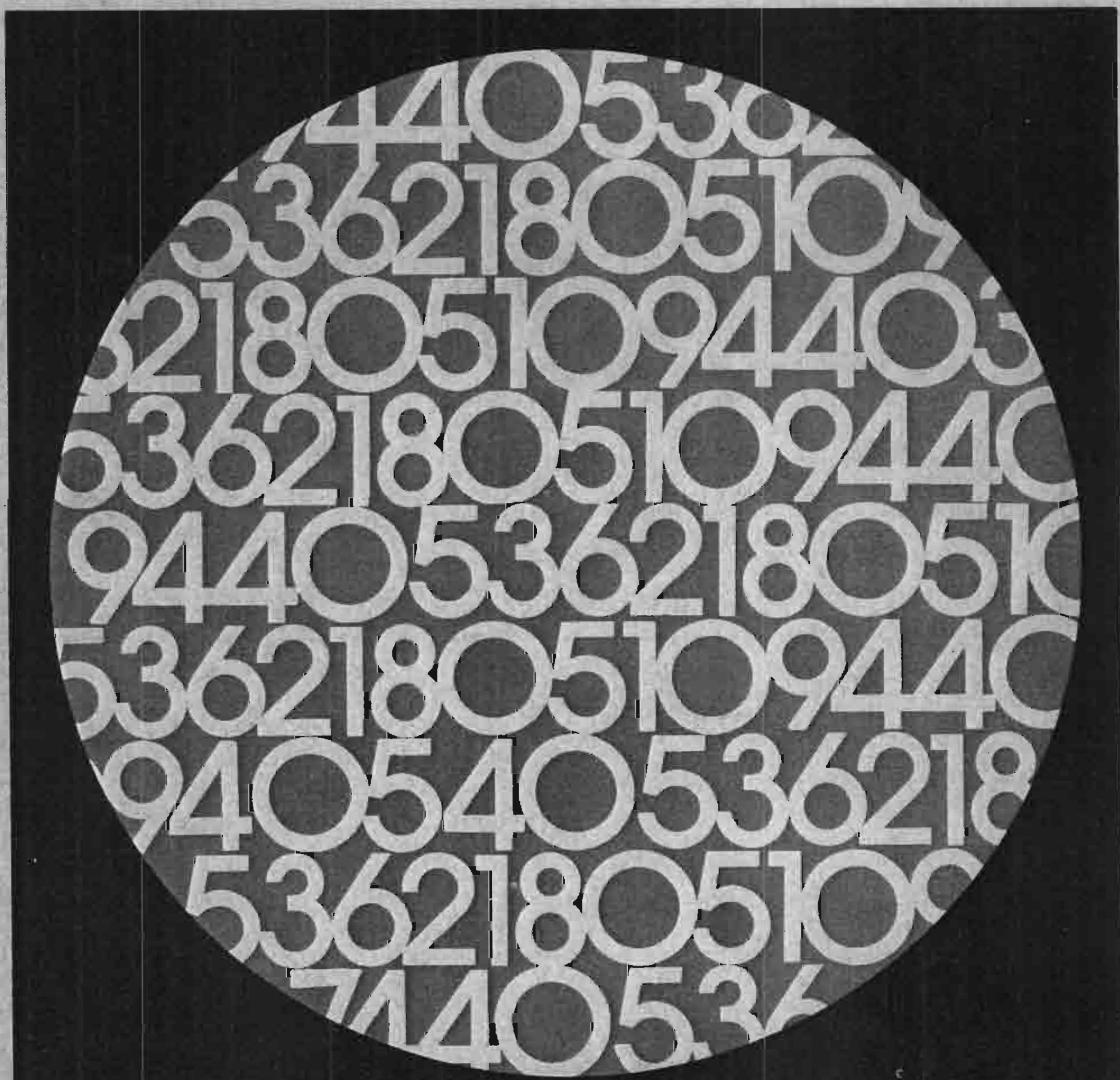
April 1980

TAX EXPENDITURES: CURRENT ISSUES AND FIVE-YEAR BUDGET PROJECTIONS FOR FISCAL YEARS 1981-1985

A Report to the Senate and House Committees on the Budget —Part III

As Required by Public Law 93-344



CONGRESS OF THE UNITED STATES

CONGRESSIONAL BUDGET OFFICE

TAX EXPENDITURES: CURRENT ISSUES AND FIVE-YEAR BUDGET PROJECTIONS FISCAL YEARS 1981-1985

The Congress of the United States
Congressional Budget Office

PREFACE

The Congressional Budget Office submits each year a report on budgetary options. This is a supplement to the two previously issued parts of that annual report, Entering the 1980s: Fiscal Policy Choices and Five-Year Budget Projections: Fiscal Years 1981-1985. As required by Sections 202(f) and 308(c) of the Congressional Budget Act of 1974, it presents projections of tax expenditures for fiscal years 1981 through 1985 and reviews the President's proposals for changes in the tax expenditure budget. In accordance with the CBO's mandate to provide objective analysis, the report contains no policy recommendations.

This report was written by Mark Steitz with the assistance of Willie Bradford, under the direction of James Verdier. Many people both inside and outside of the CBO provided useful suggestions. The author is especially grateful for the helpful comments of Paul McDaniel and Charles Davenport. Francis Pierce edited the manuscript, and Linda Brockman typed it.

Alice M. Rivlin
Director

April 1980

CONTENTS

		Page
PREFACE		iii
SUMMARY		ix
CHAPTER I.	INTRODUCTION AND DEFINITIONS	1
	The Relationship of Tax Expenditures to Direct Expenditures	2
	Outline of the Report	4
CHAPTER II.	MEASUREMENT	5
CHAPTER III.	TAX EXPENDITURES AND BUDGET CONTROL MECHANISMS	9
	Limiting Spending to a Percentage of GNP	9
	Revising the Budget Act	11
	Sunset for Sunsel Legislation	16
CHAPTER IV.	FIVE-YEAR PROJECTIONS AND CURRENT ISSUES	19
	Five-Year Projections	19
	Current Issues	21
APPENDIX A.	TAX EXPENDITURE ESTIMATES	27
APPENDIX B.	TAX EXPENDITURES BY COMMITTEE	37

TABLES

Page

TABLE 1. TAX AND DIRECT SPENDING AS PERCENTAGES OF GNP, FISCAL YEARS 1975-1985 12

TABLE 2. TAX EXPENDITURES, DIRECT EXPENDITURES, AND GNP, FISCAL YEARS 1975-1985 12

TABLE 3. SUM OF TAX EXPENDITURE ITEMS BY TYPE OF TAXPAYER, FISCAL YEARS 1980-1985 20

TABLE 4. TAX EXPENDITURES EXCEEDING $5 BILLION FOR FISCAL YEAR 1981 22

TABLE 5. THE EFFECTS ON TAX EXPENDITURE LEVELS OF THE CRUDE OIL WINDFALL PROFIT TAX ACT OF 1980, FISCAL YEARS 1980-1985 23

APPENDIX TABLES

TABLE A-1. TAX EXPENDITURE ESTIMATES BY FUNCTION, FISCAL YEARS 1980-1985 28

TABLE A-2. OUTLAYS AND TAX EXPENDITURES BY BUDGET FUNCTION FOR FISCAL YEAR 1981 35

TABLE B-1. TAX EXPENDITURES BY CONGRESSIONAL COMMITTEE WITH AUTHORIZING JURISDICTION OVER RELATED DIRECT OUTLAYS 39

FIGURE

FIGURE 1. TAX SPENDING AND DIRECT SPENDING, FISCAL YEARS 1975-1985 10

SUMMARY

Provisions in the tax code that provide preferential tax treatment to 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.

