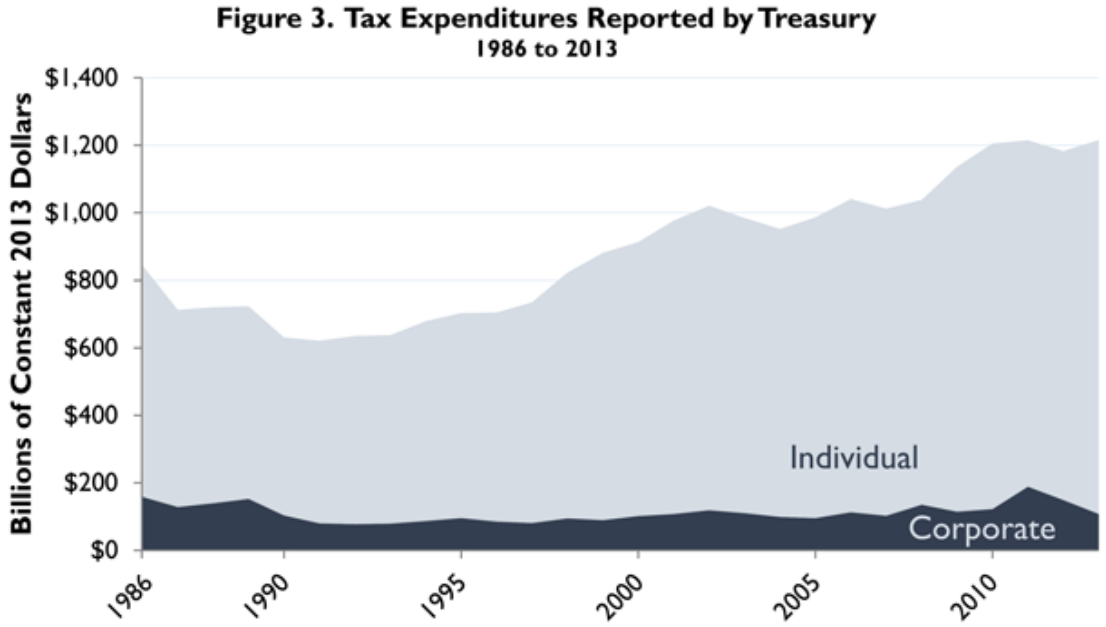
revenue on a direct-spending program that sends checks to working parents (or a childcare agency) at a cost of, say, $100 billion each year. On the other hand, it could enact a "tax expenditure," creating a childcare deduction (or a childcare credit) that otherwise is inconsistent with a normative SHS income tax that reduces the revenue collected in the first place by $100 billion each year—but only if the amount that would otherwise be included in the tax base is spent by the taxpayer on a qualified childcare program. *Both* options can be seen as government spending, but one is done via a direct-spending program while the other is done indirectly via the Internal Revenue Code through a provision that deviates from a normative SHS income tax.

You can think of a "tax expenditure" as a provision intended to provide either an incentive (to change behavior) or a subsidy (a transfer to a worthy recipient), or both, through the tax system that is the functional equivalent of a direct-spending program. Tax expenditures can be in the form of special deductions, exclusions, credits, or tax rates that deviate from core, normative concepts underlying the tax base in a way that implements nontax social or economic policy.

Because tax expenditures are an alternative form of indirect government spending, the government must publish annually a list of them, along with direct spending programs, in the Federal budget. They have exploded in recent decades, as shown in the chart below.[1]



The revenue that goes uncollected each year because of tax expenditures (more than $1 trillion) now approximates (or is slightly less than) the annual revenue collected under the individual income tax. Moreover, if all tax expenditures were repealed, the budget would be balanced (though virtually no one supports repealing them all)….

Tax expenditures have proliferated in part because some conservatives on the right see them as simply reducing tax revenues and thus reducing the size of government, while some liberals on the

[1] William McBride, *A Brief History of Tax Expenditures*, at http://taxfoundation.org/article/brief-history-tax-expenditures. Reprinted with permission.