

Tax Expenditures vs. Direct Expenditures: A Primer



About this Publication

This publication discusses some factors or considerations that legislators may wish to consider in deciding between using direct or tax expenditures to implement proposed initiatives or in modifying existing programs.

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Executive Summary

Most public programs operate with and are funded by appropriations of money out of the state treasury. But legislators can also opt to implement policy initiatives and programs with tax expenditures—special tax provisions (e.g., exemptions, deductions, or credits) that deliver benefits or encourage behavior that policymakers consider desirable. These tax expenditures effectively re-allocate private resources to publicly selected purposes, even though they may be hidden from public view and some may not think of them as government programs.

This primer discusses some factors or considerations that legislators may wish to consider in deciding between using direct or tax expenditures to implement proposed initiatives or in modifying existing programs. These factors or considerations can be divided into two large groups or categories.

- 1) **Policy or effectiveness considerations.** These factors relate to which mechanism will work better or be more effective in achieving the legislator’s desired policy objectives. Some of these considerations include the following:
 - **Ease of administration.** Administrative factors may loom large in choosing between the two types of programs. In general, tax expenditures do not work well if most of the target recipients are not already taxpayers or if the program parameters cannot easily be expressed in clear and simple rules that taxpayers and tax preparers can easily understand and apply. Programs requiring administrative discretion in determining who qualifies or how much to award typically work better as direct spending programs.
 - **Budgeting.** Tax expenditures are typically “entitlements”; every taxpayer who satisfies the qualifying statutory criteria will qualify for the credit or deduction. This entitlement structure may make it difficult to estimate how much the provision will reduce tax revenues and/or may exceed the available budget for the program. A budgetary need to impose arbitrary dollar or participation limits will tend to make administration more cumbersome and to compromise the ability to induce behavioral changes, suggesting such programs may function better as direct spending programs.
 - **Behavioral effects.** Some evidence from the new field of behavioral economics suggests that, in some contexts, tax expenditure programs may be more effective in inducing people to change their behavior than providing equivalent direct payments. This evidence is, however, preliminary and based only on a few studies.
 - **Impact on the tax system.** Adding tax expenditures further complicates the tax system, diverts tax administration resources from the basic goal of revenue collection, and may erode public confidence in the tax system, as perceptions increase that individuals or businesses with similar incomes or other profiles have widely different tax burdens as a result of tax expenditures. These factors should be weighed against the advantages of using a tax expenditure.

- **Federal tax effects.** Federal tax treatment of direct spending and tax expenditures programs can vary. In some circumstances, using one or the other mechanism may avoid a significant tax “penalty.” Analyzing the differential effects is, therefore, advised, although the conclusion may not always be clear. The 2017 comprehensive federal tax changes further complicated this analysis.
 - **Constitutional considerations.** Tax and direct expenditures can be subject to different tests of their constitutionality. In general, the legislature has greater constitutional latitude in implementing direct spending programs under the commerce clause, although it is more difficult to challenge tax expenditure programs that favor religious schools or other institutions under the first amendment.
- 2) **Institutional or process considerations.** These factors go to the ability to enact the proposal and/or to attract and retain resources for the initiative in the legislative process, rather than to the effectiveness or intrinsic merits of the two different mechanisms. Some of these factors include the following:
- **Durability.** Tax expenditures are generally thought to receive less review and scrutiny than direct spending programs, because of their structure (they are often permanent tax features) and tradition (they are outside of the regular budget process). As a result, after enactment they typically will be more durable than direct expenditure programs.
 - **Visibility.** Tax expenditures are typically not counted as government spending and so do not make the government look larger, even though they allocate private resources to government-selected purposes.
 - **Political acceptability.** Some voters (particularly conservatives) favor tax expenditures; this may make it easier to enact a tax expenditure program.
 - **Legislative process.** Choosing a tax or direct expenditures may depend upon the availability of resources in different portions of the state budget, as allocated by governor or legislative leadership. Tax committees also have greater flexibility to offset tax expenditures with increased revenues from other tax changes than a typical spending committee does. This may be particularly useful in a tight budget environment.

Introduction: Tax or direct expenditure?

Most state and local government programs and activities are funded with direct expenditures. Taxes and fees are collected and the money is then used to operate public schools and colleges, provide police and fire protection, construct and maintain streets and highways, deliver or reimburse for health care costs under public programs, and so forth. This is the classic way that government operates most of its programs and functions. As conceptualized in a basic civics course, the tax system simply generates the money that funds government operations.

But the tax system may itself be used to provide public services or to deliver government benefits. Using the tax system in this matter is typically referred to as a “tax expenditure” rather than a direct expenditure.¹ To provide context, Minnesota makes extensive use of tax expenditures—the *Tax Expenditure Budget* for the state reports annual amounts in the billions of dollars.² Tax expenditures are most commonly used when the policy goal is to change individuals’ behavior (e.g., to encourage individuals to save for retirement, buy a home, make in-state investments, and similar) or to provide modest benefits to large numbers of recipients (e.g., offsetting the child care costs, providing income assistance to low-income workers, and similar).

The legislature has used both direct and tax expenditures to achieve the same policy goals or ends. The table shows some examples of this to illustrate the point.

Examples of Policies Addressed by Both Direct and Tax Expenditures

Policy objective or purpose	Direct expenditure program	Tax expenditure program
Encourage families to save for college	State matching contributions to Minnesota 529 plans (enacted 1997; repealed 2011)	Income tax credit or deduction for contributions to 529 plans (enacted 2017)
Provide child care assistance to enable low-income families to work	Basic sliding fee child care program (ongoing)	Refundable dependent care credit (ongoing)
Provide income assistance to low-income families with children	Minnesota Family Investment Program (MFIP) (ongoing)	Working family tax credit (ongoing)
Encourage private savings to pay for long-term care insurance	Minnesota long-term care partnership program (ongoing)	Long-term care insurance income tax credit (ongoing)

¹ See the Appendix for a description of tax expenditures and for sources of more information about Minnesota’s state and local tax expenditures.

² Department of Revenue, *State of Minnesota Tax Expenditure Budget Fiscal Years 2018- 2021* (February 1, 2018), reports just under \$20 billion in tax expenditures for fiscal year 2021. That should only be used as way to get an impression of the general order of magnitude. Individual amounts in the report cannot be summed to determine a total amount, because that would not take into account interactions among the provisions. In addition, estimates for individual provisions do not necessarily reflect the amount of revenue that would be raised by repealing a provision as revenue estimates for proposed legislative changes do. There are also issues as to whether all of the provisions listed in the report are actually tax expenditures, because analysts can disagree about the appropriate “reference tax” that should be used to determine which provision are tax expenditures. See the discussion in the Appendix.