Ninety-two provisions are currently considered tax expenditures; these are estimated to cost $206 billion in fiscal year 1981, based on laws in effect at the start of 1980. The Congress has also passed $0.6 billion worth of new and expanded tax expenditures in the Crude Oil Windfall Profit Tax Act of 1980.

Tax expenditures have grown at an average annual rate of 14 percent since 1975, when they totaled $93 billion. The growth has been caused both by inflation and by legislated increases. Direct spending, by contrast, has grown at an average rate of 11 percent a year over the same period.

In his proposed budget for fiscal year 1981, the President proposed changing the tax expenditure budget in three areas: tax credits to encourage energy production and conservation, tax-exempt bonds to finance housing, and tax incentives for historic preservation. The Congress has acted on his energy proposals, passing with the Windfall Profit Tax Act $250 million worth of energy tax incentives for fiscal year 1981. His other proposals are now before the Congress.

The Congress is currently considering alternative strategies for improving control over the federal budget. Tax expenditures are implicitly included in some; for instance, tax expenditures reduce revenues and so affect the balance of the budget. Any balanced budget requirement thus places some restraint on tax expenditures. With other proposals, however, an explicit decision must be made if tax expenditures are to be included. The questions that arise when attempting to control tax expenditures--questions of the availability of accurate and timely estimates, for example--also occur when attempting to control entitlement programs, for tax expenditures closely resemble entitlement programs from a budgeting perspective.

61-626 O - 80 - 2

CHAPTER I. INTRODUCTION AND DEFINITIONS

Tax expenditures are revenue losses that arise from provisions of the tax code that give special or selective tax relief to certain groups of taxpayers. These provisions either encourage some desired activity or provide special aid to certain taxpayers. 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 equivalent to an expenditure.

The financial benefits offered by tax expenditure provisions resemble those available through entitlement programs on the spending side of the budget--for example, there is no legislated ceiling on the overall cost; the cost depends solely on the number and type of taxpayers who meet the eligibility requirements and 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 50 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 according to standard accounting principles are properly attributable to a future year (for example, accelerated depreciation). The taxpayer, paying later rather than now, receives an interest-free loan of his deferred liability.

THE RELATIONSHIP OF TAX EXPENDITURES TO DIRECT EXPENDITURES

Tax spending and direct spending are alternative methods of providing federal subsidies. Nearly any tax expenditure could be recast as a spending program, just as most spending programs could be replaced by tax expenditures. Thus, the choice between tax spending and direct spending is essentially a choice between alternative administrative mechanisms. Once it has been decided that a particular subsidy is worth providing, the question of the best method of providing that subsidy arises. There is no general answer; tax spending is inherently neither better nor worse than direct spending.

In designing or evaluating any subsidy program, however, the following criteria can be applied:

- 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? Does it provide the incentive or relief it was designed to offer? Does it achieve its goal at the least cost?

- Fairness and Equity. Is the subsidy benefit fairly distributed?

- Ease of Administration. How much does the program cost to administer? How quickly can the benefits be distributed? Can the benefits be distributed to those and only those for whom they are intended?

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

Tax spending and direct spending must be coordinated as well as compared, since there are substantial interactions between them. 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 Social Security benefits and some unemployment compensation from federal income tax are a case in point: increasing outlays for these programs would also increase the size of the associated tax expenditure.

Tax-exempt student loan bonds provide a good example of a tax expenditure that has affected the size of a direct spending program.[1] The exclusion of interest on the bonds from federal income taxation results in a tax expenditure. The interaction with a direct spending program arises because the bond proceeds are used to provide student loans that are entitled to federal guarantees and subsidies. The growth in student loan bonds has increased the availability of student loans and hence the direct federal costs of the student loan program--the costs of reimbursing lenders for defaulted loans and of subsidizing interest rates charged to students.

One difficulty in coordinating tax and direct spending is that they often lie within the jurisdiction of different Congressional committees. All tax expenditures fall within the jurisdiction of the tax-writing committees--the House Committee on Ways and Means and the Senate Committee on Finance. 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, subsidization sometimes may occur through tax spending or direct spending without careful consideration being given to overall federal support. To assist congressional committees in coordinating tax and direct subsidies, Appendix B classifies tax expenditures according to the committees that have authorizing jurisdiction over related direct spending programs.

---

1. See CBO, <u>State Profits on Tax-Exempt Student Loan Bonds: Issues and Options</u> (March 1980).

OUTLINE OF THE REPORT

The report presents projections of federal tax expenditures for fiscal years 1981 through 1985. These estimates assume that there will not be any change in the tax law during this period. Their purpose is to 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.

Chapter II describes issues in measuring tax expenditures. In Chapter III, the relationships between tax expenditures and proposals to limit the federal budget are examined. Chapter IV includes a discussion of overall trends in the tax expenditure budget. It concludes with a review of the President's fiscal year 1981 proposals and other tax expenditure issues that may be considered by the Congress in the coming year. Five-year estimates of the tax expenditure budget are presented in Appendix A.

The tax expenditure estimates presented in this paper are based upon sample tax returns from past years and other data. They can be thought of as estimates of the direct cost of the individual tax expenditure provisions; they do not take into account many of the second-order effects that might occur if any of the provisions were repealed. This method is generally consistent with the way in which estimates of direct spending are made. The estimate of the budget cost of a federal program that provides for a significant number of jobs, for instance, might differ from the estimate of the budget effect of the repeal of the program. This is because the repeal of the program might result in increased outlays for unemployment insurance and other entitlement programs. While this increase does affect the net budget savings resulting from repeal, it in no way affects the current budget cost.

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 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.

- Special exclusions and deductions. 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]

---

1. In some cases removal of a particular provision would reduce the total of a person's itemized deductions beneath the standard deduction or zero bracket amount (ZEBRA), and the person

- 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.[2]

These estimates are made one at a time and can be viewed as first-order estimates of the revenue gain that would result from the elimination of a particular provision. The direct revenue gain that would result from eliminating two or more tax expenditure provisions at the same time, however, is in many cases not equal to the sum of the estimates in the tax expenditure budget.

In the case of nonbusiness itemized deductions, the sum of the estimates made assuming separate elimination of two tax expenditures would sometimes be greater than the revenue gain that would be achieved if both were eliminated at once. This follows from the relationship between total itemized deductions and the standard deduction or zero bracket amounts (ZEBRA). Suppose a taxpayer has a total of $3,600 in itemized deductions, consisting of a $3,200 mortgage interest deduction and a $400 medical expense deduction. Suppose further that the applicable ZEBRA for the taxpayer is $3,400. The elimination of either of the tax expenditures would result in use of the ZEBRA. Thus, when either is eliminated alone, his liability increases by $200 times his marginal rate. Elimination of both of the items, however, would still increase his liability by only $200 times his marginal rate, which is one-half the sum of the individual estimates.

---

would no longer itemize. In those cases, the tax expenditure is figured by taking the excess of his 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. This technique has been criticized by some because it is seen as inconsistent with direct spending estimates and with the current cost concept generally.

2. An alternative method for calculating the cost of deferrals would be to compute for each year the present value of the tax savings associated with the expenditure.

