Executive Summary

Senator Ben Cardin (D-MD) proposes to dramatically scale back the individual and corporate income taxes. Most people would no longer owe the individual income tax, and the corporate income tax’s rate would drop below the average in other countries.

Senator Cardin would finance this with a value added tax, which he calls the Progressive Consumption Tax (PCT). Large rebates would make the overall package progressive.

According to the Taxes and Growth Model, the Cardin plan would be pro-growth. This is because the individual and corporate income taxes are biased against saving and investment while the PCT would be saving-consumption neutral.

Key Findings

- At a PCT tax rate of 10 percent, the Taxes and Growth Model (TAG) estimates that in the long run the plan would raise the level of gross domestic product (GDP) by 4.4 percent, increase the stock of capital used in production by 15.2 percent, and boost the number of jobs by 1.1 million.

- The Senator is prepared to adjust the PCT’s rate to achieve static revenue neutrality, and the TAG Model estimates that would push up the PCT’s rate to 14.2 percent. At that higher PCT rate, the model predicts the plan would still be pro-growth but not as strongly.

- The TAG model estimates that Senator Cardin’s tax reform plan would be progressive and increase after-tax income across all income groups on both a static and dynamic basis.

- One option to enhance the plan’s growth effects, which would lift the level of GDP by 5.3 percent in the long run, would be to add full expensing to the plan while increasing the PCT’s rate to 14.75 percent for static revenue neutrality (and a large dynamic revenue surplus).
Introduction

Senator Ben Cardin (D-MD) has developed a tax package that would dramatically scale back the individual and corporate income taxes. Income taxes are known for being inefficient and complex, and Senator Cardin believes the United States relies on them too heavily. Under his plan, the corporate income tax would be cut in half, and most people would no longer pay the individual income tax.

Because Senator Cardin believes the federal government needs at least as much revenue as it now collects, he would introduce a federal value added tax (VAT) to counterbalance the large revenue loss from the income tax cuts. He calls this part of his proposal the Progressive Consumption Tax (PCT) because the new tax would be accompanied with rebates that, together with the individual income tax reductions, are intended to leave the federal tax system at least as progressive as it is now.¹

The senator explains that he has based his plan on a proposal offered by Professor Michael Graetz, now of Columbia University.² Senator Cardin has modified the proposal in several ways but not altered its fundamental character.

This paper will outline the main features of Senator Cardin’s tax plan. It will then use the Tax Foundation’s Taxes and Growth Model (TAG) to examine whether the plan, if implemented, would strengthen or weaken production, employment, international competitiveness, and other important economic magnitudes; what its impact would be on federal revenue; and how it would affect the distribution of income.

The model’s basic finding is that if the plan were enacted in its current form, or with the somewhat higher rate that may be needed for revenue neutrality, it would be a pro-growth tax reform.

The Cardin Plan’s Main Features

Senator Cardin would transform the individual income tax into a levy reserved for people with relatively high incomes, reduce the corporate income tax’s statutory rate – which is now the highest in the developed world – to an internationally competitive rate, and finance the reforms with a value added tax. We can better understand the plan by considering its main pieces.

¹ For links to Senator Cardin’s discussion of the Progressive Consumption Tax, see http://www.cardin.senate.gov/pct.
² Michael J. Graetz, 100 Million Unnecessary Returns: A Simple, Fair, and Competitive Tax Plan for the United States; With a New Introduction (New Haven: Yale University Press, 2010).
Federal Individual Income Tax

- The central element here is a very large family allowance: $100,000 for joint filers, $50,000 for singles, and $75,000 for head of household filers. The family allowance would replace the personal exemption and standard deduction, but it is so big that it would eliminate most people’s taxable incomes and income tax liabilities.

- For people who still had positive taxable incomes, the Cardin plan would offer a simplified, three-bracket rate schedule: 15 percent on taxable incomes of $0 to $50,000 ($0 to $100,000 for joint filers), 25 percent on taxable incomes of $50,000 to $250,000 ($100,000 to $500,000 for joint filers), and 28 percent on taxable incomes over $250,000 (over $500,000 for joint filers).

