22. Receipts

22. RECEIPTS

Receipts (budget and off-budget) are taxes and other collections from the public that result from the exercise of the Government's sovereign or governmental powers. The difference between receipts and outlays determines the surplus or deficit.

Table 22–1. **RECEIPTS BY SOURCE**

(In billions of dollars)

Source	1991 actual	Estimate					
		1992	1993	1994	1995	1996	1997
Individual income taxes [1]	467.8	478.8	519.6	567.4	608.0	649.4	687.9
Corporation income taxes	98.1	89.0	103.2	118.1	125.9	137.0	141.4
Social insurance taxes and contributions	396.0	410.9	446.7	479.9	508.7	540.6	569.9
On-budget	(102.1)	(109.9)	(120.9)	(131.1)	(138.8)	(146.3)	(151.6)
Off-budget	(293.9)	(300.9)	(325.8)	(348.8)	(369.9)	(394.3)	(418.3)
Excise taxes	42.4	46.1	48.1	49.7	51.1	48.9	49.9
Estate and gift taxes	11.1	12.1	12.9	12.6	13.6	14.6	15.9
Customs duties	15.9	17.3	18.0	18.3	18.4	18.6	18.6
Miscellaneous receipts	22.8	21.6	20.7	21.9	22.5	23.4	23.4
Total receipts [1]	**1,054.3**	**1,075.7**	**1,169.1**	**1,267.9**	**1,348.2**	**1,432.5**	**1,507.0**
On-budget	*(760.4)*	*(774.8)*	*(843.4)*	*(919.2)*	*(978.3)*	*(1,038.2)*	*(1,088.7)*
Off-budget	*(293.9)*	*(300.9)*	*(325.8)*	*(348.8)*	*(369.9)*	*(394.3)*	*(418.3)*

[1] Excludes effect of family tax allowance shown separately in Table 22–4.

Growth in receipts.—Total receipts in 1993 are estimated to be $1,169.1 billion, an increase of $93.4 billion or 8.7 percent from the $1,075.7 billion estimated for 1992. Accounting for the effects of administrative actions, and enacted and proposed legislation on 1992 and 1993 receipts, the adjusted growth rate in receipts is estimated to be 7.4 percent. Receipts are projected to grow at an average annual rate of 7.0 percent between 1993 and 1996, and 5.2 percent in 1997 to $1,507.0 billion. Because the rate of growth of receipts in 1993 exceeds the rate of growth of GDP, the receipts share of GDP is projected to rise from an adjusted 18.6 percent in 1992 to 18.8 percent in 1993. The rate of growth of receipts exceeds the rate of growth of GDP in subsequent years, causing the receipts share of GDP to rise to 18.9 percent in 1997. This is above the average receipts share of GDP of 18.5 percent realized in the 1970s and slightly below the average receipts share of GDP of 19.0 percent realized in the 1980s.

Composition of receipts.—The Federal tax system will rely predominantly on income and payroll taxes in 1993, with these sources accounting for 91.5 percent of receipts. The Federal tax system will continue to rely predominantly on these sources of receipts in 1997, when their combined share will rise to 92.8 percent.

ENACTED LEGISLATION

The Tax Extension Act of 1991 and the Emergency Unemployment Compensation Act of 1991 were the only major laws enacted in 1991 that affected baseline receipts. Together, the provisions of these laws are estimated to increase receipts by $3.5 billion in 1992, $0.7 billion in 1993, and $3.2 billion over the six year period, 1992–1997.

Tax Extension Act of 1991.—This Act temporarily speeds up the timing of estimated tax payments by corporations and extends for six months twelve tax provisions that generally were scheduled to expire on December 31, 1991. The provisions of this Act are explained in greater detail below.

Expiring Provisions Extended for Six Months

Business energy tax credits for solar and geothermal property.—Nonrefundable tax credits are allowed for 10 percent of the cost of certain qualified solar and geothermal energy property.

Minimum tax exception for gifts of appreciated tangible property.—Charitable contributions of tangible personal property—such as artwork—are not treated as a minimum tax preference item for purposes of computing alternative minimum taxable income.

Rules for allocation of research and experimentation (R&E) expenses.—Companies with foreign operations are allowed to allocate 64 percent of domestic R&E expenditures to their domestic operations and 64 percent of foreign R&E expenditures to their foreign operations. The remaining expenses are to be allocated on the basis of gross sales or (subject to a limitation) gross income.

Targeted jobs tax credit.—A tax credit equal to 40 percent of up to $6,000 of qualified first-year wages is available to employers that hire individuals from nine targeted groups. These groups consist of individuals who are recipients of payments under means-test-

Table 22–2. **CHANGES IN RECEIPTS**

(In billions of dollars)

	1992	1993	1994	1995	1996	1997
Receipts under tax rates and structure in effect January 1, 1991 [1]	**1,076.6**	**1,164.3**	**1,257.8**	**1,335.1**	**1,413.5**	**1,488.6**
Enacted legislative changes:						
Tax Extension Act of 1991	0.4	0.4	−0.1	0.5	0.1	−3.8
Emergency Unemployment Compensation Act of 1991	3.1	0.3	0.3	0.3	1.2	0.4
Other	–*	–*	–*	–*	–*	−0.1
Social security (OASDI) taxable earnings base increases:						
$53,400 to $55,500 on Jan. 1, 1992	0.8	2.3	2.6	2.9	3.5	3.9
$55,500 to $57,900 on Jan. 1, 1993	—	0.9	2.7	3.0	3.4	4.1
$57,900 to $60,900 on Jan. 1, 1994	—	—	1.2	3.4	3.9	4.4
$60,900 to $64,200 on Jan. 1, 1995	—	—	—	1.3	3.7	4.1
$64,200 to $67,200 on Jan. 1, 1996	—	—	—	—	1.2	3.4
$67,200 to $70,500 on Jan. 1, 1997	—	—	—	—	—	1.3
Medicare (HI) taxable earnings base increases:						
$125,000 to $130,200 on Jan. 1, 1992	0.1	0.2	0.2	0.2	0.3	0.3
$130,200 to $135,600 on Jan. 1, 1993	—	0.1	0.2	0.2	0.3	0.3
$135,600 to $142,200 on Jan. 1, 1994	—	—	0.1	0.3	0.3	0.3
$142,200 to $150,000 on Jan. 1, 1995	—	—	—	0.1	0.3	0.3
$150,000 to $157,200 on Jan. 1, 1996	—	—	—	—	0.1	0.3
$157,200 to $164,700 on Jan. 1, 1997	—	—	—	—	—	0.1
Proposed legislation [2]	**−5.2**	**0.7**	**3.1**	**0.9**	**0.9**	**−1.1**
Total, receipts under existing and proposed legislation [2 3]	**1,075.7**	**1,169.1**	**1,267.9**	**1,348.2**	**1,432.5**	**1,507.0**

*$50 million or less.
[1] These estimates assume social security and medicare taxable earnings bases of $53,400 and $125,000, respectively, through 1997.
[2] Excludes effect of family tax allowance shown separately in Table 22–4.
[3] These estimates include both the direct and indirect effects of administrative and legislative changes.

ed transfer programs, economically disadvantaged, or disabled.

Tax credit for low income rental housing.—A tax credit is allowed in annual installments over ten years for qualifying newly constructed or substantially rehabilitated low-income rental housing.

Tax credit for orphan drug clinical testing expenses.—A 50 percent nonrefundable tax credit is allowed for a taxpayer's qualified clinical testing expenses paid or incurred in the testing of certain drugs, generally referred to as orphan drugs, for rare diseases or conditions.

Tax credit for qualified research and experimentation (R&E) expenditures.—A 20 percent tax credit is provided for certain incremental R&E expenditures.

Tax deduction for health insurance costs of self-employed individuals.—Up to 25 percent of the amount paid by a self-employed individual for health insurance expenses is deductible.

Tax exemption for employer-provided educational assistance.—Certain amounts paid by an employer for educational assistance provided to an employee are excluded from the employee's gross income for income and employment tax purposes.

Tax exemption for employer-provided group legal services.—Certain amounts contributed by an employer to a qualified group legal services plan for an employee are excluded from the employee's gross income for income and employment tax purposes.

Tax exemption for qualified mortgage bonds.—The proceeds of qualified mortgage bonds are used to finance the purchase, rehabilitation or improvement of single-family, owner-occupied residences located within the jurisdiction of the issuer of the bonds. Qualified governmental units may elect to exchange qualified mortgage bond authority for authority to issue mortgage credit certificates. These certificates entitle homebuyers to nonrefundable income tax credits for a specified percentage of interest paid on mortgage loans on their principal residence.

Tax exemption for small-issue manufacturing bonds.—Interest on certain small issues of private activity bonds is exempt from tax if at least 95 percent of the bond proceeds is used to finance manufacturing facilities or certain land or property for first-time farmers.

Estimated Tax Payment Rules for Large Corporations

Under prior law, in order to avoid an estimated tax penalty, a large corporation (a corporation with liability greater than or equal to $1 million for any of the three preceding taxable years) was required to make four quarterly estimated tax payments equal to 90 percent of its liability for the current year. A corporation that was not "large" could avoid the penalty if its four quarterly estimated tax payments equaled 100 percent of its prior year liability. A large corporation could use this prior year liability rule only with respect to its estimated tax payment for the first quarter of the current year. Under this Act, for corporations that do not base their estimated tax payments on their prior year's liability, the required percentage of the current year liability that must be paid through estimated payments increases to 93 percent in 1992, 94 percent in 1993 and 1994, and 95 percent in 1995 and 1996. The required percentage returns to 90 percent in 1997.

Emergency Unemployment Compensation Act of 1991.—This Act provides over $5 billion in temporary emergency unemployment benefits to almost 3 million jobless workers, financed by four provisions that fully offset the cost of the benefits provided. Two of the financing provisions—extension of the temporary 0.2 percent unemployment surtax and modification of esti-

mated tax payment rules for certain individuals—affect receipts. These two provisions are described in greater detail below.

Temporary Federal unemployment surtax.—The temporary unemployment surtax of 0.2 percent imposed on employers is extended for one year through December 31, 1996.

Estimated tax payment rules for certain individuals.—To avoid a penalty, high-income taypayers meeting specified criteria are required to pay 90 percent of their current year income tax liability through estimated payments. This change is effective for taxable years beginning after December 31, 1991 and expires after 5 years. Under prior law, such individuals could avoid a penalty if their estimated payments equaled 100 percent of their prior year liability.

RECEIPTS PROPOSALS

Jobs and Investments

Enhance long-term investment: capital gains—Long-term investment would be enhanced through expansion of a capital gains differential, effective February 1, 1992. Specifically, when fully phased-in in 1994, gains from all capital assets held by individuals (other than collectibles) would qualify for an exclusion of 45 percent if held for more than three years, 30 percent if held for more than two years, and 15 percent if held for more than one year. During the balance of 1992, such assets held for more than one year would qualify for an exclusion of 45 percent; during 1993, such assets would qualify for an exclusion of 45 percent if held for more than two years and 30 percent if held for more than one year. Where such exclusions apply, the capital gains rate otherwise applicable will apply to the gain reduced by the exclusion. For example, if a taxpayer is subject to a 28 percent capital gains rate, gains eligible for a 45 percent exclusion will in effect be taxed at a rate of 15.4 percent; if a taxpayer is subject to a 15 percent rate, gains eligible for a 45 percent exclusion will in effect be taxed at a rate of 8.25 percent. The alternative minimum tax would be applicable to the excluded amounts and assets would be subject to depreciation recapture at ordinary rates.

Provide passive loss relief for real estate.—The Administration proposes, effective for taxable years ending on or after December 31, 1992, that if a taxpayer materially participates in real estate development activity, income and loss from such activity would not be treated as passive. Real estate development activity would be treated as a single activity and would be defined as the construction, renovation, and management operations in which the taxpayer actively participates, the lease-up and sale of real property in which the taxpayer has at least a 10 percent ownership interest, and rental operations if the rented property was developed by the taxpayer.

Adopt investment tax allowance (ITA).—For equipment acquired on or after February 1, 1992 and before January 1, 1993, and placed in service before July 1, 1993, the Administration proposes to allow additional first-year depreciation equal to 15 percent of the purchase price of the equipment. The additional depreciation would be allowed for both regular tax and alternative minimum tax purposes in the taxable year in which the property is placed in service. The basis of the property and the depreciation allowance in the year of purchase and later years would be appropriately adjusted.

Simplify and enhance alternative minimum tax depreciation.—Effective for property placed in service on or after February 1, 1992, the Administration proposes to eliminate the depreciation component of the adjusted current earnings (ACE) adjustment for alternative minimum tax purposes. Thus, in computing ACE, a corporation would use the same depreciation methods and lives that it uses in computing alternative minimum taxable income.

Extend research and experimentation (R&E) tax credit.—The 20 percent tax credit provided for certain incremental R&E expenditures is scheduled to expire June

Table 22–3. **EFFECT OF MAJOR LEGISLATION ENACTED IN 1991 ON RECEIPTS** [1]

(In billions of dollars)

	1992	1993	1994	1995	1996	1997
Tax Extension Act of 1991						
Extend expiring provisions	−1.0	−0.8	−0.3	−0.4	−0.4	−0.3
Modify corporation estimated tax rules	1.4	1.2	0.2	0.9	0.4	−3.4
Total, Tax Extension Act of 1991	0.4	0.4	−0.1	0.5	0.1	−3.8
Emergency Unemployment Compensation Act of 1991						
Extend temporary unemployment surtax	—	—	—	—	0.9	0.3
Modify individual estimated tax rules	3.1	0.3	0.3	0.3	0.3	0.1
Total, Emergency Unemployment Compensation Act of 1991	3.1	0.3	0.3	0.3	1.2	0.4
ADDENDUM						
Total effect on receipts by source:						
Individual income taxes	2.8	*	0.1	0.1	−0.2	−0.2
Corporation income taxes	0.8	0.7	0.1	0.8	0.3	−3.5
Social insurance taxes and contributions	−0.1	−*	—	—	1.1	0.4
Total effect on receipts	3.5	0.7	0.2	0.8	1.3	−3.4

*$50 million or less.