In most other cases, however, the sum of the individual estimates will be less than the revenue gain that would be achieved by eliminating both at once. 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. Suppose a taxpayer has four exclusions from income of $1,000 each. Assuming one-at-a time elimination, 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.

Because of these differences, the amount of direct 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 component in the combination. Rather, the revenue gains from eliminating more than one tax expenditure at a time must be separately estimated.

These interactions have caused the grand totals of estimates made one at a time to be a topic of considerable controversy. This controversy arises because the total arrived at by adding together the one-at-a-time estimates does not necessarily equal the estimate that would be arrived at if all tax expenditures were eliminated in one fell swoop. No comprehensive estimate of the net difference between the totals of the two methods has been made. The Department of the Treasury has estimated that the one-at-a-time totals for itemized deductions for fiscal year 1981 would be $14 billion higher than the all-at-once totals because of the interaction with the ZEBRA. Itemized deductions, however, account for only approximately a quarter of the tax expenditure budget. Since the remaining three quarters of the tax expenditure budget does not involve the ZEBRA, the effect of the marginal rate interaction on that portion of the budget could well more than offset the $14 billion dollar difference; no estimate of this effect has been made, however.

Finally, some of the estimates presented in this budget may differ from estimates made in past years. The differences stem from inflation and other changed economic conditions, better data, and improved estimating techniques. Similar reestimates occur on the direct spending side of the budget.

61-526 O - 80 - 3

CHAPTER III. TAX EXPENDITURES AND BUDGET CONTROL MECHANISMS

A growing sentiment in the Congress favors more stringent forms of budget control. Many different proposals have been offered, ranging from a constitutional amendment requiring a balanced budget to legislation mandating periodic "sunset" review of all federal programs. The inclusion or exclusion of tax expenditures in these proposals has raised many questions; this chapter addresses some of them.

Some proposals, notably balanced budget proposals, implicitly include tax expenditures. Others, however, do not, and a decision must be made as to whether to include them explicitly. This chapter addresses the role of tax expenditures in three types of budget control mechanisms: spending limitations based on a percentage of gross national product (GNP); changes in the budget act designed to increase Congressional control over spending; and, finally, "sunset" proposals.

Limiting Spending to a Percentage of GNP

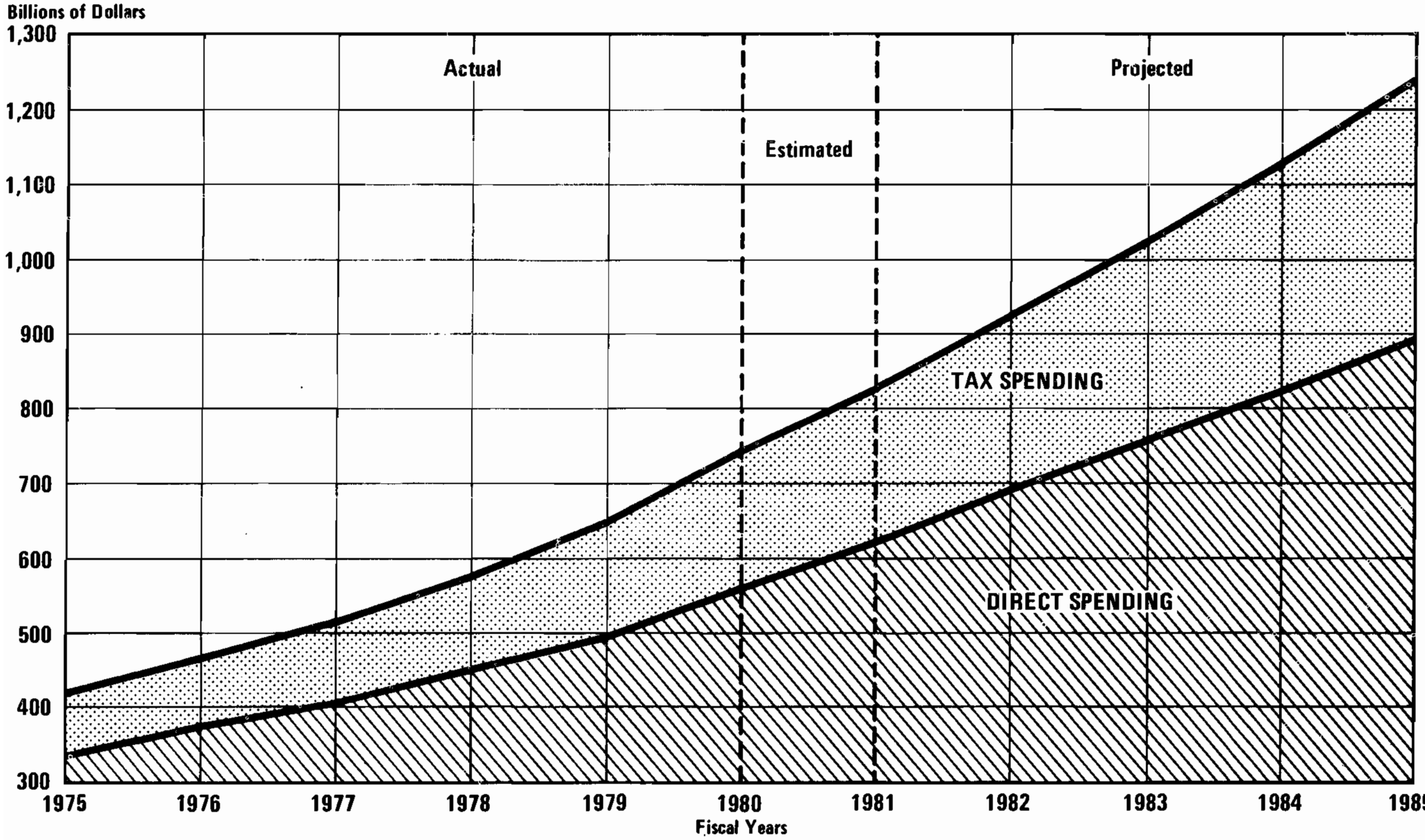
Tax spending has been included in some of the proposals to limit federal spending to a percentage of GNP but not in others. Proponents of inclusion argue that tax spending ought to be limited for the same reasons as direct spending. They point to the rapid past and projected future growth in tax expenditures (see Figure 1) as evidence of the need for some limitation. They argue that this form of federal spending has the same effects on the deficit, and on the economy, as direct grants.

The proponents of inclusion also maintain that if a proposal to limit federal spending does not include tax expenditures, they will become a method for avoiding the limitation through "back door spending."

Opponents of including tax expenditures in limitations on federal spending argue that the tax expenditure concept is not clear and the measurement of tax expenditures not accurate. Their objection raises the question of what, if any, formula could best be used for including tax expenditures.

Figure 1.

Tax Spending and Direct Spending, Fiscal Years 1975-1985



SOURCES: Congressional Budget Office, *Five-Year Budget Projections and Alternative Budgetary Strategies for Fiscal Years 1980-1984, Supplemental Report on Tax Expenditures* (June 1979), Table 3; *Economic Report of the President* (January 1980); CBO materials prepared for the markup of the First Concurrent Resolution on the Budget for Fiscal Year 1981.

The practical problems of yearly reestimates, as described in Chapter II, may make it difficult to find precise and timely dollar figures for any percentage-of-GNP limitation. Yet, as was also pointed out in Chapter II, similar problems exist on the direct spending side of the budget, particularly with entitlement programs. Indeed, significant variations in the estimates of GNP itself present formidable problems for the very concept of such a limitation on spending.

