credit that could be claimed was 20 percent of the excess of qualified wages and health insurance costs paid by the employer in the current tax year over the amount of such wages and costs paid by the employer in 1993. Qualified wages and health insurance costs with respect to any employee for the taxable year could not exceed $20,000. Employees had to live on or near the reservation where he or she worked to be eligible for the credit. Employers had to reduce their deduction for wages paid by the amount of the credit claimed. The credit does not apply to taxable years beginning after December 31, 2014.

Health

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

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

128. ***Medical Savings Accounts and Health Savings Accounts.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Also, the baseline tax system would not allow a deduction for personal expenditures and generally would tax investment earnings. In contrast, individual contributions to Archer Medical Savings Accounts (Archer MSAs) and Health Savings Accounts (HSAs) are allowed as a deduction in determining adjusted gross income whether or not the individual itemizes deductions. Employer contributions to Archer MSAs and HSAs are excluded from income and employment taxes. Archer MSAs and HSAs require that the individual have coverage by a qualifying high deductible health plan. Earnings from the accounts are excluded from taxable income. Distributions from the accounts

used for medical expenses are not taxable. The rules for HSAs are generally more flexible than for Archer MSAs and the deductible contribution amounts are greater (in 2015, $3,350 for taxpayers with individual coverage and $6,650 for taxpayers with family coverage). Thus, HSAs have largely replaced MSAs.

129. ***Deductibility of medical expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law personal expenditures for medical care (including the costs of prescription drugs) exceeding 7.5 percent of the taxpayer's adjusted gross income are deductible. For tax years beginning after 2012, only medical expenditures exceeding 10 percent of the taxpayer's adjusted gross income are deductible. However, for the years 2013, 2014, 2015 and 2016, if either the taxpayer or the taxpayer's spouse turns 65 before the end of the taxable year, the threshold remains at 7.5 percent of adjusted income. Beginning in 2017, the 10-percent threshold will apply to all taxpayers, including those over 65.

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

131. ***Refundable Premium Assistance Tax Credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, for taxable years ending after 2013, the Tax Code provides a premium assistance credit to any eligible taxpayer for any qualified health insurance purchased through a Health Insurance Exchange. In general, an eligible taxpayer is a taxpayer with annual household income between 100% and 400% of the federal poverty level for a family of the taxpayer's size and that does not have access to affordable minimum essential health care coverage. The amount of the credit equals the lesser of (1) the actual premiums paid by the taxpayer for such coverage or (2) the difference between the cost of a statutorily-identified benchmark plan offered on the exchange and a required payment by the taxpayer that increases with income.

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

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

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

135. ***Special Blue Cross/Blue Shield deduction.***—The baseline tax system generally would tax all profits under the regular tax rate schedule using broadly applicable measures of baseline income. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, Blue Cross and Blue Shield health insurance providers in existence on August 16, 1986 and certain other nonprofit health insurers are provided exceptions from otherwise applicable insurance company income tax accounting rules that substantially reduce their tax liabilities, provided that their percentage of total premium revenue expended on reimbursement for clinical services provided to enrollees or for activities that improve health care quality is not less than 85 percent for the taxable year.

136. ***Tax credit for health insurance purchased by certain displaced and retired individuals.***—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides a refundable tax credit of 72.5 percent for the purchase of health insurance coverage by individuals eligible for Trade Adjustment Assistance and certain Pension Benefit Guarantee Corporation pension recipients. This provision will expire on December 31, 2019.

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

Income Security

138. ***Child credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. Under current law, however, taxpayers with children under age 17 can qualify for a $1,000 partially refundable per child credit. Any unclaimed credit due to insufficient tax liability may be refundable – taxpayers may claim a refund for 15 percent of earnings in excess of a $3,000 floor, up to the amount of unused credit. Alternatively, taxpayers with three or more children may claim a refund of the amount of payroll taxes paid in excess of ***the Earned Income Tax Credit received (up to the amount of unused credit) if this results in a larger refund.*** The credit is phased out for taxpayers at the rate of $50 per $1,000 of modified AGI above $110,000 ($75,000 for single or head of household filers and $55,000 for married taxpayers filing separately). After 2017 refundability is based on earnings in excess of $10,000 indexed from 2001, rather than from $3,000 (unindexed); taxpayers with three or more children may continue to use the alternative calculation.

