X. RECEIPTS, USER FEES, AND OTHER COLLECTIONS

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X. RECEIPTS, USER FEES, AND OTHER COLLECTIONS

GOVERNMENTAL 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 X-1. **RECEIPTS BY SOURCE**

(In billions of dollars)

Source	1990 actual	Estimate					
		1991	1992	1993	1994	1995	1996
Individual income taxes	466.9	492.6	529.5	572.0	632.9	688.9	742.1
Corporation income taxes	93.5	95.9	101.9	109.0	120.6	130.0	138.3
Social insurance taxes and contributions	380.0	402.0	429.4	463.8	501.0	534.1	568.5
On-budget	(98.4)	(103.7)	(114.1)	(125.1)	(135.5)	(144.2)	(151.3)
Off-budget	(281.7)	(298.3)	(315.3)	(338.7)	(365.5)	(389.8)	(417.2)
Excise taxes	35.3	44.8	47.8	50.1	52.0	53.6	47.8
Estate and gift taxes	11.5	12.2	13.3	14.1	13.7	14.6	15.7
Customs duties and fees	16.7	17.7	19.3	20.8	22.0	22.7	23.9
Miscellaneous receipts	27.3	26.2	23.9	22.8	23.2	23.5	24.5
Total receipts	**1,031.3**	**1,091.4**	**1,165.0**	**1,252.7**	**1,365.3**	**1,467.3**	**1,560.7**
On-budget	*(749.7)*	*(793.2)*	*(849.8)*	*(914.0)*	*(999.8)*	*(1,077.5)*	*(1,143.5)*
Off-budget	*(281.7)*	*(298.3)*	*(315.3)*	*(338.7)*	*(365.5)*	*(389.8)*	*(417.2)*

Growth in receipts.—Total receipts in 1992 are estimated to be $1,165.0 billion, an increase of $73.6 billion or 6.7 percent from the $1,091.4 billion estimated for 1991. Receipts are projected to grow at a much higher average annual rate of 7.6 percent between 1992 and 1996, to $1,560.7 billion. Because the rate of growth of receipts in 1992 exceeds the rate of growth of GNP, the receipts share of GNP is projected to rise from 19.4 percent in 1991 to 19.5 percent in 1992. The rate of growth of receipts exceeds the rate of growth of GNP in subsequent years, causing the receipts share of GNP to rise to 20.0 percent in 1996. This is well above the average receipts shares of GNP of 18.3 percent and 19.0 percent realized in the 1970s and 1980s, respectively.

Table X-2. **CHANGES IN RECEIPTS**

(In billions of dollars)

	1991	1992	1993	1994	1995	1996
Receipts under tax rates and structure in effect January 1, 1990[1]	**1,064.9**	**1,117.8**	**1,206.3**	**1,309.5**	**1,403.0**	**1,499.7**
Enacted legislative changes:						
Omnibus Budget Reconciliation Act of 1990[2]	23.2	35.0	31.9	36.5	37.4	28.8
Social security (OASDI) taxable earnings base increases:						
$51,300 to $53,400 on Jan. 1, 1991	0.7	2.2	2.6	3.1	3.6	4.2
$53,400 to $55,500 on Jan. 1, 1992	....	0.8	2.3	2.8	3.3	3.8
$55,500 to $57,900 on Jan. 1, 1993	....	....	1.0	2.9	3.3	3.9
$57,900 to $61,800 on Jan. 1, 1994	....	....	....	1.6	4.7	5.5
$61,800 to $65,400 on Jan. 1, 1995	....	....	....	....	1.4	4.3
$65,400 to $69,000 on Jan. 1, 1996	....	....	....	....	....	1.4
Medicare (HI) taxable earnings base increases:						
$51,300 to $125,000 on Jan. 1, 1991	2.3	6.5	7.7	9.1	10.5	12.2
$125,000 to $130,200 on Jan. 1, 1992	....	0.1	0.2	0.2	0.2	0.3
$130,200 to $135,900 on Jan. 1, 1993	....	....	0.1	0.2	0.2	0.3
$135,900 to $145,200 on Jan. 1, 1994	....	....	....	0.1	0.4	0.4
$145,200 to $153,900 on Jan. 1, 1994	....	....	....	....	0.1	0.3
$153,900 to $162,600 on Jan. 1, 1996	....	....	....	....	....	0.1
Proposed legislation and administrative action	**0.4**	**2.7**	**0.6**	**–0.7**	**–0.9**	**–4.3**
Total, receipts under existing and proposed legislation and administrative action[3]	**1,091.4**	**1,165.0**	**1,252.7**	**1,365.3**	**1,467.3**	**1,560.7**

[1] These estimates assume a social security taxable earnings base of $51,300 through 1996.

[2] Excludes the effect of medicare (HI) base changes shown below.

[3] These estimates include both the direct and indirect effects of administrative and legislative changes.

Composition of receipts.—The Federal tax system will rely predominantly on income and payroll taxes in 1992, with these sources accounting for 82.2 percent of receipts. The Federal tax system will continue to rely predominantly on these sources of receipts in 1996, when their combined share will rise to 83.7 percent.

ENACTED LEGISLATION

The Omnibus Budget Reconciliation Act of 1990.—This Act, which is the largest deficit reduction package in history, is an important measure for ensuring America's long-term economic growth. It was the result of long, hard work by the Administration and the Congress. Less than 30 percent of its deficit reductions were achieved through revenue increases. The major revenue provisions of the Act are described below:

Individual Income Tax Provisions

Modify individual income tax rates.—Two statutory tax brackets and tax rates—15 percent and 28 percent—were in effect under prior law. However, the benefit of the 15 percent bracket was phased out for taxpayers with taxable income exceeding specified levels, implicitly creating a marginal tax rate of 33 percent in the affected income range. Effective January 1, 1991, the phaseout of the benefit of the 15 percent bracket is repealed and a third statutory tax rate of 31 percent is imposed on taxable income greater than or equal to the level at which the phaseout of prior law began.

Limit itemized deductions.—Effective January 1, 1991, otherwise allowable deductions (with the exception of medical expenses, casualty and theft losses, and investment interest), are reduced for taxpayers with adjusted gross income in excess of $100,000. The reduction is equal to three percent of the taxpayer's adjusted gross income in excess of $100,000; however, a taxpayer's deductions may not be reduced by more than 80 percent.

Phase out personal exemptions.—The deduction for personal exemptions is phased out as the taxpayer's adjusted gross income exceeds threshold amounts. For 1991, the threshold amounts are $150,000 for taxpayers filing a joint return, $125,000 for a head of household, $100,000 for a single taxpayer, and $75,000 for a married taxpayer filing a separate return; these amounts are indexed for inflation beginning in 1992. Each otherwise allowable exemption is reduced by two percent for each $2,500 (or fraction thereof) that the taxpayer's adjusted gross income exceeds the threshold amount.

Earned Income Tax Credit

Modify and expand earned income tax credit (EITC).—Certain individuals who maintain a home for one or more children are allowed an advance refundable tax credit based on the taxpayer's earned income. Under prior law, the earned income tax credit (EITC) for 1990 was equal to 14 percent of the first $6,810 of earned income, for a maximum credit of $953. The credit was phased out at a rate of 10 percent of the amount by which adjusted gross income in 1990 exceeded $10,730. Effective for taxable years beginning after December 31, 1990, the rate of the credit is increased, an adjustment is provided for family size, and the phaseout rates are modified as follows:

	Credit percentage	Phaseout percentage
1991:		
1 qualifying child	16.7	11.93
2 or more qualifying children	17.3	12.36
1992:		
1 qualifying child	17.6	12.57
2 or more qualifying children	18.4	13.14
1993:		
1 qualifying child	18.5	13.21
2 or more qualifying children	19.5	13.93
1994 and thereafter:		
1 qualifying child	23.0	16.43
2 or more qualifying children	25.0	17.86

The prior law dollar thresholds, indexed for inflation, are retained. In addition, the eligibility rules are modified.

Establish supplemental credit for young children.—An additional credit is provided for qualifying children under the age of 1, as of the close of the taxable year of the taxpayer. The maximum credit for 1991 is $355.

Establish supplemental credit for certain health insurance premium expenses.—Effective for taxable years beginning after December 31, 1990, a credit is available to taxpayers for qualified health insurance expenses that include coverage for a qualifying child. The eligibility criteria, income and phaseout requirements are the same as those for the EITC. However, the credit percentage is 6.0 percent of earned income and the phaseout rate is 4.285 percent. For 1991, the maximum credit is $428.

Excise Tax Provisions

Increase excise taxes on distilled spirits, beer and wine.—Excise taxes on distilled spirits are increased by $1.00 to $13.50 per proof gallon effective January 1, 1991. Excise taxes on beer generally are doubled on that date from $9.00 to $18.00 per barrel. Wine, which generally had been taxed at rates ranging from $0.17 to $2.40 per wine gallon prior to January 1, 1991, is now taxed at rates ranging from $1.07 to $3.30 per wine gallon.

Increase tobacco excise taxes.—Excise taxes on all tobacco products, including cigarettes, cigars, chewing tobacco, snuff, and pipe tobacco, are increased by 50 percent relative to prior law. The first increase, equal to 25 percent of prior law, is effective January 1, 1991. The second increase, equal in dollar amount to the first increase, will be effective January 1, 1993. Specifically, the excise tax on small cigarettes is increased from $.16 per pack to $.20 per pack on January 1, 1991 and will be increased to $.24 per pack on January 1, 1993.

Expand excise tax on ozone depleting chemicals.—The prior law fee imposed on certain ozone-depleting chemicals is expanded to apply to additional chemicals including carbon tetrachloride and methyl chloroform effective January 1, 1991. The amount of the fee is determined by multiplying a base fee amount by a factor—ranging from 0.1 to 10.0—that represents the ozone-depleting potential of the chemical. The base fee per pound applicable to chemicals taxed under prior law is $1.37 for calendar year 1991, $1.67 for calendar year 1992, and $2.65 for calendar years 1993 and 1994. Thereafter, the base fee increases by $.45 per pound per year. The base fee per pound is phased in for newly taxed chemicals, equaling $1.37 for 1991 and 1992, $1.67 for 1993, $3.00 for 1994, and $3.10 for 1995. Thereafter, the base fee increases by $0.45 per pound as it does for chemicals taxed under prior law.

Increase highway and motor boat fuels excise taxes.—The prior law excise taxes imposed on gasoline and special motor fuels used in highway transportation and motor boats are increased from $.09 per gallon to $.14 per gallon effective December 1, 1990. On that date the prior law excise tax on diesel fuel used in highway transportation is increased by $.05 per gallon to $.20 per gallon and a $.025 per gallon tax is imposed on fuels used in rail transportation. The Act specifies that one-half of the increases in highway fuels taxes and motor boat fuels taxes be deposited in the Highway Trust Fund and the Aquatic Resources Trust Fund, respectively; the remaining half of the increases are to be deposited in the General Fund of the Treasury. The tax imposed on fuels used in rail transportation is also to be deposited in the General Fund.

Increase Airport and Airway Trust Fund taxes.—Excise taxes deposited in the airport and airway trust fund were scheduled to expire after December 31, 1990 under prior law. This Act extends these taxes through December 31, 1995, but also increases the tax on air passengers from 8 percent to 10 percent, increases the tax on airfreight from 5 percent to 6.25 percent, increases the tax on noncommercial aviation gasoline from $.12 per gallon to $.15 per gallon, and increases the tax on noncommercial aviation jet fuel from $.14 per gallon to $.175 per gallon. In addition, the Act specifies that all revenue from the increases in aviation gasoline and fuel excise taxes relative to prior law rates go to the General Fund of the Treasury through 1992, and to the Airport and Airway Trust Fund for 1993–1995.

Increase ad valorem fee on shippers.—The prior law ad valorem fee on shippers is increased from 0.04 percent of cargo value to 0.125 percent of cargo value effective January 1, 1991.

Reauthorize Leaking Underground Storage Tank (LUST) Trust Fund tax.—Prior to September 1, 1990, a tax of $.001 per gallon was imposed on gasoline, diesel fuel, special motor fuels, aviation fuel and fuels used on inland waterways, and deposited in the LUST Trust Fund. This tax terminated on August 31, 1990 after the Fund reached a statutory ceiling of $500 million of net revenue. This Act reimposes the tax through December 31, 1995.

Reauthorize Hazardous Substance Superfund Trust Fund taxes.—The taxes authorized to be deposited in the Hazardous Substance Superfund were scheduled to expire on December 31, 1991 under prior law. This Act extends these taxes through December 31, 1995. Superfund financing is derived from a tax of $.082 per barrel on domestic crude oil and $.117 per barrel on imported petroleum products, a tax on domestic feedstock chemicals and imported chemical derivatives, and an environmental tax on corporate taxable income.

Increase gas guzzler excise tax.—The prior law tax imposed on the manufacturer or importer of automobiles that do not meet statutory standards for fuel economy is doubled effective January 1, 1991. The Act repeals the prior law exemption provided for stretch limousines, as well as the special rules permitting the Secretary of the Treasury to set the rate of tax for small manufacturers.

Extend and modify collection of telephone excise tax.—The 3 percent excise tax imposed on local and toll telephone service, and on teletypewriter exchange service, which was scheduled to expire after December 31, 1990, is permanently extended. In addition, the collection period of telephone excise taxes is modified, effective for taxes considered collected for semi-monthly periods beginning after December 31, 1990.

Impose excise tax on certain luxury goods.—Effective January 1, 1991 through December 31, 1999, an excise tax, equal to 10 percent of the retail price in excess of specified thresholds, is levied on the following items: automobiles above $30,000, boats and yachts above $100,000, aircraft above $250,000, and furs and jewelry above $10,000. Boats, yachts, aircraft, and passenger cars used exclusively in a trade or business or for the purpose of transporting persons or property for compensation or hire generally are exempt from the tax.

Expiring Tax Provisions

Extend research and experimentation (R&E) allocation rules.—The rules for allocating R&E expenses to U.S. or foreign source income are extended for an additional 15 months so that they apply to taxable years beginning on or before August 1, 1991.

Extend research and experimentation (R&E) tax credit.—The tax credit provided for certain incremental research and experimentation expenditures, which was scheduled to expire on December 31, 1990, is extended for 1 year. In addition, the special rule to prorate research expenditures incurred during 1990 is repealed.