One way of including tax expenditures in a percentage-of-GNP spending limitation would be to set a single fixed percentage limit for the sum of tax and direct spending. Another would be to set a separate percentage limit for tax expenditures alone.

The first of these alternatives would have the advantage of forcing explicit trade-offs between the various methods the Congress has at its disposal for subsidizing any particular activity, resulting in better coordination of total federal support. On the other hand, the interaction between normal tax rates and the estimates of the tax expenditure budget could result in some apparently anomalous effects. Suppose, for instance, that normal tax rates were cut back. Since the value of most tax expenditures depends on the normal tax rates, this would in turn result in a reduction in the value of tax expenditures. More room would then be left to increase spending even though no specific spending program--tax or direct--had been explicitly reduced.

This effect could be somewhat lessened by separating tax and direct spending, applying separate percentage limitations to each. If a change occurred in normal tax rates, it would affect only the level of allowable tax expenditures and not direct spending as well. It would still, however, allow an increase in tax spending.

<u>Revising the Budget Act</u>

Another way of increasing Congressional control over overall federal spending would be to revise and strengthen the Congressional Budget Act of 1974. This section examines only proposals that would alter the way in which tax expenditures are handled in the budget process.

Under the current Budget Act, the House and Senate Budget Committees have the responsibility "to devise methods of coordinating tax expenditures, policies, and programs with direct budget

TABLE 1. TAX EXPENDITURES AND DIRECT EXPENDITURES AS PERCENTAGES OF GROSS NATIONAL PRODUCT, FISCAL YEARS 1975-1985

	1975	1976	1977	1978	1979
Tax Expenditures	6.1	5.7	6.0	5.8	6.5
Direct Expenditures	21.3	21.5	21.2	21.2	21.3

SOURCES: Congressional Budget Office, Five Year Budget Projections: Fiscal Years 1980-1984--Supplemental Report on Tax Expenditures, Appendix A; Economic Report of the President, 1980; CBO material prepared for the mark-up of the First Concurrent Resolution on the Budget for Fiscal Year 1981.

(Continued)

TABLE 2. TAX EXPENDITURES, DIRECT EXPENDITURES, AND GROSS NATIONAL PRODUCT, FISCAL YEARS 1975-1985 (In billions of dollars)

	Actual				
	1975	1976	1977	1978	1979
Tax Expenditures	92.9	97.4	113.5	123.8	150.1
Direct Expenditures	326.2	366.4	402.7	450.8	493.7
GNP	1,528.8	1,702.2	1,899.5	2,127.6	2,313.4

SOURCES: Congressional Budget Office, Five Year Budget Projections: Fiscal Years 1980-1984--Supplemental Report on Tax Expenditures, Appendix A; Economic Report of the President, 1980; CBO material prepared for the mark-up of the First Concurrent Resolution on the Budget for Fiscal Year 1981.

(Continued)

TABLE 1. (Continued)

	1980	1981	1982	1983	1984	1985
Tax Expenditures	7.2	7.4	7.4	7.5	7.6	7.7
Direct Expenditures	22.1	22.2	22.0	21.3	20.6	20.0

TABLE 2. (Continued)

	Projected					
	1980	1981	1982	1983	1984	1985
Tax Expenditures	181.5	206.3	233.6	265.0	302.0	345.2
Direct Expenditures	560.7	619.3	689.9	755.7	821.7	894.1
GNP	2,536.5	2,794.3	3,139.4	3,543.7	3,984.3	4,459.6

outlays." The annual budget resolutions do not, however, set targets or ceilings for tax expenditures; only an aggregate revenue floor is set. The tax-writing committees can thus set tax expenditure levels without consideration of the budget process, so long as they stay above the aggregate revenue floor established by the second concurrent resolution. This has been seen by some as resulting in divided and sometimes inconsistent budget policy.

One alternative would be to treat tax expenditures like direct spending. Tax expenditures could be set out by functional category in the first and second concurrent resolutions in the same way as direct spending. The tax expenditure levels set by the first resolution would only be targets, but the overall total in the second concurrent resolution would be a ceiling--subject to the same point-of-order discipline as the direct spending and overall revenue totals.

This procedure would result in the Budget Committees of each House having the same influence over tax spending as they now exercise over direct spending. The tax-writing committees, however, would still retain considerable flexibility with respect to tax expenditures. While tax expenditures would be listed in the budget resolution by functional category, the point of order could only apply if a bill or amendment would cause tax expenditures to exceed the total set out in the resolution. The tax-writing committees would thus be treated in essentially the same manner that the Appropriations Committees are now treated. The Budget Act provides no binding sanctions over the decisions of the committees until total spending levels are exceeded, even if specific bills push spending in some functional categories over the limits set in the second budget resolution.

Another alternative would be to apply limits only to new or increased tax expenditures. Under this plan, the existing tax expenditure budget could be included in the budget resolution for informational purposes, but only new or legislatively increased tax expenditures would be subject to points of order. The Budget Committees would propose how much, if any, room should be left in the budget for legislative expansions of tax expenditures. The Budget Committees could not, under this proposal, require cutbacks in existing tax expenditures. The tax-writing committees might want to reduce existing tax expenditures to make room for new ones, but the Budget Committees could not force them to do so. This proposal would place increased discipline on the expansion or creation of new tax expenditures.

Tax expenditures could also be put in the budget resolutions as targets, set forth by functional category, but not subject to points of order. This proposal would increase the visibility of tax expenditures, and allow the Budget Committees and the Congress to focus more comprehensively on the total resources devoted to each function area.

As another alternative, the existing Budget Act could be used more frequently and explicitly to control selected tax expenditures. It is possible, under the existing Budget Act, to encourage trade-offs between tax and direct spending programs. For example, the Budget Committees could recommend in the report accompanying the first concurrent resolution that only $3 billion should be devoted to subsidizing some given activity. The committees could assume this amount in the appropriate direct spending function (perhaps Allowances), and then say in the committee report that this was not intended to preclude using some of this amount in the form of tax expenditures. The committees could state in the report, however, that the value of any tax expenditures adopted would be subtracted from both the direct spending function and from the general revenue floor in the second concurrent resolution. Alternatively, revenues could be reduced in the first concurrent resolution to leave room for tax spending; both the revenue floor and the appropriate direct spending function could then be increased in the second resolution if direct spending used up the full $3 billion. Should both a tax and a direct subsidy be adopted, the Budget committees would have the option of trying to use the reconciliation process. This procedure would encourage the kinds of trade-offs between tax and direct spending that the Budget Act was designed to encourage. It would be one way of exercising the Budget Committees' authority to devise ways of coordinating tax expenditures with direct outlays. This type of procedure could have been used last year for energy production and conservation tax credits, grants, and loans; it might be used in the future to coordinate targeted employment tax credits and public service jobs, or tax-exempt housing bonds and other housing subsidy programs. As a practical matter, however, it can probably only be used for a few issues a year.