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

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

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

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

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

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

145. ***Defined contribution employer plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under current law individual taxpayers and employers can make tax-preferred contributions to employer-provided 401(k) and similar plans (e.g. 403(b) plans and the Federal Government's Thrift Savings Plan). In 2015, an employee could exclude up to $18,000 of wages from AGI under a qualified arrangement with an employer's 401(k) plan. Employees age 50 or over could exclude up to $24,000 in contributions. The defined contribution plan limit, including both employee and employer contributions, is $53,000 in 2015. The tax on contributions made by both employees and employers and the investment income earned by these plans is deferred until withdrawn.

146. ***Individual Retirement Accounts (IRAs).***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under current law individual taxpayers can take advantage of traditional and Roth IRAs to defer or otherwise reduce the tax on the return to their retirement savings. The IRA contribution limit is $5,500 in 2015; taxpayers age 50 or over are allowed to make additional "catch-up" contributions of $1,000. Contributions to a traditional IRA are generally deductible but the deduction is phased out for workers with incomes above certain levels who, or whose spouses, are active participants in an employer-provided retirement plan. Contributions and account earnings are includible in income when withdrawn from traditional IRAs. Roth IRA contributions are not deductible, but earnings and withdrawals are exempt from taxation. Income limits also apply to Roth IRA contributions.

147. ***Low and moderate-income savers' credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides an additional incentive for lower-income taxpayers to save through a nonrefundable credit of up to 50 percent on IRA and other retirement contributions of up to $2,000. This credit is in addition to any deduction or exclusion. The credit is completely phased out by $61,000 for joint filers, $45,750 for head of household filers, and $30,500 for other filers in 2015.

148. ***Self-employed plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, under current law self-employed individuals can make deductible contributions to their own retire-

ment plans equal to 25 percent of their income, up to a maximum of $53,000 in 2015. Total plan contributions are limited to 25 percent of a firm's total wages. The tax on the investment income earned by self-employed SEP, SIMPLE, and qualified plans is deferred until withdrawn.

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

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

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

152. ***Special ESOP rules.***—ESOPs are a special type of tax-exempt employee benefit plan. Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In addition, investment income would be taxed as earned. In contrast, employer-paid contributions (the value of stock issued to the ESOP) are deductible by the employer as part of employee compensation costs. They are not included in the employees' gross income for tax purposes, however, until they are paid out as benefits. In addition, the following special income tax provisions for ESOPs are intended to increase ownership of corporations by their employees: (1) annual employer contributions are subject to less restrictive limitations than other qualified retirement plans; (2) ESOPs may borrow to purchase employer stock, guaranteed by their agreement with the employer that the debt will be serviced by his payment (deductible by him) of a portion of wages (excludable by the employees) to service the loan; (3) employees who sell appreciated company stock to the ESOP may defer any taxes due until they withdraw benefits; (4) dividends paid to ESOP-held stock are deductible by the employer; and (5) earnings are not taxed as they accrue.

153. ***Additional deduction for the blind.***—Under the baseline tax system, the standard deduction is allowed. An additional standard deduction for a targeted group within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are blind to claim an additional $1,550 standard deduction if single, or $1,250 if married in 2015.

154. ***Additional deduction for the elderly.***—Under the baseline tax system, the standard deduction is allowed. An additional standard deduction for a targeted group within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years or older to claim an additional $1,550 standard deduction if single, or $1,250 if married in 2015.

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

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

157. ***Earned income tax credit (EITC).***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides an EITC to low-income workers at a maximum rate of 45 percent of income. For a family with one qualifying child, the credit is 34 percent of the first $9,880 of earned income in 2015. The credit is 40 percent of the first $13,870 of income for a family with two qualifying children, and it is 45 percent of the first $13,870 of income for a family with three or more qualifying children. Low-income workers with no qualifying children are eligible for a 7.65-percent credit on the first $6,580 of earned income. The credit is phased out at income levels and rates which depend upon how many qualifying children are eligible and marital status. In 2015, the phasedown for married filers begins at incomes $5,520 greater than for otherwise similar unmarried filers. Earned income tax credits in excess of tax liabilities owed through the individual income tax system are refundable to individuals. After 2017, the additional benefit for families with three or more children will be eliminated and the marriage penalty relief will be reduced to $3,000 (indexed from 2008).

