economies as Federal Reserve Board Chair Ben Bernanke prints money to prop up American asset prices.

South Korea and Thailand adopted capital controls in the form of taxes to prevent hot money from coming into their countries (*Doc 2010-24697*). Brazil and Chile have added capital controls. India and other emerging markets have considered them. In a recent report on capital flows, the IMF accepted capital controls as a temporary measure to prevent destabilizing capital inflows. (For the report, see http://www.imf.org/external/np/pp/eng/2010/111510.pdf.)

Thus far, the countries that have adopted or actively considered capital controls are focused on speculative hot money that goes in and out of countries quickly. They are not trying to discourage foreign direct investment in active businesses that tends to stick around. But multinationals still want to take their money out. China maintains capital controls, and multinationals use tax haven vehicles to avoid them.

What would bring the multinationals back to earth? A few middle-class tax protesters outside their branches? Nope. The threat of expropriation, which is not an abstract threat with the Middle East blowing up.

Not every U.S. multinational operates offshore through local contract manufacturers. Some have real assets, like oil rigs, deployed in countries with shaky, insecure, or untrustworthy governments. That's what the Fifth Fleet protects. And even companies with minimal market presence depend on the U.S. trade representative to protect their intangible property.

What about competitiveness, which now seems to mean paying taxes to no government, including the home government? Its kissing cousin in euphemisms, globalization, is not an inevitability or purely the product of technology. It is the product of a series of political decisions over the past few years that underprice labor, energy, and environmental hazards.

How can these companies ask for U.S. government protection of their property rights without contributing to the cost? Tax should be paid once. Not never. That was, after all, the principle of the foreign tax credit and tax treaties. So if no other government taxed the earnings because of income shifting, the home government gets to tax them. ■

ECONOMIC ANALYSIS

The Rich Get 100 Times More Mortgage Subsidy Than the Poor

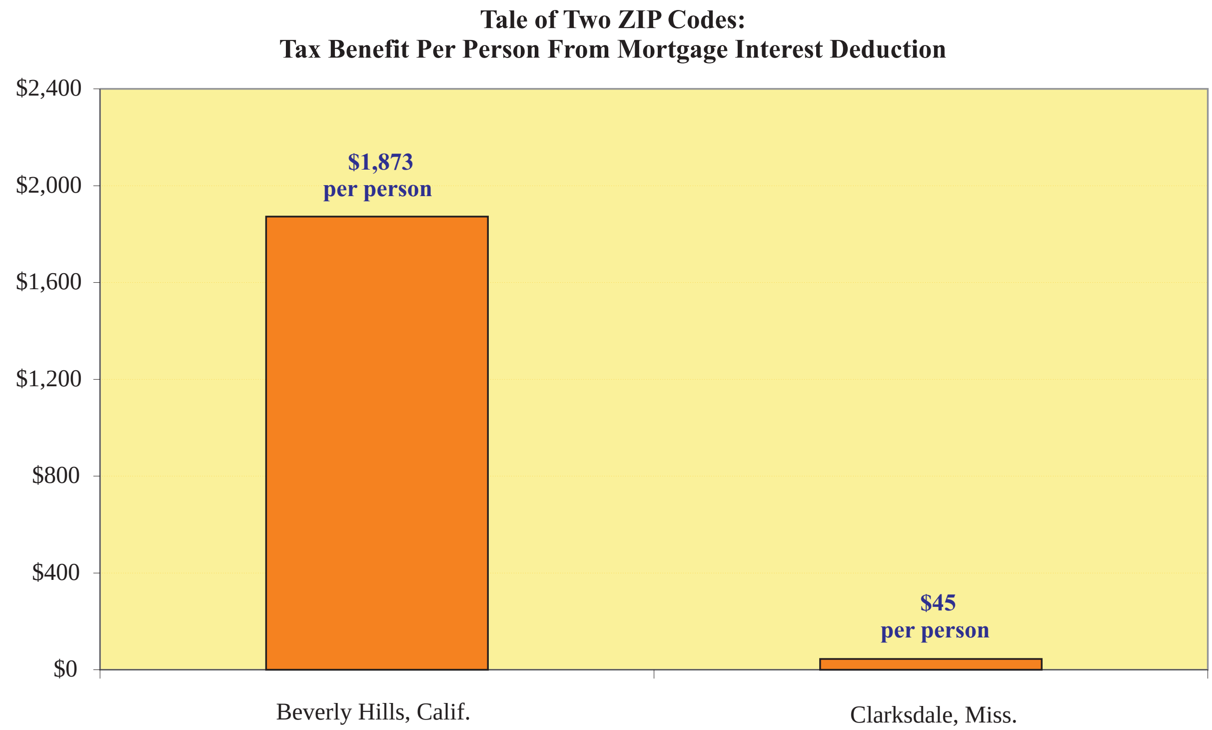
By Martin A. Sullivan — martysullivan@comcast.net

