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States Can Opt Out of the Costly and Ineffective "Domestic Production Deduction" Corporate Tax Break

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Summary

States are losing hundreds of millions of dollars to a relatively new and rapidly growing corporate tax break that in most states never even received a vote in the state legislature. The federal government created this tax break, known as the "domestic production deduction," in 2004. Since most states base their own tax codes on the federal tax code, the tax break was carried over into many states without any consideration by state lawmakers. Now it is costing not only the federal government but also 27 states a large, and growing, amount of money. By 2011, its cost to these states will exceed $700 million per year.

States need not accept these losses. Some 20 states have already disallowed the deduction, including two in 2008, and it is straightforward for other states to do the same. With many states currently facing budget shortfalls, this may be an ideal time to consider decoupling.

The new deduction — enacted as Section 199 of the federal Internal Revenue Code — allows companies to claim a tax deduction based on profits from "qualified production activities," a sweeping category that goes well beyond manufacturing to include such diverse activities as food production, filmmaking, and utilities — a substantial share of states' corporate income tax base.

More than one-quarter of all deductions taken were claimed by the oil industry, which currently is enjoying record profits and has no need of an extra subsidy.

KEY FINDINGS

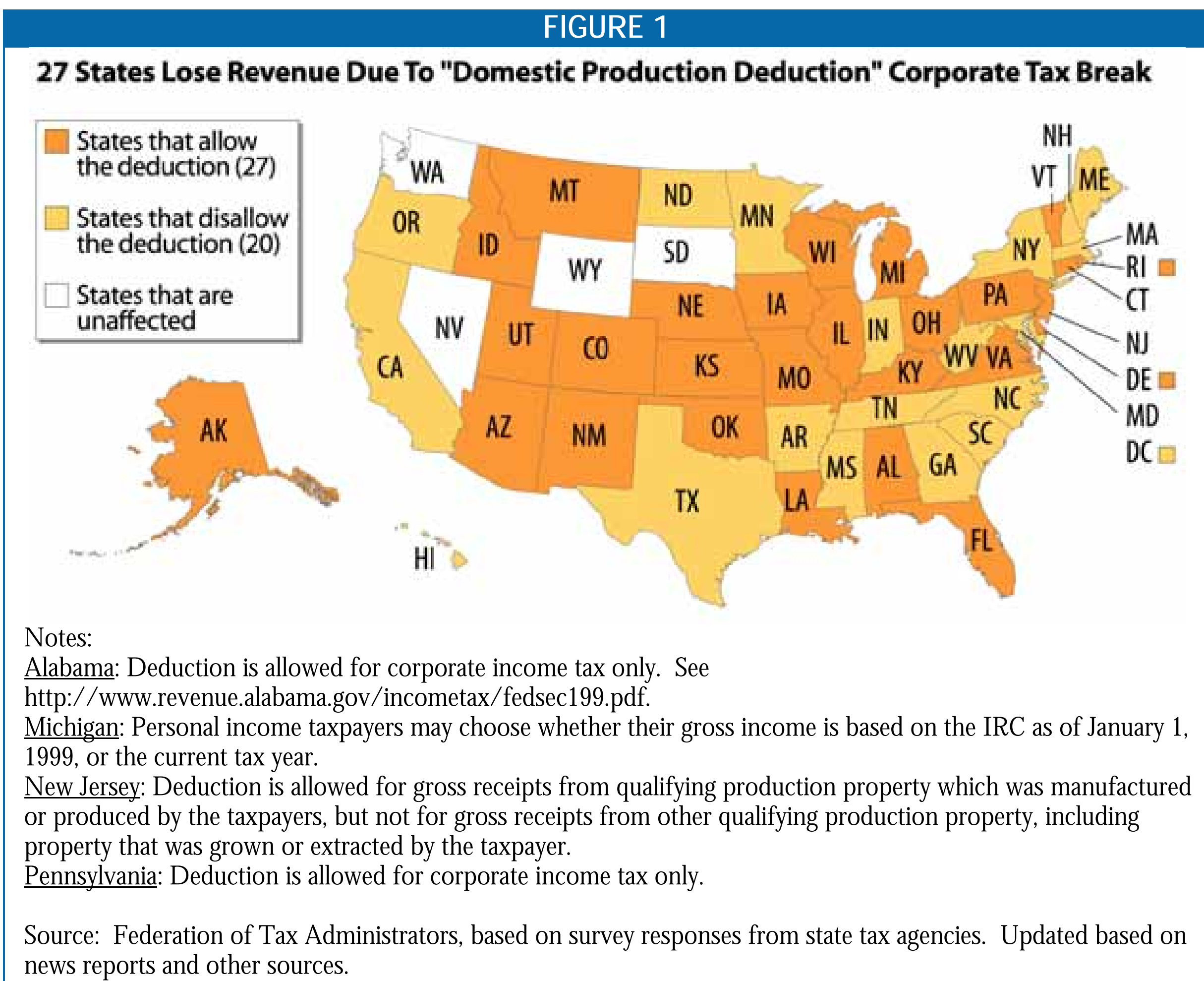
- The "domestic production deduction" is a large corporate tax break enacted by the federal government in 2004. It doubled in size for tax year 2007, and will triple by 2010.
- Some 20 states have disallowed the deduction, even though states typically base their tax codes on the federal code. But 27 other states allow it, costing them hundreds of millions of dollars per year. (The rest are unaffected.)
- The tax break is unjustified as state economic policy. The main beneficiaries are large, profitable corporations, especially oil companies. Struggling firms get little or no benefit. Multi-state firms can claim the deduction for activities in any state, so they have little incentive to shift jobs to states that allow the deduction.
- The cost of the tax break could be used for other, more productive purposes, such as closing state budget deficits, cutting taxes for hard-pressed working families, or funding key state services.

The revenue loss to states from the deduction is set to increase steeply over the next few years. Initially, the cost was relatively modest because the deduction was limited to 3 percent of qualifying income. As of January 1, 2007, however, the percentage rate rose to 6 percent, with another increase to 9 percent scheduled for 2010. As a result, it is likely that revenue losses to states have doubled over the past year and will triple by 2011. Federal estimates suggest that allowing this deduction is likely to cost states about 2.6 percent of their corporate tax revenue, plus a portion of their individual income tax receipts.

States are not required to allow this deduction. Indeed, some 20 states already have chosen to disallow it. But another 27 states continue to permit it. (Four states are unaffected.) If they continue to do so, a conservative estimate suggests the tax break will cost those states some $470 million in fiscal year 2009, rising to $730 million in 2011 and years thereafter. (These estimates are based on current levels of corporate profits and are likely to rise over time.[1])

There is no good reason why states should accept such revenue losses.

- The deduction is unlikely to protect or create jobs within the state, because multi-state corporations — which appear to represent the biggest beneficiaries — can claim the deduction



Notes:
Alabama: Deduction is allowed for corporate income tax only. See http://www.revenue.alabama.gov/incometax/fedsec199.pdf.
Michigan: Personal income taxpayers may choose whether their gross income is based on the IRC as of January 1, 1999, or the current tax year.
New Jersey: Deduction is allowed for gross receipts from qualifying production property which was manufactured or produced by the taxpayers, but not for gross receipts from other qualifying production property, including property that was grown or extracted by the taxpayer.
Pennsylvania: Deduction is allowed for corporate income tax only.

