

JCT releases federal tax expenditures estimate

The Joint Committee on Taxation (JCT) staff late last month released its estimate of federal tax expenditures for fiscal years 2022 through 2026.

URL: <https://www.jct.gov/publications/2022/jcx-22-22/>

Tax expenditures are defined under the Congressional Budget and Impoundment Control Act of 1974 as “revenue losses attributable to provisions of the federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.” The JCT report provides cost estimates for these provisions to “help policymakers and the public understand the ways in which government revenues are spent, and the tax and economic policy consequences that follow from the implicit or explicit choices made in fashioning legislation.”

The JCT’s estimates cover provisions in federal tax law enacted through August 16, 2022 (the enactment date of the Inflation Reduction Act of 2022 (P.L. 117-169)). Expired or repealed provisions generally are not included unless they have continuing revenue effects that are associated with ongoing taxpayer activity. Among the more sizable expenditures identified in the report are the:

- Net exclusion of contributions to and earnings on tax-preferred retirement plans, including defined contribution plans, defined benefit plans, and plans covering partners and sole proprietors, which, according to the JCT, represents an estimated \$2 trillion in foregone revenue between 2022 and 2026;
- Reduced rates of tax on dividends and long-term capital gains (\$1.14 trillion);
- Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums (\$1 trillion);
- Credit for children and other dependents (\$605.7 billion);
- Subsidies for insurance purchased through health benefit exchanges (\$387.2 billion);
- Earned income tax credit (\$363.4 billion);
- Exclusion of capital gains at death (\$299.3 billion);
- 20 percent deduction for qualified business income (\$258 billion);
- Deduction for charitable contributions, other than to educational institutions or health organizations (\$236.4 billion);
- Reduced tax rate on active income of controlled foreign corporations (\$224.3 billion); and the
- Deduction for mortgage interest on owner-occupied residences (\$203.3 billion).

In addition to providing cost estimates, the JCT report briefly describes new corporate and individual expenditures and modifications to existing expenditures resulting from recent legislation, including the Inflation Reduction Act; the Consolidated Appropriations Act, 2022 (P.L. 117-103), enacted on March 15, 2022; the Infrastructure Investment and Jobs Act (P.L. 117-58), enacted on November 15, 2021; the American Rescue Plan Act of 2021 (P.L. 117-2), enacted on March 11, 2021; and the Consolidated Appropriations Act, 2021, (P.L. 116-260), enacted on December 27, 2020.

The report also shows the distribution of tax returns by income class, and distributions of selected individual tax expenditures by income class.

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