Beverly Hills is home to the stars. Clarksdale, Miss., is home to the blues. On world-famous Rodeo Drive, the privileged class eats sushi at Urasawa for $300 per person, drinks and tips not included. At the legendary crossroads of Routes 61 and 49, you can enjoy "swine dining" at Abe's Barbecue, dirt cheap, including sweet tea. Beverly Hills has the Museum of Television and Radio at the posh Paley Center for Media. Clarksdale has the Delta Blues Museum at the old Yazoo-Delta Railroad freight depot. Beverly Hills' signature structure is the mansion. In Clarksdale it is the one-room shotgun shack.

Beverly Hills 90210 and Clarksdale 38614 both have a population a little above 20,000. But that's where the statistical similarities end. The IRS compiles individual tax return data by ZIP code. The latest year available is 2007. The data show total adjusted gross income in 90210 was $5.6 billion, 20 times larger than the $266 million reported in 38614. In Beverly Hills, 47 percent of AGI are dividends and capital gains. In Clarksdale the figure is 7 percent. In Beverly Hills, only 4 percent of filers claim the earned income tax credit, while in Clarksdale 44 percent do.

> ***The average annual per-person tax benefit provided by the mortgage interest deduction for the residents of 90210 is $1,873. For the residents of Clarksdale 38614, it is $45.***

Providing about $100 billion of tax benefits annually, the mortgage interest deduction is the nation's largest housing program. So where are these subsidies distributed? Those readers with some scintilla of idealism might hope it goes to those most in need. So naïve! The tax benefit provided by the mortgage interest deduction flows overwhelmingly to rich families like those portrayed in the hit television series *Beverly Hills, 90210*. We've done the math and, as shown in the figure, the average annual per-person tax benefit provided by the mortgage interest deduction for the residents of 90210 is $1,873. For the residents of Clarksdale 38614, it is $45.



Source: Calculations using data from the IRS Statistics of Income division.

There are three reasons for this huge disparity. First, the rich have larger houses and larger mortgages than the poor. Second, the deduction is available only to itemizers. While almost all high-income taxpayers itemize deductions on their returns, very few of the poor do. Finally, the rich have much higher marginal income tax rates than the poor.

The gap in benefits between Beverly Hills and Clarksdale is only one example of the unfairness of the mortgage interest deduction. There are dozens of ZIP codes like 90210, with exorbitant housing. There are hundreds of impoverished ZIP codes like 38614, where the mortgage interest deduction provides only trivial benefits. Some examples are shown in the table.

Time for Change?

In recent years, several explorations into tax reform included modifications to the mortgage interest deduction that would reduce the glaring differences we see in the data. In 2005 President Bush's advisory panel on tax reform recommended replacing the mortgage interest deduction with a tax credit equal to 15 percent of mortgage interest paid, with qualified mortgages limited to the average regional price of housing (ranging from about $227,000 to $412,000). In 2009 the Congressional Budget Office floated two proposals. The first would have reduced the maximum mortgage eligible for the deduction from $1.1 million in 2012 to $500,000. The second alternative, similar to the 2005 proposal, would have replaced it with a 15 percent tax credit for interest on mortgages below $500,000.

More recently, the Bowles-Simpson commission proposed a 12 percent nonrefundable tax credit, with a $500,000 cap on mortgages and no credit for interest from a second residence and equity. And in his budget, President Obama has proposed limiting the value of all itemized deductions so that high-bracket taxpayers would receive benefits as if they were 28 percent taxpayers.

