Ten Tax Expenditure Reforms & Eliminations: $130 Billion Over Ten Years

The tax code is long overdue for comprehensive restructuring. Yet, instead of considering broad reform to simplify the code and lower rates, Washington continues to exacerbate the problem—doling out tax breaks and subsidies in the form of tax credits to well-connected companies and special interests with powerful lobbyists who seem to have more influence than most members of Congress. Even worse, some want to simply raise tax rates without addressing the underlying waste, spending and corporate giveaways embedded in the tax code.

Masquerading as tax cuts, many of these programs are no different from any other federal program that spends taxpayer money. Cleaning up the code by eliminating the most egregious tax giveaways will not only generate revenue, but also pave the way for reducing tax rates for all Americans and small businesses. While Washington delays undertaking true tax reform, the following ten expenditures could be immediately eliminated or reformed to reduce the deficit by more than $130 billion over the next ten years.

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Eliminate Tax Breaks for Millionaires (Savings: $100 billion)

The tax code provides a large number of deductions and credits, many of which accrue heavily towards the wealthy. To the tune of more than $28 billion a year, millionaires and billionaires are getting special tax breaks on everything from vacation homes to energy efficient home improvements, while writing off their gambling losses, cancelled debts, and rental expenses. Before reflexively increasing taxes on the rich, we should first eliminate tax subsidies for millionaires. Congress should reform our government to make sure safety net programs do not become a hammock for the rich. Limiting the following benefits for wealthy individuals will save billions of dollars without reducing benefits for those in need.

Childcare Tax Credit. Individuals can claim credit for expenses related to the care of children under the age of 13. The credit is a percentage of the total amount spent on the child, up to $3,000. That percentage decreases as one’s income increases. Individuals making $43,000 or more are allowed to deduct 20 percent of childcare expenses (up to $3,000).

For example, under current code, a family making $43,000 takes the same deduction as a millionaire, since no income limits exists on the credit. The credit includes any expense related to household services related to the child, including a maid or cook. From 2007-2009, millionaires claimed over $18 million in the child care tax credit.

Electric Vehicles. To help encourage the purchase of certain plug-in electric vehicles, the government provided a tax credit of $7,500. However, a government audit found that individuals were taking the credit, but
had not purchased the right car to qualify. In 2009, millionaires claimed over $12.5 million in qualified plug-in electric car credits.

**Forgiven Debt.** The tax code allows for cancelled debt to be excluded from income, which includes debt cancelled in a Title 11 bankruptcy case. From 2008-2009, millionaires excluded over $128 million in cancelled debt from their income. At the same time, these individuals earned $1 million or more.

**Gambling Losses.** If an individual losses money at the craps table, that is deductible under the current tax code. However, the deduction may not be more than what that individual claimed in winnings. From 2006-2009, millionaires deducted over $20 billion in gambling losses.

**Home Mortgage Interest.** Homeowners are allowed to deduct interest paid on a mortgage covering primary and secondary homes. This could include a yacht, under certain circumstances. The deduction is limited to mortgage interest paid on loans up to $1 million. The deduction is tilted mostly to the wealthy, since they tend to buy larger homes. In fact, from 2006-2009, millionaires deducted over $27 billion in home mortgage interest. Going even further, the President’s Fiscal Commission recommended this deduction be limited to a taxpayer’s primary home and lowering the cap to $500,000.

**Rental Expenses.** Millionaires are also allowed to deduct expenses related to renting investment properties, including, property depreciation, cleaning and maintenance, and mortgage interest. From 2006 to 2009, millionaires deducted over $64 billion in rental expenses.

**Residential Renewable Energy.** This tax credit allows individuals to deduct the cost of energy efficient home improvements such as solar panels and certain insulation material and exterior windows. In 2009, 17,000 millionaires deducted over $75 million in residential energy credits.

