United States Government Other Information (Unaudited) for the Years Ended September 30, 2018, and 2017

Tax Burden

The Internal Revenue Code provides for progressive tax rates, whereby higher earned income is generally subject to higher tax rates. The following tables present the latest available information on income tax and related income, deductions, and credit: for individuals by income level, and for corporations by size of assets.

Individual Income Tax Liability for Tax Year 2016

Adjusted Gross Income (AGI)	Number of Taxable Returns (In thousands)	AGI (in millions of dollars)	Total Income Tax (in millions of dollars)	Average AGI Per Return (in whole dollars)	Average Income Tax per Return (in whole dollars)	Income Tax as a Percentage of AGI
Under $15,000	34,916	55,654	1,903	1,594	55	3.4%
$15,000 under $30,000	29,646	655,110	18,587	22,098	627	2.8%
$30,000 under $50,000	26,753	1,047,405	58,168	39,151	2,174	5.6%
$50,000 under $100,000	33,199	2,367,475	209,856	71,312	6,321	8.9%
$100,000 under $200,000	18,858	2,552,481	321,564	135,353	17,052	12.6%
$200,000 under $500,000	5,583	1,588,349	308,249	284,497	55,212	19.4%
$500,000 or more	1,318	1,959,465	527,721	1,486,696	400,395	26.9%
Total	150,273	10,225,939	1,446,048			

Corporate Income Tax Liability for Tax Year 2015

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	21,291	6,627	31.1%
$1 under $500	8,606	1,619	18.8%
$500 under $1,000	3,942	974	24.7%
$1,000 under $5,000	13,667	4,273	31.3%
$5,000 under $10,000	8,581	2,793	32.5%
$10,000 under $25,000	13,120	4,306	32.8%
$25,000 under $50,000	12,890	4,210	32.7%
$50,000 under $100,000	15,296	4,948	32.3%
$100,000 under $250,000	25,377	8,017	31.6%
$250,000 under $500,000	27,404	8,477	30.9%
$500,000 under $2,500,000	110,454	32,281	29.2%
$2,500,000 or more	1,114,453	251,097	22.5%
Total	1,375,081	329,622	

Tax Gap

The tax gap is the difference between what taxpayers should pay and what they actually pay on time. The most recent estimate of the annual gross tax gap, based on a study released in 2016, is about $458.0 billion for the Tax Year 2008-2010 timeframe. This amount represents the amount of noncompliance with tax laws. This study also estimated that $52.0 billion of the gross tax gap would eventually be collected, resulting in a net tax gap of $406.0 billion. The IRS remains committed to finding ways to increase compliance and reduce the tax gap, while minimizing the burden on the vast majority of taxpayers who pay their taxes accurately and on time.

The tax gap is the aggregate amount of tax (excluding interest and penalties) that is imposed by the tax laws for any given tax year but is not paid voluntarily and timely. The tax gap arises from three types of noncompliance: not filing required tax returns on time or at all (the nonfiling gap), underreporting the correct amount of tax on timely filed returns (the underreporting gap), and not paying on time the full amount reported on timely filed returns (the underpayment gap). Underreporting of income tax, employment taxes, and other taxes represents 84.5 percent of the gross tax gap. Each instance of noncompliance by a taxpayer contributes to the tax gap, whether or not the IRS detects it, and whether or not the taxpayer is even aware of the noncompliance. Some of the tax gap arises from intentional (willful) noncompliance, and some of it arises from unintentional mistakes.

The collection gap is the cumulative amount of assessed tax, penalties, and interest that has been assessed over many years, but has not been paid by a certain point in time and which the IRS expects to remain uncollectible. In essence, it represents the difference between the total balance of unpaid assessments and the net taxes receivable reported on IRS's balance sheet. The tax gap and the collection gap are related and overlapping concepts, but they have significant differences. The collection gap is a cumulative balance sheet concept for a particular point in time, while the tax gap is like an income statement item for a single year. Moreover, the tax gap estimates include all noncompliance, while the collection gap includes only amounts that have been assessed (a small portion of all non-compliance).

Tax Expenditures

As discussed in greater detail in Note 17—Collections and Refunds of Federal Revenue, tax and other revenues reported reflect the effects of tax expenditures, which are special exclusions, exemptions, or deductions or which provide tax credits, preferential tax rates or deferrals of tax liability, that allow individuals and businesses to reduce taxes they may otherwise owe.

