ELIMINATE WASTEFUL SPENDING IN THE TAX CODE

Prepared by the Office of Rep. Jan Schakowsky
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The tax code currently includes a myriad of deductions, credits, and loopholes – spending by any other name – that benefit specific businesses and individuals: tax spending that we don't need. But instead of taking action to eliminate that spending, Republicans have resisted raising a single additional dime in net revenues and allowed $85 billion in indiscriminate spending cuts to federal agencies (known as "sequestration") to go into effect. Without action to repeal or replace them, sequestration will cost up to 750,000 jobs, according to the Congressional Budget Office.

At the same time, Rep. Paul Ryan and the House Republicans are doubling-down in their latest budget, which reflects everything that the American people rejected in the last election. It raises no revenues but would cut vital benefits we can't afford to lose – including Medicare, Medicaid, and SNAP (food stamps) – and cuts investments we need in order to put people back to work and build our economy – from education and job training to infrastructure and scientific research. In addition, it would shift the almost all of the sequestration cuts in the military to the non-defense parts of the budget, including public health and housing.

We should not solve our federal budget problems by shifting costs onto seniors, the middle class, children, and low-income families. There are other options that would allow us to address our fiscal challenges in a fair way. Below is a list of tax provisions that benefit wealthy corporations and individuals and established industries that do not need additional assistance. If these tax subsidies were eliminated, it would raise more than $820 billion over just 5 years, and more than $1.2 trillion over the next ten years. (Few 10-year scores are available for tax expenditures; the full 10-year number would be significantly higher than $1.2 trillion if such scores were readily available.) A sum of $1.2 trillion in revenues would allow us to replace the full amount of deficit reduction in the sequester, preventing looming job losses and an economic slowdown.

End Corporate Deferral on Offshore Profits - $583 billion over 10 years

End the ability of corporations to delay paying income taxes on profits earned overseas. Require U.S. companies to pay taxes on all of their foreign source income as it is earned.

#5* Deferral of income from controlled foreign corporations

Savings: $41.8 billion in 2014 $216 billion from 2013-2017 (OMB)
$583 billion over 10 years (JCT score from provision in Gregg-Wyden 2010 tax bill)

End Special Handouts to Agriculture and Timber Industries - $7.8 billion over 5 years

* Numbered proposals reference tax expenditures listed in "Fiscal Year 2013 Analytical Perspectives: Budget of the U.S. Government," produced by the Office of Management and Budget. Scores are subject to change as OMB's resources have not been updated to reflect the passage of the American Taxpayer Relief Act (the "fiscal cliff" deal). Updated estimates are particularly important for provisions related to the treatment of investment income. The Joint Committee on Taxation also provides estimates of the cost of tax expenditures. JCT's estimates are generally slightly different as the Committee's assumptions about behavioral effects and economic outlook are different than OMB's. For the provisions for which they are available, 1-year, 5-year, and 10-year scores are included.

#38 Capital Gains Treatment of Certain Timber Income – End the special treatment of certain timber sales as capital gains rather than ordinary income.
Savings: $60 million in 2014 $430 million from 2013-2017

#39 Expensing of Multiperiod Timber Growing Costs – End the tax benefit for timber companies which allows special treatment of production costs of growing timber.
Savings: $290 million in 2014 $1.5 billion from 2013-2017

#44 Expensing of Certain Agriculture Capital Outlays – End the tax benefit for farmers which allows special treatment of certain production costs on farms.
Savings: $130 million in 2014 $660 million from 2013-2017

#45 Expensing of Certain Multiperiod Livestock and Crop Production Costs – End the tax benefit for farmers which allows special treatment of certain production costs on farms.
Savings: $180 million in 2014 $900 million from 2013-2017

#47 Capital Gains Treatment of Certain Agriculture Income – End the special treatment of certain agriculture income as capital gains rather than ordinary income.
Savings: $650 million in 2014 $4.3 billion from 2013-2017

End Special Tax Preferences for Businesses - $35.3 billion over 5 years

#54 Tax exemption of certain insurance companies owned by tax-exempt organizations – End the tax benefit for life, property, and casualty insurance companies that are owned by tax-exempt organizations like fraternal societies and voluntary employee benefit associations. According to Citizens for Tax Justice, "[s]ome of the leading "non-profit" fraternal society insurers write tens of billions of dollars in insurance coverage--and pay their top executives princely salaries (as much as $900,000 per year)."
Savings: $210 million in 2014 $1.1 billion from 2013-2017