Social Security

158. ***Social Security benefits for retired workers.***—The baseline tax system would tax Social Security benefits to the extent that contributions to Social Security were not previously taxed. Thus, the portion of Social Security benefits that is attributable to employer contributions and earnings on employer and employee contributions (and not attributable to employee contributions) would be subject to tax. In contrast, the Tax Code may not tax all of the Social Security benefits that exceed the beneficiary's contributions from previously taxed income. Actuarially, previously taxed contributions generally do not exceed 15 percent of benefits, even for retirees receiving the highest levels of benefits. Up to 85 percent of recipients' Social Security and Railroad Social Security Equivalent retirement benefits are included in (phased into) the income tax base if the recipient's provisional income exceeds certain base amounts. (Provisional income is equal to other items included in adjusted gross income plus foreign or U.S. possession income, tax-exempt interest, and one half of Social Security and Railroad Social Security Equivalent retirement benefits.) The untaxed portion of the benefits received by taxpayers who are below the income amounts at which 85 percent of the benefits are taxable is counted as a tax expenditure. See also provision number 139, Exclusion of railroad Social Security equivalent benefits.

159. ***Social Security benefits for disabled workers.***—Under the baseline tax system, insurance benefits would be taxed to the extent that premiums were paid out of pre-tax income. Under current law, however, benefit payments from the Social Security Trust Fund for disability are fully or partially excluded from a beneficiary's gross income in excess of any exclusion justified by contributions made from pre-tax income.

160. ***Social Security benefits for spouses, dependents and survivors.***—Under the baseline tax system, Social Security benefits would be taxed to the extent they exceed contributions out of after-tax income. Under current law, however, benefit payments from the Social Security Trust Fund for spouses, dependents and survivors are fully or partially excluded from a beneficiary's gross income.

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

Veterans Benefits and Services

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

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

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

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

General Government

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

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

168. ***Deductibility of nonbusiness State and local taxes other than on owner-occupied homes.***—Under the baseline tax system, a deduction for personal

consumption expenditures would not be allowed. In contrast, the Tax Code allows taxpayers who itemize their deductions to claim a deduction for State and local income taxes (or, at the taxpayer's election, State and local sales taxes) and property taxes, even though these taxes primarily pay for services that, if purchased directly by taxpayers, would not be deductible. The ability for taxpayers to elect to deduct State and local sales taxes in lieu of State and local income taxes applied to taxable years beginning after December 31, 2003 and before January 1, 2015. (The estimates for this tax expenditure do not include the estimates for the deductibility of State and local property tax on owner-occupied homes. See item 58.)

Interest

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

APPENDIX

Performance Measures and the Economic Effects of Tax Expenditures

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

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

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

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

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

A Framework for Evaluating the Effectiveness of Tax Expenditures

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

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

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

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

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

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

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

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

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

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

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

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

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

Current Administration Proposals on Tax Expenditures

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

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

Reduce the value of certain tax expenditures. The Administration proposes to limit the tax rate at which upper-income taxpayers can use itemized deductions and other tax preferences to reduce tax liability to a maximum of 28 percent, a limitation that would affect only the highest-income households. The limit would apply to all itemized deductions, interest on tax-exempt bonds, employer-sponsored health insurance, deductions and income exclusions for employee retirement contributions, and certain above-the-line deductions, effective for taxable years beginning after December 31, 2016. These are among the largest tax expenditures. This proposal would make the tax code more equitable because the value of the tax expenditure as a percentage of the deduction is proportional to one's tax bracket, so it is less valuable to those in lower brackets.

Enhance and simplify the Research and Experimentation (R&E) credit and modify and make permanent the Renewable Energy Production Tax Credit. The Budget proposes to simplify the R&E credit by creating a single formula for calculating the credit and increasing the rate. For similar reasons, the Budget also proposes to permanently extend and enhance the production tax credit for renewable energy property.

Simplify and better target benefits for education. A significant portion of federal spending on higher education occurs through the tax code, but current higher education tax benefits are complicated and do not provide enough help for low and middle income families that struggle to afford college. Building on bipartisan Congressional proposals, the Budget proposes to simplify, consolidate, and better target higher education tax benefits. It would repeal or let expire duplicative and less effective provisions, including the Lifetime Learning Credit and the student loan interest deduction (for new borrowers). Meanwhile, it would enhance the $2,500 American Opportunity Tax Credit by indexing the maximum credit for inflation, making the credit available for a fifth year, providing a partial credit to part-time students, and increasing the amount of the credit available to low-income students without income tax liability.

Eliminate a range of tax expenditures in the context of business tax reform. The President's framework for business tax reform calls for eliminating dozens of tax loopholes and subsidies and reinvesting the revenue to lower the corporate tax rate. Consistent with the framework, the Budget includes a number of proposals to eliminate inefficient business tax expenditures. For example, current law provides a number of credits and deductions that are targeted towards certain oil, gas, and coal activities. In accordance with the President's agreement at the G-20 Summit in Pittsburgh to phase out inefficient subsidies for fossil fuels so that the Nation can transition to a 21st century energy economy, the Administration proposes to repeal a number of tax preferences available for fossil fuels.