Extend exclusion for employer-provided educational assistance.—The exclusion for employer-provided educational assistance is extended to apply to amounts paid by an employer on or before December 31, 1991. In addition, the restriction on graduate level courses is repealed, effective for taxable years beginning after December 31, 1990.

Extend low-income housing tax credit.—The low income housing tax credit, which was scheduled to expire after December 31, 1990, is extended for one year through December 31, 1991, with several modifications.

Extend abandoned mine reclamation fees.—The abandoned mine reclamation fees, which were scheduled to expire in August 1992, are extended through September 30, 1995.

Extend IRS user fee.—The prior law fee on each request for a letter ruling, determination letter, opinion letter, or other similar ruling or determination filed after January 31, 1988 and before October 1, 1990, is extended through September 30, 1995.

Tax Incentive Provisions

Initiate energy incentives.—The Act includes several incentives to encourage the finding of new oil and gas fields and the reclaiming of old fields. These incentives include the following: a 2 year extension of the nonconventional fuels tax credit and an expansion of the definition of qualifying gas produced from a tight sands formation; the initiation of a new income tax credit for ethanol production, modification of existing credits for ethanol fuels and ethanol fuels mixtures, and modification of the tariff on ethanol; initiation of a new income tax credit for qualified enhanced oil recovery costs; modification of percentage depletion rules; and the provision of alternative minimum tax relief for oil and gas operations.

Initiate small business incentives.—Several incentives designed to assist small business are provided in the Act. These incentives include the following: a revision of estate freeze rules, generally effective for transfers made and agreements entered into after October 8, 1990; and modification of the treatment of certain expenditures incurred to make businesses accessible to disabled individuals.

Insurance Company Provisions

Amortize policy acquisition expenses of insurance companies.—Under prior law, insurance companies generally were allowed to deduct life insurance policy acquisition expenses (commissions and other selling expenses) in the year in which they were incurred. In the case of reinsurance, however, the reinsuring company was required to capitalize commissions and to amortize them over the useful life of the asset rather than permitting a current deduction for such an expense. Effective after September 30, 1990, insurance companies are required to amortize life insurance policy acquisition expenses on a straight-line basis over a period of 120 months beginning with the first month in the second half of the taxable year. For any given taxable year, policy acquisition expenses required to be capitalized and amortized are determined to be a specific percentage of the net premiums, depending on the type of insurance contract. Three separate categories of insurance contracts, and, therefore, three separate percentages, are identified. A special rule is provided for certain reinsurance transactions. In addition, the tax treatment of acquisition expenses incurred on property and casualty insurance policies sold by life insurance companies now conforms with the tax treatment of these expenses for property and casualty insurance companies.

Include salvage values in calculation of loss deductions by insurance companies.—Under prior law a property and casualty insurance company could deduct losses incurred during a year, but need not include salvage values of losses paid in its calculation of deductions for losses incurred. The salvage values need not be included if a State did not allow the company to claim the salvage values as assets for statutory purposes. The Act requires insurance companies to include salvage values in their calculations of loss incurred, regardless of how States treat salvage values. As a transition rule, salvage values are to be included in the calculation of the deduction for losses incurred as if these values had been included in such calculations in all prior tax years.

Employment Tax Provisions

Increase dollar limitation on amount of wages and self-employment income subject to the medicare (HI) hospital insurance payroll tax.—Effective January 1, 1991, the cap on wages and self-employment income considered in calculating HI tax liability is increased to $125,000. This cap is indexed annually thereafter to changes in the average wage.

Extend social security (OASDI) and medicare (HI) coverage to State and local government employees not participating in a public employee retirement system.—Mandatory social security and medicare coverage is extended to all State and local government employees not participating in a public employee retirement system in conjunction with their current State and local employment. Coverage applies with respect to all wages earned with respect to services performed on or after June 30, 1991.

Extend Federal Unemployment Act (FUTA) surtax.—The temporary unemployment surtax of 0.2 percent imposed on employers, which was scheduled to expire with respect to wages paid after December 31, 1990, is extended for 5 years through December 31, 1995.

Stabilize payroll tax law.—Effective for deposits made after July 31, 1990, employers holding withheld liability greater than or equal to $100,000 were required to deposit that amount by the close of the "applicable banking day" following the day on which the withheld amount reached $100,000. For calendar years 1990, 1993 and 1994 the applicable banking day was the first, for calendar year 1991 it was the second, and for calendar year 1992 it was the third. Under this Act, effective for calendar year 1991 and succeeding years, deposits equal to or greater than $100,000 must be made by the close of the next banking day.

Internal Revenue Service (IRS) Initiatives

Increase IRS enforcement funding and initiate management reforms.—To close the gap between taxes owed and taxes paid, additional funding is provided to IRS. These funds are to be used to collect delinquent tax debt, enhance tax document matching to detect underreporting of income and improper dependent claims, audit mortgage interest deductions, and increase the audit workforce. In addition, improvements in the management of tax law enforcement resources will increase revenue yields without requiring additional expenditures. These initiatives are expected to increase receipts $10.2 billion over the 1991–1995 period.

Miscellaneous Provisions

Modify rules relating to interest paid by corporations to the IRS on tax obligations.—Under prior law, the interest rate charged corporations on the underpayment of tax was equal to the short-term Federal rate plus 3 percentage points. Effective for purposes of determining interest for periods after December 31, 1990, regardless of the taxable period to which the underlying tax may relate, the rate is increased to the Federal rate plus 5 percentage points.

Extend statute of limitations for collection of taxes.—Under prior law, the IRS was required to institute collection proceedings within 6 years after an assessment of tax had been made. This Act extends the statute of limitations to 10 years.

Increase the maximum allowable civil penalties for violations of labor laws.—In an effort to provide effective civil penalties, the maximum allowable civil penalties for violations of the Occupational Safety and Health Act are increased seven fold. These fines had not been increased since they were enacted in 1970. The maximum allowable civil penalties for violations of the Federal Mine Safety Act, which had not been increased in 21 years, are increased five fold. In addition, the Fair Labor Standards Act is amended to create a civil penalty ceiling of $10,000 for each violation of some of the provisions relating to child labor.

Permit limited use of excess pension funds to pay current retiree health benefits and modify treatment of employer reversions.—The transfer of excess pension plan assets to pay current retiree health benefits is allowed, effective for transfers occurring in taxable years beginning after December 31, 1990 and before January 1, 1996. The prior law excise tax on any assets that revert to the employer upon plan termination is increased from 15 percent to 20 percent if the employer establishes a qualified replacement plan, or to 50 percent if no replacement plan is established. The higher excise tax is applicable to reversions occurring after September 30, 1990.

RECEIPTS PROPOSALS

Enhance long-term investment.—Long-term investment would be enhanced through expansion of a capital gains differential. Specifically, when fully phased in in 1993, gains from all capital assets held by individuals (other than collectibles) would qualify for an exclusion of 30 percent if held for more than 3 years, 20 percent if held for more than 2 years, and 10 percent if held for more than 1 year. During the balance of 1991, such assets held for more than 1 year would qualify for an exclusion of 30 percent; during 1992, such assets would qualify for an exclusion of 30 percent if held for more than 2 years and 20 percent if held for more than 1 year. Where such exclusions apply, the capital gains rate otherwise applicable will apply to the gain reduced by the exclusion. For example, gains eligible for a 30 percent exclusion of a taxpayer subject to a 28 percent capital gains rate will in effect be taxed at a rate of 19.6 percent. The alternative minimum tax would be applicable to the excluded amounts and assets would be subject to depreciation recapture at ordinary rates. The proposal to enhance long-term investment is shown in Table X–4 and in tables in Part Five as estimated by the Treasury Department's Office of Tax Analysis (OTA). Because the methodological differences among OTA, Congressional estimators, and outside experts have not yet been resolved, totals are presented with the Administration's estimate and with a zero (neutral) entry for this proposal.

Extend medicare hospital insurance (HI) coverage to all State and local government employees.—A minority of the State and local government employees who were hired prior to April 1, 1986 may not be assured of medicare coverage. Because of eligibility through their spouse or short periods of work in covered employment, as many as four out of five State and local employees

Table X–3. **EFFECT OF MAJOR LEGISLATION ENACTED IN 1990 ON RECEIPTS**[1]

(In billions of dollars)

	1991	1992	1993	1994	1995	1996
Omnibus Budget Reconciliation Act of 1990						
Individual income taxes	4.6	10.2	7.8	9.9	10.1	5.3
Corporation income taxes	3.8	2.4	2.7	2.5	2.3	2.8
Social insurance taxes and contributions	4.6	10.5	8.8	11.1	11.7	11.3
On-budget	(4.1)	(8.4)	(6.5)	(8.6)	(9.1)	(8.4)
Off-budget	(0.5)	(2.2)	(2.3)	(2.5)	(2.7)	(2.9)
Excise taxes	12.5	17.1	18.2	19.3	20.0	17.1
Estate and gift taxes	*	–*	–0.1	–0.3	–0.4	–0.7
Customs duties and fees	0.3	0.4	0.5	0.5	0.5	0.5
Miscellaneous receipts	0.2	0.4	0.7	0.7	0.8	0.4
Total, Omnibus Budget Reconciliation Act of 1990	26.0	40.9	38.5	43.7	45.0	36.8
On-budget	(25.5)	(38.8)	(36.2)	(41.3)	(42.3)	(33.9)
Off-budget	(0.5)	(2.2)	(2.3)	(2.5)	(2.7)	(2.9)
Total, Omnibus Budget Reconciliation Act of 1990, net of income tax offsets	22.5	35.2	32.7	37.5	38.6	31.0
On-budget	(22.7)	(33.9)	(31.3)	(36.0)	(36.9)	(28.9)
Off-budget	(–0.1)	(1.3)	(1.4)	(1.5)	(1.7)	(2.0)

* $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.

who contribute nothing to medicare in their current employment are entitled to the full range of medicare benefits. Coverage of these employees, who are the only major group of employees not assured medicare coverage, would correct an inequity in coverage and eliminate this drain on the medicare trust fund. The change is proposed to be effective January 1, 1992.

Improve retail compliance with alcohol special occupational taxes.—To increase compliance rates and revenues, distributors of alcoholic beverages would be required to verify retail compliance with the tax prior to sale.

Increase IRS enforcement funding.—The Administration proposes to increase compliance with the tax code by providing additional funding to IRS. These funds would be used to collect delinquent tax debt and increase the audit workforce.

Extend tax deadlines for Desert Shield participants.—This proposal would extend the time period for filing Federal tax returns, paying Federal tax and taking other actions until 180 days after an individual's participation in the Desert Shield operation comes to an end.

Extend railroad unemployment insurance (UI) reimbursable status.—To prevent public subsidies from being diverted to pay for the high unemployment costs of the private sector railroads, public commuter railroads and Amtrak were exempt from the full railroad unemployment tax rate in 1989 and 1990. Instead, they were required to reimburse the railroad unemployment insurance fund for the actual costs of their employees. Under this proposal the exemption would be extended beyond its current law expiration date.

Increase Department of Housing and Urban Development (HUD) interstate land sales fee.—The Interstate Land Sales Full Disclosure Act gives HUD the responsibility of registering certain subdivisions that are sold or leased across State lines. A fee is charged when a developer files a statement of record about the subdivision with HUD. The fee charged cannot exceed $1,000 for any one developer. Under the current structure, the fees collected cover only a portion of the costs associated with the administration of the program. The Administration's proposal would remove the $1,000 fee limitation to help offset fully the direct administrative costs of the program.

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 and 15-cents per ton for underground mined coal are allocated to States for reclamation grants. Abandoned land problems are expected to exist in certain States after all the money from the collection of fees under current law is expended.

Extend research and experimentation (R&E) tax credit.—The 20 percent tax credit provided for certain incremental research and experimentation expenditures, which was scheduled to expire on December 31, 1990, was extended for 1 year under the Omnibus Budget Reconciliation Act of 1990. The Administration proposes permanent extension of the R&E 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. Under the Omnibus Budget Reconciliation Act of 1990, these rules are extended to apply to taxable years beginning on or before August 1, 1991. The Administration proposes a 1 year extension of these rules.

Establish family savings accounts.—Americans would be encouraged to increase personal savings by being permitted to establish Family Savings Accounts with contributions of up to $2,500 per year (with a limit of two such accounts per family). Contributions would not be deductible but earnings 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 7 years. Earnings on withdrawals within 3 years of contribution would be subject to a 10 percent excise tax. Available investments would be the same as for current Individual Retirement Accounts. Accounts would not be available to single individuals with income exceeding $60,000 or to families with income exceeding $120,000.

Extend health insurance deduction for self-employed.—Under the Omnibus Budget Reconciliation Act of 1990, the 25 percent deduction provided to self-employed individuals for the cost of health insurance expenses was extended through December 31, 1991. The Administration proposes to extend the deduction for 1 year through December 31, 1992.

Extend low-income housing tax credit.—This credit was extended through December 31, 1991 under the Omnibus Budget Reconciliation Act of 1990. A 1-year extension of this credit is proposed.

Extend targeted jobs tax credit.—The Administration proposes to extend the targeted jobs tax credit for 1 year. This credit, which is generally equal to 40 percent of the first $6,000 of qualified first year wages (40 percent of up to $3,000 of wages to any disadvantaged summer youth employees), was extended through December 31, 1991 under the Omnibus Budget Reconciliation Act of 1990.

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 1992, 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 Chapters V.A. and VI.A.

Waive excise tax for certain early withdrawals from Individual Retirement Accounts (IRAs).—Under current law, early withdrawals from a fully-deductible IRA are subject to a 10 percent excise tax (penalty), and included as ordinary income on an individual's tax return. The Administration proposes to waive the 10 percent excise tax for early withdrawals effective January 1, 1991, if the money is used for a first-time home purchase and the home costs no more than 110 percent of the median price of homes. The maximum amount that could be withdrawn without penalty for a first-time home purchase would be $10,000.

Extend business energy tax credits.—The Administration proposes to extend business energy tax credits for solar and geothermal properties for 1 year. These credits are sheduled to expire on December 31, 1991 under current law.

Double and restore adoption deduction.—The Administration proposes to restore and double to $3,000 the special needs adoption deduction, effective January 1, 1992.

