

# Audit the Tax Code

Doing What Works for Tax Expenditures

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Sima J. Gandhi April 2010





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### doing what works

This publication is a product of CAP's Doing What Works project, which promotes government reform to efficiently allocate scarce resources and achieve greater results for the American people. Doing What Works specifically has three key objectives: (1) eliminating or redesigning misguided spending programs and tax expenditures focused on priority areas such as health care, energy, and education; (2) boosting government productivity by streamlining management and strengthening operations in the areas of human resources, information technology, and procurement; and (3) building a foundation for smarter decision making by enhancing transparency, performance measurement, and evaluation. Doing What Works publications and products can be viewed at [http://www.americanprogress.org/projects/doing\\_what\\_works](http://www.americanprogress.org/projects/doing_what_works).

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# Introduction and summary

The government funds programs in two ways. First, there's straightforward direct spending—money comes in and the government directly spends it or distributes it to others to spend. Then there are tax expenditures. These expenditures are used to accomplish the same goals as direct spending—they provide incentives for desired behavior, support needed services, and assist certain individuals, groups, or companies. But, unlike direct spending, tax expenditures transfer money by lowering an individual or company's taxes.

The home Weatherization Assistance Program, or WAP, can serve as an illustration of how these two funding methods can achieve the same ends. The WAP helps low-income families make their homes more energy efficient, which reduces family energy bills. It does this by directly paying the workers who provide these weatherization services. But as an alternative to directly providing services, the government could encourage individuals to weatherize their own homes by reimbursing them for the cost of weatherization. This reimbursement could be delivered as a check or through a tax benefit that reduces an individual's taxes.

In all three cases—the direct service, the check, or the tax benefit—the government pays the same amount for people to weatherize their homes. The same amount of money leaves the government and the same amount of money arrives in private pockets. Yet policymakers and politicians treat the costs incurred in the first two instances as spending, but not the tax expenditure. Many tax expenditures consequently are not evaluated for effectiveness or regularly scrutinized in the budget process.

This uneven treatment should change. Tax expenditures are spending programs implemented through the tax code. These spending programs deliver subsidies to individuals and companies through special tax credits, deductions, exclusions, exemptions, and preferential rates, and they cover a wide range of activities. They help people save for retirement, buy a home, or pay for college; provide incentives for companies to invest in green energy technologies or build nuclear power plants; subsidize corporations that drill for oil or purchase real estate; and much more.

The cost of tax expenditure programs has skyrocketed over the last two decades. Last year, spending through tax expenditures totaled over \$1 trillion—significantly more than all nondefense discretionary spending. This year, tax expenditures will make up nearly 25 percent of total government spending.

A major reason for this growth is that it is generally easier to win votes for tax expenditures than direct spending because they are seen as tax cuts. As a result, members of Congress often pursue their priorities through tax expenditures even if direct spending would be more effective at less cost.

But spending programs delivered through tax expenditures should be subject to the same level of scrutiny as direct spending programs. We should make sure tax expenditures are efficiently delivering desired results. Tax expenditures that don't work or are misguided should be scrapped—just the same as ineffective spending programs.

In order to scrutinize tax expenditures:

- Policymakers must first treat tax expenditures as a form of spending.
- The government should measure and evaluate tax expenditures.
- Tax expenditures should be integrated into the budget process.
- Transparency and accountability of tax expenditure spending should be enhanced.

This paper will review each of these steps in more detail.

The Center for American Progress's Doing What Works project is focused on maximizing the value and results of every government dollar spent. But official annual budgets currently do not itemize spending through tax expenditures, which presents a skewed picture of total government spending. This lack of scrutiny is fiscally irresponsible and leads to significant waste.

To be sure, direct spending programs do not always receive the scrutiny they deserve either. Our project seeks to strengthen performance assessment, the budget process, and public transparency so that we make smarter spending decisions. But we are advancing these reforms for all spending, including direct spending and tax expenditures.