[1] These estimates are based on the direct effect only of legislative changes at a given level of economic activity. Indirect effects on the economy are taken into account in forecasting incomes, however, and in this way affect the receipts estimates by major source and in total.

30, 1992. The Administration proposes permanent extension of the credit.

Extend research and experimentation (R&E) allocation rules.—Companies with foreign operations are allowed to allocate 64 percent of domestic R&E expenditures to their domestic operations and 64 percent of foreign R&E expenditures to their foreign operations. The remaining expenses are to be allocated on the basis of gross sales or (subject to a limitation) gross income. The Administration proposes an 18-month extension of these rules.

Extend low-income housing tax credit.—This credit, which applies to investments in certain state-approved low-income housing projects, is scheduled to expire June 30, 1992. The Administration proposes to extend the credit through December 31, 1993.

Extend targeted jobs tax credit.—This credit of up to $2,400 (40 percent of the first $6,000 of qualified first year wages) for hiring disadvantaged workers is scheduled to expire June 30, 1992. The Administration proposes to extend the credit through December 31, 1993.

Extend business energy tax credits.—The business energy tax credits for solar and geothermal properties are scheduled to expire June 30, 1992. The Administration proposes to extend these credits through December 31, 1993.

Extend first-time farmer bonds.—State and local governments are authorized to loan first-time farmers the proceeds of qualified small issue bonds in amounts of up to $250,000 per farmer, provided the proceeds are used to acquire qualifying farmland and certain farm-related depreciable property. This authority is scheduled to expire June 30, 1992. The Administration proposes to extend the authority to issue first-time farmer bonds through December 31, 1993.

Establish enterprise zones.—The Administration proposes to provide tax incentives to promote entrepreneurship and job creation in up to 50 economically distressed urban and rural communities. Beginning in 1993, the proposal provides for elimination of the capital gains tax with respect to tangible investments located in a zone, expensing of investments in certain corporate stock issued by zone businesses, and refundable tax credits for low-income zone employees. This proposal is discussed more fully in Chapter 8.

Facilitate real estate investments by pension funds and others.—The Administration proposes to modify the rules governing taxation of debt-financed investments in real estate by pension funds and certain educational institutions, effective for debt-financed investments made on or after February 1, 1992. These changes will facilitate direct equity investments in real estate by providing pension funds and educational institutions greater flexibility in making debt-financed investments without incurring unrelated business income tax.

Repeal luxury tax on airplanes and boats and repeal diesel fuel exemption.—The Administration proposes to repeal the luxury tax on airplanes and boats, effective for sales on or after February 1, 1992. Repeal of the luxury tax on boats would be funded by repeal of the exemption from the existing excise tax on diesel fuels for fuel sold for use (or used) in motor boats. The exemption repeal would be effective July 1, 1992.[1]

Families, Health, Education and Savings

Permit deduction of interest on student loans.—The Administration proposes to allow the deduction of interest paid on or after July 1, 1992 on student loans for higher education or post-secondary vocational education.

Establish flexible Individual Retirement Accounts (FIRAs).—Americans would be encouraged to increase personal savings by establishing FIRAs with contributions of up to $2,500 per year (with a limit of two such accounts per family). Contributions would not be deductible. Earnings on amounts contributed to FIRAs would be excluded from income while in the account and would be permanently excluded if the contribution to which they relate remains in the account for more than seven years. Earnings on withdrawals within three years of contribution would be subject to income tax and a 10 percent excise tax. Withdrawals of earnings between three and seven years after contribution would be subject to income tax. Eligible investments would be the same as for current Individual Retirement Accounts (IRAs). The new FIRAs would not be available to single individuals with income exceeding $60,000 or to families with income exceeding $120,000. In addition to the annual limits for new contributions, amounts in existing IRAs (other than IRAs formed with amounts rolled over from qualified pension or profit sharing plans) may be contributed to a FIRA if the contribution is made between February 1, 1992 and December 31, 1992. Amounts so contributed would be included in income ratably over a four year period.

Promote retirement saving and simplify taxation of pension distributions.—The Administration proposes a series of measures to encourage employers to sponsor retirement plans, to promote retirement saving, and to simplify the taxation of pension distributions. The Administration proposes to establish a simplified, design-based form of pension plan that could be adopted by small business. The nondiscrimination tests for section 401(k) plans would be simplified, and tax-exempt employers would be permitted to adopt these popular programs for their employees. The Administration proposes to permit rollover of all pension distributions (other than annuitized or periodic distributions) to IRA accounts and to phase-out other forms of special tax treatment for pension distributions. Other changes designed to promote retirement saving and simplify taxation of pensions are also proposed.

Waive penalty for withdrawals from IRAs for medical and educational expenses.—The Administration proposes to waive the 10 percent penalty on early withdrawals from an IRA on or after February 1, 1992 if the money is used for medical or educational expenses. Qualifying medical expenses are medical expenses of the owner of the IRA account, the owner's spouse, and the owner's dependents, and qualifying educational expenses are expenses for higher education

[1] The Administration has not proposed an offset for repeal of the airplane luxury tax because collection experience indicates that the revenue likely to be raised by the tax over the next five years is less than $5 million. However, the cost of repeal could be offset by increasing the tax rate on noncommercial jet fuel by $0.001 per gallon.

and post-secondary vocational education of the owner, the owner's spouse and the owner's children.

Extend health insurance deduction for self-employed.—The deduction provided to self-employed individuals for 25 percent of the cost of health insurance coverage is scheduled to expire June 30, 1992. The Administration proposes to extend the availability of the deduction through December 31, 1993. This proposal is also included in the discussion of the Administration's comprehensive health program in Chapter 2.

Extend medicare hospital insurance (HI) coverage to all State and local government employees.—Some State and local government employees who were hired prior to April 1, 1986 may not be assured of medicare coverage. State and local government employees are the only major group of employees not assured medicare coverage. One out of six State and local government employees are not covered by voluntary agreements or by law. However, an estimated 85 percent of these employees receive full medicare benefits through their spouse or because of prior work in covered employment. Over their working lives, they contribute on average only half as much tax as is paid by workers in the private sector. Extending coverage would assure that the remaining 15 percent have access to medicare and would eliminate the inequity and the drain on the medicare trust fund caused by those who receive medicare without contributing fully. The change is proposed to be effective July 1, 1992. This proposal is also included in the discussion of the Administration's comprehensive health program in Chapter 2.

Promote health reform.—The Administration's additional proposals, including tax proposals, for a comprehensive health program are described more fully in Chapter 2.

Double and restore adoption deduction.—The Administration proposes to restore and double to $3,000 the special needs adoption deduction, effective for adoptions on or after February 1, 1992.

Expand public transit exclusion to $60 per month.—To encourage employees to use energy-efficient mass transit in going to and from work, the Administration proposes to increase the amount of employer-provided public transit pass expense that may be excluded from an employee's income from $21 to $60 per month. The proposal would apply for public transit pass expenses incurred on or after February 1, 1992.

Homebuyers

Provide first-time homebuyers a $5,000 tax credit.—The Administration proposes to provide first-time homebuyers a tax credit on the purchase of a principal residence. The credit would equal 10 percent of the purchase price of the residence, up to a maximum credit of $5,000. One-half the credit would be allowed on the taxpayer's tax return for 1992 and the remainder on the tax return for 1993. The homebuyers credit would not be refundable, but could be carried forward for 5 years. The credit would be subject to recapture if the residence were sold within 3 years. The credit would be available for any purchase of a first home on or after February 1, 1992 and before January 1, 1993.

Allow deduction for loss on sale of principal residence.—The Administration proposes, effective for sales on or after February 1, 1992, to modify the current law rules that disallow deductions for losses on the sale of a principal residence. Under the proposal, homeowners who sell a principal residence at a loss would be permitted to deduct the loss as a casualty loss, subject to existing limitations on the deductibility of casualty losses. Thus, a loss would only be deductible to the extent it exceeds 10 percent of adjusted gross income. To the extent the loss is not deductible, a homeowner who purchases a new residence within the rollover period otherwise applicable to sales of a principal residence at a gain would be permitted to add the nondeductible amount to the tax basis of the new principal residence. Thus, the basis attributable to the nondeductible loss could be carried forward to offset future gain on the sale of a new residence.

Waive penalty for withdrawals from IRAs for first-time homebuyers.—Under current law, early withdrawals from a fully-deductible IRA are subject to a 10 percent penalty and included as ordinary income on an individual's tax return. The Administration proposes to waive the 10 percent penalty for early withdrawals on or after February 1, 1992, if the money is used for a first-time home purchase. The maximum amount that could be withdrawn without penalty for a first-time home purchase would be $10,000.

Extend mortgage revenue bonds.—The authority for State and local governments to issue mortgage revenue bonds and mortgage credit certificates is scheduled to expire June 30, 1992. The Administration proposes to extend the authority to issue such bonds and certificates through December 31, 1993.

Other

Support revenue neutral tax simplification.—To reduce the burden of taxpayer compliance with the nation's tax laws, the Administration will continue to support revenue neutral tax code simplification, including simplification of tax rules applying to individual taxpayers, rules relating to amortization of purchased intangible assets and rules governing payroll tax deposits for small- and medium-sized businesses.

Revise rules for charitable contributions.—The Administration proposes to make charitable gifts deductible for alternative minimum tax purposes to the same extent as under the regular tax. This proposal expands the existing provision that permits deduction of the value of gifts of tangible personal property to other types of property, such as real estate and stocks and bonds, and makes it permanent. In addition, the Administration proposes to treat all charitable contributions deductible under current law as sourced to domestic income for purposes of computing the foreign tax credit and related computations. These changes would be effective for contributions made in calendar years ending on or after December 31, 1992. The changes would be financed by requiring charitable organizations to file with the Internal Revenue Service annual information returns reporting charitable contributions in excess of $500 from any one donor during the preceding calendar year. The reporting proposal

would be effective for contributions made on or after July 1, 1992.

Extend 45-day processing rule to all returns.—Currently the Government does not pay interest on refunds claimed on an income tax return if the IRS pays the refund within 45 days of receiving the return. The Administration proposes to extend this rule to taxes other than income taxes and to amended returns and refund claims, effective for returns filed on or after July 1, 1992. This proposal affects outlays rather than receipts; therefore, this proposal is not included in the estimates presented in Table 22–5.

Conform book and tax accounting for securities inventories.—Under current law, marketable securities may be included in inventory at the lower of cost or market value at year end. For financial accounting purposes, however, generally accepted accounting principles require inventories of securities to be valued at market. The Administration proposes to conform the accounting and tax treatment of securities inventories by requiring that securities be included in inventory at their market value for years ending on or after December 31, 1992. The income attributable to this change in accounting method would be included in income ratably over 10 years.

Disallow interest deductions on corporate-owned life insurance (COLI) loans.—Interest incurred on loans used to purchase tax-exempt investments is generally not tax deductible. In contrast, under current law, a corporation is allowed to deduct the interest paid on loans secured by the cash value of a life insurance policy that covers the corporation's work force or retirees, even though the build-up of that cash value is generally not subject to tax. Effective for interest incurred on or after February 1, 1992, the Administration proposes to eliminate the deduction of interest on amounts borrowed from corporate-owned life insurance policies.

Prohibit double dipping by thrifts receiving Federal financial assistance.—Current law does not make it clear that thrift institutions are not permitted to deduct losses that are reimbursed by Federal financial assistance that is excludible from income. The deduction of such losses would create perverse incentives for those institutions that receive excludible financial assistance to maximize their losses. The Administration proposes to clarify that losses reimbursed by excludible Federal financial assistance are not deductible, effective March 4, 1991.

Equalize tax treatment of large credit unions and thrifts.—Under current law, banks and thrifts are subject to tax while credit unions are exempt from tax even if they are large and substantially equivalent to other taxable financial institutions. For years ending on or after December 31, 1992, the Administration proposes to repeal the tax exemption for credit unions with assets in excess of $50 million.

Modify taxation of annuities without life contingencies.—Under current law, if an investor loans money for a specified rate of return, the interest is subject to tax. However, if the investor purchases an annuity that is to be paid out over a specified period of years (e.g., 10, 15, or 20 years), the earnings on that investment are not subject to tax as earned, but only as the annuity is paid to the investor. The Administration proposes, for annuities purchased on or after February 1, 1992, to conform the tax treatment of annuities for a specified term to the tax treatment of similar investments by taxing income on the annuity investment as it is earned.

Expand communications excise tax.—Under current law, a 3 percent excise tax applies to telephone communications but not to more technologically advanced forms of communication. The Administration proposes to update the communications excise tax by expanding the coverage of the current 3 percent tax to include communications via digital transmissions. The Administration also proposes to repeal the existing exemption for coin-operated telephones. These changes are effective July 1, 1992.

Extend orphan drug tax credit.—The orphan drug tax credit is scheduled to expire June 30, 1992. The Administration proposes to make the orphan drug credit permanent.

Establish Federal Communication Commission (FCC) non-application processing fees.—The Administration proposes to establish fees to cover non-application processing costs of the Commission. A portion of the amounts collected from these fees would be dedicated to the expansion of FCC services.

