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The current U.S. tax system is tilted toward the haves

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IF YOU WERE spending \$400 billion a year on social programs, would you give half of that to the wealthiest 5 percent of Americans? We didn't think so. But that is the perverse result of the stealthy spending conducted through the federal tax code. The code is salted with "tax expenditures" -- programs, many worthy, designed to promote policies from homeownership to education to retirement savings. There are two problems with this approach.

First, it lacks transparency and accountability. While direct spending programs are subjected to continual review, the spending that takes place through the tax system operates on silent autopilot. Once embedded in the code, the preference tends to be in place until dislodged.

Second, accomplishing social policy through tax expenditures tends to award the most help to those who need it least. As a [new report by the Corporation for Enterprise Development and the Annie E. Casey Foundation](#) demonstrates, the \$400 billion federal asset-building budget -- subsidies to buy homes, save for education or plan for retirement -- is upside down. Rather than ameliorate rising income inequality, it reinforces it. Low-income households who do not earn enough to itemize deductions don't get the benefit. A middle-class household earning \$50,000 a year "receives less than \$500 in benefits" from tax breaks for mortgages, property taxes and investment income, the report found. "By contrast, taxpayers bringing in more than \$1 million enjoy \$95,820 in annual support through mortgage and property tax deductions and investment tax breaks," it said.

Something is wrong with this picture. Yes, higher-income households pay higher rates and a greater share of taxes. But they benefit disproportionately, even given this bigger share. According to the report, "While the overall share of the tax bill for the top 1 percent of earners was 27.7 percent in 2005, their share of total benefits from asset policies that same year was over 45 percent."

In coming years, fiscal pressures will demand a close look at the tax code. That should include serious consideration of whether the current subsidies are sensible and sensibly allocated. In particular, study is needed of whether existing deductions should be limited or restructured as credits -- including, in appropriate cases, refundable credits (money back to those who do not owe

income taxes). This is too big a chunk of spending to remain unexamined.

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