Insight

Tax Day Is A Reminder That Government Spending Far Exceeds Revenues

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150 million hard-working Americans file their income taxes with the IRS each year. On tax day, many wonder whether the government is spending their money wisely, effectively, and efficiently.

Government spending far exceeds revenues. In 2013, the federal government collected $2.775 trillion, and spent $3.455 trillion.

What happens to spending in the next 10 years? In 2014, spending will be up to $3.523 trillion and will constitute 20.4 percent of GDP. Over the course of the next decade, government will outgrow its revenue to the tune of $1 trillion. At the end of the next decade, the federal government will have spent over $48 trillion.

The federal budget outlook is dire, harms economic growth, and ultimately raises the real threat of a sovereign debt crisis.

The looming debt crisis illustrates that spending continues to be the problem. Following is a list of government spending programs that underscore the out of control spending from Washington, compiled by the American Action Forum's policy experts.

Mortgage Interest Deduction. The mortgage interest deduction is a commonly used itemized deduction that has proven to be costly and fails to help significantly lower-income Americans become homeowners. AAF found that a cap in the deduction, which has been considered by Congress, would not equally affect all states. In fact, just four states—Florida, California, Arizona, and Texas—represented close to 40 percent of the 646,789 sales calculated by Zillow in the first quarter of 2013 when the study was done. Benefits of the mortgage interest deduction are largely skewed towards the highest 20 percent of wage earners as recipients of the deduction must both be homeowners and itemize their taxes (which is more prevalent among people with higher incomes). The CBO estimated the mortgage interest deduction will cost $1 trillion from 2014 to 2023, making it one of the costliest expenditures in the tax code.

Low-Income Housing Tax Credit. The Low Income Housing Tax Credit (LIHTC) is designed to support the development of affordable housing by providing tax credits through state and local housing agencies to developers that agree to set aside a specific percentage of units in new housing developments for low-income households. The Department of Housing and Urban Development (HUD) and the U.S. Department of Agriculture (USDA) have programs that similarly aim to produce and preserve the nation's stock of affordable housing, but through multifamily housing loan programs. Eliminating the Low Income Housing Tax Credit (LIHTC) would save $41.3 billion from 2014 to 2023. An alternative would be to reduce the scope of the program.

Community Development Block Grants. In 2012, the Government Accountability Office (GAO) found that housing assistance was fragmented across 160 federal programs and activities. The Community Development Block Grant program, administered by HUD, is one such program, which includes support for affordable housing along with a multitude of other aims falling under the umbrella of community development. The CBO estimated that eliminating new funding for the Community Development Block Grant program would save $26 billion from 2015 to 2023.

Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac are government-sponsored enterprises (GSEs) under federal conservatorship that dominate the secondary mortgage market. Mortgage guarantees issued by the GSEs have been assumed by the federal government and therefore remain a very real cost to taxpayers. While a plan to wind down the GSEs is certainly needed, the CBO estimates that reducing federal subsidies provided to the GSEs by increasing guarantee fees and decreasing loan limits would save $19 billion from 2014 to 2023 and reduce the government's footprint in the mortgage market.

Energy Tax Preferences. The Energy Production Credit and Energy Investment Credit are offered to businesses for the construction and operation of renewable power facilities. While these credits have helped make renewable power – particularly wind and solar – cost competitive with traditional fuels, they remain controversial. State policies requiring new sources of renewable power, like state Renewable Portfolio Standards, are already going a long way to bring new power on-line even as these two credits cost the U.S. Treasury $7.62 billion in 2012. Renewable companies are beholden to these credits: The wind industry shed more than 30,000 jobs – a third of its work force – after the production tax credit temporarily expired. Comprehensive tax modernization is necessary to put all sources of energy on equal footing and reduce government intrusion into energy markets.

Vehicle Loan Guarantee Program. Secretary Ernest Moniz announced the reboot of the Department of Energy's Advanced Technology Vehicles Manufacturing loan program (ATVM), which hasn't issued a loan since March 2011. In their 2014 report on government waste, the GAO suggests, "Congress may wish to consider rescinding all or part of the remaining $4.2 billion in credit subsidy appropriations" if DOE is unable to demonstrate demand for these loans. Though GAO cites the program's recent inactivity and a lack of interest by manufacturers in its recommendation, ATVM also has a poor track record: recipients like Fisker Automotive, A123 Systems, and, most recently, Smith Electric Vehicles, have filed for bankruptcy. Risk-averse companies well know the stigma associated with this program.

CHIP. As part of the ACA, employers are required to offer affordable coverage, and individuals are required to gain coverage for their families whether through employers, public programs, or through the exchange marketplace. The introduction of these requirements should have eliminated the need for the Children's Health Insurance Program (CHIP) that was implemented in 1997 to cover children whose parents have incomes too high to receive Medicaid benefits. Instead, the universal coverage law is a far stretch from its intentions. The uncertainties surrounding the "family glitch" and the number of children that would not be able to gain comparable coverage through an exchange plan are causing the continuation of an expensive program. CHIP cost $9 billion in 2013, and is scheduled to cost $15 billion next year. Further, the Medicaid and CHIP Payment and Access Commission voted last week to continue to provide funding during a "transitional" phase in the program, continuing CHIP through 2017.

Medicaid Payments for Long-Term Care. The Medicaid program, which provides health benefits for low-income and disabled Americans, pays for 60 percent of all U.S. nursing home residents. The program has more lenient eligibility for seniors with long-term care needs, and although it varies state by state, there are many loopholes that allow wealthy seniors to qualify for home care. The program is designed to begin paying once an individual has "spent down" their own assets on care, but there are many ways that seniors can hide assets and avoid spending any of their own money. A quick search of Medicaid estate planning lawyers shows that using this program without “spending down” to the eligibility limits is quite common. If the federal government insisted that states enact more stringent standards, it could avoid spending billions on the nursing home care for high-income and high-asset seniors who do not need the government’s assistance.

Health Insurance Marketplace Subsidy. In the health insurance marketplace, households that earn up to 400 percent of the Federal Poverty Level may be eligible to receive financial assistance with the goal of making health insurance affordable. However, many subsidy-eligible Americans with higher incomes already have access to affordable health insurance, which is determined by the law to be 8 – 9 percent of one’s total income. Roughly one-third of enrollees in the Marketplace earning between 300 and 400 percent of FPL—equal to an annual income of between $70,000 and $94,000 for a family of four—are not eligible for subsidies at all, and many more receive subsidies of relatively low values. If the administration were to reduce the level of subsidy eligibility, and concentrate financial help on those that need it most, it could save an estimated $12.8 billion per year.