

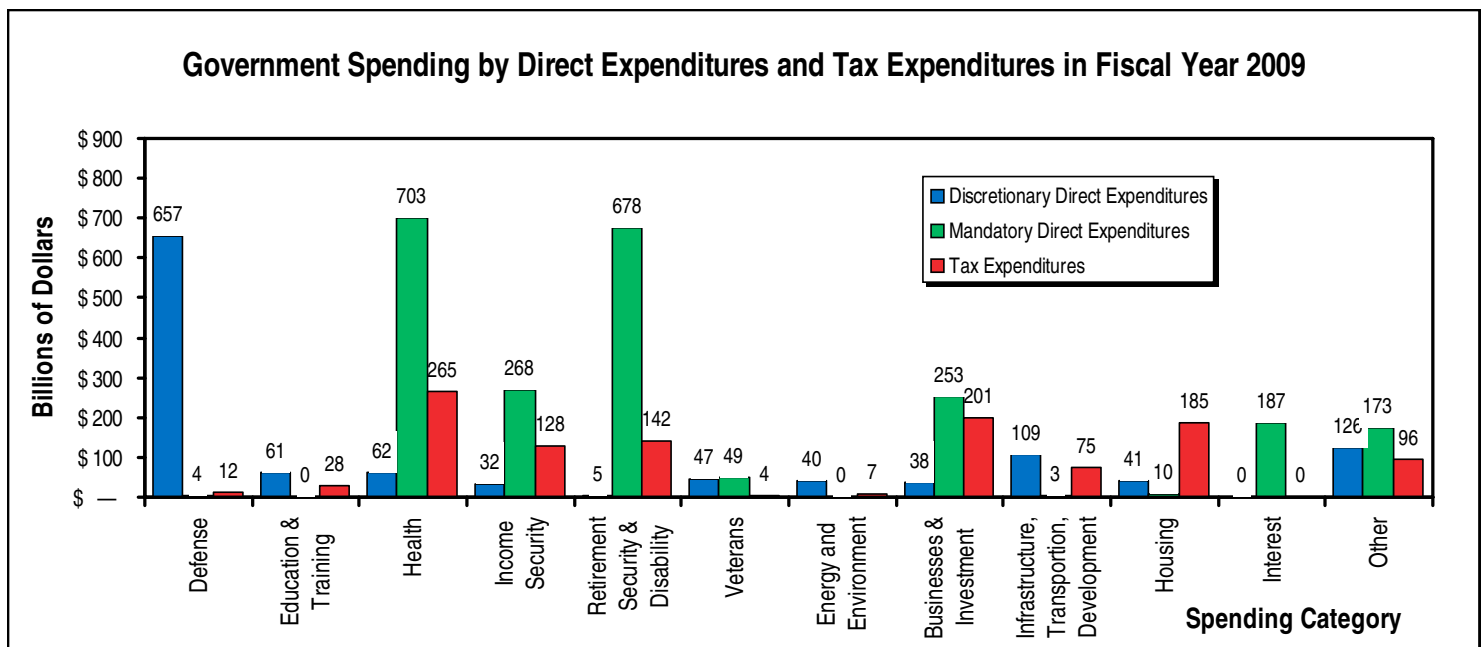
Limiting Tax Expenditures Must Be a Part of Congress's Efforts to Balance the Budget

Members of Congress must decide how to balance the federal budget over the next several years. While it is not necessary to balance the budget this year, large deficits over the long-term will, if unaddressed, create pressure to slash all sorts of public services in ways that might not be fair or economically sound.

In thinking about how the federal government can save money, lawmakers should examine three different types of spending. "Discretionary" expenditures are the spending that Congress must approve each year. "Mandatory" expenditures are the spending that, once enacted, generally continues each year without any action from Congress. (Social Security, Medicare and Medicaid are the most significant examples of mandatory expenditures.) A third type of spending, which is less often thought about, is "tax expenditures," the spending Congress does through the tax code.

As the figures in this report illustrate, tax expenditures are a significant portion of federal spending and cannot be ignored as Congress addresses the budget deficit.

A simple example of a tax expenditure might be a break that Congress enacts in the corporate tax, giving a particular group of companies a benefit totaling \$10 billion. The effect is the same as if Congress simply provided a subsidy through direct expenditures of \$10 billion for those companies. Either way, the companies are \$10 billion richer and there is \$10 billion less to fund public services. In other words, other taxpayers who did not receive the special break have to pay for it through increased taxes or reduced public services.



In fact, the only real difference is that a subsidy provided through the tax code seems to receive a great deal less attention (in terms of its cost and in terms of who benefits) than one provided through direct expenditures.

Members of Congress often focus on discretionary expenditures, not because they make up most government spending but because they are politically easier to limit. In fact, the figures in this report show that discretionary expenditures are less significant than tax expenditures in many spending categories. The other problem with fixating on discretionary expenditures is the fact that most of them are for defense — and yet calls for capping discretionary expenditures are always limited to “non-defense” spending.

The figures on the following pages show that tax expenditures make a up a large proportion of spending in several spending categories. Congress cannot reasonably address the long-term budget deficits without taking some action to eliminate or at least limit some tax expenditures.

For more information, see CTJ's report describing how Congress and the Executive Branch can create a “performance review” system to evaluate tax expenditures.

