WRNewswire

An AALU Washington Report

Newswire Special Report Series: Navigating the New Administration

With Republicans in control of the Presidency and both Houses of Congress, we expect increased legislative activity this session - including potential movement on comprehensive tax reform, among other items. With so many fast-moving developments that can ultimately impact the life insurance industry, AALU will provide regular policy updates throughout the week to make sure you have the information you need when talking to colleagues and clients during the next few months.

Death Benefits Added To Tax Expenditure List – Hatch Outlines Vision for Tax Reform in Senate

This week, the Joint Committee on Taxation (JCT) released the annual update for its tax expenditure list, which included the exclusion for death benefits for the first time. The JCT defines a tax expenditure 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." This move was foreshadowed by last year's JCT tax expenditure report, which indicated that the committee was considering adding death benefits to the list. The JCT estimated the cost of the exclusion to be $128.3 billion over five years.

Despite the updated JCT tax expenditure list, according to our conversations with tax writers in both parties, it is unlikely that this latest report will impact the current development of tax reform legislation in Congress. As AALU members are well aware, our tax system does not tax income proceeds from any form of insurance—whether from life insurance, disability insurance, health insurance, homeowner's insurance, or auto insurance—and we will continue to educate the JCT about the current and appropriate tax treatment of death benefits. In December 2015, the JCT removed inside build-up from the tax expenditure list, recognizing its appropriate tax treatment.

Read the JCT Report

Yesterday, Senate Finance Chairman Orrin Hatch (R-UT) laid out his committee's agenda for the 115th Congress, including his thoughts on tax reform. Hatch asserted that Republicans are in agreement on almost every fundamental tax reform question, and that what's left are "questions about detail and design." It won't be easy to navigate the remaining questions, but Hatch is optimistic that they can work through the details. Hatch explained that the Senate will be working through its own tax reform proposal, and that no one should expect the Senate to simply consider and pass a House tax reform package. He did say that he doesn't plan to oppose any bill from Ways and Means Chairman Kevin Brady (R-TX), and he is confident that the House will provide a strong and legitimate path forward. The Senate is currently in the early stages of the process, but Hatch relayed that things are moving forward quickly - and that he hopes to have a proposal "in one form or another" to discuss publicly in the near future. On border adjustability—a key part of the House Republican Tax Reform Blueprint—Hatch said he has questions about the provision, and that he cannot give an opinion without definitive answers. He also shared that at least a handful of Senators have serious reservations about the border adjustability provision.

Read the Full Statement

FEBRUARY 01,2017

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Hatch Unveils Finance Committee Agenda for 115th Congress

In a Speech at U.S. Chamber of Commerce, Utah Senator Says, "We are facing some serious difficulties as a nation, including lackluster economic growth, a crippling national debt, national security challenges, and many others. I'm not under any illusions that these problems can be solved overnight. I certainly don't believe they can all be fixed by a single party or President. I have a long history of working with people both parties to accomplish great things. And, I want to do more of that in the future and get past the divisiveness we see today."

WASHINGTON – Senate Finance Committee Chairman Orrin Hatch (R-Utah) today delivered remarks at the U.S. Chamber of Commerce detailing the

Committee's priorities for the 115th Congress. The remarks, as prepared for delivery, are below.

"Throughout my time in Washington – almost from the very first day – I have worked with the Chamber to advance policies that will help our economy, and, in a number of cases, to fight against ideas that would slow our economy down.

I came here to the Chamber – to this very room – two years ago, right after Republicans retook the Senate and I took over as Chairman of the Senate Finance Committee. At that time, I remarked that it was an exciting time to be in Washington, particularly if you're a Republican. I also made a promise that the Republicans in Congress were not going to waste the opportunity to do good things for the hardworking Americans who put us in charge.

Today I'm pleased to say that we've been able to deliver on that promise.

At the start of the 114th Congress, our leadership set an ambitious agenda, one that would demonstrate that Republicans were serious about governing and providing solutions to real problems. And, we proved that and more.

Now, two years later, Republicans have been granted an even greater opportunity to shape the future and improve both the business climate in the United States and the quality of life for American families.

It is once again an exciting time to be Republican in Washington.

I'm here today to talk about some of these efforts and what is in store for the Senate Finance Committee in the 115th Congress. Most of the big-ticket items on the immediate horizon fall in our committee's jurisdiction, so, needless to say, we have quite a bit of work ahead of us.

Believe me, the Finance Committee is up to the challenge.

The first thing I'll say on tax reform is that Republicans are united in our commitment to reform our nation's broken tax system.

And, now, we have an administration that wants to work with Congress to fix the myriad problems in our tax code and a Congress that is ready to get it done. I don't think we could ask for better conditions.

The media loves to write stories about disagreements among Republicans. But, on tax reform, that divide really doesn't exist. Indeed, Republicans in both Congress and the White House agree on virtually every fundamental tax reform question.

For example, Republicans agree that tax reform should be pro-growth, comprehensive, and should address both the individual and business tax systems.

Republicans agree on the need to simplify the tax system by reducing the number of special interest credits and deductions and creating fewer tax brackets.

Republicans, by and large, agree that we need a fairer tax system that treats similarly situated taxpayers similarly and picks fewer winners and losers. Also, on the point of fairness, most Republicans support repeal or reform of the Death Tax.

And, Republicans agree that we need to make our nation more competitive by reducing corporate rates and moving to a territorial tax system.

What's left after those threshold issues are questions about detail and design. I'm not saying that the remaining questions are all easy. I am saying that, because we agree on the fundamental issues and principles, there is every reason to be optimistic that we can work through the details as the process moves forward.

Of course, some of those details are more prominent than others.

One such detail is the House's border adjustability proposal. Border adjustability seems to be the focus of almost every single tax conversation in Washington these days.

I get asked about border adjustability literally every single day I'm in the Capitol.

The questions take several forms. For example, I get asked:

What's your view on border adjustability?

Are you in favor of border adjustability?

Can border adjustability pass in the Senate?

And on, and on, and on.

While those may sound like slightly different questions, they are really all just different version of the same question, which is: Will you publicly criticize another Republican's tax plan so that we can write a story about Republican division?

I don't want to disappoint anyone, but I'm not I'm not going to answer any version of that question here today.

I'm not trying to be coy, and I'm not playing hide-the-ball with my opinions. The fact is, it's too early for me to have a definitive position on this issue.
Right now, I can say that I have some questions. I'll boil them down to three.

First, who will ultimately bear the tax? To what extent will it be borne by consumers, workers, shareholders, and foreigners?

Second, is border adjustability consistent with our international trade obligations?

Finally, since border adjustability would likely be a significant shift in business tax policy, would adjustments need to be made to ensure we're not unduly increasing the tax burden on specific industries?
We don't have definitive answers to any of those questions at this point, and without them, I don't think I can give a definitive position on the proposal.

I can tell you what I do know about border adjustability at this point.

I know that Chairman Brady is very adamant about the proposal, which, in my view, is a mark in its favor.

I also know that at least a handful of Senators have serious reservations about border adjustability, and that requires us to consider the bigger picture.

Keep in mind that we now have 52 Republican votes in the Senate. So, even if we move a tax reform package through budget reconciliation – a process that appears ever more likely – our margin of error, assuming we move on purely party-line basis, is only two votes.

My preference would be to find a bipartisan path forward. Historically speaking, that's what's worked best, even when reconciliation has been used. But, if we don't get any Democrats on board, we'll basically need universal Republican support to pass anything through reconciliation.

That's difficult to accomplish under any circumstances, let alone on something as complicated as tax reform.

So, what does all this mean? Am I trying to throw cold water on everyone's tax reform enthusiasm?

Absolutely not.

What it means is that the Senate will have to work through its own tax reform process if we're going to have any chance of succeeding. No one should expect the Senate to simply take up and pass a House tax reform bill, and that's not a bad thing.

This is not to say that I plan to oppose or disregard Chairman Brady's bill when it comes out. Far from it. I am confident that their tax reform plan will provide a strong, legitimate path forward.

I'm simply saying that a major concern on tax reform is producing a bill that can get through the Senate, and that is likely going to require a separate Senate tax reform process, which will almost surely end up looking different from what passes in the House.

And, once again, that's not a bad thing.

Currently, the Senate is in the early stages of its tax reform process. I am constantly talking to all the members of the Finance Committee and our leadership in the Senate. I've also consulted with Democrats to get a sense of their interests. The committee is considering various proposals and things are moving forward rather rapidly at this time. Our hope is to have a tax reform proposal in one form or another to discuss publicly in the near future.

From there, we'll have to see how the process unfolds, working with our leadership, our colleagues in the House, and, of course, the administration on the next steps.

Let's move on to Healthcare reform, which is another priority for the Finance Committee in the 115th Congress. It is also another priority where Republicans are in virtually unanimous agreement: We all want to repeal Obamacare. And, we all want to replace it with better, more patient-centered, reforms that help address costs.

We've already taken one step to repeal and replace Obamacare with the passage of our recent budget bill. We're now looking forward to the next steps in the process.

There are a lot of moving parts in the healthcare debate. Let me do my best to crystalize them all into a handful of key points.

First, I believe that we need to repeal Obamacare immediately, and provide for a stable transition period. I understand the concerns some have expressed about the timing of repeal, and I think they're well-intentioned. But, with the bill we

passed in 2015, we already have a pretty good outline for what a passable Obamacare repeal looks like. I think we should use that bill as our model and not spend the next several months, if not years, campaigning about the path forward.

Second, I think the repeal should include as many replacement provisions as possible. The Senate rules on reconciliation limit us in terms of subject matter, so we can't include a full Obamacare replacement in a budget reconciliation bill. However, in my view, we need to advance replacement policies in tandem with the repeal process. And then we can keep working on the other parts of the system.

Third, we need to definitively answer the question about what to do with the Obamacare taxes. Some have argued that we should keep all or some of them in place and use them to pay for our eventual replacement package. My view is this: After spending seven years talking about the harm being caused by these taxes, it's difficult to switch gears now and decide that they're fine so long as they're being used to pay for OUR healthcare bill.

All of the Obamacare taxes need to go as part of the repeal process.

Finally, as we move forward on fully replacing Obamacare, I've been telling people that, at the end of the day, only three numbers really matter – this is similar

to what I talked about on tax reform. The three most important numbers are: 218, 50, and 1. Those are the numbers of supporters we need at each step to pass an Obamacare repeal and replacement.

Once we've got the repeal in place and made a significant step forward on some solid replacement policies, we'll need to do the hard work crafting a new plan. It likely won't be thousands of pages long. And, it will hopefully focus on returning as much authority to the states as possible.

I am currently working with my colleagues who chair the House Ways and Means and Energy and Commerce Committees on both repeal and replace legislation. These are two great chairmen and I appreciate their willingness to put in the time and effort to make sure we do this right.

Long story short: You can expect to hear a lot about healthcare out of the Finance Committee in the 115th Congress.

Now, let's take a moment to talk about trade.

I know many of you are anxious about this topic. And, there is quite a bit of uncertainty in the air.

From my first day as Ranking Member, and then as Chairman, of the Finance Committee, I committed to making our trade institutions and policies more predictable, accountable, transparent, and effective.

It's taken a lot of work and compromise, but we've made a lot of progress. Let me get more specific.

In the 114th Congress, we reauthorized and modernized our nation's customs system for the first time in decades. In so doing, we enhanced our border security and facilitated the flow of legitimate trade.

We renewed and enhanced our nation's trade preference programs including the Generalized System of Preferences and the African Growth and Opportunity Act.

We reformed the process for Congressional consideration of Miscellaneous Tariff Bills, and created new procedures for their consideration.

And, after years of bipartisan negotiation, we empowered our trade negotiators through renewal and modernization of Trade Promotion Authority.

That is a pretty hefty list of trade accomplishments, if I do say so myself. Of course, it took the work of many people in this room to achieve these successes. And you should all be proud of your work.

However, when all of these bills got across the finish line, I said that our work was just beginning, and we've done quite a bit since then.

From the Trans-Pacific Partnership, to the Trans-Atlantic Trade and Investment Partnership, to the Trade in Services Agreement, Congress, pursuant to the laws we passed, was fully engaged with the Obama Administration in an attempt to forge bipartisan agreements that met the high standards of TPA and would win Congress's approval.

As most of you in this room know, the only agreement that the Obama Administration concluded, the Trans-Pacific Partnership, fell short of those standards.

I made that crystal clear the very day the negotiations were concluded.

Nevertheless, throughout 2016, I worked with the folks at USTR and our trading partners to see if we could make enough improvements to get enough support for TPP in Congress.

Unfortunately, those efforts did not succeed.

Now, I know this is painful history for many of you. It certainly is for me.

And I am not here to cast blame on the Obama Administration. On the contrary, I have great respect for Ambassador Froman and his team.

I actually think these events can serve as a cautionary tale.

President Trump is the first President in decades to come into office with TPA in effect.

He's said that he wants to use that authority aggressively to negotiate bilateral trade agreements that Congress can support and that provide real benefits to American workers, families, and businesses.

I support those goals.

However, as the Chairman of the Finance Committee, I intend to make sure new agreements meet the high standards we established in our TPA statute.

If they fall short of those standards, I won't support them. Many of my colleagues feel the same way.

I also intend to continue fulfilling our oversight responsibilities on all aspects of U.S. trade policy. From import tariffs, to currency manipulation, to effective enforcement of our trade agreements, the Finance Committee will play an active and constructive role.

In all of these efforts, my chief concern will be whether the administration's policies promote economic growth, expand individual opportunity, increase transparency and the rule of law, and, of course, promote and protect intellectual property rights.

We have an unprecedented opportunity to modernize and rebalance our trade agenda to more closely reflect our values and economic interests. As Chairman of the Finance Committee, I am committed to doing all I can to make sure our nation seizes this opportunity.

I look forward to having everyone here assist us in that endeavor.

There are a number of other issues on the Finance Committee's plate for this Congress.

We have the ever-present need to fix our unsustainable entitlement programs.

We have reforms to our Child Welfare system that we'd like to move forward.

We have important pension legislation that we want to see enacted.