In the case of tax expenditures this is not a matter of reforming the current system, as it is for direct spending. It is a challenge to the system itself—something much more difficult. There are jurisdictional issues among congressional committees that would have to be overcome. The Treasury Department, which has resisted measuring tax expenditures, would have to get on board. And congressional tax and appropriations committees, as well as the White House Office of Management and Budget, would have to figure out how to incorporate tax expenditures into the budget process.

This paper is not intended to address these difficult issues and other implementation questions. Instead, what follows provides the Doing What Works philosophy on tax expenditures and previews work we plan to undertake over the coming year to develop specific solutions.

# Tax expenditures are a form of spending

Tax expenditures and direct spending are functionally equivalent spending tools. Direct spending occurs in two steps: the government collects taxes or other fees, or borrows, and then spends the money. This spending may be for services that the government directly supplies through the actions of public servants or through grants, contracts, and direct payments to individuals and companies outside of the government.

Tax expenditures collapse the two steps into one by cancelling a portion of an individual or corporation's tax liability. But the delivery method doesn't change the result. Funds are still transferred from government to recipient.

Consider the following scenario: The government wants to create a program that provides \$10,000 to every individual who weatherizes his or her home. The government can deliver the subsidy in one of three ways: (1) cut a check for \$10,000, (2) create a tax expenditure like a refundable credit worth \$10,000, or (3) use a combination of direct spending and tax expenditures. In all three cases the individual who weatherizes his or her home receives \$10,000 from the government.

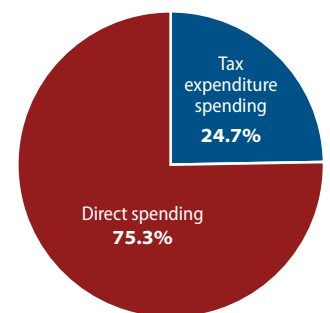
Tax expenditures are used for a variety of purposes. Some incentivize individual and business spending for programs across the spectrum from education to energy to health care. Others provide funding for state and local governments. The Build America Bonds program effectively created economic incentives for buying local and state bonds, producing more demand than supply. Demand for last year's New Jersey Turnpike offering was five times greater than expected.

Both the cost of tax expenditures and the number of programs implemented through tax expenditures are increasing rapidly. According to a 2005 Government Accountability Office report, "Between fiscal years 1974 and 2004, tax expenditures doubled in number, and the sum of estimated revenue losses associated with tax expenditures tripled..."

This growth has been especially pronounced over the past decade. There were 133 tax expenditure items in 2000. The most recent budget, for fiscal year 2011, listed 173 items.<sup>1</sup>

## Tax expenditures are a big piece of the pie

Total government spending for fiscal year 2010

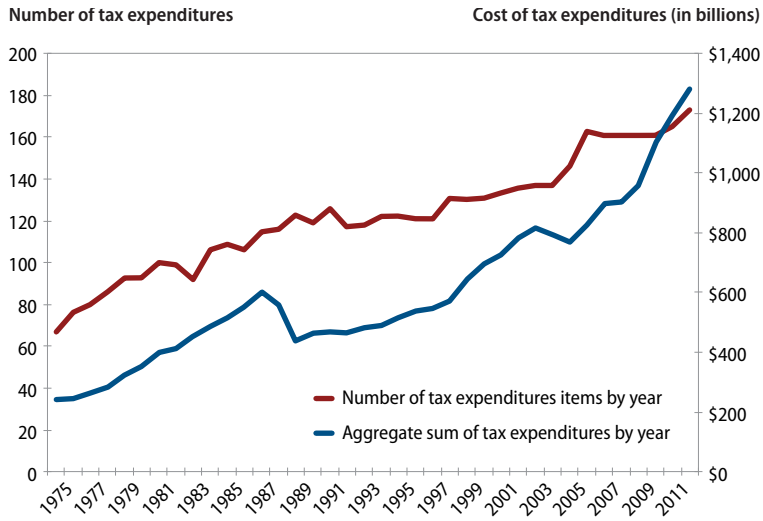


Note: Total government spending is the sum of aggregate tax expenditures and direct spending.

