

## ECONOMIC ANALYSIS

## Eliminate Everybody's Loopholes Except Mine

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Until he talked about tax reform, Treasury Secretary Timothy Geithner's spirited defense of administration policy was making a lot of sense.

The scene was the venerable Senate Finance Committee hearing room the day after the release of President Obama's fiscal 2013 budget. Tough old Republican senators were throwing everything they had at Geithner. And the secretary was effectively beating back their attacks. (For related coverage, see p. 920.)

How can you increase taxes by \$1.5 trillion, mostly on the wealthy, when the economy is so fragile?

It makes sense from both a fairness and growth perspective when you consider the options: more debt, cutting benefits to the elderly, reducing investment in infrastructure and education, or taxing the middle class, Geithner said.

How can you increase taxes on job creators?

Most taxpayers affected by the tax increases are not job creators, and only a small number of job-creating businesses will be affected, Geithner replied.

Can't we do something about policy-based uncertainty?

Given high rates of profit, expected profit, investment, and productive growth, the concerns about lack of business confidence are probably overblown, the secretary said.

These were good answers — based on sound economics — to questions based mostly on blind faith in economic ideology. But then Geithner had to spoil it all by saying something stupid in response to a question from Finance member Jon Kyl, R-Ariz.:

**Kyl:** You talked about lowering the rates, broadening the base, eliminating special privileges, and so on. And the president had a good statement in the State of the Union. He talked about an economy where everybody gets a fair shot, does their fair share, and everybody plays by the same set of rules. That's the basic premise here. So how does the proposal in the budget meet this test when it eliminates the manufacturing deduction for certain taxpayers but then doubles it for certain other taxpayers?

**Geithner:** Good question.

**Kyl:** Well, obviously not everybody is going to be playing by the same set of rules here in terms of tax changes.

**Geithner:** Good question. Fair question. Let me [describe] the basic framework that we think should guide corporate tax reform, although we'll be saying more in the next couple of weeks. We are going to propose a broad reform that will lower the rates and broaden the base and eliminate and wipe out a very substantial fraction — dozens and dozens and dozens of special tax preferences for businesses.

**Kyl:** While creating a whole bunch of new ones.

**Geithner:** No, no, while preserving a very limited number that are targeted against really one core objective, which is to make sure we are improving incentives for designing, creating, and building stuff in the United States.

**Kyl:** We are talking about picking winners and losers. You would increase or create tax incentives for building advanced technology vehicles at the expense of other types of vehicles. Is that correct?

**Geithner:** In the next few weeks we will lay out a comprehensive set of proposals here, and I know we will have a chance to debate those then. . . . You are right to say we are proposing to preserve a very limited number of core incentives for investment in the United States. We are doing that because we think there is a compelling economic case for doing that, and we are going to eliminate dozens and dozens of specific corporate tax preferences. We think that trade-off is a pretty good trade-off for the economy.

House Ways and Means Committee Chair Dave Camp, R-Mich., was not at the hearing. But in a release he made the same point as Kyl:

The President is filling the tax code with even more special interest lobbyist loopholes, instead of joining Republicans in job-creating tax reform. The President has decided to play the age-old Washington game of picking winners and losers and handing out favors to industries he thinks will help him politically, making the code less fair and more complex for average Americans.

Kyl and Camp are on the high ground here. As it is trying to promote tax reform, the Obama administration is defying the logic of real tax reform — the economic logic that tax neutrality is best for growth and job creation except in extraordinary circumstances.

What administration incentives hinder true tax reform efforts? A conversion of the already complicated section 199 manufacturing deduction into a two-tiered incentive. A temporary incremental wage credit for small business. A tax credit for investment in communities that have experienced a job loss event. A tax credit for moving expenses

when companies move jobs to the United States. New tax credits for alternative energy to replace the existing ineffective and outdated ones.

This is big government through tax policy. The complexity of these new tax breaks is extraordinary even by the standards of our tax code. These items are small potatoes that are unlikely to ever become law anyway. Geithner should file them away. It subtracts and distracts from his main goals of raising revenue by eliminating loopholes and making the tax system more progressive. And as for the coming corporate tax reform, there is no more place for them there than there is for a fox in the henhouse. ■

### Top 0.1 Percent ZIP Codes

2008 was economic hell. The markets crashed. The economy tanked. Jobs disappeared by the millions. But at the choice locations listed below, folks were doing fine. We'll leave it up to the reader to decide if they were overtaxed.

The table is made possible by the IRS Statistics of Income division, which has just published 2008 data for 29,000 ZIP codes on its website. The information, which in prior years cost \$500, is now available for free.

Location	State	ZIP Code	Returns	Average Income (thousands of dollars)	Effective Tax Rate
Lower Manhattan	New York	10274	527	\$5,711	26.0%
30 Rockefeller Plaza	New York	10112	257	\$1,920	19.1%
Fisher Island	Florida	33109	275	\$1,531	17.8%
45 Rockefeller Plaza	New York	10111	760	\$891	19.6%
Oklahoma City	Oklahoma	73154	368	\$888	27.9%
Downtown Chicago	Illinois	60604	922	\$782	21.4%
Atherton	California	94027	3,460	\$768	23.5%
Century City Los Angeles	California	90067	3,606	\$751	25.6%
New Vernon	New Jersey	07976	746	\$749	22.1%
Grand Central Station	New York	10168	276	\$705	24.2%
Purchase	New York	10577	1,838	\$671	29.6%
Greenwich	Connecticut	06831	7,551	\$644	26.7%
Boca Grande	Florida	33921	846	\$644	20.3%
Lower Manhattan	New York	10005	4,697	\$639	22.4%
Alpine	New Jersey	07620	970	\$631	19.7%
Wichita Falls	Texas	76307	528	\$617	22.4%
Teton Village	Wyoming	83025	456	\$604	14.7%
Far Hills	New Jersey	07931	1,696	\$585	23.6%
Los Angeles	California	90071	639	\$570	16.0%
Palm Beach	Florida	33480	5,823	\$566	23.4%
Santa Monica	California	90411	339	\$558	26.6%
Houston	Texas	77010	264	\$526	23.1%
Minneapolis	Minnesota	55440	556	\$526	14.7%
Midtown Manhattan	New York	10107	474	\$515	26.4%
Old Westbury	New York	11568	1,883	\$509	23.2%
Medina	Washington	98039	1,475	\$506	20.5%
Ross	California	94957	1,209	\$497	23.0%
Lower Manhattan	New York	10004	1,967	\$495	27.8%
Weston	Massachusetts	02493	5,417	\$485	25.1%