Extend abandoned mine reclamation fees.—The abandoned mine reclamation fees, which are scheduled to expire on September 30, 1995, would be extended. Collections from the existing fees of 35-cents per ton for surface mined coal, 15-cents per ton for underground mined coal, and 10-cents per ton for lignite coal are allocated to States for reclamation grants. Abandoned mine land problems are expected to exist in certain States after all the money from the collection of fees under current law is expended.

Increase employee contributions to the Civil Service Retirement System (CSRS).—Currently, most CSRS employees and their employing agencies are each contributing 7 percent of base pay to the retirement system. This is less than one-half the accruing cost of CSRS retirement benefits. To prevent further increases in the existing CSRS unfunded liability of $560 billion, the Administration proposes to increase CSRS employee contributions by 1 percentage point effective January 1, 1993 and by an additional 1 percentage point effective January 1, 1994.

Conform definition of compensation under Railroad Retirement Tax Act to that of social security.—The Administration proposes to conform the definition of employee compensation under the Railroad Retirement Tax Act to the definition of employee compensation under social security. Discrepant tax treatment of employee compensation under the two systems results in unnecessary revenue losses to the ailing rail pension trust funds.

Implement Uruguay Round of Multilateral Trade Negotiations.—The Uruguay Round of Multilateral Trade Negotiations, due to be completed in early 1992, is a wide-ranging and complex negotiation to open global markets and energize world trade. Some aspects of the agreement, particularly the tariff negotiations, will af-

fect customs duties and other tax receipts. Most of these tariff reductions are provided for in the Omnibus Trade and Competitiveness Act of 1988. However, some tariff changes likely to be agreed to in the negotiations as well as some non-tariff agreements in the Uruguay Round will require new legislation. This implementing legislation will be transmitted to Congress under the "fast-track" procedures specified in the 1988 Act when the Uruguay Round negotiations are complete.

Additional Tax Allowance for Children

Family tax allowance.—Personal exemptions will be $2,300 for 1992. In order to assist families with children, the Administration proposes to increase the amount of such exemptions for dependent children who are under 18 years of age by $500 per child. This amount would be indexed. The increase in exemptions for children would be effective October 1, 1992. The financing of this initiative and its relation to the Budget Enforcement Act are discussed in the Director's Introduction (Chapter 2).

Table 22–4. **FAMILY TAX ALLOWANCE FOR CHILDREN**

(In billions of dollars)

	1992	1993	1994	1995	1996	1997
Family tax allowance	—	−4.4	−4.6	−4.7	−5.0	−5.2
Total receipts from Table 22–1	1,075.7	1,169.1	1,267.9	1,348.2	1,432.5	1,507.0
Total receipts including family tax allowance	1,075.7	1,164.8	1,263.4	1,343.5	1,427.5	1,501.8

Table 22–5. **EFFECT OF PROPOSED LEGISLATION ON RECEIPTS**[1]

(In billions of dollars)

	1992	1993	1994	1995	1996	1997
Jobs and Investments:						
Enhance long-term investment: capital gains	0.6	3.8	2.1	0.3	0.3	−0.2
Provide passive loss relief for real estate	−0.1	−0.4	−0.4	−0.4	−0.5	−0.6
Adopt investment tax allowance	−6.1	−1.6	3.5	0.9	0.8	0.6
Simplify and enhance AMT depreciation	−0.2	−0.4	−0.4	−0.3	−0.2	−0.1
Extend R&E tax credit	−0.2	−0.8	−1.4	−1.6	−1.8	−2.1
Extend R&E allocation rules	−0.2	−0.5	−0.3	—	—	—
Extend low-income housing tax credit	−*	−0.2	−0.3	−0.4	−0.4	−0.4
Extend targeted jobs tax credit	−0.1	−0.2	−0.2	−0.1	−*	−*
Extend business energy tax credits	−*	−*	−*	−*	*	*
Extend first-time farmer bonds	−*	−*	−*	−*	−*	−*
Establish enterprise zones	—	−*	−0.2	−0.3	−0.5	−0.8
Facilitate real estate investments by pension funds and others	−*	−*	−*	−*	−*	−*
Repeal luxury tax on airplanes and boats and repeal diesel fuel exemption[2]	−*	*	*	*	*	*
Families, Health, Education and Savings:						
Permit deduction of interest on student loans	−0.1	−0.4	−0.7	−0.7	−0.8	−0.9
Establish flexible IRA accounts	0.1	0.5	0.1	−0.4	−1.0	−2.1
Promote retirement saving and simplify taxation of pension distributions	0.1	*	*	0.3	0.4	0.4
Waive penalty for withdrawals from IRAs for medical and educational expenses	−*	−0.1	−0.1	−0.1	−0.1	−0.1
Extend health insurance deduction for self-employed	−0.1	−0.2	−0.3	—	—	—
Extend HI coverage to State and local employees[2]	0.3	1.6	1.5	1.5	1.5	1.5
Double and restore adoption deduction	−*	−*	−*	−*	−*	−*
Expand public transit exclusion	−*	−*	−*	−*	−*	−*
Homebuyers:						
Provide tax credit to first-time homebuyers	−0.2	−2.1	−2.5	−0.6	0.2	0.1
Allow deduction for loss on sale of principal residence	−*	−0.4	−0.4	−0.4	−0.4	−0.3
Waive penalty for withdrawals from IRAs for first-time homebuyers	−*	−0.1	−0.1	−0.1	−0.1	−0.1
Extend mortgage revenue bonds	−*	−*	−0.1	−0.1	−0.1	−0.1
Other:						
Support revenue neutral tax simplification	—	—	—	—	—	—
Revise rules for charitable contributions	−*	0.1	0.1	0.1	0.1	0.2
Conform book and tax accounting for securities inventories	0.2	0.6	0.8	0.8	0.8	0.8
Disallow interest deductions on corporate-owned life insurance loans	0.1	0.3	0.4	0.5	0.6	0.6
Prohibit double dipping by thrifts receiving Federal financial assistance	0.4	0.4	0.1	*	−*	0.1
Equalize tax treatment of large credit unions and thrifts	0.1	0.2	0.2	0.2	0.2	0.2
Modify taxation of annuities without life contingencies	*	0.2	0.2	0.3	0.4	0.5
Expand communications excise tax[2]	*	0.1	0.1	0.1	0.1	0.1
Extend orphan drug tax credit	−*	−*	−*	−*	−*	−*
Establish FCC non-application processing fees	—	0.1	0.1	0.1	0.1	0.1
Extend abandoned mine reclamation fees	—	—	—	—	0.2	0.3
Increase employee contributions to CSRS	—	0.4	1.1	1.2	1.2	1.2
Conform definition of compensation under Railroad Retirement Tax Act	—	*	*	*	*	*
Implement Uruguay Round	—	−*	*	*	−*	−0.1
Total effect on receipts[3 4]	−5.2	0.7	3.1	0.9	0.9	−1.1
ADDENDUM						
Effect of proposals on receipts by source:						
Individual income taxes	0.2	0.5	−2.5	−2.6	−2.4	−4.1
Corporation income taxes	−5.9	−2.1	2.6	0.3	*	−0.3
Employment taxes and contributions	0.4	1.7	1.7	1.7	1.7	1.7
Other retirement contributions	—	0.4	1.1	1.2	1.2	1.2
Excise taxes	*	0.1	0.1	0.1	0.1	0.1
Customs duties	—	−*	*	*	−0.1	−0.1
Miscellaneous receipts	—	0.1	0.1	0.1	0.3	0.3
Total effect on receipts[3 4]	−5.2	0.7	3.1	0.9	0.9	−1.1

*$50 million or less.

[1] These estimates are based on the direct effect only of legislative changes at a given level of economic activity. Induced effects on the economy are taken into account in forecasting incomes, however, and in this way affect the receipts estimates by major source and in total.

[2] Net of income tax offsets.

[3] Because the proposal to extend the 45-day processing rule to all returns affects outlays rather than receipts, its effect is not included in these estimates. The proposal is estimated to reduce outlays, and, therefore, the deficit by $21 million in 1992, $0.3 billion in 1993 and 1994, and $0.4 billion in 1995, 1996 and 1997.

[4] Excludes effect of family tax allowance shown separately in Table 22–4.

Table 22–6. **RECEIPTS BY SOURCE**

(In millions of dollars)

Source	1991 actual	1992 estimate	1993 estimate
Individual income taxes:			
Federal funds:			
Withheld	404,184	395,964	403,824
Other	142,693	165,878	186,936
Refunds	−79,050	−83,300	−71,676
Proposed legislation [1]	.....	239	487
Total net individual income taxes [1]	**467,827**	**478,781**	**519,571**
Corporation income taxes:			
Federal funds:			
Existing law	113,008	111,069	122,314
Proposed legislation	.....	−5,893	−2,129
Refunds	−15,513	−16,510	−17,406
Total Federal funds net corporation income taxes	97,495	88,666	102,779
Trust funds:			
Existing law (Hazardous substance super fund)	591	365	437
Refunds	.....	.....	.....
Total Trust funds net corporation income taxes	591	365	437
Total net corporation income taxes	**98,086**	**89,031**	**103,216**
Social insurance taxes and contributions (trust funds):			
Employment taxes and contributions:			
Old-age and survivors insurance (Off-budget)	265,503	271,784	294,272
Disability insurance (Off-budget)	28,382	29,138	31,504
Hospital insurance	72,842	78,609	84,791
Proposed legislation	.....	398	1,707
Railroad retirement:			
Social Security equivalent accout	1,428	1,405	1,386
Rail pension fund	2,371	2,329	2,330
Proposed legislation	.....	.....	13
Total employment taxes and contributions	370,526	383,663	416,003
On-budget	(76,641)	(82,741)	(90,227)
Off-budget	(293,885)	(300,922)	(325,776)
Unemployment insurance:			
State taxes deposited in Treasury [2]	15,296	16,734	19,638
Federal unemployment tax receipts [2]	5,328	5,576	5,801
Railroad unemployment tax receipts [2]	185	131	56
Railroad debt repayment [2]	113	106	106
Total unemployment insurance	20,922	22,547	25,600
Other retirement contributions:			
Federal employees' retirement—employee contributions	4,459	4,543	4,530
Proposed legislation	.....	.....	448
Contributions for non-Federal employees [3]	108	110	109
Total other retirement contributions	4,568	4,653	5,088
Total social insurance taxes and contributions	**396,016**	**410,863**	**446,691**
On-budget	(102,131)	(109,941)	(120,915)
Off-budget	(293,885)	(300,922)	(325,776)
Excise taxes:			
Federal funds:			
Alcohol taxes:			
Distilled spirits	3,877	3,923	3,871
Beer	3,028	3,713	3,732
Wines	551	692	687
Special taxes in connection with liquor occupations	118	125	128
Refunds	−210	−234	−233
Total alcohol taxes	7,364	8,219	8,185
Tobacco taxes:			
Cigarettes	4,641	4,837	5,289
Cigars	40	35	35
Cigarette papers and tubes	2	2	2
Smokeless tobacco	24	24	24
Other	8	8	8

Table 22–6. **RECEIPTS BY SOURCE—Continued**

(In millions of dollars)

Source	1991 actual	1992 estimate	1993 estimate
Refunds	−9	−9	−9
Total tobacco taxes	4,706	4,897	5,349
Manufacturers' excise taxes:			
Firearms, shells, and cartridges	100	93	93
Pistols and revolvers	46	41	43
Bows and arrows	15	15	16
Gas guzzler tax	102	118	125
Motor boat	1	1	1
Refunds	.....	.....	.....
Total manufacturers' excise taxes	264	268	278
Miscellaneous excise taxes:			
General and toll telephone and teletype service	3,094	3,028	3,227
Proposed legislation	.....	21	109
Wagering taxes, including occupational taxes	10	10	10
Employee pension plans	184	184	195
Tax on foundations	217	228	240
Foreign insurance policies	98	100	105
Ship departure tax	13	14	14
Ozone depletion tax	562	662	905
Luxury tax	159	287	358
Refunds	−363	−324	−285
Total miscellaneous excise taxes	3,974	4,210	4,878
Undistributed Federal tax deposits and unapplied collections	1,967	3,585	3,579
Proposed legislation	.....	−9	20
Total Federal fund excise taxes	18,275	21,170	22,289
Trust funds:			
Highway:			
Gasoline	11,735	12,454	12,218
Trucks, buses, and trailers	1,047	1,087	1,320
Tires, innertubes, and tread rubber	357	277	318
Diesel fuel used on highways	3,614	3,661	3,830
Use-tax on certain vehicles	575	598	619
Refunds	−349	−690	−593
Total highway trust fund	16,979	17,387	17,712
Airport and airway:			
Transportation of persons	4,341	4,567	4,971
Waybill tax	222	237	254
Tax on fuels	140	155	191
International departure tax	217	260	280
Refunds	−10	−26	−28
Total airport and airway trust fund	4,910	5,193	5,668
Aquatic resources trust fund	260	278	285
Black lung disability insurance trust fund	652	627	655
Inland waterway trust fund	60	70	83
Hazardous substances response trust fund	810	825	831
Oil spill liability trust fund	254	283	285
National recreational trails trust fund	.....	.....	15
Vaccine injury compensation fund	81	120	121
Leaking underground storage tank trust fund	123	145	147
Total trust fund excise taxes	24,127	24,928	25,802
Total excise taxes	**42,402**	**46,098**	**48,091**
Estate and gift taxes	**11,138**	**12,063**	**12,872**
Customs duties and fees:			
Federal funds	15,517	16,755	17,388
Proposed legislation	.....	.....	−5
Trust funds	432	505	578
Total customs duties and fees	**15,949**	**17,260**	**17,961**
Miscellaneous receipts: [4]			
Miscellaneous taxes	173	158	159
Deposit of earnings, Federal Reserve System	19,158	18,507	17,420
Fees for permits and regulatory and judicial services:			
Immigration, passport, and consular fees	204	427	474

