

September 16, 2013

## Exposing the Big Money in Tax Breaks

*National Priorities Project examines trillions in tax breaks, who benefits, and why it matters for you.*

By **Mattea Kramer**

Data support by **Becky Sweger and Asher Dvir-Djerassi**

The federal tax code includes hundreds of tax breaks that are meant to encourage certain activities that lawmakers deem beneficial to society. Tax deductions, credits, and exclusions are all different kinds of tax breaks, which are officially called *tax expenditures* within the federal government. The term *tax expenditure* conveys an important detail: **From the perspective of the government, tax breaks are no different from any other kind of government spending.** In both cases, the U.S. Treasury has less money and some government activity – whether subsidies for home buying, repairs to an interstate highway, or tuition support to college students – receives funding.

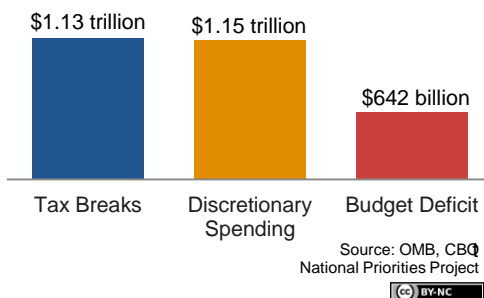
*There is minimal oversight to ensure tax breaks actually achieve their intended purpose*

### Little Oversight with Trillions at Stake

Unlike discretionary spending, which must be approved by lawmakers each year during the appropriations process, tax breaks do not require annual approval. Once written into the tax code, they remain on the books until lawmakers modify them. That means there is minimal oversight to ensure tax breaks actually achieve their intended purpose, even as they can grow in size from year to year as more taxpayers claim them for tax savings.

### Big Spending in the Tax Code

**Tax Breaks Are as Large as Discretionary Spending and Larger Than the Deficit (FY2013)**

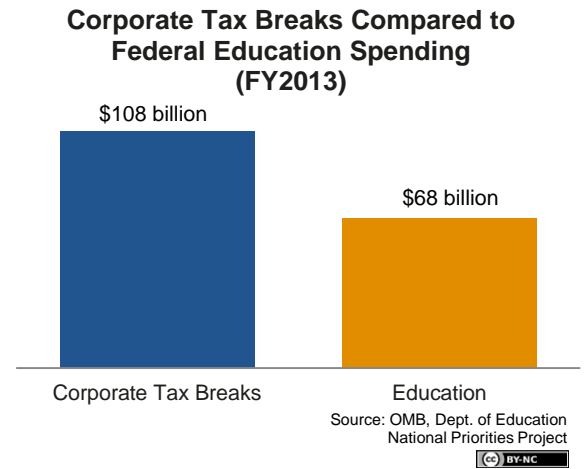


Since tax breaks are a type of government spending, they deserve just as much oversight and public attention as the rest of the federal budget. Yet few Americans are aware of how much spending occurs through the tax code or who benefits the most. **In fiscal year 2013, tax breaks cost the federal government an estimated \$1.13 trillion<sup>1</sup> – just slightly less than all discretionary spending, and substantially more than the budget deficit in the same year.** Every dollar the government spends on a tax break is a dollar it can't spend elsewhere – whether on early-childhood education, environmental protection, or infrastructure improvements.

<sup>1</sup> Unless otherwise noted, all numbers cited in this report are drawn from the White House Office of Management and Budget, Analytical Perspectives, Chapter 16: Tax Expenditures, Fiscal Year 2014. Numbers reflect foregone revenue but do not necessarily represent the amount of additional revenue the government would raise by repealing any given tax expenditure, as estimates do not reflect dynamic effects.

## Corporate Tax Breaks

Corporate tax breaks will total \$108 billion in fiscal 2013. To put that in perspective, all federal spending for education programs will total \$68 billion in the same year. The largest corporate tax break allows multinational corporations to defer paying taxes on income earned abroad. That will allow corporations to avoid \$42 billion in taxes in fiscal 2013 – or two and a half times the annual cost of Temporary Assistance for Needy Families, the federal welfare program.



## Big Tax Breaks Offer Deep Savings for the Wealthy

All tax breaks for individual taxpayers together will exceed \$1 trillion in fiscal 2013 – or around 15 times the size of Bill Gates’s fortune – but all individuals do not benefit equally. Ten major tax breaks that together total more than \$750 billion in tax savings in 2013 are tilted heavily in favor of the top income earners; according to the Congressional Budget Office, 17 percent of the benefits from these major tax breaks go to the top 1 percent of households.<sup>2</sup> In fact, according to the Tax Policy Center, **4,000 taxpayers in the top 1 percent will owe no income tax at all in 2013, thanks in large part to tax breaks that help them reduce their tax liability down to zero.**<sup>3</sup>