There's also a bipartisan chronic care proposal that we've been working on for some time.
There's all of that and much more.

However, I'm quite certain that everyone here would prefer that I limit my remarks to the immediate high-profile issues I've already discussed and stop talking.

And, I'm going to do that…in a minute.

Before I conclude, I just want to say that I recognize we are facing some serious difficulties as a nation, including lackluster economic growth, a crippling

national debt, national security challenges, and many others. I'm not under any illusions that these problems can be solved overnight. I certainly don't believe they can all be fixed by a single party or President.

I have a long history of working with people both parties to accomplish great things. And, I want to do more of that in the future and get past the divisiveness we see today.

I know we can. And, with all of your help, I think we will."

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Recent News

02/09/17 Hatch to Hold Hearing on CMS Administrator Nomination

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02/07/17 Hatch, Wyden Announce Finance Subcommittee Assignments for 115th Congress

ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 2016-2020

Prepared for the
HOUSE COMMITTEE ON WAYS AND MEANS
and the
SENATE COMMITTEE ON FINANCE
By the Staff
of the
JOINT COMMITTEE ON TAXATION

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INTRODUCTION

Tax expenditure analysis can help both policymakers and the public to understand the actual size of government, the uses to which government resources are put, and the tax and economic policy consequences that follow from the implicit or explicit choices made in fashioning legislation. This report[1] on tax expenditures for fiscal years 2016-2020 is prepared by the staff of the Joint Committee on Taxation ("Joint Committee staff") for the House Committee on Ways and Means and the Senate Committee on Finance. The report also is submitted to the House and Senate Committees on the Budget.

As in the case of earlier reports,[2] the estimates of tax expenditures in this report were prepared in consultation with the staff of the Office of Tax Analysis in the Department of the Treasury ("the Treasury"). The Treasury published its estimates of tax expenditures for fiscal years 2015-2025 in the Administration's budgetary statement of February 9, 2016.[3] The lists of tax expenditures in this Joint Committee staff report and the Administration's budgetary statement overlap considerably; the differences are discussed in Part I of this report under the heading "Comparisons with Treasury."

The Joint Committee staff has made its estimates (as shown in Table 1) based on the provisions in Federal tax law enacted through December 15, 2016. Expired or repealed provisions are not listed unless they have continuing revenue effects that are associated with ongoing taxpayer activity. Proposed extensions or modifications of expiring provisions are not included until they have been enacted into law. The tax expenditure calculations in this report are based on the January 2016 Congressional Budget Office ("CBO") revenue baseline and Joint Committee staff projections of the gross income, deductions, and expenditures of individuals and corporations for calendar years 2015-2020.

Part I of this report contains a discussion of the concept of tax expenditures; Part II is a discussion of the measurement of tax expenditures; and Part III contains various estimates. Estimates of tax expenditures for fiscal years 2016-2020 are presented in Table 1. Table 2 shows the distribution of tax returns by income class, and Table 3 presents distributions of selected individual tax expenditures by income class.

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[1] This report may be cited as follows: Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2016-2020* (JCX-3-17), January 30, 2017. This document can also be found on the Joint Committee on Taxation website at www.jct.gov.

[2] The Joint Committee staff prepared its first report on estimates of Federal tax expenditures in 1972 (JCS-28-72), covering fiscal years 1967-1971. Reports cover every five-year period since fiscal years 1977-1981 (JCS-10-77). A complete collection of these reports on estimates of Federal tax expenditures, including this report, is available at https://www.jct.gov/publications.html?func=select&id=5.

[3] Office of Management and Budget, "Tax Expenditures," *Analytical Perspectives, Budget of the United States Government*, *Fiscal Year 2017*, February 2, 2015, pp. 225-265.

I. THE CONCEPT OF TAX EXPENDITURES

<u>Overview</u>

Tax expenditures are defined under the Congressional Budget and Impoundment Control Act of 1974 (the "Budget Act") as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability."[4] Thus, tax expenditures include any reductions in income tax liabilities that result from special tax provisions or regulations that provide tax benefits to particular taxpayers.

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

Estimates of tax expenditures are prepared for use in budget analysis. They are a measure of the economic benefits that are provided through the tax laws to various groups of taxpayers and sectors of the economy. The estimates also may be useful in determining the relative merits of achieving specific public goals through tax benefits or direct outlays. It is appropriate to evaluate tax expenditures with respect to cost, distributional consequences, alternative means of provision, and economic effects and to allow policymakers to evaluate the tradeoffs among these and other potentially competing policy goals.

The legislative history of the Budget Act indicates that tax expenditures are to be defined with reference to a normal income tax structure (referred to here as "normal income tax law"). The determination of whether a provision is a tax expenditure is made on the basis of a broad concept of income that is larger in scope than "income" as defined under general U.S. income tax principles. The Joint Committee staff uses its judgment in distinguishing between those income tax provisions (and regulations) that can be viewed as a part of normal income tax law and those special provisions that result in tax expenditures. A provision traditionally has been listed as a tax expenditure by the Joint Committee staff if there is a reasonable basis for such classification and the provision results in more than a *de minimis* revenue loss, which solely for this purpose means a total revenue loss of less than $50 million over the five fiscal years 2016-2020. The Joint Committee staff emphasizes, however, that in the process of listing tax expenditures, no judgment is made, nor any implication intended, about the desirability of any special tax provision as a matter of public policy.

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[4] Congressional Budget and Impoundment Control Act of 1974 (Pub. L. No. 93-344), sec. 3(3). The Budget Act requires CBO and the Treasury to publish detailed lists of tax expenditures annually. The Joint Committee staff issued reports prior to the statutory obligation placed on the CBO and continued to do so thereafter. In light of this precedent and a subsequent statutory requirement that the CBO rely exclusively on Joint Committee staff estimates when considering the revenue effects of proposed legislation, the CBO has always relied on the Joint Committee staff for the production of its annual tax expenditure publication. See Pub. L. No. 99-177, sec. 273, codified at 2 USC 601(f).

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

Some provisions in the Internal Revenue Code ("the Code") provide for special tax treatment that is less favorable than normal income tax law. Examples of such provisions include (1) the denial of deductions for certain lobbying expenses, (2) the denial of deductions for certain executive compensation, and (3) the two-percent floor on itemized deductions for unreimbursed employee expenses. Tax provisions that provide treatment less favorable than normal income tax law and are not related directly to progressivity are called *negative* tax expenditures.[7] Special provisions of the law the principal purpose of which is to enforce general tax rules, or to prevent the violation of other laws, are not treated as negative tax expenditures even though they may increase the tax burden for certain taxpayers. Examples of these compliance and enforcement provisions include the (1) limitation on net operating loss carryforwards and certain built-in losses following ownership changes (sec. 382), (2) wash sale rules (sec. 1091), (3) denial of capital gain treatment for gains on certain obligations not in registered form (sec. 1287), and (4) disallowance of a deduction for fines and penalties (sec. 162(f)).

Individual Income Tax

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

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

[6] Other analysts have explored applying the concept of tax expenditures to payroll and excise taxes. See Jonathan Barry Forman, "Would a Social Security Tax Expenditure Budget Make Sense?" *Public Budgeting and Financial Management*, 5, 1993, pp. 311-335, Bruce F. Davie, "Tax Expenditures in the Federal Excise Tax System," *National Tax Journal*, 47, March 1994, pp. 39-62, and Lindsay Oldenski, "Searching for Structure in the Federal Excise Tax System: An Excise Tax Expenditure Budget," *National Tax Journal*, 57, September 2004, pp. 613-637. Prior to 2003, the President's budget contained a section that reviewed and tabulated estate and gift tax provisions that the Treasury considered tax expenditures.

[7] Although the Budget Act does not require the identification of negative tax expenditures, the Joint Committee staff has presented a number of negative tax expenditures for completeness.

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

An exclusion from gross income applies generally to amounts received under a life insurance contract that are paid by reason of the death of the insured. This exclusion is classified as a tax expenditure.

All employee compensation is subject to tax unless the Code contains a specific exclusion for the income. Specific exclusions for employer-provided benefits include: coverage under accident and health plans,[8] accident and disability insurance, group term life insurance, educational assistance, tuition reduction benefits, transportation benefits (parking, van pools, and transit passes), dependent care assistance, adoption assistance, meals and lodging furnished for the convenience of the employer, employee awards, and other miscellaneous fringe benefits (*e.g.*, employee discounts, services provided to employees at no additional cost to employers, and *de minimis* fringe benefits). Each of these exclusions is classified as a tax expenditure in this report.

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

Under present law, social security and tier 1 railroad retirement benefits are partially excluded or fully excluded from gross income.[9] Under normal income tax law, retirees would be entitled to exclude only the portion of the retirement benefits that represents a return of the payroll taxes that they paid during their working years. Thus, the exclusion of social security and railroad retirement benefits in excess of payroll tax payments is classified as a tax expenditure.

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

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

Public assistance benefits are excluded from gross income by statute or by Treasury regulations. Table 1 contains tax expenditure calculations for workers' compensation benefits and special benefits for disabled coal miners.

The individual income tax does not include in gross income the imputed income that individuals receive from the services provided by owner-occupied homes and durable goods.[10] However, the Joint Committee staff does not classify this exclusion as a tax expenditure.[11] The measurement of imputed income for tax purposes presents administrative problems and its exclusion from taxable income may be regarded as an administrative necessity.[12] Under normal income tax law, individuals are allowed to deduct only the interest on indebtedness incurred in connection with a trade or business or an investment. Thus, the deduction for mortgage interest on a principal or second residence is classified as a tax expenditure.

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

There are many types of State and local government bonds and qualified private activity bonds the interest on which is exempt from Federal income taxation or for which a tax credit is available. Table 1 contains a separate tax expenditure listing for each type of bond.

Under the Joint Committee staff view of normal tax law, compensatory stock options generally are subject to regular income tax at the time the options are exercised and employers receive a corresponding tax deduction.[13] The employee's income is equal to the difference between the purchase price of the stock and the market price on the day the option is exercised.

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

[11] The Treasury Department provides a tax expenditure calculation for the exclusion of net rental income of homeowners that combines the positive tax expenditure for the failure to impute rental income with the negative tax expenditure for the failure to allow a deduction for depreciation and other costs.

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

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

Present law provides for special tax treatment for incentive stock options and options acquired under employee stock purchase plans. When certain requirements are satisfied, then: (1) the income that is received at the time the option is exercised is excluded for purposes of the regular income tax but, in the case of an incentive stock option, included for purposes of the alternative minimum tax ("AMT"); (2) the gain from any subsequent sale of the stock is taxed as a capital gain; and (3) the employer does not receive a tax deduction with respect to the option. The special tax treatment provided to the employee is viewed as a tax expenditure by the Joint Committee staff, and an estimate of this tax expenditure is contained in Table 1. However, it should be noted that the revenue loss from the special tax treatment provided to the employee is accompanied by a significant revenue gain from the denial of the deduction to the employer. The negative tax expenditure created by the denial of the deduction for employers is incorporated in the calculation of the tax expenditure.

The individual AMT and the passive activity loss rules are not viewed by the Joint Committee staff as a part of normal income tax law. Instead, they are viewed as provisions that reduce the magnitude of the tax expenditures to which they apply. For example, the AMT reduces the value of the deduction for State and local income taxes (for those taxpayers subject to the AMT) by not allowing the deductions to be claimed in the calculation of AMT liability. Similarly, the passive loss rules defer otherwise allowable deductions and credits from passive activities until a time when the taxpayer has passive income or disposes of the assets associated with the passive activity. Exceptions to the individual AMT and the passive loss rules are not classified as tax expenditures by the Joint Committee staff because the effects of the exceptions already are incorporated in the estimates of related tax expenditures. In two cases the restrictive effects of the AMT are presented separately because there are no underlying positive tax expenditures reflecting these effects: the negative tax expenditures for the AMT's disallowance of personal exemptions and the standard deduction; and the net AMT attributable to the net operating loss limitation.

Business Income Taxation

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

One of the most difficult issues in defining tax expenditures for business income relates to the tax treatment of capital costs. Under present law, capital costs may be recovered under a variety of alternative methods, depending on the nature of the costs and the status of the taxpayer. For example, investments in equipment and structures may qualify for tax credits, expensing, accelerated depreciation, or straight-line depreciation. The Joint Committee staff generally classifies as tax expenditures cost recovery allowances that are more favorable than those provided under the alternative depreciation system (sec. 168(g)), which provides for straight-line recovery over tax lives that are longer than those permitted under the accelerated system.

Some economists assert that this may not represent the difference between tax depreciation and economic depreciation. In particular, some economists have found that economic depreciation follows a geometric pattern, as opposed to a straight-line pattern, because

data suggest that a geometric pattern more closely matches the actual pattern of price declines for most asset types. The Bureau of Economic Analysis ("BEA") of the Department of Commerce introduced in 1997 a new methodology for calculating economic depreciation for purposes of the National Income and Product Accounts ("NIPA") that relies on constant (geometric) rates of depreciation rather than the straight-line method used previously and embodied in the alternative depreciation system. Unlike the tax depreciation rules, this analysis is based on separate lives and depreciation rates for each of dozens of types of assets.[14] A somewhat similar result could be reproduced mathematically using the straight-line method and adjusting the recovery period. The straight-line method could be used over a shorter or longer recovery period to provide for a present value of tax depreciation greater than, equal to, or less than the present value of economic depreciation.[15]

The Joint Committee staff estimates another tax expenditure for depreciation in those specific cases where the tax treatment of a certain type of asset deviates from the overall treatment of other similar types of assets. In Table 1, these items are reflected in the various tax expenditure estimates for depreciation. As indicated above, the Joint Committee staff assumes that normal income tax law does not provide for any indexing of the basis of capital assets (nor, for that matter, any indexing with respect to expenses associated with these assets). Thus, normal income tax law does not take into account the effects of inflation on tax depreciation.

