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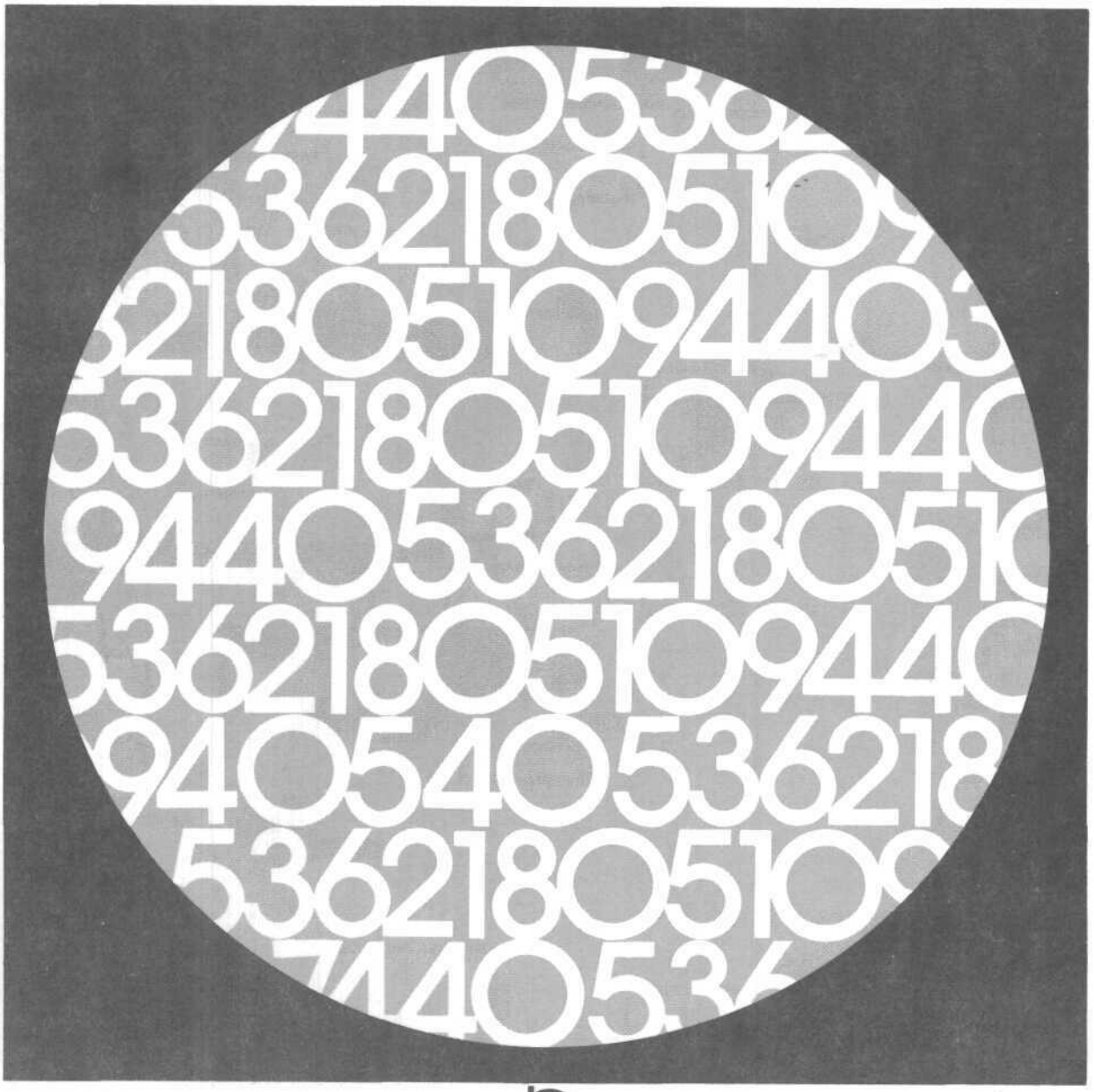
FIVE-YEAR BUDGET PROJECTIONS AND ALTERNATIVE BUDGETARY STRATEGIES FOR FISCAL YEARS 1980-1984

Supplemental Report on Tax Expenditures

As Required by Public Law 93-344



CONGRESS OF THE UNITED STATES

CONGRESSIONAL BUDGET OFFICE

FIVE-YEAR BUDGET PROJECTIONS AND ALTERNATIVE BUDGETARY STRATEGIES FOR FISCAL YEARS 1980-1984
SUPPLEMENTAL REPORT ON TAX EXPENDITURES

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Congressional Budget Office

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PREFACE

This report is a supplement to CBO's Five-Year Budget Projections and Alternative Budgetary Strategies for Fiscal Years 1980-1984, which was issued in January 1979. As required by Section 308(c) of the Congressional Budget Act of 1974, this report projects tax expenditures for fiscal years 1980 to 1984. The report also reviews the impact of the President's proposed changes in the tax expenditure budget, as required by Section 202(f) of the Congressional Budget Act. In accordance with CBO's mandate to provide objective analysis, the report offers no recommendations.

The paper was written by Mark Steitz of the CBO's Tax Analysis Division. The author is grateful for the helpful comments and suggestions of Michael Deich, James Verdier, Paul McDaniel, and Charles Davenport. Patricia H. Johnston edited the manuscript and Linda Brockman typed it.

Alice M. Rivlin
Director

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SUMMARY

Provisions in the tax code that provide preferential tax treatment for certain groups of taxpayers result in revenue losses to the federal treasury. These revenue losses are called "tax expenditures," because they are equivalent to direct payments by the federal government to those taxpayers.

The tax expenditure budget will be $169 billion in fiscal year 1980, about 24 percent of overall federal spending, which includes both tax and direct spending. Assuming no change in tax law, tax expenditures will rise by 59 percent to $269 billion by 1984, an average annual increase of 12.3 percent. The direct outlay side of the budget, by comparison, will increase at an average annual growth rate of 8.2 percent if no change in current law is made.

For the fourth consecutive year, the Congress in 1978 enacted major tax legislation that significantly affects the tax expenditure budget. The Revenue Act of 1978, the Energy Tax Act of 1978, and the Foreign Earned Income Act contained new tax expenditure items (residential and alternative energy credits, among others) and modified numerous existing ones (the increase in the capital gains exclusion, for example). The tax expenditure provisions of these acts will increase the tax expenditure budget by over $9 billion in fiscal year 1980.

In his budget for fiscal year 1980, the President proposed few modifications to the tax expenditure budget. Only his real wage insurance plan would have a significant impact. The President proposed additional tax expenditures as a part of his energy program announced in April. The Congress may also consider "sunset" proposals to require periodic reauthorization of tax expenditure provisions and proposals to limit overall tax spending as part of various budget balancing and spending limitation plans.

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CHAPTER I. INTRODUCTION AND DEFINITIONS

INTRODUCTION

This report presents projections of federal tax expenditures for fiscal years 1980 through 1984. These estimates assume that there will not be any change in the tax law during this period and thus provide a baseline against which the Congress can weigh Presidential and Congressional proposals affecting tax expenditure provisions. This longer-term framework is useful since the full effects of changes in tax expenditure provisions often are not felt until several years after enactment.

The report first defines tax expenditures and discusses their relationship to direct expenditures. Issues in measuring them are then discussed. The report reviews the President's fiscal year 1980 proposals and other tax expenditure issues that may be considered by the Congress, and concludes with five-year estimates of the tax expenditure budget.

DEFINITIONS

Tax expenditures are revenue losses that arise from provisions of the tax code that provide special or selective tax relief to certain groups of taxpayers. These provisions either encourage some desired economic activity or provide special aid to taxpayers suffering unusual hardship. For example, business investment is encouraged by the investment tax credit, and the elderly and the blind receive special financial benefits through extra personal exemptions.

These revenue losses are called tax "expenditures" because they are payments--or expenditures--by the federal government made through a reduction of taxes rather than a direct grant. Just as a forgiveness of debt is equivalent to a payment, so a remission of tax liability is an expenditure.

The financial benefits offered by tax expenditure provisions resemble those available through entitlement programs on the spending side of the budget. There is no legislated ceiling on the overall cost of a tax expenditure; the cost depends solely on the number of taxpayers that meet the eligibility requirements and that take advantage of the provision.

A tax expenditure provision can provide special tax relief in any of the following ways:

- Special exclusions, exemptions, and deductions, which reduce taxable income, and thus result in a smaller tax liability (for example, tax-exempt municipal bond interest or the exclusion from taxable income of 60 percent of all long-term capital gains).

- Preferential rates, which reduce liabilities by applying lower rates to all or part of a taxpayer's income (the special fifty percent maximum tax rate on earned income, for example).

- Special credits, which are subtracted from the tax liability rather than from the income on which the taxes are figured (for example, the investment tax credit).

- Deferrals of tax, which generally result from allowing in the current year deductions that are properly attributable to a future year (for example, accelerated depreciation).

There is general agreement about which provisions of the tax code result in tax expenditures. Except for fiscal years 1975 to 1977, when there was a dispute about four provisions, the tax expenditure budgets presented by the Joint Committee on Taxation, the Department of Treasury and the Congressional Budget Office have included the same provisions.