Extend taxes to finance the Highway Trust Fund.—The budget contains the Administration's proposal for new 5-year highway and transit programs financed from the Highway Trust Fund. Legislation to enact and finance this program will be transmitted to the Congress. The legislation will be financed by extending the $.09 gasoline tax, the $.15 diesel tax, and other excise taxes dedicated to the Trust Fund that were enacted in 1987 to support the current highway program.

Table X–4. **EFFECT OF PROPOSED LEGISLATION AND ADMINISTRATIVE ACTION ON RECEIPTS**[1]

(In billions of dollars)

	1991	1992	1993	1994	1995	1996
Enhance long-term investment[2]	0.4	3.0	1.7	0.9	1.8	1.7
Extend HI coverage to State and local employees[3]	....	1.1	1.5	1.5	1.5	1.5
Improve retail compliance with alcohol special occupational taxes[3]	....	*	*	*	*	*
Increase IRS enforcement funding	....	*	0.1	0.2	0.2	0.2
Extend tax deadlines for Desert Shield participants	–*	*	*	....	....	....
Extend railroad UI reimbursable status[3]	–*	*	*	*	–*	–*
Increase HUD land sales fee	....	*	*	*	*	*
Extend abandoned mine reclamation fees	....	....	....	....	....	0.3
Extend R&E credit	....	–0.5	–1.0	–1.3	–1.6	–1.8
Extend R&E allocation rules	....	–0.3	–0.3	....	....	....
Establish family savings accounts	....	–0.3	–0.8	–1.3	–1.8	–2.3
Extend health insurance deduction for self-employed	....	–0.1	–0.2	....	....	....
Extend low-income housing tax credit	....	–0.1	–0.2	–0.3	–0.3	–0.3
Extend targeted jobs tax credit	....	–0.1	–0.1	–0.1	–*	–*
Establish enterprise zones	....	–*	–0.2	–0.3	–0.5	–0.8
Waive excise tax for certain early withdrawals from IRAs	....	–*	–0.1	–0.1	–0.1	–0.1
Extend business energy tax credits	....	–*	–*	*	*	*
Double and restore adoption deduction	....	....	–*	–*	–*	–*
Extend Highway Trust Fund taxes[3]	....	....	....	....	....	–2.7
Total effect on receipts	0.4	2.7	0.6	–0.7	–0.9	–4.3
Total effect on receipts with enhance long-term investment at zero	–*	–0.3	–1.1	–1.6	–2.7	–6.0
ADDENDUM						
Effect of proposals on receipts by source:						
Individual income taxes	0.4	2.3	*	–1.2	–0.9	–0.9
Corporation income taxes	....	–0.9	–1.2	–1.2	–1.7	–1.9
Employment taxes and contributions	....	1.2	1.7	1.7	1.7	1.7
Unemployment insurance	–*	*	*	*	–*	–*
Excise taxes	....	0.1	0.1	*	*	–3.5
Miscellaneous receipts	....	....	....	....	....	0.3
Total effect on receipts	0.4	2.7	0.6	–0.7	–0.9	–4.3
Individual income taxes with enhance long-term investment at zero	–*	–0.7	–1.7	–2.1	–2.7	–2.6

A $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] The proposal to enhance long-term investment is shown in Table X–4 and in tables in Part Five as estimated by the Treasury Department's Office of Tax Analysis (OTA). Because the methodological differences among OTA, Congressional estimators, and outside experts have not yet been resolved, totals are presented with the Administration's estimate and with a zero (neutral) entry for this proposal.

[3] Net of income tax offsets.

USER FEES AND OTHER COLLECTIONS

The budget includes all Federal cash flows. Under existing budget concepts, all income to the Government arising from the exercise of its sovereign powers (mainly, but not exclusively, taxes) is classified as governmental receipts and included in the receipt totals. In contrast, any 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.

The preceding pages covered governmental receipts, including compulsory charges. This discussion covers offsetting collections, particularly the Administration's user fee proposals. As shown in Table X–5, 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 $187.4 billion in 1992.

The budget contains a variety of user fee and other offsetting collections proposals that would yield $2.3 billion in 1992 and $12.0 billion over the years 1992 through 1996. Administration proposals establish or increase fees in order to recover more of the costs of providing Government services. Descriptions of these proposals, which are listed in Table X–6, are presented below.

Table X–6 splits the proposals between discretionary and mandatory, indicating which of the Budget Enforcement Act (BEA) requirements apply.

Discretionary.—The discretionary proposals create savings under the BEA's domestic discretionary spending limits.

- *Medicare and medicaid survey and certification.*—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 (FDA).*—Establish fees for FDA review of new product applications, including new and generic drugs, medical devices, biologics, and food and color additives. A portion of these fees would finance expanded FDA activities in these areas. The proposal also includes fees for the registration and inspection of seafood processors.
- *Veterans medical care.*—Permanently authorize the copayment expansion that is scheduled to expire September 30, 1991, enacted in the Omnibus Budget Reconciliation Act of 1990 (OBRA 1990). Establish copayments, subject to means testing, for treatment of non-service-connected illnesses of veterans with service-connected disabilities rated 40 percent or lower.
- *Small Business Administration (SBA).*—Increase guarantee fees on most general business loans from 2 percent to 5 percent, on regular small business investment companies from 1.2 percent to 5 percent, and on development finance companies from 0.5 percent to 1 percent. Savings reflect a reduction in SBA's credit subsidy outlays, rather than increased collections.
- *Hard rock mining claim holding fee.*—Establish an annual holding fee which would require 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

Table X–5. **TOTAL OFFSETTING COLLECTIONS**

(In millions of dollars)

	1990	1991	1992
Collections deposited in receipt accounts:			
Medicare premiums and other charges	11,245	11,844	13,002
Military assistance trust fund property sales	10,293	10,300	10,000
Outer Continental Shelf payments, naval petroleum reserve lease, power administration asset sales, and other undistributed offsetting receipts	3,006	3,729	3,963
Sale of property and services, interest income, and all other collections deposited in receipt accounts	14,831	14,808	15,839
Subtotal, collections deposited in receipt accounts	39,376	40,681	42,804
Collections credited to appropriation accounts:			
Postal Service stamp sales and other collections	32,202	43,150	46,088
Depository insurance funds	32,818	57,146	67,949
Tennessee Valley Authority and power administration collections	8,487	8,922	9,278
Commodity Credit Corporation loan repayments and other collections	10,719	8,476	8,544
Other loan repayments	11,437	12,580	9,459
Loan guaranty and other insurance premiums, interest income, and all other collections credited to appropriation accounts	42,536	45,500	49,347
Subtotal, collections credited to appropriation accounts	144,199	175,773	190,665
Total offsetting collections	183,575	216,454	233,469
Total offsetting collections excluding off-budget Postal Service collections	151,373	173,304	187,381

Table X–6. **PROPOSED USER FEES AND OTHER OFFSETTING COLLECTIONS**

(in millions of dollars)

	1992	1993	1994	1995	1996
Discretionary:					
Medicare and medicaid survey and certification (net)	264	246	246	249	254
FDA product review and seafood inspections	198	205	212	212	212
Veterans medical care copayments	125	131	138	145	152
SBA loan guarantee [1]	86	96	96	96	96
Hard rock mining claim holding	80	80	80	80	80
SEC registration	68	71	73	76	79
FCC licensing and service	65	65	65	65	65
CFTC contract trading	48	51	55	59	63
FEMA regulation of emergency plans	10	10	10	10	10
FCC spectrum auction	—	—	800	1,200	500
Subtotal, discretionary	943	955	1,775	2,192	1,512
Mandatory:					
Elk Hills naval petroleum reserve lease	1,191	–139	–120	–113	–95
Veterans loan origination [1]	122	106	101	101	98
Corps of Engineers recreation site	20	20	20	20	20
Agricultural Marketing Service	13	16	16	17	18
Federal Grain Inspection Service	8	8	8	8	8
Forest Service recreation site	8	8	8	8	8
Pesticide reregistration	3	3	3	3	3
Arctic National Wildlife Refuge leasing	—	1,901	1	1,201	1
Subtotal, mandatory	1,364	1,922	36	1,244	59
Total	2,306	2,876	1,811	3,436	1,571

[1] Savings from credit fees reflect a reduction in subsidy outlays, rather than increased collections.

mining law administration program and finance the collection of the fee itself.

- *Securities and Exchange Commission.*—Increase the registration fee from 1/50 to 1/32 of 1 percent of the dollar value of the offering.
- *Federal Communications Commission (FCC).*—Increase existing licensing and service fees from commercial users. A portion of this increase would be dedicated to the expansion of FCC services.
- *Commodities Futures Trading Commission.*—Establish a transaction fee of 13 cents per contract traded on commodity futures and options exchanges.
- *Federal Emergency Management Agency (FEMA).*—Establish fees to cover costs incurred by FEMA (acting as the Nuclear Regulatory Commission's agent) in regulating the evacuation and emergency preparedness plans of nuclear power plants.
- *FCC spectrum auction.*—Approximately 30 megahertz of radio spectrum which the Government currently uses or has reserved would be freed up for private users, whom the FCC will reassign from other frequencies. The spectrum vacated by those private users would be reassigned through auctions beginning in 1994.

Mandatory.—The following mandatory user fee and other offsetting collection proposals create savings for purposes of pay-as-you-go enforcement.

- *Elk Hills naval petroleum reserve.*—The Administration proposes to lease this oil field which is presently operated by the Department of Energy. Bonus payments of $1.0 billion in 1992 and $0.4 billion annually from 1993 through 1996 plus annual royalty payments would more than offset the loss of annual receipts for oil sales that would otherwise be collected by the Government. Under this leasing proposal, discretionary funds that would otherwise have to be appropriated for this program would not be needed.
- *Veterans loan origination.*—Make permanent the .625 percent loan origination fee increase that was enacted as part of OBRA 1990 and is scheduled to expire September 30, 1991. OBRA 1990 effectively raised the origination fee for a no-downpayment loan from 1.25 percent to 1.875 percent. In addition, non-active duty military personnel who use the program more than once would pay a 2.5 percent fee for each additional loan. Savings reflect a reduction in the VA credit subsidy outlays, rather than increased collections.
- *Corps of Engineers.*—Expand the types of user fees collected to include those for day use of developed recreational sites and for all overnight camping sites.
- *Forest Service.*—Expand the types of facilities and services for which fees may be charged at national forest recreation sites. Collections would be dedicated to increased rehabilitation and reconstruction of existing trails and facilities.
- *Agricultural Marketing Service.*—Establish fees paid by local market committees for administrative support provided by the Government for marketing agreements and orders which help stabilize commodities markets. Additionally, establish user fees for tobacco news reports, for the development and assistance of grading standards, and for the

statistical and economic analysis of commodity markets.

- *Federal Grain Inspection Service.*—Establish user fees for standardization and quality assurance activities that support the fee-funded weighing and grain inspection services.
- *Environmental Protection Agency.*—Remove the cap on the amount that may be collected from any one registrant under the existing user fees for pesticide reregistration.
- *Arctic National Wildlife Refuge leasing.*—Certain of these lands would be made available for oil and gas leasing. Receipts from the first lease sale would be in 1993 and the second in 1995.

Detailed Receipts Tables.—A detailed report of governmental receipts by source is presented in Table X–7. Offsetting receipts by type are detailed in Table X–8.

Table X–7. **RECEIPTS BY SOURCE**

(In millions of dollars)

Source	1990 actual	1991 estimate	1992 estimate
Individual income taxes:			
Federal funds:			
Withheld	390,473	415,710	443,146
Other	149,189	155,925	168,327
Refunds	−72,251	−79,362	−84,242
Proposed legislation	—	363	2,288
Total Federal funds net individual income taxes	467,411	492,635	529,518
Trust funds (Catastrophic health insurance)	−527	—	—
Total net individual income taxes	**466,884**	**492,635**	**529,518**
Corporation income taxes:			
Federal funds:			
Existing law	109,556	113,638	122,122
Refunds	−16,510	−18,092	−19,737
Proposed legislation	—	—	−866
Total Federal funds net corporation income taxes	93,046	95,546	101,519
Trust funds:			
Existing law (Hazardous substance superfund)	461	320	394
Refunds	—	—	—
Total Trust funds net corporation income taxes	461	320	394
Total net corporation income taxes	**93,507**	**95,866**	**101,913**
Social insurance taxes and contributions (trust funds):			
Employment taxes and contributions:			
Old-age and survivors insurance (Off-budget)	255,031	269,477	284,865
Disability insurance (Off-budget)	26,625	28,810	30,389
Hospital insurance	68,556	74,037	81,474
Proposed legislation	—	—	1,234
Railroad retirement:			
Social Security equivalent accout	1,387	1,450	1,485
Rail pension fund	2,292	2,400	2,426
Total employment taxes and contributions	353,891	376,175	401,873
On-budget	(72,235)	(77,888)	(86,619)
Off-budget	(281,656)	(298,287)	(315,254)
Unemployment insurance:			
State taxes deposited in Treasury [1]	15,967	15,603	17,186
Federal unemployment tax receipts [1]	5,356	5,297	5,427
Railroad unemployment tax receipts [1]	199	196	139

Table X–7. **RECEIPTS BY SOURCE—Continued**

(In millions of dollars)

Source	1990 actual	1991 estimate	1992 estimate
Proposed legislation	—	−11	2
Railroad debt repayment [1]	112	109	109
Total unemployment insurance	21,635	21,194	22,863
Other retirement contributions:			
Federal employees' retirement—employee contributions	4,405	4,469	4,511
Contributions for non-Federal employees [2]	117	117	116
Total other retirement contributions	4,522	4,586	4,627
Total social insurance taxes and contributions	**380,047**	**401,955**	**429,363**
On-budget	(98,392)	(103,668)	(114,109)
Off-budget	(281,656)	(298,287)	(315,254)
Excise taxes:			
Federal funds:			
Alcohol taxes:			
Distilled spirits	3,807	4,177	4,324
Beer	1,680	1,909	2,012
Wines	267	1,408	1,894
Special taxes in connection with liquor occupations	131	131	131
Proposed legislation	—	—	57
Refunds	−190	−188	−185
Total alcohol taxes	5,695	7,437	8,233
Tobacco taxes:			
Cigarettes	4,014	4,556	4,718
Cigars	40	40	35
Cigarette papers and tubes	2	2	2
Smokeless tobacco	24	24	24
Other	8	8	8
Refunds	−7	−7	−7
Total tobacco taxes	4,081	4,623	4,780
Manufacturers' excise taxes:			
Firearms, shells, and cartridges	98	100	103
Pistols and revolvers	41	44	46
Bows and arrows	13	14	15
Gas guzzler	90	175	198
Motor boat	1	110	132
Refunds	−11	−33	−33
Total manufacturers' excise taxes	232	410	461
Miscellaneous excise taxes:			
General and toll telephone and teletype service	2,995	3,251	3,174
Wagering taxes, including occupational taxes	9	10	10

