

All estimates of tax expenditures resulting from special tax provisions represent revenues lost on an annual basis. The estimates of revenue foregone are, in general, based on the assumption that such provisions never existed, or, alternatively, that such provisions have been withdrawn sufficiently long ago that we are now beyond the period needed to permit an equitable transition to a new tax situation.

The revenue cost estimated for these special provisions is not in many cases the revenue change which would result in the first full year if these provisions were withdrawn. Replacement of some or all of these provisions by direct expenditures or lending programs might change the level and composition of economic activity. The revenue cost of each special tax provision presented for 1968 would, of course, generally vary over time with growth in the economy and changes in various parts of the tax base. Also, a realistic approach to any change in these provisions would provide in many situations transition arrangements which would effect the revenue change gradually over a period of years.

Another key assumption is that economic activity for the year would not have been affected by the absence of these special provisions. This, of course, is a simplifying assumption for tax expenditures undoubtedly have significant effects on the composition and perhaps the level of economic activity. Also, in the absence of these tax benefits, there would doubtless have been changes in Government direct spending and net lending to accomplish some of the objectives of the existing provisions. No attempt has been made to speculate how the budget and the economy might differ if none of these provisions were in the law.

No account is taken here of other taxes, such as payroll taxes, estate and gift taxes, excises, or tariffs. The assumption inherent in current law, that corporations are separate entities and subject to income taxation independently from their shareholders, is adhered to in this analysis.

The tax expenditures shown here for the three fiscal years 1968, 1969, and 1970 are figured at the tax rate which affect the revenues in these years.

A brief description of each of the special tax provisions for which a tax expenditure estimate is shown accompanies the estimates.

National Defense

The supplements to salaries of military personnel by provision of quarters and meals on military bases and off-base quarters allowances for military families, and virtually all salary payments and reenlistment bonuses to military personnel serving in combat zones are excluded from tax.

TABLE 1.—NATIONAL DEFENSE

Tax expenditures, 1968

[In millions of dollars]

Exclusion of military benefits and allowances..... 500

Budget Outlays Plus Tax Expenditures

[In billions of dollars]

	1968	1969	1970
Budget outlays:			
Expenditures.....	80.5	81.0	81.5
Net lending.....	(1)	(1)	(1)
Total.....	80.5	81.0	81.5
Tax expenditures.....	.5	.6	.6
Total budget outlays plus tax expenditures.....	81.0	81.6	82.1
Tax expenditures as percent of budget outlays.....	1	1	1

¹ Less than \$50,000,000.

International Affairs and Finance

Individual taxation.—For citizens of the United States, income earned abroad up to \$20,000 for each complete tax year is exempted from taxation if the taxpayer is a bona fide resident of a foreign country for an uninterrupted period that includes 1 full tax year or, if he is present there 510 days during a period of 18 consecutive months. After 3 years, foreign resident taxpayers can exclude up to \$25,000 a tax year.