Getting Rid of Tax Breaks is Not Impossible - But It is Not a Magic Wand for National Tax Reform

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Few proposals are touted by a wider array of DC heavyweights than "comprehensive tax reform" featuring the elimination of a host of "special interest tax breaks." Politicians ranging from President Barack Obama to Democratic Senate Finance Committee Chairman Ron Wyden of Oregon and Republican Ways and Means Committee Chairman Dave Camp of Michigan have suggested combining rate reductions with the elimination of breaks that forgive taxes particular groups would otherwise owe. Proponents often argue that eliminating such tax breaks can generate new revenues to offset broad rate reductions or reduce the federal budget deficit.

Analysts tend to be skeptical, in part because they know that talk is easier than actual changes to the tax code likely to inspire mobilized opposition. As tax historian Joseph Thorndike put it, "the smart money bets against tax reform – always and everywhere." In addition, many observers argue that, once in place, tax breaks in particular are especially durable, protected by processes thought to give extra leverage to privileged special interests.

Are Tax Breaks Hard to Dislodge?

Economist and Treasury Department official Stanley Surrey is largely credited with pioneering the notion that tax breaks – or "tax expenditures" in his terminology – should be viewed as equivalent to spending programs. He argued that they confer the same benefits to sets of taxpayers as if the Treasury simply cut them checks, and thus should be subject to the same scrutiny as other public programs. The numerous credits, deductions, deferrals, and loopholes scattered throughout the tax code are not just "tax relief," he maintained, but subsidies for certain types of people, income, entities, investments or activities at the expense of others. By cataloguing and estimating the cost of tax expenditures, Surrey and other experts hoped to encourage lawmakers to give them a harder look and enact reforms to prune them back.

But many observers in the academy and beyond doubt that cataloguing these breaks is enough to spur change. They argue that tax expenditures aren't subject to much public scrutiny and tend to persist indefinitely, because the tax policy process is seen as beholden to powerful lobbying interests. This is a provocative and important argument, but it has not been subject to rigorous empirical scrutiny. My research sets out to provide such tests.

Comparing the Durability of Tax Breaks and Spending Programs

In order to determine if tax breaks really are more durable than other types of policies, I use a newly expanded dataset of all new U.S. spending programs and tax expenditure provisions that were created between 1974 and 2003. This longitudinal dataset merges a preexisting database of spending programs compiled by political scientists Christopher Berry, Barry Burden and William Howell with information from a 2005 Government Accountability Office report on tax expenditures. By combining these data, I can compare the durability of 132 tax breaks and 1,953 other programs. Each year, I look to see if each program persists or has been eliminated.

The results contradict the view that tax breaks live forever. In my dataset, tax breaks were actually *more* likely to be eliminated at some point. In fact, a statistical model I developed predicts that after ten years, a tax break is 4.3 times more likely to be eliminated than a non-tax program. This holds when controlling for a host of political and economic factors that could influence policy durability. It even holds if we set aside the numerous tax breaks eliminated by the 1986 Tax Reform Act. I hypothesize that tax breaks may be less durable than many suppose for at least two possible reasons:

- Special interests may not fully dominate in the tax policy process. Lobbyists matter, of course, but the powerful Senate Finance Committee and House Ways and Means Committee may have more room to maneuver and be less susceptible to pressures from interest groups than Congressional committees with specific jurisdictions – such as the Agriculture committees.

- Tax breaks may lack strong constituencies inside the federal bureaucracy. In addition to economic and social groups, officials and employees of federal agencies can be important sources of support for programs that justify their jobs and budgets. But tax breaks enjoy little bureaucratic support. To the contrary, officials at the Treasury Department and the Internal Revenue Service frequently dislike them because they reduce revenue and complicate the work of collecting taxes and estimating revenues.

Major Reforms are Still Difficult

Of course, my findings do not mean that reforms are easy. Although tax breaks may not last as long as other programs, they are not readily dislodged. Fully 68% of the tax expenditures recorded in my dataset survived the entire time frame I surveyed. What is more, elimination of one or a few breaks at a time is much easier than removing a large number at once, because entrenched interests can combine forces in opposition to a big reform package.

A closer look at tax break eliminations shows that, contrary to conventional wisdom, breaks that benefit businesses and the wealthy are less durable than those with broader sets of beneficiaries. Corporate breaks have been more vulnerable than individual tax breaks; and itemized deductions mostly benefitting high-income taxpayers have been more vulnerable than long-lived credits and exclusions reducing taxes for large swathes of the public.

What is more, earlier tax reforms – especially in 1986 – produced a contemporary U.S. tax code that is relatively light on “special interest” loopholes. Even if all tax breaks for the privileged could be eliminated, not much fiscal room for maneuver would result. Reformers would have to remove or reduce breaks like the home mortgage deduction that benefit the middle class too.

In short, my research delivers mixed news. Tax breaks are definitely mortal, but minor ones benefitting only the privileged are the easiest to remove – and even going after many of those at once cannot generate big savings for the federal treasury.

Read more in Jake Haselswerdt, “The Lifespan of a Tax Break: Comparing the Durability of Tax Expenditures and Spending Programs.” *American Politics Research* 42, no. 5 (2014): 731-759.