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Tax Expenditures Compared with Outlays by Budget Function: Fact Sheet

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The federal government carries out public policies through tax expenditures as well as direct expenditures and regulations. In fact, in some categories of federal activity, tax expenditures far exceed outlays. A tax expenditure is the estimated revenue loss from the corporate or individual income tax associated with special tax treatment. The outlay equivalent tax expenditure is the amount of budget outlays that would be required to provide taxpayers with the same after-tax income that would be received through the tax expenditure and hence is larger than the corresponding tax expenditure. As noted in the federal budget, the outlay-equivalent measure allows the cost of a tax expenditure to be compared with a direct federal outlay on a more even footing.

Table 1 presents, for FY2002, the Office of Management and Budget's estimate of the outlay equivalent of tax expenditures as a percentage of outlays by the functional categories in the United States budget. This simple comparison reveals that tax expenditures dominate outlays for education, training, employment, and social services; energy; commerce and housing credit; and general government (percentages over 125%). Outlays and tax expenditures share more equally in the areas of health; income security; international affairs; and general science, space, and technology (percentages between 75% and 125%). Direct expenditures dominate in the areas of defense, Medicare, income security, Social Security, veterans' benefits and services, natural resources and environment, transportation, community and regional development, interest, agriculture, and the administration of justice (percentages under 75%). In the aggregate, the outlay equivalent of tax expenditures approximates half of total outlays.

Typically, neither the Office of Management and Budget nor the Joint Committee on Taxation sums functional or budget totals for tax expenditures because of possible interacting behavioral effects if one or more provisions were eliminated. Sums of categories were used here to enable a rough comparison between the outlay equivalent of tax expenditures and outlays.

See also U.S. Congress, Senate, Committee on the Budget, *Tax Expenditures: Compendium of Background Material on Individual Provisions*, Prepared by the Congressional Research Service, Committee Print S. Prt. 107-80, 107th Cong., 2nd sess., December 19, 2002, Washington, December 2002.

Table 1. Outlay Equivalent for Tax Expenditures, Outlays, and Percentage Ratio, by Budget Function, FY2002

Budget Superfunction and Function	Outlay Equivalent for Tax Expenditures (in \$ millions)	Outlays (in \$ millions)	Outlay Equivalent of Tax Expenditures as a Percent of Outlays (%)
Defense	\$2,540	\$348,555	0.73%
Human resources	461,083	1,317,852	34.99
Education, training, employment, and social services	100,900	70,544	143.03
Health	151,850	196,545	77.26
Medicare	0	230,855	0
Income security	179,983	312,511	57.59
Social security	24,980	456,413	5.47
Veterans' benefits and services	3,370	50,984	6.61
Physical resources	325,250	104,405	307.39
Energy	4,320	483	894.41
Natural resources and environment	1,810	29,454	6.15
Commerce and housing credit	315,030	(385)	-81,825.97*
Transportation	3,040	61,862	4.91
Community and regional development	1,050	12,991	8.08
Net interest	510	170,951	0.3
Other	124,300	117,018	106.22
International affairs	23,430	22,357	104.8
General science, space and technology	12,220	20,772	58.83
Agriculture	1,840	22,188	8.29
Administration of justice	0	34,316	0
General government fiscal assistance; General government	86,810	17,385	499.34
Undistributed offsetting receipts	NA	(47,806)	NA
Total	1,024,883	2,010,975	50.96

Source: U.S. Executive Office of the President, *Budget of the U.S. Government, Fiscal Year 2004*, Washington: GPO, 2003. Outlay equivalent tax expenditures from *Analytical Perspectives*, pp. 113-15; Outlays by superfunction and function from *Historical Tables*, p. 51. Percentages calculated by CRS.

* The negative percentage is not meaningful. Tax expenditures clearly dominate outlays for commerce and housing credit. Outlays are negative in some years such as FY2002, and positive but small in other years.