Source: Office of Management and Budget, *Budget of the US Government Fiscal Year 2011* (Office of Management and Budget, 2010).

## Up, up, and away

Number of tax expenditure items and their costs (in billions), 1974-2011



Source: Government Accountability Office, "Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined," GAO-05-690, Report to Agency Officials, September 2005. Available at <http://www.gao.gov/new.items/d05690.pdf>. Updated by CAP analysis of OMB budget reports on tax expenditures, fiscal years 2007-2011.

And it continues to grow. Tax expenditure spending and discretionary spending were nearly equivalent portions of overall government expenditures in 2007 (see text box below).<sup>2</sup> This year, tax expenditures will more than double the size of the government's discretionary nonsecurity spending.

Members of Congress typically find it is easier to pass tax expenditures—which are sold as tax cuts—than direct spending. As a result, tax expenditures often replace direct spending as the choice method for government to pursue its priorities. More than half of all energy programs, for example, are implemented through tax expenditures. Between 2000 and 2007, the number of energy tax expenditure line items grew from 12 to 37. During this same time period, energy tax expenditure spending grew from \$3 billion to more than \$10 billion.

Housing and commerce policies are also increasingly reliant on tax expenditures. Between 1980 and 2005, tax expenditure spending for commerce and housing increased by nearly 23 percent. By 2005 the government spent more than 98 percent of its funds for commerce and housing policies through tax expenditures, according to the Congressional Research Service.

This proliferation in tax expenditure spending represents an enormous portion of the federal budget. The government now spends \$1.2 trillion on tax expenditures, more than half as much as it raises (\$2.2 trillion) through the tax code. If the government eliminated these tax expenditures it would increase its revenues by about 50 percent. The amount raised would be nearly enough to cover this year's \$1.35 trillion projected deficit and could launch us into surplus as the economy recovers. But an across-the-board cut of all tax expenditure programs would not be good policy. Like other types of spending, good programs should be retained, and those that don't work should be eliminated.

## Tax expenditures are neck-in-neck with total discretionary spending

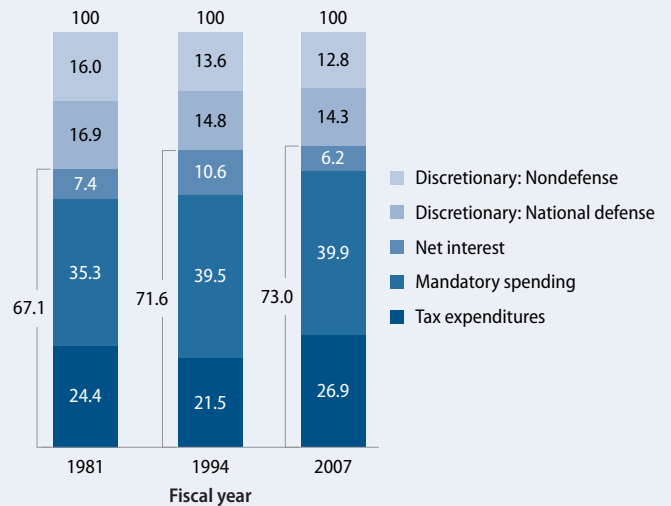
### Composition of total expenditures, selected years

The graph to the right breaks down government spending into its various components—discretionary spending, mandatory spending, net interest payments, and tax expenditures. The Appropriations Committees, as part of Congress’s annual budgeting cycle, consider funding for all types of discretionary spending. In contrast, the other three categories of government spending (in brackets)—tax expenditures, mandatory spending, and net interest payments—represent spending that is more or less on “autopilot.”

Mandatory spending is not reviewed during Congress’s annual budget process. About 70 percent of mandatory spending is on Social Security, Medicare, and Medicaid. Tax expenditures resemble mandatory spending because they are not included in Congress’s annual budget process.

