

# United States Government Other Information (Unaudited) for the Years Ended September 30, 2023, and 2022

## Tax Burden

The IRC 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.

| <b>Individual Income Tax Liability for Tax Year 2021</b> |  |  |   |   |  |  |
|--|--|--|---|---|--|--|
| <b>Adjusted Gross Income</b>                             | <b>Number of Taxable Returns</b><br>(In thousands) | <b>Adjusted Gross Income</b><br>(In millions of dollars) | <b>Total Income Tax</b><br>(In millions of dollars) | <b>Average Adjusted Gross Income per Return</b><br>(In whole dollars) | <b>Average Income Tax per Return</b><br>(In whole dollars) | <b>Income Tax as a Percentage of Adjusted Gross Income</b> |
| Under \$15,000   | 30,714   | 160,421  | 535   | 5,223   | 17   | 0.3%   |
| \$15,000 under \$30,000                                  | 27,410   | 610,846  | 12,033  | 22,286  | 439  | 2.0%   |
| \$30,000 under \$50,000                                  | 28,926   | 1,135,403  | 50,662  | 39,252  | 1,751  | 4.5%   |
| \$50,000 under \$100,000                                 | 37,547   | 2,681,108  | 200,702   | 71,407  | 5,345  | 7.5%   |
| \$100,000 under \$200,000                                | 24,180   | 3,318,595  | 367,380   | 137,245   | 15,194   | 11.1%  |
| \$200,000 under \$500,000                                | 3,728  | 828,814  | 123,563   | 222,321   | 33,145   | 14.9%  |
| \$500,000 or more  | 7,888  | 6,117,860  | 1,421,518   | 775,591   | 180,213  | 23.2%  |
| <b>Total</b>   | <b>160,393</b>                                     | <b>14,853,047</b>  | <b>2,176,393</b>                                    |   |  |  |

| <b>Corporate Income Tax Liability for Tax Year 2020</b> |  |   |   |
|---|--|---|---|
| <b>Total Assets</b><br>(In thousands of dollars)        | <b>Income Subject to Tax</b><br>(In millions of dollars) | <b>Total Income Tax After Credits</b><br>(In millions of dollars) | <b>Percentage of Income Tax After Credits to Taxable Income</b> |
| 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%   |
| <b>Total</b>  | <b>1,780,305</b>   | <b>276,611</b>  |   |

## 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.<sup>1</sup> 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.

<sup>1</sup> 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.

| <b>Largest Income Tax Expenditures</b>   |             |
|--|-------------|
| (In billions of dollars)   | <b>2023</b> |
| 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>.

## Unmatched Transactions and Balances

| <b>Unmatched Transactions and Balances as of September 30, 2023, and 2022</b> |      |           |
|---|------|-----------|
| (In millions of dollars)  | 2023 | 2022      |
| <b>Statement of Net Cost:</b>   |      |           |
| Buy/sell cost/revenue   | -    | 603.5     |
| Benefit program revenue/cost  | -    | 309.6     |
| Non-reciprocating   | -    | (357.0)   |
|   | -    | 556.1     |
| <b>Statement of Operations and Changes in Net Position:</b>                   |      |           |
| Non-reciprocating   | -    | (1,630.2) |
| Custodial and non-entity collections transferred out/in                       | -    | 586.8     |
| Accrual amounts collected/transferred in                                      | -    | (83.9)    |
| Other   | -    | 1,000.9   |
|   | -    | (126.4)   |
| <b>Balance Sheet:</b>   |      |           |
| Accounts payable/receivable   | -    | 270.2     |
| Advances from/to others & deferred credits/prepayments                        | -    | (778.8)   |
| Non-reciprocating   | -    | (205.6)   |
| Other   | -    | (576.4)   |
|   | -    | (1,290.6) |
| Unmatched transactions and balances, net                                      | -    | (860.9)   |

( ) Parentheses indicate a decrease to Net Position.

The unmatched transactions and balances are needed to balance the accrual-based financial statements. The Statement of Net Cost, the Statement of Operations and Changes in Net Position and the Balance Sheet include a line for the unmatched transactions and balances. Transactions and balances between federal entities must be eliminated in consolidation to calculate the financial position of the government. The amounts included in the table represent intra-governmental 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. The adjustments were added to, or subtracted from, gross cost in the Statement of Net Cost and other liabilities in the Balance Sheet in the year they were recorded. Unresolved intra-governmental differences (i.e., unmatched transactions and balances) result in errors in the consolidated financial statements.

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 intra-governmental transactions. The federal community considers the identification and accurate reporting of intra-governmental activity a priority.

Due to the change in presentation of the reported unmatched transactions and balances on the Statement of Net Cost, Statement of Operations and Changes in Net Position, and Unmatched Transactions and Balances in Other Information (unaudited), the FY 2022 Statement of Net Cost was adjusted by \$0.1 billion to report the associated unmatched transactions and balances that were previously reported on the Statement of Operations and Changes in Net Position unmatched transactions and balances line and the buy/sell costs that were previously included in the gross cost recorded on the Statement of Net Cost. They are now reported on the standalone unmatched transaction and balances line on the Statement of Net Cost. Additionally, the Unmatched Transactions and Balances table was updated to show the details of the unmatched transactions and balances by statement.

The unmatched transactions and balances, net reflects the combined impact that each statement line has on the overall net position of the *Financial Report*.