Columbia Law School
Tax Policy Colloquium

“Rethinking Tax Expenditures”

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Jerome Greene Hall, Room 940

A copy of the abstract is available at
http://www.law.columbia.edu/center_program/Tax_Policy
Critics have prematurely dismissed tax expenditures as a policy device based on the flawed assumption that the most likely alternative to tax expenditures are federally-administered programs that provide cash subsidies directly to taxpayers. While helpful for highlighting the economic equivalence of tax expenditures and cash spending, use of what I call the “federal check heuristic” tends to shift focus away from realistic comparisons between tax expenditures and cash spending. This Essay is the first to compare tax expenditures with the realistic federal spending alternative of grants to the states. It examines the classic criticisms of tax expenditures and finds that grants are susceptible to the same criticisms as tax expenditures. For example, tax expenditures have long been criticized as inequitable because they usually distribute more benefits to higher income taxpayers. However, consideration of alternative grant programs reminds us that affluent suburbanites are likely to capture a disproportionate share of grant money provided to state governments. Analysis of other traditional criticisms of tax expenditures reveals similar insights.

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