<http://www.ctj.org/pdf/judgingtep1109summary.pdf>

Federal Spending Direct Expenditure and Tax Expenditure, by Spending Category, in Fiscal Year 2009		
	Direct Expenditures (discretionary & mandatory) (\$millions)	Tax Expenditures (\$millions)
Defense	661,049	11,930
Education & Training	61,056	27,520
Health*	764,420	265,242
Income Security**	300,027	128,075
Retirement Security & Disability	682,963	141,826
Veterans	95,429	4,410
Energy and Environment	40,323	7,070
Businesses & Investment***	291,535	200,545
Infrastructure, Transportation, Development	111,939	74,640
Housing	50,913	185,210
Interest	186,902	
Other	299,599	95,620

* Health tax expenditures in this table include the effects on payroll taxes, as well as income taxes, of the exclusion for employer-provided health care benefits.

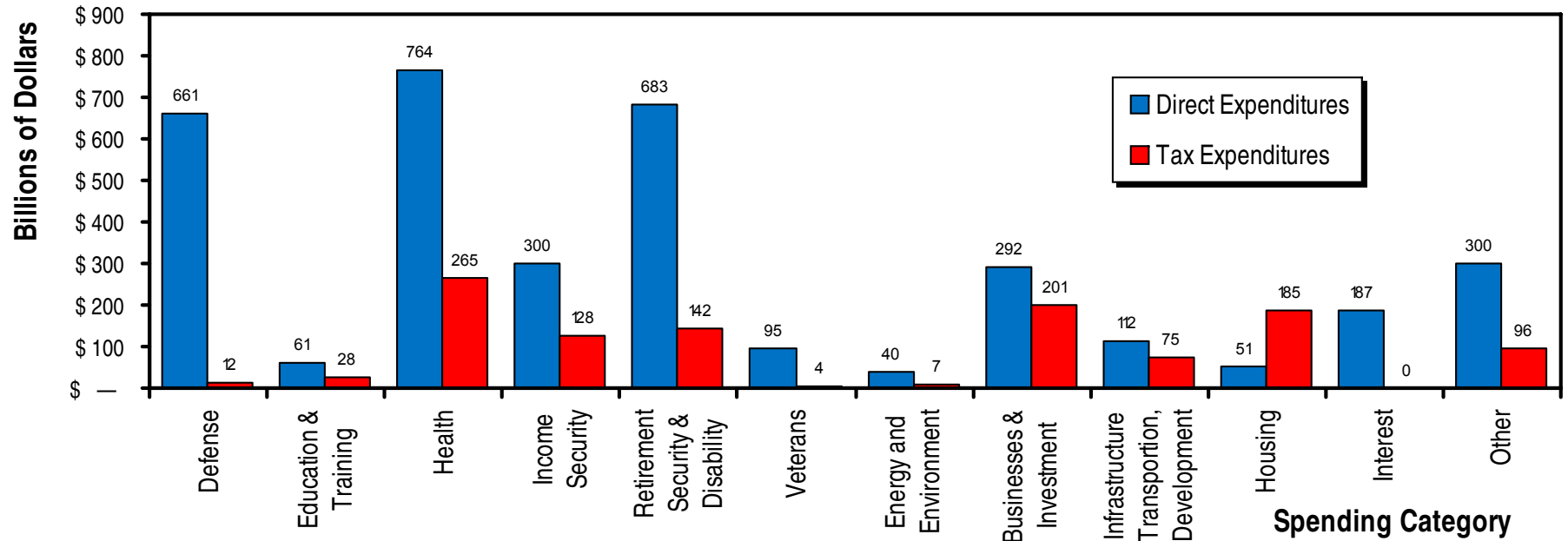
** The refundable portions of the EITC, Child Tax Credit, and Making Work Pay Credit, are all counted as tax expenditures (rather than direct spending) in this table.

Spending on retirement and disability for federal employees is moved from OMB's "income security" category to "other" on this table since it represents a cost of compensating federal employees who carry out all functions of government.

*** Direct spending for business and investment is usually below \$10 billion but was unusually high in 2009 because of TARP and aid to Freddie Mac and Fannie Mae.

Source: Office of Management and Budget

Government Spending by Direct Expenditures and Tax Expenditures in Fiscal Year 2009



Federal Spending Direct Expenditure and Tax Expenditure, by Spending Category, in Fiscal Year 2009			
	Discretionary Direct Expenditures (\$millions)	Mandatory Direct Expenditures (\$millions)	Tax Expenditures (\$millions)
Defense	656,761	4,288	11,930
Education & Training	61,056	—	27,520
Health*	61,668	702,752	265,242
Income Security**	31,886	268,141	128,075
Retirement Security & Disability	5,237	677,726	141,826
Veterans	46,797	48,632	4,410
Energy and Environment	40,323		7,070
Businesses & Investment***	38,437	253,098	200,545
Infrastructure, Transportation, Development	109,413	2,526	74,640
Housing	40,626	10,287	185,210
Interest	—	186,902	
Other	126,403	173,196	95,620

* Health tax expenditures in this table include the effects on payroll taxes, as well as income taxes, of the exclusion for employer-provided health care benefits.

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Source: Office of Management and Budget

Government Spending by Direct Expenditures and Tax Expenditures in Fiscal Year 2009