The Joint Committee staff uses several accounting standards in evaluating the provisions in the Code that govern the recognition of business receipts and expenses. Under the Joint Committee staff view, normal income tax law is assumed to require the accrual method of accounting (except where its application is deemed infeasible), the standard of "economic performance" (used in the Code to test whether liabilities are deductible), and the general concept of matching income and expenses. In general, tax provisions that do not satisfy all three standards are viewed as tax expenditures. For example, the deduction for contributions to taxpayer-controlled mining reclamation reserve accounts is viewed as a tax expenditure because the contributions do not satisfy the economic performance standard. (Adherence to the standard would require that the taxpayer make an irrevocable contribution toward future reclamation, involving a trust fund or similar mechanism, as required by a number of other provisions in the Code.) In contrast, the deductions for contributions to nuclear decommissioning trust accounts and certain environmental settlement trust accounts are not viewed as tax expenditures because the contributions are irrevocable (*i.e.*, they satisfy the economic performance standard). However, present law provides for an accelerated deduction for payments made to a nuclear decommissioning fund made within 2 ½ months after the close of the taxable year and a reduced rate of tax on the incomes of these two types of trust accounts. This acceleration and these tax rate reductions are viewed as tax expenditures.

[14] For a detailed discussion of the BEA methodology, see Barbara M. Fraumeni, "The Measurement of Depreciation in the U.S. National Income and Product Accounts," *Survey of Current Business*, 77, July 1997, pp. 7-23.

[15] Tax expenditures are calculated on a cash-flow basis such that two methods of depreciation with equivalent present value may produce both positive and negative tax expenditure estimates on a year-by-year basis relative to economic depreciation.

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

Corporate Income Tax

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

Exceptions to the corporate AMT are not viewed as tax expenditures because the effects of the AMT exceptions are already incorporated in the estimates of related tax expenditures.[16]

Certain income of pass-through entities is exempt from the corporate income tax. The income of sole proprietorships, S corporations, most partnerships, and other entities (such as regulated investment companies, real estate investment trusts, real estate mortgage investment conduits, and cooperatives) is taxed only at the individual level. The special tax rules for these pass-through entities are not classified as tax expenditures because the tax benefits are available to any entity that chooses to organize itself and operate in the required manner.[17]

Nonprofit corporations that satisfy the requirements of section 501 also are generally exempt from corporate income tax. The tax exemption for noncharitable organizations that have a direct business analogue or compete with for-profit organizations organized for similar

[16] See discussion of the individual AMT above.

[17] Special rules for certain types of entities may interact with other provisions in a manner that could be viewed as creating or enhancing a tax expenditure. However, the classification of such interactions is ambiguous, and they generally are not listed as tax expenditures. As one example, a C corporation must recognize corporate-level gain when its assets are distributed to shareholders or are sold. To the extent that built-in gain in the assets of a C corporation may escape corporate-level tax following the entity's conversion to S corporation status, it could be argued that the interaction of the different entity rules creates a tax expenditure by relieving the corporate tax on built-in C corporation gain. At the same time, recognized gain is subject to immediate shareholder tax in S corporation form, which some might argue is a negative tax expenditure compared to continuation as a C corporation that defers shareholder-level tax until distributions are made to shareholders. On the other hand, if a C corporation converts to a partnership, rather than an S corporation, both corporate and shareholder-level tax on the built-in gain is imposed immediately. It is unclear whether normal income tax law requires immediate or deferred recognition of gain at both the corporate and shareholder level, only the corporate level, or only the shareholder level. This is an example of how identification of tax expenditures requires an articulation of normal income tax law that is not necessarily automatic and obvious.

purposes is a tax expenditure.[18] The tax exemption for certain nonprofit cooperative business organizations, such as trade associations, is not treated as a tax expenditure just as the entity-level exemption given to for-profit pass-through business entities is not treated as a tax expenditure. With respect to other nonprofit organizations, such as charities, tax-exempt status is not classified as a tax expenditure because the nonbusiness activities of such organizations generally must predominate and their unrelated business activities are subject to tax.[19] However, there are numerous exceptions that allow for otherwise unrelated business income to escape taxation,[20] and these exceptions are treated as tax expenditures. In general, the imputed income derived from nonbusiness activities conducted by individuals or collectively by certain nonprofit organizations is outside the normal income tax base. However, the ability of donors to such nonprofit organizations to claim a charitable contribution deduction is a tax expenditure, as is the exclusion of income granted to holders of tax-exempt financing issued by charities.

Recent Legislation

The Bipartisan Budget Act of 2015, enacted on November 2, 2015 (Pub. L. No. 114-74), modifies the tax expenditure of defined benefit plans by changing the single-employer plan pension funding rules by revising the specified percentage ranges for determining whether a segment rate must be adjusted if the rate determined under the regular rules is outside a specified range. The effect is to decrease required contributions to defined benefit plans, which are deductible for employers. In Table 1, this change is reflected in the tax expenditure estimates for "Net exclusion of pension contributions and earnings: Defined benefit plans."

The Consolidated Appropriations Act, 2016, enacted on December 18, 2015 (Pub. L. No. 114-113), modifies several tax expenditures.

—The excise tax imposed on insurers if the aggregate value of employer-sponsored health insurance coverage for an employee exceeds a threshold amount is delayed for two years. The delay in these taxes reduces the negative tax expenditure associated with the nondeductibility of these excise taxes as ordinary and necessary business expenses.

—A one-year moratorium applies to the annual fee imposed on any covered entity engaged in the business of providing health insurance with respect to United States health risks. The moratorium reduces the negative tax expenditure associated with the nondeductibility of the fees as ordinary and necessary business expenses.

—The credit for electricity production from renewable resources and the election to claim the energy investment credit in lieu of the electricity production credit is extended and modified

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[18] These organizations include small insurance companies, mutual or cooperative electric companies, State credit unions, and Federal credit unions.

[19] The tax exemption for charities is not treated as a tax expenditure even if taxable analogues may exist. For example, the tax exemption for hospitals and universities is not treated as a tax expenditure notwithstanding the existence of taxable hospitals and universities.

[20] These exceptions include certain passive income that arguably may relate to business activities, such as royalties or rents received from licensing trade names or other assets typically used in a trade or business, as well as other passive income such as certain dividends and interest. Other exceptions include income derived from certain research activities and income from certain trade show and fair activities.

for qualified wind power facilities the construction of which begins before January 1, 2020. In Table 1, this change is reflected in the tax expenditure estimate for the related energy credits under sections 45 and 48.

—The law extends and modifies the increased credit rate for the energy investment credit with respect to property that uses solar energy to generate electricity, to heat or cool a structure, or to provide solar process heat for property the construction of which commences before December 31, 2023. In Table 1, this change is reflected in the tax expenditure estimate for the related energy credits under sections 45 and 48.

—The credit for residential energy efficient property is extended, and the credit rate is modified, for five years, through December 31, 2021, but only with respect to qualified solar electric property and qualified solar water heating property.

—The deduction for income attributable to domestic production activities was modified for taxpayers in the trade or business of refining crude oil and who are not major integrated oil companies, that in computing oil related qualified production activities income, only 25 percent of the properly allocable costs related to the transportation of oil are allocated to domestic production gross receipts. This has the effect of increasing oil related qualified production activities income for independent refiners with transportation costs that are properly allocable to domestic production gross receipts.

The Protecting Americans from Tax Hikes ("PATH") Act of 2015 (Division Q of Pub. L. No. 114-113), enacted on December 18, 2015, creates three new tax expenditures.

—With respect to any wrongfully incarcerated individual, gross income shall not include any civil damages, restitution, or other monetary award (including compensatory or statutory damages and restitution imposed in a criminal matter) relating to the incarceration of such individual for the covered offense for which such individual was convicted. A special rule allows individuals to make a claim for credit or refund of any overpayment of tax resulting from the exclusion, even if such claim would be disallowed under the Code or by operation of any law or rule of law (including *res judicata*), if the claim for credit or refund is filed before the close of the one-year period beginning on the date of enactment (December 18, 2015). This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—An alternative tax rate of 23.8 percent for corporations applies on the portion of a corporation's taxable income that consists of qualified timber gain (or, if less, the net capital gain) for any taxable year beginning in 2016.

—With respect to eligible noncorporate recipients, an exclusion from gross income applies to any grant, award, or allowance made pursuant to section 402 of the Energy Policy Act of 2005. To the extent the grant, award, or allowance is related to depreciable property, the adjusted basis is reduced by the amount excluded from income. Eligible noncorporate recipients are required to pay an upfront payment to the Federal government equal to 1.18 percent of the value of the grant, award, or allowance. To be eligible, the grant, award, or allowance must have been excludable from income by reason of Code section 118 if the taxpayer had been a corporation. The provision is effective for payments received in taxable years beginning after December 31, 2011.

The PATH Act also modifies several tax expenditures.

—The reduction in the refundable child credit earned income threshold amount to $3,000 is extended permanently for taxable years beginning after December 31, 2017. In Table 1, this change is reflected in the tax expenditure estimates for the "Credit for children under age 17."

—The following modifications to the Hope credit, which are known as the American Opportunity Tax credit, are extended permanently for taxable years beginning after December 31, 2017: increase in the maximum credit amount from $1,800 to $2,500; expansion of definition of qualified tuition and related expenses to include course materials; extension of application of credit to two more years of post-secondary education; increase in the phaseout starting point to $80,000 ($160,000 for married taxpayers filing a joint return); allowance of the credit against the AMT; partial refundability; and treatment of U.S. possessions.

—The credit percentage of 45 percent for three or more qualifying children and the higher phaseout threshold for married couples filing joint returns under the earned income credit are extended permanently for taxable years beginning after December 31, 2015.

—The above-the-line deduction for teacher classroom expenses is extended permanently for taxable years beginning after December 31, 2014. The $250 maximum deduction amount is indexed for inflation and professional development expenses are considered eligible expenses for taxable years beginning after December 31, 2015.

—The increase in the exclusion of employer-provided transit and vanpool benefits to the amount for qualified parking is extended permanently for months after December 31, 2014.

—The election to deduct State and local general sales taxes (in lieu of State and local income taxes) is extended permanently for taxable years beginning after December 31, 2014.

—The higher deduction limits for charitable contributions of real property interests made exclusively for conservation purposes are extended permanently for contributions made in taxable years beginning after December 31, 2014. Special rules for qualified conservation contributions by certain Alaska Native Corporations are added. In Table 1, these modifications are reflected in the tax expenditure estimate for "Deduction for charitable contributions, other than for education and health."

—The exclusion of individual retirement plan distributions for charitable purposes is extended permanently for distributions made in taxable years beginning after December 31, 2014.

—The enhanced charitable deduction for contributions of food inventory is extended permanently for contributions made after December 31, 2014. The deduction is modified to increase the corporate percentage limit and to provide for presumptions relating to basis and valuation for taxable years beginning after December 31, 2015. In Table 1, this is reflected in the tax expenditure estimate for "Deduction for charitable contributions, other than for education and health."

—The special rules for certain amounts received from controlled tax-exempt entities pursuant to a binding written contract in effect on August 17, 2006 is extended permanently for payments received or accrued after December 31, 2014. This modification to the unrelated business taxable income ("UBTI") rules related to passive income gains is not listed in Table 1 because the projected revenue change is unavailable for the passive income gains exception to the UBTI rules.

—The credit for research and experimentation expenses is extended permanently for amounts paid or incurred after December 31, 2014. The research credit is allowed against the AMT in the case of an eligible small business for taxable years beginning after December 31, 2015. A qualified small business may elect to claim a certain amount of its research credit as a

payroll tax credit against its employer liability rather than against its income tax liability for taxable years beginning after December 31, 2015.

—The credit for wages of employees who are active duty members of the uniformed services is extended permanently for payments made after December 31, 2014. The credit is modified by making it available to an employer of any size, rather than only to eligible small business employers, for taxable years beginning after December 31, 2015.

—Fifteen-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant property, and qualified retail improvements is extended permanently for property placed in service after December 31, 2014. In Table 1, this is reflected in the tax expenditure estimate for "Depreciation of buildings other than rental housing in excess of alternative depreciation system."

—The amount a taxpayer may expense under section 179 increases to $500,000, and the phase-out threshold amount increases to $2 million; off-the-shelf computer software and qualified real property are treated as eligible section 179 property; and the permission to revoke without the consent of the Commissioner any election, and any specification contained therein, made under section 179 applies permanently for taxable years beginning after December 31, 2014. The following modifications apply to taxable years beginning after December 31, 2015: the $500,000 and $2 million amounts are indexed for inflation; the limitation related to the amount of section 179 property that may be attributable to qualified real property is removed; the exclusion of air conditioning and heating units from the definition of qualifying property is removed.

—The 100-percent exclusion for gain from certain small business stock and the exception from minimum tax preference treatment are extended permanently for stock acquired after December 31, 2014.

—The exemptions under subpart F for active financing income are extended permanently for taxable years of foreign corporations beginning after December 31, 2014, and for taxable years of U.S. shareholders with or within which such taxable years of such foreign corporations end.

—The temporary minimum 9-percent credit rate for nonfederally subsidized new buildings for the low-income housing credit is extended permanently for credit dollar allocations made on or after January 1, 2015.

—The treatment of military basic housing allowances for purposes of determining income of occupants of residential rental projects under the low-income housing credit and exempt facility bond requirements is extended permanently for income determinations made after December 31, 2014. In Table 1, this is reflected in the tax expenditure estimates for "Credit for low-income housing" and "Exclusion of interest on State and local government qualified private activity bonds for rental housing."

—The new markets tax credit is extended for five years for calendar years beginning after December 31, 2014, permitting up to $3.5 billion in qualified equity investments for each of the 2015, 2016, 2017, 2018, and 2019 calendar years. The carryover period for unused credits is extended for five years, through calendar year 2024.

—The work opportunity tax credit is extended for five years for wages paid or incurred for individuals who begin work for an employer after December 31, 2014. Additionally, the credit is expanded to employers who hire individuals who are qualified long-term unemployment recipients who begin work for the employer after December 31, 2015.

