Folks: Taxes are one of the most important instruments for the transfer of wealth from the masses to corporations (and their wealthy allies). This reading + AV audio text explains how this works in practice and provides an example of class warfare perpetrated by the wealthy on the masses. It shows how *procedural* democracy can be subverted in the interests of the rich and in the process undermine *authentic* democracy. In other words, this is corruption, plain and simple, but in the guise of First Amendment free speech rights for big business. For this assignment you must also access the podcast here: **http://onpoint.wbur.org/2013/03/19/lobbying-tax-breaks**

March 19, 2013 at 10:00 AM

Big Corporations Lobbying For Big Tax Breaks

As Congress tightens the national budget belt, big corporations are getting monster tax breaks, with the help of high paid lobbyists.

In this Jan. 26, 2006, file photo pigeons fly over the intersection of 17th and K streets in northwest Washington Thursday, Jan. 26, 2006. K Street has long been invoked as shorthand for moneyed lobbyists who ply influence in the city. (AP)

Tough times for the US federal budget. Everybody knows that. We're "sequestering" spending right and left and talking about – *talking* about -raising taxes.

But for an amazingly big world of American businesses, all that is somebody else's problem. They've got special tax breaks – huge ones – written into law. And as long as they keep feeding and stroking the right politicians, those monster tax breaks just keep coming.

Each has its rationale, or at least its backers. But they add up to a big question.

This hour, On Point: monster corporate tax breaks, and is this any way to run a country?

-Tom Ashbrook

Guests

Christopher Rowland, Washington bureau chief for the Boston Globe. Author of the article, "Tax Lobbyists Help Businesses Reap Windfalls." (@globerowland)

David Cay Johnston, Pulitzer Prize-winning investigative reporter, columnist at "taxanalysts.com." Author of "The Fine Print: How Big Companies Use 'Plain English' to Rob You Blind."(@DavidCayJ)

Closing Segment on Cyprus

Peter Spiegel, Brussels bureau chief for the Financial Times. (@spiegelpeter)

From Tom's Reading List

The Boston Globe "Lobbying for special tax treatment produced a spectacular return for Whirlpool Corp., courtesy of Congress and those who pay the bills, the American taxpayers. By investing just $1.8 million over two years in payments for Washington lobbyists, Whirlpool secured the renewal of lucrative energy tax credits for making high-efficiency appliances that it estimates will be worth a combined $120 million for 2012 and 2013. Such breaks have helped the company keep its total tax expenses below zero in recent years."

The New York Times "At the root of the bitter semantic back-and-forth is a simple truth: every tax expenditure — and there are scores of them, used to encourage employers to provide their workers with health care, to make houses more energy-efficient, to aid timber cutters and much more — benefits a certain group of taxpayers or a specific industry. And nobody wants to give up anything."

The Huffington Post "It was 2004 and Congress was considering a law that would provide substantial tax breaks to nearly any company engaged in manufacturing. Though this term conjured images of textile factories and steel mills, Starbucks argued that the definition of manufacturing should — for purposes of calculating its tax bill — be stretched to include the roasting of coffee beans."

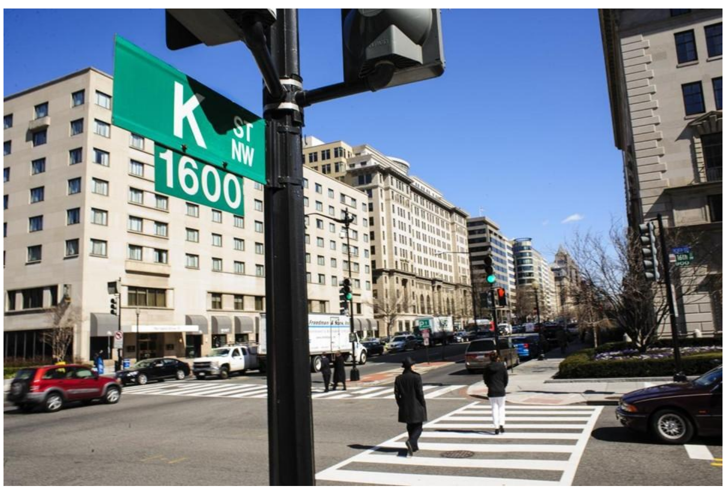
SOURCE: http://bostonglobe.com/news/politics/2013/03/16/corporations-record-huge-returns-from-tax-lobbying-gridlock-congress-stalls-reform/omgZvDPa37DNlSqi0G95YK/story.html