Table 22–6. **RECEIPTS BY SOURCE—Continued**

(In millions of dollars)

Source	1991 actual	1992 estimate	1993 estimate
Patent and copyright fees	1	2	2
Registration and filing fees	479	455	458
Coal mining reclamation fees	243	237	239
Miscellaneous fees for permits, licenses, etc	3	4	21
Miscellaneous fees for regulatory and judicial services	153	234	235
Proposed legislation	.....	.....	71
Fees for legal and judicial services	3	52	52
Total fees for permits and regulatory and judicial services	1,086	1,411	1,552
Fines, penalties, and forfeitures:			
Other	1,897	1,496	1,515
Total fines, penalties, and forfeitures	1,897	1,496	1,515
Restitutions, reparations, and recoveries under military occupation	16	14	14
Gifts and contributions	97	81	98
Refunds and recoveries	419	−25	−25
Total miscellaneous receipts	**22,846**	**21,643**	**20,734**

Table 22–6. **RECEIPTS BY SOURCE—Continued**

(In millions of dollars)

Source	1991 actual	1992 estimate	1993 estimate
Total budget receipts [1]	**1,054,264**	**1,075,738**	**1,169,136**
On-budget	(760,380)	(774,816)	(843,360)
Off-budget	(293,885)	(300,922)	(325,776)
MEMORANDUM			
On-budget:			
Federal funds	637,451	642,503	699,205
Trust funds	274,148	290,173	308,113
Interfund transactions	−151,220	−157,860	−163,958
Total on-budget	760,380	774,816	843,360
Off-budget (trust funds)	**293,885**	**300,922**	**325,776**
Total [1]	**1,054,264**	**1,075,738**	**1,169,136**

[1] Excludes effect of family tax allowance shown separately in Table 22–4.

[2] Deposits by States are State payroll taxes that cover the benefit part of the program. Federal unemployment tax receipts cover administrative costs at both the Federal and State level. Railroad unemployment tax receipts cover both the benefits and administrative costs of the program for the railroads.

[3] Represents employer and employee contributions to the civil service retirement and disability fund for covered employees of Government-sponsored, privately owned enterprises and the District of Columbia municipal government.

[4] Includes both Federal and trust funds. Trust fund amounts in miscellaneous receipts are: 1991, $241 million; 1992, $233 million; and 1993, $261 million.

23. User Fees and Other Collections

23. USER FEES AND OTHER COLLECTIONS

Income to the Government arising from the exercise of its sovereign powers (mainly, but not exclusively, taxes) is classified as governmental receipts. Income from the public that results from voluntary business-like transactions is classified as offsetting collections, which offset outlays rather than being included with the governmental receipts. This chapter discusses offsetting collections, particularly the Administration's user fee proposals.

The budget contains a variety of user fee and other offsetting collections proposals that would yield $2.8 billion in 1993 and $14.6 billion over the years 1993 through 1997. Administration proposals establish or increase fees in order to recover more of the costs of providing Government services. As shown in Table 23–1, total offsetting collections from the public, including those proposed by the Administration (but excluding the collections of the off-budget Postal Service) are estimated to be $118.7 billion in 1993. Descriptions of the proposals, which are listed in Table 23–2, are presented below.

Table 23–2 splits the proposals between discretionary and mandatory, indicating which of the Budget Enforcement Act (BEA) requirements apply.

Discretionary.—The discretionary proposals are credited as offsets to the BEA's discretionary spending limits.

Agriculture

- *Food Safety Inspection Service.*—This proposal would restructure user fees for meat and poultry inspections so that overtime charges to large and small firms are equitably distributed.
- *Federal Grain Inspection Service.*—This proposal would establish user fees for standardization and quality assurance activities that support the fee-funded weighing and grain inspection services.
- *Forest Service.*—The types of facilities and services for which fees may be charged at national forest recreation sites would be expanded by this proposal. Collections would be dedicated to increased rehabilitation and reconstruction of existing trails and facilities.
- *Agricultural Marketing Service.*—User fees for standardization services and activities which support grading services would be charged.
- *Agriculture Cooperative Service.*—Large agricultural cooperatives would be charged for technical and support services provided by the Government.

Energy

- *Elk Hills naval petroleum reserve.*—The Administration proposes to lease Elk Hills, the large oil field the Department of Energy now operates near Bakersfield, California. The oil field will be leased competitively to the highest bidder. Private industry is expected to pay the Federal Government $2.1 billion over the period 1993 through 1997 for the right to lease Elk Hills. Of that amount

Table 23–1. **TOTAL OFFSETTING COLLECTIONS**

(In millions of dollars)

	1991	1992	1993
Collections deposited in receipt accounts:			
Defense cooperation	43,154	4,988	.....
Medicare premiums	12,174	13,143	15,329
Military assistance trust fund property sales	12,534	11,419	11,202
Outer Continental Shelf payments, naval petroleum reserve lease and other undistributed offsetting receipts	3,151	2,282	4,889
Sale of property and services, interest income, and all other collections deposited in receipt accounts	14,875	15,117	17,118
Subtotal, collections deposited in receipt accounts	85,888	46,949	48,538
Collections credited to appropriation accounts:			
Postal Service stamp sales and other collections	42,592	45,275	46,452
Deposit insurance funds [1]	53,170	.....	.....
Tennessee Valley Authority and Power Administration collections	8,590	8,768	9,144
Commodity Credit Corporation loan repayments and other collections	9,113	9,461	8,770
Other loan repayments	11,413	8,152	8,054
Loan guaranty and other insurance premiums, interest income, and all other collections credited to appropriation accounts [1]	45,684	46,772	44,189
Subtotal, collections credited to appropriation accounts	170,562	118,428	116,609
Total offsetting collections	256,450	165,377	165,147
Total offsetting collections excluding off-budget Postal Service collections	213,858	120,102	118,695

[1] Legislation is proposed to shift the accounting for deposit insurance and pension guarantees from a cash to an accrual basis. Under this proposal, collections will be credited to financing accounts which are not included in the budget totals. Pension Benefit Guaranty Corporation fund collections were $1,062 million in 1991.

Table 23–2. **PROPOSED USER FEES AND OTHER OFFSETTING COLLECTIONS**

(in millions of dollars)

	1993	1994	1995	1996	1997
Discretionary:					
Agriculture:					
Food Safety Inspection Service	52	52	52	52	52
Federal Grain Inspection Service	7	7	7	7	7
Forest Service	6	6	6	6	6
Agricultural Marketing Service	4	4	4	4	4
Agriculture Cooperative Service	*	*	*	*	*
Energy:					
Elk Hills naval petroleum reserve	1,200	−175	−372	−387	−371
Enrichment plants	183	183	183	183	183
Health & Human Services					
Medicare and Medicaid survey and certification (net)	255	233	239	246	252
FDA product review and seafood inspections	200	206	213	220	227
SSA processing of State SSI payments	60	135	230	230	230
Interior:					
Hard rock mining claim holding	80	80	80	80	80
Net receipt sharing	59	59	59	59	59
America the Beautiful passports	26	31	36	41	46
National Park Service entrance fees	13	13	13	13	13
Minerals Management Service fees	5	5	5	5	5
Bureau of Reclamation fees	5	5	5	5	5
Justice:					
Prisoner fee	48	48	48	48	48
Filing and docketing fees	1	1	1	1	1
Treasury:					
Alcohol, Tobacco, and Firearms	5	5	5	5	5
Veterans Affairs:					
Medical care copayments	131	138	144	152	159
Home loan guaranty fees	163	150	151	152	151
Commodity Futures Trading Commission:					
Contract trading	55	59	63	68	73
Environmental Protection Agency:					
Pesticide registration fees	15	15	15	15	15
Federal Emergency Management Agency:					
Radiological Emergency Preparedness	10	10	10	10	10
Securities and Exchange Commission:					
Registration fee	92	105	118	130	142
Small Business Administration:					
Loan guarantee [1]	43	64	65	65	65
Subtotal, discretionary	2,722	1,443	1,384	1,412	1,469
Mandatory:					
Agriculture:					
Agricultural Marketing Service	7	10	10	10	10
Interior:					
Arctic National Wildlife Refuge leasing	0	1,281	1	766	1
Small Business Administration:					
SBIC examinations	2	2	2	2	2
Veterans Affairs:					
Home loan guaranty fees	47	43	44	44	44
Corps of Engineers:					
Recreation site fee [2]	20	20	20	20	20
Federal Communications Commission:					
Spectrum auction	.....	.....	1,253	1,665	833
Subtotal, mandatory	77	1,356	1,330	2,507	910
Total fees	2,798	2,800	2,713	3,919	2,380

*$500,000 or less
[1] Savings from credit fees reflect a reduction in subsidy outlays
[2] Savings of $10 million proposed for 1992

$1.2 billion would be received in 1993. In addition to what is shown in the table, leasing Elk Hills will save the Government an estimated $0.6 billion in appropriations that it otherwise would have to spend to operate the oil field. The net budgetary savings resulting from this proposal over five years is estimated to be $0.5 billion.

- *Enrichment plant fee.*—This proposal would require owners of nuclear power plants to pay a surcharge to offset the commercial share of remediation costs incurred by DOE at the three uranium enrichment facilities that serve those nuclear power plants.

Health and Human Services

- *Medicare and Medicaid survey and certification.*—This proposal would establish fees for survey and certification activities required by the Social Security Act. Providers and suppliers would be charged

fees, which would be set annually to cover all programmatic and administrative costs.

- *Food and Drug Administration fees.*—Fees would be established for FDA review of new product applications (including new and generic drugs, medical devices, biologics, and food and color additives) and for FDA inspections.
- *Social Security Administration fees.*—Currently, SSA administers SSI state supplemental payments on behalf of 17 participating States and the District of Columbia free of charge. This proposal would assess States a nominal fee for the service SSA provides.

Interior

- *Hard rock mining claim holding fee.*—An annual holding fee would be established requiring holders of mining claims on Federal lands to pay $100 per claim. This fee would replace the existing requirement that claimants spend $100 per year developing each claim. This change would eliminate activities that result in surface disturbance of land solely to maintain a claim. A portion of the fee would support the Bureau of Land Management's mining law administration program and finance the collection of the fee itself.
- *Net receipt sharing.*—This proposal would require States to increase from 25 percent to 37.5 percent their share of costs related to Federal administration of mineral leasing on Federal lands.
- *America the Beautiful passport fee.*—The Golden Eagle passports would be replaced by America the Beautiful passports which entitle the bearer to entry to any Federal recreation area.
- *National Park Service entrance fees.*—This proposal would raise the number of National Parks charging an entrance fee of $10 from three to thirteen.
- *Minerals Management Service.*—Fees on Outer Continental Shelf (OCS) activities such as rents, assignments, and data sales would be increased in order to offset costs of an improved computer system for OCS leasing.
- *Bureau of Reclamation.*—Thus proposal would collect fees associated with reclamation facilities, including lease of communication circuits and space at reclamation sites for microwave radio installations.

Justice

- *Prisoner fee.*—This proposal would assess criminals a fee when sentenced to prison. The fee would equal the first year's cost of the inmate's care and could be waived in full or in part by the Attorney General, depending on the inmate's means.
- *Filing and docketing fee.*—Parties who lose in litigation against the Government would be assessed a fee equal to the filing and docketing fees the Government would have incurred if it were a private litigant.

Treasury

- *Alcohol, Tobacco and Firearms.*—Fees would be established for the issuance of label approval for alcoholic beverage products and for laboratory analysis of beverages, flavorings and formulated products.

Veterans Affairs

- *Medical care copayments.*—This proposal would make permanent and annually index the copayment provisions in fiscal year 1992 appropriations language that expire on September 30, 1992. Copayments, subject to means testing, would be extended to treatment of non-service-connected illnesses of veterans with service-connected disabilities rated 40 percent or lower.
- *Home loan guaranty fees.*—For veterans who use the home loan guaranty benefit, fees would be increased from the current levels, which range from 0.5 percent for a loan with 10 percent or more downpayment to 1.25 percent for a no-downpayment loan. The new fees would range from 1.25 percent to 2.0 percent. These fees would partially offset the risk of guaranteeing veterans' home loans.

Commodity Futures Trading Commission

- *Contract trading fee.*—A transaction fee of 15 cents per contract traded would be required on commodity futures and options exchanges in order to offset CFTC administrative costs.

Environmental Protection Agency

- *Pesticide registration fee.*—This proposal would lift the suspension on assessing fees from applicants for registration, registration amendments, and experimental use permits for pesticide use. Fees would cover the costs (or portion of the costs) associated with the review of such applications.

Federal Emergency Management Agency

- *Radiological Emergency Preparedness fee.*—Operators of nuclear power plants would be required to pay for the development and testing of local emergency preparedness and evacuation plans. These plans are required for plants to obtain and maintain NRC operating licenses.

Securities and Exchange Commission

- *Registration fee.*—This proposal would increase the registration fee from 1/50 to 1/32 of 1 percent of the value of the offering to offset increased SEC costs.