THE RELATIONSHIP BETWEEN DIRECT AND TAX EXPENDITURES

Many spending programs could be recast as tax expenditure programs, and the goals of most tax programs could be pursued through direct spending. Because tax and direct spending programs are often alternative methods of achieving the same goals, the Congress is becoming increasingly aware of the necessity to compare tax and direct expenditures. For example, both Houses paid

great attention to the comparison between tax and direct spending programs while debating the financing of postsecondary education.[1]

In designing or evaluating a tax subsidy program, the same criteria can be used as those employed in considering a direct spending program:

- o Cost and Efficiency. How much does the program cost? How well targeted is the program, that is, does it reach those and only those it is intended to reach?

- o Fairness and Equity. Is the subsidy benefit fairly distributed? Are the benefits treated equitably under the tax rules?

- o Ease of Administration. How much red tape does the program involve? How detailed are the eligibility limits? Is the agency charged with administering the program experienced in the area? Can it make the necessary evaluations needed to run the program?

- o Budget Visibility and Controllability. Is each program subject to periodic review by the Congress? Are its costs subject to control by the Congress?

These two types of spending should be coordinated as well as compared, since there are substantial interactions between tax and direct expenditures. The level of the tax expenditure budget, for example, depends in part on the magnitude of related direct outlays. A rise or fall in direct expenditures will often result in a change in tax expenditure levels. Tax expenditures that arise from exempting certain federal transfer payments, such as social security benefits and some unemployment compensation, from federal income tax provide a case in point. Increasing outlays for any of these programs would also increase the size of the tax expenditure.

Direct spending programs can also be affected by the size and availability of tax expenditures. The Department of Housing and

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1. For a more complete discussion of this issue, see CBO, Federal Aid to Post-Secondary Students: Jax Allowances and Alternative Subsidies, Background Paper (January 1978).

Urban Development, for example, provides direct subsidies for the construction of housing for low- and moderate-income families. Given the existing levels of direct subsidies, many developers find it profitable to participate in the program only because they are able to supplement these direct subsidies with the benefits provided by tax expenditure provisions that grant favorable tax treatment to rental housing construction costs. A cutback in these tax expenditures, unaccompanied by any increase in direct spending programs, would probably reduce the number of developers who find it profitable to take advantage of the direct subsidy program, and thereby reduce direct subsidy costs.[2]

One difficulty with coordinating tax and direct spending is that these two types of federal expenditures often lie within the jurisdiction of different Congressional committees. All tax expenditures fall within the jurisdiction of the tax-writing committees, the Senate Committee on Finance and the House Committee on Ways and Means. Direct spending programs are within the purview of different authorizing committees and appropriations subcommittees, depending upon the policy areas that the programs address. Only in a few cases, such as social security, are these authorizing committees also the tax-writing committees. Thus, authorization sometimes may occur without careful consideration of related tax expenditures. To assist authorizing committees that may want to consider related tax expenditures, Appendix A classifies tax expenditures by the Congressional committees having authorizing jurisdiction over related direct spending programs.

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2. Congressional Budget Office, Real Estate Tax Shelter Subsidies Direct Subsidy Alternatives, Background Paper (May 1978).

CHAPTER II. MEASUREMENT

The cost of any particular tax expenditure is calculated by assuming that the particular provision is repealed and that all other aspects of the tax system remain the same; the tax expenditure is then equal to the increased revenues that result from the hypothetical repeal. This estimating technique is consistent with those used to estimate the costs of the direct spending programs. Using this general method, the specific techniques used to measure the different types of tax expenditures are as follows:

- Tax credits. The amount of the expenditure is equal to the amount of the credits claimed by those taxpayers eligible for that credit.

- Preferential rates. The expenditure is calculated by multiplying the amount to which the special rate is applied by the difference between the regular tax rate and the preferential tax rate.

- Exclusions and deductions from taxable income. The expenditure is calculated by adding the amount excluded or deducted from taxable income back into the taxpayer's income, and then computing a new tax liability on that income; the tax expenditure is equal to the difference between the hypothetical tax liability so computed and the liability incurred under present law.[1]

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1. In some cases removal of a particular provision would reduce the total of a person's itemized deductions beneath the zero bracket amount (ZEBRA), and he would no longer itemize. The tax expenditure is then figured by taking the excess of total itemized deductions over the ZEBRA and multiplying that excess by the appropriate marginal rate. This is an accurate estimate of the amount by which an individual's liability would increase if the particular provision were repealed.

   For example, suppose a taxpayer has total itemized deductions of $3,600, consisting of $3,200 in mortgage interest

- o **Deferrals of liability.** The expenditure is calculated as the difference between taxes paid under current law and those that would have been paid had the deferral never been allowed.

As was noted before, these estimates are made one at a time, assuming that only the provision in question is repealed. The revenue gain that would result from repealing two or more tax expenditure provisions at the same time, however, is in many cases not equal to the sum of the two estimates in the tax expenditure budget. In the case of nonbusiness itemized deductions, the sum of the two estimates made assuming repeal of each in isolation would sometimes be greater than the revenue gain that would be achieved if both were repealed at once.[2] In most other cases,

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deductions and $400 in medical expense deductions. If the applicable ZEBRA were $3,400, total deductions without the mortgage interest deduction would be only $400, substantially less than the ZEBRA. The person's taxable income would increase by only $200, the difference between his total actual deductions and the ZEBRA. The tax on this $200 increase in income would be the tax expenditure attributable to the mortgage interest deduction.

This technique has been criticized because it differs from that used in spending programs. For example, if a spending program provided new jobs, it would reduce the amount spent on unemployment insurance. The cost of the jobs program, however, is not reduced by the decrease in unemployment insurance that would occur if the jobs program were enacted.

2. This results from the relationship between total itemized deductions and the ZEBRA. Consider the example used in footnote 1. A taxpayer has a total of $3,600 in itemized deduction, consisting of a $3,200 mortgage interest deduction and a $400 medical expense deduction. Repeal of either would result in his using the ZEBRA. When either is repealed alone, his liability would increase by $200 times his marginal rate. Thus, that amount would be estimated for each tax expenditure. Repeal of both of the items would still increase his liability by only $200 times his marginal rate, which is one-half the sum of the individual estimates.

however, the sum of the individual estimates would be less than the revenue gain that would be achieved by repealing both at once.[3]

Because of these differences, the amount of net revenue gain for any proposed combination of changes in the tax expenditure budget would not be the total produced by adding the estimates for each components in the combination. Rather, the revenue gain from repealing more than one tax expenditure at once must be separately estimated.

These differences have caused the grand totals of estimates made one at a time to be a topic of considerable controversy. The controversy centers about the fact that adding all the estimates arrived at separately would not necessarily equal the total that would be achieved if all tax expenditure provisions were repealed in one fell swoop. The interaction of the zero bracket amount (ZEBRA) and itemized deductions would tend to cause the total of the one-at-a-time method to be higher than the all-at-once total; this tendency would be either partially or totally offset by the higher marginal rates resulting from the all-at-once method, however.[4]

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3. This results from the way in which the marginal rate is applied to the amount added back into income. This can be seen most clearly in the case of exclusions. A taxpayer has four exclusions from income of $1,000 each. Assuming one- at a time repeal, the expenditure is calculated by adding each $1,000 back into income and applying the taxpayer's highest marginal rate to that amount. If, however, all four exclusions were added back at the same time, a higher marginal rate would often be applicable to three of the exclusions, thus increasing the size of the revenue gain.

4. No comprehensive estimate of the net difference between the totals of the two methods has been made. The Department of Treasury estimated that there would be a $12 billion difference between the totals for itemized deductions, which account for one-fourth portion of the tax expenditure budget; the one-at-a-time totals for this portion are higher than the all-at-once totals because of the interaction with the ZEBRA. Since the remaining 75 percent of the tax expenditure budget does

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In addition to these estimating difficulties, another factor that should be kept in mind is that "second order" effects of the hepeal of the provisions are not considered when making tax expenditure estimates. Thus, possible changes in the economy resulting from modifications in tax expenditures, and the effects of these changes on revenues in general, are not taken into account in the calculations. Also not considered are other second-order efects resulting from any possible changes in taxpayer utilization of other tax provisions except the ZEBRA. This technique is consistent with the assumptions generally used to estimate direct spending program costs. For example, a spending program that provided for a substantial number of new jobs would no doubt affect the cost of other direct spending programs, such as unemployment insurance benefits; it would also affect overall federal revenues. No attempt, however, is made in the budget cost estimates of such a program to include these second order effects.

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not involve the ZEBRA, the effect of the marginal rate interaction on this portion of the budget could well more than offset the $12 billion dollar difference; no estimate of this effect has been made, however.

CHAPTER III. CURRENT ISSUES

In his fiscal year 1980 budget, President Carter proposed three changes in the tax expenditure budget: real wage insurance, modifying the capital gains treatment of inheritances, and limiting the use of tax-exempt, single-family mortgage bonds. While only his real wage insurance plan would have a substantial impact on the size of the tax expenditure budget in 1980, the other two proposed changes would have a significant effect in three to five years. The President also proposed a series of new tax expenditures as a part of his energy program announced in April. In addition to President Carter's proposals, the Congress may consider proposals to require periodic reauthorization of all tax expenditures (so-called "sunset" legislation) and to limit tax expenditures in conjunction with overall spending limitation proposals.