—The additional first-year depreciation deduction for certain qualified property ("bonus depreciation") is extended for five years for property (other than longer-lived and transportation property) placed in service after December 31, 2014 and for longer-lived and transportation property placed in service after December 31, 2015. The election to accelerate AMT credits in lieu of bonus depreciation is extended generally for five years, with modifications made, for property placed in service after December 31, 2015. Under an election for certain plants bearing fruits and nuts, the applicable percentage of the adjusted basis of a specified plant that is planted or grafted after December 31, 2015, and before January 1, 2020, is deductible for regular tax and AMT purposes in the year planted or grafted by the taxpayer. In Table 1, this is reflected in the various tax expenditure estimates for depreciation.

—The look-through treatment of payments between related controlled foreign corporations under the foreign personal holding company rules is extended for five years for taxable years of foreign corporations beginning after December 31, 2014, and for taxable years of U.S. shareholders with or within which such taxable years of such foreign corporations end. In Table 1, this is reflected in the tax expenditure estimate for "Deferral of active income of controlled foreign corporations."

—The exclusion from gross income of discharge of qualified principal residence indebtedness is extended for two years for discharges of indebtedness occurring after December 31, 2014. The exclusion also applies in the case of those taxpayers' whose qualified principal residence indebtedness is discharged on or after January 1, 2017, if the discharge is subject to a written agreement entered into after December 31, 2015.

—The deduction for premiums for qualified mortgage insurance is extended for two years for amounts paid or accrued after December 31, 2014.

—The above-the-line deduction for qualified tuition and related expenses is extended for two years for taxable years beginning after December 31, 2014.

—The Indian employment tax credit is extended for two years for taxable years beginning after December 31, 2014.

—The credit for certain expenditures on railroad track maintenance is extended for two years for expenditures paid or incurred after December 31, 2014. The definition of qualified railroad track maintenance expenditures is modified for expenditures paid or incurred in taxable years beginning after December 31, 2015.

—The credit for training costs of mine rescue team employees is extended for two years for taxable years beginning after December 31, 2014.

—The credit to holders of qualified zone academy bonds is extended for two years for obligations issued after December 31, 2014, and the issuance of up to $400 million of qualified zone academy bonds is authorized each year for 2015 and 2016. The option to issue direct-pay bonds is not available.

—Three-year cost recovery for race horses two years old or younger is extended for two years for horses placed in service after December 31, 2014.

—Seven-year cost recovery for any motorsports entertainment complex is extended for two years for property placed in service after December 31, 2014. In Table 1, this is reflected in the tax expenditure estimate for "Depreciation of buildings other than rental housing in excess of alternative depreciation system."

—Accelerated depreciation for business property on Indian reservations is extended for two years for property placed in service after December 31, 2014. In Table 1, this is reflected in the various tax expenditure estimates for depreciation.

—The election to expense 50 percent of the cost of advanced mine safety equipment is extended for two years for property placed in service after December 31, 2014.

—The election to expense qualified film and television productions is extended for two years for productions commencing after December 31, 2014. The provision is expanded to include any qualified live theatrical production commencing after December 31, 2015.

—The deduction for income attributable to domestic production activities in Puerto Rico is extended for two years for taxable years beginning after December 31, 2014.

—The designations and tax incentives for empowerment zones are extended for two years for periods after December 31, 2014. A special rule is added for the employee residence test in the context of tax-exempt enterprise zone facility bonds for bonds issued after December 31, 2015.

—The credit for corporate income earned in American Samoa is extended for two years for taxable years beginning after December 31, 2014. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The credit for certain nonbusiness energy property is extended for two years for property placed in service after December 31, 2014. The efficiency standard is modified to require that windows, skylights, and doors meet Energy Star 6.0 standards for property placed in service after December 31, 2015.

—The credit for alternative fuel vehicle refueling property is extended for two years for property placed in service after December 31, 2014.

—The credit for electric motorcycles is reauthorized for electric motorcycles acquired in 2015 and 2016 (but not 2014). The credit for electric three-wheeled vehicles is not extended.

—The second generation biofuel producer credit is extended for two years for qualified second generation biofuel production after December 31, 2014. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The credit for biodiesel and renewable diesel fuel is extended for two years for fuel sold or used after December 31, 2014. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The credit for Indian coal produced at Indian coal production facilities placed in service is extended for two years for Indian coal produced after December 31, 2014. The placed-in-service limitation for Indian coal facilities is removed (thus permitting facilities placed in service after December 31, 2008, to qualify) for coal produced and sold after December 31, 2015. The third party sale requirement is modified to permit related party sales to qualify so long as the Indian coal is subsequently sold to an unrelated third person for coal produced and sold after December 31, 2015. The credit is modified to allow the credit against the AMT for credits determined for taxable years beginning after December 31, 2015.

—The credit for electricity production from renewable resources, other than wind facilities, is extended for two years to include facilities the construction of which begins before January 1, 2017.

—The election to claim the energy investment credit in lieu of the electricity production credit is extended for two years to include property used in facilities the construction of which begins before January 1, 2017. In Table 1, this change is reflected in the tax expenditure estimate for the related energy credits under sections 45 and 48.

—The credit for construction of new energy-efficient homes is extended for two years for homes acquired after December 31, 2014.

—The special allowance for 50 percent of basis of second generation biofuel plant property is extended for two years for property placed in service after December 31, 2014. This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

—The deduction for energy efficient commercial building property is extended for two year for property placed in service after December 31, 2014, and the energy efficiency standards are increased for property placed in service after December 31, 2015.

—The deferral of gain from the disposition of electric transmission property to implement Federal Energy Regulation Commission restructuring policy is extended for two years for dispositions after December 31, 2014. In Table 1, this change is reflected in the tax expenditure estimate for "Special rule to implement electric transmission restructuring."

—The credit for alternative motor vehicles for qualified fuel cell motor vehicles is extended for two years for vehicles placed in service after December 31, 2014.

—Several modifications were made with respect to procedures related to, and taxpayer eligibility for, the earned income tax credit, the additional child tax credit, and the American opportunity tax credit. These changes generally apply for tax years ending after December 31, 2015. In Table 1, these changes are reflected in the tax expenditure estimates for the credits to which they relate.

—The exclusion of scholarship and fellowship income is expanded to include any payments from a comprehensive student work-learning-service program operated by a work college if the student is required to participate in such a program that is an integral and stated part of the institution's educational philosophy and program. This applies to amounts received in taxable years beginning after the date of enactment.

—The exclusion of earnings of qualified tuition programs under section 529 is modified (1) to provide that qualified higher education expenses include the purchase of certain computer or peripheral equipment, computer software, or Internet access and related services; (2) by repealing the aggregation rules for purposes of calculating the amount of a distribution that is included in a taxpayer's income; and (3) to permit the exclusion of any distribution that was used to pay any higher education expenses that were refunded if the beneficiary recontributes the refunded amount to the qualified tuition program within 60 days. The modifications are generally effective after December 31, 2014.

—ABLE accounts are modified to eliminate the requirement that they be established only in the State of residence of the ABLE account owner.

—The exclusion of reimbursements under an employer-provided accident or health plan for medical care expenses for employees is modified by expanding to additional plans the exception relating to a deceased employee's beneficiary. In Table 1, this is reflected in the tax expenditure estimate for "Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums."

—The rules for individual retirement arrangements are modified to permit rollovers of distributions from employer-sponsored retirement plans and traditional IRAs (that are not savings incentive match plans for employees ("SIMPLE") IRAs) into a SIMPLE IRA after the expiration of the two-year period following the date the employee first participated in the SIMPLE IRA (the two-year period during which the additional income tax on distributions from a SIMPLE IRA is 25 percent instead of 10 percent) for contributions to SIMPLE IRAs made after the date of enactment (December 18, 2015).

—The treatment of early retirement distributions from a qualified retirement plan is modified by amending the definition of qualified public safety employee to include nuclear materials couriers, members of the United States Capitol Police, members of the Supreme Court police, and diplomatic security special agents of the United States Department of State for distributions after December 31, 2015.

—The deduction for charitable contributions, other than for education and health, is modified to provide special treatment for agricultural research organizations, consistent with the present-law treatment for medical research organizations for contributions made on or after the date of enactment (December 18, 2015).

—The tax-exempt status and election to be taxed only on investment income for certain small property and casualty insurance companies is modified by increasing and indexing the dollar limitation on premiums and by adding diversification requirement to the eligibility rules for taxable years beginning after December 31, 2016.

—The special rules applicable to qualified retirement plans and section 403(b) plans maintained by churches or church-related organizations are modified with respect to the controlled group rules, limits on defined benefit section 403(b) plans, automatic enrollment, plan transfers and mergers, and investments in group trusts, generally after the date of enactment (December 18, 2015).

The United States Appreciation for Olympians and Paralympians Act of 2016 (Pub. L. No. 114-239), enacted on October 7, 2016, creates a new exclusion from gross income for the value of the medals awarded to U.S. Olympic or Paralympic athletes and the cash prizes given by the U.S. Olympic Committee, for prizes and awards received after December 31, 2015. This exclusion does not apply to taxpayers whose adjusted gross income (determined without regard to the value of such medals or rewards) is in excess of $1,000,000 (or half such amount in the case of a married taxpayer filing a separate return). This tax expenditure is not listed in Table 1 because the estimated revenue loss is below the *de minimis* amount.

The 21st Century Cures Act (Pub. L. No. 114-255), enacted on December 13, 2016, provides rules for a new qualified small employer health reimbursement arrangement ("QSEHRA"), defined as an arrangement that (1) is provided on the same terms to all eligible employees of an eligible employer; (2) is funded solely by the eligible employer and no salary reduction contributions may be made under the arrangement; (3) provides, after an employee provides proof of minimum essential coverage, for the payment or reimbursement of medical expenses of the employee and family members; and (4) the amount of payments and reimbursements under the arrangement for a year cannot exceed specified dollar limits. The initial dollar limits are $4,950 ($10,000 in the case of expenses of an employee and family members). For years after 2016, the dollar limits are increased as needed to reflect cost of living increases, with rounding down to the next lowest multiple of $50. The QSEHRA modifies the tax expenditures related to (1) the exclusion of employer-provided contributions for health care, health insurance premiums, and long-term care insurance premiums; and (2) subsidies for insurance purchased through health benefit exchanges.

Expiring Tax Expenditure Provisions

A number of tax expenditure provisions expired in 2015 or are scheduled to expire in 2016. Some provisions expired prior to 2015. As noted above, expired provisions are not listed in Table 1 unless they have continuing revenue effects that are associated with ongoing taxpayer activity. These determinations reflect present law as of December 15, 2016.

—The credit for certain nonbusiness energy property expires for expenditures made after December 31, 2016.

—The credit for qualified fuel cell motor vehicles expires for property purchased after December 31, 2016.

—The credit for alternative fuel vehicle refueling property expires for property placed in service after December 31, 2016.

—The credit for two-wheeled plug-in electric vehicles expires for vehicles acquired after December 31, 2016.

—The second generation biofuel producer credit expires for qualified second generation biofuel production after December 31, 2016.

—The credit for biodiesel and renewable diesel fuel expires for fuel sold or used after December 31, 2016.

—The election to claim an energy credit in lieu of the credit for electricity produced from certain renewable resources, other than wind, expires for facilities the construction of which begins after December 31, 2016.

—The credit for electricity produced from certain renewable resources expires for Indian coal produced and sold after December 31, 2016.

—The Indian employment tax credit expires for taxable years beginning after December 31, 2016.

—The credit for certain expenditures on railroad track maintenance expires for expenditures paid or incurred after December 31, 2016.

—The credit for construction of new energy-efficient homes expires for homes purchased after December 31, 2016.

—The credit for training costs of mine rescue team employees expires for taxable years beginning after December 31, 2016.

—The energy credit for hybrid solar lighting system property, geothermal heat pump property, small wind property, combined heat and power property, and qualified fuel cell and stationary microturbine power plant property expires generally for property for any period after December 31, 2016.

—The allocation of new bond authority for the credit to holders of qualified zone academy bonds expires for bonds issued after December 31, 2016.

—The exclusion from gross income of discharge of qualified principal residence indebtedness expires for discharges of indebtedness occurring after December 31, 2016.

—The deduction for premiums for qualified mortgage insurance as interest that is qualified residence interest expires for amounts paid, accrued, or properly allocable to any period after December 31, 2016.

—Three-year cost recovery for race horses two years old or younger expires for race horses placed in service after December 31, 2016.

—Five-year cost recovery for certain energy property expires for property placed in service after December 31, 2016.

—Seven-year cost recovery for any motorsports entertainment complex expires for property placed in service after December 31, 2016.

—Accelerated depreciation for business property on Indian reservations expires for property placed in service after December 31, 2016.

—The special allowance for 50 percent of basis of second generation biofuel plant property expires for property placed in service after December 31, 2016.

—The deduction for expenditures on energy-efficient commercial building property expires for property placed in service after December 31, 2016.

—The election to expense advanced mine safety equipment expires for property placed in service after December 31, 2016.

—The election to expense qualified film, television, and live theatrical productions expires for productions commencing after December 31, 2016.

—The deduction for income attributable to domestic production activities in Puerto Rico expires for taxable years beginning after December 31, 2016.

—The 7.5-percent adjusted gross income floor for individuals age 65 and older (and their spouses) for purposes of the deduction for medical expenses and long-term care expenses expires, and reverts to 10 percent, for taxable years beginning after December 31, 2016.

—The above-the-line deduction for qualified tuition and related expenses expires for taxable years beginning after December 31, 2016.

—The deferral of gain from the disposition of electric transmission property to implement Federal Energy Regulation Commission restructuring policy expires for dispositions after December 31, 2016.

—The special tax rate for qualified timber gains expires for taxable years beginning after December 31, 2016.

—The designations and tax incentives for empowerment zones expire after December 31, 2016.

—The credit for corporate income earned in American Samoa expires for taxable years beginning after December 31, 2016.

<u>Comparisons with Treasury</u>

The Joint Committee staff and Treasury lists of tax expenditures differ in at least six respects. First, the Joint Committee staff and the Treasury use differing methodologies for the estimation of tax expenditures. Thus, the estimates in Table 1 are not necessarily comparable with the estimates prepared by the Treasury. Under the Joint Committee staff methodology, each tax expenditure is measured by the difference between tax liability under present law and the tax liability that would result if the tax expenditure provision were repealed and taxpayers were allowed to take advantage of any of the remaining tax expenditure provisions that apply to the income or the expenses associated with the repealed tax expenditure.

