

# Tax Expenditures

## An Obstacle to Tax Reform

Jacob Bundrick, M.S.

Arkansas Center for Research in Economics

University of Central Arkansas

# What are Tax Expenditures?

- ▶ Special tax provisions
  - ▶ Ex: Refunds, credits, rebates, etc.
- ▶ Depend on normal tax code



# Tax Expenditures: Spending Through the Tax Code

- ▶ Similar results as subsidies.
  - ▶ Child Care Tax Credit vs. Child Care Subsidy
- ▶ “Spend” by foregoing tax revenue.
  - ▶ More expenditures = higher rates
- ▶ Less transparent than subsidies.



# Tax Expenditures: Encouraging Certain Economic Activities

- ▶ Individual Income Tax Code
  - ▶ Home Mortgage Interest Paid Deduction
- ▶ Corporate Income Tax Code
  - ▶ In-House Research and Development Tax Credit
- ▶ Sales and Use Tax Code
  - ▶ Services are broadly exempt



# Using the Tax Code to Discourage Economic Activities

- ▶ Additional Excise Taxes
  - ▶ Tobacco Taxes
- ▶ Differential Taxes
  - ▶ Soft Drink Tax



# Tax Expenditures Encourage Special Interest Lobbying

- ▶ Maintain preferential treatment.
- ▶ Obtain preferential treatment.
- ▶ Justification is a problem.

# Tax Expenditures are at Tension with Ideal Tax Structure

- ▶ Hurt economic growth
  - ▶ Distort behavior
  - ▶ Wastes resources
- ▶ Hurt government budgets
  - ▶ Forego revenue
  - ▶ Opportunity cost



# Comprehensive Tax Reform

- ▶ Eliminate tax expenditures
- ▶ Eliminate other distortionary provisions
  - ▶ Ex: InvestArk
- ▶ Reduce rates
  - ▶ Focus on taxes that are most harmful



# Reform All at Once

- ▶ NO piecemeal reform
  - ▶ No favors = lower rates for all
- ▶ TE's are one piece in the large puzzle



# Questions?

Jacob Bundrick

E-mail: [jbundrick@uca.edu](mailto:jbundrick@uca.edu)

Phone: (501) 852-1052