THE PRESIDENT'S TAX EXPENDITURE PROPOSALS

Real Wage Insurance. As a part of its anti-inflation policy, the Administration proposed a real wage insurance program. Under the plan, groups of employees whose average hourly wages rise this year by 7 percent or less would be eligible for refundable tax credits if the inflation rate exceeded 7 percent. The credit would be equal to one percent of wages for each percentage point by which inflation exceeded 7 percent. Only the first $20,000 of wages would be covered, however, and no credit would be granted for inflation exceeding 10 percent. The maximum credit would thus be $600 (3 percent of $20,000) and would be considered additional compensation and so constitute taxable income.

The Administration estimates that the real wage insurance plan would result in additional tax expenditures of $2.3 billion, plus $0.2 billion in direct outlays for refunds to those whose credits exceeded their liabilities. CBO estimates that the plan would increase tax expenditures by $3.2 billion, plus an additional $0.3 billion in outlays. This higher estimate reflects the combined effects of the higher rate of inflation projected by CBO

and its assumption that fewer workers than the Administration predicts would accept lower wages in response to the plan.

Capital Gains on Inheritances. Under the previous law, all gains made between the time of purchase and the time of inheritance were exempt from tax. In order to close this exemption, the Tax Reform Act of 1976 required inheritances to be subject to capital gains tax from the time of original acquisition by the benefactor,[1] that is, technically, the heir must "carryover" the "basis" of the donor. The Congress delayed the effective date of the provision until December 31, 1979.

The President has proposed modifying the provision to apply only to estates of over $175,000, instead of the $60,000 lower limit set by the Tax Reform Act, thus reducing the number of estates affected to less than 2 percent. This change would increase the tax expenditure budget by less than $1 million in fiscal year 1980, and less than $200 million in 1984.

Single-Family Mortgage Bonds. The proposed change to limit tax-exempt mortgage bond issues has not yet been fully worked out by the Administration. It has been estimated that the revenue loss from these bonds could grow to as much as $2.1 billion by fiscal year 1984 if no legislative limits are placed on their issue.[2]

Energy Tax Credits. In conjunction with his decontrol of domestic oil and windfall profits tax plan, President Carter has proposed three increases in tax expenditures: a shale oil development tax credit, a residential wood stove credit, and additional solar energy credits. The Administration estimates that these new expenditures would cost $100 million in fiscal year 1980 and $400

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1. The Act included a "fresh start" clause that made the basis either the value on December 31, 1976, or the acquisition cost if it was acquired after that date.

2. For a more detailed discussion of this issue, see Tax-Exempt Bonds for Single Family Housing, prepared by CBO for the Subcommittee on the City, House Committee on Banking, Finance and Urban Affairs, 96:1 (April 1979).

million in fiscal year 1982. Under the President's plan, these expenditures would, however, be financed through an Energy Security Fund that would be funded by windfall profits tax revenue.

OTHER TAX EXPENDITURE ISSUES

Proposals for Sunset Legislation. In 1978, both Houses considered proposals that would force periodic review of all government programs, including tax expenditure provisions, by requiring reauthorization at regular intervals. None of these "sunset" proposals passed both Houses of the Congress, but similar legislation has been introduced in the 96th Congress. Subjecting tax expenditures to periodic reauthorization has been a hotly debated issue.

Proponents of sunset review for tax expenditures argue that tax expenditures must be subject to such periodic reexamination for the same reasons as direct spending programs. This device is seen as a way of reviewing, evaluating, and, when appropriate, modifying or eliminating costly and inefficient programs, be they tax or direct spending programs. They further argue that applying the sunset mechanism to tax expenditures is particularly important because, in many cases, these programs are not subject to any other periodic review by the Congress. Proponents also point out that reviewing tax expenditures on the same schedule as related direct spending programs would aid in Congressional evaluation and coordination of tax and direct expenditures.

Opponents claim that using sunset review for tax expenditures would reduce their effectiveness as economic policy tools. If individuals and corporations did not have confidence in the permanence of a tax expenditure provision, it is argued, they would not respond as readily to the economic incentive offered by the provision. Opponents also claim that the technical difficulties in reviewing tax expenditures are so great as to preclude any but the most infrequent reviews. Some also argue that such review would result in a "back door tax increase"--that is, the Congress would eliminate tax expenditures, thus raising liabilities for those who previously took advantage of the provisions, but would not lower overall tax rates to compensate for the increased revenue. Proponents of sunset legislation respond that the objections raised apply equally to direct expenditure programs.

Balanced Budget/Spending Limitation Proposals. Budget limitation proposals are often criticized because they can circumvented by "creative accounting." Some observers see tax expenditures as one way to evade budget limitation proposals. Tax spending is of particular concern when considering spending limitation proposals as opposed to balanced budget proposals. Tax expenditures reduce revenues and so affect the balance of the budget, but unless they were specifically included in a spending limitation proposal they would escape the desired constraint on government intervention in the economy.

Those in favor of including tax expenditures in a spending limitation proposal argue that the only tax subsidies to escape the desired limitation on government spending would be of no value to lower-income individuals. This is because the refundable portion of refundable tax credits--the only tax subsidy that benefits those who do not incur a tax liability--is now considered an outlay, and so would be subject to spending limitation constraints even if tax expenditures were not specifically included.

It has also been argued that tax expenditures must be limited in order to keep the normal tax rates down. Some see the size of the tax expenditure budget as a major contributor to the high current level of taxes. The rationale for this argument is that, if tax spending were decreased, the overall levels of taxation could be cut substantially.

Tax Expenditure Budget Ceilings. Another proposal that may come before the Congress is to alter the way in which tax expenditures are considered in the budget process. It has been suggested that the Congress set explicit tax expenditure ceilings similar to those set for overall spending. These goals would, however, probably have to be set at least a year ahead of time, because of the delay between enactment of a provision by the Congress and its effect on receipts.

CHAPTER IV. TAX EXPENDITURE ESTIMATES

The tax expenditure estimates for the next five fiscal years are shown in Table 1. These estimates were supplied to the Congressional Budget Office by the staffs of the Joint Committee on Taxation and the Department of the Treasury. When these estimates depend on outlays by the federal government, the estimates are consistent with CBO projections for outlay programs. As with the CBO aggregate revenue estimates, the tax expenditure estimates are based on the law in effect as of December 31, 1978. In contrast to the revenue projections, however, the underlying assumption is that any provision that has a termination date will expire on that date.

For easier comparison with direct expenditures, the estimates are grouped under each functional category of the federal budget, and subtotals are shown for each category. The totals of all tax expenditures are shown in Table 2. These are estimated to be $169 billion in fiscal year 1980 and $269 billion in 1984.

Tax expenditures will increase by 59 percent during fiscal years 1980 to 1984, growing at an average annual rate of 12.3 percent. This growth is a result of projected increases in income--both real and inflationary--as well as the increasing effect of many of the changes in the tax law made in 1978. Increases in income cause the level of tax expenditures to rise because, as incomes rise, more income receives special tax treatment. Furthermore, increased incomes push taxpayers into higher marginal tax brackets and so raise the value of some tax expenditure items.

The individual income tax expenditures, which make up 75 percent of the total in fiscal year 1980, will grow at a faster rate than the corporate tax expenditures. The average annual growth rate for individual expenditures is estimated to be 14 percent during fiscal years 1980 to 1984, while the corporate portion will grow at a 9 percent rate.

TABLE 1. TAX EXPENDITURE ESTIMATES BY FUNCTION AND SUBFUNCTION:. BY FISCAL YEARS, IN MILLIONS OF DOLLARS a/

Function and Subfunction	Corporations						Individuals					
	1979	1980	1981	1982	1983	1984	1979	1980	1981	1982	1983	1984
National Defense												
Exclusion of benefits and allowances to Armed Forces personnel	--	--	--	--	--	--	1,370	1,470	1,585	1,715	1,850	2,000
Exclusion of military disability pensions	--	--	--	--	--	--	120	130	135	145	150	160
Subtotal							1,490	1,600	1,720	1,860	2,000	2,160
International Affairs												
Exclusion of income earned abroad by U.S. citizens	--	--	--	--	--	--	530	555	600	645	695	755
Deferral of income of domestic international sales corporations (DISC)	1,170	1,260	1,300	1,400	1,525	1,640	--	--	--	--	--	--
Deferral of income of controlled foreign corporations	530	445	480	520	560	605	--	--	--	--	--	--
Special rate for Western Hemisphere trade corporations	15	5	--	--	--	--	--	--	--	--	--	--
Subtotal	1,715	1,710	1,780	1,920	2,085	2,245	530	555	600	645	695	755
General Science, Space, and Technology												
Expensing of research and development expenditures	1,550	1,745	1,980	2,230	2,490	2,780	30	35	40	45	50	55
Energy												
Expensing of exploration and development costs	1,060	1,160	1,280	1,365	1,475	1,605	430	505	590	675	890	1,025
Excess of percentage over cost depletion	1,190	1,265	1,355	1,440	1,525	1,625	435	485	525	535	540	550
Capital gains treatment of royalties on coal	10	10	10	10	15	15	65	75	90	100	110	115
Residential energy credits	--	--	--	--	--	--	715	435	465	505	555	610
Alternative conservation and new technology credits	220	390	495	595	460	160	b/	b/	b/	b/	b/	b/
Subtotal	2,480	2,825	3,140	3,410	3,475	3,405	1,645	1,500	1,670	1,815	2,095	2,300

Source and footnotes appear at end of Table 1.