Source: Federation of Tax Administrators, based on survey responses from state tax agencies. Updated based on news reports and other sources.

for out-of-state "production activity" just as they can for in-state activity.

- The deduction provides little or no help to businesses that are struggling in the current downturn, since only profitable firms have taxable income for it to offset.

- The deduction is heavily slanted towards large corporations. In 2005, 94 percent of the deduction taken under the corporate income tax was claimed by the 0.4 percent of firms with over $100 million apiece in assets. Many of these large firms are multi-state corporations and may invest little or nothing in the state granting the tax break.

- Indeed, so far the largest beneficiaries of the deduction have been in highly profitable industries like oil production and pharmaceutical manufacture — industries that do not need a subsidy. With a growing number of states facing budget problems — 29 states have forecasted budget deficits totaling $48 billion for fiscal year 2009 and another three states are predicting deficits in fiscal year 2010 — such corporate tax breaks need to be carefully examined.

Decoupling from the domestic production deduction, as 20 states have already shown, is simple to enact and inexpensive to administer. It can be done by adding a single sentence to state tax law requiring corporations to add back the deducted amount to their taxable income.

Indeed, decoupling might even spare a state entanglement in the extensive administrative and legal action that may occur in coming years. The Internal Revenue Service has stated that the provision is complex and difficult for taxpayers to understand. It also has noted that it could be subject to abuse. States that conform to the federal provision risk becoming involved with these difficult and time-consuming enforcement issues.

The Federal Domestic Production Deduction Is Costing States Hundreds of Millions of Dollars Per Year — And Its Cost Is Rising

The domestic production deduction allows businesses to deduct — and hence pay no taxes on — a portion of their profits attributable to a broad range of "qualified production activities."[2] Three percent of this income was deductible in 2005 and 2006; 6 percent is deductible in 2007, 2008, and 2009; and 9 percent is deductible in 2010 and years thereafter.

The deduction is broad in its scope and therefore costly in its fiscal impact. Although the deduction is often described as a tax break for manufacturing activities, it is actually much less targeted. In fact, deductible income can be any profits (that is, receipts minus costs) that a business can attribute to a broad range of activities, including:

- food processing (but not retail food sales),
- software development,
- filmmaking,
- mining and oil extraction,
- publishing
- electricity/natural gas production, and
- construction.

Even firms outside these industries benefit. Virtually every sector of the economy has seen its taxes cut by this tax break, including firms whose primary business is retail sales, financial services, and entertainment. Overall, business tax returns for 2005 claimed that about 26 percent of all corporate taxable income qualified for the deduction.[3] (See Table 1.)

The domestic production deduction affects states because states generally prefer to conform their tax codes to the federal Internal Revenue Code, for reasons of administrative simplicity and taxpayer convenience. For personal income taxes, most states use "taxable income" or "adjusted gross income" as calculated for federal tax purposes as the starting point for their own income tax calculations. Similarly, most states begin their corporate income tax calculations with federal

TABLE 1: EXTENT TO WHICH DIFFERENT INDUSTRIES CLAIM DOMESTIC PRODUCTION DEDUCTION AGAINST CORPORATE INCOME TAX

Industry Grouping	Total Number of Returns	Total Taxable Income ($ millions)	Amount of Deduction Claimed ($ millions)*	Share of Deduction Claimed	Estimate of Qualifying Income as a Share of Taxable Income
Manufacturing					
Oil Refining	1,067	$134,413	$1,859.8	19.9%	46.1%
Other Manufacturing	276,551	315,590	4,311.5	46.2%	45.5%
Information	122,825	71,640	1,027.9	11.0%	47.8%
Mining	32,589	36,060	600.9	6.4%	55.5%
Wholesale Trade	373,725	67,009	475.8	5.1%	23.7%
Construction	751,521	29,334	416.1	4.5%	47.3%
Utilities	7,536	26,813	292.5	3.1%	36.4%
Finance and Insurance	242,686	187,620	102.1	1.1%	1.8%
Professional and Technical Services	786,275	16,412	73.3	0.8%	14.9%
Retail Trade	615,717	86,727	64.0	0.7%	2.5%
Management of Companies	50,921	147,950	37.3	0.4%	0.8%
Agriculture, Forestry, Fishing and Hunting	142,439	3,193	20.6	0.2%	21.5%
Real Estate and Rental and Leasing	641,947	13,732	19.4	0.2%	4.7%
Arts, Entertainment, and Recreation	116,451	2,190	9.2	0.1%	13.9%
Health Care and Social Assistance	380,940	9,909	6.2	0.1%	2.1%
Administrative, Support, and Waste Services	257,623	10,238	6.1	0.1%	2.0%
Other Services	344,877	2,518	5.7	0.1%	7.6%
Accommodation and Food Services	287,490	16,569	5.2	0.1%	1.0%
Transportation and Warehousing	187,051	21,644	4.3	0.0%	0.7%
Educational Services	44,885	1,765	1.3	0.0%	2.4%
Other Industries	6,139	0	0.0	0.0%	0.0%
Total	5,671,257	1,201,325	9,339.2	100.0%	25.9%

* Figures are based on tax year 2005 data. Because the deduction is phasing in, current figures are likely at least twice as large and the fully phased-in figures (tax year 2010 and thereafter) are likely at least three times as large.

Source: IRS Statistics of Income Data.

"taxable income" from the federal corporate tax form. Therefore, when federal legislation narrows the definition of taxable or adjusted gross income, taxpayers report less income and states typically see a decline in revenue.

To understand how this deduction affects state income taxes, consider a hypothetical corporation with $10 million in "domestic production" income, located in a state with a 5 percent corporate income tax rate. In 2010, 9 percent of that income will be deductible — meaning the corporation gets to claim $900,000 of profits as tax-free income. At a tax rate of 5 percent, the corporation gets a tax break worth $45,000.

Not surprisingly, such a broadly available tax break carries a heavy fiscal cost. The Joint Committee on Taxation (JCT), which estimates federal revenue impacts for Congress, projects that the Section 199 provision will cost the federal government $7.9 billion in federal fiscal year 2009, when the impact of the rise from 3 percent to 6 percent deductible income will be fully felt. As the deductible percentage rises to 9 percent in 2010, the revenue loss also will rise. JCT projects a federal revenue loss of $12.2 billion in 2011 — about 2.6 percent of projected federal revenue from corporate income taxes plus another 0.2 percent of projected revenue from personal income taxes.[4]

States face losses of comparable magnitude. In fiscal year 2009, with the deduction in effect at the 6 percent level, it is likely to cost conforming states about $471 million. In fiscal year 2011 and there after, when the deduction is in full effect, it is likely to cost conforming states about $728 million a year. State-by-state amounts are shown in Table 2; Appendix 1 explains how these figures were calculated. These estimates assume corporate profits remain relatively steady over this period.[5]

The cost of the deduction could be even higher depending on exactly how it is utilized over time, given the likelihood that corporate tax accountants are devising new ways of exploiting it. The deduction has been widely derided by tax policy experts as an incentive for corporations to engage in complicated new accounting schemes solely for the purposes of reducing tax liability. Economist Kimberly Clausing, an expert on taxation of international firms, wrote at the time of the deduction's 2004 passage:

> The bill [will] create compliance and enforcement difficulties as firms [will] have incentives to characterize as much income as possible as production income. For instance, firms [will] have an incentive to make those divisions subject to favorable tax treatment more profitable than those that do not receive such treatment. By shifting paper profits among divisions, firms can reduce their overall tax liability.[6]

For the Internal Revenue Service, which is already short on resources, limiting the creativity of the bookkeeping will pose major challenges.[7]

States Can Decouple from the Section 199 Domestic Production Deduction

States are not required to accept revenue losses from the domestic production deduction. As of July 2008, some 20 states have "decoupled," disallowing the deduction on state tax returns. Both New York and the District of Columbia decoupled in 2008. Arkansas, California, Georgia, Hawaii, Indiana, Maine, Maryland, Massachusetts, Minnesota, Mississippi, New Hampshire, North Carolina,

TABLE 2: APPROXIMATE REVENUE LOSS IN STATES THAT STILL ALLOW THE DOMESTIC PRODUCTION DEDUCTION					
State	**Revenue Loss in 2009 (in millions of dollars)**	**Annual Revenue Loss in 2011 and Thereafter (in millions of dollars)**	**State**	**Revenue Loss in 2009 (in millions of dollars)**	**Annual Revenue Loss in 2011 and Thereafter (in millions of dollars)**
Alabama	$8	$13	Missouri	$14	$21
Alaska	13	21	Montana	4	6
Arizona	21	32	Nebraska	6	9
Colorado	15	23	New Mexico	7	11
Connecticut	23	34	New Jersey	N/A	N/A
Delaware	7	11	Ohio	34	51
Florida	39	62	Oklahoma	13	21
Idaho	5	8	Pennsylvania	38	60
Illinois	63	97	Rhode Island	4	7
Iowa	9	13	Utah	10	16
Kansas	13	20	Vermont	2	4
Kentucky	19	30	Virginia	36	55
Louisiana	17	26	Wisconsin	24	37
Michigan	26	40	**TOTAL**	**471**	**728**

Projected revenue loss is based on estimates for federal fiscal years 2009 (reflecting implementation at the six percent level) and 2011 (reflecting full implementation at the nine percent level) applied to actual state revenue collections for the year from October 2006 to September 2007, which is the most recent available.

Notes:

New Jersey: No cost estimates are available.

Michigan: The corporate income tax is new in 2008, so estimate is based on fiscal note revenue projection. See Bill Analysis for S.B. 94 & H.B. 4369-4372, completed June 29, 2007.

A number of states have produced their own estimates for one or more years. See Appendix 1 for sources and methodology.

North Dakota, Oregon, South Carolina, Tennessee, Texas, and West Virginia are also disallowing the deduction, according to a survey by the Federation of Tax Administrators and information from state tax departments.[8] A 21st state, New Jersey, has partially decoupled.

Most of those states still conform to most other provisions of federal tax law, including other changes adopted by Congress at the same time that Section 199 was enacted. One change to federal law enacted in 2004 to which most states conform phases out the protection of certain "extraterritorial income" from foreign exports, protection that the World Trade Organization has said is illegal under international law. States generally also have conformed to the 2004 elimination of some costly and inappropriate tax shelters. But conforming to those other provisions does not require conformity to Section 199, nor do the merits of the other provisions enacted at the same time make conformity to Section 199 good state policy.

Domestic Production Deduction Was Created Without State Action and Without Consideration of Cost to States

Legislatures in most of the 27 states that are losing revenue from the domestic production deduction never voted to adopt the tax break. Most of those states have "rolling conformity" to the federal tax code, meaning that state tax law is defined by current federal law, so tax changes are incorporated without any action by the state. Therefore, when the federal government in 2004 enacted the deduction, it became part of state law automatically. The remaining states have "fixed-date conformity," meaning that state law is tied to federal law as of a fixed date, and that date is updated periodically; these updates typically occur as a matter of course and without consideration of specific federal changes involved. The delayed phase-in of the deduction has made scrutiny by state lawmakers especially unlikely. The full fiscal impact was delayed until 2010, which at the time of enactment was well outside states' budget windows (which typically extend only one or two years into the future).

The federal government also did not explicitly consider the tax break's cost to states. Federal lawmakers are required by law to consider the impact of tax cuts on federal revenue, but almost never give formal consideration to the impact on state revenue.[9]

In short, the *federal* government passed legislation that altered *state* tax law, costing states hundreds of millions of dollars. The change took effect without either federal or state lawmakers considering the cost to states.

Disallowing the Domestic Production Deduction Is Good Economic and Fiscal Policy

The domestic production deduction has been depicted in some accounts as important aid for struggling industries and as a draw for manufacturing jobs. While these are worthy goals, state conformity to the deduction is unlikely to achieve them. On the contrary, the economic downturn means states have more pressing uses for scarce funds than a subsidy for profitable corporations.

- **A state-level domestic production deduction creates little incentive for corporations to create or protect jobs within that state.** Firms can claim the domestic production deduction for profits from *all* qualifying domestic activities — meaning activities that occur *anywhere* within the United States. As a result, a multi-state firm can claim the deduction in a conforming state for production activities in any state, not just the state where the firm is filing. Thus states have no guarantee that firms claiming the deduction have a single employee working in a qualifying industry in that state.[10]

- **The deduction provides little help to struggling businesses, since only profitable ones can use it.** The domestic production deduction has been justified as assistance for struggling industries and protection for threatened jobs, but it is poorly designed for these goals. The reason is the amount of the deduction is tied to a firm's qualifying profits, and the value of the deduction (like that of all deductions) is limited by a firm's total profits. As a result, only profitable businesses can claim the deduction, and more profitable businesses benefit more. The deduction takes no account of the number of people a business employs.

Help Where It's Needed Least: The Oil Industry Is the Largest Beneficiary of the Sec. 199 Deduction