Small Business Administration

- *Loan guarantee fee.*—Guarantee fees on most general business loans would be increased from 2 percent to 4 percent, on regular small business investment company loans from 1.2 percent to 4 percent, on Section 504 development company loans from 0.5 percent to 1 percent, and on Section 502 development company loans from 2 percent to 3 percent. Savings reflect a reduction in SBA's

credit subsidy outlays, rather than increased collections.

Mandatory.—The following mandatory user fee proposals create savings according to the BEA's pay-as-you-go rules.

Agriculture

- *Agricultural Marketing Service.*—This proposal would establish user fees in order to recover the costs of administrative services provided by the Government for marketing agreements and orders.

Interior

- *Arctic National Wildlife Refuge leasing.*—Certain of these lands would be made available for oil and gas leasing. Half of receipts from leasing and development activities would be shared with the State of Alaska. Sales would be expected in 1994 and 1996.

Small Business Administration

- *SBIC examination fee.*—The examination fee presently charged to Small Business Investment Companies would be increased in order to fully recover the administrative cost of the activity.

Veterans Affairs

- *Home loan guaranty fees.*—Veterans who use the home loan guaranty program more than once would pay an increased fee of 2.5 percent. These veterans, who have already readjusted to civilian life, would continue to be eligible for the program and pay for the full risk of their participation.

Corps of Engineers

- *Recreation site fee.*—The types of user fees collected would be expanded to include those for day use of developed recreation sites and for all overnight camping sites.

Federal Communications Commission

- *Spectrum auction.*—In pending legislation submitted in 1991, the Administration proposed transferring 200 megahertz (MHz) of radio spectrum to the FCC for allocation to private sector uses. The assignment of the licenses would be done by competitive bidding and the receipts would be deposited in the Treasury. For 1993, the Administration proposes to transfer 45 MHz on an expedited basis to the FCC for auction. The Budget reflects competitive bidding proceeds as receipts in 1995 through 1997.

Detailed Receipts Tables.—Offsetting receipts by type are detailed in Table 23–3.

Table 23–3 OFFSETTING RECEIPTS BY TYPE

(In millions of dollars)

Type	1991 actual	1992 estimate	1993 estimate
INTRAGOVERNMENTAL TRANSACTIONS			
Intrabudgetary transactions:			
Federal intrafund transactions:			
Distributed by agency:			
Interest from the Federal Financing Bank	17,276	15,701	16,529
Interest on Government capital in enterprises	4,249	3,078	2,657
Other	843	824	784
Total Federal intrafunds	22,368	19,603	19,970
Trust intrafund transactions:			
Distributed by agency	1	1	1
Total intrafund transactions	22,369	19,604	19,971
Interfund transactions:			
Distributed by agency:			
Federal fund payments to trust funds:			
Contributions to insurance programs:			
Military retirement fund	10,782	11,169	11,812
Supplementary medical insurance	34,730	39,452	42,101
Hospital insurance	631	675	505
Railroad social security equivalent fund	2,806	2,979	3,130
Rail industry pension fund	102	194	*
Civilian supplementary retirement contributions	18,824	19,659	20,147
Unemployment insurance	394	461	815
Other	363	467	447
Miscellaneous payments:			
Other	1,040	618	469
Subtotal	69,672	75,675	79,426
Trust fund payments to Federal funds:			
Repayment of loans or advances to trust funds	2,594	2,763	2,935
Charges for services to trust funds	316	291	289
Other	1,684	606	613
Subtotal	4,595	3,659	3,837
Total interfunds distributed by agency	74,267	79,334	83,263
Undistributed by agency:			
Employer share, employee retirement (on-budget):			
Civil service retirement and disability insurance	6,493	6,955	7,415
Hospital insurance (contribution as employer) [1]	2,205	1,873	1,933
Military retirement fund	17,193	16,238	15,769
Other Federal employees retirement	86	89	197
Total employer share, employee retirement (on-budget)	25,977	25,155	25,315
Interest received by on-budget trust funds	50,976	53,371	55,380
Total interfund transactions undistributed by agency	76,953	78,526	80,695
Total interfund transactions	151,220	157,860	163,958
Total intrabudgetary transactions	173,588	177,464	183,929
Payments by on-budget accounts to off-budget accounts:			
Interfund transactions:			
Distributed by agency:			
Federal fund payments to trust funds:			
Old-age, survivors, and disability insurance	5,971	6,078	6,434
Undistributed by agency:			
Employer share, employee retirement (off-budget)	5,804	6,095	6,484
Interest received by off-budget trust funds	20,222	23,853	26,998
Total payments by on-budget accounts to off-budget accounts	31,997	36,026	39,916

Table 23–3 OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

Type	1991 actual	1992 estimate	1993 estimate
Payments by off-budget accounts to on-budget accounts:			
Intrafund transactions from off-budget accounts:			
Distributed by agency:			
Payments to railroad retirement [2]	3,457	3,403	3,573
Total intrafund transactions from off-budget accounts	3,457	3,403	3,573
Interfund transactions from off-budget accounts:			
Distributed by agency:			
Interest payments to the Treasury	463	.....	.....
Quinquennial adjustment for military service credits	2,889	.....	.....
Undistributed by agency:			
Employer contributions to FHI	.....	448	462
Retirement contributions	4,425	4,780	5,255
Total payments by off-budget accounts to on-budget accounts	11,234	8,631	9,290
Total intragovernmental transactions	**216,819**	**222,121**	**233,135**
PROPRIETARY RECEIPTS FROM THE PUBLIC			
Distributed by agency:			
Interest:			
Interest on loans, Foreign Assistance Act	360	228	223
Other interest on foreign loans and deferred foreign collections	785	927	946
Interest on deposits in tax and loan accounts	1,293	1,025	1,225
Other interest (domestic—civil) [3]	330	536	1,308
Total interest	2,768	2,716	3,701
Rents:			
Rent and bonuses from land leases, etc	11	33	32
Rent of land and other real property	63	52	51
Rent of equipment and other personal property	8	11	12
Total rents	82	96	95
Royalties	1,012	900	964
Sale of products:			
Sale of timber and other natural land products	1,042	1,166	1,145
Sale of minerals and mineral products	573	542	526
Sale of power and other utilities	799	838	958
Sale of other products [3]	*	*	*
Recovery of mint manufacturing expense	113	133	58
Total sale of products	2,527	2,678	2,687
Fees and other charges for services and special benefits:			
Medicare premiums and other charges (trust funds)	12,174	13,143	15,329
Nuclear waste disposal revenues	605	538	400
Veterans life insurance (trust funds)	417	381	348
Other [3]	1,597	1,619	1,981
Total fees and other charges	14,793	15,681	18,058
Sale of Government property:			
Sale of land and other real property [3]	36	233	200
Sale of equipment and other personal property:			
Military assistance program sales (trust funds)	12,534	11,419	11,202
Sale of scrap and salvage material	17	.....	.....
Total sale of Government property	12,588	11,652	11,402
Realization upon loans and investments:			
Dollar repayments of loans, Agency for International Development	492	328	330
Foreign military credit sales	237	424	529
Negative loan subsidies	.....	262	361
Dollar conversion of foreign currency	22	22	22
Repayment of loans to United Kingdom	96	98	100
Other [3]	173	187	179

Table 23–3 **OFFSETTING RECEIPTS BY TYPE—Continued**

(In millions of dollars)

Type	1991 actual	1992 estimate	1993 estimate
Total realization upon loans and investments	1,019	1,321	1,521
Recoveries and refunds [3]	942	1,060	1,277
Miscellaneous receipt accounts [3]	2,224	1,577	1,604
Total proprietary receipts from the public distributed by agency	37,956	37,681	41,307
Undistributed by agency:			
Other interest: Interest received from Outer Continental Shelf escrow account	1	.....	802
Rents and royalties on the Outer Continental Shelf:			
Rents and bonuses	439	315	770
Royalties	2,711	1,967	2,033
Sale of major assets	.....	.....	85
Other undistributed offsetting receipts	.....	.....	1,200
Total proprietary receipts from the public undistributed by agency	3,151	2,282	4,889

Table 23–3 **OFFSETTING RECEIPTS BY TYPE—Continued**

(In millions of dollars)

Type	1991 actual	1992 estimate	1993 estimate
Total proprietary receipts from the public [4]	**41,107**	**39,963**	**46,197**
OFFSETTING GOVERNMENTAL RECEIPTS			
Defense cooperation	43,154	4,988	.....
Other [3]	1,626	1,998	2,341
Total offsetting governmental receipts	**44,781**	**6,986**	**2,341**
Total offsetting receipts	**302,707**	**269,070**	**281,672**

*$500 thousand or less.

[1] Includes provision for covered Federal civilian employees and military personnel.

[2] Interchange receipts between the social security and railroad retirement funds place the social security funds in the same position they would have been if there were no separate railroad retirement system.

[3] Includes both Federal funds and trust funds.

[4] Consists of:

	1991 actual	*1992 estimate*	*1993 estimate*
Federal funds	14,487	13,474	17,310
Trust funds	26,620	26,489	28,886
Off-budget	*	.....	.....

24. Tax Expenditures

24. TAX EXPENDITURES

Tax expenditures are revenue losses due to preferential provisions of the Federal tax laws, such as special exclusions, exemptions, deductions, credits, deferrals, or tax rates. The Congressional Budget Act of 1974 (Public Law 93–344) requires that a list of tax expenditures be included in the budget. Tax expenditures are an alternative to other Government policy instruments, such as direct expenditures and regulations.

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

The Administration proposes a number of tax revisions that would affect the tax expenditure budget. The receipts effects and a discussion of each proposal are found in Chapter 22.

TAX EXPENDITURES IN THE INCOME TAX

Tax Expenditure Baselines

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

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

The reference tax law baseline is closer to existing law. Reference law tax expenditures are limited to special exceptions in the tax code that serve programmatic functions. These functions correspond to specific budget categories such as national defense, health care, or farm subsidies. While tax expenditures under the reference law baseline are generally tax expenditures under the normal tax baseline, the reverse is not always true.

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

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

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

- *Tax rates.* The separate schedules applying to the various taxpaying units are included in the reference law baseline. Thus, corporate tax rates below the maximum statutory rate do not give rise to a tax expenditure. The normal tax baseline is similar, except that it specifies the current maximum rate as the baseline for the corporate income tax. The lower tax rates applied to the first $75,000 of corporate income are thus regarded as a tax expenditure. Similarly, under the reference law baseline, preferential tax rates for capital gains generally do not yield a tax expenditure; only capital gains treatment of otherwise "ordinary income," such as that from coal and iron ore royalties and the sale of timber and certain agricultural products, is considered a tax expenditure. The alternative minimum tax is treated as part of the baseline rate structure under both the reference and normal tax methods.
- *Income subject to the tax.* Income subject to tax is defined as gross income less the costs of earning that income. The Federal income tax defines gross income to include: (1) consideration received in the exchange of goods and services, including labor services or property; and (2) the taxpayer's share of gross or net income earned and/or reported by another entity (such as a partnership). Under the

reference tax rules, therefore, gross income does not include gifts—defined as receipts of money or property that are not consideration in an exchange—or most transfer payments, which can be thought of as gifts from the Government.[1] The normal tax baseline also excludes gifts between individuals from gross income. Under the normal tax baseline, however, all cash transfer payments from Government to private individuals are counted in gross income, and exemptions of such transfers from tax are identified as tax expenditures. The costs of earning income are generally deductible in determining taxable income under both the reference and normal tax baselines.[2]

- *Capital recovery.* Under the reference tax law baseline there are no tax expenditures from accelerated depreciation. Under the normal tax baseline, the depreciation allowance for machinery and equipment is determined using straight-line depreciation over tax lives equal to mid-values of the asset depreciation range (a depreciation system in effect from 1971 through 1980). The normal tax baseline for real property is computed using 40-year straight-line depreciation.
- *Treatment of foreign income.* Both the normal and reference tax baselines allow a tax credit for foreign income taxes paid (up to the amount of U.S. income taxes that would otherwise be due), which prevents double taxation of income earned abroad. Under the normal tax method, however, controlled foreign corporations (CFCs) are not regarded as entities separate from their controlling U.S. shareholders. Thus, the deferral of tax on income received by CFCs is regarded as a tax expenditure under this method. In contrast, except for tax haven activities, the reference law baseline follows current law in treating CFCs as separate taxable entities whose income is not subject to U.S. tax until distributed to U.S. taxpayers. Under this baseline, deferral of tax on CFC income is not a tax expenditure because U.S. taxpayers generally are not taxed on accrued, but unrealized, income.

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

Outlay Equivalents

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

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

Tax Expenditure Estimates

The Treasury Department prepared all tax expenditure estimates based upon income tax law enacted as of December 31, 1991. Expired or repealed provisions are not listed if their revenue effects result only from taxpayer activity in years before 1991.

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

- *Eliminating a tax expenditure may have incentive effects that alter economic behavior.* These incentives may affect the resulting magnitudes of the formerly subsidized activity or of other tax preferences or Government programs. For example, if deductibility of mortgage interest were limited, some taxpayers would hold smaller mortgages, with a concomitantly smaller effect on the budget than if no such limits were in force.
- *Tax expenditures are interdependent even without incentive effects.* For example, if the State and local interest exclusion alone were repealed, some taxpayers would be thrust into higher tax brackets, automatically increasing the size of the charitable contribution tax expenditure even if taxpayers did not make larger contributions. Alternatively, if both the interest exclusion and the charitable deduction were repealed simultaneously, the increase in tax liability would be greater than the sum of the two separate tax expenditures since each is estimated assuming that the other remains in force.
- *The annual value of tax expenditures for tax deferrals is prepared on a cash basis.* For example, the annual budget cost due to employers' contributions to employee pension plans is the sum of tax deferrals on two items—the employers' current year pension plan contributions and the current year pension fund asset earnings—less the taxes paid on pensions received. The resulting budget cost is sensitive to the relative magnitudes of these components, which can change over time. An alternative measure of the economic cost of the tax expenditure could be based on the discounted present value of the deferral.