(Continued)

TABLE 1. (Continued)

Function and Subfunction	Corporations 1979	1980	1981	1982	1983	1984	Individuals 1979	1980	1981	1982	1983	1984
National Resources and Environment												
Exclusion of interest on state and local government pollution control bonds	200	220	245	270	295	325	215	240	265	290	320	355
Exclusion of payments in aid of construction of water and sewage facilities	10	60	110	110	110	110	--	--	—	—	—	--
5-year amortization on pollution control facilities	£/	£/	15	55	95	90	--	--	—	—	—	—
Tax incentives for preservation of historic structures	5	5	5	5	5	5	5	5	10	10	10	5
Capital gains treatment of certain timber income	315	355	400	440	485	530	90	100	115	125	140	150
Capital gains treatment of iron ore	10	10	10	10	10	10	10	10	10	10	10	10
Subtotal	540	650	785	890	1,000	1,070	320	355	400	435	480	520
Agriculture												
Expensing of certain capital outlays	75	75	80	85	85	90	445	430	475	545	565	585
Capital gains treatment of certain ordinary income	10	10	15	15	15	20	365	385	405	425	445	465
Deductibility of noncash patronage dividends and certain other items of cooperatives	505	540	590	625	670	710	d/	d/	d/	d/	d/	d/
Exclusion of certain cost-sharing payments	—	--	--	--	--	--	b/	30	75	80	80	75
Subtotal	590	625	685	725	770	820	810	845	955	1,050	1,090	1,125
Commerce and Housing Credit												
Dividend exclusion	—	—	—	—	—	--	450	450	470	495	515	540
Exclusion of interest on state and local industrial development bonds	240	280	335	395	455	510	255	305	360	430	490	555
Exemption of credit union income	90	100	115	125	140	155	--	--	--	—	—	—
Excess bad debt reserves of financial institutions	780	855	965	1,015	1,090	1,260	--	--	—	—	—	--

(Continued)

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TABLE 1. (Continued)

Function and Subfunction	Corporations 1979	1980	1981	1982	1983	1984	Individuals 1979	1980	1981	1982	1983	1984
Commerce and Housing Credit (continued)												
Deductibility of mortgage interest on owner-occupied homes	—	—	--	--	--	--	8,225	9,290	10,965	12,935	15,265	18,010
Deductibility of property tax on owner-occupied homes	—	--	--	--	--	--	5,920	6,615	7,675	8,905	10,330	11,980
Deductibility of interest on consumer credit	—	—	--	--	--	--	2,585	2,945	3,475	4,100	4,835	5,705
Expensing of construction period interest and taxes	525	555	585	615	645	675	90	145	165	160	155	150
Excess first-year depreciation	50	50	50	55	55	60	135	135	145	150	160	170
Depreciation on rental housing in excess of straight line	70	65	65	70	70	75	290	285	290	295	305	320
Depreciation on buildings (other than rental housing) in excess of straight line	135	135	140	150	165	185	120	120	125	135	150	165
Asset depreciation range	2,460	2,880	3,400	3,940	4,330	4,300	130	150	180	215	225	225
Capital gains (other than farming, timber, iron ore, and coal)	555	625	725	785	870	965	7,520	10,150	10,905	11,730	12,615	13,580
Deferral of capital gains on home sales	—	—	--	--	--	--	1,125	1,010	1,115	1,225	1,350	1,485
Capital gains at death	—	—	--	--	--	--	9,015	10,005	11,105	12,275	13,555	14,965
Corporate surtax exemption	3,070	135	—	--	--	--	--	—	—	—	—	—
Reduced rates on first $100,000 of corporate income	3,270	6,940	7,425	7,890	8,350	8,735	--	—	--	—	—	—
Investment credit, other than for TRASOPs and for rehabilitated structures	13,405	15,370	17,380	18,965	20,180	21,300	2,665	3,090	3,510	3,870	4,110	4,360
Investment credit for rehabilitated structures	55	120	140	155	170	185	10	60	65	65	65	70
Exclusion of interest on state and local housing bonds	450	680	975	1,320	1,715	2,165	90	140	200	270	350	440
Subtotal	25,155	28,790	32,300	35,480	38,235	40,570	38,625	44,895	50,750	57,255	64,475	72,720
Transportation												
Deductibility of nonbusiness state gasoline taxes	—	—	--	--	--	--	350	—	—	—	—	—

(Continued)

TABLE 1. (Continued)

Function and Subfunction	Corporations 1979	1980	1981	1982	1983	1984	Individuals 1979	1980	1981	1982	1983	1984
Transportation (continued)												
5-year amortization on railroad rolling stock	e/	e/	e/	e/	e/	e/	--	--	--	--	--	--
Deferral of tax on shipping companies	75	70	75	75	80	90	--	--	--	--	--	--
Subtotal	75	70	75	75	80	90	350	—	--	--	--	--
Community and Regional Development												
5-year amortization for rehabilitation of low-income housing	5	5	10	10	10	5	10	10	15	20	15	10
Education, Training, Employment, and Social Services												
Exclusion of scholarship and fellowship income	--	--	--	--	--	--	355	365	375	390	400	410
Parental personal exemption for students age 19 or over	--	--	--	--	--	--	935	1,020	1,025	1,020	1,020	1,020
Exclusion of employee meals and lodging (other than military)	--	--	--	--	--	--	325	350	380	410	445	480
Exclusion of contributions to prepaid legal service plans	--	--	--	--	--	--	15	20	35	10	--	--
Investment credit for employee stock ownership plans (TRASOPs)	385	450	520	600	655	360	--	--	--	--	--	--
Deductibility of charitable contributions (education)	320	355	380	420	455	485	710	795	925	1,070	1,240	1,440
Deductibility of charitable contributions to other than education and health	395	440	475	520	560	600	5,320	5,965	6,920	8,030	9,310	10,805
Maximum tax on personal service income	--	--	--	--	--	--	1,335	1,625	2,030	2,540	3,175	3,970
Credit for child and dependent care expenses	--	--	--	--	--	--	610	705	770	845	925	1,015
Credit for employment of AFDC recipients and public assistance recipients under work-incentive programs	55	120	160	185	215	240	5	40	55	65	70	75

(Continued)

TABLE 1. (Continued)

Function and Subfunction	Corporations 1979	1980	1981	1982	1983	1984	Individuals 1979	1980	1981	1982	1983	1984
Education, Training, Employment, and Social Services (continued)												
General jobs credit	1,035	215	110	55	35	20	860	—	—	—	—	—
Targeted jobs credit	125	345	470	320	85	85	15	135	190	135	—	—
Employer educational assistance	--	--	--	--	--	--	20	30	30	35	40	25
Subtotal	2,315	1,925	2,115	2,100	2005	1,790	10,505	11,050	12,735	14,550	16,625	19,240
Health												
Exclusion of employer contributions for medical insurance premiums and medical care	--	--	--	--	--	--	8,255	9,595	11,150	12,955	15,030	17,490
Deductibility of medical expenses	--	--	--	--	--	--	2,890	3,120	3,525	3,985	4,505	5,090
Expensing of removal of architectural and transportation barriers to the handicapped	10	b/	b/	b/	b/	b/	--	—	—	—	—	—
Deductibility of charitable contributions (health)	195	220	235	260	280	300	1,065	1,195	1,385	1,605	1,865	2,160
Subtotal	205	220	235	260	280	300	12,210	13,910	16,060	18,545	21,400	24,740
Income Security												
Exclusion of social security benefits:												
Disability insurance benefits	--	--	--	--	--	--	615	735	860	1,010	1,175	1,370
OASI benefits for retired workers	--	--	--	--	--	--	5,455	6,430	7,535	8,750	10,115	11,630
Benefits for dependents and survivors	--	--	--	--	--	--	825	940	1,075	1,210	1,365	1,540
Exclusion of railroad retirement system benefits	--	--	--	--	--	--	275	305	345	365	380	390
Exclusion of workmen's compensation benefits	--	--	--	--	--	--	1,035	1,285	1,590	1,975	2,450	3,035
Exclusion of special benefits for disabled coal miners	--	--	--	--	--	--	50	50	50	50	50	50
Exclusion of unemployment insurance benefits	--	--	--	--	--	--	1,780	1,935	2,150	2,095	2,010	1,940

(Continued)

TABLE 1. (Continued)

