

## Don't Ignore Tax Expenditures

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**INTRO:** The President was in North Carolina and Pennsylvania today. He's been stumping like a candidate to win support for his changes to Social Security and cuts in the budget. In Detroit, Mr. Bush said it's time to eliminate the programs that don't deliver on their promises. Commentator and tax expert Len Burman likes this 'good government test'. So he wonders why hundreds of programs are getting a pass.

**SCRIPT:** The government should scrutinize every tax dollar it spends, but the President left more than half a trillion dollars of annual spending off the table.

I'm talking about the 160 tax expenditures administered by the IRS. Think of them as stealth spending programs hidden in the tax code.

Here's an example. Suppose you want to help poor people buy health insurance. You could have the Department of Health and Human Services give eligible families vouchers worth, say, \$3,000 towards the cost of coverage for a family of four. Basically, food stamps for health insurance.

But that would be too obvious a spending program. Instead, the Bush Administration proposes to run the program through the tax code. Insurers will get \$3,000 off their tax bill in exchange for a reduction in premiums.

In principle, the two programs affect government finances and the health insurance market exactly the same way.

In practice, there are worlds of difference.

The Bush plan is a "tax break," not a big new spending program. That wins it support from conservatives who are otherwise skeptical of big government.

It would effectively become another new entitlement, like Social Security and Medicare, unlike a voucher program that Congress would review annually.

And, the IRS wasn't designed to run health programs anyway, especially a behemoth like this one. As a result, insurers and their clients will have to be trusted to monitor themselves.

This is pretty much the same approach the IRS takes to most tax expenditures. That's one reason why the government comes up roughly \$300 billion short of what it's owed every year.

Hidden in the tax code like bats in caves, hundreds of programs like this get a blanket exemption from scrutiny. Until they're exposed to the same daylight as direct spending programs, we'll never get our budget under control. And we'll never have a tax system that makes sense.

In Washington, this is Len Burman for Marketplace.

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