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

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

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

- *Repeal of some provisions could affect overall levels of income and rates of economic growth.* Changes in projected growth rates for aggregate national income and product could alter the tax base over the forecast period. All receipts and outlays in the budget are based, however, on projections of income and growth that assume all existing laws will continue (except as amended by proposals made in the budget).

Tax Expenditures By Function

The 1991–93 outlay equivalent and revenue loss estimates of tax expenditures are displayed by the budget's functional categories in table 24–1. A description of the provisions follows the table.

Table 24–3 in the appendix ranks the major tax expenditures by fiscal year 1993 revenue loss. Table 24–3 merges tax expenditures that are divided into functional categories in table 24–1; e.g., table 24–3 contains one merged entry for charitable contributions instead of the three separate entries found in table 24–1.

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

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

Table 24–1. **ESTIMATES FOR TAX EXPENDITURES IN THE INCOME TAX**

(In millions of dollars)

Description	Outlay Equivalents			Revenue Loss					
				Corporations			Individuals		
	1991	1992	1993	1991	1992	1993	1991	1992	1993
National defense:									
Exclusion of benefits and allowances to armed forces personnel	2,345	2,400	2,460	...	...	...	2,010	2,060	2,110
International affairs:									
Exclusion of income earned abroad by United States citizens	2,480	2,630	2,810	...	...	...	1,675	1,780	1,895
Exclusion of income of foreign sales corporations	1,545	1,730	1,925	1,050	1,175	1,310	...	...	...
Deferral of income from controlled foreign corporations:									
Normal tax method	−200	−200	−200	−200	−200	−200	...	...	...
Reference tax method	...	...	...	...	...	...	...	...	...
Inventory property sales source rules exception	4,230	4,440	4,660	2,875	3,020	3,170	...	...	...
Interest allocation rules exception for certain financial operations	135	140	150	90	95	100	...	...	...
Total (after interactions)	8,190	8,740	9,345	...	...	...	...	...	...
General science, space, and technology:									
Expensing of research and development expenditures:									
Normal tax method	1,800	1,895	1,995	1,770	1,865	1,965	30	30	30
Reference tax method	...	...	...	...	...	...	...	...	...
Credit for increasing research activities	1,070	435	25	705	290	...	25	10	...
Suspension of the allocation of research and experimentation expenditures	900	355	...	630	250	...	...	...	...
Total (after interactions)	4,055	2,920	2,220	...	...	...	...	...	...
Energy:									
Expensing of exploration and development costs:									
Oil and gas	−315	−90	40	−215	−45	60	−100	−45	−20
Other fuels	35	35	40	30	30	35	5	5	5
Excess of percentage over cost depletion:									
Oil and gas	735	760	795	95	95	100	460	475	500
Other fuels	240	265	280	150	160	170	10	15	15
Capital gains treatment of royalties on coal	10	10	15	...	...	...	5	10	10
Exclusion of interest on State and local industrial development bonds for energy facilities	185	185	190	125	125	130	...	...	...
New technology credit	110	65	30	75	45	20	...	...	...
Alternative fuel production credit	380	670	995	205	360	530	50	90	130
Alcohol fuel credit [1]	...	80	210	*	80	210	...	...	...
Exception from passive loss limitation for working interests in oil and gas properties	100	100	100	...	...	...	80	80	80
Total (after interactions)	1,040	1,460	1,895	...	...	...	...	...	...
Natural resources and environment:									
Expensing of exploration and development costs, nonfuel minerals	45	45	50	40	40	45	5	5	5
Excess of percentage over cost depletion, nonfuel minerals	305	330	365	210	230	255	20	25	25
Capital gains treatment of iron ore	*	*	*	...	...	...	*	*	*
Capital gains treatment of certain timber income	5	10	15	...	...	...	5	5	10
Special rules for mining reclamation reserves	50	50	50	45	45	45	5	5	5

Table 24–1. **ESTIMATES FOR TAX EXPENDITURES IN THE INCOME TAX—Continued**

(In millions of dollars)

Description	Outlay Equivalents			Revenue Loss					
				Corporations			Individuals		
	1991	1992	1993	1991	1992	1993	1991	1992	1993
Exclusion of interest on State and local IDBs for pollution control and sewage and waste disposal facilities	2,000	1,985	1,985	1,360	1,350	1,350	.....	.....	.....
Tax incentives for preservation of historic structures	145	145	135	50	50	45	95	95	90
Expensing of multiperiod timber growing costs	400	430	455	225	240	250	175	190	205
Investment credit and seven-year amortization for reforestation expenditures	25	30	35	10	15	15	15	15	20
Total (after interactions)	2,920	2,965	3,030	.....	.....	.....	.....	.....	.....
Agriculture:									
Expensing of certain capital outlays	450	320	180	50	35	20	400	285	160
Expensing of certain multiperiod production costs	160	155	145	55	50	45	105	105	100
Treatment of loans forgiven solvent farmers as if insolvent	10	15	15	.....	.....	.....	10	10	10
Capital gains treatment of certain income	65	95	105	.....	.....	.....	45	70	85
Total (after interactions)	645	550	420	.....	.....	.....	.....	.....	.....
Commerce and housing credit:									
Exemption of credit union income	360	380	400	285	300	320	.....	.....	.....
Excess bad debt reserves of financial institutions	10	15	20	10	15	20	.....	.....	.....
Exclusion of interest on life insurance savings	9,455	9,790	10,265	85	110	140	7,915	8,205	8,595
Special alternative tax on small property and casualty insurance companies	*	*	*	*	*	*	.....	.....	.....
Tax exemption of certain insurance companies	40	40	45	30	30	35	.....	.....	.....
Small life insurance company deduction	155	160	175	105	110	120	.....	.....	.....
Exemption of RIC expenses from the 2% floor miscellaneous itemized deduction	570	650	740	.....	.....	.....	420	480	545
Exclusion of interest on small issue industrial development bonds	1,725	1,680	1,615	1,175	1,140	1,100	.....	.....	.....
Exclusion of interest on owner-occupied mortgage subsidy bonds	2,730	2,745	2,575	.....	.....	.....	2,185	2,220	2,140
Exclusion of interest on State and local debt for rental housing	1,505	1,490	1,475	1,025	1,015	1,005	.....	.....	.....
Deductibility of mortgage interest on owner-occupied homes	40,690	42,000	42,900	.....	.....	.....	40,690	42,000	42,900
Deductibility of State and Local property tax on owner-occupied homes	10,735	11,610	12,605	.....	.....	.....	10,735	11,610	12,605
Deferral of income from post 1987 installment sales	745	785	820	195	205	210	550	580	610
Capital gains (other than agriculture,timber, iron ore, and coal):									
Normal tax method	3,050	4,660	5,500	.....	.....	.....	2,205	3,370	3,600
Reference tax method	.....	.....	.....	.....	.....	.....	.....	.....	.....
Deferral of gains from sale of broadcasting facilities to minority owned business	220	240	260	220	240	260	*	*	*
Ordinary income treatment of loss from small business corp. stock sale	20	20	20	.....	.....	.....	20	20	20
Deferral of capital gains on home sales	12,635	13,265	13,925	.....	.....	.....	12,635	13,265	13,925
Exclusion of capital gains on home sales for persons age 55 and over	4,255	4,280	4,395	.....	.....	.....	3,230	3,250	3,340
Step-up basis of capital gains at death	32,750	36,025	46,120	.....	.....	.....	24,365	26,800	28,140
Carryover basis of capital gains on gifts	125	135	145	.....	.....	.....	125	135	145
Accelerated depreciation on rental housing:									
Normal tax method	1,430	1,325	1,255	935	865	820	495	460	435
Reference tax method	.....	.....	.....	.....	.....	.....	.....	.....	.....
Accelerated depreciation of buildings other than rental housing:									
Normal tax method	5,810	5,755	5,745	4,160	4,120	4,110	1,650	1,635	1,635
Reference tax method	.....	.....	.....	.....	.....	.....	.....	.....	.....
Accelerated depreciation of machinery and equipment:									
Normal tax method	18,725	17,205	19,505	14,730	13,915	15,750	3,995	3,290	3,755
Reference tax method	.....	.....	.....	.....	.....	.....	.....	.....	.....
Amortization of start-up costs	180	190	205	35	35	40	145	155	165
Reduced rates on the first $100,000 of corporate income:									
Normal tax method	4,310	4,450	4,820	2,850	2,940	3,180	.....	.....	.....
Reference tax method	.....	.....	.....	.....	.....	.....	.....	.....	.....
Exception from passive loss rules for $25,000 of rental loss	7,635	7,995	8,315	.....	.....	.....	6,095	6,385	6,640
Treatment of Alaska Native Corporations	170	120	85	170	120	85	.....	.....	.....
Permanent exceptions from imputed interest rules	135	135	140	*	*	*	135	135	140
Total (after interactions)	145,885	152,195	168,085	.....	.....	.....	.....	.....	.....
Transportation:									
Deferral of tax on shipping companies	135	145	160	135	145	160	.....	.....	.....
Community and Regional Development									
Credit for low-income housing investments	810	1,060	1,160	160	210	230	650	850	930
Investment credit for rehabilitation of structures (other than historic)	95	95	90	30	30	30	65	65	60

Table 24–1. **ESTIMATES FOR TAX EXPENDITURES IN THE INCOME TAX—Continued**

(In millions of dollars)

Description	Outlay Equivalents			Revenue Loss					
				Corporations			Individuals		
	1991	1992	1993	1991	1992	1993	1991	1992	1993
Exclusion of interest on IDBs for airports, docks and sports and convention facilities	935	1,030	1,115	635	700	760	.....	.....	.....
Exemption of certain mutuals' and cooperatives' income	85	90	95	85	90	95	.....	.....	.....
Total (after interactions)	1,905	2,250	2,430	.....	.....	.....	.....	.....	.....
Education, training, employment, and social services:									
Exclusion of scholarship and fellowship income:									
Normal tax method	750	815	860	.....	.....	.....	685	740	785
Reference tax method	.....	.....	.....	.....	.....	.....	.....	.....	.....
Exclusion of interest on State and local student loan bonds	360	375	405	.....	.....	.....	290	300	325
Exclusion of interest on State and local debt for private non-profit educational facilities	690	725	765	.....	.....	.....	555	580	615
Exclusion of interest on savings bonds transferred to educational institutions	5	10	10	.....	.....	.....	5	5	10
Parental personal exemption for students age 19 or over	480	495	500	.....	.....	.....	430	445	450
Deductibility of charitable contributions (education)	1,805	1,920	2,030	525	550	580	1,280	1,370	1,450
Exclusion of employer provided educational assistance	310	355	30	.....	.....	.....	255	290	25
Total education (after interactions)	4,450	4,745	4,650	.....	.....	.....	.....	.....	.....
Exclusion of employer provided child care	630	740	825	.....	.....	.....	485	565	635
Exclusion of employee meals and lodging (other than military)	865	870	875	.....	.....	.....	780	785	780
Exclusion of contributions to prepaid legal services plans	85	85	5	.....	.....	.....	70	70	5
Credit for child and dependent care expenses	3,265	3,605	3,805	.....	.....	.....	2,545	2,795	2,955
Credit for disabled access expenditures	85	175	210	50	100	120	10	25	30
Targeted jobs credit	245	190	105	205	160	80	40	30	25
Total training and employment (after interactions)	5,250	5,745	5,910	.....	.....	.....	.....	.....	.....
Expensing of costs of removing certain architectural barriers to the handicapped	20	25	20	15	20	15	5	5	5
Deductibility of charitable contributions, other than education and health	12,285	13,135	14,045	655	690	730	11,630	12,445	13,315
Exclusion of certain foster care payments	25	25	35	.....	.....	.....	20	20	30
Exclusion of parsonage allowances	265	295	330	.....	.....	.....	215	240	265
Total social services (after interactions)	12,480	13,345	14,265	.....	.....	.....	.....	.....	.....
Grand total (after interactions)	22,180	23,840	24,825	.....	.....	.....	.....	.....	.....
Health:									
Exclusion of employer contributions for medical insurance premiums and medical care	45,500	49,495	54,150	.....	.....	.....	36,225	39,490	43,090
Credit for child medical insurance premiums[2]	10	160	185	.....	.....	.....	5	135	155
Exclusion of untaxed Medicare benefits	8,235	9,065	9,835	.....	.....	.....	6,735	7,415	8,045
Deductibility of medical expenses	3,025	3,170	3,365	.....	.....	.....	3,025	3,170	3,365
Exclusion of interest on State and local debt for private non-profit health facilities	1,650	1,730	1,830	.....	.....	.....	1,320	1,385	1,465
Deductibility of charitable contributions (health)	1,635	1,750	1,875	325	350	375	1,310	1,400	1,500
Tax credit for orphan drug research	10	10	10	5	10	10	.....	.....	.....
Special Blue Cross/Blue Shield deduction	185	80	15	135	60	10	.....	.....	.....
Total (after interactions)	60,065	65,380	71,250	.....	.....	.....	.....	.....	.....
Income security:									
Exclusion of railroad retirement system benefits	300	310	315	.....	.....	.....	300	310	315
Exclusion of workmen's compensation benefits	3,230	3,505	3,720	.....	.....	.....	3,230	3,505	3,720
Exclusion of public assistance benefits:									
Normal tax method	410	465	490	.....	.....	.....	410	465	490
Reference tax method	.....	.....	.....	.....	.....	.....	.....	.....	.....
Exclusion of special benefits for disabled coal miners	105	105	100	.....	.....	.....	105	105	100
Exclusion of military disability pensions	110	120	130	.....	.....	.....	110	120	130
Net exclusion of pension contributions and earnings:									
Employer plans	60,715	64,450	68,310	.....	.....	.....	45,445	48,270	51,185
Individual Retirement Accounts	8,290	7,720	7,160	.....	.....	.....	6,350	5,910	5,475
Keogh plans	3,520	3,615	3,750	.....	.....	.....	2,700	2,775	2,880
Exclusion of employer provided death benefits	25	30	30	.....	.....	.....	20	25	25
Exclusion of other employee benefits:									
Premiums on group term life insurance	3,685	3,880	4,000	.....	.....	.....	2,840	2,990	3,080
Premiums on accident and disability insurance	170	175	180	.....	.....	.....	125	130	135
Income of trusts to finance supplementary unemployment benefits	30	30	30	.....	.....	.....	30	30	30
Special ESOP rules (other than investment credit)	3,040	3,175	3,190	2,130	2,220	2,230	.....	.....	.....
Additional deduction for the blind	35	35	35	.....	.....	.....	30	30	30
Additional deduction for the elderly	1,680	1,840	2,000	.....	.....	.....	1,400	1,535	1,665
Tax credit for the elderly and disabled	90	90	95	.....	.....	.....	70	70	70
Deductibility of casualty losses	315	325	330	.....	.....	.....	255	260	265
Earned income credit[3]	2,655	3,060	3,185	.....	.....	.....	2,260	2,600	2,710
Total (after interactions)	83,660	87,960	91,985	.....	.....	.....	.....	.....	.....