Function and Subfunction	Corporations 1979	1980	1981	1982	1983	1984	Individuals 1979	1980	1981	1982	1983	1984
Income Security (continued)												
Exclusion of public assistance benefits	--	--	--	--	--	--	355	395	425	455	515	525
Exclusion of disability pay	--	--	--	--	--	--	140	150	155	165	175	185
Net exclusion of pension contributions and earnings:												
Employer plans	--	--	--	--	--	--	11,325	12,925	14,740	16,815	19,175	21,860
Plans for self-employed and others	--	--	--	--	--	--	1,920	2,205	2,535	2,920	3,355	3,860
Exclusion of other employee benefits:												
Premiums on group term life insurance	--	--	--	--	--	--	875	915	950	990	1,030	1,075
Premiums on accident and disability insurance	--	--	--	--	--	--	75	80	85	90	90	95
Income of trusts to finance supplementary unemployment benefits	--	--	--	--	--	--	10	10	10	10	10	10
Exclusion of interest on life insurance saving	--	--	--	--	--	--	2,475	2,720	2,990	3,290	3,635	4,015
Exclusion of capital gains on home sales for persons age 55 and over	--	--	--	--	--	--	300	535	590	645	710	785
Additional exemption for the elderly	--	--	--	--	--	--	1,670	1,855	1,950	2,045	2,150	2,255
Additional exemption for the blind	--	--	--	--	--	--	30	35	35	35	40	40
Deductibility for casualty losses	--	--	--	--	--	--	435	475	540	610	685	775
Tax credit for the elderly	--	--	--	--	--	--	160	160	160	160	160	160
Earned income credit:												
Nonrefundable portion f/	--	--	--	--	--	--	266	350	276	272	268	260
Subtotal	--	--	--	--	--	--	30,071	34,490	39,046	43,957	49,543	55,855
Veterans' Benefits and Services												
Exclusion of veterans' disability compensation	--	--	--	--	--	--	905	1,005	1,085	1,165	1,265	1,340

(Continued)

TABLE 1. (Continued)

Function and Subfunction	Corporations 1979	1980	1981	1982	1983	1984	Individuals 1979	1980	1981	1982	1983	1984
Veterans' Benefits and Services (continued)												
Exclusion of veterans' pensions	--	--			--	--	45	55	60	60	60	65
Exclusion of GI bill benefits	--	--	--	--	--	--	195	170	150	135	120	105
Subtotal	—	--	--	—	—	--	1,145	1,230	1,295	1,360	1,445	1,510
General Government												
Credits for political contributions	--	—	—	--	—	--	80	100	140	100	125	100
General Purpose Fiscal Assistance												
Exclusion of interest on general purpose state and local debt	3,245	3,515	3,900	4,335	4,815	5,360	2,120	2,365	2,625	2,915	3,240	3,600
Deductibility of nonbusiness state and local taxes (other than on owner-occupied homes and gasoline)	—	—	--	--	--	--	10,935	12,450	14,690	17,335	20,455	24,135
Tax credit for corporations doing business in U.S. possessions	685	730	805	885	970	1,070	—	--	--	--	--	—
Subtotal	3,930	4,245	4,705	5,220	5,785	6,430	13,055	14,815	17,315	20,250	23,695	27,735
Interest												
Deferral of interest on savings bonds	--	--	–	--	–	--	615	625	640	655	665	680

SOURCE: Staffs of the Treasury Department and the Joint Committee on Taxation.

a/ All estimates are based on the law enacted as of December 31, 1978.

b/ Less than $2,500,000.

£/ This provision initially applied to new facilities added to plants in existence on January 1, 1969. It expired on December 31, 1975. No investment credit was allowed on property subject to this provision. The 1976 act renewed the provision for property in existence on January 1, 1976. An investment credit of one-half now applies to facilities installed after December 31, 1976. Amortization on these facilities is a tax preference falling under the minimum tax. The interaction of these provisions results in revenue gains of $25 million and $10 million in fiscal years, 1979 and 1980, respectively.

(Continued)

d/ Some individuals will have their taxable income increased by the dividends paid by cooperatives. It is estimated that these dividends will increase revenues by $170 million, $175 million, $190 million, and $200 million, $210 million, and $220 million in fiscal years 1978, 1980, 1981, 1982, and 1984, respectively.

e/ Before 1976, railroad stock, at the taxpayer's election, could be amortized over five years rather than depreciated. Some property that was amortized is still in service producing income. Because such property has no basis for depreciation, taxable income from it is higher than it would have been if the property had not been amortized. The revenue on this income is greater than the revenue losses on property subject to amortization. The amount of the tax liability accruing from corporations is $40 million in each fiscal year except 1983 when the amount is $35 million and 1984 when it is $20 million.

f/ The refundable portion of the earned income credit is considered an outlay. This is estimated to be $941, $1,874, $1,567, $1,544, $1,544, $1,521, and $1,128, for fiscal years 1979, 1980, 1981, 1982, 1983, and 1984, respectively.

TABLE 2. SUM OF TAX EXPENDITURE ITEMS BY TYPE OF TAXPAYER: BY FISCAL YEARS, IN MILLIONS OF DOLLARS

Fiscal Year	Individuals and Corporations	Individuals	Corporations
1979	150,051	111,491	38,560
1980	168,825	126,015	42,810
1981	191,191	143,381	47,810
1982	214,862	162,542	52,320
1983	240,613	184,398	56,215
1984	269,010	209,505	59,505

SOURCE: Table 1.

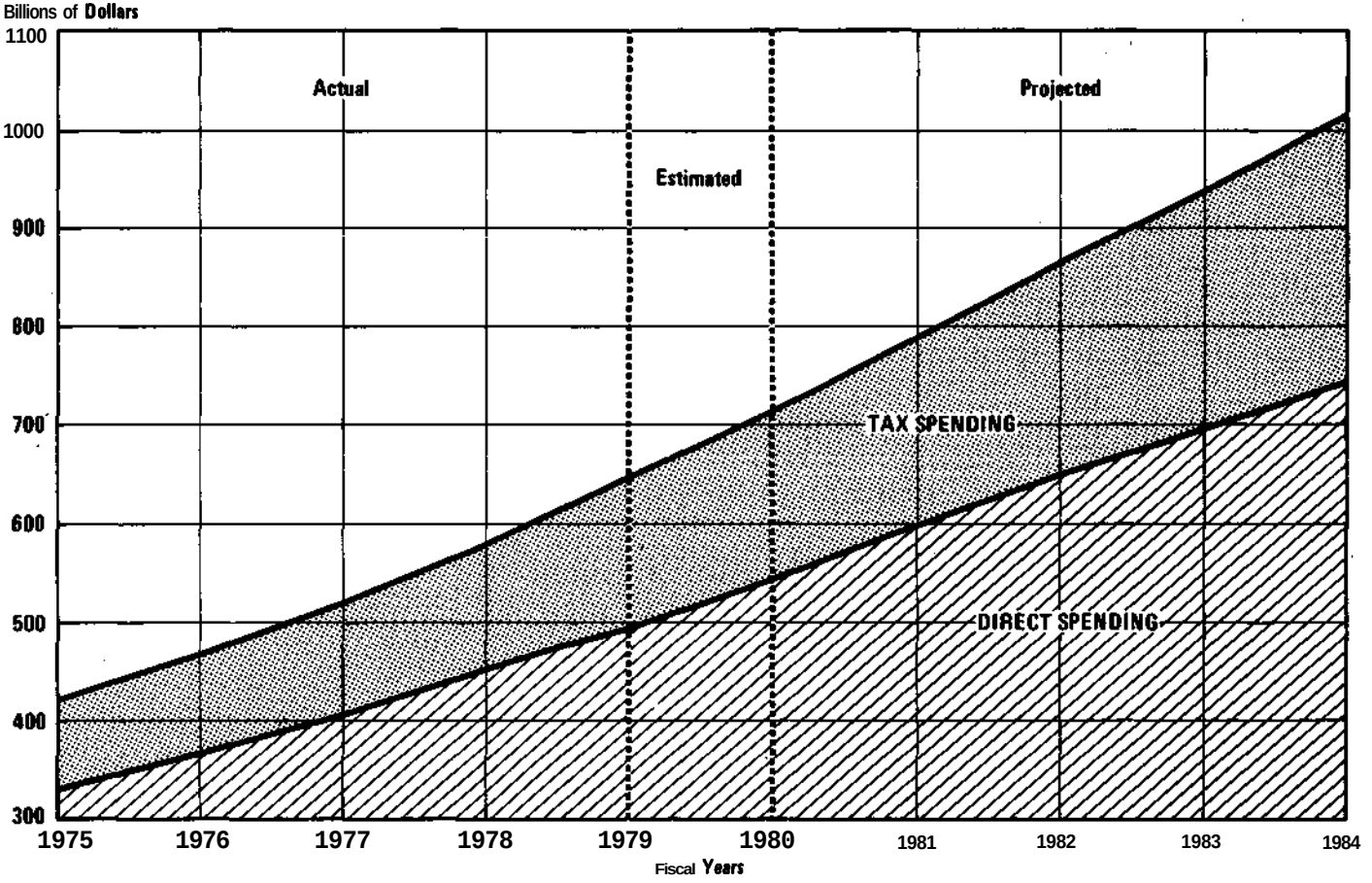
NOTE: These totals are explained in Chapter II of the text.

TAX EXPENDITURES AND DIRECT SPENDING

Tax and direct expenditures must be viewed together before an adequate evaluation of total federal support in a given area can be made. Figure 1 shows the relation between overall tax and direct spending for fiscal years 1975 to 1984 (the figures for 1980 to 1984 are CBO current policy projections). Tables 3 and 4 show the relation between tax and direct spending for the major budget categories.

