**Table 12–1**
**The Twenty-five Largest Tax Expenditures in the Federal Income Tax, Fiscal 2009 Estimated ($ millions)**

| Provision | Amount |
|---|---|
| Exclusion of employer contributions for medical insurance premiums and medical care | 168,460 |
| Deductibility of mortgage interest on owner-occupied homes | 100,810 |
| Capital gains (except agriculture, timber, iron, ore, and coal) | 55,940 |
| Net exclusion of pension contributions and earnings: 401(k) plans | 51,000 |
| Deductibility of charitable contributions, other than education and health | 46,980 |
| Net exclusion of pension contributions and earnings: Employer plans | 45,670 |
| Accelerated depreciation of machinery and equipment (normal tax method) | 44,120 |
| Step-up basis of capital gains at death | 36,750 |
| Capital gains exclusion on home sales | 34,710 |
| Deductibility of non-business state and local taxes other than on owner-occupied homes | 33,200 |
| Child credit | 29,950 |
| Exclusion of interest on public purpose state and local bonds | 25,900 |
| Exclusion of interest on life insurance savings | 23,500 |
| Social Security benefits for retired workers | 18,640 |
| Deductibility of state and local property tax on owner-occupied homes | 16,640 |
| Deduction for U.S production activities | 15,330 |
| Deferral of income from controlled foreign corporations (normal tax method) | 13,780 |
| Net exclusion of pension contributions and earnings: Keogh plans | 13,000 |
| Accelerated depreciation on rental housing (normal tax method) | 11,760 |
| Net exclusion of pension contributions and earnings: Individual Retirement Accounts | 11,700 |
| Exception from passive loss rules for $25,000 of rental loss | 8,840 |
| Exclusion of net imputed rental income | 7,550 |
| Deductibility of medical expenses | 5,920 |
| Exclusion of workers' compensation benefits | 5,920 |
| Social Security benefits for the disabled | 5,810 |

*SOURCE:* Executive Office of the President, Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal 2009* (Washington, D.C.: U.S. GPO, 2008).

Tax policy is generally predisposed against tax expenditures—assuming the normal structure is rationally designed—because the differential provisions distort business and household decisions, because their implementation complicates the tax system, because they continue without regular evaluation and legislative approval, because they are open-ended in amount, and because they are not transparent in enactment, in delivery of benefits, or in overall magnitude.[37] It may even be argued that having a legally defined and quantitatively identified normal baseline is one element

[37] At the federal level, tax expenditures also face fewer legislative check points because House Ways and Means and Senate Finance serve as both authorizing and appropriating committees for tax legislation.