Policy objective or purpose	Direct expenditure program	Tax expenditure program
Encourage development of low-income rental housing	Various Minnesota Housing Finance Agency programs (ongoing)	TIF housing districts, special property tax classification, sales tax exemption for building materials, etc. (ongoing)
Assist local governments with capital spending projects	Various direct aid and grant programs – e.g., to schools, for water projects, etc. (ongoing)	Income tax exemption for interest on bonds issued by Minnesota governments (ongoing)

This primer discusses factors that legislators may wish to consider in deciding whether to use tax or direct expenditures in designing new or modifying existing programs. The discussion assumes agreement on pursuing a specific or general policy objective; the issue is which approach to use to best achieve that objective—a tax expenditure or a direct expenditure.

***Caveat:** Note that the primer does not discuss or address how to evaluate whether a tax expenditure program is well designed or works to achieve the target policy objective or the usefulness of doing so at all. Often, those considerations may be more important than whether a direct or tax expenditure should be used—either type of program can be well or poorly designed. The primer is intended to identify and briefly discuss considerations in choosing between the two mechanisms, not to evaluate the efficacy of individual tax or direct expenditures.*

The discussion of these factors or considerations is divided into two categories.

- **Policy considerations:** This section attempts to lay out factors that go to the efficacy of using direct versus tax expenditures. Which mechanism is likely to work better given the policy goals and nature of using either of the two mechanisms? Are different constitutional considerations involved with direct versus tax expenditures? Will there be an adverse effect on the tax system of using tax expenditures? This section focuses on factors that go to how well each of the methods works to further the policy goals the legislator seeks to achieve.
- **Institutional considerations:** This section discusses process or institutional considerations that differ between the two approaches. Rather than discussing the intrinsic merits of one or the other mechanism, it focuses on matters such as ease of passage, political acceptability, durability, and similar factors.

Evaluating existing tax expenditures. Factors discussed in the policy considerations section can also be used to evaluate whether an existing tax expenditure might be better implemented as a direct expenditure. Challenges with doing this—and more generally evaluating tax expenditures—are discussed briefly in the Appendix.

Policy Considerations: Which mechanism provides the best results?

In deciding whether to use a tax expenditure or a direct spending program to achieve their policy objectives, legislators and other policymakers may wish to consider some of the following factors:

- Ease of administration
- Behavioral effects
- Budgeting considerations
- Tax system effects
- Tax policy principles
- Interaction with federal tax
- Constitutional restrictions

Ease of Administration

Is it easier to administer the program as part of the tax system or as a direct spending program?

Administrative advantages are a frequent justification for using a tax expenditure rather than a direct spending program. For example, it might be cost prohibitive to operate a direct spending program that provides small benefits to a large number of recipients. By contrast, if many or all of the recipients are already filing income tax returns, it might be relatively easy to do so as a tax expenditure. In the latter case there's also a minimal burden on the taxpayers claiming the benefit, since they are already filing an income tax return; with a direct spending program they may instead be required to complete a separate application for the benefit.

There is some evidence that the “take-up” of benefits provided administratively through the income tax may be higher than for direct spending programs that require a separate application.³ But if many of the recipients are not taxpayers or even tax filers that diminishes the advantage of using a tax expenditure since the administrative cost advantages will be lower. Programs that require or function best with an element of administrative judgment or discretion typically are not good candidates for using tax expenditures to deliver their benefits. To function effectively as a tax expenditure, program parameters must be relatively simple and clear, so that typical taxpayers (or their tax preparers) can correctly apply them.

Some factors to consider:

- Are most recipients or targets of the program already taxpayers or tax filers?
- How complicated are the program parameters—can they be easily self-applied by a taxpayer or preparer or do they require the expertise of a specialist to administer?
- Would use of administrative discretion in determining program beneficiaries or the amount a recipient qualifies for improve the program results or outcomes?

³ For example, there is some evidence that somewhat higher percentages of comparable households claim the federal earned income tax credit than food stamps. See Marsha Blumenthal, Brian Erard, and Chih-Chin Ho, “Participation and Compliance with the Earned Income Tax Credit,” *National Tax Journal* 53, no. 2 (2005): 207-08.

- Does it work to deliver the benefit as a lump sum (e.g., a tax refund) once a year or is it important to more regularly provide benefits (e.g., because otherwise the recipient will be financially unable to engage in the desired behavior)?⁴

Budgeting Considerations

Will the program be subject to a fixed dollar limit on its total cost?

Tax expenditure programs typically do not have limits on the aggregate amount of their benefits (and on the resulting revenue loss to the state): under the classic tax expenditure structure, any individual or business that satisfies the statutory criteria will qualify for the deduction, exemption, tax credit, or similar. The resulting “cost” or revenue loss will be dictated by how many individuals or businesses qualify and choose to participate. Direct spending programs, by contrast, are more typically funded by fixed dollar appropriations—e.g., \$X is appropriated to an executive branch agency to make grants for Y purpose. Some direct spending programs—often referred to as entitlement programs—have similar profiles or structures to classic tax expenditures; anyone who qualifies is “entitled to” the program benefits.

The typical profile of tax expenditures makes budgeting more challenging; it may be difficult (or near impossible with any certainty) to estimate what the take-up and resulting revenue loss will be for a proposed tax expenditure. Or the estimated revenue loss may be more than the budget can accommodate. As a result, policymakers often wish to put fixed dollar limits on proposed tax expenditures, so that they can operate more like direct spending programs with fixed dollar appropriations. This can be done, but doing so potentially limits their effectiveness.

Imposing a fixed dollar limit on the total revenue loss from a tax expenditure also makes administration of a tax expenditure more cumbersome. For example, a typical method of implementing a dollar limit is to require certification of recipients and their authorized dollar amounts by a state agency.⁵ This approach imposes more costs on participants, who must apply and demonstrate their qualifications, and on the state, which must process the applications and apply the limits. It could mean that there will be periods of time when the program benefits are unavailable because the annual limit has been exceeded. For programs that are intended to change behavior, it introduces an element of uncertainty for participants (will my application be accepted or has the money run out for this year?) or potential delay. On-off availability may also compromise the program’s ability to stimulate the desired behavior.⁶

⁴ This may not be relevant if the benefits can be delivered to taxpayers through adjustments in withholding or for sales tax exemptions that provide their benefits when purchases are made. It is a bigger factor for benefits to be delivered to individuals that exceed tax liability, such as refundable credits, or for extraordinary deductions or credits that cannot be automatically reflected in income tax withholding.

