United States Government Other Information (Unaudited) for the Years Ended September 30, 2020, and 2019

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 2018

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	32,618	40,228	591	1,233	18	1.5%
$15,000 under $30,000	28,782	640,648	14,894	22,259	517	2.3%
$30,000 under $50,000	27,528	1,078,886	49,485	39,192	1,798	4.6%
$50,000 under $100,000	35,146	2,507,316	186,826	71,340	5,316	7.5%
$100,000 under $200,000	21,146	2,878,203	320,536	136,111	15,158	11.1%
$200,000 under $500,000	6,906	1,971,306	327,806	285,448	47,467	16.6%
$500,000 or more	1,648	2,526,852	638,611	1,533,284	387,507	25.3%
Total	153,774	11,643,439	1,538,749			

Corporate Income Tax Liability for Tax Year 2017

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	25,145	7,740	30.8%
$1 under $500	7,611	1,514	19.9%
$500 under $1,000	3,784	950	25.1%
$1,000 under $5,000	13,638	4,011	29.4%
$5,000 under $10,000	8,617	2,727	31.7%
$10,000 under $25,000	12,535	4,021	32.1%
$25,000 under $50,000	11,831	3,809	32.2%
$50,000 under $100,000	13,496	4,391	32.5%
$100,000 under $250,000	21,275	6,652	31.3%
$250,000 under $500,000	20,996	6,790	32.3%
$500,000 under $2,500,000	85,366	25,998	30.5%
$2,500,000 or more	777,981	196,257	25.2%
Total	1,002,275	264,860	

Tax Gap

The gross tax gap is the difference between the amount of tax imposed by law and what taxpayers actually pay on time. The tax gap provides an estimate of the level of overall noncompliance and voluntary 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. Estimating the tax gap is inherently challenging and requires assessing the merits of alternative methods, assumptions, and data sources. There is no single approach that can be used for estimating all the components of the tax gap, so multiple methods are used. The most recent estimates covering the Tax Year 2011-2013 timeframe were released in FY 2019.

The gross tax gap is the amount of a tax liability that is not paid voluntarily and on time. The estimated annual average gross tax gap is $441.0 billion. The gross tax gap is comprised of three components: non-filing, underreporting, and underpayment. The estimated gross tax gap for each of these components is $39.0 billion, $352.0 billion, and $50.0 billion, respectively. The gross tax gap estimates are also segmented by type of tax; individual income tax, corporation income tax, employment tax, and estate and excise tax. The estimated gross tax gap for each of these types of tax is $314.0 billion, $42.0 billion, $81.0 billion, and $3.0 billion, respectively.[1]

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 estimated that $60.0 billion of the gross tax gap will eventually be paid resulting in a net tax gap of $381.0 billion. The net tax gap estimates are also segmented by type of tax; individual income tax, corporation income tax, employment tax, and estate and excise tax. The estimated net tax gap for each of these types of tax is $271.0 billion, $32.0 billion, $77.0 billion, and $1.0 billion, respectively.

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

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. For additional information on the Tax Gap, refer to Treasury's financial statements.

Tax Expenditures

The President's FY 2022 *Budget* will not be released before publication of the *Financial Report* for FY 2020. The tax expenditures reported below reflect the narrative and amounts previously published in the FY 2019 *Financial Report*.

As discussed in greater detail in Note 18—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 FY 2020 Midsession Review. The largest tax expenditures in FY 2019 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
- Taxpayers with children under age 17 can qualify for a $2,000 per child tax credit (figure in table includes non-refundable portion of credit).

Largest Income Tax Expenditures as of September 30, 2019

(In billions of dollars)	**2019**
Exclusion of employer contributions for medical insurance premiums & health care	202.3
Defined benefit & defined contribution pension funds	147.3
Exclusion of net imputed rental income	121.3
Preferential tax rates on long term capital gains	111.5
Child tax credit	74.9

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 FY 2020 *Budget* provided a presentation of 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 Treasury's Office of Tax Policy https://home.treasury.gov/policy-issues/tax-policy/tax-expenditures.

Unmatched Transactions and Balances

Unmatched Transactions and Balances as of September 30, 2020 and 2019

(In millions of dollars)	2020	Restated 2019
Balance Sheet:		
Custodial and non-entity liability/asset	(1,155.9)	-
Benefit program contributions payable/receivable	-	109.2
Accounts payable/receivable	(65.0)	450.1
Advances from/to others & deferred credits/prepayments	(385.3)	(442.8)
Non-reciprocating	(355.3)	(12,891.3)
Fund balance with Treasury	(1,100.9)	(1,974.7)
	(3,062.4)	(14,749.5)
Statement of Operations and Changes in Net Position:		
Custodial transfers non-exchange	622.8	388.9
Benefit program revenue/cost	(601.9)	646.6
Non-reciprocating	(4,147.0)	(3,318.3)
Appropriations received/warrants issued	(68.0)	-
Custodial and non-entity collections transferred out/in	(1,003.9)	-
Accrual amounts collected/transferred in	(326.8)	-
Other	(6,071.0)	1,896.3
	(11,595.8)	(386.5)
Unmatched transactions and balances, net	(14,658.2)	(15,136.0)

( ) 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 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. A number of lines in the "Unmatched Transactions and Balances" table were adjusted to zero after intra-governmental 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 intra-governmental transactions. The federal community considers the identification and accurate reporting of intra-governmental activity a priority.

In FY 2020, a change has been made to the "Unmatched Transactions and Balances" table to display all unmatched transactions and balances in a more consistent manner. The table was changed to display all unmatched transactions and balances between federal entities as the net amount, rather than a change year over year for balance sheet activity as was previously displayed. The top section reflects unmatched intra-governmental transactions and balances associated with assets and liabilities impacting the Balance Sheet. The lower section reflects unmatched intra-governmental transactions and balances associated with current year activity impacting the Statement of Operations and Changes in Net Position. Note, although the section is titled Statement of Operations and Changes in Net Position, the net intra-governmental difference may represent the combination of Statement of Operations and Changes in Net Position and, in some instances, activity on the Statement of Net Cost. For comparative purposes, FY 2019 Unmatched Transactions and Balances were also restated as a result of this change.