The Boston Globe

Tax lobbyists help businesses reap windfalls

While Congress fights over ways to cut spending and the deficit, generous breaks for corporations pass with little notice

By *Christopher Rowland* March 17, 2013



Pete Marovich for The Boston Globe

Tax breaks won by the Washington lobbying industry, centered on the K Street corridor, show how cheap it is, relatively speaking, to buy political influence.

Second in an occasional series

WASHINGTON — Lobbying for special tax treatment produced a spectacular return for Whirlpool Corp., courtesy of Congress and those who pay the bills, the American taxpayers.

By investing just $1.8 million over two years in payments for Washington lobbyists, Whirlpool secured the renewal of lucrative energy tax credits for making high-efficiency appliances that it estimates will be worth a combined $120 million for 2012 and 2013. Such breaks have helped the company keep its total tax expenses below zero in recent years.

The return on that lobbying investment: about 6,700 percent.

Related

- Graphic: Corporate lobbying investment pays off (See below)
- 3/10: As Obama, Senate collide, courts caught short

These are the sort of returns that have attracted growing swarms of corporate tax lobbyists to the Capitol over the last decade — the sorts of payoffs typically reserved for gamblers and gold miners. Even as Congress says it is digging for every penny of savings, lobbyists are anything but sequestered; they are ratcheting up their efforts to protect and even increase their clients' tax breaks.

'It's not about tax policy, it's about benefiting the political class and the well-connected and the well-heeled in this country,' Said Senator Tom Coburn of oklahoma.

“

The Senate approved tax benefits for Whirlpool and a host of other corporations early on New Year’s Day, a couple of hours after the ball dropped over Times Square and champagne corks began popping. A smorgasbord of 43 business and energy tax breaks, collectively worth $67 billion this year, was packed into the emergency tax legislation that avoided the so-called “fiscal cliff.”

ERIN MCKRACKEN/THE EVANSVILLE COURIER & PRESS VIA AP/FILE

Whirlpool officials said the tax breaks help the company retain jobs, but in recent years, it has closed refrigerator manufacturing plants in Indiana (above) and Arkansas.

In the days that followed, the tax handouts for business were barely mentioned as President Obama and members of Congress hailed the broader effects of the dramatic legislation, which prevented income tax increases on the middle class and raised top marginal tax rates for the wealthy.

Yet the generous breaks awarded to narrow sectors of the American business community are just as symptomatic of Washington dysfunction as the serial budget crises that have gripped the capital since 2011. Leaders of both parties have repeatedly declared their intention to make the corporate income tax code fairer by lowering rates and ending special breaks, while intense lobbying, ideological divides, and unending political fights on Capitol Hill block most progress.

The result: sweeping bipartisan tax reform of the sort negotiated in 1986 by Republican President Ronald Reagan and Democratic House Speaker Thomas P. “Tip” O’Neill Jr. is rated a long shot once again this year. In fact, the most visible signs of cross-party cooperation on corporate taxes are among regional groups of lawmakers who team up, out of parochial interest, to maintain special treatment for businesses in their home states.

In the absence of meaningful change, corporations like Whirlpool continue to pursue the exponential returns available from tax lobbying. The number of companies disclosing lobbying activity on tax issues rose 56 percent to 1,868 in 2012, up from 1,200 in 1998, according to data collected by the nonpartisan Center for Responsive Politics.