As can be seen, tax expenditures represent roughly the same proportion of overall government spending as total discretionary spending.

Composition of total expenditures, selected years



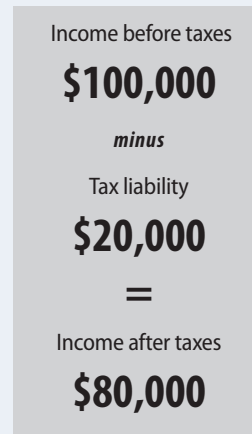
Source: Government Accountability Office, “Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined,” GAO-05-690, Report to Agency Officials, September 2005. Available at <http://www.gao.gov/new.items/d05690.pdf>.

# Tax expenditures and direct spending programs provide equal funding

## How programs distribute money

The government uses direct spending, tax expenditures, or a combination of both to fund programs. The graphic to the right provides a simple illustration of how tax expenditures and direct spending provide equal amounts of funding. The highlighted provisions demonstrate that the differences are in the implementation, not in the value. If the subsidy is provided as a non-taxable direct subsidy, an individual pays \$20,000 in taxes and cashes a check for \$10,000. If the subsidy is provided as a tax expenditure, an individual pays that much less in taxes. Instead of paying \$20,000 in taxes, she would pay \$10,000. And when the subsidy is delivered as a combination, the value is realized as both a reduction in taxes and in the form of a check. In all three instances, the individual is \$10,000 better off with the subsidy than without. Regardless of how the subsidy is delivered, the individual's income after taxes is \$90,000, or \$10,000 more than the \$80,000 she would have without the subsidy.

### INCOME WITHOUT SUBSIDY

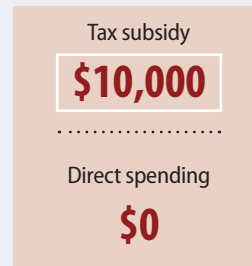


### \$10,000 SUBSIDY

#### Direct spending programs



#### Tax expenditure programs

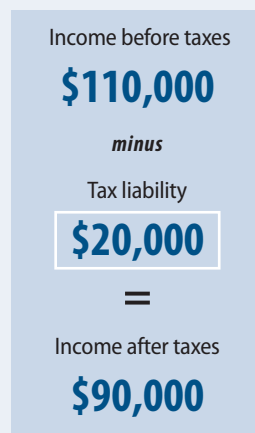


#### Combination

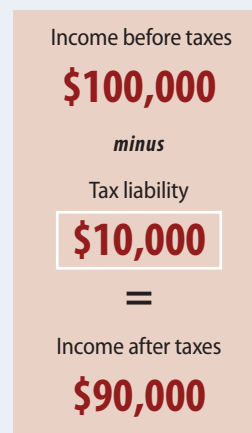


### INCOME WITH SUBSIDY

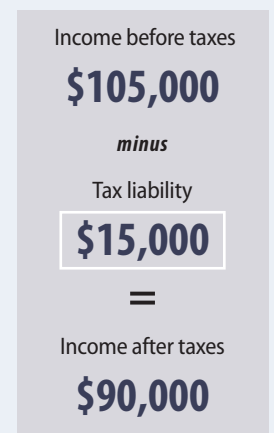
#### Direct spending programs



#### Tax expenditure programs



#### Combination



# Tax expenditures should be measured and evaluated

Tax expenditures are typically not measured or evaluated for effectiveness despite making up such a large portion of overall spending. Direct spending, by contrast, is subject to annual performance measurement, budget review, and often in-depth evaluative research.

The performance measurement and evaluation applied to direct spending should be improved—and CAP’s Doing What Works project is investigating this issue. But inadequate measurement and evaluation is better than none at all. We could potentially achieve billions in savings if we gave tax expenditures the scrutiny they deserve.