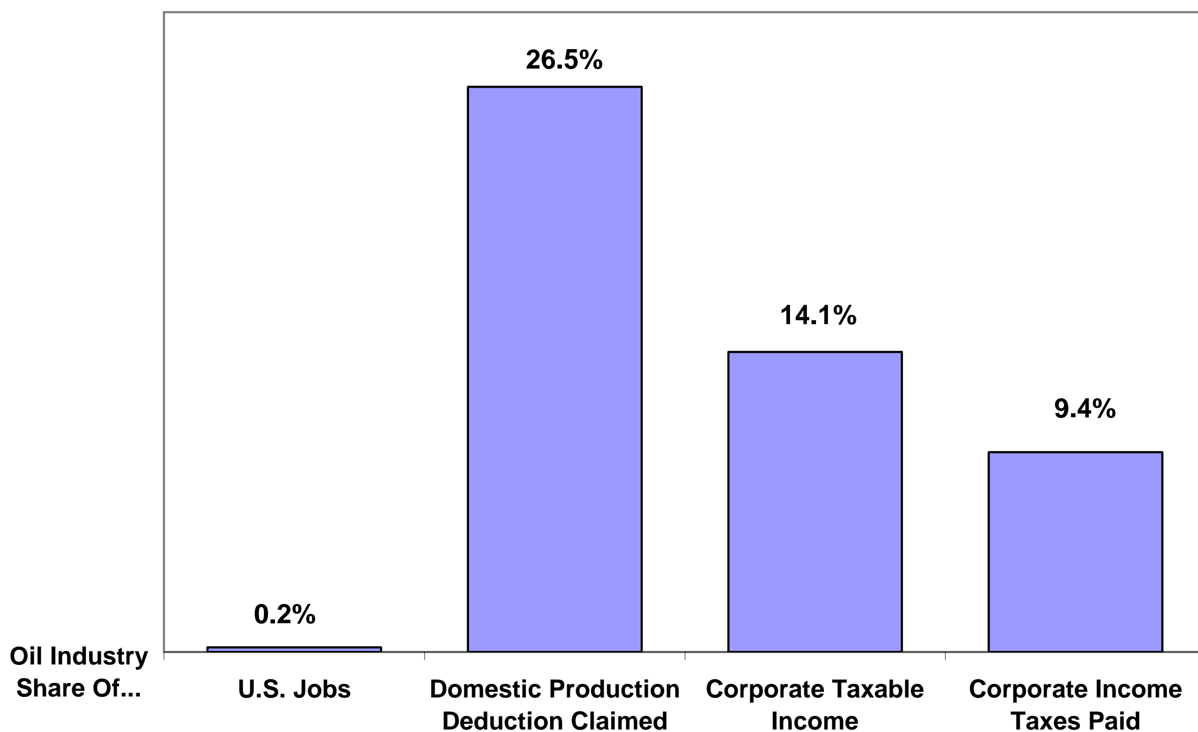
Over one-fourth of the federal domestic production deduction is claimed by the petroleum industry, which has reaped enormous profits in recent years and needs no incentive to continue its activities. Since oil producers are taxpayers in nearly every state, and since firms can claim the deduction in a conforming state for activities anywhere in the country, even states without significant oil production give major tax subsidies to oil companies if they conform to the deduction.[a]

This benefit is out of proportion to the industry's role in the economy. In 2005, firms in the oil industry, including oil drillers, refiners, and wholesale traders, accounted for less than 1 percent of U.S. jobs and about 9 percent of corporate income taxes paid, but claimed 26.5 percent of the deduction. Overall, petroleum refiners claimed about $27,350 in the deduction per employee in 2005, a figure that will likely triple by 2010.

There is no good reason to give the oil industry this subsidy at taxpayers' expense. The industry is currently enjoying record profits.[b] It is likely to continue and expand its activities without the encouragement of another tax break.

The deduction benefits struggling industries far less. For example, the automobile manufacturing and textile industries together account for less than 4 percent of the deduction and claimed about $240 per employee.

Figure 2. The Oil Industry Accounts for Over One-Quarter of the Domestic Production Deduction But Less Than 1 Percent of U.S Jobs



Source: IRS Statistics of Income data and BLS Current Employment Statistics survey data, 2005

[a] This is less likely in states that allow firms to use a variety of tax loopholes to shift their income to out-of-state affiliates. States are increasingly closing these loopholes by requiring "combined reporting," which is now the law in 22 states. See Michael Mazerov, "State Corporate Tax Shelters and the Need for 'Combined Reporting,'" Center on Budget and Policy Priorities, Oct. 26, 2007. Available at www.cbpp.org/10-26-07sfp.htm.

[b] See, for example, CNNMoney, "Exxon Shatters Profit Records," February 1, 2008, available at http://money.cnn.com/2008/02/01/news/companies/exxon_earnings/

This structure — favoring profitable businesses, excluding unprofitable ones, and ignoring employment — makes the deduction particularly ineffective at protecting jobs. Money-losing firms considering layoffs receive little or no benefit. Highly profitable firms benefit disproportionately whether or not they are creating jobs. (See text box below.)

- **The deduction favors large corporations over small businesses**. The domestic production deduction has been praised as a boon to small business, but IRS statistics suggest otherwise. Among 2005 corporate income tax returns, 94 percent of the deduction was claimed by the 0.4 percent of firms with assets over $100 million.[11] Many of these large firms are multi-state corporations and may invest little or none of the benefit in the state granting the tax break.[12]

- **State revenues lost to the deduction could be better spent on other priorities.** A growing number of states face fiscal distress, buffeted by a slowing economy, rising unemployment, the housing crisis, and price hikes for energy and other expenses. Well over half the states faced or

Administrative Problems Predicted with the Domestic Production Deduction

In a letter to Congress discussing the pending legislation that included the domestic production provision, on October 7, 2004, IRS Commissioner Mark W. Everson wrote:

"Many businesses, particularly small businesses, will find it difficult to understand and comply with these complex new rules, which will affect not only the computation of a taxpayer's regular tax liability but also its alternative minimum tax liability. It will be difficult, if not impossible, for the IRS to craft simplified provisions tailored to small businesses or other taxpayers….

"Taxpayers will be required to devote substantial additional resources to meeting their tax responsibilities, including not only employees and outside tax advisers, but also recordkeeping and systems modification resources. The resulting costs will reduce significantly the benefits of the proposal. Some small businesses may find that the additional costs outweigh the benefits, particularly during the initial phase-in period….

"It will be necessary to devote significant audit resources to administering the new deduction. This will be due not only to the novelty of the rule but also to the benefits that are provided to "production activities'" over other aspects of a taxpayer's business. Taxpayers naturally will classify everything possible as production activities. Audits, particularly those involving integrated businesses, will have to focus on classification and the allocation of income and costs. Significant additional IRS resources will be needed to administer the provision to avoid diverting resources from other compliance issues (such as tax shelters)….

"Finally, for all of the reasons discussed above, we anticipate a significant increase in controversies between taxpayers and the IRS. This will increase the number of IRS appeals cases and litigated tax cases."

It is too early to tell whether Everson's prediction will come true. It can take five years or longer for a tax case to come to trial, meaning that any excessively creative tax accounting related to the tax year 2005 may not become public until 2009 or later.

Source: *Congressional Record*, October 11, 2004.

still face budget deficits for fiscal year 2009, and still more are predicting deficits in fiscal year 2010.[13] Unlike the federal government, states must balance their budgets each year. Many states have passed or are considering budget cuts, actions that may worsen the economic slowdown.[14] Within this context, corporate tax breaks — especially those costing states

hundreds of millions of dollars per year — need to be carefully examined. The high cost of conforming to the domestic production deduction may be better spent on key spending priorities, on tax relief for low- and moderate income state residents coping with the slow economy and price increases, or on closing budget deficits.

Decoupling from Section 199 Is Administratively Feasible

From an administrative perspective, decoupling from the domestic production deduction is straightforward. It requires a simple statutory change, is simple to comply with, and does not interfere with state conformity to other federal provisions.

As a statutory matter, decoupling can be accomplished by adding a single sentence to state tax law disallowing the deduction. Compliance is equally simple: corporations just add back the deducted amount to their taxable income.

Such decoupling from federal tax changes has become routine in the last several years.

- Some 31 states plus the District of Columbia decoupled from the federal deduction for "bonus depreciation," saving those states roughly $13 billion over fiscal years 2002-05. In addition, a number of states have decoupled from the newly expanded bonus depreciation included in the 2008 federal stimulus package.