Whirlpool had plenty of company on New Year’s, including multinational corporations with offshore investment earnings, Hollywood companies that shoot films in the United States, railroads that invest in track maintenance, sellers of energy produced by windmills and solar panels, and producers of electric motorcycles.

Their special treatment is a fraction of a broader constellation of what the federal Joint Committee on Taxation estimates will be $154 billion in special corporate tax breaks in 2013, contained in 135 individual provisions of the tax code.

Watchdogs and tax analysts denounce these favors as a hidden form of spending that amounts to corporate welfare. In essence, these “tax expenditures” are no different than mailing subsidy checks directly to companies to pad their bottom lines.

Congress reduced the number of tax breaks in 1986 as part of the broader reform package. The breaks steadily crept back, particularly in the last decade, as lawmakers heeded requests from advocacy groups and business lobbyists to lower taxes as a way of subsidizing particular industries.

JASON IVESTER/ARKANSAS DEMOCRAT-GAZETTE

Howard Carruth of Arkansas, a machine maintenance worker, lost his job with Whirlpool last year. He said Congress made a mistake giving tax breaks to the company.

“There’s a justification and rationale for virtually every one of these. They have their intellectual advocates, and they have their political advocates, and that’s how they get in the law,” said Lawrence F. O’Brien III, an influential lobbyist and a top campaign fund-raiser for Senate Democrats who represents financial industry clients and other interests.

Whirlpool has a powerful Michigan delegation behind it, including key committee chairmen of tax-writing and energy committees in the House. In response to questions from the Globe, the company said its special tax breaks led it to save “hundreds” of American jobs from the effects of the recession.

“Energy tax credits required that Whirlpool Corporation make significant investments in tooling and manufacturing to build highly energy-efficient products,” Jeff Noel, Whirlpool’s corporate vice president of communication, said in an e-mail. “If you look at our 101-year history, we have definitely paid our fair share of US federal income taxes.”

But its federal income taxes have been minimal in recent years, thanks in large part to tax credits and deferrals, according to public filings. Its total income taxes — including foreign, federal, and state — were negative-$436 million in 2011, negative-$64 million in 2010, and negative-$61 million in 2009. It carries forward federal credits as “deferred tax assets” that it can use to lower future tax bills.

The renewed tax breaks granted by Congress in January, which were retroactive to the beginning of 2012, will not be recorded until Whirlpool pays its 2013 taxes. Because of the absence of that tax credit, and because of greater earnings and changes in foreign taxes, the company estimated its total 2012 tax expenses will be $133 million.

Whirlpool did not provide a specific number of jobs retained. The benefits were not sufficient to protect Whirlpool’s employees at a refrigerator manufacturing plant in Arkansas. Last summer, the company laid off more than 800 hourly workers, closed the factory, and moved manufacturing of those refrigerators to Mexico. It was part of an overall reduction of 5,000 in its workforce announced in 2011 in North America and Europe.

Congress “made a big mistake,” by authorizing hundreds of millions of dollars in tax credits for Whirlpool based on arguments that the company would retain domestic jobs, said Howard Carruth, a machine maintenance worker and union official who began work at the plant in 1969 and lost his job last year when the plant closed.

“They really hurt the economy around here,” he said. “I blame the corporate greed.”

The closing also transformed Carruth from loyal to embittered customer: “We bought Whirlpool for our own house, for family and friends. If one of those goes out in my house right now, it will not be replaced by Whirlpool.”

Many companies would probably pay much higher taxes — including Whirlpool — if Congress eliminated special breaks and lowered the income tax rate to 25 percent from the current 35 percent.

An extra benefit of winning government subsidies through the tax code: Recipients remain immune from spending cuts like the automatic “sequester” imposed on March 1.