The Congress could also decide to increase controls over future or "out-year" tax expenditure increases. The Budget Act generally does not have very effective mechanisms for controlling out-year increases either in direct spending or in tax expenditures. The Congress might want to consider modifying the Act to

61-626 O - 80 - 4

eliminate the "leapfrogging" provision that allows unbudgeted tax expenditures to go into effect if they skip one fiscal year. Under the general rule of Section 303 of the Budget Act, increases in tax or direct expenditures that would first take effect in fiscal year 1981, for example, cannot be adopted until the first concurrent resolution for fiscal year 1981 is approved in May 1980. If the second concurrent resolution for fiscal year 1980 barred unbudgeted tax expenditure increases for fiscal year 1980, there would seemingly be a complete ban on future unbudgeted tax expenditure increases. Under Section 303(b)(2), however, an unbudgeted tax expenditure increase could be enacted before the first concurrent resolution for 1981 if it did not take effect until fiscal year 1982 (October 1, 1981). Closing this "loophole" would increase budgetary controls over future-year tax expenditure increases. Some flexibility could still be retained by allowing for future increases under the Section 303(c) waiver procedure used in the Senate. It could be argued, however, that the leapfrog provision is a useful safety valve that should be left open for the sake of flexibility and to allow long-range planning.

Proposals for Sunset Legislation

For the past several years, both Houses of the Congress have 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 has passed both Houses. Subjecting tax expenditures to periodic reauthorization has been a hotly debated issue.

Proponents of sunset review of tax expenditures argue that the should be subject to periodic reexamination for the same reasons as direct spending programs. They further argue that applying the sunset mechanism to tax expenditures is particularly important because, in many cases, tax expenditures 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 it offers.

Opponents also claim that the technical difficulties in reviewing tax expenditures are so great as to preclude frequent comprehensive reviews. They note, however, that there has in fact been fairly regular review of many major provisions, citing the comprehensive tax reform bills enacted in 1964, 1969, 1976, and 1978. Some also argue that such review would in effect lead to a tax increase--that is, the Congress would tend to eliminate some tax expenditures, thus raising tax liabilities for those who had taken 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.

CHAPTER IV. FIVE-YEAR PROJECTIONS AND CURRENT ISSUES

This chapter presents five-year estimates of overall tax expenditure levels and reviews current proposals involving tax expenditures.

FIVE-YEAR PROJECTIONS

Estimates for fiscal years 1980-1985 of the 92 currently-listed tax expenditures are shown in Appendix A. These estimates were supplied to the Congressional Budget Office by the staffs of the Joint Committee on Taxation and the Department of the Treasury. The totals of the individual estimates are presented in Table 3.

Tax expenditures are projected to increase by 67 percent during fiscal years 1981 to 1985, growing at an average annual rate of 14 percent. This growth is a result partly of projected increases in income--both real and inflationary--and also of the cumulative impact of legislative changes in the tax expenditure budget made in the past three years. Increases in income cause the level of tax expenditures to rise because, as incomes rise, more income receives special tax treatment. Increased incomes also 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 77 percent of the total in fiscal year 1981, will grow at a faster rate than the corporate tax expenditures. The average annual growth rate for individual expenditures is estimated to be 15 percent during fiscal years 1981-1985, while the corporate portion will grow at an 11 percent rate.

The 12 largest tax expenditures account for 69 percent of the total of all tax expenditures in fiscal year 1981 (see Table 4). The largest of all, the investment tax credit, is projected to increase 35 percent, from $19,975 million in fiscal year 1981 to $26,910 million in fiscal year 1985.

TABLE 3. SUM OF TAX EXPENDITURE ITEMS BY TYPE OF TAXPAYER, FISCAL YEARS 1980-1985 (In millions of dollars)

Fiscal Year	Individuals and Corporations	Individuals	Corporations
1980	181,480	137,365	44,115
1981	206,300	158,205	48,095
1982	233,560	180,855	52,705
1983	265,020	206,610	58,410
1984	302,020	236,775	65,245
1985	345,210	271,990	73,220

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

NOTE: These totals are explained in Chapter II of the text. They are based on the tax law in effect as of December 31, 1979.

Tax expenditures and direct expenditures must be viewed together before an adequate evaluation of total federal support in a given area can be made (see Chapter I). Appendix Table A-2 shows the relation between tax spending and direct spending for major budget categories.

CURRENT ISSUES

In his proposed budget for fiscal year 1981, the President proposed changes in the tax expenditure budget in three areas: energy, tax-exempt housing bonds, and tax expenditures to encourage historic preservation. The Congress has acted on his energy proposals in the Crude Oil Windfall Profit Tax Act of 1980, and is currently considering the others. The rest of the chapter reviews these and other tax expenditure issues that may come before the Congress in the coming year.

Energy Tax Expenditures

In conjunction with his proposal to phase out crude oil price controls and impose a windfall profits tax on domestic oil producers, the President proposed a series of tax credits to encourage energy production and conservation. These included tax credits for commercial and residential passive solar construction, production of shale oil and unconventional natural gas, and purchase of woodburning stoves, as well as an extension of the exemption of gasohol from the federal gasoline excise tax up to the year 2000. These tax credits would reduce revenues by $0.3 billion in fiscal year 1981 and by larger amounts thereafter.

While considering the windfall profits tax, the Congress developed a series of energy tax credits of its own. These credits are estimated to reduce federal revenues by $250 million in fiscal year 1981 and $1.6 billion in 1985 (see Table 5).

The residential energy tax credit for purchases of solar, wind, and geothermal equipment was increased to 40 percent of the first $10,000 of expenses. This increases the maximum credit from $2,200 to $4,000. Eligibility for the credit was also restricted in cases where the property is financed with grants or subsidized energy loans. The residential provisions of the bill will increase tax expenditures by $44 million in fiscal year 1981. Businesses were encouraged to conserve and produce alternative

TABLE 4. TAX EXPENDITURES EXCEEDING $5 BILLION FOR FISCAL YEAR 1981 (In millions of dollars)

	Fiscal Year 1981
Investment tax credit, other than on TRASOPs (employee stock ownership plans) and rehabilitated structures	19,975
Deductibility of nonbusiness state and local taxes (other than on owner-occupied homes or gasoline)	17,305
Capital gains (other than for farming, iron ore, timber, and coal)	15,695
Exclusion of employer contributions for medical insurance premiums and medical care	15,215
Deductibility of interest on owner-occupied homes	14,760
Net exclusion of pension contributions and earnings--employer plans	14,740
Deductibility of property tax on owner-occupied homes	8,975
Reduced rates on first $100,000 of corporate homes	7,510
Exclusion of OASI benefits for retired workers	8,695
Deductibility of charitable contributions other than education and health	7,095
Exclusion of interest on general-purpose state and local debt	6,525
Capital gains at death	5,085

TABLE 5. THE EFFECTS ON TAX EXPENDITURE LEVELS OF THE CRUDE OIL WINDFALL PROFIT TAX ACT OF 1980 (H.R. 3919), FISCAL YEARS 1980-1985 (In millions of dollars)

	1980	1981	1982	1983	1984	1985
Residential energy tax incentives	7	44	55	74	105	148
Business energy tax incentives	50	206	274	567	985	1,426
Repeal of carryover basis	---	a	36	95	163	238
Interest and dividend exclusion	---	314	2,278	1,713	---	---
Refund for involuntary LIFO inventory liquidations[b]	---	---	85	85	80	---
Total Increase In Tax Expenditure Due to H.R. 3919	57	564	2,728	2,534	1,333	1,812

SOURCE: Conference Report on the Crude Oil Windfall Profit Tax Act of 1980.

a. Less than $1 million.
b. Assumes that the Secretary of Treasury will invoke provision for disruptions of oil shipments during 1980.

forms of energy through a series of new and expanded tax incentives. These include the expansion of existing energy investment tax credits and broader eligibility rules for industrial development bonds. These provisions are expected to increase tax expenditures by $206 million in fiscal year 1981.