- Some 17 states plus the District of Columbia decoupled from federal changes to the estate tax, protecting roughly $8 billion of revenue over fiscal years 2003-07.

- Some 18 states decoupled from an expansion of what is known as "Section 179 expensing," a provision that allows small and mid-sized businesses to write off all their capital investment purchases right away instead of depreciating them over their useful lives.

Decoupling does create some minor administrative difficulties for states, but it is possible that the administrative challenges of failing to decouple would be even greater. State revenue departments, along with the IRS, could well find themselves involved in extensive legal action as the courts try to resolve the exact limits to the deduction and prevent abuse.

Appendix 1: Calculating the Impact of the Domestic Production Deduction

The state estimates in this paper represent an approximation of the impact of the domestic production deduction on state tax revenues.

The first step in the estimating process was to use the estimates of the Joint Committee on Taxation (JCT) on the impact of the deduction on corporate and personal income tax revenues in federal fiscal years 2009 and 2011.[15] These figures were added to the Congressional Budget Office's (CBO) projections of actual corporate and personal income tax revenues for those years to find an estimate of revenues if the deduction were not effect. The JCT estimates were divided by these sums. These calculations yielded estimates that the deduction would reduce corporate tax revenues by about 1.7 percent in 2009 and 2.6 percent in 2011. Personal income tax revenues would be reduced by about 0.15 percent in 2009 and 0.21 percent in 2011.

(This process was repeated based on projections issued by the Office of Management and Budget, which are much higher.[16] The OMB projections indicate that when fully implemented, the domestic production deduction will reduce corporate tax revenues by about 3.4 percent in 2009 and 5.4 percent in 2011. Personal income tax revenues would fall by about 0.29 percent in 2009 and 0.45 percent in 2011. However, the JCT/CBO estimates appear to more closely match the 2005 tax return data, and a conversation with a JCT analyst suggests that its methodology is sound.)

The third step was to multiply those percentage rates by the latest available corporate and personal income tax collections figures for each state, as reported by the U.S. Census Bureau.[17]

The spreadsheet used to generate these estimates is available upon request from Jason Levitis at levitis@cbpp.org.

A number of state revenue departments and state fiscal offices have developed their own estimates of the cost of the deduction for one or more fiscal years, and in some cases these may be more reliable.[18] For instance, a state may have its own data on the types of industries that pay taxes, and may find that a higher or lower share of taxable income is likely to be eligible for the deduction. In addition, states may choose not to use the JCT or OMB estimates as a starting point, but rather generate their own estimates based on state-level data on production activities. In order to show comparable data representing a single methodology and timeframe, Table 2 includes only estimates based on the Center's methodology.[19]

Appendix 2: Domestic Production Deduction Claims by Industry Subcategory, 2005					
Industry	**Number of Returns**	**Taxable Income ($ thousands)**	**Amount of Deduction Claimed ($ thousands) ***	**Share of Domestic Production Deduction Claimed**	**Estimate of Qualifying Income as a Share of Total Income**
Manufacturing					
Petroleum Refineries (including integrated)	1,067	134,412,860	1,859,805	19.91%	46%
Pharmaceutical and Medicine	1,415	60,116,897	549,871	5.89%	30%
Semiconductor and Other Electronic Component	6,036	21,264,860	357,765	3.83%	56%
Motor Vehicles and Parts	4,958	22,616,732	338,548	3.63%	50%
Aerospace Product and Parts	1,537	8,996,619	220,488	2.36%	82%
Computer and Peripheral Equipment	3,133	17,261,963	189,151	2.03%	37%
Bakeries and Tortilla Manufacturing	4,261	16,393,466	180,791	1.94%	37%
Iron, Steel Mills and Steel Product	3,688	6,742,028	160,862	1.72%	80%
Medical Equipment and Supplies	7,922	10,399,169	143,786	1.54%	46%
Other Fabricated Metal Product	18,499	8,483,563	143,318	1.53%	56%
Electrical Lighting Equipment and Household Appliance	1,520	6,973,901	139,348	1.49%	67%
Cement, Concrete, Lime and Gypsum Product	4,852	5,333,408	121,152	1.30%	76%
Basic Chemical	1,129	5,994,599	103,148	1.10%	57%
Other Food	3,728	4,862,610	94,723	1.01%	65%
Converted Paper Product	3,395	7,477,597	93,724	1.00%	42%
Breweries	445	2,651,669	78,350	0.84%	98%
Soap, Cleaning Compound, and Toilet Preparation	1,357	12,035,674	74,424	0.80%	21%
Animal Food and Grain and Oilseed Milling	1,617	3,406,387	69,752	0.75%	68%
Tobacco Manufacturing	23	2,449,609	67,386	0.72%	92%
Furniture and Related Product Manufacturing	12,126	2,679,266	60,742	0.65%	76%
Soft Drink and Ice	608	8,255,630	59,833	0.64%	24%
Agriculture, Construction, and Mining Machinery	2,485	6,976,269	57,428	0.61%	27%
Sugar and Confectionery Product	1,337	2,737,396	56,290	0.60%	69%
Wood Product Manufacturing	14,326	2,343,201	52,106	0.56%	74%
Pulp, Paper, and Paperboard Mills	182	3,438,733	49,138	0.53%	48%
Other Miscellaneous Manufacturing	24,197	4,128,917	48,379	0.52%	39%
Paint, Coating, and Adhesive	1,214	2,060,043	45,514	0.49%	74%
Communications Equipment	1,438	4,411,954	44,704	0.48%	34%
Plastics Product	10,359	2,009,220	42,349	0.45%	70%
Printing and Related Support Activities	32,671	1,933,556	39,054	0.42%	67%
Navigational, Measuring, Electromedical, and Control Instruments	2,750	3,016,107	35,920	0.38%	40%
Cutlery, Hardware, Spring and Wire: Machine Shops, Nut, Bolt	20,988	1,873,717	34,709	0.37%	62%
Other General Purpose Machinery	7,288	2,638,656	33,251	0.36%	42%
Other Electrical Equipment and Component	4,417	1,969,099	33,167	0.36%	56%
Ship and Boat Building	2,908	1,762,670	30,819	0.33%	58%
Industrial Machinery	3,626	2,930,673	29,769	0.32%	34%
Nonferrous Metal Production and Processing	1,167	2,910,034	29,491	0.32%	34%
Meat and Seafood Processing	2,363	2,057,067	29,091	0.31%	47%
Other Transportation Equipment and Railroad Rolling Stock	1,103	1,652,905	28,529	0.31%	58%
Commercial and Service Industry Machinery	1,994	2,011,303	28,128	0.30%	47%
Wineries and Distilleries	1,513	1,128,774	27,707	0.30%	82%
Engine, Turbine and Power Transmission Equipment	257	1,699,429	27,695	0.30%	54%
Fruit and Vegetable Preserving and Specialty Food	860	2,584,614	26,531	0.28%	34%
Ventilation, Heating, Air-Conditioning, and Commercial Refrigeration Equipment	838	1,552,696	26,476	0.28%	57%
Other Chemical Product and Preparation	3,126	1,816,929	18,853	0.20%	35%