⁵ The now expired Small Business Investment Tax Credit (often referred to as the angel investment credit) is a good example of this approach. [Minn. Stat. § 116J.8737](#). The credit provided for the commissioner of employment and economic development to certify applicant businesses and investors as qualifying for credit, including the dollar amount of credits allowed for each business’s investors, in order for taxpayers to receive the credit. This allowed the application of an annual dollar limit on the amount of the credit. It also routinely resulted in the credit becoming unavailable to new businesses and investors midway through the typical tax year.

⁶ One inherent effect of governmental incentives intended to change behavior is that some of the incentives will go to recipients who were going to engage in the desired activity without regard to the benefits. Tax expenditures with annual aggregate dollar limits that are allocated on a first-come-first-served basis will tend to allocate more

Behavioral Effects

If the goal is to induce changes in behavior, will a tax provision be more effective than a direct spending program in doing so?

A common goal of tax expenditures is to change behavior by providing a tax incentive or benefit. As an alternative, a similar incentive or benefit could be delivered through a direct spending program. For example, families paying for college costs can be given a tax credit or provided a grant or scholarship of equal value. If the purpose is primarily to change behavior (to encourage more individuals to attend college or to put aside savings to pay for future college costs), a key issue may be whether a tax credit or grant is more effective in achieving that end.

Typically, economic theory has assumed that the form or manner in which a financial incentive (money) is provided does not matter. However, recent research in “behavioral” economics has found that conclusion is not necessarily true; individuals are subject to various cognitive biases that cause them to over- or undervalue (on a purely mathematical basis) certain financial mechanisms. For example, there is considerable empirical evidence that individuals assign higher values to potential financial losses than to gains of an equal dollar amount.

This behavioral insight into the power of “loss aversion” may be relevant to the choice between tax and direct expenditures. Tax concessions allow individuals to “retain” money they already have (i.e., to avoid a “loss” by paying tax). In contrast, individuals may perceive receipt of a direct spending benefit (cash) as a gain with a lower relative value, even if the dollar amounts are the same. Along these lines, some initial research suggests that loss aversion translates to tax aversion.⁷ If these results can be replicated, it may be that individuals, on average, value avoiding paying taxes more highly than receiving an equal financial benefit under a direct spending program. This would suggest (at least under some circumstances) that the state could get more bang-for-the-buck by using a tax expenditure rather than a direct spending program, *all else being equal*.⁸ These possibilities need to be validated by additional research in behavioral economics, but could be important to the choice between the two mechanisms.

benefits to these recipients. That occurs simply because they will be the first to apply; they were going to engage in the activity anyway, so there is little need to deliberate about whether to participate. As a result, dollar limits are particularly compromising for these types of tax expenditure programs. They allocate more money to recipients to whom a hypothetical omniscient program would allocate no benefit because they would do it anyway.

⁷ See, e.g., Abigail B. Sussman and Christopher Y. Olivola, “Axe the Tax: Taxes are Disliked More than Equivalent Costs,” *Journal of Marketing Research*, vol. 48, pp. 91-101 (Nov. 2011); Tatiana A. Homonoff, “Can Small Incentives Have Large Effects? The Impact of Taxes versus Bonuses on Disposable Bag Use,” National Tax Association Proceedings of 105th Annual Conference on Taxation, 64 - 90 (2012) (5-cent tax on disposal bag use had substantial effect on use; equivalent bonus had little effect).

⁸ This qualifier—“all else being equal”—is crucial. In some cases, a direct spending program can also be structured to allow its participants to avoid losses, tapping into this cognitive bias. For example, a state scholarship or grant program that allows a student to pay lower tuition to a public college or under which the state directly reimburses a private college also avoids a loss (i.e., making out-of-pocket payments). It is likely that this mechanism would be preferable to a tax credit for tuition paid because it avoids the uncertainty inherent in a tax expenditure (Am I sure that I satisfy the qualifying rules, will I have enough tax liability to take full advantage of the tax expenditure?, etc.). Note that this would not be true if the grant or scholarship program requires paying and seeking reimbursement after the fact.

Effects on the Tax System

Does the proposed tax expenditure adversely affect the functioning of the tax system?

Adding tax expenditures inevitably complicates the tax system, reducing understandability and increasing the difficulty of complying with and administering the tax. As more tax expenditures are added, the focus of tax administrators is diverted from collecting revenue to “administering” provisions that have purposes unrelated to raising revenues. For institutional reasons, staff at DOR may be less sympathetic to the objectives of the tax expenditure than staff at an agency that administers similar direct spending programs would be. That may affect how the programs are administered.⁹ Increases in the number and complexity of tax expenditures compel taxpayers to spend more time completing their returns and familiarizing themselves with new programs often only to find out that they’re ineligible. Sometimes competing tax expenditures for the same purpose (e.g., the multiple federal tax expenditures for higher education costs and retirement saving), require taxpayers to carefully determine which is the best choice for them, which further increases the time spent preparing returns or in making financial planning decisions. In addition, the perception that subtractions or credits allow others to avoid paying taxes can erode public confidence in the tax system, as well as decreasing the transparency and the public’s understanding of it. These negative effects should be balanced against the advantages of using the tax system to deliver program benefits.

Tax Policy Principles

How do tax expenditures intended to further basic tax policy goals fare when evaluated using traditional tax policy principles?

Some tax expenditures are intended to promote basic tax policy goals or principles. See the box below for a list of these principles.¹⁰ For example, the sales tax exemption of food purchased for home consumption was likely adopted to reduce the regressivity of the tax. Put another way, it was intended to improve the equity of the tax, a fundamental tax principle. Given such a purpose, it is appropriate to assess to what extent the tax expenditure succeeds in advancing that tax policy goal and how it scores under the other tax policy principles. For example, does the food exemption make the sales tax more equitable or would alternative measures (e.g., increased SNAP program benefits) be more effective? Many tax expenditures have a purpose of making the tax easier to administer—e.g., many tax expenditures that mirror federal tax provisions or that otherwise would require impractical valuations or computations fit into this category.

