

Letting Tax ‘Extenders’ Die

Are Republicans serious about business tax reform, or not?



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President Obama doesn't do many favors for Republicans, but last week he did them an inadvertent one when he threatened to veto a \$450 billion package of special-interest tax provisions that the GOP leadership had negotiated with [Harry Reid](#). Now they have a chance to kill the entire

project in favor of going for corporate tax reform next year.

Alas, we're probably hoping for too much. The GOP-Reid package would have made many of the provisions permanent, but that has happily died with Mr. Obama's veto threat. But rather than let the tax favors die, the House GOP is moving this week to vote on another one-year extension of about 50 "temporary" tax subsidies.

Washington has been reauthorizing these temporary tax breaks since the 1980s, pausing to occasionally stuff more special-interest payoffs into the broader package. This latest House vote would cost taxpayers \$44.7 billion over 10 years, and it includes tax perks for, among other national priorities, Hollywood films, wind turbines, Nascar owners and race horses.

A couple of these tax provisions have merit, given the sorry state of U.S. tax policy. With a better tax code, companies wouldn't need a credit for research and development. But they have come to count on it to offset America's punishing federal corporate tax rate of 35%, the highest in the developed world. The problem is that the political class has taken to gift-wrapping the tolerable parts in dubious tax breaks.

That's why the bill is temporary—every year. The bill opens up the annual tax favor factory, whose product is what former Senate Finance Chairman Russell Long once dubbed the "Christmas tree bill." Long's famous 1966 tax bill included breaks for hearse owners and importers of Scotch whiskey.

A particularly egregious example this year is the wind-production tax credit, a “temporary” handout from 1992. That subsidy guarantees wind companies 2.3 cents per kilowatt hour of electricity produced; the payments continue for 10 years from the moment a company is eligible. So every time Congress extends the credit a year, they are committing taxpayer dollars for another decade.

Republicans could have let this atrocity expire at the end of 2013, but they re-upped and today the wind credit is by far the most expensive item in the tax extender package. It’s \$9.58 billion price tag is 21% of the bill’s \$44.7 billion cost, all for an “infant” industry that is today throwing money at utility-scale projects in nearly every state.

Before Mr. Obama’s veto threat, Republicans had also agreed to make permanent such boondoggles as New York Senator Chuck Schumer’s tax perk for mass-transit commuters and Mr. Obama’s stimulus-era college tax credit. That’s how you reach a cost of \$450 billion over 10 years—all of which was going to be added to the deficit.

This distasteful exercise underscores the need for corporate tax reform. The real Republican goal should be a change in law that locks in lower rates and eliminates as many special tax breaks as possible—and doesn’t expire. No law is truly permanent, but Congress can make it harder to change by requiring a new Congress to pass a new statute to do so. Even Mr. Obama claims to support that kind of reform, so it may be the one big pro-growth achievement that Republicans can get in the 114th Congress.

It makes little sense for Republicans to make concessions now to a lame-duck Democratic Senate. The tax extenders bill echoes the Tom DeLay era, when Republicans thought their main duty was serving K Street lobbyists in return for campaign funds that would protect their majority. We saw how that worked in 2006 amid the meltdown over spending earmarks and Jack Abramoff. The GOP lost control of the House to the [Nancy Pelosi](#) Democrats.

The goal should be a serious tax reform next year, when Republicans don’t need to make as many concessions to Harry Reid and Chuck Schumer.