Appendix 2: Continued					
Industry	Number of Returns	Taxable Income ($ thousands)	Amount of Deduction Claimed ($ thousands) *	Share of Domestic Production Deduction Claimed	Estimate of Qualifying Income as a Share of Total Income
Resin, Synthetic Rubber, and Artificial Synthetic Fibers and Filaments	930	4,954,089	18,266	0.20%	12%
Clay, Refractory and Other Nonmetallic Mineral Product	2,525	884,767	16,959	0.18%	64%
Architectural and Structural Metals	7,482	969,605	16,739	0.18%	58%
Boiler, Tank, and Shipping Container	420	664,944	16,232	0.17%	81%
Foundries	1,679	622,833	16,157	0.17%	86%
Textile Product Mills	2,270	700,749	15,631	0.17%	74%
Dairy Product	791	766,252	13,897	0.15%	60%
Metalworking Machinery	6,754	1,865,586	13,663	0.15%	24%
Audio and Video Equipment Mfg and Reproducing Magnetic and Optical Media	1,431	1,131,248	12,177	0.13%	36%
Electrical Equipment	2,091	2,938,911	11,957	0.13%	14%
Rubber Product	693	532,893	11,739	0.13%	73%
Glass and Glass Product	1,776	359,437	7,910	0.08%	73%
Forging and Stamping	2,786	328,617	6,312	0.07%	64%
Asphalt Paving, Roofing, Other Petroleum and Coal Products	786	271,030	3,426	0.04%	42%
Cut and Sew Apparel Contractors and Manufacturers	6,725	1,648,216	2,428	0.03%	5%
Textile Mills	1,783	165,541	2,262	0.02%	46%
Coating, Engraving, Heat Treating, and Allied Activities	4,185	202,124	1,465	0.02%	24%
Apparel Knitting Mills	375	88,058	1,066	0.01%	40%
Apparel Accessories and Other Apparel	2,754	163,805	1,053	0.01%	21%
Leather and Allied Product Manufacturing	2,661	291,448	62	0.00%	1%
Information					
Software Publishers	8,541	20,647,866	496,699	5.32%	80%
Telecommunications	17,565	26,699,355	277,267	2.97%	35%
Newspaper Publishers	6,724	5,852,570	106,853	1.14%	61%
Broadcasting (except Internet)	6,321	7,281,230	70,196	0.75%	32%
Book Publishers	5,445	1,822,996	17,731	0.19%	32%
Internet Publishing and Broadcasting	6,396	759,706	12,115	0.13%	53%
Internet Service Providers, Web Search Portals, and Data Processing Services	15,850	4,286,705	12,081	0.13%	9%
Periodical Publishers	8,041	836,538	11,514	0.12%	46%
Database Directory, and Other Publishers	5,317	538,058	9,730	0.10%	60%
Other Information Services	10,670	1,713,515	7,665	0.08%	15%
Motion Picture and Video Industries (except video rental)	24,886	1,114,694	6,022	0.06%	18%
Sound Recording Industries	7,069	86,318	5	0.00%	0%
Mining					
Oil and Gas Extraction	17,097	26,152,573	460,691	4.93%	59%
Support Activities for Mining	7,866	3,685,668	64,849	0.69%	59%
Metal Ore Mining	2,002	4,787,605	37,719	0.40%	26%
Nonmetallic Mineral Mining and Quarrying	4,637	1,231,716	34,129	0.37%	92%
Coal Mining	987	202,361	3,506	0.04%	58%
Wholesale Trade					
Petroleum and Petroleum Products	9,904	8,445,141	155,287	1.66%	61%
Drugs and Druggists' Sundries	5,569	10,600,777	83,342	0.89%	26%
Motor Vehicle and Motor Vehicle Parts and Supplies	14,644	6,182,458	73,106	0.78%	39%
Grocery and Related Product	34,280	9,420,972	51,267	0.55%	18%
Electrical and Electronic Goods	22,600	3,281,717	18,939	0.20%	19%
Furniture, Sports, Toys, Recycle, Jewelry, Other Durable Goods	72,454	3,751,941	17,794	0.19%	16%

Appendix 2: Continued					
Industry	**Number of Returns**	**Taxable Income ($ thousands)**	**Amount of Deduction Claimed ($ thousands) ***	**Share of Domestic Production Deduction Claimed**	**Estimate of Qualifying Income as a Share of Total Income**
Professional and Commercial Equipment and Supplies	31,444	3,422,904	14,341	0.15%	14%
Metal and Mineral (except Petroleum)	3,702	2,250,589	13,889	0.15%	21%
Lumber and Other Construction Materials	14,652	1,885,051	12,194	0.13%	22%
Machinery, Equipment, and Supplies	49,836	4,796,656	10,288	0.11%	7%
Miscellaneous Nondurable Goods	33,632	2,125,850	8,135	0.09%	13%
Chemical and Allied Products	8,943	1,162,333	5,528	0.06%	16%
Farm Product Raw Material	5,436	2,068,210	4,040	0.04%	7%
Beer, Wine, and Distilled Alcoholic Beverage	3,415	1,362,656	3,386	0.04%	8%
Apparel, Piece Goods, and Notions	25,472	4,031,056	2,542	0.03%	2%
Hardware, Plumbing , Heating Equipment and Supplies	14,347	1,580,181	1,603	0.02%	3%
Paper and Paper Product	9,488	360,365	148	0.00%	1%
Wholesale Electronic Markets and Agents and Brokers	13,907	280,560	0	0.00%	0%
Construction					
Construction of Buildings	224,109	19,642,347	304,695	3.26%	52%
Heavy and Civil Engineering Construction	27,269	2,374,819	42,804	0.46%	60%
Other Specialty Trade Contractors	329,468	2,936,503	31,329	0.34%	36%
Land Subdivision	46,219	3,154,079	24,293	0.26%	26%
Electrical Contractors	51,305	546,944	6,772	0.07%	41%
Plumbing, Heating, and Air-Conditioning Contractors	73,150	678,831	6,216	0.07%	31%
Utilities					
Combination Gas and Electric	36	12,500,797	148,186	1.59%	40%
Electric Power Generation, Transmission and Distribution	836	8,389,263	104,645	1.12%	42%
Natural Gas Distribution	680	5,556,078	33,657	0.36%	20%
Water, Sewage and Other Systems	5,984	366,949	5,986	0.06%	54%
Finance and Insurance					
Stock Property and Casualty Companies (Form 1120-PC)	4,402	37,450,792	40,217	0.43%	4%
Life Insurance, Stock Companies (Form 1120L)	1,088	26,291,048	38,305	0.41%	5%
Activities Related to Credit Intermediation (loan brokers, check clearing, etc.)	28,177	3,322,249	15,434	0.17%	15%
Securities and Commodity Exchanges and Other Financial Investment Activities	37,211	13,505,107	2,786	0.03%	1%
Life Insurance, Mutual Companies (Form 1120L)	57	3,986,404	1,886	0.02%	2%
Mutual Property and Casualty Companies (Form 1120-PC)	1,514	19,880,959	1,435	0.02%	0%
Other Financial Vehicles	12,051	5,586,948	1,037	0.01%	1%
Other Insurance Related Activities (third-party admin. of insurance, pension funds)	13,361	2,810,933	814	0.01%	1%
Insurance Agencies and Brokerages	86,716	4,411,199	83	0.00%	0%
Securities Brokerage	8,015	11,085,589	59	0.00%	0%
Savings Institutions, Credit Unions and Other Depository Credit Intermediation	1,236	14,095,290	15	0.00%	0%
Investment Banking and Securities Dealing	3,423	15,230,924	8	0.00%	0%
Commercial Banking	1,990	4,527,568	4	0.00%	0%
Credit Card Issuing and Other Consumer Credit	8,560	9,184,285	1	0.00%	0%
Real Estate Credit (including mortgage bankers and originators)	15,801	2,042,793	0	0.00%	0%
International, Secondary Financing and Other Nondepository Credit Intermediation	4,637	13,785,464	0	0.00%	0%
Commodity Contracts Dealing and Brokerage	2,238	386,917	0	0.00%	0%
Open-End Investment Funds (Form 1120-RIC)	10,959	2,283	0	0.00%	0%
Real Estate Investment Trusts (Form 1120-REIT)	1,251	33,561	0	0.00%	0%