⁹ This assumes that the DOR and its staff view their primary mission as administration of the tax system and collection of revenue for the state. If that is true, it seems they will be less invested in ensuring that tax expenditure programs directed at housing, long-term care, higher education, or similar are effective than the staff of state agencies for which that is their core mission.

¹⁰ For a more in-depth discussion of the principles and an application of them in the context of business taxation see House Research, *Evaluating How to Cut Minnesota’s Business Taxes*, 3–15 (December 2017).

Tax Policy Principles*

- **Fairness** – horizontal (equal treatment of equals) and vertical (distribution across different incomes) equity
- **Neutrality** – minimizing distortion of private market decisions
- **Ease of compliance and administration**
- **Simplicity** – understandability to the public
- **Competitiveness** – does not disadvantage state in competing for investment and business

* Tax expenditures that are alternatives to direct spending programs should not be primarily evaluated using the tax policy principles. See discussion in the Appendix.

Interaction with Federal Tax

Does federal tax treatment of the program benefits favor a tax-based or direct spending approach?

Federal income tax treatment can be a factor in choosing between tax expenditures and direct spending programs. Government benefits provided to individuals under direct state and local spending programs, although they constitute economic income to the recipients, may be exempt from federal income tax under what is often called the general welfare exclusion.¹¹ By contrast, if state income or property tax reductions are instead provided to individuals who itemize deductions, the federal income tax can implicitly impose a tax on those benefits at the recipient's marginal rate. This occurs because a state income or property tax reduction lowers the individual's itemized deduction for state income or property taxes and increases federal income tax as a result. This effect can siphon off to the federal Treasury between 10 percent and 37 percent of the intended benefit, depending upon the recipient's marginal tax rate.

The 2017 federal tax act (often referred to as the Tax Cuts and Jobs Act or TCJA) complicated assessing these federal income tax effects in choosing between tax and direct expenditures. TCJA changed the rules governing the itemized deduction for state and local taxes (or SALT deduction) by limiting the deduction to no more than \$10,000 (\$5,000 for married separate filers). It also significantly increased the standard deduction. Both of these changes are temporary; the prior rules will return for tax year 2026, unless Congress acts. Because of the larger standard deduction, fewer taxpayers will itemize deductions and be subject to a potential implicit tax on a state tax expenditure benefit. TCJA's dollar limits on the SALT deduction also mean that higher income Minnesotans who continue to itemize will also be unaffected, because their total SALT payments will exceed the dollar limits on SALT deductions in almost all cases. While TCJA's SALT deduction limits are in effect, the need for policymakers to be concerned about an implicit federal tax on state tax expenditures is muted. Indeed, in some contexts

¹¹ The general welfare exclusion is not based on a statutory provision, but grew out of Internal Revenue Service practices (starting with the exemption for Social Security benefits) that have been ratified by the courts. See Robert W. Wood and Richard C. Morris, "The General Welfare Exclusion," *Tax Notes* (Oct. 10, 2005), 203-09, for a description of the exclusion and Rev. Rul. 2009-19, 2009-28 I.R.B. 111 for a recent specific example (payments under the Home Affordable Modification Program or HAMP qualify for the exclusion). Specific statutory exclusions may also apply, such as those for scholarship income. I.R.C. § 117.

the TCJA may create a federal tax advantage for using state tax expenditures, rather than direct expenditures.¹²

Tax expenditures provided to businesses may trigger slightly different considerations. A direct government payment to a business will be treated as income. In the past, such a payment might have qualified for treatment as a contribution to capital but the TCJA foreclosed that possibility.¹³ C corporations continue to be allowed to fully deduct state and local taxes (i.e., they are unaffected by the TCJA's limits on the itemized deduction for SALT). Thus, granting a C corporation a reduction in state tax will typically increase federal tax (albeit now at a lower rate of 21 percent under the TCJA) in the same way a direct payment would. Pass-through businesses, by contrast, are subject to TCJA's limits on the SALT deduction, so tax-based incentives or benefits have an advantage over direct payments to a pass-through business (at least as long as the TCJA limits are in effect). Providing state tax reductions will not increase federal tax (for individuals over the \$10,000 limit), but a direct payment typically would.

As an aside or separate matter, direct government payments or refundable¹⁴ tax expenditures to businesses may have a financial advantage over a nonrefundable tax expenditure (deduction or credit) in one situation: if the business does not have sufficient income to pay tax (e.g., because it is a startup or operating in a temporary loss situation), a direct payment will provide an immediate financial benefit, while a tax-based incentive (in the best case) will provide a tax benefit (lower state taxes) in a later year through a net operating loss deduction or carryover tax credit (depending upon the specific rules). If and when it does, the state tax benefit will also increase federal tax. Thus, making a direct payment (or providing a refundable credit) would avoid the time value of money discount.

¹² This can be illustrated with a real world example: In 2014 the legislature considered proposals to provide volunteer firefighters with either (1) a state tax reduction (deduction or credit) or (2) a stipend (a direct payment) to encourage individuals to volunteer. Cities and nonprofit corporations providing fire protection, particularly those in rural areas, were having difficulty attracting volunteers. This resulted in enactment of a pilot project providing stipends, rather than a tax reduction, in a few rural counties. [Laws 2014, ch. 308](#), art. 1 § 1, codified as [Minn. Stat. § 69.022](#). It was clear that for recipients who itemized deductions, a reduction in state income tax would increase federal income tax. There was some possibility that the stipend would escape federal taxation under the general welfare exclusion. However, because the legislation provided for the entity providing fire service to pay the stipend (passing through the state payment that funded the program), the stipends were treated as taxable wages, subject to both federal income and FICA taxation, since the payment was made by the entity to which the individual provided service. (If the state had directly made the payment, favorable federal tax treatment would have been more likely because the payments would not look as much like compensation in return for rendering service. Under those circumstances, the payment would be more analogous to a state-paid veterans bonus, which are typically not subject to federal tax.) After enactment of the TCJA, using a tax expenditure mechanism would yield a more favorable financial result for federal tax purposes—that is, no federal income tax penalty—because many more volunteers will either take the standard deduction or have SALT deductions greater than \$10,000. However, for volunteers with little or no state tax, it would provide no incentive.

¹³ TCJA modified section 118 (exclusion of contributions to capital from income) to explicitly exclude “any contribution by any governmental entity” from being a contribution to capital excluded from gross income. I.R.C. § 118(b)(2), added by Pub. L.No. 115-97 § 13312 (2017). To say it less obtusely, such a payment is included in income; it cannot be a contribution to capital.

