COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS

RANKING MEMBER
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

United States Senate

Senator Tom Coburn, MD

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PENSIONS, AND FAMILY POLICY

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SUBCOMMITTEE ON PRIVACY, TECHNOLOGY,
AND THE LAW

September 21, 2011

Dear Members of the Joint Select Committee on Deficit Reduction,

As our country faces unprecedented fiscal challenges, it is imperative the Joint Select Committee on Deficit Reduction (the "Committee") examine every aspect of the federal budget for potential savings. From defense and nondefense discretionary spending, to entitlement programs and mandatory tax expenditures, all government spending must be scrutinized for deficit reduction opportunities.

Earlier this year, as part of a $9 trillion deficit reduction plan "Back in Black," I recommended eliminating dozens of special interest tax giveaways and reforming other major spending programs in the tax code. By most estimates, these special preferences in the tax code result in more than $1 trillion in annual government spending. As you know, the tax code is administered by the Treasury Department, which receives little oversight from Congress, leaving virtually no way to stop these runaway costs.

As the Committee meets this week for a hearing on the role of tax reform and revenue to achieve the Committee's deficit reduction targets, please consider the following twelve proposals to eliminate and reform government spending through the tax code. If enacted, these recommendations could reduce the deficit by more than $300 billion over the next ten years. While comprehensive tax reform is clearly needed, the Committee should actively consider eliminating and reforming the following tax expenditures immediately.

Sincerely,

Tom Coburn

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12 TAX EXPENDITURE REFORMS AND ELIMINATIONS
SAVINGS: $304 BILLION OVER TEN YEARS[i]

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.

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. These businesses can also take advantage of a 15 year depreciation schedule for "land improvements."

End Volumetric Ethanol Excise Tax Credit (Savings: $1.6 billion)

Ethanol producers reap the benefits of a vast array of government assistance, including tax credits, grants, loans, loan guarantees, federally-directed markets, and a federal minimum usage mandate. The Volumetric Ethanol Excise Tax Credit provides a 45-cent-per-gallon federal tax credit to producers who blend ethanol with gasoline. Ethanol-blended fuel is nearly a third less efficient than gasoline, has contributed to the increased price of corn, and can cause engine damage. Ethanol subsidies are outdated, duplicative, and have failed to meet the intended goals of greater energy independence with a cleaner fuel alternative. The ethanol tax credit should be eliminated immediately.

End Tree Planting Tax Subsidies (Savings: $4.8 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 New Markets Tax Credit (Savings: $7.4 billion)

Individuals investing in businesses that provide capital to residents in low-income communities can apply for New Markets Tax Credits ("NMTC"). The program, however, rewards past behavior, but does little to incentivize new development. In fact, some of the "community development entities" benefiting from this special tax break are often subsidiaries of multi-million dollar companies, such Chase Bank and the Merrill Lynch Community Development Company, which have used millions of taxpayer dollars to renovate glitzy downtown hotels, like the landmark Chicago Blackstone Hotel. In another 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; the credit is duplicative of countless other federal economic development programs and should be eliminated.

End Historic Preservation & Preservation for 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. Additionally, the credit 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 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 and - though scheduled for termination at the end of 2011- will likely be extended. 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.

Require Proper Beneficiary Identification for Additional Child Tax Credit (Savings: $17.8 billion)

As the refundable portion of the Child Tax Credit, the Additional Child Tax Credit ("ACTC") is directed to individuals with very little or no other tax liabilities. Millions of individuals, however, are able to obtain the tax credit without a valid Social Security number. Instead they use an Individual Taxpayer Identification Number ("ITIN"), which can be acquired by individuals that are not legally authorized to work in the United States. In a review of this significant shortfall in the program, the Treasury IG explained that "billions of dollars in ACTC are being provided to ITIN filers without verification of eligibility, and IRS employees have raised concerns about the lack of an adequate process for identifying and addressing improper claims." Congress should ending the ACTC for individuals without a valid SSN and provide the IRS with more authority to deny fraudulent claims.

Reform EITC: Five Year Cap on Earned Income Tax Credit (Savings: $65 billion)

Congress created the Earned Income Tax Credit ("EITC") in 1975 as a small temporary program designed to reduce the tax burden on working low-income families and to encourage them to seek employment rather than welfare. Three years later, Congress made the program a permanent welfare program. This tax spending program is now one of the largest federal welfare programs with 24 million people filing to receive a total of $55 billion worth of tax credits in 2009. Unfortunately, the EITC program has also become a target of abuse and scams, which only further take away from those it was meant to serve while draining taxpayer resources. According to the Treasury Inspector General for Tax Administration, between 23 and 28 percent of EITC payments are improper each year. In addition, the Government Accountability Office recently reported $16.9 billion in improper payments were made through program in 2010. This represents a massive increase —from approximately $12 billion in 2009.

Reform the Mortgage Interest Deduction: Eliminate for Second Homes, Equity Lines of Credit, and Cap Primary Homes to $500,000 (Savings: $187 billion)

The mortgage interest deduction is one of the most expensive tax breaks in current law, resulting in lost federal revenue of nearly $88 billion in Fiscal Year 2011. While many assume the deduction largely benefits middle and lower income earners, this is not the case. In 2008 alone, millionaires across the country took advantage of more than $7 billion in mortgage interest deduction tax breaks. The provision of the mortgage interest deduction relating to second homes further highlights that many of those benefitting from this tax break are among the most well-off. Even a yacht can be considered a second residence- as long as the luxury boat has a sleeping, cooking, and toilet facility, and an individual lives in it for at least two weeks a year. The IRS has done very little to verify the validity of claims and reforms are needed to ensure this deduction is not abused to provide tax breaks for vacation homes, yachts, and mansions. Instead, this deduction should be directed to help those in the middle-class own their own home. As proposed by the President's National Commission on Fiscal Responsibility and Reform, eliminating the deduction for second homes and equity lines of credit, combined with lowering the cap for the primary deduction to homes worth $500,000, will better target the mortgage deduction to those with the most need, and producing significant savings.

12 TAX EXPENDITURE REFORMS & ELIMINATIONS: $304 BILLION OVER TEN YEARS

Policy	Savings
End Tackle Box Tax Break	11
End Dog and Pony Show Tax Breaks	30
End Hollywood Tax Breaks	300
End NASCAR Tax Break	400
End Volumetric Ethanol Excise Tax Credit	1,600
End Tree Planting Tax Subsidies	4,800
End New Markets Tax Credit	7,400
End The Historic Preservation Tax Credit and the Preservation Credit for Rehabilitation of Non-Historic Structures	7,600
End the Residential Energy Efficient Tax Credit	12,000
Reform ACTC: Require Proper Beneficiary Identification for Additional Child Tax Credit	17,800
Reform EITC: Five Year Cap on Earned Income Tax Credit	65,000
Reform Mortgage Interest Deduction: Eliminate for Second Homes, Equity Lines of Credit, and Cap Primary Homes to $500,000	187,000
Total Ten Year Savings (Millions)	**303,941**

[i] All savings estimates and other fact referenced in this document are available in the original Back in Black report available on the website of Senator Coburn: http://coburn.senate.gov/public/?p=deficit-reduction.