Appendix 2: Continued					
Industry	Number of Returns	Taxable Income ($ thousands)	Amount of Deduction Claimed ($ thousands) *	Share of Domestic Production Deduction Claimed	Estimate of Qualifying Income as a Share of Total Income
Professional, Scientific, and Technical Services					
Architectural, Engineering, and Related Services	91,377	2,431,608	29,764	0.32%	41%
Computer Systems Design and Related Services	108,521	3,868,196	24,378	0.26%	21%
Scientific Research and Development Services	11,453	2,001,012	6,801	0.07%	11%
Management, Scientific, and Technical Consulting Services	225,775	3,752,669	6,517	0.07%	6%
Other Professional, Scientific, and Technical Services	90,409	1,222,727	4,324	0.05%	12%
Specialized Design Services	40,654	193,952	1,404	0.02%	24%
Legal Services	104,389	679,270	119	0.00%	1%
Accounting, Tax Preparation, Bookkeeping, and Payroll Services	66,627	995,828	0	0.00%	0%
Advertising and Related Services	47,070	1,266,504	0	0.00%	0%
Retail Trade					
Food and Beverage Stores	77,920	8,779,886	21,343	0.23%	8%
Homes Centers; Paint and Wallpaper Stores	3,200	14,275,716	10,215	0.11%	2%
Clothing and Clothing Accessories Stores	52,049	10,395,776	5,742	0.06%	2%
Electronics and Appliance Stores	31,164	3,054,568	4,965	0.05%	5%
Other Building Material Dealers	19,375	1,053,772	3,697	0.04%	12%
Nonstore Retailers	50,352	2,095,986	3,685	0.04%	6%
Furniture and Home Furnishings Stores	42,130	2,145,621	3,641	0.04%	6%
Gasoline Stations	38,508	917,726	3,030	0.03%	11%
Other Motor Vehicle and Parts Dealers	42,094	2,372,233	2,191	0.02%	3%
Miscellaneous Store Retailers	91,513	3,357,246	1,871	0.02%	2%
Sporting Goods, Hobby, Book, and Music Stores	30,589	1,811,735	1,287	0.01%	2%
Health and Personal Care Stores	38,611	5,201,005	805	0.01%	1%
General Merchandise Stores	10,733	28,686,594	531	0.01%	0%
New and Used Car Dealers	51,472	2,263,881	475	0.01%	1%
Hardware Stores	7,487	158,908	307	0.00%	6%
Lawn and Garden Equipment and Supplies Stores	9,883	66,434	208	0.00%	10%
Beer, Wine, and Liquor Stores	18,636	89,985	0	0.00%	0%
Management of Companies (Holding Companies)			0		
Offices of Other Holding Companies	45,857	9,211,851	36,706	0.39%	13%
Offices of Bank Holding Companies	5,064	138,738,246	560	0.01%	0%
Agriculture, Forestry, Fishing and Hunting			0		
Agricultural Production	101,263	2,534,326	16,300	0.17%	21%
Forestry and Logging	11,176	399,553	2,665	0.03%	22%
Support Activities and Fishing, Hunting and Trapping	30,001	258,828	1,623	0.02%	21%
Real Estate and Rental and Leasing					
Other Real Estate Activities	187,051	3,820,487	14,518	0.16%	13%
Lessors of Buildings	216,362	3,898,669	1,419	0.02%	1%
Offices of Real Estate Agents and Brokers	116,523	1,018,852	1,320	0.01%	4%
Commercial and Industrial Machinery and Equipment Rental and Leasing	29,453	1,704,578	1,232	0.01%	2%
Other Consumer Goods and General Rental Centers	14,282	563,475	354	0.00%	2%
Lessors of Miniwarehouses, Self-Storage Units and Other Real Estate	67,563	1,719,517	270	0.00%	1%
Automotive Equipment Rental and Leasing	8,759	748,835	191	0.00%	1%
Lessors of Nonfinancial Intangible Assets (except copyrighted works)	1,954	257,365	125	0.00%	2%
Arts, Entertainment, and Recreation					
Amusement, Gambling, and Recreation Industries	52,870	1,035,018	6,732	0.07%	22%

Appendix 2: Continued

Industry	Number of Returns	Taxable Income ($ thousands)	Amount of Deduction Claimed ($ thousands) *	Share of Domestic Production Deduction Claimed	Estimate of Qualifying Income as a Share of Total Income
Other Arts, Entertainment, and Recreation	63,581	1,155,128	2,431	0.03%	7%
Health Care and Social Assistance					
Outpatient Care Centers	6,393	2,082,085	3,499	0.04%	6%
Misc. Health Care and Social Assistance	52,189	2,388,770	2,463	0.03%	3%
Hospitals, Nursing, and Residential Care Facilities	18,263	4,008,168	231	0.00%	0%
Offices of Physicians	142,409	966,515	0	0.00%	0%
Offices of Dentists	69,682	173,039	0	0.00%	0%
Offices of Other Health Practitioners	92,004	290,895	0	0.00%	0%
Administrative and Support and Waste Management and Remediation Services					
Other Administrative and Support Services	195,813	4,101,828	4,207	0.05%	3%
Waste Management and Remediation Services	14,531	1,665,048	1,505	0.02%	3%
Travel Arrangement and Reservation Services	22,649	2,860,692	360	0.00%	0%
Employment Services	24,630	1,610,670	0	0.00%	0%
Other Services					0%
Repair and Maintenance	164,366	826,748	5,027	0.05%	20%
Personal and Laundry Services	140,302	1,479,841	708	0.01%	2%
Religious, Grantmaking, Civic, Professional, and Similar Organizations	40,209	211,639	0	0.00%	0%
Accommodation and Food Services					
Food Services and Drinking Places	253,567	10,254,148	4,739	0.05%	2%
Accommodation	33,923	6,314,652	418	0.00%	0%
Transportation and Warehousing					
Truck Transportation	100,026	3,913,383	1,402	0.02%	1%
Water Transportation	3,365	811,779	1,102	0.01%	5%
Air Transportation	8,435	753,656	757	0.01%	3%
Other Transportation and Support Activities	40,974	9,355,922	524	0.01%	0%
Warehousing and Storage	7,287	432,139	513	0.01%	4%
Rail Transportation	451	5,300,449	0	0.00%	0%
Transit and Ground Passenger Transportation	26,105	170,894	0	0.00%	0%
Pipeline Transportation	410	905,764	0	0.00%	0%
Educational Services					
Educational Services	44,885	1,764,540	1,296	0.01%	2%
Other					
Non-Allocable Wholesale and Retail Trade	3,375	47	0	0.00%	0%
Other Non-Allocable	2,764	32	0	0.00%	0%
Total, all Industries	5,671,257	1,201,325	9,339,228	100.0%	25914%

*Figures are based on tax year 2005 data. Because the deduction is phasing in, current figures are likely at least twice as large and the fully phased-in figures (tax year 2010 and thereafter) are likely at least three times as large.

