**Corporate Income Tax Liability for Tax Year 2020**

| Total Assets (In thousands of dollars) | Income Subject to Tax (In millions of dollars) | Total Income Tax After Credits (In millions of dollars) | Percentage of Income Tax After Credits to Taxable Income |
|---|---|---|---|
| Zero assets | 21,064 | 4,439 | 21.1% |
| $1 under $500 | 6,908 | 1,426 | 20.6% |
| $500 under $1,000 | 4,364 | 886 | 20.3% |
| $1,000 under $5,000 | 21,444 | 4,312 | 20.1% |
| $5,000 under $10,000 | 13,079 | 2,640 | 20.2% |
| $10,000 under $25,000 | 19,851 | 3,900 | 19.6% |
| $25,000 under $50,000 | 17,342 | 3,389 | 19.5% |
| $50,000 under $100,000 | 19,750 | 3,854 | 19.5% |
| $100,000 under $250,000 | 33,865 | 6,584 | 19.4% |
| $250,000 under $500,000 | 32,033 | 6,189 | 19.3% |
| $500,000 under $2,500,000 | 117,758 | 21,388 | 18.2% |
| $2,500,000 or more | 1,472,847 | 217,604 | 14.8% |
| Total | 1,780,305 | 276,611 | |

# Tax Gap

The gross tax gap is the difference between the amount of tax imposed by law and what taxpayers actually pay on time and/or timely. The tax gap provides an estimate of the level of overall noncompliance compliance during the relevant tax periods. Tax gap estimates provide periodic appraisals about the nature and extent of noncompliance for use in formulating tax administration strategies. Given the complexity of the tax system and available data, a single approach cannot be used for estimating all the components of the tax gap. The most recent estimates covering the tax year 2014-2016 timeframe were released in FY 2023. In October 2023, the tax gap projections were issued for tax year 2020 and 2021. The tax gap projections for tax years 2020 and 2021 assume compliance behavior that has not changed since the 2014-2016 tax gap estimates.

The gross tax gap is the amount of a tax liability that is not paid voluntarily and on time. The projected gross tax gap increased to $688.0 billion in tax year 2021. The gross tax gap is comprised of three components: non-filing, underreporting, and underpayment. The projected gross tax gap for each of these components is $77.0 billion, $542.0 billion, and $68.0 billion, respectively. The gross tax gap projections are also segmented by type of tax: individual income tax, corporation income tax, employment tax, and estate and excise tax. The projected gross tax gap for each of these types of tax is $520.0 billion, $45.0 billion, $118.0 billion, and $4.0 billion, respectively.

The net tax gap is the gross tax gap less tax that subsequently will be paid either late through voluntary payments or collected through IRS administrative and enforcement activities and is the portion of the gross tax gap that will not be paid. It is projected that $63.0 billion of the gross tax gap will eventually be paid resulting in a net tax gap of $625.0 billion. The net tax gap projections are also segmented by type of tax: individual income tax, corporation income tax, employment tax, and estate and excise tax. The projected net tax gap for each of these types of tax is $475.0 billion, $37.0 billion, $112.0 billion, and $1.0 billion, respectively.[1] For additional information on the tax gap, refer to Treasury's financial statements.

# Tax Expenditures

As discussed in greater detail in Note 19—Collections and Refunds of Federal Revenue, tax and other revenues reported reflect the effects of tax expenditures, which are special exclusions, exemptions, deductions, tax credits, preferential tax rates, and tax deferrals that allow individuals and businesses to reduce taxes they may otherwise owe.

[1] Individual amounts may not add to totals due to rounding.

Tax expenditures are estimated using data from previous years and the economic forecast from the FY 2023 Midsession Review as reported in the FY 2024 *Budget*. The largest tax expenditures in FY 2023 are the following (and see the table below):

- The exclusion from workers' taxable income of employers' contributions for health care, health insurance premiums, and premiums for long-term care insurance;
- The exclusion of contributions to and the earnings of employer defined benefit and defined contribution pension funds (minus pension benefits that are included in taxable income);
- Imputed rental income forms part of the total value of goods and services produced in a country. But unlike returns from other investments, the return on homeownership "imputed rent" is excluded from taxable income. In contrast, landlords must count as income the rent they receive, and renters may not deduct the rent they pay. A homeowner is effectively both landlord and renter, but the tax code treats homeowners the same as renters while ignoring their simultaneous role as their own landlords and exempting potential rent they would have paid themselves;
- Preferential tax rates on long-term capital gains; and
- In taxable years 2022 through 2025, a taxpayer may claim a $2,000 per child partially refundable child tax credit. In 2023, up to $1,600 per child of unclaimed credit due to insufficient tax liability may be refundable; a taxpayer may claim a refund for 15 percent of earnings in excess of a $2,500 floor, up to the lesser of the amount of unused credit or $1,600 per child. A taxpayer may also claim a nonrefundable credit of $500 for each qualifying child not eligible for the $2,000 credit.

**Largest Income Tax Expenditures**

| (In billions of dollars) | **2023** |
|---|---|
| Exclusion of employer contributions for medical insurance premiums & health care | 237.4 |
| Defined benefit & defined contribution pension funds | 185.1 |
| Exclusion of net imputed rental income | 133.7 |
| Preferential tax rates on long-term capital gains | 118.3 |
| Child tax credit | 67.5 |

Generally, identifying and measuring a tax expenditure requires defining a baseline tax system against which identified tax provisions are exceptions. The tax expenditures prepared for the *Budget* are estimated relative to a simplified comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time. Tax expenditure estimates do not necessarily equal the increase in federal revenues (or the change in the *Budget* balance) that would result from repealing these special provisions, for the following reasons:

- Eliminating a tax expenditure may have incentive effects that alter economic behavior, which can affect the resulting magnitudes of the activity or of other tax provisions or government programs. For example, if capital gains were taxed at ordinary rates, capital gain realizations would be expected to decline, resulting in lower tax receipts. Such behavioral effects are not reflected in the estimates.
- Tax expenditures are interdependent even without incentive effects. Repeal of a tax expenditure provision can increase or decrease the tax revenue effect of other provisions. For example, even if behavior does not change, repeal of an itemized deduction could increase revenue costs from other deductions as some taxpayers move into higher tax brackets. Alternatively, an itemized deduction repeal could lower the revenue foregone from other deductions if taxpayers choose to claim the standard deduction over itemizing. Similarly, if two provisions were repealed simultaneously, the tax liability increase could be greater or less than the sum of the two separate tax expenditures, because each is estimated assuming that the other remains in force.
- Repeal effects may depend on concurrent tax rate changes. Lowering or raising tax rates can decrease or increase the estimated revenues from a particular provision. A $10,000 charitable contributions deduction is worth $3,500 in corporate tax revenues at a 35.0 percent tax rate, but only $2,100 at a 21.0 percent tax rate.

A more comprehensive ranking, including rankings over a 10-year period, and descriptions of tax expenditures can be found at the following location from Treasury's Office of Tax Policy: https://home.treasury.gov/policy-issues/tax-policy/tax-expenditures.