¹⁴ A refundable tax expenditure is one that is not dependent upon the recipient having enough tax liability to use any or all of the tax savings. For example, if a refundable tax credit exceeds the taxpayer's tax, the state pays the balance as a refund. Essentially it is close to as good a direct payment—subject to whatever limitations may result from the requirements of claiming it through the tax system.

The table attempts to summarize these somewhat confusing considerations of how federal tax rules affect the choice between using direct expenditure and tax expenditure programs—based on the target recipient, the taxability of the direct government payment, and whether TCJA’s SALT limit applies or not. The bottom line is that each potential initiative must be carefully analyzed with regard to how different structures will be affected by federal tax rules; the results will vary based on the nature of the recipient and the benefits, as well as how the provision itself is structured. Thus, it is both difficult to generalize and important to carefully analyze.

Summary of Federal Tax Interactions—Tax and Direct Expenditures

Target recipient	Tax expenditure		Direct expenditure	
	No SALT Limit	TCJA’s SALT limit applies	Taxable	Exempt to individual recipient
Business incentives				
C Corporation	Taxable	Taxable	Taxable	Taxable
Pass-through business	Taxable	Tax-exempt	Taxable	Taxable
Benefits or incentives for individual (nonbusiness) taxpayers				
- low-income nonitemizers	Tax-exempt	Tax-exempt	Taxable	Tax-exempt
- itemizer < \$10,000 SALT payments	Taxable	Taxable	Taxable	Tax-exempt
- itemizer > \$10,000 SALT payments	Taxable	Tax-exempt	Taxable	Tax-exempt
* For example, payment would be exempt under general welfare exclusion or a specific Code section, such as the exemption for scholarships or similar.				

Constitutional Restrictions

Do commerce clause or other constitutional limits on state tax powers favor using a direct spending program?

Tax and regulatory restrictions on businesses cannot discriminate against or otherwise place an “undue burden” on interstate commerce without risking violating the commerce clause of the United States Constitution. The Supreme Court has been fairly vigilant in ensuring that states do not use their tax

codes to favor local business interests over out-of-state businesses. By contrast, the Court has been willing to grant states more leeway in their use of direct spending programs.¹⁵

If a proposed tax provision—particularly one favoring in-state business interests—runs the risk of violating the commerce clause, it is possible that a grant or other form of direct spending program will not. This circumstance occurs less frequently for tax expenditures provided to individuals (who are not operating a business), but can come up in that context as well. For example, it may not be possible to limit a higher education tax credit to in-state schools, but it likely is constitutional to do so for a direct scholarship or grant-in-aid program.

Is the policy measure subject to challenge under the First Amendment prohibition of the establishment of religion?

In at least one context, constitutional limits may favor using tax, rather than direct, expenditures—when the legislature seeks to provide government benefits to religious organizations, such as religious schools or other organizations. As a general rule, a taxpayer (based only on his or her status as a taxpayer) cannot file a legal challenge to a government program or tax provision in federal court; they don't have a sufficient economic stake to confer legal "standing" to bring a case. However, the U.S. Supreme Court has created a special rule that allows "taxpayer standing" in cases challenging government programs as violating the establishment clause of the First Amendment.¹⁶ The U.S. Supreme Court held that this special standing rule does not apply, however, to tax expenditures, such as tax credits that assist religious schools.¹⁷ As a result, using tax expenditures for these types of programs may reduce the likelihood that a successful legal challenge can be brought in federal court. However, it is unclear if the Minnesota Supreme Court will adopt a similar rule in applying its standing rules in enforcing state or federal constitutional restrictions.¹⁸ Thus, a tax expenditure arguably violating the establishment clause of either the federal or Minnesota Constitution may be subject to a taxpayer challenge in Minnesota state courts.

¹⁵ See generally Walter Hellerstein and Dan T. Coenen, "Commerce Clause Restraints on State Business Development Subsidies," *Cornell Law Review* 81 (May 1996), 789-878, for a discussion of the constitutional restrictions that the court has applied to the two types of subsidies in the context of business assistance.

¹⁶ *Flast v. Cohen*, 392 U.S. 83 (1968).

¹⁷ *Arizona Christian School Tuition Organization v. Winn*, 563 U.S. 125 (2011). It was widely assumed that the *Flast v. Cohen* rule also applied to tax-based assistance (i.e., tax expenditures) and several successful lawsuits were based on this assumption. This included invalidation of a Minnesota tax credit for private school tuition. *Minnesota Civil Liberties Union v. State*, 224 N.W.2d 344 (1974), *cert. denied* 421 U.S. 988 (1975). The result in that case followed from a similar case in which the U.S. Supreme Court struck down a New York state tax credit in which the plaintiff relied on taxpayer standing. *Committee for Public Education and Religious Liberty v. Nyquist*, 413 U.S. 756 (1973). Standing was not raised by the parties or discussed by the Court, even though jurisdictional matters (such as standing) cannot be waived by the parties.

¹⁸ The Minnesota courts have taken a more permissive view of taxpayer standing. See e.g., *McKee v. Likins*, 261 N.W.2d 566 (1977). The Minnesota Constitution specifically prohibits state aid to sectarian schools, which the Minnesota courts are likely to hold may be enforced through taxpayer standing under *McKee v. Likins*. [Minn. Const. art. XIII § 2](#). What is unclear is whether the Minnesota courts would consider a tax expenditure to be an appropriation of "public money or property" under article XIII, section 2's language or if they would limit that to direct spending, following the approach taken by the U.S. Supreme Court in *Arizona Christian School Tuition Organization*.

Institutional Considerations: What other factors may be relevant?

The previous section focused on policy-based measures for evaluating the effectiveness of using direct versus tax expenditures. However, legislators and other policymakers are often equally or more concerned with unrelated process or institutional dimensions of choosing between a tax expenditure and a direct spending program—will use of a tax, rather than a direct, expenditure make it easier to pass a program or to garner a larger amount of public resources for it over time?

This section of the primer discusses these sorts of institutional factors, specifically:

- Durability
- Visibility
- Political acceptability
- Legislative process considerations

Durability

Tax expenditures are generally thought to receive less regular and rigorous legislative review and, as a result, are more likely to endure as permanent policy features.

