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Bringing Accountability to Tax Expenditures

New Bill Would Require Congress to Examine its Tax Spending



Congress rarely scrutinizes the tax subsidies it creates, but new legislation would require them to examine this spending.

SOURCE: Flickr/Crazy George

By **Sima J. Gandhi** | May 27, 2010

Congress will likely vote this week on whether to authorize \$32 billion in subsidies for businesses and individuals, most of which will be delivered through tax expenditures—special credits, deductions, and preferential rates provided through the tax code.

The news headlines will likely focus on the American Jobs and Closing Tax Loopholes Act's multibillion dollar price tag. This spending is necessary to help those Americans hit hardest by the recession and help ensure a stable economic recovery. But there is other groundbreaking news in the bill: It will include measures to hold Congress accountable for tax expenditure spending.

Rep. Lloyd Doggett (D-TX) authored language ([Section 272](#)) in the bill requiring Congress's Joint Committee on Taxation to evaluate whether the act's business and energy-related tax expenditures—which mostly expire at the end of next year—actually work and should continue. The House passed this requirement last December, but the Senate has not yet passed similar language. The House is scheduled to vote this week on what could be the final version of the extenders legislation and will again put its stamp of approval on this important requirement. Assuming the Senate agrees, JCT would be required to produce evaluations that could support better decision making when Congress next considers whether to extend these tax expenditures.

The Center for American Progress has repeatedly stressed the [need for review and analysis](#) of tax expenditure spending. Recent CAP reports, including "[Government Spending Undercover](#)" and "[Audit the Tax Code](#)," explain that tax expenditure spending is an increasingly favored form of spending. Between fiscal years 1974 and 2004, tax expenditure spending tripled in cost. And by 2007, tax expenditure spending and discretionary spending were nearly equivalent.

The tax expenditures within the American Jobs and Closing Tax Loopholes Act subsidize a range of private investments in infrastructure and energy that have the potential to create much-needed jobs. The bill also provides subsidies for businesses in the timber and mineral industry, as well as for individuals such as elementary school teachers and unemployed workers paying for health insurance. And it delivers billions in subsidies for state and local government projects that include building water and sewage infrastructure, economic development in low-income areas, and construction of bridges and roads.

Tax expenditures like these are largely ignored in the budget process and are immune from budget enforcement mechanisms such as

PAYGO. As a result, [this type of spending is often wasteful](#), yet Congress extends the measures even when results are not demonstrated.

The Doggett language seeks to address this problem. It requires the Joint Committee on Taxation to produce reports that contain a description of who benefits from the subsidy, an analysis of the tax expenditure's effectiveness in achieving its purpose, evidence to back the analysis, and recommendations for reform. The hope is that Congress will be more likely to cut tax subsidies that do not produce results.

JCT should not wait for the bill to pass into law before producing these types of reports. The House Ways and Means Committee request that JCT produce reports on an ongoing basis ahead of the legislation's proposed November 30 deadline. If the reports are released as requested, they could influence ongoing congressional debate.

These reports would encourage evidence-based decision making during deliberations about the bill. Congress has debated the bill for nearly six months. Labor unions support the bill's subsidies for the unemployed. [Business lobbyists](#) oppose its elimination of subsidies for firms with international operations, but these cuts are needed for the bill to remain revenue neutral. Senate Minority Leader Mitch McConnell (R-KY) [raised alarms](#) about the spending. And still others, including Senate Finance Committee Chairman Max Baucus (D-M) and House Ways and Means Committee Chairman Sander Levin (D-MI), argue the bill contains [necessary spending for job growth and creation](#). JCT's reports could provide objective evidence that helps Congress make these tough choices.

Congress must ultimately [integrate tax expenditures into the budget process](#). The Doggett language is a positive step. But it covers only a small fraction of the \$1.2 trillion forked over in tax expenditures this year. Other piecemeal efforts reviewing tax expenditures will provide valuable information. Rep. Earl Blumenauer's (D-OR) Carbon Audit will evaluate all energy-related tax expenditures. And a recent request to the Government Accountability Office for a study on tax credits—specifically, tax credits for community revitalization, renewable energy and the preservation of historically important structures. However, they remain inadequate substitutes for a budget process that regularly reviews and evaluates tax expenditure spending.

Given the nation's fiscal troubles, we cannot afford to allow so much money to be spent with so little review. It's time to give tax expenditures the scrutiny they deserve.

Sima Gandhi is a Senior Policy Analyst at the Center for American Progress.

For more on tax expenditures please see:

- [Tax Expenditures 101](#)
- [Audit the Tax Code](#) by Sima Gandhi
- [Government Spending Undercover](#) by Lily Batchelder and Eric Toder
- [America's Hidden Power Bill](#) by Richard W. Caperton and Sima J. Gandhi

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