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REVIEW & OUTLOOK

The Loophole Factory

April 15, 2008; Page A18

"People say all the time: 'We can't pick winners and losers.' Well then fine. Take every single dollar of subsidy out of the federal tax code. Get rid of it all. . . . Let's have a real level playing field where nobody gets a penny in subsidy."
– Hillary Clinton, quoted in USA Today, April 5, 2008

Now, there's a capital idea – and just in time for April 15. The simplest, fairest and most economically efficient tax code would end all special interest tax advantages and flatten tax rates. Except Mrs. Clinton was ridiculing this idea. She went on to say that if subsidies vanish from the tax code, we'd "hear the squeals of protest from Wall Street to Houston to Silicon Valley."

Her philosophy certainly fits with that of the current Congress, which is becoming a tax loophole production factory for the powerful. Exhibit A is the "Foreclosure Prevention Act," which passed the Senate last week and contains $25 billion in tax subsidies for home builders and industry interests hurt by the housing crunch. Builders will be able to offset current losses against taxes paid in the past three years, which will mean billions of dollars of tax rebate checks from Uncle Sam.

Not Fairer or Simpler
Pages in the federal tax code

1985	26,300
1995	40,500
2007	67,200

Source: CCH.com

This giveaway came only a few weeks after the National Association of Home Builders threatened to suspend their PAC contributions to Congress "until further notice" – meaning until they saw more return on their political investments. Congratulations. That gambit paid off big time. Other winners include the large Wall Street banks that have lost money in the subprime mortgage meltdown, including Citigroup, Merrill Lynch and Morgan Stanley, which also qualify for rebates to offset current losses.

Republican Johnny Isakson of Georgia won Senate passage of a $7,000 tax credit for those who buy foreclosed properties. This won't prevent foreclosures or make these properties more affordable. Instead it will only prop up the sales price of the inventory of abandoned homes that the banks now own. Meanwhile, the House bill contains a $7,500 tax credit for first-time middle-income home buyers. The powerful Realtors' lobby and mortgage banks that own foreclosed properties blazed the money trail across Capitol Hill to get that one passed.

Oh, and while they were at it, the Senators voted 88-8 to add $6 billion in tax deductions for renewable energy producers. (If you wonder what this has to do with the mortgage "crisis," you just arrived off the turnip truck.) This industry is already teed up to get nearly $10 billion in tax breaks in the energy bill, including subsidies for wind and solar power producers, hybrid vehicles and biodiesel. Much of this social engineering comes from the same people on Capitol Hill who insist that taxes don't change industry or personal behavior.

With this loophole factory open for business on Capitol Hill again, business lobbies are spending more money than ever to curry Congressional favor. The real-estate industry may be in dire financial straits, but housing industry PACs have already contributed $56 million to political campaigns this election cycle, according to the Center for Responsive Politics. Politico.com reported last week that 40 new business lobbying firms have registered since January to represent the likes of concrete makers, home builders, Freddie Mac and the Realtors. Wall Street investment banks are also pumping up the volume of campaign contributions as they seek financial relief from the subprime mess.

Congress is creating all of these new loopholes even as overall tax revenues are slowing and this year's budget deficit could reach $450 billion to $500 billion. This will play nicely into the hands of Democrats who contend that the lower tax rates of 2001 and 2003 must expire to pay the government's bills. So we could soon have the worst of all worlds: a leaky tax code full of exceptions for powerful interests, but with ever higher rates to make up for the loopholes. Congress gets PAC contributions in return for the loopholes, plus any extra revenue from the

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tax hike. The losers are taxpayers who aren't powerful or rich enough to afford a tax lobbyist.

At least this exercise is making clear what Democrats really mean by tax "fairness." It means raising tax rates so they can then sell tax breaks to the highest corporate bidder. We have certainly come a long way from 1986, when a Democratic Congress joined with Ronald Reagan to strip the tax code of most tax deductions and lower tax rates to a high of 28%. That reform spirit is dead on Capitol Hill.

Senators Clinton and Barack Obama are racing across the country promising Americans that they will clean up a process that "favors Wall Street over Main Street." Fat chance. Their party and most Republicans just voted for a housing bill that is the biggest victory for corporate special interests in years – and there's much more to follow. Happy Tax Day.

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