It is widely perceived that tax expenditures are more permanent than direct spending programs. This flows from the common practice of making tax expenditures permanent tax law features that remain until modified or repealed by a future legislature. By contrast, most direct spending programs have biennial appropriations that the legislature must renew in each budget cycle. This structure generally creates an inertial bias for retaining tax expenditures, as compared with direct spending programs; those familiar with the legislative process recognize that it is easier to “play defense” than “offense”: that is, to prevent changes in the law from being made, as compared with passing new legislation. However, this state of affairs does not necessarily always follow. A direct spending program could be provided as a permanent, open, and standing appropriation that does not require biennial renewal by the legislature.¹⁹ Similarly, a tax expenditure could be set to expire each biennium or after a certain number of years, unless the legislature takes positive action to reenact it.²⁰

In any case, proponents of a policy who seek tax expenditure funding often do so because they believe that such funding is more likely to continue and be permanent than are direct appropriations for a

¹⁹ The funding for the property tax refund program, which is not generally considered to be a tax expenditure because it is administered independently of the collection of a tax, is provided through an open and standing appropriation. [Minn. Stat. § 290A.23](#) (permanent open appropriation). The funding level of the property tax refund program has rarely been carefully reviewed or modified by the legislature in recent years. Similarly, the grant alternative to the credit for historic structure rehabilitation has an open and standing appropriation. [Minn. Stat. § 290.0681](#), subd. 7(b). This appropriation is permanent, although the entire program (tax credit and grant) is subject to a sunset clause. *Ibid.*, subd. 10.

²⁰ For example, the small business investment (angel) credit statute included an expiration date, which the legislature actually allowed to expire. [Minn. Stat. § 116J.8737](#), subd. 12 (expiration after tax year 2017). However, in other instances where sunset or expiration clauses were placed on tax expenditures, the legislature has routinely extended them, often without much scrutiny of their effectiveness.

similarly structured program. Regardless of the features of the tax expenditure (e.g., whether they have sunsets or expiration clauses), this may in part flow from differences in the institutional approaches of the tax-writing legislative committees, which may implicitly assume tax features are permanent, compared with those of finance or appropriation committees, which typically expect to regularly review the funding of all programs within their jurisdictions.

Visibility

Tax expenditures are not counted as explicit governmental spending.

Tax expenditures are not typically counted in the state budget (other than the tax expenditure budget) and are not included in typical national measures of state spending and taxes.²¹ These national rankings of state tax and spending amounts are often used to measure the size and business friendliness of states. Legislators who are sensitive to those measures and concerns or who are ideologically opposed to increases in direct or more visible state spending (and the concomitant increases in taxes that result) may favor pursuing their policy goals through tax expenditures, rather than through direct spending programs. This approach is inconsistent with conventional economic theory that equates the two mechanisms, but it seems to be the practical political reality.²²

Political Acceptability

Survey evidence suggests that some voters (particularly conservatives) favor tax expenditures.

Economic theory (and basic mathematics) considers tax expenditures and direct expenditures to be financial equivalents. It should not matter, as a matter of practice or policy, whether an individual pays \$1 less in tax or receives a \$1 check from the state. However, as noted in the section describing potential behavioral responses, human perceptions and behavior do not always follow rules of logic or economics. Observers of the political and legislative processes know that some or many people consider the two instruments to be qualitatively different: many think allowing someone “to keep” their money (e.g., by paying lower tax in return for engaging in the desired action) is different in character from the government “giving them” money (by paying them for engaging in the same behavior).²³ Also

²¹ National reports comparing the level of state and local tax expenditures across states are not made. Some states do not even prepare tax expenditure budget reports that would provide even rudimentary data to make such a comparison across states. Michael Leachman, Dylan Grundman, and Nicholas Johnson, *Promoting State Budget Accountability Through Tax Expenditure Reporting*, Center for Budget and Policy Priorities 5 (May 2011) (reporting that seven states do not prepare a tax expenditure report). By contrast, national comparisons of state and local tax and direct spending levels are regularly published (based on data collected by the federal government) by many organizations and are widely cited.

²² High tax rates that result from tax expenditures, under economic theory, are equally distortive of private market behavior as high tax rates that are attributable to direct spending.

²³ A majority of the U.S. Supreme Court justices have subscribed to the view that this difference has constitutional significance under the Court’s standing doctrine (the rules that determine who has sufficient economic interest to bring a lawsuit). *Arizona Christian School Tuition Organization v. Winn*, 563 U.S. 142 (2011). In the words of the Court: “The distinction between governmental expenditures and tax credits refutes respondents’ assertion of standing. When Arizona taxpayers choose to contribute to STOs, they spend their own money, not money the State has collected from respondents or from other taxpayers.” *Ibid.* 142. It did not matter that if taxpayers had

somewhat perversely, using a tax expenditure allows proponents of a policy intervention to claim that it is also a tax reduction or cut, increasing its likely political appeal.²⁴

Researchers, using survey methods, have documented or verified these differences in perceptions. Tax expenditure programs typically garner greater levels of support (statistically significant in the surveys) than equivalent direct expenditure programs. Support tends especially to rise among conservatives (and Republicans), varying in some surveys based on the type of program (e.g., is it of the type that the public typically associates with tax mechanisms?).²⁵

Most supporters of implementing a policy would consider a well-designed policy that is not enacted to be inferior to a poorly designed policy that is enacted, but is not as effective in achieving the desired ends. As a result, proponents of a policy or program may lean toward using the type of expenditure (tax or direct), all else being equal, if that increases the chance of passing their bills and/or attracting public support for them. Opting for a tax expenditure appears to increase one's odds for successful enactment—particularly in a more conservative-leaning legislature.

Legislative Process

Use of tax expenditures can tap other portions of the state budget to provide expanded resources to support a policy.

Proponents of a policy or program may also use the tax expenditure mechanism as a way to tap additional budget resources or as a way to garner legislative support for the policy or program. Legislatures typically allocate state budget resources to finance or appropriation committees with jurisdiction over different subject areas. These allocations may be based on incremental changes in the level of funding in the previous budget or may be limited by other constraints. Seeking indirect funding through the tax-writing legislative committees may provide a new or supplemental source of funding, since tax-writing committees may have access to more state budget resources than the relevant spending committee. Tax-writing committees, in fact, have the ability to raise offsetting revenues in a

not contributed the money to an STO, they would have owed an equal amount of tax to Arizona and that as a financial or economic matter there really isn't any difference between the two. Somehow the two mechanisms were different for constitutional purposes, in the view of the majority.