The Crude Oil Windfall Profit Tax Act also includes tax expenditure provisions not related to energy. The carryover basis provision of the Tax Reform Act of 1976 was repealed by the act. That provision would have required heirs to "carry over" the "basis," that is, the purchase price, of the benefactor for purposes of calculating the capital gains tax at time of sale. Now that the provision has been repealed, heirs can continue to "step up" the basis of the property to its value at the time of inheritance. This provision will have a negligible effect on fiscal year 1981 receipts, but will reduce out-year revenues substantially. The provision is estimated to reduce receipts by $810 million in fiscal year 1990.

The bill also contains a provision that doubles the current dividend exclusion to $200 for individuals and $400 for joint returns, and extends the exclusion to interest income. This provision applies only to calendar years 1981 and 1982. Finally, the bill has a provision that could provide special tax relief to some businesses forced to liquidate inventories as a response to a Department of Energy regulation concerning energy supply or a foreign supply interruption.

Other Tax Expenditure Issues

Tax-Exempt Housing Bonds. In his proposed budget for fiscal year 1981, the President reiterated his support of legislation to ban the use of tax-exempt bonds for owner-occupied housing. He further proposed that the use of tax-exempt bonds for multifamily housing be limited to projects that have at least 20 percent low- and moderate-income residents. The House of Representatives has passed legislation dealing with this issue, H.R. 5741. The bill would sharply limit the volume of single-family housing bonds, concentrating them primarily on low- and moderate-income home purchasers in targeted economically distressed areas. Moreover, it would ban all tax-exempt single-family housing bonds issued later than two years after the enactment of the bill. The bill would restrict tax-exempt bonds for multifamily housing to those for complexes with at least 20 percent low- or moderate-income residents. The bill is estimated to save $618 million in fiscal year 1981[1] and $8.4 billion by fiscal year 1984.

Historic preservation. The Tax Reform Act of 1976 contained provisions designed to encourage preservation of historic structures through special tax incentives for rehabilitation and disincentives for demolition. These provisions are scheduled to expire by July 1981. The President has proposed extending them for one year to better facilitate study of their effects. Legislation has been introduced in the Congress to accomplish this, but neither House has yet acted on the proposal.

---

1. For a more complete discussion, see Congressional Budget Office, Tax-Exempt Bonds for Single-Family Housing (April 1979) and the Report of the Committee on Ways and Means on H.R. 5741, the Mortgage Subsidy Bond Tax Act of 1979 (December 1979).

APPENDIX A

TABLE A-1. TAX EXPENDITURE ESTIMATES BY FUNCTION, FISCAL YEARS 1980-1985 (In millions of dollars)[a]

	Corporations						Individuals					
Function and Subfunction	1980	1981	1982	1983	1984	1985	1980	1981	1982	1983	1984	1985
National Defense												
Exclusion of benefits and allowances to Armed Forces personnel	--	--	--	--	--	--	1,470	1,585	1,715	1,850	2,000	2,160
Exclusion of military disability pensions	--	--	--	--	--	--	125	135	145	155	170	185
Subtotal							1,595	1,720	1,860	2,005	2,170	2,345
International Affairs												
Exclusion of income earned abroad by U.S. citizens	--	--	--	--	--	--	555	600	645	695	755	815
Deferral of income of domestic international sales corporations (DISC)	1,400	1,470	1,580	1,710	1,850	2,000	--	--	--	--	--	--
Deferral of income of controlled foreign corporations	445	480	520	560	605	650	--	--	--	--	--	--
Special rate for Western Hemisphere trade corporations	5	--	--	--	--	--	--	--	--	--	--	--
Subtotal	1,850	1,950	2,100	2,270	2,455	2,650	555	600	645	695	755	815
General Science, Space, and Technology												
Expensing of research and development expenditures	1,760	1,930	2,220	2,535	2,825	3,090	35	40	45	50	55	60
Energy												
Expensing of exploration and development costs	1,580	1,815	1,870	2,055	2,290	2,625	610	750	875	1,025	1,205	1,415
Excess of percentage over cost depletion	1,160	1,350	1,540	1,660	1,775	1,890	970	1,370	1,600	1,630	1,685	1,860
Capital gains treatment of royalties on coal	10	10	10	15	15	15	75	90	100	110	115	125
Residential energy credits	--	--	--	--	--	--	460	460	475	505	555	615
Alternative conservation and new technology credits	390	495	595	560	160	65	b	b	b	b	b	b
Subtotal	3,140	3,670	4,015	4,290	4,240	4,595	2,115	2,670	3,050	3,270	3,560	4,015

Source and footnotes appear at end of Table A-1.

(Continued)

TABLE A-1. (Continued)

Function and Subfunction	Corporations 1980	1981	1982	1983	1984	1985	Individuals 1980	1981	1982	1983	1984	1985
National Resources and Environment												
Exclusion of interest on state and local government pollution control bonds	220	245	270	295	325	355	240	265	290	320	355	390
Exclusion of payments in aid of construction of water and sewage facilities	60	110	115	115	120	125	--	--	--	--	--	--
5-year amortization on pollution control facilities	-10	15	55	95	90	75	--	--	--	--	--	--
Tax incentives for preservation of historic structures	10	20	20	20	10	10	25	45	55	55	45	25
Capital gains treatment of certain timber income	420	470	535	600	670	755	120	135	150	170	190	215
Capital gains treatment of iron ore	10	10	10	10	10	10	10	10	10	10	10	10
Subtotal	710	870	1,005	1,135	1,225	1,330	395	455	505	555	600	640
Agriculture												
Expensing of certain capital outlays	75	80	85	85	90	95	430	475	545	565	585	605
Capital gains treatment of certain ordinary income	20	20	20	20	20	20	385	405	425	445	465	490
Deductibility of noncash patronage dividends and certain other items of cooperatives	540	590	625	670	710	760	-175	-190	-200	-210	-220	-230
Exclusion of certain cost-sharing payments	--	--	--	--	--	--	30	75	80	80	75	75
Subtotal	635	690	730	775	820	875	670	765	850	880	905	940
Commerce and Housing Credit												
Dividend exclusion	--	--	--	--	--	--	490	515	530	555	580	605
Exclusion of interest on state and local industrial development bonds	360	470	595	730	880	1,045	385	505	640	785	950	1,125
Exemption of credit union income	110	115	125	140	155	170	--	--	--	--	--	--
Excess bad debt reserves of financial institutions	855	965	1,015	1,090	1,260	1,450	--	--	--	--	--	--

(Continued)

TABLE A-1. (Continued)