Table X-7. **RECEIPTS BY SOURCE—Continued**

(In millions of dollars)

Source	1990 actual	1991 estimate	1992 estimate
Employee pension plans	200	184	184
Tax on foundations	180	189	198
Foreign insurance policies	103	98	100
Ship departure tax	5	9	11
Ozone depletion tax	360	1,250	1,136
Luxury tax	—	252	403
Refunds	–25	–20	–10
Total miscellaneous excise taxes	3,827	5,223	5,206
Undistributed Federal tax deposits and unapplied collections	1,756	3,224	3,525
Total Federal fund excise taxes	15,591	20,918	22,206
Trust funds:			
Highway:			
Gasoline	9,371	11,778	12,234
Trucks, buses, and trailers	1,112	1,049	1,379
Tires, innertubes, and tread rubber	255	315	328
Diesel fuel used on highways	3,240	3,631	3,822
Use-tax on certain vehicles	584	580	598
Fines	7	4	4
Refunds	–701	–540	–589
Total highway trust fund	13,867	16,817	17,776
Airport and airway:			
Transportation of persons	3,219	4,359	4,932
Waybill tax	181	236	262
Tax on fuels	140	139	149
International departure tax	178	254	273
Refunds	–18	–24	–31
Total airport and airway trust fund	3,700	4,964	5,585
Aquatic resources trust fund	218	150	154
Black lung disability insurance trust fund	665	627	649
Inland waterway trust fund	63	60	70
Hazardous substance superfund trust fund	818	816	815
Oil spill liability trust fund	143	243	240
Post-closure liability trust fund	–1	–12	—
Vaccine injury compensation fund	159	118	124
Leaking underground storage tank trust fund	122	109	149
Total trust fund excise taxes	19,754	23,892	25,562
Total excise taxes	**35,345**	**44,810**	**47,768**
Estate and gift taxes	**11,500**	**12,241**	**13,265**
Customs duties and fees:			
Federal funds	16,497	17,142	18,614
Trust funds	210	556	681
Total customs duties and fees	**16,707**	**17,698**	**19,295**
Miscellaneous receipts: [3]			
Miscellaneous taxes	117	152	158
Deposit of earnings, Federal Reserve System	24,319	23,384	20,741
Fees for permits and regulatory and judicial services:			
Immigration, passport, and consular fees	282	305	373
Patent and copyright fees	1	*	*
Registration and filing fees	472	517	524
Coal mining reclamation fees	242	241	248
Miscellaneous fees for permits, licenses, etc	3	21	41
Miscellaneous fees for regulatory and judicial services	148	213	292
Fees for legal and judicial services	107	42	42
Total fees for permits and regulatory and judicial services	1,254	1,340	1,520
Fines, penalties, and forfeitures	1,492	1,217	1,353
Restitutions, reparations, and recoveries under military occupation	13	2	2
Gifts and contributions	123	91	82
Refunds and recoveries	–2	50	50
Total miscellaneous receipts	**27,316**	**26,236**	**23,907**
Total budget receipts	**1,031,308**	**1,091,440**	**1,165,029**
On-budget	(749,652)	(793,153)	(849,775)
Off-budget	(281,656)	(298,287)	(315,254)
MEMORANDUM			
On-budget:			
Federal funds	634,107	667,924	712,365
Trust funds	255,182	273,050	293,446
Interfund transactions	–139,638	–147,821	–156,036
Total on-budget	749,652	793,153	849,775
Off-budget (trust funds)	281,656	298,287	315,254
Total	**1,031,308**	**1,091,440**	**1,165,029**

* $500 thousand or less.

[1] 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.

[2] 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.

[3] Includes both Federal and trust funds. Trust fund amounts in miscellaneous receipts are: 1990, $233 million; 1991, $242 million; and 1992, $242 million.

Table X–8. **OFFSETTING RECEIPTS BY TYPE**

(In millions of dollars)

Type	1990 actual	1991 estimate	1992 estimate
INTRAGOVERNMENTAL TRANSACTIONS			
Intrabudgetary transactions:			
Federal intrafund transactions:			
Distributed by agency:			
Interest from the Federal Financing Bank	13,731	16,137	18,552
Interest on Government capital in enterprises	4,061	4,211	3,470
Other	107	1,774	974
Total Federal intrafunds	17,899	22,123	22,995
Trust intrafund transactions:			
Distributed by agency	65	1	1
Total intrafund transactions	17,964	22,124	22,996
Interfund transactions:			
Distributed by agency:			
Federal fund payments to trust funds:			
Contributions to insurance programs:			
Military retirement fund	10,596	10,782	11,402
Supplementary medical insurance	33,210	34,730	37,724
Hospital insurance	798	601	748
Railroad social security equivalent fund	2,568	2,804	2,932
Rail industry pension fund	181	97	196
Civilian supplementary retirement contributions	17,989	18,830	19,724
Unemployment insurance	317	327	427
Other	138	417	441
Miscellaneous payments:			
Other	309	1,040	225
Subtotal	66,107	69,628	73,819
Trust fund payments to Federal funds:			
Repayment of loans or advances to trust funds	2,577	2,594	2,774
Charges for services to trust funds	145	210	208
Other	257	644	598
Subtotal	2,979	3,448	3,579
Total interfunds distributed by agency	69,086	73,076	77,398
Undistributed by agency:			
Employer share, employee retirement (on-budget):			
Civil service retirement and disability insurance	5,953	6,409	6,897
Hospital insurance (contribution as employer) [1]	1,780	1,821	1,926
Military retirement fund	16,324	16,254	16,161
Other Federal employees retirement	79	80	178
Total employer share, employee retirement (on-budget)	24,135	24,565	25,163
Interest received by on-budget trust funds	46,416	50,179	53,476
Total interfund transactions undistributed by agency	70,552	74,745	78,638
Total interfund transactions	139,638	147,821	156,036
Total intrabudgetary transactions	157,602	169,944	179,032

Table X–8. **OFFSETTING RECEIPTS BY TYPE—Continued**

(In millions of dollars)

Type	1990 actual	1991 estimate	1992 estimate
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	4,707	5,527	5,847
Undistributed by agency:			
Employer share, employee retirement (off-budget)	5,567	5,827	6,231
Interest received by off-budget trust funds	15,991	20,164	23,733
Total payments by on-budget accounts to off-budget accounts	26,266	31,518	35,811
Payments by off-budget accounts to on-budget accounts:			
Intrafund transactions from off-budget accounts:			
Distributed by agency:			
Payments to railroad retirement [2]	3,049	3,583	3,339
Total Intrafund transactions from off-budget accounts	3,049	3,583	3,339
Interfund transactions from off-budget accounts:			
Distributed by agency:			
Interest payments to the Treasury	1,082	400	—
Undistributed by agency:			
Employer contributions to FHI	373	388	420
Retirement contributions	3,536	4,584	5,003
Total payments by off-budget accounts to on-budget accounts	8,040	8,955	8,762
Intratrust transactions between off-budget accounts:			
Distributed by agency:			
Total intragovernmental transactions	**191,908**	**210,417**	**223,606**
PROPRIETARY RECEIPTS FROM THE PUBLIC			
Distributed by agency:			
Interest:			
Interest on loans, Foreign Assistance Act	346	301	269
Other interest on foreign loans and deferred foreign collections	868	931	961
Interest on deposits in tax and loan accounts	1,362	1,380	1,150
Other interest (domestic—civil) [3]	336	270	490
Total interest	2,912	2,882	2,870
Rents:			
Rent and bonuses from land leases, etc	10	42	44
Rent of land and other real property	36	47	48
Rent of equipment and other personal property	11	14	14
Total rents	57	103	106
Royalties	883	1,089	1,038

Table X–8. **OFFSETTING RECEIPTS BY TYPE—Continued**

(In millions of dollars)

Type	1990 actual	1991 estimate	1992 estimate
Sale of products:			
Sale of timber and other natural land products	1,349	1,296	1,288
Sale of minerals and mineral products	576	654	524
Sale of power and other utilities	775	799	987
Sale of other products [3]	4	*	*
Recovery of mint manufacturing expense	52	141	61
Total sale of products	2,756	2,890	2,860
Fees and other charges for services and special benefits:			
Medicare premiums and other charges (trust funds)	11,245	11,834	12,984
Nuclear waste disposal revenues	576	563	564
Veterans life insurance (trust funds)	398	402	371
Other	2,848	2,937	3,303
Total fees and other charges	15,068	15,735	17,222
Sale of Government property:			
Sale of land and other real property [3]	92	109	109
Sale of equipment and other personal property:			
Military assistance program sales (trust funds)	10,293	10,300	10,000
Sale of scrap and salvage material	90	83	—
Total sale of Government property	10,474	10,492	10,109
Realization upon loans and investments:			
Dollar repayments of loans, Agency for International Development	452	430	449
Foreign military credit sales	232	231	384
Negative loan subsidies	—	—	376
Dollar conversion of foreign currency	26	26	26
Repayment of loans to United Kingdom	94	96	98
Other [3]	193	195	199
Total realization upon loans and invesments	997	977	1,532

Table X–8. **OFFSETTING RECEIPTS BY TYPE—Continued**

(In millions of dollars)

Type	1990 actual	1991 estimate	1992 estimate
Recoveries and refunds [3]	510	930	1,105
Miscellaneous receipt accounts [3]	1,373	1,853	2,000
Total proprietary receipts from the public distributed by agency	35,031	36,952	38,841
Undistributed by agency:			
Other interest: Interest received from Outer Continental Shelf escrow account	2	—	—
Rents and royalties on the Outer Continental Shelf:			
Rents and bonuses	712	1,102	468
Royalties	2,292	2,627	2,219
Sale of major assets	—	—	85
Other undistributed offsetting receipts	—	—	1,191
Total proprietary receipts from the public undistributed by agency	3,006	3,729	3,963
Total proprietary receipts from the public [4]	**38,038**	**40,681**	**42,804**
OFFSETTING GOVERNMENTAL RECEIPTS			
Defense cooperation	—	15,000	—
Total offsetting receipts	**229,945**	**266,098**	**266,409**

* $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:

	1990 actual	*1991 estimate*	*1992 estimate*
Federal funds	14,545	16,824	17,892
Trust funds	23,493	23,857	24,914
Off-budget	*	—	—

XI. TAX EXPENDITURES

XI. TAX EXPENDITURES

The Congressional Budget Act of 1974 (Public Law 93–344) requires that a list of tax expenditures be included in the budget. This Act identifies tax expenditures as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of liability."

Tax expenditures are one means by which the Federal Government pursues public policy objectives and, in many cases, can be regarded as alternative means of achieving the same objectives pursued by other Government policy instruments such as direct expenditures and regulations. There are numerous examples of the similarity in objective between tax expenditures and direct outlays. For instance, the cost of medical care is reduced both by direct Government expenditures for the medicare and medicaid programs and by the exclusion from individual taxpayer income of the medical insurance premiums that employers pay for their employees. State and local governments benefit both from direct grants and from the ability to borrow funds at tax-exempt rates. Individuals benefits both from social security payments and from the exemption of most of these payments from tax.

Tax expenditures ordinarily result from enacted legislation. They therefore are not submitted to Congress each year and do not routinely receive a formal and systematic annual review. In this sense, they share a legislative status with entitlement programs that do not require annual appropriations (such as social security). Tax expenditures, however, are generally reviewed whenever significant policy decisions are made about the overall level of tax receipts.

The Omnibus Budget Reconciliation Act of 1990 (OBRA) has affected some of the tax expenditures in this year's budget. While the top statutory rate on ordinary income is 31 percent, the rates on capital gains are limited to 28 percent. The earned income tax credit was expanded and included a new credit for child health insurance. A new tax credit for access expenditures for the disabled was introduced. Other relevant changes were revisions of the income tax rates and minor modifications to and extensions of other tax preferences.

Alternative Tax Expenditure Estimates

A tax expenditure is defined as an exception to the baseline provisions of the tax structure. The Act does not, however, specify the baseline provisions of the tax law. Deciding whether provisions are special or preferential exceptions therefore, is a matter of judgement. One baseline is the "normal" tax measure, used by the Joint Committee on Taxation. The other baseline is the "reference" tax law, which has been used since 1983. As in prior years, this year's tax expenditure estimates will be presented using both baselines.

Normal Tax Baseline.—The normal tax structure is patterned on a comprehensive income tax. Such a tax defines income as the sum of consumption, taxes, and the change in net wealth in a given period of time. The normal tax is not limited to a particular structure of tax rates, or by a specific definition of the taxpaying unit. It not only allows personal exemptions and a standard deduction, but also allows deduction from gross income of the expenses incurred in earning it. The normal tax structure, however, does make several major departures from a pure comprehensive income tax. For example:

- Under a comprehensive income tax, income is taxable as it accrues; under the normal tax, income is taxable when realized in exchange. Thus, with a normal tax baseline, the deferral of tax on unrealized capital gains, as under present law, is not regarded as a tax expenditure.
- Under a comprehensive income tax, all income is subject to tax whether it is self-produced and consumed or produced for exchange with others. The normal tax baseline includes only income realized in exchange with others. Thus, the exclusions from tax of the rental value of owner-occupied housing and farmers' consumption of their own produce, as under present law, are not regarded as tax expenditures when the normal tax is the baseline.
- Under a comprehensive income tax, there is no separate corporation income tax; corporate equity income is taxed only once—to shareholders whether or not distributed in the form of dividends. But the normal tax baseline includes a separate corporation income tax, levied at a flat rate equal to the highest statutory corporate income tax rate. Thus, with a normal tax baseline, rather than considering the corporate tax a "negative tax expenditure" or tax penalty, the lower rates on the first $75,000 of corporate income give rise to a tax expenditure.
- Under a comprehensive income tax, the income measure would adjust the cost basis of capital assets and debt for changes in the price level during the time assets are held. Consequently, the failure to take account of inflation in measuring depreciation, capital gains, and interest income would be regarded as a negative tax expenditure, and failure to take account of inflation in measuring interest costs would be regarded as a positive tax expenditure. Under the normal tax baseline, however, these inflation adjustments are not made.