²⁴ In essence, this allows proponents of a tax expenditure to have their cake—adoption of a policy that alters private market behavior—and eat it too—claim that doing so reduces the size of government. The latter is only true from a myopic view of simply counting tax receipts and other nominal government revenues in determining how big government is.

²⁵ See, e.g., Jake Haselswerdt and Brandon L. Bartels, "Public Opinion, Policy Tools, and the Status Quo: Evidence from a Survey Experiment," *Political Research Quarterly*, vol. 63, issue 3, 1–15 (2015) (surveying other studies). The authors' own research found that the "delivery mechanism" (tax versus direct expenditures) can have a "dramatic effect on citizens' likelihood of supporting" a program and that conservatives support for "tax breaks was much higher than for otherwise identical cash payment programs across the board." *Ibid.* 9–11. Connor Clarke and Edward Fox, "Perceptions of Taxing and Spending: A Survey Experiment," *Yale Law Journal*, vol. 124, no. 4, 1252 – 1293 (2015) (10 percentage point increase in acceptance for tax expenditures; results did not vary across policy areas).

tight budget environment to finance new or increased tax expenditures.²⁶ In practice, all these factors allow policy proponents to diversify their funding options and to appeal to a different set of legislative actors by opting for one or the other type of expenditure.

Conclusion

Many public policy initiatives and objectives can be addressed either by programs funded with direct appropriations or by tax expenditures or both. In evaluating which mechanism to use legislators and other policymakers should consider a wide variety of factors, many (but not all) of which are catalogued in this primer. These factors range from which mechanism is better suited to achieve the desired results to which one can survive the legislative process and attract sufficient public resources to succeed and endure.

It is difficult to generalize about these factors or their advantages and disadvantages relative to a generic policy initiative. Rather, assessing which to pursue requires analysis of the specific initiative or goals and careful, fact-specific assessment of the advantages and disadvantages of each mechanism in that context. Seeking advice and guidance from both tax and programmatic administrators and policy staff is recommended in evaluating the best alternative approach.

²⁶ The utility of this power of tax committees is probably more theoretical than practical; many legislators are reluctant to increase taxes on one set of constituents to finance benefits for another group of constituents. However, politically acceptable ways to raise offsetting revenues can occasionally be found.

Appendix: Definition and Evaluation of Existing Tax Expenditures

What are tax expenditures?

In addition to their basic purpose of raising revenues, tax systems are used by governments to provide targeted tax reductions to induce taxpayers to change their behavior or to provide government benefits. Often, the same ends could be addressed with direct spending programs, rather than through a tax-based provision. In the 1960s and 1970s, tax policy experts developed the concept of “tax expenditures” to describe this phenomenon of substituting tax provisions or benefits for direct spending. A tax expenditure generally means the value of the tax benefit (tax savings)²⁷ that result from the deviations from a reference or baseline tax of the type involved.

Identifying tax expenditures, thus, requires agreeing upon a “**reference or baseline tax**”—that is, the features of the tax (whether income, sales, property, and so forth) that would be imposed under generally accepted theory, if the only purpose were to raise revenue. Reductions in revenue collected from this reference tax—for example, exclusions, exemptions, deductions, preferential tax rates, credits, deferrals, and similar—are considered “tax expenditures.” Features such as the regular tax rate structure, family size adjustments (e.g., personal and dependent exemptions for an income tax), and exclusions that are considered necessary for practical reasons (e.g., the failure to tax unrealized income) are not typically considered tax expenditures. Since there is not always agreement on the theoretical basis for a tax and the features that implement that theory or the practical limits of tax administration, there may be controversy or disagreement in determining what is and is not a tax expenditure.

Allocative versus Distributive Features

Another way to distinguish between fundamental or basic tax features and tax expenditures is to focus on whether the purpose of the feature is “distributive” or “allocative” in nature.*

Distributive features are intended to change the distribution of the tax burden primarily for equity or similar reasons—for example, to make the distribution more in line with “ability to pay” or some other concept of fairness. A distributive feature (e.g., progressive rates or standard deduction) is a feature of the reference tax.

By contrast, an allocative feature would divide or allocate resources between private and public goods or among different types of public goods—e.g., encouraging homeownership or reducing pollution. Features that primarily serve allocative functions are more likely tax expenditures than part of the reference tax.

* This distinction is from Richard Musgrave’s classic textbook, *Public Finance in Theory and Practice*; its application to tax expenditures is suggested by Daniel N. Shaviro, “Rethinking Tax Expenditures and Fiscal Language,” *Tax Law Review* 57, no. 1 (2004).

A key notion underlying the tax expenditure concept is that the government is using tax-based provisions not to raise revenues, but rather to change behavior or to distribute government benefits to individuals or business firms. These are ends or purposes that could be (and more typically are)

²⁷ This may not equal the amount of the revenue increase that would result, if the tax expenditure were repealed. This may be so for a variety of reasons, most often because of behavioral responses by taxpayers to the repeal.

addressed through direct spending programs. The decision to use the tax system is simply a policy choice to use a tax-based mechanism rather than a direct spending program.

Both federal and Minnesota laws direct executive branch agencies to regularly publish budgets that provide lists of the estimated amounts for these tax expenditures.²⁸ These budgets are prepared using varying estimating methods and reference tax bases. However, it is safe to conclude that in some or many instances when the provisions were adopted—either by Congress or the Minnesota Legislature—that the enactors did not have in mind furthering a specific, nontax policy goal. This is particularly true of some longstanding features of the income and corporate taxes and of features the state adopts by reference to federal law. The legislature often follows federal tax expenditure rules as a matter of aligning its tax with the federal tax to make compliance and administration of the state tax easier, not to advance the same goal as Congress. Nevertheless, the tax expenditure budget report lists all of these features as state tax expenditures.

Can the factors discussed in the primer be used to evaluate existing tax expenditures?

Yes, the factors and considerations discussed by the primer can be used to evaluate existing tax expenditure programs. But it is important to note two considerations in this regard.