Called the “tax extenders,” 43 credits, deferrals, and exceptions for general business and energy firms were lumped into the fiscal cliff legislation. The returns on lobbying investments companies realized when the Senate passed its fiscal cliff bill helps explain why Washington tax lobbyists remain in demand:

■ Multinational companies and banks, including General Electric, Citigroup, and Ford Motor Co., with investment earnings from overseas accounts won tax breaks collectively worth $11 billion — a return on their two-year lobbying investment of at least 8,200 percent, according to a Globe analysis of lobbying reports.

■ Hollywood production companies received a $430 million tax benefit for filming within the United States. As a result, companies like Walt Disney Co., Viacom, Sony, and Time Warner — with the help of the Motion Picture Association of America, chaired by former Connecticut senator Christopher J. Dodd — realized a return on their lobbying investment of about 860 percent.

■ Railroads lobbied on a broad array of issues, a portion of which yielded $331 million for two years’ worth of track maintenance tax credits. Return on investment: at least 260 percent.

■ Even at the low end of the economic scale the returns can be large. Two West Coast companies that manufacture electric motorcycles — Brammo Inc. of Oregon, and Zero Motorcycle Inc. of California — reported combined lobbying expenditures of $200,000 in 2011 and

2012. They won tax subsidies payable to the consumers who buy their products worth an estimated $7 million. The electric motorcycle market stands to receive a return on that investment of up to 3,500 percent.

Like each of the industries that won special treatment in the Jan. 1 “extenders” corporate tax measure, the electric motorcycle lobby argued that tax breaks would protect or create jobs. Electric motorcycle manufacturers only employ hundreds of workers now, said Jay Friedland, Zero Motorcycles vice president, but could employ thousands in the future.

“There are definitely provisions in the extenders that people scratch their heads at, but if your goal is to build a replacement for the pure oil economy, this is the kind of industry you want to make an investment on,” he said.

Measuring the rewards for lobbying on individual tax provisions is by nature imprecise, especially for large corporations that weigh in on dozens of issues. Companies file blanket disclosure reports that do not break down their lobbying expenditures by individual issue.

Publicly traded companies like Whirlpool with narrower lobbying agendas, and who publish their annual tax credit benefits in shareholder disclosure reports, are easier to track.

In addition to seeking tax breaks, corporate lobbyists also seek to protect favorable elements that are already baked into US tax policy. Private equity firms, for instance, fight each year to defend the tax treatment of “carried interest” payments for investment managers. Those payments are treated as a capital gain by the Internal Revenue Service, and thus taxed at a much lower rate, 20 percent in 2013, than the top income-tax rate of 39.6 percent.

The best-known example of a millionaire benefiting from “carried interest” tax treatment was Mitt Romney, the 2012 Republican presidential nominee, who reduced his individual tax rate to below 15 percent by applying the provision to his extensive Bain Capital profits.

The publicity surrounding Romney’s tax returns fueled an onslaught by critics. The private equity industry’s trade group and the nation’s largest firms spent close to $28 million on lobbying in 2011 and 2012, according to public records. So far, they have won — a benefit that the Obama administration has estimated is worth at least $1 billion over two years. The return on investment for maintaining the status quo on the carried-interest tax rate over two years was at least 3,500 percent.

The returns show how cheap it is, relatively speaking, to buy political influence.

“It’s an end run around policy, and that makes it very efficient,” said Raquel Meyer Alexander, a professor at Washington and Lee University in Virginia who has examined the investment returns on lobbying. “Firms that sit on the sidelines are going to lose out. Everyone else has lawyered up, lobbied up.”

Critics lament that fiscal combat between Republicans and Democrats is preventing serious reform of the business tax code.

“What we’re doing is running a Soviet-style, five-year industrial plan for those industries that are clever enough in their lobbying to ask all of us to subsidize their business profits,” said Edward D. Kleinbard, a former chief of staff at the Joint Committee on Taxation and now a law professor at the University of Southern California.

“These are perfect examples of Congress putting its thumb on the scale of the free market,” he said. “I’ll be damned if I know why I should be subsidizing Whirlpool.”

Congress has the opportunity every two years to stop doling out a good portion of these favors. A peculiarity of many special tax breaks is that Congress places “sunset” provisions on them.