Notwithstanding these exceptions, the normal tax concept can be thought of as a practical compromise with the ideal of a comprehensive income tax, one that avoids certain complexities while preserving the general idea.

Reference Law Baseline.—Beginning with the 1983 budget, the Administration has used the "reference law" baseline to identify tax expenditure provisions.

Reference law is the set of generally applicable, statutory income tax accounting rules, i.e., rules for measuring income subject to tax. Like the normal tax baseline, the reference law accepts realization accounting principles, the existence of a separate corporation income tax, and the absence of inflation adjustments in the measurement of capital income as part of the baseline.

Unlike the normal tax baseline, however, the reference law baseline includes the statutory schedule of corporation income tax rates, the "capital gain"/"ordinary income" distinction, and several capital cost recovery allowances. Thus, under the reference law baseline there are:

- No tax expenditures for corporation income tax rates below the maximum statutory rate.
- No general capital gain tax expenditures; only the statutory definition of otherwise "ordinary income" events, such as timber cutting, coal and iron ore royalties. Also, the sale of certain agricultural products occasion a tax expenditure entry when capital gains tax rates are preferentially lower.
- No "accelerated depreciation" tax expenditures; only specified exceptions to otherwise applicable depreciation and mineral cost recovery schedules give rise to tax expenditures.

Under the reference tax law baseline, entries in the tax expenditure budget closely conform to budget categories. Reference law tax expenditures measure "taxes otherwise due" the Government were it not for special exceptions in the tax code. These special exceptions have the characteristic that they serve programmatic functions, just as direct outlays for national defense, health care, or farm subsidies do. These tax expenditures, therefore, are the equivalents of direct outlays from the standpoint of the budget. It is generally the case that while tax expenditures under the normal tax baseline are also considered tax expenditures under the reference law baseline, the reverse is not true. Hence, not all departures from the normal tax base are financially equivalent to direct outlays.

Adopting the reference law as the baseline for tax expenditure measurement does not imply the reference law to be "ideal." Whether the generally applicable reference law rules for measuring the tax base and the schedules of personal, corporate, and capital gains tax rates are in accord with economic income measurement and allocative efficiency, and whether they fairly distribute the burden of taxation are matters of tax policy to be dealt with as such in the process of improving the efficiency and fairness of the tax system, and are not "expenditure policies."

Comparison of Reference Tax Rules and the Normal Tax Standard.—The differences between the reference tax rules and the normal tax baseline include:

1. Definition of the taxpaying unit. The taxpaying units are the same in the normal and reference tax structures, with one major exception.[1] In the normal tax, controlled foreign corporations are not regarded as entities separate from their controlling U.S. shareholders. Therefore, the deferral of tax on income received by controlled foreign corporations is regarded as a tax expenditure. In contrast, except for tax haven activities, the reference tax rules follow the current tax system in treating controlled foreign corporations as separate taxable entities whose income is not subject to U.S. tax until distributed to U.S. taxpayers. Under that definition of the tax unit, deferral of tax on controlled foreign corporation income is not a tax expenditure because U.S. taxpayers generally are not taxed on accrued, but unrealized, income.

2. Tax rate schedules. Separate schedules apply to the various taxpaying units. These schedules are included in the reference tax system. The normal tax system is similar, except that it specifies a single rate (the current maximum rate) on corporate income. The lower tax rates applied to the first $75,000 of corporate income are thus regarded as a tax expenditure.

Since 1987, an alternative minimum tax (AMT) has been in effect. This tax, levied at a flat rate on a tax base derived by specific tax accounting rules, is payable whenever the AMT exceeds the regular income tax liability, as determined by regular applicable income tax accounting rules.

3. General accounting rules for determining 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 has always defined gross income to include: (1) consideration received, both within the United States and abroad, 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.[2] 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. Gross income does, however, include transfer payments associated with past employment, such as social security benefits. The normal tax baseline also excludes from gross income gifts between individuals. 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.

[1] The Internal Revenue Code identifies as taxpaying units individuals (single, married, head of household), corporations (except those electing subchapter S treatment), cooperatives, real estate investment trusts, and other financial organizations that attribute their income to members in whose hands it is taxable, as well as trusts and estates (to the extent income is not distributed to beneficiaries). Certain otherwise taxable corporations and associations whose activities and ownership meet the requirements of section 501 are exempt from income tax, as are Government-owned enterprises encompassed by section 115.

[2] Such income included interest, dividends, rents, royalties, and the taxpayer's share of the profits of partnerships, subchapter S corporations, and cooperatives.

The costs of earning income are deductible in determining taxable income under the reference and normal tax rules. These costs include: (1) expenses incurred in earning income from personal service (not including expenditures on goods and services for personal use); (2) costs of earning income incurred by a taxpayer's trade or business, including costs of goods sold[3] and an allowance for physical capital used up;[4] and (3) interest paid creditors who have advanced funds to help finance the ownership and use of assets by the trade or business.

In the cases of individuals who hold "passive" equity interests in businesses, the pro rata shares of sales and expense deductions reportable in a year are limited. A passive business activity is defined 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.

With one exception, both the reference and normal tax law standards have incorporated the general statutory provisions governing allowable deductions. The exception is the rule for determining tax depreciation allowances. Under the reference tax law standard, the accelerated cost recovery system (ACRS) allowances for property placed in service before January 1, 1987, serve as the baseline. The system of depreciation allowances provided by the Tax Reform Act of 1986 is the reference tax law baseline for investments placed in service beginning with January 1, 1987. Thus, under the reference tax law standard, there are no tax expenditures from accelerated depreciation.

Under the normal tax baseline, however, the depreciation allowance for personal property is determined by using statutory accelerated methods[5] over tax lives equal to mid-values of the asset depreciation range.[6] The baseline for real property is computed using 40-year straight-line depreciation. Consequently, from 1981 through 1986, the ACRS depreciation provisions generated tax expenditures under the normal tax baseline. The Tax Reform Act of 1986 provided depreciation allowances approximately equal to those in the normal tax baseline for machinery and equipment. Post-1986 investment, therefore, will no longer generate tax expenditures under either standard for investments of this type.

The baseline income tax system also stipulates rules for valuing the exchange of goods and services and specifies when gross income is reportable and when deductions may be taken. On these matters, both the reference and normal tax law standards embody the provisions of enacted law including: (1) valuation is determined at the time transactions occur (realization as opposed to accrual accounting); (2) the market value of services from owner-occupied housing and other durable goods or self-produced income, such as do-it-yourself repairs and maintenance, is excluded; (3) historical costs determine allowable deductions for capital cost recovery and the gain on the sale of an asset (no inflation adjustments); (4) current expenses are deductible from gross income in the period when the transaction is completed, while capital expenditures are recovered by depreciation or depletion deductions over the asset's productive life; and (5) the accounting period used to determine income subject to tax, computing tax due and payable, and the dates when tax must be paid, are those specified under current law.

Both the reference and normal tax law standards accept, without classifying it as a tax expenditure, a tax credit for foreign income taxes paid up to the amount of U.S. income taxes that would otherwise be due. This credit prevents the double taxation of income earned abroad.

Tax Expenditures as Substitutes for Budget Outlays

Under both the normal and reference tax baselines, some tax expenditure provisions can be thought of as substitutes for budget outlays. For example:

- Current law excludes some forms of employee compensation, such as certain military housing and food allowances or employer-paid fringe benefits, from employees' gross income although they are clearly part of an employee's total compensation and are properly deductible from the gross income of the trade or business of employers who are taxable entities. Defense Department outlays for military personnel are lower because part of military compensation takes the form of tax-free housing and food allowances. Excluding this compensation from tax substitutes for the higher direct outlays that would otherwise be required to maintain an equivalent level of compensation. Compensation in this form, if received from another employer, would be subject to tax.
- The interest payments on State and local tax-exempt government are no less income than interest, dividends, rents, and royalties received from other sources, but they are not included in the bondholder's gross income. The tax exclusion for interest paid by State and local governments enables them to obtain funds at lower rates. This exclusion is, therefore, equivalent to an interest subsidy or capital grant to State and local governments on the outlay side of the budget.
- The dividend and interest receipts of pension funds are not included as they accrue in the gross income of the taxable beneficiaries who ultimately receive them; they are reported only when they are paid out as retirement benefits after compounding, in some cases, for many years, at pre-tax interest rates.

The tax exclusion of employer-paid pension, health, and other insurance premiums and the preferred treatment of pension trust income are equivalent to direct

[3] Cost of goods sold includes the compensation of employees and payments for goods and services purchased from other firms, and royalties paid, to the extent the inputs used are allocated to the goods sold.

[4] These costs include depreciation in the case of machinery, equipment, and structures, and depletion in the case of mineral deposits.

[5] Declining balance at double the straight-line rate or sum-of-years digits.

[6] An elective depreciation system in effect from 1971 through 1980.

Federal Government subsidies that would partly pay for private retirement, health, and insurance plans.

The tax laws also permit many deductions from gross income in the derivation of taxable income that have no direct relation to the cost of earning the reported gross income, as the general rule would require. For example:

- Individuals may deduct contributions to charitable, educational, scientific, or religious organizations. Matching grants to qualified organizations based on contributors' support could replace the charitable deductions.
- Some oil, gas, and mineral producers may deduct a percentage depletion allowance that is not limited to recovery of the cost of acquiring the deposit. In addition, some investments in this type of property may be deducted in the year incurred, rather than capitalized and recovered as production ensues. These special rules permit investment costs to be recovered more rapidly than the reference tax rules generally allow. They, in fact, often permit more than the full investment to be recovered tax-free. Direct subsidies paid to mineral producers could replace the preferential treatment of oil and mineral investments.
- Individuals are allowed to deduct mortgage interest from their pre-tax incomes, although they need not report the (imputed) gross income they receive from the housing that the mortgages finance. Expanded Federal mortgage interest subsidy programs could substitute for the deductibility of mortgage interest.

Finally, there are special exceptions to the general rules for determining net income tax due and payable. After a taxpayer has determined his income, taking into account all exclusions and deductions, and has applied the appropriate tax rate schedule, there are still other factors that determine the amount to be paid. For example, the taxpayer may take as credits against tax otherwise due and payable certain amounts determined by expenditures during the tax year on:

- Child and dependent care.
- Newly constructed or substantially rehabilitated low-income housing.
- Incremental research and experimentation.
- Rehabilitation of old and historic structures.

It is not difficult to imagine equivalent outlay programs that would subsidize these activities directly.

The major tax expenditures defined according to the normal tax baseline that are not tax expenditures according to the reference tax rules are: deferral of income of controlled foreign corporations, expensing of research and development expenditures, progressive corporation income tax rates, the difference between statutory depreciation rules (ACRS) for investments made between 1981 and 1986, exclusion of public assistance benefits and of scholarship and fellowship income, and the preferential treatment of capital gains.

Outlay Equivalents

Beginning with the 1983 budget, the Administration introduced the concept of "outlay equivalents" as a substitute for "revenue losses" as measures of the budget impact of tax expenditure programs. This was done to harmonize the tax expenditure budget with the implicit purposes of the budget format as the Federal Government's sources and uses statement. The outlay equivalent measure is calculated to be the amount of outlay that would be required to provide to the taxpayer the same after-tax income that would be received when using the revenue loss measure. This measure allows a comparison of the cost of the tax expenditure with that of a direct Federal Government expenditure.

In many cases, the outlay equivalent tax expenditure estimate differs from the revenue loss estimate for the same tax subsidy. This difference arises when the tax subsidy functions as a Government payment for service and, when this is the case, the outlay equivalent estimate is always larger than the revenue loss estimate. Revenue loss estimates are lower in these situations, because such payments for services are treated as a reduction in a tax that increases the taxpayer's after-tax income. Under either a normal or reference income tax law standard, such payments would instead enter the taxpayer's pre-tax income as Government payments for services.

For some tax expenditures, however, the revenue loss is equivalent to a direct Government outlay. The accelerated cost recovery deductions, for example, result in tax deferrals, the amount of which are the principal of interest-free loans. They also entail consumption expenditures, the tax benefits of which function as price reductions. Since neither the loan principal nor a price reduction enters taxpayers' pre-tax income, the issue of tax exemption does not arise.

Measuring Tax Expenditures

Presenting budget outlays along functional lines is a way of showing how the Federal Government influences the allocation of resources. The functions may be broadly categorized as: (1) the provision of public goods and services; (2) the provision of subsidies; and (3) the payment of transfers. The budget outlays for public goods, such as national defense, are used to acquire the labor and capital services needed to produce such goods. Subsidies, such as those for school lunches, are used to reduce the effective price of the subsidized item. Transfers, such as aid to families with dependent children, are intended to provide a level of income to recipients they would not otherwise achieve.

Functional budget outlay figures measure the resource cost to the Federal Government of accomplishing the program objectives. When functional budget outlay figures are used to evaluate the costs of specific programs, these costs should reflect the pre-tax price of the resources. The market value of the goods and services included in GNP covers indirect taxes (sales and property taxes) as well as before tax incomes of wage earners and property owners.[7] Consistency requires that all budget outlay measures also be stated in pre-tax magnitudes. Outlays for the purchase of goods and

[7]The income of property owners is usually received in the form of rent, interest and profit.

services are generally gross of taxes.[8] Similarly, subsidy outlays in the budget generally enter the gross incomes of sellers of subsidized goods. In some instances, Government purchases (outlays) 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, as noted above, the outlays for certain military personnel allowances are not taxed. If this form of compensation were treated as income taxable to the employee, 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.

The Treasury Department prepared all tax expenditure estimates based upon income tax law enacted as of December 31, 1990. In estimating tax expenditures, it is assumed that the existing tax structure is unchanged. The estimates of tax expenditures conform to the functional budget classification for outlays.

In table XI–1 are shown, side-by-side, the outlay equivalent and the revenue loss estimates of each special tax provision by fiscal year. The revenue loss estimates are displayed separately for corporations and individuals. The outlay equivalent estimates are comparable to the taxable outlay figures in the budget. These entries represent amounts that could be added to the other functional budget outlays while, at the same time, being added to budget receipts to provide a more consistent and comprehensive display of the resource reallocations produced by Federal fiscal measures. The revenue loss estimates are not consistent with direct budget outlays because they do not adjust for the implicit tax liability on certain items, as was noted above.

