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JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

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TAX EXPENDITURE BUDGET UNDERMINES SOUND TAX POLICY

WASHINGTON, D.C. -- The notion that tax provisions permitting taxpayers to keep more of their own money are equivalent to federal spending was challenged today in a new study released by Joint Economic Committee (JEC) Vice Chairman Jim Saxton. Though alien to most taxpayers, this concept of so-called "tax expenditures" is deeply ingrained in the federal budget process and tilts decision-making by undermining incentives for personal saving and investment. The new JEC study, *Tax Expenditures: A Review and Analysis*, explains the intellectual origins of this idea and its incorporation into the budget process.

"Most taxpayers would be amused or more likely outraged to know of the official presumption that their IRA deduction or 401 (K) deferment is not really their money, but they have retained it only through the good graces of the government," Saxton said. "The theory is that money saved through an IRA deduction, for example, really belongs to the government. According to this point of view, since the taxpayer is permitted to keep this government money, it should be accounted for in the federal budget as a 'tax expenditure.'

"According to this Orwellian logic, permitting the taxpayer to keep his or her own money is equivalent to a government handout, and should be treated as such in the budget. Thus each year the President's budget submission includes a list of tax expenditures, the tax money viewed as really belonging to the government but granted to the taxpayers as a concession. In addition to the objectionable presumption of sweeping tax authority, tax expenditures also bias the decision-making process in a counterproductive way.

"Many of the so-called 'tax expenditures' are incentives designed to shield saving and investment from punitive multiple taxation under the income tax. By reducing the multiple taxation of saving, these provisions restore some semblance of tax neutrality between saving and consumption. With the personal savings rate now in negative territory, its time to expand IRA deductions and other savings incentives, not annually target them. This notion of tax expenditures should be removed from the budget process root and branch," Saxton concluded.

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