Putting a critical eye on tax expenditures can help determine the best approaches to achieve our goals. The type of subsidy—for example, a tax credit versus a tax deduction versus a preferential rate—used to deliver a tax expenditure can produce different results. Some studies suggest that tax expenditure spending programs that are intended to stimulate the economy may be more effective when delivered through reduced withholding rates instead of as lump-sum tax rebates.<sup>6</sup> These two subsidies deliver the same amount to people, but a reduced withholding rate makes people’s take-home pay look bigger while a tax rebate looks like a government-issued check.

Determining whether direct spending or a tax expenditure is more effective at achieving a given end is likewise important. Both tax expenditures and direct spending may cost the same amount. But one process may be more efficient than the other. Greater understanding of comparative effectiveness—among different tax approaches and direct spending—would help government enact programs that deliver maximum bang for the buck.

Measurement and evaluation can also expose tax expenditures that don’t work as intended. The Advance Earned Income Tax Credit, or AEITC, program allows individuals to collect an advance on amounts they would receive through the Earned Income Tax Credit, or EITC, program. Government Accountability Office research found that AEITC use and the amount paid out by employers was low—only about 3 percent of the eligible persons took advantage of the program, and on average they received less than \$100 dollars.<sup>7</sup> Given the AEITC’s limited effectiveness, the Obama administration has proposed scrapping it. This would generate savings of nearly \$1 billion that could be redirected to more effective programs.

Another candidate for reform is the home mortgage interest deduction, which costs over \$100 billion a year. This deduction is often justified as encouraging people to buy homes. While promoting home ownership may be good public policy, this tax expenditure wastefully subsidizes the purchase of second homes, which are often used as vacation homes. And because it's designed as an "upside-down subsidy" (see box) nearly 75 percent of the \$100 billion expenditure is enjoyed by taxpayers earning more than \$100,000.

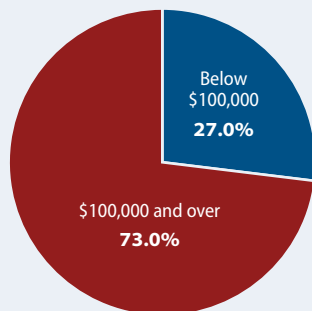
More robust evaluation should also help expose the many tax expenditures that reward special interests. For example, a preferential rate for timber sales, together with other special timber tax breaks, results in a negative tax rate on the timber industry—meaning the government pays timber companies to make money.<sup>8</sup>

Some existing information sources can help identify wasteful tax expenditures: Congress's Joint Committee on Taxation and the Treasury Department provide annual estimates of the government's tax expenditure spending; the Congressional Research Service releases estimates biannually; and the Government Accountability Office and Congressional Budget Office conduct periodic in-depth studies.

## "Upside-down" subsidies—a primer

Some subsidies deliver more to those with higher incomes and less to those with lower incomes

### Distribution of mortgage interest value deduction



Source: Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 2009-2013" (2010).

Tax expenditures and other subsidies should strive to achieve maximum bang for the buck. This means targeting each subsidy in the right amount to those persons or companies whose behaviors will be most affected by the subsidy. But subsidies aren't always structured this way.

Consider the Home Mortgage Interest Deduction, which is arguably intended

to promote homeownership. To accomplish this goal an effective subsidy would target individuals who would not purchase a home without financial assistance. It should not deliver subsidies to people who

would buy homes even without a subsidy. But this deduction, which is expected to cost over \$100 billion this year, is an "upside-down" subsidy—the deduction's value is greater for wealthier people in higher tax brackets and less for people in lower tax brackets. Its upside-down design means people who benefit most from this subsidy are also the ones who least need it.

As seen in the graph to the left, nearly 75 percent of the home mortgage interest deduction's total value goes to homeowners earning more than \$100,000. Think about it this way: If the home mortgage interest deduction were implemented as a direct spending program, homeowners with high incomes—those who earn more than \$200,000—would receive a check for \$5,000.