The tax expenditure estimates are similar to outlays and should not be interpreted as estimates of the increase in Federal receipts or the reductions in budget deficits that would accompany the repeal of the special provisions. There are four reasons why such an interpretation is not possible.

First, the assumed deletion of a tax expenditure may have incentive effects that alter the behavior of individuals, households and firms. These may be either "cross" or "own" effects. Many tax expenditures are not independent of each other. If one subsidy program is repealed or severely curtailed, it is frequently the case that the demand for, and cost of, other Federal subsidy programs will be increased. For example, if the exclusion of employer-paid medical insurance from the gross income of employees were repealed, other tax-exempt forms of compensation, such as employer paid pensions, would probably expand. Consequently, the net effect on the budget of repealing the exclusion of employer-paid medical insurance would not equal the estimated cost of that tax expenditure, but would be smaller after subtracting some increase in tax expenditures for pensions or other fringes. If deductibility of charitable contributions or mortgage interest were severely limited, some taxpayers would contribute less to charitable donees or hold smaller mortgages, with a concomitantly smaller effect on the budget than if no such limits were in force.

Second, tax expenditures are all cleared through individual and corporation tax accounts and, for this reason, their values become interdependent. For example, excluding interest received from State and local governments lowers a taxpayer's taxable income and, in a tax system with progressive tax rates, this can reduce the value of other tax deductions, such as charitable contributions. If the interest exclusion alone were repealed, some taxpayers could be thrust into higher tax brackets, automatically increasing the value of charitable contributions and their budget cost even if taxpayers did not make larger contributions. On the other hand, 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.

Third, the annual value of tax expenditures for tax deferrals, like the outlay figures for government lending programs, is largely prepared on a strict cash receipts and disbursement basis. For example, the annual budget cost of tax deferrals due to the exclusion from employees' gross income of employers' contributions to employee pension plans is the sum of two items: the employers' current year pension plan contributions and the current year pension fund asset earnings. Both accrue to the current benefit of employees, but are not currently included in their gross incomes. If the tax expenditure composed of these two exclusions were repealed, the immediate budget impact would be to tax only the employees on the employers' current-year contributions and the current-year pension fund asset earnings. Only as the existing population of covered employees retired and received their annuities, thereby depleting the stock of asset reserves previously accumulated with untaxed dollars, would the remaining deficit-reducing impact of repealing this tax expenditure be fully registered in the budget.

Finally, repeal of some provisions could affect overall levels of income and rates of economic growth. Consequently, large changes in tax expenditures could be expected to alter projected growth rates for aggregate national income and product and, thus, the tax base over the forecast period. All receipts and expenditures 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 1990–92 outlay equivalent and revenue loss estimates of tax expenditures are displayed by the budget's functional categories in table XI–1. In the appendix table, the major tax expenditures are ranked by the

[8] The payments to vendors and Government employees are gross income to the sellers out of which taxes will be paid as determined by the reference tax law in effect.

fiscal year 1992 total revenue loss estimates. Tax expenditures that are divided into functional categories in table XI–1 are merged in the appendix table, e.g., instead of the three separate entrees for charitable contributions found in XI–1, the table contains one merged entry.

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 principally show the specific tax accounts through which the cost of the program is cleared because the sources of data for estimating tax expenditures are largely corporation and individual income tax returns. Corporations, as such, neither pay tax nor receive Government payments. They are the institutional conduit through which their employees, creditors and stockholders engage in exchanges with customers and the Government. Thus, the exemption from Federal income tax of interest paid by State and local governments provides a subsidy to those governments in the form of lower borrowing rates. Individual and corporate holders of such debt only benefit from the tax exemption to the extent their marginal tax rates exceed the percentage spread between taxable and nontaxable interest rates.

With these caveats in mind, a review follows of the tax expenditure estimates by functional category, as shown in table XI–1, that are departures from both the reference and normal tax law unless otherwise specifically identified. Whenever an item is identified as a tax expenditure under the normal tax rules, but not the reference tax rules, it is indicated by the designation, "Normal tax" in the table. In these cases, a line also appears, designated as "Reference tax," showing that tax expenditures for this item would be zero using the reference tax rules.

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 (FSC).—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 because, under the reference tax rules, corporations chartered and operating in foreign countries are not subject to U.S. income reporting and 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 accounting rules, the currently attributable foreign source pre-tax income from such a controlling interest is subject to U.S. taxation, whether or not distributed. Thus, when the normal tax rule is taken as a 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, that is, an interest-free loan.

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. There are two exceptions. The first is an exception for sales of inventory property that reduces the U.S. tax of exporters. The second exception is for financial institutions and certain financing operations of nonfinancial enterprises 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) expenditures are commonly referred to as investments because their benefits continue to accrue for several years, when they are successful. The characteristics of R&E, however, are such that it is difficult to identify completed, discrete R&E projects to determine whether the completed project is successful and, if it is successful, what its expected life will be. For these reasons, the statutory provision that these expenditures may be currently deducted (expensed) is considered part of the reference law. Under the normal tax standard, the expensing of R&E expenditures is viewed, however, as the source of a tax expenditure. To measure the tax deferral under the pre-1983 method, the "norm" assumed 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 the product of 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 the end of 1991.

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 August 1, 1991.

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 capitalized or 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 not recovered immediately through expensing are deducted over the productive life of the property. Unlike depreciation or cost depletion allowances, percentage depletion deductions are not limited to the cost of the investment. Taxpayers, instead, 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, however, is limited to 50 percent of net income from the property. OBRA increased the allowable deduction for oil and gas from 50 percent to 100 percent of net property income, and also reduced the excess depletion amount subject to the alternative minimum tax. 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.

Capital gains treatment of royalties on coal.—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.—Tax-exempt bond financing for small scale hydroelectric generating facilities expired at the end of 1985. Tax-exempt financing for steam generating or alcohol production facilities was repealed by the Tax Reform Act of 1986. The budget cost of this type of tax-exempt financing will continue, however, until the bonds are retired.

Conservation and new technology credits.—A variety of tax incentives have been available to stimulate energy conservation and encourage conversion to alternative energy sources. All but two of these programs have expired. (The two surviving investment credits will expire after December 31, 1991. They provide a 10 percent credit for investment in solar and geothermal energy facilities.) Notwithstanding expiration, some of these incentive programs continue to have a budget effect. They are carried forward because qualified projects not constructed before the cut-off date, but subject to binding construction contracts, may be placed in service, or credits that were earned, but not taken due to insufficient tax liabilities, may be taken after the expiration dates.

Alternative fuel production credit.—A nontaxable $3 per barrel of oil-equivalent production credit is provided for several forms of alternative fuels for facilities placed in service before December 31, 1992. OBRA extended the credit to additional alternative fuels. As a general rule, it is available as long as the price of oil stays below $29.50 (in 1979 dollars).

Alcohol fuel credit.—Gasohol[9] 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.

[9] A motor fuel composed of at least 10 percent alcohol.

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.—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 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 as is eligible for the investment credit also may 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 need not be 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 at the end of the year, or for capital improvements that would otherwise be capitalized.

Expensing multiperiod livestock and crop production costs.—Farmers are exempted from application of the uniform cost capitalization rules to the production of livestock and crops with a production period of less than two years. 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.[10] 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.[11] Farmers with forgiven debt will be considered insolvent for tax purposes, and thus qualify for income tax forgiveness.

Capital gains treatment of certain income.—While the top statutory rate on ordinary income is 31 percent, the rates on capital gains are limited to 28 percent.

Drought-related relief payments.—Government payments to farmers are part of their taxable incomes in the year received. In 1988, a special exception was provided, allowing the reporting of drought relief payments received in one year to be deferred until the following year.

COMMERCE AND HOUSING CREDIT

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

Special merger rules for financial institutions.—When a corporation becomes insolvent, it may reorga-

[10] Settlement of a debt for an amount less than the principal of a loan.

[11] 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 taxable income is itself forgiven.

nize under special bankruptcy rules. One of the results is that the previous tax accounts of the bankrupt corporation are canceled. This includes previous claims to tax refunds with respect to excesses of allowable tax deductions over gross income, called net operating losses (NOLs).

A special exception to this rule was provided to aid in the reorganization of troubled (insolvent) savings and loan (or thrift) institutions whose deposits were insured by the Federal Savings and Loan Insurance Corporation (FSLIC). An acquisition of an insolvent bank, if certified by FSLIC, could be treated as a tax-free reorganization. The normal requirement of continuity of ownership in the merged organization was waived to make possible the future claim of tax refunds with respect to the acquired insolvent bank's NOLs. The value of preserving these claims to tax refunds reduced the cost FSLIC would otherwise have had to bear as insurer of the insolvent bank's deposits. This provision was repealed in August 1989 with the enactment of the savings and loan rescue and reform legislation.

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.

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

Interest on consumer debt.—Deductions allowed individuals for interest paid on consumer credit are being phased out. Only 10 percent is deductible in 1990, and none in 1991 and thereafter.

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 December 31, 1991. The budget cost of these bonds continues as long as they are outstanding.

Mortgage housing bonds.—Interest on all mortgage revenue bonds issued before January 1, 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 State-by-State ceilings under a unified volume cap which also covers student loan bonds and IDBs.

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.

Limits on private activity tax-exempt bonds.—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 was set at $50 per capita or a minimum of $150 million for each State.

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.

Deferral of gains from sale of broadcasting facility to minority owned business.—The voluntary sale of appreciated 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 it issues or has issued. 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.—These gains are recognized and taxed only to the extent that the adjusted sales price exceeds the cost of a new home or the new home is not purchased and occupied within two years after the sale. The adjusted sales price is the amount realized (gross proceeds less selling expenses) minus qualified fixing up expenses. If a new house is constructed, it must be occupied within two years after the sale of the previous residence. The deferral of tax with respect to these gains on owner-occupied dwellings 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. This creates a tax preference because it is an exception to the reference tax law.

Investment credit on machinery and equipment.—Although the 10 percent investment tax credit for investment in machinery and equipment was repealed as of the end of 1986, it continues to exert a budget impact for two reasons. First, such credits as had been earned by pre-repeal investments, but which could not be taken because the taxpayer had insufficient tax liability, can be carried forward for 15 years. Second, qualified investments that were subject to a binding contract prior to the repeal date may earn investment credits when they are subsequently delivered and/or placed in service. In both instances, the amount of the credit that may be taken after 1986 is 65 percent of the amount of the pre-repeal credit and, moreover, the credit is fully taxable. The taxpayer must now reduce his recoverable basis in the qualified assets by the full amount of the credit, rather than half, as before repeal.

Accelerated depreciation of real property, machinery and equipment.—As previously noted,[12] the tax depreciation allowance provisions are part of the reference law standard, and thus not a source of tax expenditure entries under the reference method. Under the pre-1983 normal tax standard, however, a 40-year tax life for depreciable real property is the norm, so the statutory depreciation periods in effect since 1987

[12] See the discussion of general accounting rules of the section on the reference tax rules and the comparison to the normal tax standard.

for residential and nonresidential properties of 27.5 and 31.5 years, respectively, give rise to tax expenditures. Moreover, the tax expenditure estimates based on the normal method include not only the continuing budget effects of more accelerated pre-1987 tax allowances for real property, but also those for machinery and equipment.

Safe harbor leasing.—When highly accelerated tax depreciation allowances and enhanced investment tax credits were enacted in 1981, a safe harbor leasing provision was also introduced. Under this provision, a corporation, otherwise unable to utilize the accelerated depreciation allowances and investment credit, might sell to, and then lease from, another corporation assets acquired after December 31, 1981. The terms of such leaseback agreements, absent the safe harbor leasing provision, would not qualify the lessor corporation as the owner of the assets and allow it to utilize the investment incentives for tax purposes. The selling corporation could gain at least part of the financial advantage provided by the investment tax incentives by successfully negotiating leaseback agreements below market costs. Although the provision was repealed in 1982, its budget effects persist for the duration of the safe harbor leases entered into in 1981.

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 norm under the normal method, however, and 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.[13]

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 [14] from these restrictions that includes NOLs and credits claimable prior to April 26, 1988.

Imputed interest rules.—Under reference tax 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.[15]

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.

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.

Tax-exempt bonds for mass commuting vehicles.—Until expiration on December 31, 1984, State and local governments were allowed to issue tax-exempt obligations to finance the purchase of mass transit commuting vehicles for lease to government transit agencies. There will be continued budget effects as long as such bonds are outstanding.

[13] A more detailed discussion is provided under the general accounting rules of the section on the reference tax rules and the comparison to the normal tax standard.

[14] Fifteen years after the NOL or credit claim was first experienced.

[15] Thus, when a borrower on December 31, 1988, issues a promise to pay $1,000 plus interest at 10 percent on December 30, 1989, 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 1989, as the case may be.

COMMUNITY AND REGIONAL DEVELOPMENT

Five-year amortization of housing rehabilitation.—Until it expired on December 31, 1986, taxpayers could elect under certain conditions to amortize rehabilitation expenditures for low and moderate income rental housing over a five-year period in lieu of ACRS depreciation. There will be a continued budget effect from qualified expenditures for which the five-year amortization period had been selected.

Low-income housing investment.—Through 1989, a tax credit for investment in low income housing[16] 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 December 31, 1991, 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.—Until repealed, the interest on IDBs issued by State and local governments to finance airports, docks, wharves, and sports and convention facilities was exempt from tax. 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. There will be continued budget effects as long as bonds that had been issued for private purposes are outstanding.

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 a strictly 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 budget method, the exclusion is not a tax expenditure because the reference tax law does not include either gifts or price reductions in a taxpayer's gross income. However, under the normal budget method, the exclusion is considered a tax expenditure. Under the normal tax standard, 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 $60,000 to $90,000 and $40,000 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 whose contributions to charitable or educational organizations take the form of capital assets can claim their current value as a deduction without the taxation of any appreciation in value. Corporations could also deduct charitable contributions up to 10 percent of their pre-tax income. OBRA excluded from the alternative minimum tax base of individuals the untaxed appreciation of contributed personal property. 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 child care, meals and

[16] New, substantially rehabilitated, and certain unrehabilitated, existing low income housing can qualify for the credit.

lodging provided by an employer for his own convenience is a tax expenditure, as are the exclusion of housing allowances and the rental value of parsonages from the taxable income of ministers.

