

INFOSCOPE

News and Tips for Managing Information

Tax Policy and Tax Reform — Yuck! But, important.

It's in the news. We can't ignore it. We shouldn't ignore it.

Our long and complex manual of tax rules—the tax code—expresses the values of our society. Each and every sentence signifies what we, as a country, think is worthy and important. This is because, as the old saying goes, we put our money where our mouth is. And, the United State puts our money—spends our money— in two ways:

“...our tax laws cut across all of American life. Except for the U.S. Constitution, they represent the most comprehensive expression of our government’s official values. What these laws tax or exempt, reward or ignore, crucially shape who we are as a nation and what we will become.”
John O. Fox

The United States [let's focus on the federal government] pays directly for goods and services. Whether it's a tank, computers, analysts, Congressional Research Service reference librarians, or money for programs like Food Stamps, we shell out money in exchange for purchases. These are the items in the Federal Budget. For a really great graphical view of the President's proposed budget see:

Interactive Proposed Budget of the President for 2012

<http://www.whitehouse.gov/omb/budget>

“Click on Explore the Budget to view a cool graphic which displays budget items proportionally by the size of the box. Cursor over the boxes to find out the actual % of the budget the item represents.”

Apart from direct spending there is “silent spending”, a “backdoor budget” if you will. Or, as the Institute on Taxation and Economic Policy refers to it, “...Spending by Another Name”. This spending comes in the form of tax breaks, technically called “tax expenditures”.

These tax breaks have long been called “tax expenditures” because they are essentially government spending programs that happen to be administered through the tax code. However, tax expenditures are usually less visible than other types of public spending and are therefore harder for policymakers and the public to evaluate. [From Tax Expenditures: Spending by Another Name <http://www.itenpnet.org/pdf/pb4exp.pdf>

Most of the federal government's revenue comes from individuals. The amount of money the federal government takes in every year in individual income taxes is about \$1 trillion dollars. The amount of money we spend in tax breaks every year is about **\$1 trillion dollars**. Fully, **1/2** of all individual income is not taxed due to tax expenditures.

URLs are hot-links accurate as of Dec 20, 2011.

Winter-Spring
2012

**Tax Policy and Tax Reform - Yuck!!
But, important.**

Web Design Best Practices

Websites for Fact-Checking

Additional Tax Charts

A Tax Quiz!



“...tax expenditures include any reductions in income tax liabilities that result from special tax provisions or regulations that provide tax benefits to particular taxpayers.

Special income tax provisions are referred to as tax expenditures because **they may be considered to be analogous to direct outlay programs** [bolding added by Cohen], and the two can be considered as alternative means of accomplishing similar budget policy objectives. Tax expenditures are similar to those direct spending programs that are available as **entitlements** to those who meet the statutory criteria established for the programs.”

Joint Committee on Taxation

Where does the federal government get money?

Breakdown of Revenues in 2010
Congressional Budget Office
<http://cboblog.cbo.gov/?m=201103>



What are the largest tax expenditures?

From: Senate Finance Committee Pub. JCX-15-11

BACKGROUND INFORMATION ON TAX EXPENDITURE ANALYSIS AND HISTORICAL SURVEY OF TAX EXPENDITURE ESTIMATES

[Page 27] <http://www.jct.gov/publications.html?func=select&id=5>

Table 8.—Largest Tax Expenditures, Individual, 2010-2014

Tax Expenditure and Function	Total Amount (in billions)
Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums	659.4
Deduction for mortgage interest on owner-occupied residences	484.1
Reduced rates of tax on dividends and long-term capital gains	402.9
Net exclusion of pension contributions and earnings: Defined benefit plans	303.2
Earned income credit	268.8
Deduction of non-business State and local government income, sales and personal property taxes	237.3
Net exclusion of pension contributions and earnings: Defined contribution plans	212.2
Exclusions of capital gains at Death	194.0
Deductions for charitable contributions, other than for education and health	182.4
Exclusion of untaxed social security and railroad retirement benefits	173.0

Total, approximate: \$3.1 trillion [2010-2014] = \$623 billion per yr.

This does not count other, smaller, categories of tax expenditures which brings the yearly total to about **\$1 trillion**.

Tax Reform

Perhaps the biggest issue with tax reform is dealing with tax expenditures. Their numbers [and cost] have grown exponentially in the past couple of decades. It is not the *type* of tax system we have that keeps us from filing taxes “on a postcard”; it is our vast and complex set of tax expenditures. Simply put, we need to “clean house” - evaluate all tax expenditures for their cost to the country, the value they bring [if any] and the complexity of administering them.

This type of understanding takes some critical thinking. One-liners don't do it. For example, I did a 180-degree change of attitude on a tax break I get when I learned more about it: how it works not just for me, but for society as a whole. And, for society as a whole [and I am part of society, after all] it works poorly.