**Eliminate the Professional Sports Loophole (Savings: $910 million)**

The National Football League (NFL), the National Hockey League (NHL), and the Professional Golfers’ Association (PGA) classify themselves as non-profit organizations to exempt themselves from federal income taxes on earnings. Smaller sports leagues, such as the National Lacrosse League, are also using the tax status. Taxpayers may be losing at least $91 million subsidizing these tax loopholes for professional sports leagues that generate billions of dollars annually in profits.

Taxpayers should not be asked to subsidize sports organizations already benefiting widely from willing fans and turning a profit, while claiming to be non-profit organizations. In 2010, the registered NFL nonprofit alone received $184 million from its 32 member teams. It holds over $1 billion in assets. Together with its subsidiaries and teams –many of which are for-profit, taxed entities – the NFL generates an estimated $9 billion Meanwhile, the PGA generated over $900 million in revenue, mostly through television rights, tournament earnings and sponsorships, and royalties. In 2009, the NHL received nearly $76 million from its member teams.

The NFL, NHL, and PGA are registered with the Internal Revenue Service (IRS) as nonprofit organizations. These leagues assert they help the professional sport in each of their leagues. For example, on its 2010 tax return, the NFL described itself as a “trade association promoting interests of its 32 member clubs.”

Hardworking taxpayers should not be forced to provide funding to offset tax giveaways to lucrative major professional sports teams and leagues. Based on publicly available information about the NFL and NHL alone,
barring major leagues from using the non-profit status may generate at least $91 million of federal revenue every year.

**End New Markets Tax Credit** (Savings: $7.4 billion)

Corporations investing in businesses that provide capital to projects in low-income communities can apply for New Markets Tax Credits (“NMTC”). However, some would be surprised to learn that those benefitting the most from these tax credits are big Wall Street banks like Goldman Sachs, JP Morgan, and the Merrill Lynch Community Development Company, which have used millions of taxpayer dollars to renovate glitzy downtown hotels, fund Starbucks, IHOP, and Subway stores, sports arenas, doggie daycares, solar panels for conventions centers, a trolley tour and a car museum.

In one example, the community development arm of hedge fund Waveland Ventures has received $227 million in NMTC allocations since 2007, and recently announced it plans to partner with Wells Fargo and use $10.5 million in this federal assistance to fund the new Dynamo stadium in Houston, Texas. The stadium will be “a state-of-the-art, open-air stadium designed to host Dynamo matches as well as additional sporting and concert events.” These types of beneficiaries are not the intended recipients of the NMTC.

Further, the program is highly inefficient and much of the money intended for projects is siphoned away by legal fees and administrative costs. In one article, the *St. Louis Today* reported that the “New Markets’ complicated rules mean that after sales are completed and fees are extracted, about 20 percent of the allocated amount is left for project equity.”

The flawed design and complex structure of the tax credits means that more money is getting in the hands of accountants and lawyers than is getting to the low-income communities. The program, which is inefficient and duplicative of countless other federal economic development efforts, should be eliminated.

**End Tackle Box Tax Break** (Savings: $11 million)

While historically required to pay a 10 percent excise tax on all sold equipment, manufacturers, producers, and importers of fishing tackle boxes were given a break in 2004 when the tax was reduced to only three percent. Other sport fishing equipment remains subject to the full excise tax, including fishing rods and poles, fishing reels, lures and hooks. Ending this tax break would, once again, treat tackle boxes the same as other fishing equipment.

**End Dog and Pony Show Tax Breaks** (Savings: $30 million)

Foreigners who gamble at horse and dog tracks in the United States were once subject to a withholding tax on their winnings; that is no longer the case. In 2004, Congress eliminated the tax for bets placed by foreign bettors on live horse or dog races in the United States through certain wagering pools, if the wager was initiated from outside the United States. Some have raised concerns that this type of tax subsidy may be harmful to the economy. According to the Federal Communications Law Journal, “Internet gambling deprives state and local governments of valuable tax revenues required to maintain services. Internet gambling also forces consumers to pay higher fees and interest rates as a result of uncollectable gambling debts.” Meanwhile, some news reports from 2003 claim this tax earmark was inserted in a key tax bill at the behest of powerful lawmakers for parochial interests.