#141 Special Blue Cross/Blue Shield deduction – End the special tax benefit for Blue Cross/Blue Shield and certain other health insurance providers that allows them to reduce their tax liabilities by using different accounting rules than other insurance companies.
Savings: $530 million in 2014 $3.1 billion in 2013-2017

Repeal LIFO – Repeal the last-in, first-out (LIFO) method of accounting for inventories, which allows businesses to assume that the cost of inventory sold is equal to the cost of inventory that was most recently purchased or produced as opposed to the cost when the inventory sold was actually purchased (thus lowering reported profits).
Savings: $5.5 billion in 2014 $31.1 billion from 2013-2017
$73.8 billion over 10 years (White House proposal and score)

Eliminate Mortgage Interest Deduction for Second Homes – At least $13 billion over 10 years

End the ability of taxpayers to deduct the mortgage interest paid on vacation homes. Estimated savings from ending this tax break range from $13 billion to $80 billion over 10 years. (First score is from an Economic Policy Institute estimate of the Progressive Caucus's FY 2014 budget alternative and the latter is a preliminary and unpublished estimate by the Tax Policy Center that does not reflect recent changes in the tax law.)

End Fossil Fuel Subsidies - $41.4 billion over 10 years

In his fiscal year 2013 budget proposal, the President offered a full proposal to eliminate tax subsidies for certain oil, gas, and coal activities, including credits and deductions. The proposal is reproduced here in its entirety and savings estimates are from the White House. For more detail, see Chapter 15 in "Fiscal Year 2013 Analytical Perspectives: Budget of the U.S. Government" (OMB, 2012).

		2014	**2013-2017**	**2013-2022**	**OMB#** (if applicable)
Oil & Gas	**Repeal expensing of intangible drilling costs**	2.4 billion	11 billion	13.9 billion	9 (related)
	Repeal deduction for tertiary injectants	11 million	51 million	100 million	42 (related)
	Repeal exception to passive loss limitations for working interests in oil and natural gas pipelines	11 million	47 million	82 million	12
	Repeal percentage depletion for oil and natural gas wells	1 billion	5 billion	11.5 billion	10
	Increase geological and geophysical amortization for independent producers to 7 years	225 million	1.2 billion	1.4 billion	26
	Repeal domestic manufacturing tax deduction for oil and gas manufacturing	1 billion	4.9 billion	11.6 billion	
Coal	**Repeal expensing of exploration and development costs**	44 million	214 million	440 million	9 (related)
	Repeal percentage depletion for hard mineral fossil fuels	177 million	870 million	1.7 billion	10
	Repeal capital gains treatment for royalties	25 million	148 million	422 million	13
	Repeal domestic manufacturing tax deduction for coal and other hard mineral fossil fuels	23 million	114 million	271 million	
	Total Savings	$4.9 billion	$23.5 billion	$41.4 billion	

End Special Treatment for Investment Income – More than $539 billion over 10 years

#71 Treatment of qualified dividends – Treat dividends as ordinary income. According to Citizens for Tax Justice, the richest five percent receive 60 percent of qualified dividend income that is eligible for the tax benefit.

Savings: $21.9 billion from 2013-2017 (OMB)

#72 Treatment of capital gains – Treat capital gains as ordinary income. According to Citizens for Tax Justice, the wealthiest 1% receive 67 percent of the long-term capital gains income that is eligible for the tax benefit.

Savings: $48.3 billion in 2014 $321.5 billion from 2013-2017 (OMB)

#74 Step-up basis of capital gains at death – End the tax advantage that allows individuals who inherit assets to adjust the cost basis of those assets to the market value on the original owner's date of death, as opposed to when the assets were originally obtained.

Savings: $36.2 billion in 2014 $182.2 billion from 2013-2017 (OMB)

Carried interest – End the tax advantage that allows hedge fund managers to treat income earned from investment services as capital gains rather than ordinary income.

Savings: $1.9 billion in 2014 $8.3 billion from 2013-17
$13.5 billion over ten years (White House proposal and score)

For more information:

The Schakowsky/Sanders Corporate Tax Fairness Act.