A grant program intended to encourage homeownership would not be designed to deliver bigger subsidies to those who earn more. A tax expenditure program shouldn't either.

Nonetheless, we lack an internally consistent, systematic analysis of tax expenditures. Information from Congress and the executive branch frequently conflict—there can be differences in both tax expenditures identified and cost estimates. And very little is reported on tax expenditure effectiveness.

What’s needed is a clear, authoritative resource—like what the Congressional Budget Office offers for direct spending—that policymakers can consult for critical information about tax expenditures. While it’s unclear exactly what this information would encompass, it could be as simple as providing a concise assessment of a tax expenditure’s cost, identifying individuals and companies who benefit from the subsidy, and including information on comparative effectiveness to other forms of government spending.

A few states already issue reports that assess tax expenditures. Delaware’s tax expenditure report provides meaningful evaluations of many tax expenditures, as does the California Franchise Tax Board. These reports provide information on a tax expenditure’s purpose, cost, and effectiveness.

Sometimes not enough information is available to assess cost and effectiveness, and in these situations missing data should be flagged. Take the tax exemption for nonprofit hospitals. Nonprofit hospitals receive more than \$12 billion in tax expenditures for offering community services. But nonprofit hospitals are not legally required to provide comprehensive disclosure about either their community benefits or how their funds are spent. Data gaps like this should be identified and addressed to guide policymakers in allocating tax expenditure dollars going forward.

A recent piece of legislation takes this approach. The House Extenders bill, H.R. 4213—which among other things modifies certain tax subsidies for low-income housing—also includes a section requiring assessment of tax expenditures that are passed in the extenders bill. When assessment is not feasible the bill requires highlighting what type of data would prove useful in the future. The bill has not passed, but it would be an important first step.

The administration has also promised to give tax expenditures more attention. Chief Performance Officer Jeffrey Zients stated in congressional testimony that “the tax expenditure side should be part of [program assessment]” and a priority moving forward—though little has been done to date.

Better measurement and evaluation of tax expenditures would help provide a foundation for action. But this information alone will not produce much change unless it is linked to the decision-making process.

# Tax expenditures deserve scrutiny in the budget process

The budget process should cohesively examine spending. Direct spending streams—including both mandatory and discretionary spending—are considered outlays in the federal budget. But tax expenditures are not.

This means tax expenditure spending—unless subject to sunset provisions that automatically terminate the expenditure unless legislative action is taken to extend it—is permanent and free from regular scrutiny and review. Additionally, the annual amount of tax expenditure spending is not fixed. Rather, it is determined by the number of eligible claimants in a given year and the amount they are entitled to receive.

Incorporating tax expenditures into the budget process would subject them to regular review and scrutiny. Without scrutiny, tax expenditures provide locked-in streams of funding—even if this funding supports policies and programs that don't make sense. For instance, billions in tax subsidies from legislation passed in 2005 continue to support oil companies even though high oil prices have resulted in record profits.

The failure to treat tax expenditures as spending under the PAYGO law is another reason they are a “privileged” form of spending. PAYGO, or pay as you go, is a budget law that serves as one of Congress's key procedural tools for controlling deficits. The real force of statutory PAYGO is the threat of an across-the-board reduction in mandatory spending if annual new net spending is higher than revenues. This punitive sanction, however, excludes cuts to certain spending programs, and does not touch tax expenditure programs at all. Subjecting tax expenditures to the same automatic cuts as other forms of spending would enhance PAYGO's ability to control the deficit, and importantly, diminish its privileged status.

Lawmakers also prefer to substitute tax expenditure spending for direct spending because government looks smaller. But the reality is the opposite. Government is no bigger or smaller when budgets substitute tax breaks for oil companies or tax credits for college tuition costs for direct cash transfers to oil companies or college students.

Some tax expenditures not only conceal government spending but fail to reflect the true economic cost of that spending. Consider the tax subsidies that subsidize 401(k) plans. OMB reports the cost of the upfront deduction for amounts contributed to the 401(k)

and the tax deferral for gains on investments in the 401(k) plan (earnings from investments in a 401(k) account are treated as nontaxable events). Tax deferral has the effect of allowing earnings to grow with compound interest.

