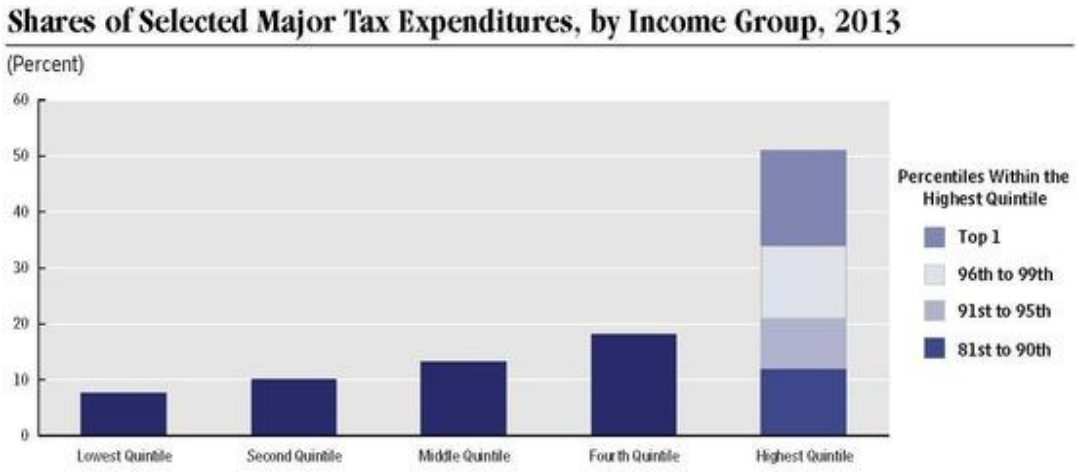
The chart below shows the shares enjoyed by each income quintile of 10 of the major individual tax expenditures.[3]



Many, though not all, of these tax expenditures take the form of a deduction. Most of the personal consumption tax expenditure deductions are Itemized Deductions, as described in Chapter 1, Part B., which means that those who take the Standard Deduction, instead, do not benefit from these deductions.

As you consider each topic, remember the cost-benefit analysis that applies to tax expenditures described in Chapter 17, Part A. What is the goal sought to be accomplished? Is that goal better accomplished inside or outside the tax system? If the tax system is used, is the provision crafted well to avoid windfall losses (if intended to change behavior) or to target the intended beneficiaries (if intended as a subsidy)? Is the distribution of the tax expenditure's benefits among income groups fair? Is the benefit likely to be captured by other actors in the marketplace through the price mechanism? Remember always that these provisions, because they are not costless, mean that tax *rates* are higher than they otherwise would be to raise *$X* in revenue.

A. Owner-occupied housing

Owner-occupied housing is one of the most tax-preferred investments in the U.S. economy, encompassing (1) the exclusion of imputed income with respect to owner-occupied housing, (2) the § 163(h)(3) deduction of qualified residence interest, (3) the § 164(a)(1) deduction of state and local real estate property taxes, even if unconnected to income-producing activity, (4) the exclusion for gain realized on the sale or exchange of a principal residence under § 121, and (5) the §§

[3] CONGRESSIONAL BUDGET OFFICE, THE DISTRIBUTION OF MAJOR TAX EXPENDITURES IN THE INDIVIDUAL INCOME TAX SYSTEM, at www.cbo.gov/sites/default/files/cbofiles/attachments/43768_DistributionTaxExpenditures.pdf. The tax expenditures reflected here include the exclusion for employer-provided health care and long-term care insurance, the exclusion of net pension contributions and earnings, the exclusion of built-in gain at death under § 1014, the exclusion of a portion of Social Security and Railroad Retirement benefits, the deduction for qualified residence interest, the deduction for nonbusiness state and local income, sales, real estate, and personal property taxes, the deduction for charitable contributions, the reduced tax rates applied to net capital gain and qualified dividends, the earned income tax credit, and the child tax credit.