AID TO STATE AND LOCAL GOVERNMENT FINANCING

The Federal Government aids State and local government financing through certain tax provisions. These take two forms: (1) the itemized deductions for nonbusiness State and local taxes; (2) the exemption from Federal income tax of interest on State and local government obligations. The revenue costs to the Federal Government of these special tax provisions are shown in Table 10. There is no single functional category in the present Federal budget for aid to State and local government financing, and thus there is no chart for this item.

CAPITAL GAINS - INDIVIDUAL INCOME TAX

The tax expenditures involved in the present treatment of capital gains of individuals are placed in the range of $5.5 to $8.5 billion. This revenue cost includes the exclusion from income tax of appreciation on assets transferred at death, the exclusion of half the gains from the sale of capital assets held more than six months, and the maximum rate of 25 percent. No table or chart is shown for this heading, because these tax expenditures would fall under a variety of functions in the Federal budget, including commerce and transportation, agriculture and agricultural resources, community development and housing, and health and welfare. Available data, however, do not provide a basis for accurate distribution among these functions. Thus, to avoid having to choose any single predominant category but to identify the importance of this special provision, a new heading outside any budget classification is included for this item.

Separation of this item from the budget classifications leads to an understatement of the amounts of tax expenditures for the functional categories affected.