Some observers say passing temporary tax breaks gives lawmakers an ongoing source of campaign funds — from companies that are constantly trying to curry favor to get their tax credits renewed. Others say it’s because making these tax rates permanent would require a 10-year accounting method — a step that would show how much each provision is truly costing taxpayers.

Whatever the reason, Congress has made many of them quasi-permanent, by simply extending them again and again.

“It’s the same cowardice that Congress has on everything. They don’t want to be truthful about what they are doing,” said Senator Tom Coburn, an Oklahoma Republican and persistent critic of government waste and special deals in the tax code.

Coburn voted against the raft of "extenders" when they were previewed and approved by the Senate Finance Committee at a hearing in August 2012. He offered amendments to strip individual tax breaks out of the package — including the high-efficiency appliance tax credit for Whirlpool and GE — but they were shot down by the majority Democrats on the committee, led by chairman Max Baucus, of Montana.

"It's not about tax policy, it's about benefiting the political class and the well-connected and the well-heeled in this country," Coburn said in an interview. "We're benefiting the politicians because they get credit for it. And we are benefiting those who can afford to have greater access than somebody else."

Whirlpool pursues its Capitol Hill agenda from an office suite it shares on the seventh floor of a building on Pennsylvania Avenue that is loaded with similar lobbying shops and sits just a few blocks from the Capitol. Across the street, lines of tourists wait to view the original Declaration of Independence and the Constitution at the National Archives.

Whirlpool and other appliance manufacturers won tax breaks for producing high-efficiency washing machines, dishwashers, and refrigerators in 2005, as part of a sweeping package of energy incentives approved by the Republican-controlled Congress.

But that victory was just the beginning of a prolonged effort. Whirlpool and other appliance manufacturers must perpetually work to win renewal of their credits every two years or so. In recent years, the company has spent around $1 million annually on lobbying, up from just $110,000 in 2005.

The fiscal cliff legislation represented the third time the appliance tax credits were included in a tax extenders bill.

Defending the credits has become easier, said a person who has participated in Whirlpool's lobbying efforts. The extenders, this person explained, is an interlocking package of deals, each with a particular senator or representative demanding its inclusion.

"Some of it is the inherent stickiness of something that is already in the tax code," said the person, who was not authorized to speak about Whirlpool's efforts and requested anonymity. "If they open Pandora's box and start taking things out, it's politically very difficult."

The paradoxical posture of senators of both parties was on full display at the hearing last summer of the Senate Finance Committee to consider the most recent package of tax extenders. Some members lamented the system of doling out tax breaks, pledging to reform the corporate code, even as they defended individual items in the legislation and voted to approve it.

The senators said they wanted to provide stability and predictability for businesses that had come to rely on the temporary provisions to stay afloat and retain workers.

They did make an effort to trim the package: Some 20 provisions were left on the cutting room floor, according to data cited in committee. The panel ultimately approved the bill with a bipartisan, 19-to-5 majority.

Senator Debbie Stabenow, a Democrat from Michigan, went to bat for Whirlpool and other companies who she said are creating next-generation appliances that save water and electricity.

"We have one of those major world headquarters in Michigan — and it's amazing what they are doing," she said. "Right now, we are exporting product, not jobs," she added, without mentioning Whirlpool's Arkansas plant closure last year.

Former senator John F. Kerry, another member of the committee, said certain industry sectors need temporary tax subsidies. Oil and gas companies, Kerry explained, benefit from permanent tax breaks in the law, while the wind, solar, and other alternative energy interests are forced to come to Congress "hat in hand" every two years.

Coming "hat in hand" in this context means deploying teams of lobbyists, mostly former Capitol Hill aides. They left their government jobs with an understanding of the tax code and, working in the private sector, are able to leverage their political connections to gain access to congressional leaders and staff.