It's not hard to understand more about some of the most important tax expenditures. [See, especially John O. Fox's publications referenced below.] It may seem like a lot to ask of citizens. However, democracy demands it. Taxes are an expression of our values. Or, should be. If we don't know how the government taxes, how do we know that our values are being supported?

Resources

Tax Reform

Donna's favorite book on Tax Reform:

"If Americans Understood the Income Tax: Our Most Expensive Ignorance"

Written by John O. Fox

"Visiting Professor of Complex Organizations" at Mt Holyoke College in Massachusetts

http://www.mtholyoke.edu/acad/facultyprofiles/john_fox.html

and his website -

Ten Tax Questions the Candidates Don't Want You to Ask

See, especially, JCX-15-11 (March 9, 2011)

What is it called when a tax break is eliminated, or down-sized?

Answer: A spending cut.

<http://www.10taxquestions.com/>

Wonderful site from John O. Fox, which explains these issues simply yet thoughtfully.

Taxes – Background Info

Institute on Taxation and Economic Policy

<http://itepnet.org/index.php>

The Institute on Taxation and Economic Policy (ITEP) is a non-profit, non-partisan research organization that works on federal, state, and local tax policy issues.

Citizens for Tax Justice

<http://www.ctj.org/index.php>

Tax Fairness Oregon

<http://www.taxfairnessoregon.com>

Economic Policy Institute General Economic Policy

<http://www.epi.org/>

The Economic Policy Institute (EPI), a non-profit, non-partisan think tank, was created in 1986 to broaden discussions about economic policy to include the needs of low- and middle-income workers.

"Our ideal world would have a stripped-down system that taxes nearly all income but at much lower tax rates than we have now. For the most part, we wouldn't worry much about tax breaks the guy next door gets because there would be few to worry about. Most of us could fill out our 1040s by ourselves, in an afternoon or less."

From John O. Fox, Ten Tax Questions to Candidates Don't Want You to Ask
<http://www.10taxquestions.com>

Title 26 of the U.S. Code – Internal Revenue

http://www.law.cornell.edu/uscode/usc_sup_01_26.html

Tax Policy Research Guide from Georgetown University

<http://www.ll.georgetown.edu/guides/taxpolicyresearch.cfm>

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information

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Taxes Info – Government Info **Joint Committee on Taxation**

<http://www.jct.gov/>

Joint Committee on Taxation Tax Expenditures publications page

<http://www.jct.gov/publications.html?func=select&id=5>

Website Best Practice

Websites are like language. They evolve over time and practices that once were common are replaced with newer ways – just like words.

Examples:

Citizen for Tax Justice Website

<http://www.ctj.org/>

In the olden days, all the “good” websites had a “Home” button on every page. The CTJ website does. However, the current best practice, especially on a site with a straight-forward logo in the upper left corner of every webpage is to have that link back to the Homepage as well. Maybe just because it’s a larger, and therefore easier, target to hit quickly! CTJ would benefit from this small, but significant, change to its website.

Fact-Checking Websites

The Fact-Checker from the Washington Post

<http://www.washingtonpost.com/blogs/fact-checker>

FactCheck.org

www.factcheck.org

From the Annenberg Center for Public Policy at the University of Pennsylvania

St Petersburg Times Politifact

<http://www.politifact.com/>

OpenSecrets.com

www.opensecrets.com

Center for Responsive Politics – “for tracking money in U.S. politics and its effect on elections and public policy....OpenSecrets.org...is the most comprehensive resource for federal campaign contributions, lobbying data and analysis available anywhere.

Snopes.com

<http://www.snopes.com/>

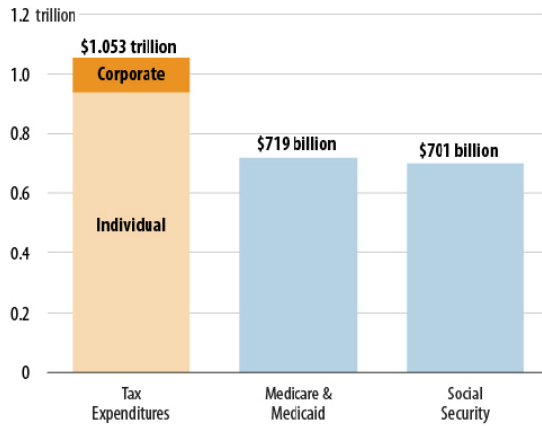
“...a reference source for urban legends, folklore, myths, rumors, and misinformation.”

Comparison of tax expenditures from the individual and corporate income taxes vs Medicare/Medicaid and Social Security spending.

