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55 Tax Breaks Expired at Stroke of Midnight, December 31

At the stroke of midnight on December 31, 55 popular tax breaks expired, adding further uncertainty for millions of businesses and individuals across the country. The Associated Press notes that this is a pattern seen virtually every year, where Congress permits the tax breaks to lapse only to renew them later, retroactively, just in time for taxpayers to claim them by the time they file their returns. Unfortunately for the businesses and individuals impacted, this pattern makes it difficult to plan ahead, and may not be guaranteed.

Many of the tax breaks were substantial, including billions in credits for companies that invest in research, exemptions for financial institutions that do business overseas, and allowing businesses to write off capital investments.

Others applied to film producers, makers of motorcycles, and teachers who use their own money to purchase classroom supplies. Some of the other tax breaks that expired were deductions for state and local sales taxes that benefit individuals who live in the nine states that do not have state income tax.

Additional breaks included those pertaining to college students and commuters who use public transportation, and credits for power companies that use windmills.

Another tax break permitted to expire is the Work Opportunity Tax Credit (WOTC), which provided financial incentives to companies that hired not only veterans and ex-convicts, but also welfare recipients, people on food stamps, and others who may have difficulty thriving in the job market.

"This is essential," asserted Marlene Roll, the junior vice commander of the Veterans of Foreign Wars in Buffalo. "A company might have been on the verge of being able to hire a veteran, but not quite... and if they have that tax credit, maybe they have that little extra cash flow."

Since Congress is on vacation until January, the tax breaks were not able to be renewed in time to avoid expiration.

Of course, this is nothing new. One tax expert told WGRZ News that since 1996, there have been at least eight or nine tax breaks that have been allowed to expire and then been renewed. And while the tax breaks are often renewed following expiration, the Associated Press explains that this process is not as harmless as it seems:

> No harm, no foul, right? After all, taxpayers filing returns in the spring won't be hurt because the tax breaks were in effect for 2013. Taxpayers won't be hit until 2015, when they file tax returns for next year.
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> Not so far. Trade groups and tax experts complain that Congress is making it impossible for businesses and individuals to plan for the future. What if lawmakers don't renew the tax break you depend on? Or what if they change it and you're no longer eligible?

Precedent reveals that it often takes Congress months to address the expired tax breaks. The Associated Press writes, "Most recently, they expired at the end of 2011, and Congress didn't renew them for the entire year, waiting until New Year's Day 2013 — just in time for taxpayers to claim them on their 2012 returns."

And that renewal was only through the end of 2013, creating the same problem once again. The Associated Press explains the reason for such a short extension:

> Washington accounting is partly to blame. The two-year extension Congress passed in January cost $76 billion in reduced revenue for the government, according to the nonpartisan Joint Committee on Taxation. Making those tax breaks permanent could add $400 billion or more to the deficit over the next decade.
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> With significant budget deficits, members of Congress are hesitant to vote on a bill that they contend would increase the deficit.

Others view the process even more suspiciously.

Mark Luscombe, principal tax analyst for CCH, a consulting firm based in Riverwoods, Illinois, observed,

> More cynically, some people say, if you just put it in for a year or two, then that keeps the lobbyists having to come back and wine-and-dine the congressmen to get it extended again, and maybe make some campaign contributions.

Either way, the inefficiency of this tax methodology is sure to anger business owners.

"It's a totally ridiculous way to run our tax system," declared Rachelle Bernstein, vice president and tax counsel for the National Retail Federation. "It's impossible to plan when every year this happens, but yet business has gotten used to that."

Representative John Lewis (D-Ga.) blames a divided Congress for its inability to pass legislation.

"It's not fair, it's very hard, it's very difficult for a business person, a company, to plan, not just for the short term but to do long-term planning," Lewis said. "It's shameful."

This particular tax package has been trapped in a debate as to whether the entire tax code should be overhauled.

House Ways and Means Committee Chairman Dave Camp (R-Mich.) and Senate Finance Committee Chairman Max Baucus (D-Mont.) have been working on a proposal to simplify the tax code by reducing tax breaks and using the additional revenue to reduce overall tax rates.

But with Senator Baucus having been nominated by President Obama to become the U.S. ambassador to China, which would result in his departure from the Senate, the plan is not likely to gain traction.

Of course, a number of other members of Congress have suggested ways to overhaul the tax code. Senator Rand Paul (R-Ky.), for example, proposed a tax code overhaul that would eliminate the estate and capital gains taxes and switch to a flat tax system.

Similarly, Senator Ted Cruz (R-Texas) has proposed overhauling the tax system and replacing it with a flat tax with limited deductions.

Former Texas Representative Ron Paul told the *Washington Times* that his plan was to abolish the federal income tax and make a concurrent reduction in spending, starting with defense spending, "beloved by so many who claim to be opponents of high taxes and big government."

According to Ron Paul, an income tax is merely theft which suggests that "government owns the lives and labor of the citizens it is supposed to represent," and should therefore be abolished.

Constitutionalists point out that regrettably, very little attention is given to these more constitutional, dramatic, and financially responsible recommendations.

In the meantime, members of Congress attempted to save the day by stopping the expiration of the tax breaks with "business as usual" in Washington, D.C. Prior to the close of the 2013 session of Congress, Democrats attempted to extend the tax breaks by placing those provisions in a package that they demanded be voted on without debate or amendments — an offer that Republicans swiftly rejected.

Whether taxpayers should rely on the return of these tax breaks as they budget for 2014 remains uncertain.

"The best thing I would say is, budget accordingly," said Jackie Perlman, principal tax research analyst at The Tax Institute at H&R Block. "As the saying goes, 'hope for the best but plan for the worst.' Then if you get [a tax break], great, that's a nice perk. But don't count on it."