Among the busiest and most influential of these tax-lobbying teams is Capitol Tax Partners, a firm headed by Lindsay Hooper, and his partner, Jonathan Talisman. Hooper served as a tax counsel to a senior Republican on the Senate Finance Committee in the 1980s. Talisman held the post of assistant treasury secretary for tax policy during the Clinton administration. They did not respond to requests for comment.

Capitol Tax Partners lobbied on behalf of 48 companies in 2012, according to its mandatory disclosure reports. That client roster includes a bunch of companies that won tax breaks in the fiscal cliff bill: Whirlpool (energy-efficiency tax credits), State Street Bank (tax treatment of offshore investment income), and the Motion Picture Association of America (tax breaks for domestic film production), to name a few.

In Whirlpool's case, Capitol Tax Partners and other boutique tax lobbyists helped the company win access to key lawmakers, said the person who has participated in the company's lobbying efforts.

"There is a certain amount of door-opening and phone-call-answering quality of some of these firms that can be useful to make sure that you are getting your message to the right person at the right point in time," the person said. "But on the substantive issues, these were done by the energy-efficiency advocacy groups and the companies themselves."

After the Senate Finance Committee approved the tax extenders package last summer, it remained uncertain when it would materialize on the Senate floor for a final vote. Insiders kept their eyes peeled as the rancorous debate over the fiscal cliff — whether taxes would rise on the middle class wealthy — drowned out any voices discussing corporate tax reform.

Nothing was certain, until majority Democrats rolled out their bill on New Year's Eve. With tax increases for the rich included, it would raise $27 billion in new revenue in 2013. The Obama administration trumped that figure as helping to reduce the deficit.

But in reality, any gain from taxing the rich was easily eclipsed by waves of tax cuts in the bill — including the $67 billion in the corporate tax breaks that had been resurrected at the last minute and voted on early on Jan. 1.

"They finally do it, and the extenders were bigger than the tax increases on the rich," said Robert McIntyre, director of the advocacy group Citizens for Tax Justice. "Wow. What was this fight about?"

Christopher Rowland can be reached at crowland@globe.com.

Tax lobbyists help businesses reap windfalls

While Congress fights over ways to cut spending and the deficit, generous breaks for corporations pass with little notice

Globe Staff March 17, 2013

Examples of high returns for corporate investments in Washington tax lobbying to learn more:

Multinational corporations with overseas investments

- **Approximate return on investment:** 8,200%
- *Treatment of certain foreign investment income as "active."*
- **$134.5 million** in lobbying. Lobbying spending is inflated by participation of large corporations, which lobby on numerous other issues.
- **Estimated industry gain:** $11.2 billion

Motorsports racing track facilities

- **Approximate return on investment:** 5,200%
- *Accelerated depreciation for racetracks*
- **$1.5 million** in lobbying.
- **Estimated industry gain:** $78 million

Private equity and other fund managers

- **Approximate return on investment:** At least 3,500%
- *Lobbied to block change in "carried interest" tax treatment.*
- **$28 million** by industry trade association and large firms.
- **Estimated industry gain:** $1 billion to $4.4 billion (Over two years)

Electric motorcycle manufacturers

- **Approximate return on investment:** 3,500%
- *Consumer tax credit for electric motorcycle purchase*
- **$200,000** in lobbying by two manufacturers.
- **Estimated industry gain:** $7 million

Domestic appliance manufacturers

- **Approximate return on investment:** 1,200%
- *Tax credit for producing high-efficiency refrigerators, laundry machines, and dishwashers*
- **$49 million** in lobbying. Lobbying expenditure is inflated by participation of General Electric, which lobbies on numerous other issues.
- **Estimated industry gain:** $650 million

Hollywood and TV film producers

- **Approximate return on investment:** 860%
- *Special expensing rules for domestic film and television production*
- **$44.7 million** by Motion Picture Association of America and large film production companies.
- **Estimated industry gain:** $430 million

Railroads

- **Approximate return on investment:** 260%
- *Tax credit for track maintenance*
- **$92 million** in lobbying. Figure is highly inflated because railroads lobby on numerous issues.
- **Estimated industry gain:** $331 million

NOTE: Lobbying expenditures are for 2011 and 2012, combined. The amount spent on lobbying on this chart reflects total lobbying activity for companies and industries, not just on taxes (companies are not required to disclose lobbying expenditures by individual issue). That makes the estimated return on investment calculation conservatively low, especially for the largest corporations.