This is a major benefit of the 401(k) plan over long periods of time, but this benefit to taxpayers comes at a cost to the government—a cost that is not properly recorded in the tax expenditure cost. When the long-term costs are included, the 401(k) tax expenditure costs nearly \$40 billion more than estimated. The tax deferral works like an interest-free loan.

Incorporating tax expenditures into the budget process will take some serious thought. Some tax expenditures could be treated like automatic spending programs such as Social Security and Medicare—and it might not make sense to review these expenditures every year. Others could be treated more like direct spending discretionary programs subject to annual review and approval. Differentiating among tax expenditures and figuring out what makes sense in the context of the budget process is a critical challenge.

Washington state has developed a model to account for tax expenditures. A joint legislative committee reviews and evaluates certain tax expenditures each year. The committee then provides recommendations to fiscal committees for consideration in the budgeting process. So far, the Washington system has conducted 75 tax expenditure reviews. Of these, 17 were recommended for review, 5 for automatic expiration, and 3 for termination.<sup>9</sup>

A coordinated approach to budgeting would focus policymakers on whether tax expenditure spending supports governmentwide goals. Identifying duplicative or conflicting funding streams—on the spending and tax expenditure side—is essential to improving cross-government and even intradepartmental efficiencies.

Case in point: The Department of Education provides subsidies for higher education through a mix of spending mechanisms, including grants, credit programs, and about 10 different tax expenditures. Research has shown that consolidating these various tax expenditures could reduce complexity and increase participation.<sup>10</sup> Moreover, allocating some of the funds currently spent on credit programs and tax expenditures to grants could increase enrollment by up to 10 percent for low-income students.<sup>11</sup> Looking at tax expenditures alongside direct spending would encourage a conversation about how different spending mechanisms fit together.

It should also help bring contradictory policies to the surface. In 2008, the Department of Energy provided about \$1.7 billion in direct spending to support programs advancing energy efficiency and renewable energy.<sup>12</sup> That same year the Treasury Department spent \$4 billion in tax expenditures to support oil and gas companies.<sup>13</sup>

# Tax expenditures should be transparent

Government spending should be tracked and transparent regardless of whether it's direct spending or tax expenditures. Such transparency allows the American people to find out where their money is being spent and hold policymakers accountable for spending decisions.

The federal government has already started to track direct spending. [USA Spending.gov](#) and [Recovery.gov](#) offer a tremendous amount of information on funds paid in government contracts, grants, and loans. It's possible, for example, to see that the Department of Justice purchased nearly \$600 million worth of furniture for prisons from contractors in Wisconsin this fiscal year.

Federal agencies, moreover, provide Congress with detailed justifications for their annual budget requests. Agencies routinely publish their budget justifications on their websites, and in some cases agency heads will appear before Congress to provide further explanation for agency spending proposals.

But while progress has been made on direct spending, little has been made on tax expenditures. [Recovery.gov](#) notes that the American Recovery and Reinvestment Act provides nearly \$300 billion in tax benefits. But it doesn't provide information on who received those awards and what they did with those funds. The IRS likewise provides information on the size of tax expenditures, but it doesn't identify companies that received these tax subsidies.

Neither Congress nor agencies justify how they spend tax expenditure funds. And the declining use of congressional conference committee reports documenting Congress's rationale for creating tax expenditures further clouds the purpose of some of this spending.

Taxpayer information should be privileged and confidential in certain circumstances even at the expense of accountability. The public should not have access to how much a private individual earns, for example.

But our current blanket confidentiality rules mean that all tax expenditure information, regardless of sensitivity, is subject to high levels of confidentiality. This indiscriminating approach to confidentiality makes analysis of tax expenditures challenging. A more sophisticated approach would privilege truly confidential information such as private earnings but scrutinize nonconfidential information such as the subsidy amount companies receive.