Function and Subfunction	Corporations 1980	1981	1982	1983	1984	1985	Individuals 1980	1981	1982	1983	1984	1985
Commerce and Housing Credit (continued)												
Deductibility of mortgage interest on owner-occupied homes	--	--	--	--	--	--	12,505	14,760	17,415	20,550	24,250	28,615
Deductibility of property tax on owner-occupied homes	--	--	--	--	--	--	7,740	8,975	10,410	12,080	14,010	16,250
Deductibility of interest on consumer credit	--	--	--	--	--	--	3,595	4,240	5,005	5,905	6,970	8,225
Expensing of construction period interest and taxes	555	585	615	645	710	815	140	160	160	155	135	155
Excess first-year depreciation	50	50	55	55	60	65	135	145	150	160	170	180
Depreciation on rental housing in excess of straight line	65	65	70	70	75	75	285	290	295	305	320	335
Depreciation on buildings (other than rental housing) in excess of straight line	135	140	150	165	185	205	120	125	135	150	165	185
Asset depreciation range	2,880	3,400	3,940	4,330	4,300	3,935	150	180	215	225	225	210
Capital gains (other than farming, timber, iron ore, and coal)	715	810	925	1,045	1,190	1,325	13,855	14,885	16,005	17,205	18,505	19,895
Deferral of capital gains on home sales	--	--	--	--	--	--	1,010	1,110	1,220	1,345	1,480	1,625
Capital gains at death	--	--	--	--	--	--	4,750	5,085	5,440	5,820	6,230	6,665
Corporate surtax exemption	115	--	--	--	--	--	--	--	--	--	--	--
Reduced rates on first $100,000 of corporate income	7,555	7,510	7,890	8,860	9,810	10,680	--	--	--	--	--	--
Investment credit, other than for TRASOPs and for rehabilitated structures	15,705	16,860	17,730	18,645	20,435	22,690	2,910	3,115	3,295	3,460	3,790	4,220
Investment credit for rehabilitated structures	120	140	155	170	185	205	60	65	65	65	70	75
Exclusion of interest on state and local housing bonds	435	890	1,855	3,380	5,450	8,000	230	570	1,305	2,480	4,090	6,080
Subtotal	29,655	32,000	35,120	39,325	44,695	50,660	48,360	54,725	62,285	71,245	81,940	94,445

(Continued)

TABLE A-1. (Continued)

Function and Subfunction	Corporations 1980	1981	1982	1983	1984	1985	Individuals 1980	1981	1982	1983	1984	1985
Transportation												
5-year amortization on railroad rolling stock	-40	-40	-40	-35	-20	--	--	--	--	--	--	--
Deferral of tax on shipping companies	70	75	75	80	90	95	--	--	--	--	--	--
Subtotal	30	35	35	45	70	95						
Community and Regional Development												
5-year amortization for rehabilitation of low-income housing	5	10	10	10	5	b	10	15	20	15	10	b
Education, Training, Employment, and Social Services												
Exclusion of scholarship and fellowship income	--	--	--	--	--	--	375	400	420	440	460	485
Parental personal exemption for students age 19 or over	--	--	--	--	--	--	1,030	1,045	1,055	1,065	1,075	1,085
Exclusion of employee meals and lodging (other than military)	--	--	--	--	--	--	350	380	410	445	485	525
Exclusion of contributions to prepaid legal service plans	--	--	--	--	--	--	20	35	10	--	--	--
Investment credit for employee stock ownership plans (TRASOPs)	700	740	815	895	1,005	1,135	--	--	--	--	--	--
Deductibility of charitable contributions (education)	345	360	370	410	470	530	765	885	1,030	1,190	1,385	1,605
Deductibility of charitable contributions to other than education and health	430	450	460	510	580	655	5,725	6,645	7,705	8,940	10,370	12,030
Maximum tax on personal service income	--	--	--	--	--	--	1,265	1,580	1,975	2,470	3,085	3,860
Credit for child and dependent care expenses	--	--	--	--	--	--	820	900	985	1,080	1,185	1,300
Credit for employment of AFDC recipients and public assistance recipients under work-incentive programs	45	50	50	55	60	60	5	10	10	10	10	10

(Continued)

TABLE A-1. (Continued)

Function and Subfunction	Corporations 1980	1981	1982	1983	1984	1985	Individuals 1980	1981	1982	1983	1984	1985
Education, Training, Employment, and Social Services (continued)												
General jobs credit	190	85	25	--	--	--	--	--	--	--	--	--
Targeted jobs credit	115	275	240	45	b	b	10	40	55	b	b	b
Employer educational assistance	--	--	--	--	--	--	30	35	40	45	25	--
Subtotal	1,825	1,960	1,960	1,915	2,115	2,380	10,395	11,955	13,695	15,685	18,080	20,900
Health												
Exclusion of employer contributions for medical insurance premiums and medical care	--	--	--	--	--	--	12,965	15,215	17,845	20,990	24,450	28,740
Deductibility of medical expenses	--	--	--	--	--	--	3,585	4,050	4,575	5,170	5,845	6,605
Expensing of removal of architectural and transportation barriers to the handicapped	b	b	b	b	b	b	b	b	b	b	b	b
Deductibility of charitable contributions (health)	210	220	230	255	290	325	1,145	1,330	1,540	1,790	2,075	2,405
Subtotal	210	220	230	255	290	325	17,695	20,595	23,960	27,950	32,370	37,750
Income Security												
Exclusion of social security benefits:												
Disability insurance benefits	--	--	--	--	--	--	685	820	965	1,110	1,280	1,475
OASI benefits for retired workers	--	--	--	--	--	--	6,880	8,695	10,560	12,350	14,605	16,885
Benefits for dependents and survivors	--	--	--	--	--	--	990	1,205	1,415	1,630	1,850	2,075
Exclusion of railroad retirement system benefits	--	--	--	--	--	--	330	380	420	485	560	650
Exclusion of workmen's compensation benefits	--	--	--	--	--	--	1,165	1,385	1,645	1,955	2,320	2,750
Exclusion of special benefits for disabled coal miners	--	--	--	--	--	--	50	50	50	50	50	50
Exclusion of unemployment insurance benefits	--	--	--	--	--	--	2,495	3,110	2,855	2,500	2,135	1,820

(Continued)

TABLE A-1. (Continued)

Function and Subfunction	Corporations 1980	1981	1982	1983	1984	1985	Individuals 1980	1981	1982	1983	1984	1985
Income Security (continued)												
Exclusion of public assistance benefits	--	--	--	--	--	--	395	450	510	585	665	755
Exclusion of disability pay	--	--	--	--	--	--	185	190	195	200	200	205
Net exclusion of pension contributions and earnings:												
Employer plans	--	--	--	--	--	--	12,925	14,740	16,805	19,165	21,850	24,915
Plans for self-employed and others	--	--	--	--	--	--	2,125	2,520	2,975	3,480	4,035	4,640
Exclusion of other employee benefits:												
Premiums on group term life insurance	--	--	--	--	--	--	1,485	1,635	1,795	1,975	2,175	2,390
Premiums on accident and disability insurance	--	--	--	--	--	--	90	100	105	110	120	130
Income of trusts to finance supplementary unemployment benefits	--	--	--	--	--	--	10	10	15	15	20	20
Exclusion of interest on life insurance saving	--	--	--	--	--	--	3,365	3,895	4,505	5,215	6,035	6,980
Exclusion of capital gains on home sales for persons age 55 and over	--	--	--	--	--	--	535	590	645	710	785	860
Additional exemption for the elderly	--	--	--	--	--	--	1,970	2,070	2,175	2,280	2,395	2,515
Additional exemption for the blind	--	--	--	--	--	--	40	40	40	45	45	50
Deductibility for casualty losses	--	--	--	--	--	--	590	665	755	850	965	1,090
Tax credit for the elderly	--	--	--	--	--	--	135	135	135	135	135	135
Earned income credit:												
Nonrefundable portion[c]	--	--	--	--	--	--	415	360	335	310	285	265
Subtotal							36,860	43,045	48,900	55,155	62,510	70,655
Veterans' Benefits and Services												
Exclusion of veterans' disability compensation	--	--	--	--	--	--	1,050	1,115	1,185	1,245	1,300	1,355