SOURCES: Joint Committee on Taxation, federal lobbying disclosure reports, the Center for Responsive Politics

Patrick Garvin/Globe Staff

The New York Times

Source: http://www.nytimes.com/2013/03/18/business/economy/taxes-or-spending-budget-fight-in-congress-focuses-on-a-distinction.html

Tax Credits or Spending? Labels, but in Congress, Fighting Words

Tony Demin for The New York Times

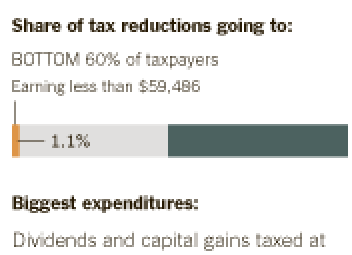
A Town and Country grocery store in Bozeman, Mont., relied on federal tax credits for its construction in a low-income area.

By ANNIE LOWREY Published: March 17, 2013

WASHINGTON — In a low-income neighborhood in Bozeman, Mont., taxpayers helped pay for the construction of a grocery store, Town and Country Foods. They are doing the same in New Orleans, with federal dollars helping to build new groceries, including a Whole Foods, in an area still suffering after Hurricane Katrina.

Graphic

Tax Breaks: Mostly Tilted Toward the Wealthy



Cheryl Gerber for The New York Times

Federal grant money is helping to put a Whole Foods store in an area of New Orleans still suffering after Hurricane Katrina.

The Bozeman project relied on tax credits, while New Orleans is using federal grant money. To economists — and to taxpayers — that makes no real difference. "These are at some point arbitrary distinctions between taxes and spending," said Donald Marron, the director of the Tax Policy Center, a nonpartisan Washington research group.

But to Congress, it makes all the difference — and is something worth fighting over. As lawmakers struggle to narrow the government's deficit, every dollar taken away from the block grant program used in New Orleans counts as a budget cut. Every dollar taken away from the Bozeman tax credit program — part of a vast array of so-called tax expenditures that cost the federal government more than $1 trillion in lost revenue every year — counts instead as a tax increase.

In budget proposals put forward last week, both Democrats and Republicans called for scrubbing billions of dollars' worth of the popular deductions, loopholes, preferential rates and credits that litter the tax code, mostly benefit higher-income taxpayers and often reflect undue government interference in economic decisions. But the two sides are sharply divided what should happen to any revenue raised.

Senator Patty Murray of Washington State, the shepherd of the Senate Democratic budget proposal, proposed raising nearly $1 trillion in new revenue over the next 10 years by cutting tax expenditures and using the money to reduce the deficit. The White House has said it supports her plan.

“We don’t often think of tax expenditures as a form of spending,” Senator Murray said at a hearing this month. But, she said, “they require us to make the same kinds of trade-offs that other forms of government spending would, and lots of them.”

In contrast, Representative Paul D. Ryan of Wisconsin, in the House Republican budget, insisted that any money generated from curbing tax expenditures must be offset with lower tax rates, so that overall revenue remained the same. Republicans on the Senate Budget Committee echoed that argument. “Eliminating tax exemptions is a tax increase,” said Senator Jeff Sessions of Alabama. “You can’t spin it any other way.”

At the root of the bitter semantic back-and-forth is a simple truth: every tax expenditure — and there are scores of them, used to encourage employers to provide their workers with health care, to make houses more energy-efficient, to aid timber cutters and much more — benefits a certain group of taxpayers or a specific industry. And nobody wants to give up anything.