So it is fair to say that among tax experts, there is a consensus that the mortgage interest deduction should be trimmed and that the bulk of that trimming should come from high-income taxpayers with big mortgages who enjoy disproportionate benefits. But you will not hear any members of Congress calling for reductions in mortgage interest deductions. Just the opposite.

On January 6 Rep. Gary G. Miller, a Republican from Orange County, Calif., introduced H. Res. 25, "expressing the sense of the Congress that the current Federal income tax deduction for interest paid on debt secured by a first or second home should not be further restricted." There are 41 cosponsors, and the list is growing.

It is hard to believe that members of Congress who put a "do not disturb" sign on the mortgage

More Examples of Mortgage Tax Benefit in Rich and Poor ZIP Codes		
Location	ZIP Code	Per Capita Mortgage Interest Tax Benefit
A. The Rich		
Atherton, Calif.	94027	$2,398.82
Boyds, Md.	20841	$1,255.20
Chappaqua, N.Y.	10514	$1,964.16
Franklin Lakes, N.J.	07417	$1,571.57
Glencoe, Ill.	60022	$1,845.55
Great Falls, Va.	22066	$1,324.54
New Canaan, Conn.	06840	$2,109.96
Sammamish, Wash.	98075	$1,499.78
Scottsdale, Ari.	85262	$1,948.89
Windermere, Fla.	34786	$1,016.56
B. The Poor		
Browning, Mont.	59417	$8.52
El Paso, Texas	79901	$12.01
Erie, Pa.	16503	$7.45
Memphis, Tenn.	38126	$13.25
Milwaukee, Wis.	53233	$7.94
Oklahoma City, Okla.	73108	$7.61
Peoria, Ill.	61605	$13.73
Rochester, N.Y.	14605	$12.50
Shreveport, La.	71103	$18.84
Sunland Park, N.M.	88063	$18.64

Source: Calculations using data from the IRS Statistics of Income division.

interest deduction could ever really be serious about reforming the federal income tax. If you cannot even bring yourself to restrict one of our largest tax breaks, especially when those getting the lion's share of the benefits are those least in need, where do you propose we cut? Or perhaps, Mr. Miller, you like the code the way it is? ■

NEWS ANALYSIS

What Do Corporate Tax Managers Want?

By Lee A. Sheppard — lees@tax.org

Men read the fashion columns in this magazine mostly, one would think, out of morbid curiosity about a world that baffles them. Why do women wear unattractive clothes? Why do they spend lots of time and money chasing after unattractive clothes?

As fashion magazines indicate, women often don't even want to know what heterosexual men think is attractive. They are justifiably afraid that the answer would be Pamela Anderson before it became obvious that she eschews sunscreen. Moreover, the reason Japanese girls always look so cool is that they don't care whether they look attractive to men, although some wear skirts it is impossible to sit down in.

So, as a public service to the husband hunters among you, here's a rundown of mainstream heterosexual male taste:

Color. Leave Rick Owens at home. Men love color, especially colors in the reds, pinks, and purples family. Chartreuse is a great neutral, but men don't like it. They also love red underwear — a factoid that seems to be lost on the purveyors of undergarments.

Femininity. Say yes to dresses and no to baggy pants. Men love prints, but Stella McCartney's new citrus print should be hanging on a bedroom window in Key West. Go for the florals, ruffles, and cinched waists. Don't load up on the accessories. You don't need to do the full Dolly Parton; you can butch up a feminine dress with boots.

Shoes. The truth about shoes is that most men couldn't care less what you have on your feet. Some men like high heels, but that doesn't mean the chunky Burberry boot with buckles and zippers or any kind of clubfoot platform. The shoe fetishist prefers fragile stilettos.

Cocktail. Men don't gather around the television to look at the long gowns at the Oscars. They don't like gowns, thinking them archaic — and yes, that goes for wedding gowns too. Jennifer Lawrence's red Calvin Klein dress at the Oscars was the only one men liked. For a formal function that is a date, the dress should be street length, colorful, and not too fussy.

Makeup. Men like red lips, but they don't like red lipstick. They like to think that you just popped out of bed with curly black eyelashes, flushed