Until December 31, 1991, an employer may pay for his employees' tuition, fees, books, and supplies; the amounts received under the program are excluded from an employee's gross income. Employer contributions to prepaid legal services plans and the value of legal services received under such plans are also excluded from employee income through December 31, 1991.

Employer Stock Ownership Plan (ESOP) credit.—Before the provision expired in 1986, a corporation could claim a limited tax credit if an equivalent amount of its common stock was set aside in an ESOP plan. The effective subsidy rate for this form of employee compensation exceeds 100 percent. The employer is fully reimbursed for the stock he transfers, and the benefited employees are not required to include this compensation in their current year gross income. This provision will be carried as a tax expenditure until the as yet unrefunded claims to the tax credits have been satisfied.

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 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 before January 1, 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.—OBRA, in expanding the earned income tax credit, provided for a credit equal to 6 percent for certain health insurance expenses for certain policies that cover children. The maximum credit will be $428 in 1991 and is phased out at a rate of 4.285 percent through $21,248 of adjusted gross income.

Untaxed medicare benefits.—The employer's payment of 1.45 percent of employees' wages (up to $125,000 in 1991) 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 and insulin) 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 1991.

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 budget method because, under the normal tax rules, 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 tax baseline. Therefore, under the reference budget 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 amounts set aside by the self-employed and individual contributions to individual retirement accounts (IRAs), are excluded from adjusted gross income in the year of contribution. Self-employed persons can make deductible contributions to their own retirement (defined contribution) plans equal to 25 percent of their income, up to a maximum of $30,000 per year.

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.

Limited amounts ($8,522 in 1991) 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). The investment income earned by pension funds and other qualifying retirement plans is not taxable when earned, and this exemption is, therefore, also a tax expenditure.

Income earned by voluntary employee beneficiary associations.—Generally, the income generated by businesses is subject to income tax. However, the income from business operations conducted by exempt organizations, such as fraternal societies and voluntary employee benefit associations, is exempt from tax.

Employer provided 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 five special income tax provisions for ESOPs are intended to increase employee ownership of the corporations in which they are employed: (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 $850 standard deduction if single, or $650 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 1991, the credit is 16.7 percent (17.3 percent if two or more minors are present) of the first $7,140 of earned income. When the taxpayer's income exceeds $11,250, the credit is phased out at the rate of 11.93 percent (12.36 percent if two or more minors are present) and is completely phased out at $21,242 of adjusted gross income. The credit is increased by a "supplemental young child" credit of 5 percent. The supplemental credit is phased out at a rate of 5 percent of the first $7,140 of earned income and is completely phased out at $21,244 of adjusted gross income. The maximum amount of income on which the 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.

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

(In millions of dollars)

Description	Outlay Equivalents			Revenue Loss					
				Corporations			Individuals		
	1990	1991	1992	1990	1991	1992	1990	1991	1992
National defense:									
Exclusion of benefits and allowances to armed forces personnel	2,280	2,340	2,400	....	....	....	1,955	2,010	2,060
International affairs:									
Exclusion of income earned abroad by United States citizens	1,590	1,655	1,670	....	....	....	1,205	1,255	1,305
Exclusion of income of foreign sales corporations	1,315	1,470	1,655	895	1,000	1,125	....	....	....
Inventory property sales source rules exception	3,780	4,295	4,845	3,780	4,295	4,845	....	....	....
Certain nonfinancial institutions operations interest allocation rules exception	130	135	145	85	90	95	....	....	....
Deferral of income from controlled foreign corporations:									
Normal tax method	300	320	350	300	320	350	....	....	....
Reference tax method	....	....	....	....	....	....	....	....	....
Total (after interactions)	7,115	7,875	8,665	....	....	....	....	....	....
General science, space, and technology:									
Expensing of research and development expenditures:									
Normal tax method	1,750	1,800	1,895	1,720	1,770	1,865	30	30	30
Reference tax method	....	....	....	....	....	....	....	....	....
Credit for increasing research activities	1,625	1,680	1,220	1,115	1,155	835	25	25	15
Suspension of the allocation of research and experimentation expenditures	340	925	370	230	630	250	....	....	....
Total (after interactions)	4,050	4,750	3,795	....	....	....	....	....	....
Energy:									
Expensing of exploration and development costs:									
Oil and gas	–500	–280	–15	–425	–230	–5	–75	–50	–10
Other fuels	45	50	50	40	45	45	5	5	5
Excess of percentage over cost depletion:									
Oil and gas	860	895	925	110	115	120	540	560	580
Other fuels	220	235	255	135	145	155	10	10	10
Capital Gains treatment of royalties on coal	....	10	10	....	....	....	....	5	10
Exclusion of interest on State and local industrial development bonds for energy facilities	315	300	285	255	240	230	....	....	....
Alternative, conservation and new technology credits:									
Supply incentives	110	105	35	75	70	25	....	....	....
Conservation incentives	*	*	*	*	*	*	....	....	....
Alternative fuel production credit	15	60	200	10	35	100	*	10	35
Alcohol fuel credit [1]	*	80	210	*	80	210	....	....	....
Special rules for mining reclamation reserves	50	50	50	45	45	45	5	5	5
Exception from passive loss limitation for working interests in oil and gas properties	245	280	310	....	....	....	180	205	225
Total (after interactions)	970	1,265	1,645	....	....	....	....	....	....
Natural resources and environment:									
Expensing of exploration and development costs, nonfuel minerals	40	45	45	35	40	40	5	5	5
Excess of percentage over cost depletion, nonfuel minerals	415	460	515	300	330	365	20	20	25
Exclusion of interest on State and local IDBs for pollution control and sewage and waste disposal facilities	1,715	1,615	1,510	1,425	1,330	1,240	....	....	....
Tax incentives for preservation of historic structures	145	145	145	50	50	50	95	95	95
Capital gains treatment of iron ore	....	*	*	....	....	....	....	*	*
Capital gains treatment of certain timber income	....	10	15	....	....	....	....	5	10
Expensing of multiperiod timber growing costs	360	400	430	205	225	240	155	175	190
Investment credit and seven-year amortization for reforestation expenditures	215	225	235	40	40	40	170	175	185
Total (after interactions)	2,830	2,840	2,840	....	....	....	....	....	....
Agriculture:									
Expensing of certain capital outlays	495	450	320	60	50	35	435	400	285
Expensing of certain multiperiod production costs	180	160	155	60	55	50	120	105	105
Treatment of loans forgiven solvent farmers as if insolvent	10	15	15	....	....	....	10	10	10
Capital gains treatment of certain income	....	65	100	....	....	....	....	45	70
Deferral of 1988 drought-relief payments	–125	–10	....	....	....	....	–125	–10	....
Total (after interactions)	530	640	555	....	....	....	....	....	....
Commerce and housing credit:									
Exemption of credit union income	605	635	665	430	450	470	....	....	....
Excess bad debt reserves of financial institutions	155	130	145	155	130	145	....	....	....
Special merger rules for financial institutions	5,635	5,720	4,005	3,885	3,945	2,760	....	....	....
Exclusion of interest on life insurance savings	7,925	8,560	8,585	55	85	115	7,265	7,840	7,845
Special alternative tax on small property and casualty insurance companies	*	*	*	*	*	*	....	....	....
Tax exemption of certain insurance companies	25	25	30	15	20	20	....	....	....
Small life insurance company deduction	110	115	135	80	85	100	....	....	....

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

(In millions of dollars)

Description	Outlay Equivalents			Revenue Loss					
				Corporations			Individuals		
	1990	1991	1992	1990	1991	1992	1990	1991	1992
Exemption of RIC expenses from the 2% floor miscellaneous itemized deduction	440	635	755	....	....	....	320	470	560
Deductibility of interest on consumer credit	1,525	605	....	....	....	....	1,525	605	....
Exclusion of interest on small issue industrial development bonds	2,555	2,345	2,115	2,185	1,995	1,795	....	....	....
Exclusion of interest on owner-occupied mortgage bonds subsidy bonds	2,020	1,980	1,870	....	....	....	1,755	1,705	1,600
Exclusion of interest on State and local debt for rental housing	1,315	1,225	1,150	1,060	980	915	....	....	....
Deductibility of mortgage interest on owner-occupied homes	37,580	39,575	40,545	....	....	....	37,580	39,575	40,545
Deductibility of State and Local property tax on owner-occupied homes	9,520	10,490	11,575	....	....	....	9,520	10,490	11,575
Deferral of income from post 1987 installment sales	735	775	815	185	195	205	550	580	610
Capital gains (other than agriculture,timber, iron ore, and coal):									
Normal tax method	....	3,050	4,660	....	....	....	....	2,205	3,370
Reference tax method	....	....	....	....	....	....	....	....	....
Deferral of gains from sale of broadcasting facilities to minority owned business	230	230	260	230	230	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	29,770	32,750	36,020	....	....	....	22,150	24,365	26,800
Carryover basis of capital gains on gifts	125	135	145	....	....	....	125	135	145
Investment credit, other than ESOP's, rehabilitation of structures, energy property, and reforestation expenditures	3,570	2,410	1,205	2,750	1,855	930	....	....	....
Accelerated depreciation on rental housing:									
Normal tax method	1,610	1,495	1,405	1,075	1,000	940	535	495	465
Reference tax method	....	....	....	....	....	....	....	....	....
Accelerated depreciation of buildings other than rental housing:									
Normal tax method	5,975	5,905	5,885	4,305	4,250	4,240	1,670	1,655	1,645
Reference tax method	....	....	....	....	....	....	....	....	....
Accelerated depreciation of machinery and equipment:									
Normal tax method	23,320	18,245	18,810	18,655	14,765	15,565	4,665	3,480	3,245
Reference tax method	....	....	....	....	....	....	....	....	....
Safe harbor leasing rules	–710	–715	–720	–710	–715	–720	....	....	....
Amortization of start-up costs	170	180	190	35	35	35	135	145	155
Reduced rates on the first $100,000 of corporate income:									
Normal tax method	4,670	5,065	5,670	3,080	3,345	3,755	....	....	....
Reference tax method	....	....	....	....	....	....	....	....	....
Exception from passive loss rules for $25,000 of rental loss	9,050	10,020	10,645	....	....	....	6,555	7,260	7,715
Treatment of Alaska Native Corporations	235	170	120	235	170	120	....	....	....
Permanent exceptions from imputed interest rules	125	135	145	*	*	*	125	135	145
Total (after interactions)	145,810	149,830	157,465	....	....	....	....	....	....
Transportation:									
Deferral of tax on shipping companies	125	135	145	125	135	145	....	....	....
Exclusion of interest on State and local government bonds for mass commuting vehicles	35	25	20	15	10	10	....	....	....
Total (after interactions)	160	160	165	....	....	....	....	....	....
Community and Regional Development									
Five-year amortization for housing rehabilitation	10	–5	–20	5	–5	–10	5	*	–10
Credit for low-income housing investments	115	105	95	70	65	60	45	40	35
Investment credit for rehabilitation of structures (other than historic)	550	865	1,155	110	170	230	435	685	915
Exclusion of interest on IDBs for airports, docks and sports and convention facilities	920	930	940	750	745	745	....	....	....
Exemption of certain mutuals' and cooperatives' income	1,065	1,120	1,175	760	800	840	....	....	....
Total (after interactions)	2,645	2,995	3,315	....	....	....	....	....	....
Education, training, employment, and social services:									
Exclusion of scholarship and fellowship income:									
Normal tax method	730	770	810	....	....	....	665	700	735
Reference tax method	....	....	....	....	....	....	....	....	....
Exclusion of interest on State and local student loan bonds	285	275	270	....	....	....	275	255	245
Exclusion of interest on State and local debt for private nonprofit educational facilities	340	355	365	....	....	....	305	315	320
Exclusion of interest on savings bonds transferred to educational institutions	*	5	10	....	....	....	*	5	10
Parental personal exemption for students age 19 or over	460	480	490	....	....	....	410	430	440
Deductibility of charitable contributions (education)	1,695	1,805	1,920	500	525	550	1,195	1,280	1,370
Exclusion of employer provided educational assistance	275	340	100	....	....	....	225	280	80
Total education (after interactions)	3,830	4,075	4,010	....	....	....	....	....	....
Exclusion of employer provided child care	320	380	440	....	....	....	240	290	335
Exclusion of employee meals and lodging (other than military)	830	865	865	....	....	....	750	780	780

Table XI-1. **ESTIMATES FOR TAX EXPENDITURES IN THE INCOME TAX—Continued**

(In millions of dollars)