The figures reported in the following table are estimates of tax expenditures using data from previous years and economic forecast from the fiscal year 2018 Midsession Review. The largest tax expenditures in fiscal year 2018 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);
- Preferential tax rates on long-term capital gains;
- 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; and
- Accelerated depreciation of machinery and equipment.

Largest Income Tax Expenditures

(In billions of dollars)	2018
Exclusion of employer contributions for medical insurance premiums & health care	205.1
Defined benefit & defined contribution pension funds	142.2
Preferential tax rates on long-term capital gains	118.6
Exclusion of net imputed rental income	116.6
Accelerated depreciation of machinery and equipment	67.8

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 percent tax rate, but only $2,100 at a 21 percent tax rate.

The President's fiscal year 2006 *Budget* provided a presentation of the Department of the Treasury's review of the tax expenditure budget. It focused on potential alternative baselines to a comprehensive income tax, including using a consumption tax, and defining negative tax expenditures (provisions that cause taxpayers to pay too much tax). Relative to a consumption tax baseline, a number of current tax provisions would be negative tax expenditures. More specifically, a consumption tax will not extend to saving or capital income. As an example, the exclusion for contributions to and earnings from retirement accounts would not be treated as a tax expenditure. Some of these also may not necessarily be negative tax expenditures under a comprehensive income tax as a baseline; the current reference law and normal law baselines represent a simplified version of comprehensive income. As an example, some medical expenditures may not be discretionary and perhaps should be excluded from income.

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

Unmatched Transactions and Balances

(in millions of dollars)	Fiscal Year 2018	Restated Fiscal Year 2017
Change in intragovernmental unmatched balances:		
Debt/investment	-	(4,145.3)
Benefit program contributions payable/receivable	0.5	10.6
Accounts payable/receivable	58.6	(574.9)
Advances from/to others & deferred credits/prepayments	(406.8)	61.2
Transfers payable/receivable	-	(50.2)
Other assets/liabilities	-	(61.0)
Fund balance with Treasury	640.1	399.0
	292.4	(4,360.6)
Unmatched intragovernmental transactions:		
Borrowings interest revenue/expense-exchange	62.0	-
Non-expenditure transfers-in/out	(475.1)	(438.4)
Expenditure transfers-in/out	605.3	688.2
Transfers-in/out without reimbursement	7.1	(89.5)
Benefit program revenue/cost	339.7	(896.3)
Non-reciprocating	4,884.5	8,914.8
Revenue and other financing sources	-	297.4
Other non-budgetary financing sources for debt accruals/amortization	-	61.0
Appropriations expended	(92.7)	342.4
Appropriations used	92.7	(342.4)
Appropriations received/warrants issued	154.3	(390.1)
Custodial and non-entity collections transferred out/in	(6,450.7)	(6,865.6)
Other	2,959.2	501.4
	2,086.3	1,782.9
Unmatched transactions and balances, net	2,378.7	(2,577.7)

( ) Parentheses indicate a decrease to Net Position.

The Statement of Operations and Changes in Net Position includes an amount for unmatched transactions and balances that result from the consolidation of federal reporting entities. Transactions between federal entities must be eliminated in consolidation to calculate the financial position of the government. Many of the amounts included in the table represent intragovernmental activity and balances that differed between federal entity trading partners and often totaled significantly more in the absolute than the net amounts shown. The table also reflects other consolidating adjustments and other adjustments that contributed to the unmatched transactions and balances amount. In fiscal year 2017, a number of lines in the unmatched transactions and balances table were adjusted to zero after intragovernmental difference analysis determined they were immaterial at or below $0.1 billion. The adjustments were added to, or subtracted from, gross cost in the Statement of Net Cost.

Unmatched transactions and balances between federal entities impact not only in the period in which differences originate but also in the periods where differences are resolved. As a result, it would not be proper to conclude that increases or decreases in the unmatched amounts shown in the "Unmatched Transactions and Balances" table reflect improvements or deteriorations in the government's ability to resolve intragovernmental transactions. The federal community considers the identification and accurate reporting of intragovernmental activity a priority.