For example, the tax expenditure provision for the exclusion of employer-paid health insurance is measured by the difference between tax liability under present law and the tax liability that would result if the exclusion were repealed and taxpayers were allowed to claim the next best tax treatment for the previously excluded employer-paid health insurance. This next

best tax treatment could be the inclusion of the employer-paid health insurance as an itemized medical deduction on Schedule A (Form 1040).[21]

Under the Treasury methodology, each tax expenditure is measured by the difference between tax liability under present law and the tax liability that would result if the tax expenditure provision were repealed and taxpayers were prohibited from taking advantage of any of the remaining tax expenditure provisions that apply to the income or the expenses associated with the repealed tax expenditure. For example, the tax expenditure provision for the exclusion for employer-paid health insurance is measured by the difference between tax liability under present law and the tax liability that would result if the exclusion were repealed and taxpayers were required to include all of the employer-paid health insurance in income, with no offsetting deductions (*i.e.*, no deductibility on Schedule A (Form 1040)).

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

Third, the Joint Committee staff and the Treasury estimates of tax expenditures may also differ as a result of differing data sources and differences in baseline projections of incomes and expenses. The Treasury’s tax expenditure calculations are based on the Administration's economic forecast. The Joint Committee staff calculations are based on the economic forecast prepared by the CBO.

Fourth, the Joint Committee staff and the Treasury estimates of tax expenditures span slightly different sets of years. The Treasury’s estimates cover an 11-year period: the last fiscal year, the current fiscal year when the President’s budget is submitted, and the next nine fiscal years, *i.e.*, fiscal years 2014-2024. The Joint Committee staff estimates cover the current fiscal year, and the succeeding four fiscal years, *i.e.*, fiscal years 2016-2020.

Fifth, the Joint Committee staff list excludes those provisions that are estimated to result in revenue losses below the *de minimis* amount, *i.e.*, less than $50 million over the five fiscal years 2016 through 2020. The Treasury rounds all yearly estimates to the nearest $10 million and excludes those provisions with estimates that round to zero in each year, *i.e.*, provisions that result in less than $5 million in revenue loss in each of the years 2015 through 2025.

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[21] If the exclusion were repealed, the value of the employer-paid health insurance would be included in income and taxpayers would be treated as having purchased the insurance themselves. Thus, the insurance expense would be deductible as an itemized medical expense on Schedule A (Form 1040), subject to the itemized medical deduction floor (10 percent (7.5 percent for taxable years ending before January 1, 2017, if the taxpayer or the taxpayer’s spouse has attained age 65) of the taxpayer’s adjusted gross income).

Finally, the Joint Committee staff list formally integrates negative tax expenditures into its standard presentation.

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

There are some tax expenditure provisions that are contained in the Treasury list but are not contained in the Joint Committee staff list. Two of these provisions involve exceptions to the passive loss rules: the exception for working interests in oil and gas properties, and the exception for up to $25,000 of rental losses. The Joint Committee staff does not classify these two provisions as tax expenditures; the effects of the passive loss rules (and exceptions to the rules) are included in the estimates of the tax expenditure provisions that are affected by the rules.[22] The Treasury estimates a tax expenditure for the exclusion of interest on life insurance savings (sometimes referred to as inside buildup on a life insurance contract). By contrast, the Joint Committee staff estimates a tax expenditure for the exclusion from gross income of amounts, such as death benefits, received under a life insurance contract by reason of the death of the insured.

[22] See discussion of the passive loss rules above.

II. MEASUREMENT OF TAX EXPENDITURES

Tax Expenditure Calculations Generally

A tax expenditure is measured by the difference between tax liability under present law and the tax liability that would result from a recomputation of tax without benefit of the tax expenditure provision.[23] Taxpayer behavior is assumed to remain unchanged for tax expenditure estimate purposes.[24] This assumption is made to simplify the calculation and conform to the presentation of government outlays. This approach to tax expenditure measurement is in contrast to the approach taken in revenue estimating; all Joint Committee staff revenue estimates reflect anticipated taxpayer behavior.

The tax expenditure calculations in this report are based on the January 2016 CBO revenue baseline and Joint Committee staff projections of the gross income, deductions, and expenditures of individuals and corporations for calendar years 2015-2020. These projections are used to compute tax liabilities for the present-law revenue baseline and tax liabilities for the alternative baseline that assumes that the tax expenditure provision does not exist.

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

Some tax expenditure calculations are based partly on statistics for income, deductions, and expenses for prior years. Accelerated depreciation is an example. Estimates for this tax expenditure are based on the difference between tax depreciation deductions under present law and the deductions that would have been claimed in the current year if investments in the current

[23] An alternative way to measure tax expenditures is to express their values in terms of "outlay equivalents." An outlay equivalent is the dollar size of a direct spending program that would provide taxpayers with net benefits that would equal what they now receive from a tax expenditure. For positive tax expenditures, the major difference between outlay equivalents and the tax expenditure calculations presented here is accounting for whether a tax expenditure converted into an outlay payment would itself be taxable, so that a gross-up might be needed to deliver the equivalent after-tax benefits.

[24] An exception to this absence of behavior in tax expenditure calculations is that a taxpayer is assumed to make simple additions or deletions in filing tax forms, what the Joint Committee staff refers to as "tax form behavior." For example, as noted above, if the exclusion for employer-paid health insurance were repealed, taxpayers would be allowed to claim the next best tax treatment for the previously excluded insurance. This next best tax treatment could be the inclusion of the employer-paid health insurance as an itemized medical deduction on Schedule A (Form 1040). Similarly, a taxpayer that is eligible for one of two alternative credits is assumed to file for the second credit if the first credit is eliminated.

year and all prior years had been depreciated using the alternative (normal income tax law) depreciation system.

Each tax expenditure is calculated separately, under the assumption that all other tax expenditures remain in the Code. If two or more tax expenditures were estimated simultaneously, the total change in tax liability could be smaller or larger than the sum of the amounts shown for each item separately, as a result of interactions among the tax expenditure provisions.[25]

Year-to-year differences in the calculations for each tax expenditure reflect changes in tax law, including phaseouts of tax expenditure provisions and changes that alter the definition of the normal income tax structure, such as the tax rate schedule, the personal exemption amount, and the standard deduction. For example, the dollar level of tax expenditures tends to increase and decrease as tax rates increase and decrease, respectively, without any other changes in law. Some of the calculations for this tax expenditure report may differ from estimates made in previous years because of changes in law and economic conditions, the availability of better data, and improved measurement techniques.

If a tax expenditure provision were eliminated, Congress might choose to continue financial assistance through other means rather than terminate all Federal assistance for the activity. If a replacement spending program were enacted, the higher revenues received as a result of the elimination of a tax expenditure might not represent a net budget gain. A replacement program could involve direct expenditures, direct loans or loan guarantees, regulatory activity, a mandate, a different form of tax expenditure, or a general reduction in tax rates. Joint Committee staff estimates of tax expenditures do not anticipate such policy responses.

Tax Expenditures versus Revenue Estimates

A tax expenditure calculation is not the same as a revenue estimate for the repeal of the tax expenditure provision for three reasons. First, unlike revenue estimates, tax expenditure calculations do not incorporate the effects of the behavioral changes that are anticipated to occur in response to the repeal of a tax expenditure provision. Second, tax expenditure calculations are concerned with changes in the reported tax liabilities of taxpayers.[26] Because tax expenditure analysis focuses on tax liabilities as opposed to Federal government tax receipts, there is no concern for the short-term timing of tax payments. Revenue estimates are concerned with changes in Federal tax receipts that are affected by the timing of all tax payments. Third, some of the tax provisions that provide an exclusion from income also apply to the FICA tax base, and the repeal of the income tax provision would automatically increase FICA tax revenues as well as income tax revenues. This FICA effect would be reflected in revenue estimates, but is not

[25] See Leonard E. Burman, Christopher Geissler, and Eric J. Toder, "How Big Are Total Individual Income Tax Expenditures, and Who Benefits from Them?" *American Economic Review*, 98, May 2008, pp. 79-83.

[26] Reported tax liabilities may reflect compliance issues, and thus calculations of tax expenditures reflect existing compliance issues.

considered in tax expenditure calculations. There may also be interactions between income tax provisions and other Federal taxes such as excise taxes and the estate and gift tax.

If a tax expenditure provision were repealed, it is likely that the repeal would be made effective for taxable years beginning after a certain date. Because most individual taxpayers have taxable years that coincide with the calendar year, the repeal of a provision affecting the individual income tax most likely would be effective for taxable years beginning after December 31 of a certain year. However, the Federal government's fiscal year begins October 1. Thus, the revenue estimate for repeal of a provision would show a smaller revenue gain in the first fiscal year than in subsequent fiscal years. This is due to the fact that the repeal would be effective after the start of the Federal government's fiscal year. The revenue estimate might also reflect some delay in the timing of the revenue gains as a result of the taxpayer tendency to postpone or forgo changes in tax withholding and estimated tax payments, and very often repeal or modification of a tax provision includes transition relief that would not be captured in a tax expenditure calculation.

Quantitatively *de minimis* Tax Expenditures

The following tax provisions are viewed as tax expenditures by the Joint Committee staff but are not listed in Table 1 because the estimated revenue losses for fiscal years 2016 through 2020 are below the *de minimis* amount ($50 million):

International affairs

—Miscellaneous nonresident individual income tax exclusions (certain gambling winnings (sec. 871(j)), ship or aircraft operation income, certain exchange or training programs compensation, bond income of residents of the Ryukyu Islands, certain wagering income (sec. 872(b)))

—Miscellaneous foreign corporate income tax exclusions (ship or aircraft operation income, foreign railroad rolling stock earnings, certain communication satellite earnings (sec. 883))

Energy

—Credit for second generation biofuel production (sec. 40(a)(4))

—Credit for biodiesel and renewable diesel fuel (sec. 40A)

—Credit for enhanced oil recovery costs (sec. 43)

—Credit for producing oil and gas from marginal wells (sec. 45I)

—Credit for production of electricity from qualifying advanced nuclear power facilities (sec. 45J)

—Credit for producing fuels from a nonconventional source (sec. 45K)

—Seven-year MACRS Alaska natural gas pipeline (sec. 168(e)(3)(C))

—50-percent expensing of cellulosic biofuel plant property (sec. 168(l))

—Partial expensing of investments in advanced mine safety equipment (sec. 179E)

—Expensing of tertiary injectants (sec. 193)

Commerce and housing

—Exclusion of investment income from structured settlement arrangements (secs. 72(u)(3)(C) and 130)

—Inclusion of income arising from business indebtedness discharged by the reacquisition of a debt instrument (sec. 108(i))

—Bad debt reserves of financial institutions (sec. 585)

—Alaska Native Corporation trusts (sec. 646)

—Deferral of gain on sales of property to comply with conflict-of-interest requirements (sec. 1043)

—Reduced rates of tax on gains from the sale of self-created musical works (sec. 1221(b)(3))

Community and regional development

—Exclusion of Indian general welfare benefits (sec. 139E)

—Issuance of tribal economic development bonds (sec. 7871(f))

Education, training, employment, and social services

—Exclusion of Olympic and Paralympic medals and prizes (sec. 74(d))

—Exclusion of interest on educational savings bonds (sec. 135)

—Exclusion of restitution payments received by victims of the Nazi regime and the victims' heirs and estates (sec. 803 of Pub. L. No. 107-16)

Health

—Archer medical savings accounts (sec. 220)

Income security

—Credit for the elderly and disabled (sec. 22)

—Credit for new retirement plan expenses of small businesses (sec. 45E)

Veterans' benefits and services

—Burial expenses for veterans (sec. 134 and 38 U.S.C. 5301)

Administration of justice

—Exclusion of certain amounts received by wrongfully incarcerated individuals (sec. 139F)

General purpose fiscal assistance

—American Samoa economic development credit (sec. 119 of Pub. L. No. 109-432)

Tax Expenditures for Which Quantification Is Not Available

The following tax provisions are viewed as tax expenditures by the Joint Committee staff but are not listed in Table 1 because the projected revenue changes are unavailable (a provision that is a negative tax expenditure is indicated by an " * "):

International affairs

—Branch profits tax*
—Deduction for U.S. employment tax paid under section 3121(l) agreements for employees of foreign affiliates
—Doubling of tax rates on citizens and corporations of certain foreign countries*

Energy

—Accelerated deductions for nuclear decommissioning costs (sec. 468A)
—Fossil fuel capital gains treatment (sec. 631(c))

Natural resources and environment

—Exception to partial interest rule for qualified conservation contribution (sec. 170(h))

Agriculture

—Ten-year MACRS for single purpose agricultural or horticultural structures (sec. 168(e)(3), (i)(13))
—Exceptions from dealer disposition definition for installment sales (sec. 453(l)(2)(A))
—Exception from interest calculation on installment sales for small dispositions (sec. 453A(b)(3))

Commerce and housing

—Amortization of organizational expenditures (sec. 248)
—Deferral of prepaid subscription income (sec. 455)
—Deferral of prepaid dues income of certain membership organizations (sec. 456)
—Amortization of partnership organization and syndication fees (sec. 709)
—Unrecaptured section 1250 gain rate (section 1(h)), which applies to depreciation taken on real property
—Nonrecognition of in-kind distributions by regulated investment companies in redemption of their stock (sec. 852(b)(6))
—Special discount rate rule for certain debt instruments where stated principal amount is $2.8 million or less (sec. 1274A)
—Deduction for investment expenses*
—Tax treatment of convertible bonds (Treas. Reg. sec. 1.1275-4; Rev. Rul. 2002-31)
—Treatment of loans under life insurance and annuity contracts and 401(k) plans (secs. 72(e), 72(p), and 7702)
—Exemption for cemetery companies (sec. 501(c)(13))
—Certain exceptions to the UBTI rules: (secs. 512-514)

- Passive income gains

- Income from certain research
- Trade shows and fairs
- Bingo games
- Pole rentals
- Sponsorship payments
- Real estate exception to the debt-financed income rules

—Specific identification of sold equities (sec. 1012 (and Treas. Reg. sec. 1012-1))

—Losses on small business stock (secs. 1242-1244)

—Nondeductibility of excise taxes imposed on employers whose employees receive premium assistance credits* (secs. 275(a)(6) and 4980H(c)(7))

—Nondeductibility of annual fees imposed on certain drug manufacturers or importers* (sec. 275(a)(6); sec. 9008(f)(2) of Pub. L. No. 111-148)

—Nondeductibility of annual fees imposed on health insurers* (sec. 275(a)(6); sec. 9010(f)(2) of Pub. L. No. 111-148)

Community and regional development

—Five-year carryback of small businesses' and farmers' casualty losses attributable to Presidentially declared disaster (sec. 172(b)(1)(F))

Education, training, employment, and social services

—Allowance of 80-percent deduction for right to purchase tickets or stadium seating (sec. 170(l))

General purpose fiscal assistance

—Exclusion of Guam, American Samoa, and Northern Mariana Islands income (sec. 931)

—Exclusion of U.S. Virgin Islands income (sec. 932(c)(4))

—Exclusion of Puerto Rico income (sec. 933)

III. TAX EXPENDITURE ESTIMATES

Tax expenditures are grouped in Table 1 in the same functional categories as outlays in the Federal budget. Estimates are shown separately for individuals and corporations. Those tax expenditures that do not fit clearly into any single budget category have been placed in the most appropriate category. Totals for each tax expenditure are presented for the five-year period covering fiscal years 2016-2020, respectively.

