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Heard Off the Street: Tax report will fire up partisans

By: Len Boselovic – June 2, 2013

Whatever light the Congressional Budget Office intended to shed on the issue of who benefits the most from tax expenditures will probably be extinguished in the partisan heat that its report is bound to generate among our bickering ruling class.

For those not educated in policyspeak, tax expenditures are more commonly known by their pejorative name: loopholes that reduce a ratepayer's income tax liability.

CBO looked at the 10 largest tax expenditures and estimated they will lower federal tax revenue by more than $900 billion in the current government fiscal year, which ends Sept. 30. As a point of reference, the agency says $900 billion is about 5.7 percent of the U.S. economy or about one-third of annual federal revenue. You can find a copy of the report here: www.cbo.gov.

This year, 51 percent of the more than $900 billion in tax breaks will go to the 20 percent of U.S. households that earn the most income, the budget office said. A four-person household would have to earn minimum pre-tax income of $162,800 to fall into that category.

The top 1 percent of households -- four-person households with 2013 pre-tax income of $654,000 or higher -- enjoy 17 percent of the benefits from the tax expenditures, CBO reported.

The Tax Foundation, founded in 1937 by executives concerned about escalating federal spending and taxes during the Great Depression, points out that the top 20 percent of households pay 68 percent of all federal taxes and 94 percent of all federal income taxes.

"In other words, tax breaks benefit those who pay the taxes," foundation economist William McBride wrote in an online commentary on last week's CBO report.
U.S. Rep. Sander Levin, a member of the House Ways and Means Committee, had a slightly different take on the findings.

"The preferences that benefit the very wealthy highlight the ability to obtain the needed revenues to address the sequester and achieve a balanced approach to tax reform," the Michigan Democrat said in a statement released by his office.

Only 8 percent of the benefits go to the 20 percent of households with the lowest incomes. For a four-person household, that means pre-tax income of less than $49,500.
By far, the biggest tax expenditure comes through not taxing the value of health insurance benefits that companies provide to their employees. CBO estimates that will reduce tax revenue by about $248 billion this fiscal year. About a third of the benefit

from that loophole will go to the top 20 percent of households and two-thirds to the bottom 80 percent, according to the report.

The second-biggest tax expenditure, preferential tax rates on capital gains and dividends, will account for an estimated $161 billion in foregone revenue during the current fiscal year. CBO estimated 93 percent of the benefits will go to the highest 20 percent of income earners. The top 1 percent enjoy 68 percent of the benefit, the equivalent of a little more than 5 percent of their after-tax income, the agency said.

The popular deduction for mortgage interest will account for an estimated $70 billion in foregone tax revenue this year. CBO said the top 40 percent -- four-person households with pre-tax income of $110,200 or more -- will collect 91 percent of that benefit.

The same group will keep 94 percent of the $77 billion lost because of the deduction for state and local taxes, and 95 percent of the $39 billion foregone because of the deduction for charitable contributions, CBO said.

Only 4 percent of the $57 billion in tax revenue that the budget office estimates will be lost this year because the child tax credit will go to the top 20 percent of households. Included in the CBO's top 10 tax expenditures is one that largely benefits the less affluent.

The earned income tax credit, a tax credit for low-income earners, will result in $61 billion in foregone revenue this fiscal year, with 80 percent going to the lowest 40 percent of taxpayers. For a four-person household, that means pre-tax income of up to $77,000.

CBO notes the value of tax expenditures represents the difference between taxes people pay and what they would pay if the loopholes were eliminated and they did not change their behavior.

Eliminating them would not result in a dollar-for-dollar increase in tax revenue. For example, if preferential tax rates for capital gains were eliminated, investors would modify their investments so they realized less income from capital gains, the agency said. Nevertheless, they represent a starting point for the long-awaited, much needed, rational discussion about the federal budget deficit.

In that spirit, the right-thinking Cato Institute hailed the report as "not even close to being the worst thing produced by CBO."

"CBO is slavishly devoted to Keynesian economics, notwithstanding several decades of evidence that you can't make an economy richer by taking money out of one pocket and putting it in another pocket," wrote Daniel J. Mitchell, the institute's expert on tax overhaul and supply side tax policy.

Let the partisan bickering continue. It must be what they were elected to do.