Finding out where taxpayer dollars are spent can reveal surprising information. The Joint Committee on Taxation estimates that if offshore deferred accounts used by hedge funds and private equity funds were eliminated in 2007, the federal government would have received an estimated \$2 billion in revenue that year.<sup>14</sup> And the IRS recently revealed that the top 400 earners in America took home an average of \$345 million dollars in 2006 but paid only 16.6 percent of that in taxes, thanks in large part to a tax expenditure for capital gains and dividends that cost the government \$70 billion. (This tax expenditure provides individuals with a preferential tax rate on capital gains that is no greater than 15 percent, even though tax rates on regular income vary from 10 percent to 35 percent, depending on the individual's income.) Providing this sort of information to the public raises the stakes for policymakers who back wasteful tax expenditures.

This sort of public accountability, however, can only happen if tax expenditure information is presented in simple, easy-to-understand formats. Policymakers and the public expect to know where direct spending is going, what it's doing, and whether it's effective. They should expect the same for tax expenditures. And if this information cannot be simply presented—if the expenditure is so complex or poorly designed that we don't know this information—that may be a good reason to cut the expenditure or make it a direct spending program.

Enlisting public scrutiny can sometimes compel reluctant policymakers to act. Oregon's Department of Energy came under fire for the high cost of a tax expenditure meant to support businesses that produce renewable energy products. The cost of this program ballooned partly because companies such as Wal-Mart were allowed to purchase the rights to these subsidies from qualifying businesses that could not use the full value of the subsidy (sometimes a tax credit's value is limited by the amount of a company's taxable income).

In one instance Wal-Mart purchased \$33 million of these tax credits for \$22 million, according to data released by the state's DOE. This essentially turned Oregon's program for promoting green businesses into a Wal-Mart investment opportunity with a 49 percent guaranteed rate of return.<sup>15</sup> (Wal-Mart's gain should not eclipse the fact that green businesses that sell their tax credits also benefit, but this benefit comes at a high cost to taxpayers.) Earlier this year, Oregon's State House of Representatives reacted to public outrage over this spending program by limiting the cost of the expenditure.<sup>16</sup>

Transparency doesn't guarantee change like this will happen. But change is far less likely as long as tax expenditures are obscured from public scrutiny.

# Conclusion

The Center for American Progress's Doing What Works project will seek to shine a light on tax expenditures and build mechanisms for greater scrutiny. This paper describes the problem and offers an overall approach.

The next step is providing answers to questions about how to advance this approach. What type of analysis is most useful? What government agencies should be conducting this review? How can Congress budget for tax expenditure spending? And what's the best way to make tax expenditures transparent? Over the next year we will explore these and other related questions.

Many wasteful tax expenditures have been allowed to persist because they are not closely scrutinized. We can achieve tens of billions in savings and boost results for the American people by identifying and then eliminating or reforming these expenditures. The country's fiscal condition adds urgency to this effort. We must maximize value out of every dollar spent—tax expenditures included.

# Endnotes

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- 4 Ibid.
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## About the author

Sima J. Gandhi is a Senior Policy Analyst with the economic policy team. She works on a wide range of issues related to government efficiency, behavioral economics, budget analysis, and tax policy. Prior to joining American Progress, Sima was a fellow with the Tobin Project's Regulatory Capacity Initiative where she analyzed the design of independent regulatory agencies, and a tax lawyer at Simpson Thacher & Bartlett, LLP in New York City. Former U.S. Secretary of Treasury Robert Rubin presented Sima with The Brookings Institute's Hamilton Project Economic Policy Innovation Prize for her revenue-neutral proposal to increase the effectiveness of federal subsidies for higher education.

Sima grew up in California and received her J.D. and LL.M. in tax from the New York University School of Law where she was awarded the David F. Bradford Prize. She doubled majored in engineering and science, technology, and society at Stanford University, where she graduated with honors.

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