Several of the tax expenditure items involve small amounts of revenue, and those estimates are indicated in Table 1 by footnote 4. For each of these items, the footnote means that the tax expenditure is less than $50 million in the fiscal year.

Table 2 presents distributional projections of tax return data for each of nine income classes including: (1) the number of all returns (including filing and nonfiling units), (2) the number of taxable returns, (3) the number of returns with itemized deductions, and (4) the amount of tax liability.

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

Table 1.--Tax Expenditure Estimates By Budget Function, Fiscal Years 2016 - 2020 [1]

[Billions of Dollars]

Function	Corporations					Individuals					Total
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016-20
National Defense											
Exclusion of benefits and allowances to armed forces personnel	---	---	---	---	---	5.5	5.6	6.1	6.4	6.5	30.1
Exclusion of military disability benefits	---	---	---	---	---	0.3	0.3	0.3	0.3	0.3	1.3
Deduction for overnight-travel expenses of national guard and reserve members	---	---	---	---	---	0.1	0.1	0.1	0.1	0.1	0.5
Exclusion of combat pay	---	---	---	---	---	1.2	1.3	1.4	1.4	1.4	6.7
International Affairs											
Exclusion of certain allowances for Federal employees abroad	---	---	---	---	---	1.3	1.3	1.4	1.4	1.5	6.8
Exclusion of foreign earned income:											
Housing	---	---	---	---	---	1.1	1.2	1.2	1.2	1.2	5.9
Salary	---	---	---	---	---	6.6	7.0	7.5	8.0	8.5	37.6
Inventory property sales source rule exception	1.7	1.8	1.8	1.8	1.8	---	---	---	---	---	8.9
Deduction for foreign taxes instead of a credit	0.3	0.3	0.3	0.3	0.3	---	---	---	---	---	1.5
Interest expense allocation:											
Unavailability of symmetric worldwide method*	-1.2	-1.2	-1.2	-1.1	-1.1	---	---	---	---	---	-5.8
Separate grouping of affiliated financial companies	0.4	0.4	0.4	0.4	0.5	---	---	---	---	---	2.1
Apportionment of research and development expenses for determination of foreign tax credits	0.1	0.2	0.2	0.2	0.3	---	---	---	---	---	1.0
Special rules for interest-charge domestic international sales corporations	0.9	0.9	1.0	1.0	1.0	---	---	---	---	---	4.8
Tonnage tax	0.1	0.1	0.1	0.1	0.1	---	---	---	---	---	0.5
Deferral of active income of controlled foreign corporations	102.7	119.0	121.8	120.5	123.1	---	---	---	---	---	587.2
Deferral of active financing income	9.1	9.4	9.7	9.9	10.3	---	---	---	---	---	48.5

Function	Corporations					Individuals					Total
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016-20
General Science, Space, and Technology											
Credit for increasing research activities (Code section 41)	9.4	9.8	10.3	10.9	11.4	1.0	1.0	1.1	1.2	1.3	57.5
Expensing of research and experimental expenditures	2.0	2.0	2.0	2.0	2.0	0.1	0.1	0.1	0.1	0.1	11.0
Therapeutic research credit	0.1	0.1	---	---	---	0.1	0.1	---	---	---	0.5
Energy											
Credit for energy-efficient improvements to existing homes	---	---	---	---	---	0.5	0.4	---	---	---	0.9
Credit for holders of clean renewable energy bonds (Code sections 54 and 54C) [2] [3]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.1	0.1	0.1	0.6
Exclusion of energy conservation subsidies provided by public utilities	---	---	---	---	---	[4]	[4]	[4]	[4]	[4]	0.1
Credit for holders of qualified energy conservation bonds [2] [3]	---	---	---	---	---	[4]	[4]	[4]	[4]	[4]	0.3
Energy credit (section 48)	2.3	2.5	2.5	2.5	2.7	0.3	0.2	0.1	0.1	0.1	13.6
Solar	2.2	2.4	2.4	2.4	2.6	0.2	0.2	0.1	0.1	0.1	12.3
Geothermal	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]
Fuel Cells	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]
Microturbines	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]
Combined heat and power	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]
Small wind	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]
Geothermal heat pump systems	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]
Credits for electricity production from renewable resources (section 45):											
Wind	3.1	4.0	4.8	5.2	5.4	0.2	0.2	0.3	0.3	0.3	23.7
Closed-loop biomass	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.1
Geothermal	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.1
Qualified hydropower	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.1
Small irrigation power	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.1
Municipal solid waste	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.4
Open-loop biomass	0.1	0.2	0.2	0.3	0.3	[4]	[4]	[4]	[4]	[4]	1.2
Special rule to implement electric transmission restructuring	-0.2	-0.2	-0.2	-0.2	-0.2	---	---	---	---	---	-1.0
Credits for investments in clean coal facilities	0.2	0.2	0.2	0.2	0.2	---	---	---	---	---	1.0

Function	Corporations					Individuals					Total
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016-20
Coal production credits:											
Refined coal	[4]	[4]	[4]	[4]	[4]	---	---	---	---	---	0.1
Indian coal	[4]	[4]	[4]	[4]	[4]	---	---	---	---	---	0.1
Credits for alternative technology vehicles:											
Other alternative fuel vehicles	[4]	[4]	[4]	[4]	[4]	---	---	---	---	---	0.1
Residential energy-efficient property credit	---	---	---	---	---	1.1	1.0	0.4	0.4	0.4	3.2
Credit for plug-in electric vehicles	0.2	0.3	0.3	0.4	0.4	0.1	0.4	0.5	0.5	0.6	4.4
Credit for investment in advanced energy property	0.2	0.2	0.1	0.1	[4]	0.1	0.1	0.1	0.1	0.1	0.8
Exclusion of interest on State and local government qualified private activity bonds for energy production facilities	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.7
Expensing of exploration and development costs, fuels:											
Oil and gas	1.4	1.2	1.1	1.0	0.9	0.4	0.4	0.4	.3.	0.3	7.4
Other fuels	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.6
Excess of percentage over cost depletion, fuels:											
Oil and gas	0.7	0.8	0.9	0.9	1.0	[4]	[4]	[4]	[4]	[4]	4.3
Other fuels	0.2	0.2	0.2	0.1	0.1	[4]	[4]	[4]	[4]	[4]	0.9
Amortization of geological and geophysical expenditures associated with oil and gas exploration	0.1	0.1	0.1	0.1	0.1	[4]	[4]	[4]	[4]	[4]	0.6
Amortization of air pollution control facilities	0.5	0.8	0.9	1.0	1.0	---	---	---	---	---	4.2
Depreciation recovery periods for energy-specific items:											
Five-year MACRS for certain energy property (solar, wind, etc.)	0.2	0.2	0.2	0.2	0.6	0.1	0.1	0.1	0.1	0.2	2.0
10-year MACRS for smart electric distribution property	0.1	0.1	0.1	0.1	0.1	---	---	---	---	---	0.5
15-year MACRS for certain electric transmission property	0.1	0.1	0.1	0.1	0.1	---	---	---	---	---	0.5
15-year MACRS for natural gas distribution line	0.2	0.2	0.2	0.1	0.1	---	---	---	---	---	0.8
Exceptions for publicly traded partnership with qualified income derived from certain energy-related activities	---	---	---	---	---	0.9	1.0	1.0	1.0	1.0	4.9
Natural Resources and Environment											
Special depreciation allowance for certain reuse and recycling property	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.1

Function	Corporations					Individuals					Total
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016-20
Expensing of exploration and development costs, nonfuel minerals	0.1	0.1	0.1	0.1	0.1	[4]	[4]	[4]	[4]	[4]	0.5
Excess of percentage over cost depletion, nonfuel minerals	0.1	0.1	0.1	0.1	0.1	[4]	[4]	[4]	[4]	[4]	0.5
Expensing of timber-growing costs	0.3	0.3	0.3	0.3	0.3	[4]	[4]	[4]	[4]	[4]	1.6
Special rules for mining reclamation reserves	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.2
Special tax rate for nuclear decommissioning reserve funds	0.2	0.3	0.3	0.3	0.3	---	---	---	---	---	1.4
Exclusion of contributions in aid of construction for water and sewer utilities	[4]	[4]	[4]	[4]	[4]	---	---	---	---	---	0.2
Exclusion of earnings of certain environmental settlement funds	[4]	[4]	[4]	[4]	[4]	---	---	---	---	---	0.1
Amortization and expensing of reforestation expenditures	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	1.3
Capital gains treatment for qualified timber income (including coal and iron ore)	---	---	---	---	---	0.3	0.4	0.4	0.4	0.4	1.9
Treatment of income from exploration and mining of natural resources as qualifying income under the publicly-traded partnership rules	---	---	---	---	---	0.1	0.1	0.1	0.1	0.1	0.5
Agriculture											
Expensing of soil and water conservation expenditures	[4]	[4]	[4]	[4]	[4]	0.1	0.1	0.1	0.1	0.1	0.6
Expensing of the costs of raising dairy and breeding cattle	[4]	[4]	[4]	[4]	[4]	0.2	0.1	[4]	[4]	[4]	0.4
Exclusion of cost-sharing payments	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.1
Exclusion of cancellation of indebtedness income of farmers	---	---	---	---	---	0.1	0.1	0.1	0.1	0.1	0.5
Income averaging for farmers and fishermen	---	---	---	---	---	0.2	0.2	0.2	0.2	0.2	1.0
Five-year carryback period for net operating losses attributable to farming	[4]	[4]	[4]	[4]	[4]	0.1	0.1	0.1	0.1	0.1	0.4
Expensing by farmers for fertilizer and soil conditioner costs	[4]	[4]	[4]	[4]	0.1	0.1	0.1	0.1	0.1	0.2	0.9
Cash accounting for agriculture	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.1

Function	Corporations					Individuals					Total
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016-20
Commerce and Housing											
Housing:											
Deduction for mortgage interest on owner-occupied residences	---	---	---	---	---	59.0	63.6	72.4	78.7	83.4	357.0
Exclusion of income attributable to the discharge of principal residence acquisition indebtedness	---	---	---	---	---	2.3	1.2	---	---	---	3.5
Deduction for premiums for qualified mortgage insurance	---	---	---	---	---	1.0	0.8	---	---	---	1.7
Deduction for property taxes on real property	---	---	---	---	---	31.2	33.3	36.4	38.5	40.5	180.0
Exclusion of capital gains on sales of principal residences	---	---	---	---	---	29.2	32.1	33.4	34.9	36.8	166.3
Exclusion of interest on State and local government qualified private activity bonds for owner-occupied housing [5]	0.4	0.4	0.4	0.4	0.4	0.9	1.0	1.0	1.1	1.1	7.1
Credit for low-income housing	7.9	8.2	8.6	9.0	9.6	0.3	0.3	0.4	0.4	0.4	45.1
Credit for rehabilitation of historic structures	0.7	0.7	0.8	0.8	0.9	0.2	0.2	0.2	0.2	0.2	4.8
Credit for rehabilitation of structures, other than historic structures	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.1	0.1	0.1	0.3
Exclusion of interest on State and local government qualified private activity bonds for rental housing	0.3	0.3	0.3	0.3	0.3	0.7	0.8	0.8	0.9	0.9	5.6
Depreciation of rental housing in excess of alternative depreciation system	0.4	0.4	0.4	0.4	0.4	4.0	3.8	3.7	3.6	3.5	20.7
Other business and commerce:											
Exclusion of interest on State and local government small-issue qualified private activity bonds	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.4	2.2
Carryover basis of capital gains on gifts	---	---	---	---	---	2.5	2.0	3.2	4.5	4.9	17.0
Deferral of gain on non-dealer installment sales	6.8	6.7	6.7	6.7	6.7	1.7	1.4	1.2	1.2	1.2	40.3
Deferral of gain on like-kind exchanges	11.1	11.4	11.7	12.2	12.7	5.9	6.0	6.2	6.4	6.6	90.2
Expensing under section 179 of depreciable business property	34.2	24.1	17.9	12.9	8.2	53.0	37.4	27.8	20.0	12.7	248.2
Amortization of business startup costs	[4]	[4]	[4]	[4]	0.1	[4]	[4]	[4]	0.1	0.1	0.4
Reduced rates on first $10,000,000 of corporate taxable income	3.0	3.1	3.1	3.3	3.4	---	---	---	---	---	15.9