Select Top Tax Breaks for Individuals	Cost to U.S. Treasury in 2013	Share of Benefits Going to Top 5% (\$209,500 income and above) <sup>4</sup>	Share of Benefits Going to Top 1% (\$462,500 income and above) <sup>4</sup>
<b>Exclusion of Employer-Sponsored Health Care</b> <i>Employer payments for employee health insurance are tax-exempt.</i>	\$203 billion	10%	2%
<b>Exclusion of Employer-Sponsored Retirement Plans</b> <i>Contributions to certain retirement plans are tax-exempt.</i>	\$116 billion	36%	14%
<b>Deduction of Home Mortgage Interest</b> <i>Interest on a home mortgage is tax-deductible.</i>	\$93 billion	38%	15%
<b>Special Rate on Capital Gains and Dividends</b> <i>Money earned from selling stocks and other assets is taxed at a special low rate.</i>	\$83 billion	82%	68%
<b>Deduction of Charitable Contributions</b> <i>Contributions to charitable organizations are tax-deductible.</i>	\$49 billion	30%	38%

Source: OMB, CBO

<sup>2</sup> Congressional Budget Office, The Distribution of Major Tax Expenditures in the Individual Income Tax System, <http://www.cbo.gov/publication/43768>. Note that CBO’s report on distributional effects draws on tax expenditure estimates from the Joint Committee on Taxation, while the estimates reported here are those produced by OMB.

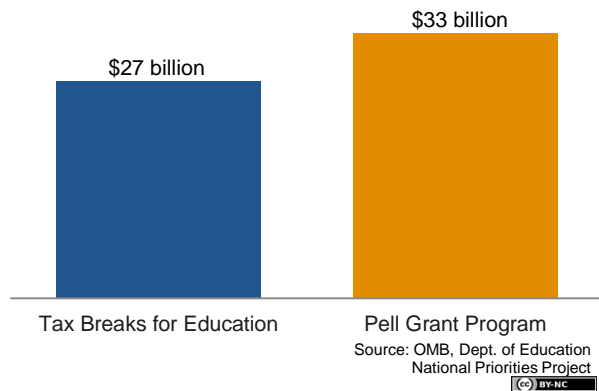
<sup>3</sup> Tax Policy Center, Distribution of Tax Units That Pay No Individual Income Tax, <http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=3992>

<sup>4</sup> Income thresholds are for two-person households. Source: CBO

## Tax Breaks Can Be Poor Substitute for Government Spending

Lawmakers often use the tax code to achieve policy objectives – for instance, to promote manufacturing or reduce the cost of health care. In many cases, however, the tax code may not be an efficient means of

### Education Tax Breaks<sup>5</sup> Are Nearly the Size of Pell Grants (FY2013)



achieving the intended goal. The federal government devotes billions in direct spending to financial aid for college students while a variety of tax credits and deductions are meant for the same purpose. **But while Pell grants and other forms of direct aid are largely effective at reaching low-income students – because they are need-based awards – tax breaks are far more likely to reach wealthy families who are less in need of aid.**<sup>5</sup> According to the Tax Policy Center, students from families in the bottom 40 percent of income earners received less than 30 percent of the benefits of major tax breaks for higher education in 2011.<sup>6</sup>

## Washington Contemplates Reform – And You Can Have a Say

Lawmakers in Congress are now considering comprehensive tax reform. Senators Max Baucus (D-MT) and Orrin Hatch (R-UT) are at the helm of an effort to take a “blank slate” approach to reform – meaning they propose striking every tax break from the tax code and then adding back only those that genuinely accomplish a worthy objective.

**You have the opportunity to influence this process by communicating with your senators and representative in the House about what you believe should be done.** Are certain tax breaks important to you? Do you believe some tax breaks should be eliminated from the tax code? This is your opportunity to influence Washington. [Take Action.](#)

## More Resources

- [Interactive Visualization](#): See the cost of tax breaks, how they’ve changed over time, and who benefits.
- [Complete Data on Tax Breaks](#): Download data and explore the cost of every tax break every year from 1974 to the present.
- [Federal Budget 101](#): Understand who decides the federal budget, where the money comes from, and where it goes.

<sup>5</sup> Education tax breaks include American Opportunity Tax Credit, Deductibility of Student-Loan Interest, Deduction for Higher Education Expenses, Discharge of Student Loan Indebtedness, Education Individual Retirement Accounts, Exclusion of Employer-Provided Educational Assistance, Exclusion of Interest on Savings Bonds Redeemed to Finance Educational Expenses, Exclusion of Scholarship and Fellowship Income, Hope Tax Credit, Lifetime Learning Tax Credit, Parental Personal Exemption for Students Age 19 or Over, and Qualified Tuition Programs.

<sup>6</sup> Tax Policy Center, Distribution of Federal Tax Change by Cash Income Percentile for AOTC, LLC, Tuition and Fees Deduction and Student Loan Interest Deduction, <http://www.taxpolicycenter.org/numbers/displayatab.cfm?Docid=3143&DocTypeID=2>  
[nationalpriorities.org/analysis/2013/big-money-tax-breaks](http://nationalpriorities.org/analysis/2013/big-money-tax-breaks)