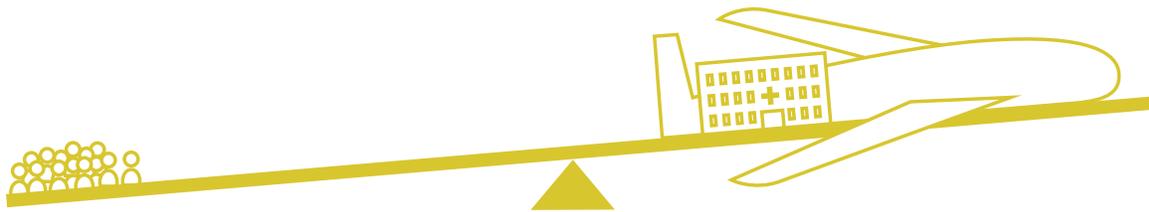


TAX PREFERENCES 101

Special Tax Carve-Outs for the Few

Each year, Americans send their tax money to Washington to fund the federal government. This money pays for things like our military, highways, and judicial system. What many Americans don't know is that politicians often make special tax carve-outs for their favorite interest groups. When this happens, it is called cronyism. These "tax preferences" include breaks for the film and television industries, insurance companies, and even racehorse owners. And all these special loopholes leave ordinary taxpayers left to pick up a larger share of the federal government's tab.



Why are tax preferences harmful?

The tax code is far too complicated for most people to understand. In fact, on average, it changes more than once per day—often in order to favor some group or individual over others.¹ When this happens, we move away from a fair and equal system that rewards the best workers, businesses, and ideas. Instead, we have a system that rewards the closest allies of the politicians who write tax law.

FEDERAL TAX BREAKS

The federal tax code and its explanatory regulations run 75,000 pages long. Contained in it are almost 200 tax expenditures, or "tax earmarks." Many such expenditures are targeted carve-outs for a select few businesses or industries. For example, health insurer Blue Cross Blue Shield receives its own special tax status, which lets the company avoid paying \$400 million a year.² Other examples include carve-outs for racetrack owners, rum producers, film and TV industries and even racehorse owners.

WASHINGTON STATE'S "BOEING BREAK"

Big business handouts are also built into state tax policies. For example, in 2013, Washington state's legislature approved \$8.7 billion in tax carve-outs for Boeing.³ This is the largest bundle of tax breaks ever created for a private company at the state level. In recent years, at least a dozen states have bid taxpayer money to bring or keep Boeing in their state. For example, Missouri's former Governor Jay Nixon called a special legislative session to offer Boeing up to \$1.7 billion in tax credits if it would come to Missouri.⁴

Because politicians and business leaders tend to make exaggerated claims about jobs and economic growth, this bidding of taxpayer dollars may seem worthwhile at first. But the simple truth is that it's very rare for these promises to materialize, and ultimately taxpayers are left footing the bill.⁵

1. <https://www.irs.gov/uac/newsroom/national-taxpayer-advocate-delivers-2012-annual-report-to-congress>
2. <https://www.jct.gov/publications.html?func=startdown&id=4971>
3. <http://www.seattletimes.com/seattle-news/boeings-historic-tax-break-from-state-even-bigger-than-thought/>
4. http://www.stltoday.com/news/local/govt-and-politics/missouri-lawmakers-approve-bill-to-bring-boeing-plant-to-st/article_7b63a022-f82c-56fa-bd5a-c2d81e9839ea.html
5. <https://www.mackinac.org/archives/2009/nr043009-petersfisher.pdf>