<http://www.cbpp.org/slideshows/>

Tax Expenditures Are Substantial

Tax Expenditures (Exclusions & Itemized Deductions) Compared to Major Programs in 2010

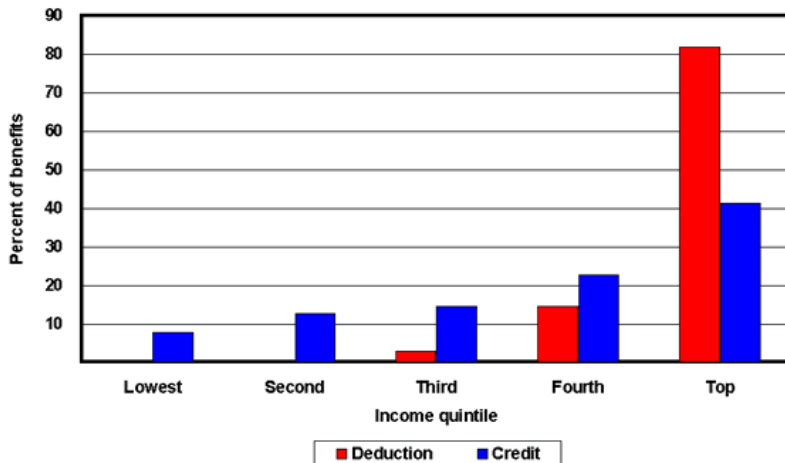


Note: Tax expenditure figures exclude Recovery Act provisions that were allowed to expire, but include those that have been extended.
Sources: Office of Management and Budget, Congressional Budget Office

Center on Budget and Policy Priorities | cbpp.org

Who benefits from housing subsidies? A comparison of current **mortgage interest deduction** benefits vs. recommendations of the Bush Advisory Panel on Tax Reform to "convert the deduction into a credit, make it available to all taxpayers (not just those who itemize deductions), limit it to the primary residence, and cap its value according to regional real estate prices."

Benefits of selected housing subsidies in the federal individual income tax



In short:
Percentage of Benefit Received by Different Income Groups from the Mortgage Interest Deduction?

Bottom 50%	1.3%
Top 50%	98.7%
Top 14%	72.7%

[From *Rethinking the tax subsidy for homeowners* by Max Sawicky, Nov 17, 2005. http://www.epi.org/publication/webfeatures_snapshots_20051121/]

America's Greatest Ignorance – A Quiz on Federal Individual Income Taxes.




1. About how much does the federal government collect in individual income taxes per year?
a. \$2 billion b. \$25 billion c. \$250 billion d. \$1 trillion
2. About how much does the federal government “spend” in tax “expenditures” [tax breaks] per year?
a. \$2 billion b. \$25 billion c. \$250 billion d. \$1 trillion
3. What percentage of all income [total income of all types] in the country is taxed?
a. 10% b. 50% c. 75% d. 100%
4. Is income you earn from working taxed at the same amount as income you earn from investing?
5. How much is spent on the mortgage interest deduction per year? [Hint: see the deductions chart.]
6. If the cap on the mortgage interest deduction was changed from \$1 million to \$300,000 the government would save in one year:
a. \$500 million b. \$1 billion c. \$3 billion d. \$5 billion
7. The interest on a home equity loan is tax deductible? T F
8. The interest on a car loan is tax deductible? T F
9. If there is a different answer to the prior two questions, then why?
10. What do these words have in common?
Spending, subsidy, tax “break”, tax “expenditure”.

ANSWERS BELOW

1. d. 2. d. 3. b. 4. No. Capital gains and investment income are taxed at a lower rate. 5. About \$97 billion; 6. About \$5 billion From CBO: “Lowering the limit on the amount of principal eligible for the mortgage interest deduction from \$1 million to \$300,000 would reduce deductions for 1.2 million taxpayers with large mortgages and increase revenues by \$51.3 billion over the 2001-2010 period. That change would reduce the deduction only for owners of relatively expensive homes...; “...according to the Federal Housing Finance Board, the average mortgage loan in the United States in May 2009 was \$221,200 [Senate Report <http://ecip.loc.gov/cgi-bin/cpquery/T?&report=sr071&dbname=1118>]; 7. True, up to \$100,000; 8. No; 9. No good reason that I know of; 10. They are all basically the same thing.

D. L. Cohen Information Services

Website Evaluation and Design Information Management

-  Website Evaluation and Usability Testing
-  Website Information Architecture
-  Information Management

D. L. Cohen Information Services, established in 1996, is a certified State of Oregon Woman-owned business. Donna Cohen holds a Master of Library and Information Studies degree [M.L.I.S.] and a Master of Education degree and has consulted with government agencies, private corporations and non-profit organizations.