We the Taxpayers

Resource

Lesson 3 – The Taxes We Don’t Pay

Video Script

We’ve talked about who-pays-what, but that’s only the beginning. Another hugely important piece is what we don’t pay. We’re not talking about anything illegal here, we’re looking at money the federal government could collect, but chooses not to. (If paying your taxes feels like a grimace, this is a wink!) Some people call these pieces “tax expenditures” or spending through the tax code. You’ve heard them called tax breaks or loopholes. Whatever you call it, these breaks encourage certain activities and benefit certain groups - and to you and me, that means they are another tool that can bring us closer to a just society.

Our tax expenditures aren’t direct payments to people or businesses, but they do provide benefits and give incentives – either for or against an activity. Tax Expenditures come in three basic forms: deductions, exclusions, and credits.

If you’ve paid for major medical work or interest on your mortgage or even made a contribution to a charitable organization – you already know a little something about deductions. The spending you do in categories like this can be subtracted from your taxable income. So, if you made $50,000 last year, and contributed $2000 to charities, the income that you pay taxes on is lowered to $48,000.

Tax exclusions look a little different. Exclusions define certain income as not taxable at all. So if you receive child support, or proceeds from a life insurance plan, or benefits from the Department of Veteran’s Affairs, that income is not added to your taxable income.

So, deductions can bring down your taxable income, and exclusions keep your taxable income from going up.

Finally, there are tax credits. Tax credits are great because they actually reduce the amount of taxes that are due (not your taxable income). You earn the credit by your own expenditures or activities, for example: if you are the main caregiver for a child, or paying tuition, or working but still considered low-income you might benefit from the Child Tax Credit, the Lifetime Learning Credit, or the Earned Income Tax Credit. Some credits can take what you owe down to zero, and some –refundable credits – can bring what you owe to below zero, so you end up with money back in your pocket.

At first glance, it seems hard to go wrong here – the government doesn’t typically have to pay anything, and we can reward the kind of behaviors we value. But that charming wink can distract us from what is actually going on.

There is a LOT of good happening here. Especially with something like the Earned Income Tax Credit – which, it turns out, lifts more Americans out of poverty than any other program. In 2010, more than six million people (including more than three million children) made it out of poverty because of this credit. And when it is paired with the Child Tax Credit, more than nine million people make it above the line. When people do get the refund, they spend it, and for every dollar spent on these credits we see $1.26 of economic growth.

What’s even more exciting is that the income growth that most people experience, means that they only collect the EITC for one or two years. It’s a program that offers a chance to those most in need to get their feet under them again – maybe to pay off a debt, or cover the cost of their commute to work, or to start saving. And any of those activities help to keep you on track and give you the opportunity to succeed on your own.

But not everything about expenditures is this rosy. As our regulations are written, intentional and unintentional loopholes appear that benefit big corporations. In ten years, tax breaks for corporate jets save businesses $3 billion dollars. That's enough to house 125,000 low income families (Housing Vouchers) and 100,000 formerly homeless people (Homeless Assistance Grants), feed 600,000 pregnant women and children (WIC), start 70,000 pre-k students off with a good education (Head Start), further educate 1 million disadvantaged children (Title I), not to mention the 32,000 teachers and staff it would employ to serve those students. It's hard to see the justice in this kind of system.

Some tax breaks offer a little more gray area. For example, many middle-class families depend on their mortgage deduction to be able to afford their home. But just by denying the deduction for vacation homes and yachts, the government would see an extra $10 billion dollars in revenue in the next ten years. That can do all of those other cool things I just covered three times.

Now, don't get me wrong, not all big tax deductions are bad. Some – like breaks for using clean energy and investing in green technology and jobs –can benefit a company and bring us closer to the kind of people and society we want to be. But, in 2012, Verizon (and twenty five other huge corporations) paid no federal income tax. In fact, their final tax rate was negative; they ended up with money coming to them. Verizon got back more than $700 million dollars in 2010. What they did spend money on was lobbyists - nearly $17 million dollars went toward lobbying federal lawmakers. Another $18.7 million went to support the campaigns of their favorite politicians. Some incentives keep businesses healthy and interested in our market, but the take code we have now enables more and more companies to amass wealth and the benefits aren't making it back to employees or their families and communities.

The big issue has been that the government doesn't include expenditures in the budget. So, even though they don't pay for these things outright, the money we miss out on leads to belt tightening and program-cutting in places that aren't really at fault. The simple fact that these aren't listed as expenses means they're often overlooked. Once a deduction is written, the money we could have collected has largely been forgotten. That's why all the talk of loopholes this year can be really exciting. If we do it right, we can stop losing money we need to keep people out of poverty to excesses like corporate jets. We can reach out to those who need a boost, instead of subsidizing vacation homes and yachts. It's not an exaggeration to say these are the kind of choices we face today. We wrote these systems before, and it's time to write them again, only this time we have to make sure it's our voices, and not the voices of corporate lobbyists and special interest groups, that decide who we want to be.