(Continued)

TABLE A-1. (Continued)

Function and Subfunction	Corporations 1980	1981	1982	1983	1984	1985	Individuals 1980	1981	1982	1983	1984	1985
Veterans' Benefits and Services (continued)												
Exclusion of veterans' pensions	--	--	--	--	--	--	50	55	60	60	65	65
Exclusion of GI bill benefits	--	--	--	--	--	--	160	130	110	90	75	60
Subtotal							1,260	1,300	1,355	1,395	1,440	1,480
General Government												
Credits for political contributions	--	--	--	--	--	--	100	140	100	125	100	140
General Purpose Fiscal Assistance												
Exclusion of interest on general purpose state and local debt	3,515	3,900	4,335	4,815	5,360	5,965	2,365	2,625	2,915	3,240	3,600	4,010
Deductibility of nonbusiness state and local taxes (other than on owner-occupied homes and gasoline)	--	--	--	--	--	--	14,665	17,305	20,420	24,095	28,430	33,545
Tax credit for corporations doing business in U.S. possessions	780	860	945	1,040	1,145	1,255	--	--	--	--	--	--
Subtotal	4,295	4,760	5,280	5,855	6,505	7,220	17,030	19,930	23,335	27,335	32,030	37,555
Interest												
Deferral of interest on savings bonds	--	--	--	--	--	--	290	250	250	250	250	250

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, 1979. They do not include the tax expenditure provisions of the Windfall Profits Tax Act of 1980. Separate estimates of the effect of this bill on tax expenditure levels are shown in Table 1.
b. Less than $2,500,000.
c. The refundable portion of this credit is considered an outlay. This is estimated to be $1,696, $1,570, $1,482, $1,406, $1,338, and $1,275 million in fiscal years 1980-1985, respectively.

TABLE A-2. OUTLAYS AND TAX EXPENDITURES BY BUDGET FUNCTION FOR FISCAL YEAR 1981

Budget Function	Absolute Amounts (in millions of dollars)			Relative Shares (in percentages)	
	Outlays	Tax Expend-itures	Total	Outlays	Tax Expenditures
National Defense (050)	144,760	1,720	146,480	98.8	1.2
International Affairs (150)	9,852	2,550	12,402	79.4	20.6
General Science, Space, and Technology (250)	6,314	1,970	8,284	76.2	23.8
Energy (270)	8,297	6,340	14,637	56.7	43.3
Natural Resources and Environment (300)	13,137	1,325	14,462	90.8	9.2
Agriculture (350)	2,316	1,455	3,771	61.4	38.6
Commerce and Housing Credit (370)	1,061	86,725	87,786	1.2	98.8
Transportation (400)	20,178	35	20,213	99.8	0.2
Community and Regional Development (450)	10,688	25	10,713	99.8	0.2

(Continued)

TABLE A-2. (Continued)

Budget Function	Absolute Amounts (in millions of dollars)			Relative Shares (in percentages)	
	Outlays	Tax Expend-itures	Total	Outlays	Tax Expenditures
Education, Training, Employment, and Social Services (500)	32,274	13,915	46,189	69.9	30.1
Health (550)	64,140	20,815	84,955	75.5	24.5
Income Security (600)	218,165	43,045	261,210	83.5	16.5
Veterans' Benefits and Services (700)	21,792	1,300	23,092	94.4	5.6
Administration of Justice (750)	4,756	--	4,756	100.0	0.0
General Government (800)	4,725	140	4,865	97.1	2.9
General Purpose Fiscal Assistance (850)	8,520	24,690	33,210	25.7	74.3
Interest (900)	72,997	250	73,247	99.7	0.3
Allowances (920)	0	0	0	--	--
Undistributed Off-setting Receipts (950)	-24,700	--	-24,700	100.0	--
Total	619,272	206,300	825,572	75.0	25.0

SOURCES: Table 1; Outlay figures from materials prepared for Senate Markup of the First Concurrent Resolution on the Budget for Fiscal Year 1981.

APPENDIX B

APPENDIX B. 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

(Continued)

Committee	Tax Expenditure
Banking, Housing, and Urban Affairs (continued)	Deductibility of interest on consumer credit
	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

(Continued)

Committee	Tax Expenditure
Commerce, Science, and Transportation (continued)	5-year amortization on railroad rolling stock
	Deductibility of nonbusiness state gasoline taxes
	Deferral of tax on shipping companies
	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 royalites on iron ore
	Investment credit for certain rehabilitated structures
	Tax incentives for preservation of historic structures
	Residential energy credits
	Alternative conservation and new technology
Environment and Public Works	Exclusion of interest on state and local government pollution control bonds
	5-year amortization of pollution con trol facilities
	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

(Continued)

Committee	Tax Expenditure
Finance (continued)	Exclusion of unemployment insurance benefits
	Exclusion of public assistance benefits
	Exclusion of interest on general purpose state and local debt
	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

(Continued)

Committee	Tax Expenditure
Labor and Human Resources (continued)	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)
	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

(Continued)

Committee	Tax Expenditure
Labor and Human Resources (continued)	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

HOUSE OF REPRESENTATIVES

Committee	Tax Expenditure
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 treatment of certain timber income
	Exclusion of certain cost-sharing payments
Armed Services	Exclusion of benefits and allowances to Armed Forces personnel
	Exclusion of miliary disability pensions
	Exclusion of veterans' pensions
	Exclusion of GI Bill benefits
	Exclusion of veterans' disability compensation

(Continued)

Committee	Tax Expenditure
Banking, Finance, and Urban Affairs	Exclusion of interest on state and local pollution control bonds
	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
	Exclusion of interest on state and local industrial development bonds
	Exclusion of interest on state and local housing bonds
	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 Dometic International Sales Corproations (DISC)
	Deferral of income of controlled foreign corporations

(Continued)

Committee	Tax Expenditure
Banking, Finance, and Urban Affairs (continued)	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 interet on savings bonds
Education and Labor	Exclusion of scholarship and fellowship income
	Parental personal exemption for children age 19 and over
	Deductibility for 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

(Continued)

Committee	Tax Expenditure
Education and Labor (continued)	Exclusion of special benefits for disabled coal miners
	Net exclusion pension contributions and earnings
	Employer plans
	Plans for self-employed and others
	Exclusion of other employee benefits
	Premiums on group term life inurance
	Premiums on accident and disability 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
	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

(Continued)

Committee	Tax Expenditure
Government Operations (continued)	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
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

(Continued)

Committee	Tax Expenditure
Interstate and Foreign Commerce (continued)	Exclusion of interest payments on state and local industrial development bonds (other than for education and health) 5-year amortization for 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 other employee benefits Premiums on group term life insurance Premiums on accident and disability insurance Tax credit for corporations doing business in U.S. possessions 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
Merchant Marine and Fisheries	Deferral of tax on shipping companies

(Continued)

Committee	Tax Expenditure
Public Works and Transportation	Deductibility of state gasoline taxes Exclusion of payments in aid of construction of water and sewage utilities 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 OASDI benefits for retired worker Benefits for dependents and survivors

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

U.S. GOVERNMENT PRINTING OFFICE : 1980 O - 61-626