Table 24–1. **ESTIMATES FOR TAX EXPENDITURES IN THE INCOME TAX—Continued**

(In millions of dollars)

Description	Outlay Equivalents			Revenue Loss					
				Corporations			Individuals		
	1991	1992	1993	1991	1992	1993	1991	1992	1993
Social Security:									
Exclusion of social security benefits:									
OASI benefits for retired workers	16,945	18,140	19,375	.....	.....	.....	16,945	18,140	19,375
Disability insurance benefits	1,320	1,440	1,555	.....	.....	.....	1,320	1,440	1,555
Benefits for dependents and survivors	3,170	3,355	3,560	.....	.....	.....	3,170	3,355	3,560
Total (after interactions)	21,435	22,935	24,490	.....	.....	.....	.....	.....	.....
Veterans benefits and services:									
Exclusion of veterans disability compensation	1,655	1,705	1,760	.....	.....	.....	1,655	1,705	1,760
Exclusion of veterans pensions	80	80	80	.....	.....	.....	80	80	80
Exclusion of GI bill benefits	45	45	50	.....	.....	.....	45	45	50
Exclusion of interest on state and local debt for veterans housing	210	200	195	.....	.....	.....	170	160	155
Total (after interactions)	1,990	2,030	2,085	.....	.....	.....	.....	.....	.....
General Purpose Fiscal Assistance									
Exclusion of interest on public purpose State and local debt	13,925	14,800	15,585	3,840	4,090	4,275	6,620	7,030	7,435
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	20,940	22,075	23,810	.....	.....	.....	20,940	22,075	23,810
Tax credit for corporations receiving income from doing business in United States possessions	3,180	3,485	3,815	2,225	2,440	2,670	.....	.....	.....
Total (after interactions)	38,045	40,360	43,210	.....	.....	.....	.....	.....	.....
Interest:									
Deferral of interest on savings bonds	945	955	960	.....	.....	.....	945	955	960
Addendum—Aid to State and local governments:									
Deductibility of:									
Property taxes on owner-occupied homes	10,735	11,610	12,605	.....	.....	.....	10,735	11,610	12,605
Nonbusiness State and local taxes other than on owner-occupied homes	20,940	22,075	23,810	.....	.....	.....	20,940	22,075	23,810
Exclusion of interest on:									
Public purpose State and local debt	13,925	14,800	15,585	3,840	4,090	4,275	6,620	7,030	7,435
IDBs for certain energy facilities	185	185	190	125	125	130	.....	.....	.....
IDBs for pollution control and sewage and waste disposal facilities	2,000	1,985	1,985	1,360	1,350	1,350	.....	.....	.....
Small-issue IDBs	1,725	1,680	1,615	1,175	1,140	1,100	.....	.....	.....
Owner-occupied mortgage revenue bonds	2,730	2,745	2,575	.....	.....	.....	2,185	2,220	2,140
State and local debt for rental housing	1,505	1,490	1,475	1,025	1,015	1,005	.....	.....	.....
Mass commuting vehicle IDBs	5	5	5	5	5	5	.....	.....	.....
IDBs for airports, docks, and sports and convention facilities	935	1,030	1,115	635	700	760	.....	.....	.....
State and local student loan bonds	360	375	405	.....	.....	.....	290	300	325
State and local debt for private nonprofit educational facilities	690	725	765	.....	.....	.....	555	580	615
State and local debt for private nonprofit health facilities	1,650	1,730	1,830	.....	.....	.....	1,320	1,385	1,465
State and local debt for veterans housing	210	200	195	.....	.....	.....	170	160	155
Total (after interactions)	55,290	58,210	61,590	.....	.....	.....	.....	.....	.....

*$2.5 million or less. All estimates are rounded to the nearest $5 million.
[1] In addition, the partial exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts of $465 million in 1991; $460 million in 1992; and $460 million in 1993.
[2] The figures in the table indicate the effect of the child medical insurance premium credit on receipts. The effect on outlays is: 1992, $505 million; 1993, $580 million.
[3] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays is: 1991, $4,885 million; 1992, $7,170 million; 1993, $7,895 million.

NATIONAL DEFENSE

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

INTERNATIONAL AFFAIRS

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

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

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

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

GENERAL SCIENCE, SPACE, AND TECHNOLOGY

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

R&E credit.—The tax credit is 20 percent of the qualified expenditures in excess of each year's base amount. This threshold is determined by multiplying a "fixed-base percentage" (limited to a maximum of .16 for existing companies) by the average amount of the company's gross receipts for the four preceding years. The "fixed-base percentage" is the ratio of R&E expenses to gross receipts for the 1984 to 1988 period. Start-up companies that did not both incur qualified expenses and have gross receipts in at least three of the base years are assigned a "fixed-base percentage" of .03. A similar credit with its own separate threshold is provided for taxpayers' basic research grants to universities. Beginning in 1989, the otherwise deductible qualified R&E expenditures were reduced by the amount of the credit. Both R&E credits have been extended to June 30, 1992.

Allocation of R&E expenditures.—Regulations issued in 1977 were designed to achieve a reasonable allocation of R&E expenses between corporations' domestic and foreign activities, but successive legislative actions suspended this requirement. Currently, 64 percent of both U.S.- and foreign-based R&E expenses are allocated to their respective income sources. The remaining R&E expenses must then be allocated on the basis of gross sales or gross income. These rules are effective through June 30, 1992.

ENERGY

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

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

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

on output and no limitation with respect to qualified producers. Unlike depreciation or cost depletion, percentage depletion deductions can exceed the cost of the investment.

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

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

New technology credits.—A credit of 10 percent is available for investment in solar and geothermal energy facilities. The credit for these two investments will expire after June 30, 1992.

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

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

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

NATURAL RESOURCES AND ENVIRONMENT

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

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

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

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

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

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

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

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

AGRICULTURE

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

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

Loans forgiven solvent farmers.—In 1986, farmers were granted special tax treatment by being forgiven

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

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

COMMERCE AND HOUSING CREDIT

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

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

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

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

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

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

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

Mutual funds (RIC) expenses.—Individuals may deduct miscellaneous expenses only to the extent that they exceed 2 percent of their adjusted gross income. Certain costs incurred by individuals in managing their personal securities portfolios are among the miscellaneous deductions allowed taxpayers who itemize deductions. Mutual funds (or regulated investment companies) perform these portfolio management functions for their shareholders and pay out their portfolio incomes net of these expenses. Shareholders are permitted to report their fund income net of management expenses; thus, they are thereby able to deduct portfolio management expenses without regard to the miscellaneous deduction limitation.

Small issue industrial development bonds.—The interest on small issue industrial development bonds (IDBs) issued by State and local governments to finance private business property is excluded from income subject to tax. Depreciable property financed with small issue IDBs must be depreciated, however, using the straight-line method. The tax exemption of small issue bonds expired in 1986, except for small issue IDBs exclusively issued to finance manufacturing facilities for which the tax exemption is scheduled to expire in June 30, 1992. The budget cost of these bonds continues as long as they are outstanding.

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

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

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

Rental housing bonds.—State and local government issues of IDBs are restricted to multifamily rental housing projects in which 20 percent (15 percent in targeted areas) of the units are reserved for families whose income does not exceed 50 percent of the area's median

income; or 40 percent for families with incomes of no more than 60 percent of the area median income. Other tax-exempt bonds for multifamily rental projects are generally issued with the requirement that all tenants must be low or moderate income families. Rental housing bonds are subject to the volume cap discussed in the small issue IDB section above.

Interest and taxes on owner-occupied homes.—Owner-occupants of homes may deduct mortgage interest and property taxes on their primary and secondary residences as itemized nonbusiness deductions. The mortgage interest deduction is limited to interest on debt no greater than the owner's basis in the residence and, for debt incurred after October 13, 1987, it is limited to no more than $1 million. Interest on up to $100,000 of other debt secured by a lien on a principal or second residence is also deductible, irrespective of the purpose of borrowing, provided the debt does not exceed the fair market value of the residence. Mortgage interest deductions on personal residences are tax expenditures because the taxpayers are not required to report the value of owner-occupied housing services as gross income.

Real property installment sales.—Dealers in real and personal property, i.e., sellers that regularly hold property for sale or resale, cannot defer taxable income from installment sales until the receipt of the loan repayment. Nondealers, defined as sellers of real property used in their business, are required to pay interest to the Federal Government on deferred taxes attributable to their total installment obligations in excess of $5 million. Only properties with sales prices exceeding $150,000 are includable in the total. The payment of a market rate of interest eliminates the benefit of the tax deferral. The tax exemption for nondealers with total installment obligations of less than $5,000,000 is, therefore, a tax expenditure.

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

Deferral of gains from sale of broadcasting facility to minority owned business.—The voluntary sale of assets generally requires the seller to pay tax on the gain that has accrued over the period of ownership. However, in the case of an involuntary sale, as when an owner's property must be sold in a condemnation preceding, or to implement a change in a government's regulatory policy, the owner is permitted to defer payment of tax, provided the proceeds are reinvested in similar property within a specified period. In 1979, the Federal Communications Commission instituted a policy of encouraging minority group ownership of broadcast licenses. Since that time, the tax laws have been interpreted to permit voluntary sellers of licensed broadcasting facilities to defer payment of capital gains tax when the buyer has been certified as a "minority business," in effect treating the sale as "involuntary."

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

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

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

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

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

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

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

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

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

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

Imputed interest rules.—Under reference law rules commonly referred to as original issue discount (OID), both the holder and seller of a financial contract are generally required to report interest earned in the period it accrues, not when the contract payments are made. Moreover, the amount of interest accruable is determined by the actual price paid for the contract, not by the stated or nominal principal and interest stipulated in the contract.[5]

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

[5] Thus, when a borrower on December 31, 1991, issues a promise to pay $1,000 plus interest at 10 percent on December 30, 1992, for a total repayment of $1,100, and accepts $900 from a lender in exchange for the contract, the rules require that both parties: (a) recognize that $900 is the amount lent, so that the effective loan interest rate is not the nominal 10 percent rate but is 22.2 percent; and (b) both report $200 as interest paid or received in 1992, as the case may be.

TRANSPORTATION

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

COMMUNITY AND REGIONAL DEVELOPMENT

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

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

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

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

EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

Scholarship and fellowship income.—Scholarships and fellowships are not excluded from taxable income to the extent they exceed tuition and course-related expenses of the grantee. From an economic point of view, scholarships and fellowships are either gifts not conditioned on the performance of services, or they are rebates of educational costs. Thus, under the reference law method, the exclusion is not a tax expenditure because this method does not include either gifts or price reductions in a taxpayer's gross income. Under the normal tax method, however, the exclusion is considered a tax expenditure because under this

method gift-like transfers of government funds—and many scholarships are derived directly or indirectly from government funding—are included in gross income.

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

U.S. savings bonds for education.—Interest on U.S. savings bonds, issued after December 31, 1989, may be excluded from tax if the bonds, plus accrued interest, are transferred to an educational institution as payment for educational expenses. The exclusion from tax is phased out for joint returns with adjusted gross incomes of $66,200 to $90,000 and $44,150 to $50,000 for single and head of household returns.

Dependent students age 19 or older.—Taxpayers can claim personal exemptions for dependent children age 19 or over who receive parental support payments of $1,000 or more per year, are full-time students, and do not claim a personal exemption on their own tax returns. This preferential arrangement usually generates tax savings because the students' marginal tax rates are more often than not lower than their parents' marginal tax rates.

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

Employer provided benefits.—Many employers provide employee benefits that are not counted in employee income. The employers' costs for these benefits are deductible business expenses. The exclusion from an employee's income of the value of educational assistance, child care, meals and lodging, legal service plans, as well as ministers' housing allowances and the rental value of parsonages are tax expenditures. The exclusions for educational assistance and legal services are in effect through June 30, 1992. Health and other insurance benefits are reported under the health and income security functions.

