

How Large Are Tax Expenditures?

By Donald B. Marron

Tax expenditures are getting increased scrutiny from budget hawks and tax reformers. Many deficit reduction proposals, for example, propose sharp cuts in tax expenditures to raise revenue while cutting individual and corporate income tax rates.

Treasury reports its tax expenditure estimates in each year's *Analytical Perspectives* volume of the president's budget. The published tables report static estimates of how much each tax expenditure reduces individual and corporate income tax receipts. Treasury does not estimate the aggregate revenue loss from these provisions, so outside analysts often add together the individual estimates. That approach is imprecise because it does not reflect how the provisions interact with each other.¹ Observers often overlook that concern, however, because it is useful to have approximate, aggregate measures of tax expenditures and how they have changed over time.

For fiscal 2011, for example, the individual income tax expenditures total \$965 billion and the corporate ones \$103 billion. Together, those provisions thus reduce income tax receipts by almost \$1.1 trillion.

But that is not their only effect. Some provisions — the refundable credits — also increase federal outlays. Those effects are reported in footnotes to the main tables and, therefore, may be overlooked. The outlay effects of the income tax expenditures add another \$108 billion in fiscal 2011, primarily

from the refundable portions of the earned income tax credit, the child credit, and 2010's Making Work Pay credit. The total budget impact of income tax expenditures in 2011 is thus almost \$1.2 trillion.

Tax expenditure analysis generally emphasizes income taxes, but some policies reduce other taxes as well. The administration does not report all these policies, but it does identify the payroll and excise tax outcomes of several provisions that also affect income taxes. In 2011, the identified payroll tax expenditures are estimated to be \$108 billion for employer-provided health insurance. The only identified excise tax reduction — the alcohol fuel tax credit — adds another \$3 billion. Combining those amounts with the income tax expenditures yields a total budget impact of identified tax expenditures in 2011 of almost \$1.3 trillion.

Tax Expenditures in Fiscal 2011-2016 (\$ in billions)						
	2011	2012	2013	2014	2015	2016
Tax Expenditures						
Lower Income Tax Receipts						
Individual	965	974	1,047	1,136	1,230	1,323
Corporate	103	109	125	134	143	149
Subtotal	1,068	1,083	1,172	1,271	1,373	1,471
Higher Outlays						
Individual and corporate	108	53	53	68	85	95
Subtotal	1,177	1,137	1,225	1,339	1,458	1,566
Lower Other Receipts						
Payroll ^a	108	113	118	125	133	141
Excise ^a	3	0	0	0	0	0
Total	1,288	1,250	1,343	1,464	1,591	1,708
^a Incomplete. The administration provides estimates for only some provisions that could be considered payroll and excise tax expenditures. Source: Tax expenditures calculated by summing the distinct provisions listed in Office of Management and Budget, "Fiscal Year 2012 Analytical Perspectives, Budget of the U.S. Government," Tables 17-1 and 17-2 (including footnotes) (Feb. 2011).						

¹One study finds that the revenue loss from all nonbusiness individual income tax expenditures together is 5 to 8 percent higher than the sum of the individual revenue losses. Leonard Burman, Eric Toder, and Christopher Geissler, "How Big Are Total Individual Income Tax Expenditures, and Who Benefits from Them?" 98 *Am. Econ. Rev.* 79 (2008).



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