Clean Up the Tax Code

Donald Marron

Abstract

In a contribution to the New York Times Room for Debate, Donald Marron argues that the best way for the government to raise new revenue would be to reduce — and in some cases eliminate — many of the exemptions, exclusions, deductions, and credits that make Swiss cheese of our tax system.

Document date: November 23, 2010
Released online: November 23, 2010

New York Times, November 14, 2010

Spending restraint and economic growth are the most promising ways to tame America's deficits. But they won't be enough. Spending on an aging population and rising health care costs will push government to seek new revenues, too.

Higher income tax rates are not the way to do it. Higher rates will discourage working, saving, and investing and will further encourage people to base decisions on tax considerations rather than real economic fundamentals.

A far wiser approach would be to reduce — and in some cases eliminate — many of the exemptions, exclusions, deductions, and credits that make Swiss cheese of our tax system. The mortgage interest deduction and the tax exclusion for employer-provided health insurance, for example, total more than $300 billion in lost revenue each year, provide disproportionately large subsidies to high-income taxpayers, and do surprisingly little to encourage home ownership or, in a post-health-reform world, insurance coverage.

And those two provisions are only the tip of the iceberg. The Office of Management and Budget has identified more than 170 such tax expenditures (these provisions are called "expenditures" because they essentially run spending programs through the tax code). The deductibility of state and local taxes, for example, runs almost $70 billion each year. Favorable tax treatment for life insurance savings is about $23 billion. Credits for alcohol-based fuels total almost $9 billion. And dozens of rifle-shot provisions benefit narrow interests, such as special tax rules for NASCAR venues.

In total, individual and corporate tax expenditures reduce revenues by more than $1 trillion each year. Congress should revisit each tax break to see if it produces sufficient economic and social benefits to justify its budgetary cost. Some provisions should make the grade (the earned income tax credit, for example). But many others should be restructured or cast into the dustbin of history.

Such housecleaning would help close the deficit, reduce wasteful spending disguised as tax cuts, simplify tax preparation for millions of households, and potentially make the tax code more progressive (since many tax expenditures are worth most to households in high tax brackets) — all without raising rates.

Other Publications by the Authors

- Donald Marron