Function	Corporations					Individuals					Total
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016-20
Exemptions from imputed interest rules	[4]	[4]	[4]	[4]	[4]	0.6	0.7	0.7	0.7	0.8	3.5
Expensing of magazine circulation expenditures	0.2	[4]	[4]	[4]	[4]	0.1	[4]	[4]	[4]	[4]	0.3
Special rules for magazine, paperback book, and record returns	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.2
Completed contract rules	0.9	0.9	1.0	1.0	1.1	0.1	0.1	0.1	0.1	0.1	5.5
Cash accounting, other than agriculture	0.3	0.3	0.3	0.3	0.3	1.9	1.9	2.0	2.0	2.1	11.5
Credit for employer-paid FICA taxes on tips	0.5	0.5	0.5	0.5	0.6	1.0	1.0	1.0	1.1	1.1	7.8
Deduction for income attributable to domestic production activities	14.5	14.6	14.7	14.9	15.3	5.5	5.5	5.6	5.7	5.8	102.1
Credit for the cost of carrying tax-paid distilled spirits in wholesale inventories	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.1
Reduced rates of tax on dividends and long-term capital gains	---	---	---	---	---	130.9	133.6	135.9	137.3	139.9	677.7
Surtax on net investment income*	---	---	---	---	---	-28.4	-29.3	-30.3	-31.1	-32.5	-151.6
Exclusion of capital gains at death	---	---	---	---	---	32.9	33.8	35.6	37.7	39.6	179.4
Expensing of costs to remove architectural and transportation barriers to the handicapped and elderly	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.1
Exclusion for gain from certain small business stock	---	---	---	---	---	1.1	1.2	1.3	1.3	1.3	6.2
Distributions in redemption of stock to pay various taxes imposed at death	---	---	---	---	---	[4]	[4]	[4]	0.1	0.1	0.2
Exclusion from UBTI of certain payments to controlling exempt organizations	[4]	[4]	[4]	[4]	[4]	---	---	---	---	---	0.1
Inventory methods and valuation:											
Last in first out	1.3	1.4	0.1	1.4	1.4	0.2	0.2	0.2	0.2	0.3	8.1
Lower of cost or market	0.1	0.1	0.1	0.1	0.1	[4]	[4]	[4]	[4]	[4]	0.4
Specific identification for homogeneous products	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.1
Exclusion of gain or loss on sale or exchange of brownfield property	[4]	[4]	[4]	[4]	[4]	---	---	---	---	---	0.1
Income recognition rule for gain or loss from section 1256 contracts	[4]	[4]	[4]	[4]	[4]	1.0	1.0	1.0	1.1	1.1	5.4

Function	Corporations 2016	2017	2018	2019	2020	Individuals 2016	2017	2018	2019	2020	Total 2016-20
Net alternative minimum tax attributable to net operating loss limitation*	-0.5	-0.5	-0.5	-0.5	-0.5	-0.1	-0.1	-0.1	-0.1	-0.1	-3.0
Exclusion of interest on State and local qualified private activity bonds for green buildings and sustainable design projects	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.1
Depreciation of buildings other than rental housing in excess of alternative depreciation system	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	2.1
Depreciation of equipment in excess of the alternative depreciation system [6]	17.3	25.1	17.6	7.6	-21.1	7.1	10.3	7.2	3.1	-8.6	65.7
Financial institutions											
Exemption of credit union income	2.6	2.7	2.9	3.0	3.2	---	---	---	---	---	14.4
Insurance companies:											
Small life insurance company taxable income adjustment	[4]	[4]	[4]	[4]	[4]	---	---	---	---	---	0.0
Special treatment of life insurance company reserves	3.2	3.3	3.3	3.3	3.4	---	---	---	---	---	16.5
Special deduction for Blue Cross and Blue Shield companies	0.4	0.4	0.4	0.5	0.5	---	---	---	---	---	2.2
Tax-exempt status and election to be taxed only on investment income for certain small property and casualty insurance companies	0.1	0.1	0.1	0.1	0.1	---	---	---	---	---	0.5
Interest rate and discounting period assumptions for reserves of property and casualty insurance companies	2.4	2.6	2.6	2.6	2.6	---	---	---	---	---	12.8
Proration for property and casualty insurance companies	0.4	0.4	0.4	0.4	0.5	---	---	---	---	---	2.1
Transportation											
Exclusion of employer-paid transportation benefits (parking, van pools, and transit passes)	---	---	---	---	---	5.1	5.3	5.4	5.6	5.7	27.2
Deferral of tax on capital construction funds of shipping companies	0.1	0.1	0.1	0.1	0.1	---	---	---	---	---	0.5
Exclusion of interest on State and local government qualified private activity bonds for highway projects and rail-truck transfer facilities	[4]	[4]	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.7

Function	Corporations					Individuals					Total
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016-20
Exclusion of interest on State and local government qualified private activity bonds for high-speed intercity rail facilities..........	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.1
Exclusion of interest on State and local government qualified private activity bonds for private airports, docks, and mass-commuting facilities..........	0.3	0.3	0.3	0.3	0.3	0.7	0.7	0.7	0.8	0.8	5.1
Provide a 50 percent tax credit for certain expenditures for maintaining railroad tracks..........	0.2	0.1	---	---	---	---	---	---	---	---	0.2
Community and Regional Development											
Empowerment zone tax incentives..........	0.2	0.1	[4]	[4]	[4]	0.1	0.1	[4]	[4]	[4]	0.4
New markets tax credit..........	1.2	1.2	1.2	1.2	1.1	[4]	[4]	[4]	[4]	[4]	5.9
District of Columbia tax incentives..........	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]
Credit for Indian reservation employment..........	[4]	[4]	---	---	---	[4]	[4]	---	---	---	0.1
Exclusion of interest on State and local government qualified private activity bonds for sewage, water, and hazardous waste facilities..........	0.1	0.1	0.1	0.1	0.1	0.3	0.4	0.4	0.4	0.4	2.5
Recovery zone economic development bonds [2] [3]..........	[4]	[4]	[4]	[4]	[4]	0.2	0.2	0.2	0.2	0.2	0.9
Eliminate requirement that financial institutions allocate interest expense attributable to tax-exempt interest	0.5	0.5	0.5	0.5	0.5	---	---	---	---	---	2.6
Disaster Relief:											
National disaster relief..........	- - - - - - - - - *Estimate Contained in Other Provisions* - - - - - - - - -										
Education, Training, Employment, and Social Services											
Education and training:											
Deduction for interest on student loans..........	---	---	---	---	---	2.2	2.3	2.4	2.5	2.6	11.9
Exclusion of earnings of Coverdell education savings accounts..........	---	---	---	---	---	0.1	0.1	0.1	0.1	0.1	0.5
Exclusion of scholarship and fellowship income..........	---	---	---	---	---	3.5	3.7	3.9	4.1	4.4	19.5
Exclusion of income attributable to the discharge of certain student loan debt and NHSC and certain State educational loan repayments..........	---	---	---	---	---	0.2	0.2	0.2	0.2	0.2	0.9

Function	Corporations 2016	Corporations 2017	Corporations 2018	Corporations 2019	Corporations 2020	Individuals 2016	Individuals 2017	Individuals 2018	Individuals 2019	Individuals 2020	Total 2016-20
Exclusion of employer-provided education assistance benefits	---	---	---	---	---	1.2	1.2	1.3	1.3	1.3	6.3
Exclusion of employer-provided tuition reduction benefits	---	---	---	---	---	0.3	0.3	0.3	0.3	0.3	1.6
Parental personal exemption for students aged 19 to 23	---	---	---	---	---	4.3	4.5	4.5	4.7	4.9	23.0
Exclusion of interest on State and local government qualified private activity bonds for student loans	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.5	0.5	0.5	3.1
Exclusion of interest on State and local government qualified private activity bonds for private nonprofit and qualified public educational facilities	1.0	1.0	1.0	1.1	1.1	2.6	2.8	2.9	3.1	3.2	19.8
Credit for holders of qualified zone academy bonds [2] [3]	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	1.5
Deduction for higher education expenses	---	---	---	---	---	0.4	0.1	---	---	---	0.5
Deduction for teacher classroom expenses	---	---	---	---	---	0.2	0.2	0.2	0.2	0.3	1.2
Deduction for charitable contributions to educational institutions	0.9	0.9	0.9	1.0	1.0	9.3	9.6	9.9	10.2	10.5	54.2
Credits for tuition for post-secondary education [3]	---	---	---	---	---	18.4	19.6	20.0	20.0	20.1	98.2
Exclusion of tax on earnings of qualified tuition programs:											
Prepaid tuition programs	---	---	---	---	---	---	---	0.1	0.1	0.1	0.2
Savings account programs	---	---	---	---	---	0.7	1.0	1.1	1.3	1.4	5.5
Qualified school construction bonds [2] [3]	[4]	[4]	[4]	[4]	[4]	1.1	1.2	1.3	1.4	1.5	6.5
Employment:											
Exclusion of employee meals and lodging (other than military)	---	---	---	---	---	3.0	3.1	3.2	3.3	3.5	16.1
Exclusion of benefits provided under cafeteria plans [7]	---	---	---	---	---	31.3	32.8	33.9	34.7	36.0	168.8
Exclusion of housing allowances for ministers	---	---	---	---	---	0.8	0.8	0.8	0.8	0.8	4.1
Exclusion of miscellaneous fringe benefits	---	---	---	---	---	7.7	7.8	8.0	8.2	8.4	40.2
Exclusion of employee awards	---	---	---	---	---	0.3	0.4	0.4	0.4	0.4	1.9
Exclusion of income earned by voluntary employees' beneficiary associations	---	---	---	---	---	2.5	2.5	2.6	2.7	2.8	13.1
Special tax provisions for employee stock ownership plans (ESOPs)	1.4	1.4	1.5	1.5	1.5	1.6	1.6	1.6	1.7	1.7	15.5

Function	Corporations					Individuals					Total
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016-20
Deferral of taxation on spread on acquisition of stock under incentive stock option plans*......	-1.1	-1.2	-1.2	-1.2	-1.3	0.4	0.3	0.3	0.3	0.3	-4.5
Deferral of taxation on spread on employee stock purchase plans*......	-0.2	-0.2	-0.2	-0.2	-0.2	[4]	[4]	0.1	0.1	0.1	-0.7
Disallowance of deduction for excess parachute payments (applicable if payments to a disqualified individual are contingent on a change of control of a corporation and are equal to or greater than three times the individual's annualized includible compensation) [8]*......	-0.3	-0.3	-0.3	-0.3	-0.3	---	---	---	---	---	-1.4
Limits on deductible compensation [8]*......	-0.7	-0.8	-0.9	-1.0	-1.0	---	---	---	---	---	-4.3
Work opportunity tax credit......	1.4	1.6	1.7	1.8	1.1	0.1	0.1	0.1	0.1	0.1	8.2
Social services:											
Credit for children under age 17 [3]......	---	---	---	---	---	55.0	54.6	54.2	53.6	53.1	270.5
Credit for child and dependent care and exclusion of employer-provided child care [3] [9]......	---	---	---	---	---	4.2	4.3	4.4	4.4	4.5	21.7
Credit for employer-provided dependent care......	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.1
Exclusion of certain foster care payments......	---	---	---	---	---	0.4	0.4	0.4	0.5	0.5	2.2
Adoption credit and employee adoption benefits exclusion......	---	---	---	---	---	0.3	0.3	0.4	0.4	0.4	1.8
Deduction for charitable contributions, other than for education and health [10]......	1.9	2.0	2.0	2.1	2.1	41.5	42.8	44.1	45.2	46.6	230.5
Credit for disabled access expenditures......	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.3
Health											
Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums [11]......	---	---	---	---	---	155.3	164.7	173.0	180.6	189.5	863.1
Exclusion of medical care and TRICARE medical insurance for military dependents, retirees, and retiree dependents not enrolled in Medicare......	---	---	---	---	---	2.7	2.9	3.0	3.1	3.3	15.0
Exclusion of health insurance benefits for military retirees and retiree dependents enrolled in Medicare......	---	---	---	---	---	0.9	1.0	1.0	1.1	1.2	5.2

Function	Corporations					Individuals					Total
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016-20
Deduction for health insurance premiums and long-term care insurance premiums by the self-employed	---	---	---	---	---	5.7	5.9	6.4	6.8	6.4	31.2
Deduction for medical expenses and long-term care expenses	---	---	---	---	---	10.0	10.1	10.9	12.1	13.4	56.6
Exclusion of workers' compensation benefits (medical benefits)	---	---	---	---	---	5.0	5.1	5.2	5.3	5.4	26.1
Health savings accounts	---	---	---	---	---	2.2	2.5	2.9	3.4	4.0	15.0
Exclusion of interest on State and local government qualified private activity bonds for private nonprofit hospital facilities	0.7	0.7	0.7	0.7	0.7	1.8	1.9	2.0	2.1	2.2	13.5
Deduction for charitable contributions to health organizations	1.1	1.1	1.1	1.1	1.2	4.4	4.5	4.6	4.7	4.9	28.7
Credit for purchase of health insurance by certain displaced persons [3]	---	---	---	---	---	[4]	[4]	[4]	[4]	[4]	0.2
Credit for orphan drug research	1.3	1.7	2.1	2.6	3.2	[4]	0.1	0.1	0.1	0.1	11.2
Tax credit for small businesses purchasing employer insurance [3]	0.2	0.1	0.1	0.1	0.1	1.2	0.8	0.6	0.7	0.7	4.7
Subsidies for insurance purchased through health benefit exchanges [3]	---	---	---	---	---	41.3	55.8	68.9	77.9	82.7	326.6
Income Security											
Exclusion of amounts received under life insurance contracts	2.2	2.3	2.3	2.4	2.4	22.2	22.8	23.3	23.9	24.5	128.3
Exclusion of workers' compensation benefits (disability and survivors payments)	---	---	---	---	---	2.9	3.1	3.2	3.3	3.3	15.8
Exclusion of damages on account of personal physical injuries or physical sickness	---	---	---	---	---	1.7	1.7	1.7	1.8	1.8	8.6
Exclusion of special benefits for disabled coal miners	---	---	---	---	---	[4]	[4]	[4]	[4]	[4]	0.1
Net exclusion of pension contributions and earnings:											
Plans covering partners and sole proprietors (sometimes referred to as "Keogh plans")	---	---	---	---	---	7.1	8.6	13.9	16.3	17.1	63.0
Defined benefit plans	---	---	---	---	---	58.6	70.4	83.4	97.9	114.0	424.3
Defined contribution plans	---	---	---	---	---	90.4	102.0	115.3	129.8	146.1	583.6

