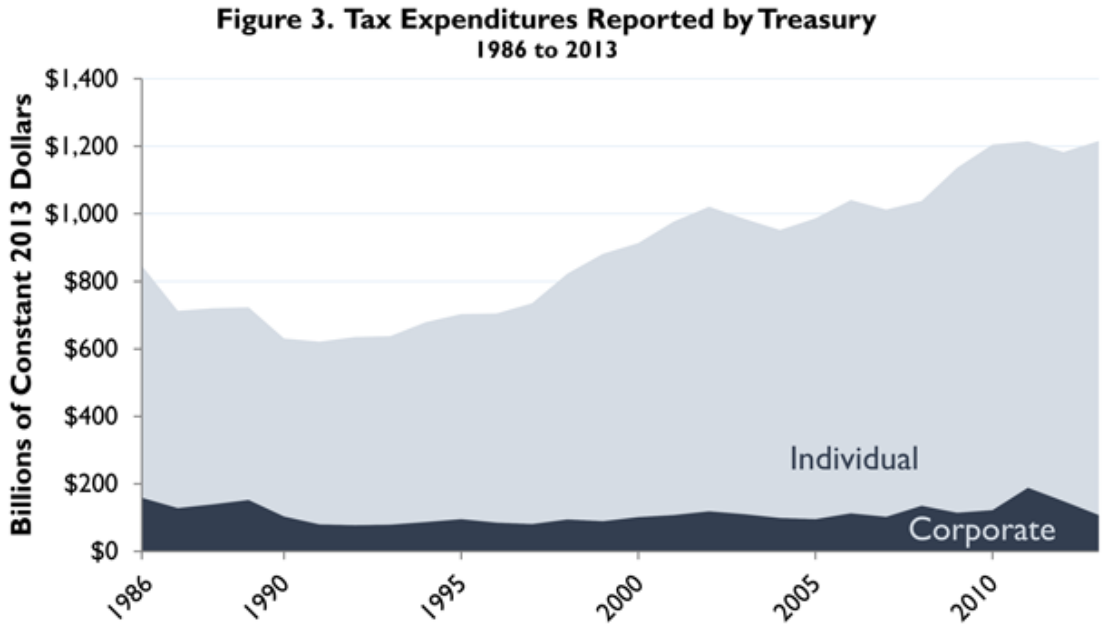
tax form in 1913, including the instructions, was only four pages long. Under a pure SHS income tax, no deductions would be allowed for personal consumption costs. Indeed, even if we replaced the income tax with some form of pure consumption taxation, as described in Chapter 2, consumption spending would be taxed. Now assume, however, that Congress decides that it wants to, say, defray the costs of childcare for working parents. Whether that decision is wise or unwise as a social policy matter, Congress has a choice regarding how to implement this decision, once made. It can leave the "pure" income tax alone (under which childcare costs would be nondeductible as a consumption cost), collect the revenue under that tax, and use some of that 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.[70]



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