First, the primer simply discusses various structural and policy advantages of using tax versus direct expenditures. Many of the criticisms or objections to specific tax expenditures go to the more fundamental issues of whether they are well-designed to achieve their intended policy objectives or whether they are effective in doing so. The typical objection is not that they would be better implemented as an equivalent direct expenditure, but rather that they target the wrong recipients, are too costly, do not achieve their objectives (e.g., reward people for doing what they would have done anyway, rather than inducing them to change their behavior), or similar.²⁹

Second, comparing the merits of tax expenditure and direct spending mechanisms can be more straightforward for new programs, because the target policy objectives will be clearer. By contrast, in evaluating existing tax expenditures, it may be unclear what a prior legislature's policy objective was—if it indeed had one—in enacting or modifying a tax expenditure.³⁰ Some tax expenditures were likely not adopted as alternatives to direct expenditure programs. Rather than being intended to further an

²⁸ [Minn. Stat. § 270C.11](#) (law that directs publication of Minnesota's tax expenditure budget by the commissioner of revenue).

²⁹ Sometimes these objections can be formulated in a manner similar to factors outlined in the primer: that is, the legislature would never enact a direct expenditure program that distributed payments to individuals in the manner the specific tax expenditure does. For example, such an objection might be that the provision gives higher benefits as income rises (e.g., a typical tax deduction), all else being equal. That really, however, is an objection to the design of the tax expenditure (e.g., it should be a credit, rather than a deduction), not to use of a tax expenditure.

³⁰ To address this, Minnesota law now directs the legislature in enacting or modifying a tax expenditure to:

[I]nclude a statement of intent that clearly provides the purpose of the tax expenditure and a standard or goal against which its effectiveness may be measured. ([Minn. Stat. § 3.192.](#))

However, the legislature routinely ignores this direction. For example, the 2017 omnibus tax act enacted a series of new tax expenditures, but failed to include statements of intent for any of them. [Laws 2017, 1st spec. sess. ch. 1.](#)

explicit programmatic policy goal (i.e., something other than a tax policy goal), they may have been adopted to follow federal tax rules, from a misperception of the underlying tax's principles or similar. This makes it difficult (and perhaps inappropriate) to evaluate their merits as alternatives to direct spending programs, even though they are considered to be tax expenditures. Many could be characterized as “accidental tax expenditures.” The mortgage interest deduction, a frequently criticized tax expenditure, is a likely example of such an accidental tax expenditure.³¹ See the box below.

Mortgage Interest Deduction: An Accidental Tax Expenditure?

The original 1913 federal income tax and the Minnesota income tax (adopted in 1933) both allowed all interest to be deducted. It may have been thought that this was appropriate as a matter of measuring net investment income; that is, that it was an investment or business expense. The initial federal tax applied mainly to higher income individuals, many of whom had business or investment income (interest, dividends, and so forth). However, the deduction for interest also reduced unrelated income, such as wages (not just investment and business income), so it was not strictly true that the deduction was needed to accurately measure net income. Moreover, in the early 20th century, there was little home mortgage borrowing. It seems unlikely that the 1913 Congress or 1933 Minnesota Legislature intended the deduction to encourage homeownership, which is its commonly cited policy purpose.

Much later (in 1986), deductibility of personal interest was eliminated, restricting the deduction to home mortgage interest. More restrictions have continued to be enacted over time, including in the 2017 federal tax bill.

The deduction is widely considered to be a tax expenditure intended to encourage homeownership and appears in tax expenditure budgets as one of the largest tax expenditures. Opponents of restricting or eliminating the deduction advanced these arguments, as well as neutral analysts attempting to evaluate the deduction's merits. But it is unlikely that was the original intent, and its origins may explain how poorly it was designed to achieve the purpose that its supporters (or others) have invented to preserve it in later years.

* This discussion is based on Congressional Research Service, *Tax Expenditures Compendium of Background Material on Individual Provisions*, pp. 349 – 354 (December 2016).

For these “accidental” tax expenditures it is difficult—and perhaps, inappropriate—to review and evaluate the provisions as alternatives to direct spending programs and to consider the advantages of recasting them as such. One simply does not know what public policy the legislature intended to advance in enacting them. Thus, it perhaps is more appropriate to evaluate them using the standard principles for evaluating tax policy. This is somewhat contrary to the discussion that follows and one of the primer's basic premises.

³¹ The 2016 edition of the Minnesota tax expenditure budget lists it as a \$267 million expenditure for fiscal year 2018. Department of Revenue, *Tax Expenditure Budget 62* (Feb. 2016). There are only a handful of larger amounts.

For summary of some of the criticisms of the deduction as a tax expenditure see Congressional Research Service, *Tax Expenditures Compendium of Background Material on Individual Provisions*, pp. 349–354 (December 2016) and sources cited. The report describes two common criticisms of the deduction: it favors high income taxpayers and does not appear to increase homeownership rates compared to other countries without a similar deduction.

How should basic tax policy principles be used in evaluating whether to use a tax or direct expenditure program?

It is sometimes suggested that tax expenditures should be evaluated in the same manner as basic tax features—that is, the extent to which their effects are consistent with the standard tax policy principles of equity, efficiency, simplicity, and so forth. While it may be appropriate to consider tax policy principles as discussed in the text of the primer, it is inappropriate to consider them exclusively. That is so because tax expenditures graft government programs onto the tax system with purposes unrelated to raising revenues—for example, an “allocative” rather than a “distributive” purpose, as described in the box above. If the policy goal of the program or its means of achieving that goal are inconsistent with or unrelated to one or more tax policy principles, they will be an inappropriate guide for evaluating whether to use a tax or a direct expenditure. The issue is instrumental in determining the best method of delivering or achieving the desired allocative policy goal, and not whether it is a good tax (revenue raising) feature. Although not the topic of the primer, this also carries through to evaluating the intrinsic policy merits of tax expenditures.³²

As an example, tax expenditures to encourage charitable contributions clearly flunk a test based on pure tax policy criteria. They reduce vertical and horizontal equity, decrease efficiency by requiring higher tax rates, complicate the tax, and so forth. But no one would suggest, given a goal of encouraging charitable contributions, that those are the primary criteria for evaluating whether it is better to use a tax deduction or credit or a direct spending program, such as providing matching contributions to charities that receive qualifying contributions.³³

³² This approach loosely follows the approach suggested in David A. Weisbach and Jacob Nussim, “The Integration of Tax and Spending Programs,” *Yale Law Journal*, vol. 113, no. 5 (2004). The authors advocate a somewhat broader or more comprehensive abandonment of use of traditional tax expenditure analysis and tax policy principles in evaluating them than is adopted in the primer.

³³ For example, the United Kingdom uses a matching contribution approach to stimulate contributions to charities. It seems unlikely that anyone evaluates that program using tax policy principles.