Description	Outlay Equivalents			Revenue Loss					
				Corporations			Individuals		
	1990	1991	1992	1990	1991	1992	1990	1991	1992
Exclusion of contributions to prepaid legal services plans	85	85	30	....	....	....	70	70	25
Investment credit for ESOPs	100	35	15	85	30	10	....	....	....
Credit for child and dependent care expenses	5,210	5,505	5,810	....	....	....	3,895	4,165	4,395
Credit for disabled acess expenditures	....	85	175	....	50	100	....	10	25
Targeted jobs credit	220	230	205	185	190	175	35	40	30
Total training and employment (after interactions)	6,865	7,290	7,650	....	....	....	....	....	....
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	11,490	12,285	13,135	620	655	690	10,870	11,630	12,445
Exclusion of certain foster care payments	25	25	35	....	....	....	20	20	30
Exclusion of parsonage allowances	240	265	295	....	....	....	195	215	240
Total social services (after interactions)	11,675	12,485	13,340	....	....	....	....	....	....
Grand total (after interactions)	22,370	23,850	25,000	....	....	....	....	....	....
Health:									
Exclusion of employer contributions for medical insurance premiums and medical care	32,205	36,260	41,010	....	....	....	26,360	29,640	33,470
Credit for child medical insurance premiums[2]	....	10	160	....	....	....	....	5	135
Exclusion of untaxed Medicare benefits	7,290	7,515	8,190	....	....	....	5,965	6,145	6,700
Deductibility of medical expenses	2,860	3,025	3,170	....	....	....	2,860	3,025	3,170
Exclusion of interest on State and local debt for private nonprofit health facilities	3,065	3,185	3,295	....	....	....	2,765	2,830	2,895
Deductibility of charitable contributions (health)	1,530	1,635	1,745	305	325	345	1,225	1,310	1,400
Tax credit for orphan drug research	10	10	10	5	5	5	....	....	....
Special Blue Cross/Blue Shield deduction	85	160	185	65	120	140	....	....	....
Total (after interactions)	46,960	51,640	57,580	....	....	....	....	....	....
Income security:									
Exclusion of railroad retirement system benefits	305	310	310	....	....	....	305	310	310
Exclusion of workmen's compensation benefits	2,735	3,010	3,310	....	....	....	2,735	3,010	3,310
Exclusion of public assistance benefits:									
Normal tax method	375	400	425	....	....	....	375	400	425
Reference tax method	....	....	....	....	....	....	....	....	....
Exclusion of special benefits for disabled coal miners	105	105	105	....	....	....	105	105	105
Exclusion of military disability pensions	100	110	120	....	....	....	100	110	120
Net exclusion of pension contributions and earnings:									
Employer plans	60,505	64,040	68,175	....	....	....	45,385	48,035	51,170
Individual Retirement Accounts	8,710	9,085	9,560	....	....	....	6,620	6,905	7,265
Keogh plans	1,900	2,095	2,310	....	....	....	1,460	1,615	1,780
Extending tax exempt organization status to voluntary employee beneficiary and other associations	445	485	530	....	....	....	380	415	450
Exclusion of employer provided death benefits	25	25	30	....	....	....	20	20	25
Exclusion of other employee benefits:									
Premiums on group term life insurance	3,455	3,620	3,790	....	....	....	2,640	2,770	2,900
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)	2,645	2,850	2,935	1,855	1,995	2,055	....	....	....
Additional deduction for the blind	45	45	45	....	....	....	35	35	35
Additional deduction for the elderly	1,880	1,910	1,970	....	....	....	1,565	1,595	1,615
Tax credit for the elderly and disabled	85	90	90	....	....	....	70	70	70
Deductibility of casualty losses	385	310	320	....	....	....	310	250	260
Earned income credit[3]	2,120	2,445	2,985	....	....	....	1,800	2,075	2,540
Total (after interactions)	81,705	86,525	92,400	....	....	....	....	....	....
Social Security:									
Exclusion of social security benefits:									
OASI benefits for retired workers	16,040	17,015	18,000	....	....	....	16,040	17,015	18,000
Disability insurance benefits	1,210	1,300	1,400	....	....	....	1,210	1,300	1,400
Benefits for dependents and survivors	2,995	3,190	3,405	....	....	....	2,995	3,190	3,405
Total (after interactions)	20,245	21,505	22,805	....	....	....	....	....	....
Veterans benefits and services:									
Exclusion of veterans disability compensation	1,580	1,655	1,705	....	....	....	1,580	1,655	1,705
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	320	315	315	....	....	....	270	265	265
Total (after interactions)	2,025	2,095	2,150	....	....	....	....	....	....
GENERAL PURPOSE FISCAL ASSISTANCE									
Exclusion of interest on public purpose State and local debt	14,935	15,885	16,700	2,360	2,445	2,520	10,455	10,970	11,430
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	18,875	19,375	20,405	....	....	....	18,875	19,375	20,405

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

(In millions of dollars)

Description	Outlay Equivalents			Revenue Loss					
				Corporations			Individuals		
	1990	1991	1992	1990	1991	1992	1990	1991	1992
Tax credit for corporations receiving income from doing business in United States possessions	2,860	3,125	3,420	1,945	2,125	2,325	....	....	....
Total (after interactions)	36,670	38,385	40,525	....	....	....	....	....	....
Interest:									
Deferral of interest on savings bonds	965	1,040	1,125	....	....	....	965	1,040	1,125
Addendum—Aid to State and local governments:									
Deductibility of:									
Property taxes on owner-occupied homes	9,520	10,490	11,575	....	....	....	9,520	10,490	11,575
Nonbusiness State and local taxes other than on owner-occupied homes	18,875	19,375	20,405	....	....	....	18,875	19,375	20,405
Exclusion of interest on:									
Public purpose State and local debt	14,935	15,885	16,700	2,360	2,445	2,520	10,455	10,970	11,430
IDBs for certain energy facilities	315	300	285	255	240	230	....	....	....
IDBs for pollution control and sewage and waste disposal facilities	1,715	1,615	1,510	1,425	1,330	1,240	....	....	....
Small-issue IDBs	2,555	2,345	2,115	2,185	1,995	1,795	....	....	....
Owner-occupied mortgage revenue bonds	2,020	1,980	1,870	....	....	....	1,755	1,705	1,600
State and local debt for rental housing	1,315	1,225	1,150	1,060	9,080	915	....	....	....
Mass commuting vehicle IDBs	35	25	20	15	10	10	....	....	....
IDBs for airports, docks, and sports and convention facilities	920	930	940	750	745	745	....	....	....
State and local student loan bonds	285	275	270	....	....	....	275	255	245
State and local debt for private nonprofit educational facilities	340	355	365	....	....	....	305	315	320
State and local debt for private nonprofit health facilities	3,065	3,185	3,295	....	....	....	2,765	2,830	2,895
State and local debt for veterans housing	320	315	315	....	....	....	270	265	265
Total (after interactions)	53,405	55,385	57,775	....	....	....	....	....	....

* $2.5 million or less. All estimates have been 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 $445 million in 1990; $390 million in 1991; and $355 million in 1992.

[2] The figures in the table indicate the effect of the child medical insurance premium credit on receipts. The effect on outlays in 1992 is $550 million.

[3] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays is: 1990, $4,355 million; 1991, $4,855 million; 1992, $6,770 million.

Tax Expenditures in the Federal Unified Transfer Tax

The Federal unified transfer tax replaced the former separate gift and estate taxes in 1977. Exceptions to the general terms of the 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. No additional listings based on departures of the unified transfer tax from a normal tax structure, as discussed earlier for the income tax, are included because of the lack of a generally accepted normative tax structure for transfer taxes.

Unified Transfer Tax Reference Rules

The reference tax rules for the unified transfer tax from which departures represent expenditure-like government programs include:

1. 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.

2. Definition of the tax base and rules of its measurement. The base for the tax is the transferor's cumulative, taxable lifetime gifts made plus the net estate at death.

Gifts that are counted as part of 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.

Although the value of gifts may be split by spouses for tax-reporting purposes, individuals are presumed to maintain their own separate, cumulative transfer tax records. Any gift taxes paid by decedents during their lifetime are added to the amounts of taxable gifts. These, plus the value of the final net estate, are the comprehensive pre-tax measure of the transferred aggregate wealth and thus determine the final transfer tax liability.

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.

3. 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.

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. The transferor must advise them as to what part of the gift or bequest is in excess of the transferor's generation-skipping exemption.

4. Time when tax is due and payable. Donors are required to pay the tax annually as gifts are made. The amount due and payable is the difference between the end-of-year transfer tax liability on the cumulated taxable transfers and the total amount of tax that had been paid previously.

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. Once an extension has been granted, the tax liability may be paid no less rapidly than it would have been due without the extension. 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 1990–92 estimates of tax expenditures in the Federal unified transfer tax are displayed by functional category in table XI–2. Outlay equivalent estimates are similar to revenue loss estimates for transfer tax expenditures and, therefore, are not shown separately.

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: (a) the public for outdoor recreation; (b) protection of the natural habitats of fish, wildlife, plants, etc.; (c) scenic enjoyment of the public; and (d) preservation of historic land areas and structures. Similar conservation gifts are excluded from the gift tax base and, in addition, are 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: (a) the farmland is at least 25 percent of the decedent's gross estate; (b) the entire value of all farm property is at least 50 percent of the gross estate; and (c) 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 exceed 35 percent of the net estates. The interest charged is only 4 percent for the first five years, rather than the standard Federal short-term borrowing rate plus three percentage points, which applies during the last 10 years of the repayment period.

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

(In millions of dollars)

Description	Fiscal Years		
	1990	1991	1992
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:			
ESOP deduction	65	65	*
Tax deferral for payments made by ESOP's	10	10	5
Deduction for charitable contributions (education)	390	440	465
Deduction for charitable contributions (other than education and health)	1,160	1,305	1,380
Health:			
Deduction for charitable contributions (health)	355	400	425
General government:			
Credit for State death taxes	1,920	2,150	2,270
Grand Total (after interactions)	**3,850**	**4,300**	**4,475**

*Less than $ million.

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

Employee Stock Ownership Plan (ESOP) deduction.—Until December 19, 1989, one-half of the proceeds from the sale of employer securities could be excluded from a taxable estate when it was sold by the executor to an ESOP. Employer securities are securities issued by corporations of which the ESOP members are employees. Disposing certain estate assets in this way reduced the cost of settling estates and also increased the supply of employer securities to ESOPs.

Tax deferral for Employee Stock Ownership Plan (ESOP).—Through July 12, 1989, an ESOP to which a decedent had bequeathed employer securities could avail itself of the preferential 15-year deferred tax payment plan previously described. The ESOP had to agree, however, to pay a pro-rata share of the estate tax for which it can be reimbursed by the estate.

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. This tax preference is similar to preferences provided through the income tax.

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.

Proposed Changes in Tax Expenditures

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 Part III, Chapter X.

Appendix

ESTIMATES FOR MAJOR TAX EXPENDITURES IN THE INCOME TAX RANKED BY REVENUE LOSS

(In millions of dollars)

Description	1992
Net exclusion of employer plans pension contributions and earnings	51,170
Deductibility of mortgage interest on owner-occupied homes	40,545
Exclusion of employer contributions for medical insurance premiums and medical care	33,470
Step-up basis of capital gains at death	26,800
Accelerated depreciation (Normal tax method)	26,100
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	20,405
Exclusion of OASI benefits for retired workers	18,000
Deductibility of charitable contributions	16,800
Exclusion of interest on public purpose State and local debt	13,950
Deferral of capital gains on home sales	13,925
Deductibility of State and Local property tax on owner-occupied homes	11,575
Exclusion of interest on life insurance savings	7,960
Exception from passive loss rules for $25,000 of rental loss	7,715
Net exclusion of IRA pension contributions and earnings	7,265
Exclusion of untaxed Medicare benefits	6,700
Inventory property sales source rules exception	4,845
Credit for child and dependent care expenses	4,395
Exclusion of interest on industrial development bonds	4,020
Reduced rates on first $100,000 of corporate income (Normal tax method)	3,755
Preferential treatment of capital gains (Normal tax method)	3,460
Exclusion of social security benefits for dependents and survivors	3,405
Exclusion of capital gains on home sales for persons age 55 and over	3,340
Exclusion of workmen's compensation benefits	3,310
Deductibility of medical expenses	3,170
Exclusion of premiums on group life insurance	2,900
Exclusion of interest on State and local debt for private nonprofit health facilities	2,895
Special merger rules for financial institutions	2,760
Earned income credit[1]	2,540
Expensing (Normal tax method)	2,470
Tax credit for corporations receiving income from doing business in United States possessions	2,325
Exclusion of benefits and allowances to armed forces personnel	2,060
Special ESOP rules (other than investment credit)	2,055
Exclusion of Keogh pension contributions and earnings	1,780
Exclusion of veterans disability compensation	1,705
Additional deduction for the elderly	1,615
Exclusion of disability insurance benefits	1,400
Exclusion of income earned abroad by United States citizens	1,305
Excess percentage over cost depletion, fuel and nonfuel minerals	1,250
Investment credit for rehabilitation of structures (other than historic)	1,145
Deferral of interest on savings bonds	1,125
Exclusion of income of foreign sales corporations	1,125
Investment credit, other than ESOP's, rehabilitation of structures, energy property, and reforestation expenditures	930
Exclusion of interest on State and local debt for rental housing	915
Credit for increasing research activities	850
Exemption of certain mutuals and cooperative income	840
Deferral of income from post 1987 installment sales	815
Exclusion of employee meals and lodging (other than military)	780
Exclusion of scholarship and fellowship and fellowship income (Normal tax method)	735
Exemption of RIC expenses from the 2% floor miscellaneous itemized deduction	560
Exemption of credit union income	470
Extending tax exempt organization status to voluntary employee beneficiary and other associations	450
Parental personal exemption for students age 19 or over	440
Exclusion of public assistance benefits (Normal tax method)	425
Deferral of income from controlled foreign corporations (Normal tax method)	350
Exclusion of empoyer provided child care	335
Exclusion of interest on State and local debt for private nonprofit educational facilities	320
Exclusion of railroad retirement system benefits	310
Exclusion of interest on state and local debt for veterans housing	265
Deductibility of casualty losses	260
Deferral of gains from sale of broadcasting facilities to minority owned businesses	260
Suspension of the allocation of research and experimentation expenditures	250
Exclusion of interest on State and local student loan bonds	245
Exclusion of parsonage allowances	240
Exclusion of interest on State and local industrial development bonds for certain energy facilities	230
Investment credit and seven-year amortization for reforestation expenditures	225
Exception from passive loss limitation for working	225
Alcohol fuel credit[2]	210

ESTIMATES FOR MAJOR TAX EXPENDITURES IN THE INCOME TAX RANKED BY REVENUE LOSS—Continued

(In millions of dollars)

Description	1992
Targeted jobs credit	205
Amortization of start-up costs	190
Exclusion of interest on owner-occupied mortgage bonds subsidy bonds	160
Expensing of certain multiperiod production costs	155
Carryover basis of capital gains on gifts	145
Permanent exceptions from imputed interest rules	145
Tax incentives for preservation of historic structures	145
Excess bad debt reserves of financial institutions	145
Deferral of tax on shipping companies	145
Special Blue Cross/Blue Shield deduction	140
Premiums on accident and disability insurance	135
Credit for child medical insurance premiums [3]	135
Alternative fuel production credit	135
Credit for disabled acess expenditures	125
Treatment of Alaska Native Corporations	120
Exclusion of military disability pensions	120
Exclusion of special benefits for disabled coal miners	105
Small life insurance company deduction	100
Credit for low-income housing investments	95
Certain nonfinancial institutions operations interest allocation rules exception	95
Exclusion of employer provided educational assistance	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

[1] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays is: 1990, $4,355 million; 1991, $4,855 million; 1992, $6,770 million.

[2] In addition, the partial exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts of $445 million in 1990; $390 million in 1991; and $355 million in 1992.

[3] The figures in the table indicate the effect of the child medical insurance premium credit on receipts. The effect on outlays in 1992 is $550 million.