As can be seen from Figure 1 and Table 5, tax spending has and will continue to become an increasingly large portion of total federal expenditures. Over the nine-year period of 1975 to 1984, tax expenditures will nearly triple, growing at an average annual rate of 12.5 percent. By 1984 direct spending, on the other hand, will increase 128 percent over 1975 levels, growing at an average annual rate of 8.2 percent.

Figure 1.
Tax and Direct Spending Totals for Fiscal Years 1975 to 1984



SOURCES: The Joint Committee on Taxation, publications 1975-1977; CBO, *Five-Year Budget Projections: Fiscal Years 1979-1983—Supplement on Tax Expenditures* (June 1978); Office of Management and Budget, *Total Government Finances* (January 1979); CBO materials prepared for First Concurrent Resolution on the Budget for Fiscal Year 1980; Table 2.

TABLE 3. OUTLAYS AND TAX EXPENDITURES BY BUDGET FUNCTION FOR FISCAL YEAR 1980

Budget Function	Outlays and Tax Expenditures (in millions of dollars)			Proportion of the Total for Each Function for Outlays and Tax Expenditures (in percentages)		
	Outlays	Tax Expenditures	Total	Outlays	Tax Expenditures	Total
National Defense (050)	125,730	1,600	127,330	98.7	1.3	100.0
International Affairs (151)	7,637	2,265	9,902	77.1	22.9	100.0
General Science, Space, and Technology (250)	5,401	1,780	7,181	75.2	24.8	100.0
Energy (270)	7,855	4,325	12,180	64.5	35.5	100.0
Natural Resources and Environment (370)	12,053	1,005	13,058	92.3	7.7	100.0
Agriculture (350)	5,223	1,470	6,693	78.0	22.0	100.0
Commerce and Housing Credit (370)	3,239	73,685	76,924	4.2	95.8	100.0
Transportation (400)	18,872	70	18,942	99.6	.4	100.0
Community and Regional Development (450)	8,168	15	8,183	99.8	.2	100.0
Education, Training, Employment, and Social Services (500)	32,445	12,975	45,420	71.4	28.6	100.0
Health (550)	55,644	14,130	69,774	79.7	20.3	100.0

(Continued)

TABLE 3. (Continued)

Budget Function	Outlays and Tax Expenditures (in millions of dollars)			Proportion of the Total for Each Function for Outlays and Tax Expenditures (in percentages)		
	Outlays	Tax Expenditures	Total	Outlays	Tax Expenditures	Total
Income Security (600)	184,174	34,490	218,664	84.2	15.8	100.0
Veterans' Benefits and Services (700)	21,595	1,230	22,825	94.6	5.4	100.0
Administration of Justice (750)	4,489	0	4,489	100.0	0	100.0
General Government (800)	4,308	100	4,408	97.7	2.3	100.0
General Purpose Fiscal Assistance (850)	8,540	19,060	27,600	30.9	69.1	100.0
Interest (900)	56,394	625	57,019	98.9	1.1	100.0
Allowances (920)	1,999	0	1,999	100.0	0	100.0
Undistributed Offsetting Receipts (950)	-19.700	0	-19.700	100.0	0	100.0
Total	544,066	168,825	712,891	76.3	23.7	100.0

SOURCES: Outlay figures from CBO materials prepared for the Senate markup of the First Concurrent Resolution on the Budget for Fiscal Year 1980; tax expenditure figures from Table 1.

TABLE 4. OUTLAYS, TAX EXPENDITURES AND OVERALL FEDERAL SPENDING AS A PERCENT OF TOTALS, BY BUDGET FUNCTION, FOR FISCAL YEAR 1980

Budget Function	Outlays	Tax Expend-itures	Overall Federal Spending
National Defense (050)	23.1	0.9	17.9
International Affairs (151)	1.4	1.3	1.4
General Science, Space, and Technology (250)	1.0	1.1	1.0
Energy (270)	1.4	2.6	1.7
Natural Resources and Environment (300)	2.2	0.6	1.8
Agriculture (350)	1.0	0.9	0.9
Commerce and Housing Credit (370)	0.6	43.6	10.8
Transportation (400)	3.5	a/	2.7
Community and Regional Development (450)	1.5	a/	1.1
Education, Training, Employment, and Social Services (500)	6.0	7.7	6.4
Health (550)	10.2	8.4	9.8

(Continued)

TABLE 4. (Continued)

Budget Function	Outlays	Tax Expenditures	Overall Federal Spending
Income Security (600)	33.9	20.4	30.7
Veterans' Benefits and Services (700)	4.0	0.7	3.2
Administration of Justice (750)	0.8	—	0.6
General Government (800)	0.8	0.1	0.6
General Purpose Fiscal Assistance (850)	1.6	11.3	3.9
Interest (900)	10.4	0.4	8.0
Allowances (930)	0.4	—	0.3
Undistributed Offsetting Receipts (950)	-3.6	—	-2.8
Total	100.0	100.0	100.0

SOURCE: Outlay figures from CBO material prepared for the Senate markup of the First Concurrent Resolution on the Budget for Fiscal Year 1980; tax expenditure figures from Table 1.

a/ Less than 0.5 percent.

TABLE 5. TAX AND DIRECT SPENDING TOTALS, FISCAL YEARS 1975 TO 1984: IN BILLIONS OF DOLLARS

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Tax Expenditures	92.9	97.4	113.5	123.8	150.1	168.8	191.2	214.9	240.6	269.0
Direct Outlays	326.1	366.4	402.7	450.8	493.4	544.1	597.3	649.3	696.7	744.7
Total	419.0	463.8	516.2	574.6	643.5	712.9	788.5	864.2	937.3	1013.7

SOURCES; The Joint Committee on Taxation, publications 1975-1977; CBO, Five-Year Budget Projections: Fiscal Years 1979-1983--Supplement on Tax Expenditures (June 1978); Office of Management and Budget, Total Government Finances (January 1979); CBO materials prepared for 1st Concurrent Resolution on the Budget for Fiscal Year 1980; Table 2.

CONTINUING PROVISIONS SCHEDULED TO EXPIRE

All of the estimates presented in Tables 1 through 5 assume that any provision scheduled to expire on a given date will expire on that date. Table 6 lists all of the provisions scheduled to expire during the projection period and the cost of extending them. The effect on the projected tax expenditure budget of extending these provisions is much smaller than it has been in previous years. In 1978 tax legislation, the Congress either made permanent or allowed to expire several tax expenditure items that previously had expiration dates. The cost in fiscal year 1983 of extending all temporary provisions would have been over $11 billion before 1978 tax legislation; currently the cost is projected to be approximately $1 billion.

THE EFFECT OF 1978 LEGISLATION

The Revenue Act of 1978, the Energy Tax Act of 1978, and the Foreign Earned Income Act of 1978 significantly affected the tax expenditure budget. Combined, as shown in Appendix B, they increased tax spending by more than $9 billion for fiscal year 1980. Many of the provisions will have a larger impact in future years; the three acts are estimated to increase the fiscal year 1983 tax expenditure budget by more than $18 billion.

The acts perpetuated some provisions that were due to expire. The four largest of the expiring items--the corporate surtax exemption, the earned income credit, the general jobs credit, and the investment tax credit were all dealt with in the1978 legislation. The corporate surtax was replaced with a permanent reduced corporate rate, and the earned income credit and the 10 percent investment tax credit were both made permanent, and the general jobs credits was replaced by a permanent targeted employment credit.

TABLE 6. INCREASE IN TAX EXPENDITURES RESULTING FROM THE EXTENSION OF PROVISIONS SCHEDULED TO EXPIRE IN THE PROJECTION PERIOD: BY FISCAL YEARS, IN MILLIONS OF DOLLARS

Item	1979	1980	1981	1982	1983	1984
Special Rate for Western Hemisphere Trade Corporations a/	40	55	65	70	75	80
Alternative Conservation and New Technology Credits	--	--	–	–	60	275
Tax Incentives for the Preservation of Historic Structures	--	--	b/	3	10	20
5-year Amortization for Rehabilitation of Low-Income Housing	–	–	–		3	9
Exclusion of Contributions to Prepaid Legal Services Plans	–	–	--	40	60	70
Investment Credit for Employee Stock Ownership Plans (TRASOPs)	--	--	--	--	--	348
Targeted Jobs Credit	--	--	--	290	788	866
Employer Educational Assistance	--	--	--	--	--	15
Expensing of Removal of Barriers to the Handicapped	--	4	10	10	9	8
Total	40	59	75	413	1,005	1,691

a/ Cost of continuing at full 1976 levels.

b/ Less than $1,000,000.

