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# A Tax Non-Reform Bill

*It does a lot for special interests, nothing for middle-income workers or economic growth.*

By Michael Tanner
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There have been few occasions over the past six years when I have found reason to praise President Obama. Rarer still are the times that I have been critical of a proposal to cut taxes. But in threatening to veto the so-called “tax extenders” legislation currently making its way through the lame-duck Congress, the president may be doing the right thing.

As with most bad legislation, the tax-extenders bill has bipartisan support, ranging from Harry Reid on the left to Senator Jim Risch from Idaho on the right. But if this is an example of Congress “getting things done,” we would be better off with more gridlock.

That is not to say that the extenders legislation contains no good ideas. Some portions are valuable, such as making the research-and-experimentation tax credit permanent and continuing an immediate write-off for some types of small-business investment. But most of the legislation is a grab bag of special-interest giveaways.

The “green energy” lobby is a big winner, as usual. For example, the bill would extend the wind-production credit through 2017, at a cost of around $20 billion. Electric cars have long been subsidized by the government, of course, but this legislation would also extend the tax credit for electric motorcycles, three-wheeled vehicles, and low-speed vehicles. There is also the usual collection of tax breaks for the makers of energy-efficient appliances and the builders of environmentally conscious homes. And of course it wouldn’t be a proper piece of special-interest legislation without a tax credit for the producers of cellulosic biofuels — that is, ethanol.

Hollywood also gets a reward, in the form of an extension of special expensing rules for movie and television production. Other winning industries include railroads and NASCAR, which continues to receive its special depreciation rules. Actually, Congress appears to like all types of racing, since the owners of race horses under three years old also get a special depreciation schedule.

And if all this drives you to drink, don’t worry. There’s a provision extending the special tax break for Puerto Rican rum.

Even the few provisions designed to help ordinary taxpayers are likely to have unintended consequences. For example, state income taxes have long been deductible from federal taxes, but this legislation would allow taxpayers to choose to deduct state and local sales taxes instead, meaning that people in states with no income tax would now benefit from the deduction as well.  But such tax breaks simply encourage states to raise their taxes. They are, in effect, a reward for high-tax states. Economists estimate that state taxes are 13 to 14 percent higher than they would be in the absence of federal deductibility.

Similarly, the American Opportunity Tax Credit, which allows parents or children to claim a tax credit for tuition and other education expenses during the first four years of college, is primarily passed through to higher tuitions. As a result, the credit may actually make it more difficult for non-qualifying families to afford college.

Making matters worse, none of these tax breaks is offset with corresponding spending cuts. The reported deal would add $530 billion to our national debt over the next ten years, including additional interest costs. Normally, it is a mistake to attribute the full cost of tax cuts to the debt. But so few of the provisions in the tax-extenders bill are likely to lead to increased economic growth that this time it may be fair to call it a budget buster.

Even politically, this seems like a dumb idea. Republicans in Congress would be passing tax breaks for corporations only to allow President Obama to veto them, calling attention to both the special-interest provisions and the lack of tax breaks for middle-income workers. Whose idea of smart politics is that?

House leaders are reportedly considering a short-term measure that would extend the tax breaks only through January, letting the new Republican-controlled Congress take another bite at the apple next year. That would be better than the Senate version.

But a better idea yet would be to just dump the whole thing. Those few worthwhile items could be taken up separately and made permanent. Then Congress can get about the real business of broad, pro-growth tax reform that will lower rates and remove special-interest favors from the tax code.

No doubt we need tax reform, both personal and corporate. This isn’t it.

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