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1 Bryant, Tim, “Union Station not the only big project that got tax credits,” *St. Louis Today*, [http://www.stltoday.com/business/columns/building-blocks/union-station-not-the-only-big-project-that-got-tax/article_bcb240e2-be3f-11e1-8c4b-001a4bcf6878.html](http://www.stltoday.com/business/columns/building-blocks/union-station-not-the-only-big-project-that-got-tax/article_bcb240e2-be3f-11e1-8c4b-001a4bcf6878.html).
**End Hollywood Tax Breaks**  (Savings: $300 million)

Designed as an incentive to encourage Hollywood to produce feature films and television programs in the United States, entertainment companies can deduct up to $15 million in certain production costs when at least 75 percent of the costs are for work performed on U.S. soil. Hollywood film production is also being subsidized through state tax incentives in nearly 40 states. The movie Hangover Part II, brought in more than $232 million in one month. Yet with production costs of only $80 million, the movie netted a profit in the first weekend, alone. Nor do movie goers appear to be hindered by the current economy. Meanwhile, it remains unclear if these incentives, whether at the state or federal level, actually pay for themselves by bringing in enough revenue during production to offset the cost of the multi-million dollar write offs and tax breaks.

**End NASCAR Tax Break**  (Savings: $400 million)

The cost of “motorsports entertainment complexes” can be written off over seven years. One of the main beneficiaries of this tax subsidy is the International Speedway Corporation, owners of the Daytona Speedway and 11 other NASCAR tracks. The company’s estimated benefit from this provision is approximately $38 million. Many businesses also take advantage of a 15 year depreciation schedule for “land improvements.”

**End Tree Planting Tax Subsidies**  (Savings: $2 billion)

The federal tax code has several breaks for tree planting in the timber industry. Maintenance costs, such as thinning, disease and pest management, and fire costs are all approved deductions. Reforestation expenses may also be deducted by multiple individuals for the same unit of property, which by regulation can be as small as one acre. This particular tax subsidy singles out the tree planting and timber industry and provides them with significant benefits, costing taxpayers more than $2 billion over the next ten years.

**End Historic Preservation and Rehabilitation of Non-Historic Structures Credits**  (Savings: $7.6 billion)

Current law provides for two separate tax credits for historic preservation of structures. One is applied to structures certified by the National Park Service as historic structures, while the other is a preservation tax credit for other structures not certified as historic. These tax credits are highly duplicative of numerous other federal grant programs such as the Community Development Block Grant, the National Community Development Initiative, and USDA’s Rural Development Program. The credit also provides funding for lower-priority projects outside the federal purview, such as $27 million development of a beer garden and microbrewery at a former Coca-Cola syrup plant in St. Louis, a conversion of Milwaukee’s historic Loyalty Building into a Hilton Garden Inn, and renovations to the luxury Lafayette Hotel in Buffalo. This tax credit should be eliminated.

**End the Residential Energy Efficient Tax Credit**  (Savings: $12 billion)

The Residential Energy Efficient Tax Credit provides up to $500 to homeowners for the purchase of high-efficiency improvements (appliances) to existing homes. The credit was increased to $1,500 in the stimulus legislation. The U.S. Treasury Investigator General (“IG”) recently exposed structural problems in the administration of this tax credit. The IG’s findings showed the tax credits were wrongly awarded to 262 prisoners and 100 underage individuals younger than 18, 216 of whom were under 14 years old, and at least one of whom was under 3 years old. The IRS was not able to confirm whether the individuals who claimed the credit were qualified at the time their returns were processed. Even more, the IRS also failed to require documentation from a third party showing that an individual did in fact make a qualified purchase. In a sample of 6.8 million people who claimed over $5.8 billion in energy-efficiency tax credits for 2009, the IG found 30 percent of taxpayers had no record of even owning a home. Such insufficient safeguards leave taxpayers vulnerable to erroneous payments.