Source: IRS Statistics of Income Data.

[1] These estimates are based on forecasts by the Joint Tax Committee. The Office of Management and Budget forecasts much higher losses due to the domestic production deduction — about twice as high. For further discussion of estimating techniques, see Appendix 1.

[2] For this reason, the tax break is sometimes referred to as the qualified production activities income deduction, or QPAI.

[3] Calculated from IRS Statistics of Income data for tax year 2005.

[4] The Office of Management and Budget projects an even greater federal revenue loss — $26 billion by fiscal year 2011 — but IRS data on actual tax claims under the domestic production deduction suggest that the JCT estimates may be closer to the mark. See Appendix 1.

[5] Even more accurate estimates might be produced by considering the extent to which a state's predominant industries qualify for the deduction. Appendix 2 includes IRS data on the deduction by industry sub-category, and the right-most column shows an estimate of the fraction of the category's taxable income that is covered by the deduction. A state with a high concentration of industries with highly deductible income is likely to suffer even larger losses. For example, New Mexico and Oklahoma may be suffering larger losses than Table 3 suggests because of their heavy concentrations of oil and gas extraction activities.

[6] Kimberly A. Clausing, *The American Jobs Creation Act of 2004: Creating Jobs for Accountants and Lawyers,* Urban-Brookings Tax Policy Center, December 2004.

[7] As Tom Ochsenschlager, vice president for taxation with the American Institute of Certified Public Accountants, told the trade journal *Tax Notes*, "It's a whole new skill that the IRS is going to have to bring to the table, and a whole new dimension to the audits" (quoted in Warren Rojas, "New Manufacturing Deduction Presents Many Open Questions," *Tax Notes*, October 18, 2004). Lengthy court battles are quite likely as corporations challenge IRS interpretations and enforcement actions. It is unclear how effective the IRS can be at limiting excessive Section 199 claims, given that its budget is declining in real terms as its workload rises. As a recent IRS directive notes dryly, "Due to the complexity of the law, there is the potential to spend substantial audit resources in an examination." See *Industry Director Directive on Domestic Production Deduction (DPD),* December 6, 2006, downloaded from http://www.irs.gov/businesses/article/0,,id=164979,00.html.

[8] Here and throughout this report, the District of Columbia is counted as a state.

[9] When Congress considers a bill to cut taxes, its Joint Committee on Taxation (JCT) calculates the cost to the federal government, and this information becomes part of the public debate. But JCT does not calculate the cost to the states whose taxes will be cut due to federal conformity. Since no state bill is under consideration, state fiscal offices seldom analyze the impact either.

[10] The actual value of a state's domestic production deduction to a corporation depends on several factors. The deduction applies to total taxable income, which is then "apportioned" to each state in which a corporation does business. The apportionment formula varies among states, but typically reflects the share of a corporation's payroll, property, and sales that occur in a given state. So a multi-state corporation's domestic production deduction equals its federal domestic production deduction multiplied by the relevant apportionment factor.

[11] CBPP calculations based on 2005 IRS data.

[12] These statistics cover only businesses that pay the corporate income tax, i.e., those governed by chapter 1, subchapter C of the Internal Revenue Code. Since the corporate income tax accounted for 80 percent of the deduction overall, these huge firms received at least 75 percent of the deduction's total value. The other 20 percent of the deduction was claimed against the personal income tax, which is paid by individual owners of S corporations, partnerships, and sole proprietorships. Data on the domestic production claimed by these firms is not available broken down by firm assets. These firms tend to be smaller on average. Even so, the benefit among firms exempt from the corporate income tax also seems to be skewed toward large firms. In 2005, among payers of the personal income tax, those with adjusted gross income over $5 million accounted for 36 percent of the deduction.

[13] Elizabeth C. McNichol and Iris Lav, "29 States Faced Total Budget Shortfall of at Least $48 Billion in 2009," Center on Budget and Policy Priorities, updated June 30, 2008. Available at http://www.cbpp.org/1-15-08sfp.htm.

[14] Iris J. Lav and Elizabeth Hudgins, "Facing Deficits, Many States Imposing Cuts That Hurt Vulnerable Residents," Center on Budget and Policy Priorities, June 2, 2008. Available at http://www.cbpp.org/3-13-08sfp.htm.

[15] Joint Committee on Taxation, Estimates Of Federal Tax Expenditures For Fiscal Years 2007-2011, September 24, 2007, p. 29. Available at http://www.house.gov/jct/s-3-07.pdf.

[16] Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2009*, p. 290. Available at http://www.whitehouse.gov/omb/budget/fy2009/pdf/spec.pdf.

[17] As noted above, the one exception is Michigan, where the fiscal note estimate for the new corporate income tax was used.

[18] These estimates are typically released as part of a state tax expenditure report.

[19] The following estimates were produced by states. Some states also provided estimates for earlier years.

Arizona: $13.76 million in fiscal year 2008. Arizona Department of Revenue, "Estimated Impact on State Revenues of Conformity to Provisions in the Working Families Tax Relief Act of 2004, and the American Jobs Creation Act of 2004," revised February 3, 2005, p. 3. This estimate was found using a method similar to the Center's and was based on JCT data, according to Department of Revenue staff.

District of Columbia: $1.34 million in fiscal year 2009. Mayor's FY 2007 Proposed Budget and Financial Plan.

Kentucky: $8.2 million in fiscal year 2009 and $10.9 million in fiscal year 2010. Governor's Office of Economic Analysis, "Commonwealth of Kentucky Tax Expenditure Analysis, Fiscal Years 2008-2010," p. 89. Both of these estimates are for revenue loss through the personal income tax only. No estimate was done for revenue loss through the corporate income tax, according to Office of Economic Analysis staff.

Missouri: $118 million in fiscal year 2009 and $148 million in fiscal year 2011. State and Regional Fiscal Studies Unit, University of Missouri-Columbia, "Tax Expenditure Report, January 2008," pp. 17 and 24. These estimates may be unreliable, according to Fiscal Studies Unit staff.

New York: $56 million in fiscal year 2009. New York State Division of Budget and Department of Taxation of Finance, "Annual Report on New York State Tax Expenditures," January, 2008, p. 209.

Pennsylvania: $112 million in fiscal year 2009 and $136 million in fiscal year 2010, according to state Department of Revenue.

Wisconsin: $9.4 million in fiscal year 2006. Division of Executive Budget and Finance, Department of Administration, and Division of Research and Policy, Department of Revenue, "Summary of Tax Exemption Devices," February 2007, p. 33. Estimate covers revenue loss through the corporate income tax only.