For instance, as part of the January deal to avoid the so-called fiscal cliff, stock car racetrack owners managed to secure an extension of a tax break that lets them write off investments in their properties more quickly. That break — as lobbied for by Nascar fans — will cost the government about $80 million over the next 10 years.

In the corporate code, expenditures are “just a hidden, ersatz, Soviet-style five-year plan,” said Edward Kleinbard, a longtime Congressional tax expert now at the University of Southern California. “We would never contemplate a world in which the government said, ‘We’re going to write out checks to Nascar because it’s an important resource and we’re going to pay for it!’ People would say, ‘They’re out of their mind!’ ”

Tax expenditures also make it harder to gauge the impact of the federal budget on such crucial activities as housing and retirement security. For instance, the home mortgage interest deduction costs the Treasury about $100 billion a year in lost revenue, and effectively encourages the mostly affluent families who itemize deductions to buy a more expensive home. In contrast, the annual budget of the Housing and Urban Development Department, which generally goes to aiding the poor, is less than $50 billion.

“If someone said, ‘Let’s have a voucher program on the spending side, giving high-income families vouchers to subsidize their mortgages,’ ” said Glenn Hubbard, the dean of Columbia Business School and a prominent Republican economist, referring to the home mortgage interest deduction, “I don’t think that would get through Congress.”

Spending through the tax code has also proved harder to scale back than spending through the regular appropriations process. Already, Congress has cut more than $2 trillion from health spending and the domestic and military budgets. It has hardly touched tax expenditures. For that reason, lobbyists on Capitol Hill working for specific industries often push for tax provisions, like credits, rather than straightforward federal pork.

“Spending embedded in the tax code is effectively funded before discretionary spending is considered,” said the Government Accountability Office in one of several reports warning of the consequences of tax expenditures. “Congress lacks the opportunity to regularly review their effectiveness.”

As a result of their pervasiveness, many individuals, businesses and communities have come to rely on tax expenditures, in some cases even more than on traditional spending programs. The new-markets tax credit used in Bozeman has helped pay for hospital wings, grocery stores, food banks and other projects.

“This is such a catalytic program,” said Heidi DeArment, the vice president of the Montana Community Development Corporation, which assists tax credit projects in the state. “Every program goes through the but-for test: But for this financing, this project wouldn’t exist.”

Ending or curtailing more widely used tax breaks would not just be unpopular but could also destabilize certain parts of the economy. To suddenly cut the home mortgage interest deduction, for example, might damage the still-weak housing market.

But cutting many tax expenditures would do the economy as a whole a lot of good, economists argue, even lifting growth rates over the longer term. And in the struggle to wrench down long-term deficits, both Republicans and Democrats say they want to cut them.

The White House and Democrats, for example, often take aim at tax breaks that aid the oil and gas industry, or hedge fund managers. In general, however, both sides have avoided getting specific. The two budget proposals put out last week suggested hundreds of billions of dollars in cuts, without committing to any particular ones.

That is in part because threatening to take away a tax break often means starting a fight with a powerful interest group. When House Republicans and the White House contemplated curbing the deduction for charitable giving as part of the tax standoff this winter, nonprofits lobbied furiously on Capitol Hill and through the media.

Experts say the most realistic prospects are for Congress instead to put an overall cap on deductions, starting with higher-income families, or to convert deductions into tax credits. "You can make a powerful case that itemized deductions should simply be disallowed completely," said Mr. Kleinbard of the University of Southern California. "But that's too heavy a lift, and they'll start smaller."

A version of this article appeared in print on March 18, 2013, on page A1 of the New York edition with the headline: Tax Credits or Spending? Labels. But in Congress, Fighting Words..

Tax Breaks: Mostly Tilted Toward the Wealthy

Tax expenditures cost the federal government more than $1 trillion a year in lost revenue.

Published: March 17, 2013

Click here:
http://www.nytimes.com/interactive/2013/03/17/business/tax-breaks-mostly-tilted-to-wealthy.html