APPENDIXES

APPENDIX A. TAX EXPENDITURES BY CONGRESSIONAL COMMITTEE WITH AUTHORIZING JURISDICTION OVER RELATED DIRECT OUTLAYS

Committee	Tax Expenditure
	SENATE
Agriculture Nutrition, and Forestry	Capital gains treatment of certain timber income
	Capital gains treatment of certain ordinary income
	Expensing of certain capital outlays
	Deductibility of noncash patronage dividends and certain other items of cooperatives
	Exclusion of certain cost-sharing payments
Armed Services	Exclusion of benefits and allowances to Armed Forces personnel
	Exclusion of military disability pensions
	Exclusion of veterans' disability compensation
	Exclusion of veterans' pensions
	Exclusion of GI Bill benefits
Banking, Housing and Urban Affairs	Exclusion of income earned abroad by U.S. citizens
	Deferral of income of Domestic International Sales Corporations (DISC)
	Deferral of income of controlled foreign corporations
	Special rate for Western Hemisphere trade corporations
	Exemption of credit union income
	Excess bad debt reserves of financial institutions
	Deductibility of mortgage interest on owner-occupied homes
	Deductibility of property tax on owner-occupied homes
	Deductibility of interest on consumer credit

Committee	Tax Expenditure
Banking, Housing and Urban Affairs (continued)	Deferral of capital gains on home sales Dividend exclusion Corporate surtax exemption Reduced rates on first $100,000 of corporate income Investment tax credit for certain rehabilitated structures Capital gains (other than farming, timber, iron ore, and coal) Capital gains at death Depreciation on rental housing in excess of straight-line Depreciation on buildings (other than rental housing) in excess of straight-line Expensing of construction period interest and taxes Excess first-year depreciation Asset Depreciation Range 5-year amortization for housing rehabilitation Tax incentives for preservation of historic structures Deferral of interest on savings bonds Exclusion of interest on general purpose state and local debt Exclusion of capital gains on home sales for persons 55 or older Exclusion of interest on state and local pollution control bonds Exclusion of interest on state and local industrial development bonds
Commerce, Science and Transportation	Expensing of research and development expenditures 5-year amortization on railroad rolling stock Deductibility of nonbusiness state gasoline taxes Deferral of tax on shipping companies

Committee	Tax Expenditure
Commerce, Science and Transportation (continued)	Tax credit for corporations doing business in U.S. possessions
Energy and Natural Resources	Expensing of exploration and development costs Excess of percentage over cost depletion Capital gains treatment of royalties on coal Capital gains treatment of royalties on iron ore Investment credit for certain rehabilitated structures Tax incentives for preservation of historic structures Residential energy credits Alternative conservation and new technology credits
Environment and Public Works	Exclusion of interest on state and local government pollution control bonds 5-year amortization of pollution control facilicities Exclusion of payments in aid of construction of water and sewage facilities Exclusion of interest on state and local industrial development bonds
Finance	Exclusion of social security benefits Disability insurance benefits OASI benefits for retired workers Benefits for dependents and survivors Exclusion of unemployment insurance benefits Exclusion of public assistance benefits Earned income credit Exclusion of interest on general purpose state and local debt Exclusion of interest on state and local pollution control bonds

Committee	Tax Expenditure
Finance (continued)	Exclusion of interest on state and local pollution control bonds Exclusion of interest on state and local housing bonds
Foreign Relations	Exclusion of income earned abroad by U.S. citizens Deferral of income of Domestic International Sales Corporations (DISC) Special rate for Western Hemisphere trade corporations
Governmental Affairs	Exclusion of interest on general purpose state and local debt Deductibility of state gasoline taxes Deductibility of nonbusiness state and local taxes (other than on owner-occupied homes) Tax credit for corporations doing business in U.S. possessions
Labor and Human Resources.	Exclusion of scholarship and fellowship income Parental personal exemption for students aged 19 and over Deductibility of charitable contributions (education) Credit for child and dependent care expenses Expensing of removal of architectural and transportation barriers for the handicapped Credit for employment of AFDC and public assistance recipients under work incentive programs Maximum tax on personal service income Exclusion of employee meals and lodging (other than military) Exclusion of contributions to prepaid legal service plans Investment credit for Employee Stock Ownership Plans (ESOPs)

Committee	Tax Expenditure
Labor and Human Resources (continued)	Deductibility of charitable contributions to other than education and health Exclusion of employer contributions for medical insurance premiums and medical care Deductibility of medical expenses Deductibility of charitable contributions (health) Exclusion of railroad retirement system benefits Exclusion of workmen's compensation benefits Exclusion of special benefits for disabled coal miners Net exclusion of pension contributions and earnings Employer plans Plans for self-employed and others Exclusion of other employee benefits Premiums on group term life insurance Premiums on accident and disability insurance Exclusion of capital gains on home sales for persons age 55 and over Additional exemption for the elderly Tax credit for the elderly Exclusion of interest on life insurance saving Exclusion of sick pay Exclusion of income of trusts to finance supplementary unemployment benefits Additional exemption for the blind Deductibility of casualty losses General jobs credit Targeted jobs credit Employer educational assistance
Judiciary	Exclusion of contributions to prepaid legal services plans
Rules and Administration	Credits for political contributions

Committee	Tax Expenditure
Veterans' Affairs	Exclusion of military disability pensions Exclusion of veterans' disability compensation Exclusion of veterans' pensions Exclusion of GI Bill benefits
	HOUSE OF REPRESENTATIVES
Agriculture	Capital gains treatment of certain ordinary income Expensing of certain capital outlays Deductibility of noncash patronage dividends and certain other items of cooperatives Capital gains treatments of certain timber income Exclusion of certain cost-sharing payments
Armed Services	Exclusion of benefits and allowances to Armed Forces personnel Exclusion of military disability pensions Exclusion of veterans' pensions Exclusion of GI Bill benefits Exclusion of veterans' disability compensation
Banking, Finance and Urban Affairs	Exclusion of interest on state and local pollution-control bonds Exemption of credit union inome Excess bad debt reserves of financial institutions Deductibility of mortgage interest on owner-occupied homes Deductibility of property tax on owner-occupied homes Exclusion of interest on state and local industrial development bonds Exclusion of interest on state and local housing bonds

Committee	Tax Expenditure
Banking, Finance and Urban Affairs (continued)	Deductibility of interest on consumer credit Deferral of capital gains on home sales Capital gains (other than farming, timber, iron ore, and coal Depreciation of rental housing in excess of straight-line Depreciation of buildings (other than rental housing) in excess of straight-line Investment credit for certain rehabilitated structures 5-year amortization for housing rehabilitation Exclusion of capital gains on home sales for persons age 55 and over Expensing of construction period interest and taxes Exclusion of income earned abroad by U.S. citizens Deferral of income of Domestic International Sales Corporations (DISC) Deferral of income of controlled foreign corporations Special rate for Western Hemisphere trade corporations Dividend exclusion Corporate surtax exemption Reduced rates on first $100,000 corporate income Excess first-year depreciation Asset Depreciation Range Capital gains at death Tax incentives for the preservation of historic structures Investment tax credit Deferral of capital gains on homes sales General jobs credit Targeted jobs credit Deferral of interest on savings bonds

Committee	Tax Expenditure
Education and Labor	Exclusion of scholarship and fellowship income Parental personal exemption for children aged 19 or over Deductibility of charitable contributions (education) Credit for child and dependent care expenses Employer educational assistance Expensing of removal of architectural and transportation barriers to the handicapped Credit for the employment of AFDC and public assistance recipients under work incentive programs Additional exemption for the elderly Additional exemption for the blind Exclusion for workmen's compensation benefits Exclusion of special benefits for disabled coal miners Net exclusion of pension contributions and earnings Employer plans Plans for self-employed and others Exclusion of other employee benefits Premiums on group term life insurance Premiums on accident and disabiltiy insurance Tax credit for the elderly Earned income credit Deductibility of casualty losses Exclusion of employee meals and lodging (other than military) Maximum tax on personal service income Exclusion for contributions to prepaid legal service plans Investment credit for employee stock ownership plans (TRASOPs) Deductibility of charitable contributions for other than education and health

Committee	Tax Expenditure
Education and Labor (continued)	Exclusion of employer contributions for medical insurance premiums and medical care General jobs credit Targeted jobs credit
Government Operations	Tax credit for corporations doing business in U.S. possessions Deductibility of nonbusiness state and local taxes (other than on owner-occupied homes) Exclusion of interest payments on state and local industrial development bonds Exclusion of interest on state and local pollution control bonds Exclusion of interest on general purpose state and local debt
House Administration	Credits for political contributions
Interior and Insular Affairs	Tax incentives for preservation of historic structures Capital gains treatment of royalties on coal Capital gains treatment of royalties on iron ore Expensing of exploration and development costs Excess of percentage over cost depletion Residential energy credits Alternative conservation and new technology credits
Foreign Affairs	Exclusion of income earned abroad Deferral of income of Domestic International Sales Corporations (DISC) Deferral of income of controlled foreign corporations Special rate for Western Hemisphere trade corporations

Committee	Tax Expenditure
Interstate and Foreign Commerce	Deferral of income of Domestic International Sales Corporations (DISC) Deferral of income of controlled foreign corporations Special rate for Western Hemisphere trade corporations Dividend exclusion Exclusion of interest payments on state and local industrial development bonds (other than for education and health) 5-year amortization on railroad rolling stock Exclusion of sick pay Expensing of removal of architectural and transportation barriers to the handicapped Deductibility of medical expenses Exclusion of employee contributions for medical insurance premiums and medical care Deferral of tax on shipping companies Deferral of interest on savings bonds Exclusion of interest on life insurance savings Exclusion of other employee benefits Premiums on group term life insurance Premiums on accident and disability insurance Tax credit for corporations doing business in U.S. possession Exclusion of railroad retirement system benefits Exclusion of payments in aid of construction in water and sewage utilities Exclusion of interest on state and local pollution control bonds 5-year amortization of pollution control facilities
Judiciary	Group legal services exclusion

Committee	Tax Expenditure
Merchant Marine and Fisheries	Deferral of tax on shipping companies
Public Works and Transportation	Deductibility of state gasoline taxes Exclusion of payments in aid of construction of water and sewage utiities Exclusion of interest on state and local industrial development bonds
Science and Technology	Expensing of research and development expenditures
Veterans' Affairs	Exclusion of military disability pensions Exclusion of veterans' disability compensation Exclusion of veterans' pensions Exclusion of GI Bill benefits
Ways and Means	Exclusion of unemployment insurance benefits Exclusion of income of trusts to finance supplementary unemployment benefits Exclusion of public assistance benefits Earned income credit Exclusion of social security benefits Disability insurance benefits OASI benefits for retired workers Benefits for dependents and survivors

NOTE: Some tax expenditures are listed under more than one category because of overlapping committee jurisdictions.