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

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

Targeted jobs credit.—Employers may claim a tax credit for qualified wages paid to individuals who begin work through June 30, 1992, and who are certified as members of various targeted groups. The amount of the credit that may be claimed is 40 percent of the first $3,000 paid during the first year of employment. The 40 percent credit also applies to the summer employment wages paid 16 and 17 year old youths who are members of low income families. Employers must reduce their deduction for wages paid by the amount of the credit claimed.

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

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

HEALTH

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

Child health insurance.—The earned income tax credit provides for a credit equal to 6 percent for certain health insurance expenses for certain policies that cover children. The maximum credit will be $451 in 1992 and is phased out at a rate of 4.285 percent through $22,370 of adjusted gross income.

Untaxed medicare benefits.—The employer's payment of 1.45 percent of employees' wages (up to $130,200 in 1992) into the Hospitalization Trust Fund, which finances medicare benefits, is not included in employees' reportable compensation.

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

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

Charitable contributions to health institutions.—Contributions to nonprofit health institutions are allowed as a deduction for individuals and corporations. Tax expenditures resulting from the deductibility of contributions to other charitable institutions are listed under the education, training, employment, and social services function.

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

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

INCOME SECURITY

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

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

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

Special benefits for disabled coal miners.—Disability payments to former coal miners out of the Black Lung Trust Fund, although income to the recipient, are not subject to the income tax.

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

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

Limited amounts (about $8,555 in 1992) can be excluded from an employee's adjusted gross income under a qualified cash or deferred arrangement with the employer (401(k) plan). An employee's own contribution of no more than $9,500 or the 401(k) limitation (whichever is greater) may be excluded annually from an employee's adjusted gross income when placed in a tax-sheltered annuity (403(b) plan).

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

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

Employer Stock Ownership Plan (ESOP) provisions.—A special type of employee benefit plan, organized as a trust, is tax-exempt. Employer-paid contributions (the value of stock issued to the ESOP) are deductible by the employer as part of employee compensation costs. They are not included in the employees' gross income for tax purposes, however, until they are paid out as benefits. The following special income tax provisions for ESOPs are intended to increase ownership of corporations by their employees: (1) annual employer contributions are subject to less restrictive limitations (percentages of employees' cash compensation); (2) ESOPs may borrow to purchase employer stock, guaranteed by their agreement with the employer that the debt will be serviced by his payment (deductible by him) of a portion of wages (excludable by the employees) to service the loan; (3) ESOPs' lenders may

exclude half the interest from their gross income; (4) employees who sell appreciated company stock to the ESOP may defer any taxes due until they withdraw benefits; and (5) dividends paid to ESOP-held stock are deductible by the employer.

Support of the aged and the blind.—Taxpayers who are blind or 65 years of age or older may take an additional $900 standard deduction if single, or $700 if married. In addition, individuals who are 65 years of age or older, or who are permanently disabled, can take a tax credit equal to 15 percent of the sum of their earned and retirement income. Qualified income is limited to no more than $2,500 for single individuals or married couples filing a joint return where only one spouse is 65 years of age or older, and up to $3,750 for joint returns where both spouses are 65 years of age or older. These limits are reduced by one-half of the taxpayer's adjusted gross income over $7,500 for single individuals and $10,000 for married couples filing a joint return.

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

Earned income credit.—This credit may be claimed by low-income workers with minor dependents. For 1992, the credit is 17.6 percent (18.4 percent if two or more minors are present) of the first $7,520 of earned income. When the taxpayer's income exceeds $11,840, the credit is phased out at the rate of 12.57 percent (13.14 percent if two or more minors are present) and is completely phased out at $22,370 of adjusted gross income. The credit is increased by a "supplemental young child" credit of 5 percent of the first $7,520 of earned income which is phased out at a rate of 3.57 percent. The supplemental credit is also completely phased out at $22,370 of adjusted gross income. The maximum amount of income on which the earned income credit may be taken is adjusted for inflation, as is the income level at which the phase-out begins.

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

Social Security

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

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

Veterans Benefits and Services

Veterans benefits.—All compensation due to death or disability and pensions paid by the Veterans Administration are excluded from taxable income. In addition, benefits under the GI bill, as well as other veterans' readjustment and education benefits, are excluded from taxable income.

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

General Government

Public purpose State and local debt.—Interest on State and local government debt, issued to finance government activities, is excluded from Federal taxation. State and local governments, therefore, can sell debt obligations at a lower interest cost than would be possible if such interest were subject to tax. Only the excluded interest on bonds for public purposes, such as schools, roads, and sewers, is included here.

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

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

INTEREST

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

TAX EXPENDITURES IN THE UNIFIED TRANSFER TAX

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

Unified Transfer Tax Reference Rules

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

- *Definition of the taxpaying unit.* The payment of the tax is the liability of the transferor whether the transfer of cash or property was made by gift or bequest.
- *Definition of the tax base.* The base for the tax is the transferor's cumulative, taxable lifetime gifts made plus the net estate at death. Gifts in the tax base are all annual transfers in excess of $10,000 to any donee except the donor's spouse. Excluded are, however, payments on behalf of family members' educational and medical expenses, as well as the cost of ceremonial gatherings and celebrations that are not in honor of the donor.
- *Property valuation.* In general, property is valued at its fair market value at the time it is transferred. This is not necessarily the case in the valuation of property for transfer tax purposes. Executors of estates are provided the option to value assets at the time of the testator's death or up to six months later.
- *Tax rate schedule.* A single graduated tax rate schedule applies to all taxable transfers. This is reflected in the name of the "unified transfer tax" that has replaced the former separate gift and estate taxes. The tax rates vary from 18 percent on the first $10,000 of aggregate taxable transfers, to 55 percent on amounts exceeding $3 million. A $192,800 lifetime credit is provided against the tax in determining the final amount of transfer taxes that are due and payable. This allows each taxpayer to make a $600,000 tax-free transfer of assets that otherwise would be liable to the unified transfer tax.[6]
- *Time when tax is due and payable.* Donors are required to pay the tax annually as gifts are made. The generation-skipping transfer tax is payable by the donees whenever they accede to the gift. The net estate tax liability is due and payable within nine months after the decedent's death. The Internal Revenue Service may grant an extension of up to 10 years for a reasonable cause. Interest is charged on the unpaid tax liability at a rate equal to the cost of Federal short-term borrowing, plus three percentage points.

Tax Expenditures by Function

The 1991–93 estimates of tax expenditures in the Federal unified transfer tax are displayed by functional category in table 24–2. Outlay equivalent estimates are similar to revenue loss estimates for transfer tax expenditures and, therefore, are not shown separately. A description of the provisions follows.

NATURAL RESOURCES AND ENVIRONMENT

Donations of conservation easements.—Bequests for conservation are excluded from taxable estates. A conservation bequest is the value of property and easements (in perpetuity) to such property the use of which is restricted to any one or more of the following: the public for outdoor recreation; protection of the natural habitats of fish, wildlife, plants, etc.; scenic enjoyment of the public; and preservation of historic land areas and structures. Similar conservation gifts are excluded from the gift tax base and are also deductible from the donor's otherwise taxable income in the year of the gift.

AGRICULTURE

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

Tax deferral of closely held farms.—Decedents' estates may use a preferential, extended installment payment period of five to 15 years to discharge estate tax liabilities if the value of the farm properties exceeds 35 percent of the net estates. The interest charged is only 4 percent for the first five years, rather than the

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

Table 24–2. **ESTIMATES FOR TAX EXPENDITURES IN THE FEDERAL UNIFIED TRANSFER TAX**

(In millions of dollars)

Description	Fiscal Years		
	1991	1992	1993
Natural Resources and Environment:			
Deductions for donations of conservation easements	*	*	*
Agriculture:			
Special use valuation of farm real property	65	70	75
Tax deferral of closely held farms	55	55	55
Commerce:			
Special use valuation of real property used in closely held businesses	20	20	25
Tax deferral of closely held business	10	10	10
Education, training, employment, and social services:			
Deduction for charitable contributions (education)	440	465	500
Deduction for charitable contributions (other than education and health)	1,305	1,380	1,490
Health:			
Deduction for charitable contributions (health)	400	425	460
General government:			
Credit for State death taxes	2,100	2,290	2,525
Grand Total (after interactions)	**4,175**	**4,480**	**4,885**

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

standard Federal short-term borrowing rate plus three percentage points, which applies during the last 10 years of the repayment period.

Commerce and Housing Credit

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

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

Education, Training, Employment, and Social Services

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

Health

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

General Government

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

Appendix

Table 24–3. **MAJOR TAX EXPENDITURES IN THE INCOME TAX RANKED BY ESTIMATED REVENUE LOSS**

(In millions of dollars)

Description	1993
Net exclusion of employer plans pension contributions and earnings	51,185
Exclusion of employer contributions for medical insurance premiums and medical care	43,090
Deductibility of mortgage interest on owner–occupied homes	42,900
Step–up basis of capital gains at death	28,140
Accelerated depreciation (Normal tax method)	26,505
Deductibility of nonbusiness State and local taxes other than on owner–occupied homes	23,810
Exclusion of OASI benefits for retired workers	19,375
Deductibility of charitable contributions	17,950
Deferral of capital gains on home sales	13,925
Deductibility of State and Local property tax on owner–occupied homes	12,605
Exclusion of interest on public purpose State and local debt	11,710
Exclusion of interest on life insurance savings	8,735
Exclusion of untaxed Medicare benefits	8,045
Exception from passive loss rules for $25,000 of rental loss	6,640
Net exclusion of IRA pension contributions and earnings	5,475
Exclusion of workmen's compensation benefits	3,720
Preferential treatment of capital gains (Normal tax method)	3,695
Exclusion of social security benefits for dependents and survivors	3,560
Deductibility of medical expenses	3,365
Exclusion of interest on industrial development bonds	3,340
Exclusion of capital gains on home sales for persons age 55 and over	3,340
Reduced rates on first $100,000 of corporate income (Normal tax method)	3,180
Inventory property sales source rules exception	3,170
Exclusion of premiums on group life insurance	3,080
Credit for child and dependent care expenses	2,955
Exclusion of Keogh pension contributions and earnings	2,880
Earned income credit [1]	2,710
Tax credit for corporations receiving income from doing business in United States possessions	2,670
Special ESOP rules (other than investment credit)	2,230
Exclusion of interest on owner–occupied mortgage subsidy bonds	2,140
Exclusion of benefits and allowances to armed forces personnel	2,110
Expensing of research and development expenditures (Normal tax method)	1,995
Exclusion of income earned abroad by United States citizens	1,895
Exclusion of veterans disability compensation	1,760
Additional deduction for the elderly	1,665
Exclusion of disability insurance benefits	1,555
Exclusion of interest on State and local debt for private nonprofit health facilities	1,465
Exclusion of income of foreign sales corporations	1,310
Credit for low–income housing investments	1,160
Excess percentage over cost depletion, fuel and nonfuel minerals	1,065
Exclusion of interest on State and local debt for rental housing	1,005
Deferral of interest on savings bonds	960
Deferral of income from post 1987 installment sales	820
Exclusion of scholarship and fellowship income (Normal tax method)	785
Exclusion of employee meals and lodging (other than military)	780
Alternative fuel production credit	660
Exclusion of employer provided child care	635
Exclusion of interest on State and local debt for private nonprofit educational facilities	615
Exemption of RIC expenses from the 2% floor miscellaneous itemized deduction	545
Exclusion of public assistance benefits (Normal tax method)	490
Expensing of multiperiod timber growing costs	455
Parental personal exemption for students age 19 or over	450
Expensing of certain agricultural capital and multiperiod production costs	325
Exclusion of interest on State and local student loan bonds	325
Exemption of credit union income	320
Exclusion of railroad retirement system benefits	315
Exclusion of parsonage allowances	265
Deductibility of casualty losses	265
Deferral of gains from sale of broadcasting facilities to minority owned businesses	260
Alcohol fuel credit [2]	210
Amortization of start–up costs	205
Deferral of tax on shipping companies	160
Credit for child medical insurance premiums [3]	155
Exclusion of interest on state and local debt for veterans housing	155
Credit for disabled access expenditures	150
Carryover basis of capital gains on gifts	145
Permanent exceptions from imputed interest rules	140
Exclusion of employer–provided premiums on accident and disability insurance	135
Tax incentives for preservation of historic structures	135
Expensing of exploration and development costs, fuels and nonfuel minerals	130

Table 24–3. **MAJOR TAX EXPENDITURES IN THE INCOME TAX RANKED BY ESTIMATED REVENUE LOSS—Continued**

(In millions of dollars)

Description	1993
Exclusion of military disability pensions	130
Small life insurance company deduction	120
Targeted jobs credit	105
Interest allocation rules exception for certain financial operations	100
Exclusion of special benefits for disabled coal miners	100
Exemption of certain mutuals and cooperative income	95
Investment credit for rehabilitation of structures (other than historic)	90
Treatment of Alaska Native Corporations	85
Exception from passive loss limitation for working interests in oil and gas properties	80
Exclusion of veterans pensions	80
Tax credit for the elderly and disabled	70
Special rules for mining reclamation reserves	50
Exclusion of GI bill benefits	50

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

[1] The figures in the table indicate the effect of the earned income tax credit on receipts. The increase in 1993 outlays is $7,895 million.

[2] In addition, the partial exemption from the excise tax for alcohol fuels results in a reduction in 1993 excise tax receipts of $460 million.

[3] The figures in the table indicate the effect of the child medical insurance premium credit on receipts. The increase in 1993 outlays is $580 million.