Function	Corporations 2016	2017	2018	2019	2020	Individuals 2016	2017	2018	2019	2020	Total 2016-20
Individual retirement arrangements:											
Traditional IRAs	---	---	---	---	---	15.1	16.1	17.1	18.2	19.3	85.8
Roth IRAs	---	---	---	---	---	7.3	8.1	8.9	9.7	10.6	44.6
Credit for certain individuals for elective deferrals and IRA contributions	---	---	---	---	---	1.4	1.4	1.4	1.4	1.4	7.0
Exclusion of other employee benefits:											
Premiums on group term life insurance	---	---	---	---	---	4.1	4.2	4.3	4.4	4.5	21.5
Premiums on accident and disability insurance	---	---	---	---	---	4.2	4.4	4.6	4.8	5.0	23.1
Additional standard deduction for the blind and the elderly	---	---	---	---	---	3.4	3.6	3.7	3.9	4.2	18.7
Deduction for casualty and theft losses	---	---	---	---	---	0.4	0.4	0.4	0.4	0.5	2.1
Earned income credit [3]	---	---	---	---	---	73.0	73.4	74.4	75.6	77.0	373.4
Phase out of the personal exemption for the regular income tax, and disallowance of the personal exemption and the standard deduction against the alternative minimum tax*	---	---	---	---	---	-16.1	-17.1	-18.0	-18.8	-19.9	-89.8
Exclusion of survivor annuities paid to families of public safety officers killed in the line of duty	---	---	---	---	---	[4]	[4]	[4]	[4]	[4]	0.1
Exclusion of disaster mitigation payments	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.2
ABLE accounts [12]	---	---	---	---	---	[4]	[4]	[4]	[4]	[4]	0.1
Social Security and Railroad Retirement											
Exclusion of untaxed Social Security and railroad retirement benefits	---	---	---	---	---	38.4	40.2	42.5	45.0	47.8	213.8
Veterans' Benefits and Services											
Exclusion of veterans' disability compensation	---	---	---	---	---	8.3	8.4	8.2	9.4	9.8	44.1
Exclusion of veterans' pensions	---	---	---	---	---	0.2	0.2	0.2	0.2	0.2	0.9
Exclusion of veterans' readjustment benefits	---	---	---	---	---	1.7	1.7	1.7	1.9	2.0	9.0
Exclusion of interest on State and local government qualified private activity bonds for veterans' housing	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	[4]	0.3
General Purpose Fiscal Assistance											
Exclusion of interest on public purpose State and local government bonds	9.8	10.1	10.3	10.6	10.9	25.9	26.6	29.1	29.8	31.6	194.7

Function	Corporations					Individuals					Total
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016-20
Deduction of nonbusiness State and local government income taxes, sales taxes, and personal property taxes..................	---	---	---	---	---	65.4	69.3	74.1	78.0	82.0	368.8
Build America bonds [2] [3]..	---	---	---	---	---	3.2	3.2	3.2	3.2	3.2	16.0
Interest											
Deferral of interest on savings bonds...	---	---	---	---	---	1.3	1.3	1.3	1.3	1.3	6.4

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NOTE: Details may not add to totals due to rounding. An "*" indicates a negative tax expenditure for the 2016-2020 period.

[1] Reflects legislation enacted by December 15, 2016.

[2] Estimate includes an outlay to State and local governments. For the purposes of this table outlays are attributed to individuals.

[3] Estimate includes refundability associated with the following outlay effects:

	Corporations					Individuals					Total
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016-20
Credit for holders of clean renewable energy bonds...................	---	---	---	---	---	[4]	[4]	[4]	[4]	[4]	0.2
Credit for holders of qualified energy conservation bonds..........	---	---	---	---	---	[4]	[4]	[4]	[4]	[4]	0.3
Recovery zone economic development bonds............................	---	---	---	---	---	0.2	0.2	0.2	0.2	0.2	0.8
Credit for holders of qualified zone academy bonds..................	---	---	---	---	---	0.1	0.1	0.1	0.1	0.1	0.3
Credits for tuition for post-secondary education.........................	---	---	---	---	---	6.4	6.4	6.8	6.8	6.9	33.3
Qualified school construction bonds..	---	---	---	---	---	1.1	1.2	1.3	1.4	1.5	6.4
Credit for children under age 17..	---	---	---	---	---	32.8	32.7	32.7	32.5	32.4	163.1
Credit for child and dependent care and exclusion of employer-provided child care..	---	---	---	---	---	0.9	0.9	0.9	0.9	0.9	4.5
Credit for purchase of health insurance by certain displaced persons..	---	---	---	---	---	[4]	[4]	[4]	[4]	[4]	0.1
Tax credit for small businesses purchasing employer insurance...	[4]	[4]	[4]	[4]	[4]	0.1	0.1	[4]	[4]	[4]	0.4
Subsidies for insurance purchased through health benefit exchanges...	---	---	---	---	---	0.1	0.1	[4]	[4]	[4]	0.4
Earned income credit..	---	---	---	---	---	63.9	64.2	64.8	65.8	66.8	325.5
Build America bonds..	---	---	---	---	---	3.2	3.2	3.2	3.2	3.2	16.0

[Footnotes for the Table continue on the following page]

Footnotes for the Table continued:

[4] Positive tax expenditure of less than $50 million.
[5] Estimate includes effect of credit for interest on certain home mortgages (Section 25).
[6] Includes bonus depreciation and general acceleration under MACRS.
[7] Estimate includes amounts of employer-provided health insurance purchased through cafeteria plans and employer-provided child care purchased through dependent care flexible spending accounts. These amounts are also included in other line items in this table.
[8] Estimate does not include effects of changes made by the Emergency Economic Stabilization Act of 2008.
[9] Estimate includes employer-provided child care purchased through dependent care flexible spending accounts.
[10] In addition to the general charitable deduction, the tax expenditure accounts for the higher percentage limitation for public charities, the fair market value deduction for related-use tangible personal property, the enhanced deduction for inventory, the fair market value deduction for publicly traded stock and exceptions to the partial interest rules.
[11] Estimate includes employer-provided health insurance purchased through cafeteria plans and TRICARE medical insurance, which are also included in other line items on this table.
[12] Estimate does not include outlays due to Medicaid.

Table 2.--Distribution by Income Class of All Returns, Taxable Returns, Itemized Returns, and Tax Liability at 2017 Rates, 2017 Law, and 2016 Income Levels [1]

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

Income Class [2]	All Returns [3]	Taxable Returns	Itemized Returns	Tax Liability [4]
Below $10,000	19,513	8,149	315	-$6,117
$10,000 to $20,000	21,662	6,654	639	-41,588
$20,000 to $30,000	21,408	8,883	1,109	-26,471
$30,000 to $40,000	15,891	9,791	1,644	-4,434
$40,000 to $50,000	13,391	9,665	2,257	11,818
$50,000 to $75,000	26,646	22,924	7,113	90,638
$75,000 to $100,000	17,351	16,743	6,837	123,490
$100,000 to $200,000	28,548	28,481	17,844	454,895
$200,000 and over	9,942	9,941	8,974	1,173,096
Total	**174,352**	**121,230**	**46,732**	**1,775,326**

[1] Tax law as in effect on December 31, 2016, is applied to the 2016 level and sources of income and their distribution among taxpayers.
[2] The income concept used to place tax returns into classes is adjusted gross income ("AGI") plus: (a) tax-exempt interest, (b) employer contributions for health plans and life insurance, (c) employer share of FICA tax, (d) workers' compensation, (e) nontaxable Social Security benefits, (f) insurance value of Medicare benefits, (g) alternative minimum tax preference items, (h) excluded income of U.S. citizens living abroad, and (i) individuals' share of business taxes.
[3] Includes filing and non-filing units. Filing units include all taxable and nontaxable returns. Non-filing units include individuals with income that is exempt from Federal income taxation (e.g., transfer payments, interest from tax-exempt bonds, etc.). Excludes individuals who are dependents of other taxpayers and taxpayers with negative income.
[4] Individual income tax and individuals' share of business taxes.

NOTE--Details may not add to totals due to rounding.

Source: Joint Committee on Taxation

Table 3.--Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2017 Rates and 2016 Income Levels [1]

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

Income Class [2]	Untaxed Social Security and Railroad Retirement Benefits		Medical Deduction	
	Returns	*Amount*	*Returns*	*Amount*
Below $10,000	2	[3]	2	$9
$10,000 to $20,000	737	$234	92	18
$20,000 to $30,000	6,231	2,640	211	65
$30,000 to $40,000	4,514	5,113	380	162
$40,000 to $50,000	3,349	4,985	661	321
$50,000 to $75,000	7,237	10,437	1,830	1,418
$75,000 to $100,000	5,385	7,409	1,580	1,831
$100,000 to $200,000	7,431	6,395	2,308	4,226
$200,000 and over	2,075	3,113	296	1,967
Total	**36,961**	**$40,327**	**7,360**	**$10,016**

Footnotes appear at the end of the table.

Table 3.--Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2017 Rates and 2016 Income Levels [1] -- Continued

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

Income Class [2]	Real Estate Tax Deduction		Mortgage Interest Deduction	
	Returns	*Amount*	*Returns*	*Amount*
Below $10,000	2	[3]	6	$2
$10,000 to $20,000	117	$19	138	40
$20,000 to $30,000	333	76	350	132
$30,000 to $40,000	668	180	668	337
$40,000 to $50,000	1,197	335	1,153	602
$50,000 to $75,000	5,045	2,098	4,692	3,650
$75,000 to $100,000	5,552	3,194	5,074	5,538
$100,000 to $200,000	1,575	14,042	14,597	24,853
$200,000 and over	6,124	13,439	7,178	29,782
Total	**34,814**	**$33,382**	**33,856**	**$64,935**

Footnotes appear at the end of the table.

Table 3.--Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2017 Rates and 2016 Income Levels [1] -- Continued

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

Income Class [2]	State and Local Income, Sales, and Personal Property Tax Deduction		Charitable Contributions Deduction	
	Returns	*Amount*	*Returns*	*Amount*
Below $10,000	8	[3]	2	[3]
$10,000 to $20,000	217	$7	107	$9
$20,000 to $30,000	600	35	348	57
$30,000 to $40,000	1,116	104	710	155
$40,000 to $50,000	1,793	241	1,214	305
$50,000 to $75,000	6,690	1,668	4,805	1,703
$75,000 to $100,000	6,887	2,935	5,221	2,662
$100,000 to $200,000	18,136	15,544	15,180	11,929
$200,000 and over	7,827	49,275	8,208	40,727
Total	**43,274**	**$69,810**	**35,795**	**$57,547**

Footnotes appear at the end of the table.

Table 3.--Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2017 Rates and 2016 Income Levels [1] -- Continued

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

Income Class [2]	Child Care Credit		Earned Income Credit [4]	
	Returns	*Amount*	*Returns*	*Amount*
Below $10,000	1	[3]	5,105	$5,218
$10,000 to $20,000	50	$11	9,062	28,389
$20,000 to $30,000	318	131	5,240	17,896
$30,000 to $40,000	379	215	3,856	10,409
$40,000 to $50,000	454	267	3,010	6,405
$50,000 to $75,000	1,000	574	2,922	4,641
$75,000 to $100,000	801	454	236	311
$100,000 to $200,000	2,365	1,647	8	20
$200,000 and over	1,061	990	---	---
Total	**6,429**	**4,289**	**29,439**	**$73,290**

Footnotes appear at the end of the table.

Table 3.--Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2017 Rates and 2016 Income Levels [1] -- Continued

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

Income Class [2]	Education Credits		Student Loan Interest Deduction	
	Returns	*Amount*	*Returns*	*Amount*
Below $10,000	1,059	$917	13	$1
$10,000 to $20,000	2,012	1,863	431	43
$20,000 to $30,000	1,552	1,839	884	140
$30,000 to $40,000	1,187	1,576	952	176
$40,000 to $50,000	1,020	1,510	1,077	178
$50,000 to $75,000	2,260	3,652	2,711	588
$75,000 to $100,000	1,355	2,408	1,851	322
$100,000 to $200,000	2,999	6,020	3,519	859
$200,000 and over	158	195	15	1
Total	**13,602**	**$19,980**	**11,453**	**$2,306**

Footnotes appear at the end of the table.

Table 3.--Distribution by Income Class of Selected Individual Tax Expenditure Items, at 2017 Rates and 2016 Income Levels [1] -- Continued

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

Income Class [2]	Child Tax Credit [4]		Phase out of Personal Exemption for Regular Income Tax, and Denial of Personal Exemption and the Standard Deduction for AMT	
	Returns	*Amount*	*Returns*	*Amount*
Below $10,000	1,465	$873	1	-$2
$10,000 to $20,000	6,094	8,211	1	-1
$20,000 to $30,000	4,738	7,716	1	-4
$30,000 to $40,000	3,379	5,567	1	-3
$40,000 to $50,000	3,212	5,453	2	-4
$50,000 to $75,000	5,967	9,934	16	-22
$75,000 to $100,000	3,988	6,689	42	-39
$100,000 to $200,000	6,593	9,696	498	-697
$200,000 and over	34	21	5,254	-16,852
Total	**35,470**	**$54,161**	**5,816**	**-$17,625**

[1] Excludes individuals who are dependents of other taxpayers and taxpayers with negative income.
[2] The income concept used to place tax returns into classes is adjusted gross income ("AGI") plus: (a) tax-exempt interest, (b) employer contributions for health plans and life insurance, (c) employer share of FICA tax, (d) workers' compensation, (e) nontaxable Social Security benefits, (f) insurance value of Medicare benefits, (g) alternative minimum tax preference items, (h) excluded income of U.S. citizens living abroad, and (i) individuals' share of business income.
[3] Positive tax expenditure of less than $500,000.
[4] Includes the refundable portion.

NOTE--Details may not add to totals due to rounding.

Source: Joint Committee on Taxation