APPENDIX B. THE EFFECTS ON TAX EXPENDITURE LEVELS OF THE REVENUE ACT OF 1978 (PUBLIC LAW 95-600), THE ENERGY TAX ACT OF 1978 (PUBLIC LAW 95-618), AND THE FOREIGN EARNED INCOME ACT OF 1978 (PUBLIC LAW 95-427), FISCAL YEARS 1979-83: IN MILLIONS OF DOLLARS a/

	1979	1980	1981	1982	1983
PART A--THE NET EFFECT					
Revenue Act of 1978	4,026	8,409	11,971	15,912	17,099
Energy Tax Act of 1979	967	823	977	1,145	1,077
Foreign Earned Income Act of 1978	255	254	275	297	310
Total	5,248	9,486	13,223	17,354	18,486
PART B--THE REVENUE ACT OF 1978					
Title I--Individual Income Tax Provisions					
Section 102-Increase in personal exemption for blind, aged, and students	659	728	753	775	803
Sections 103-105-Modification and extension of the earned income credit b/	19	350	276	272	268
Section Ill-Repeal of non-business deduction for State and local taxes on gasoline and other motor fuels	-409	-1,040	-1,102	-1,168	-1,238

Footnotes appear at end of appendix. (Continued)

Appendix B. (Continued)

	1979	1980	1981	1982	1983
PART B (continued)					
Section 112-Taxation of unemployment compensation benefits at certain income levels	—	-251	-261	-259	-263
Section 113-Political contributions	—	20	33	20	20
Section 121-Child care credit for payments to related individuals	5	38	39	40	39
Section 141-TRASOP investment credit	—	—	178	446	545
Section 152-Simplified employee pensions	6	18	29	39	49
Section 153-Defined benefit plan limits	c/	c/	£/	£/	£/
Section 154-Custodial accounts for regulated investment company stock	c/	c/	£/	£/	£/
Section 155-Pension plan reserves	c/	c/	£/	£/	£/
Section 156-Rollover of distriubtions from a tax-sheltered annuity	c/	c/	£/	£/	£/
Section 157-Individual retirement account technical changes	25	12	12	12	12

(Continued)

Appendix B. (Continued)

	1979	1980	1981	1982	1983
PART B (continued)					
Section 161(a)-Uniformed Services Health Professions Scholarships	c/	£/	£/	£/	£/
Section 161(b)-National Research Service Awards	52 d/	18	10	---	---
Section 162-Cancellation of student loans	c/	c/	£/	£/	£/
Section 164-Employer education assistance	18	28	31	35	39
Total, Title I	375	-79	-2	212	274
Title II--Tax Shelter and Partnership Provisions					
Section 201-Extension of at risk rules to all activities other than real estate	-1	-10	-7	-6	-4
Section 202-Extension of at risk provisions to closely held corporations	-1	-3	-2	-1	-1
Section 203-Recapture of losses where amount at risk is less than zero	d/	d/	d/	d/	d/
Total, Title II	-2	-13	-9	-7	-5

(Continued)

Appendix B. (Continued)

	1979	1980	1981	1982	1983
PART B (continued)					
Title III--Provisions Primarily Affecting Business Income Tax					
Section 301-Corporate rate reduction	2,800	4,170	4,420	4,665	4,870
Section 311-Investment tax credit extension	—	—	2,071	5,201	6,283
Section 312-Increase in limitation to 90 percent of tax liability	129	441	872	1,015	782
Section 313-Increased investment credit for certain pollution control facilities	6	18	42	76	104
Section 314-Investment credit for single purpose agricultural or horticultural structures	53 e/	33 e/	22	24	26
Section 315-Investment credit for certain rehabilitated buildings	67	181	205	222	238
Section 316-Investment credit for cooperatives	20	33	35	37	39
Section 317-Investment credit recapture under the Conrail reorganization	3 e/	—	—	—	—

(Continued)

Appendix B. (Continued)

	1979	1980	1981	1982	1983
PART B (continued)					
Section 321-Targeted jobs credit	141	483	651	426	86
Section 322-Work incentive program (WIN) credit changes	39	136	197	234	264
Section 331-Increase in limit on small issues of industrial development bonds	d/	3	14	26	37
Section 332-Industrial development bonds for local furnishing of electric energy	d/	3	10	18	23
Section 333-Industrial development bonds for water facilities	d/	7	31	59	78
Section 334-Advance refunding of industrial development bonds for certain public projects (Section 335)	c/	c/	c/	c/	c/
Section 351-Treatment of certain closely held farm corporations for accrual accounting purposes	c/	£/	£/	£/	£/
Section 352-Accounting for growing crops	£/	£/	£/	c/	£/

(Continued)

Appendix B. (Continued)

	1979	1980	1981	1982	1983
PART B (continued)					
Section 364-Contributions in aid of construction to regulated electric or gas public utilities	c/	50	100	100	100
Section 367-Extension of amortization for low-income housing	d/	2	5	8	10
Total, Title III	3,258	5,560	8,675	12,111	12,940
Title IV--Capital Gains; Minimum Tax; Maximum Tax					
Section 401-Repeal of alternative tax for non-corporate capital gains	-20	-133	-143	-154	-166
Section 402-Increased capital gains deduction for individuals	131	1,763	1,895	2,037	2,190
Section 403-Reduction of corporate alternative capital gains tax	53	125	141	155	170
Section 404-One-time exclusion of gain on sale of residence	165	415	457	502	552
Section 405-Rollover of gain on sale of residence incident to a job-related move	3	4	4	4	4

(Continued)

Appendix B. (Continued)

	1979	1980	1981	1982	1983
PART B (continued)					
Section 421-Repeal certain preferences in the minimum tax	—	1,274	1,401	1,541	1,695
Section 421-Alternative minimum tax for individuals	—	-739	-813	-894	-984
Section 422-Minimum tax treatment of intangible drilling costs	f/	f/	f/	f/	f/
Section 441-Capital gain tax preference offset	6	52	57	63	69
Section 442-Limitation on personal service income	21	59	69	79	91
Total, Titlve IV	359	2,820	3,068	3,353	3,621
Title V--Other Tax Provisions					
Section 515-Deferral of carryover of basis rule	36	93	162	185	190
Section 542-Involuntary conversation of livestock	c/	c/	c/	c/	c/
Section 543-Exclusion for certain cost-sharing payments	—	-28	-77	-78	-79
Total, Title V	36	121	239	263	269
TOTAL, ALL PROVISIONS OF REVENUE ACT	4,026	8,409	11,971	15,912	17,099

(Continued)

Appendix B. (Continued)

	1979	1980	1981	1982	1983
PART C - ENERGY TAX ACT					
Credit for Insulation and Other Energy-Saving Devices	635	370	392	415	440
Credit for Solar and Wind Expenditures	81	64	72	89	115
Van Pooling Tax Incentives	d/	d/	d/	d/	d/
Alternative Conservation and New Technology Credits	221	391	496	597	458
Investment Credit Denied and Depreciation Limited on Oil or Gas Boilers, Portable Air Conditioners and Space Heaters	-42	-98	-99	-93	-96
Tax Incentives Relating to Alternate Fuel Sources	21	35	43	53	63
Minimum Tax Treatment of Intangible Drilling Costs	51	61	73	84	97
TOTAL, ALL PROVISIONS OF ENERGY ACT	967	823	977	1,145	1,077

(Continued)

Appendix B. (Continued)

	1979	1980	1981	1982	1983
PART D--FOREIGN EARNED INCOME ACT g/					
	255	254	275	297	310

a/ Positive numbers represent increases in the tax expenditure budget, that is revenue losses. All estimates are estimates of changes result from the three acts; it is assumed that any provisions that were due to expire would have expired. Thus, if any of the acts extended a provision due to expire, the provision shows up as a revenue loss.

b/ Includes only reduction in revenues; the refunded portion is considered an outlay.

£/ Less than $5 million.

d/ Less than $1 million.

e/ Includes liabilities of previous years.

f/ The revenue loss due to this provision has been included in the estimate for the Energy Tax Act.

g/ The fiscal year 1979 revenue effect reflects no loss of revenue from the delay of the 1976 Act on 1977 liability because that liability is properly attributable to fiscal year 1978 receipts.