- The plan would treat long-term capital gains and qualified dividends like ordinary income. Simultaneously, it would abolish the Affordable Care Act’s 3.8 percent surtax on investment income.

- Several itemized deductions would be retained, including the charitable deduction, the state and local tax deduction, and the mortgage interest deduction.

- Most personal credits would be repealed. Although the earned income tax credit and the child tax credit would be among those eliminated, the plan would enact rebates with many similarities to the personal credits.

- The Cardin plan would abolish the alternative minimum tax (AMT).

Federal Corporate Income Tax

This county’s statutory corporate tax rate of 39.1 percent (35 percent at the federal level and an average of 4.1 percent at the state level) is the highest in the industrialized world. Only two nations in the world, Chad and the United Arab Emirates, impose higher corporate rates. Over the past quarter century, corporate tax rates have plummeted abroad as nations concluded that steep corporate rates hurt their ability to compete internationally. Notwithstanding the revolution elsewhere, the federal rate in this country actually rose by a percentage point in 1993 and has not budged since.

The Cardin plan would cut the federal corporate tax rate to 17 percent. Adding in state corporate taxes, this reform would push the combined corporate tax rate (federal and state) down into the low 20s. That would be much more competitive internationally than the current-law combined rate of almost 40 percent. For comparison, the unweighted average for the nations in the Organisation for Economic Co-operation and Development (OECD) excluding the United States is presently 24.6 percent.

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All other components of the current business tax system would remain as under current law (e.g., depreciation schedules would be unchanged).

**Progressive Consumption Tax**

According to a conventional revenue score, which assumes that tax changes have no impact on economic aggregates like total investment, employment, and production, the income tax reforms in the Cardin plan would substantially lower federal tax collections. A dynamic analysis, which recognizes growth effects, would show a slightly smaller revenue cost, but the income tax changes would still be expensive. While Senator Cardin is convinced his plan would powerfully strengthen the U.S. economy – that is one of his core reasons for recommending it – he wants to maintain revenue neutrality even under the rigid no-growth assumption of a conventional (static) revenue estimate. To meet this revenue target, Senator Cardin would pair his income tax reforms with what he calls the Progressive Consumption Tax (PCT).

The PCT would be a type of sales tax. The most familiar sales taxes in this country are the retail and general sales taxes found in 45 states and many localities. The PCT, though, would be a type of sales tax that is less familiar to Americans but widely used in other countries: a value added tax (VAT), also known as a goods and services tax. In 2014, 164 nations imposed value added taxes, and the number is growing. Among OECD member nations in 2012, VAT revenue averaged 19.5 percent of total tax revenue and 6.5 percent of GDP.

Unlike a retail sales tax, which is collected only at the end of the production chain on final sales to consumers, a value added tax is collected from each producer along the production chain based on the producer’s value added. A producer’s value added is the difference between its gross sales receipts and the value of the inputs it purchased from other producers at earlier production stages. (For example, if a manufacturer sells a product for $90 that it fashioned using its own inputs and $40 of intermediate products from firms at earlier production stages, its value added is $50.)

A retail sales tax and VAT have the same cumulative tax base, and the two taxes will produce identical revenue if the tax rate is uniform and tax compliance perfect. The advantage of VATs from the perspective of governments is that compliance is believed to be better when the tax is collected at all stages of production rather than only the last stage, especially if the tax rate is high. Several mechanisms exist for computing a valued added tax. With an eye on tax enforcement, most nations have chosen what is known as the credit-invoice method, which lays down an auditable paper trail.

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6 Ibid.
7 A simplified example can help explain this equivalence. Suppose Firm A constructs a product using only its own inputs and sells the product to Firm B for $40. Firm B adds inputs of its own and sells the product to Firm C for $90. Finally Firm C, a retailer, adds its own inputs and sells the product to a consumer for $100. The three firms’ values added are $40 ($40-$0), $50 ($90-$40), and $10 ($100-$90). As a matter of arithmetic, the values added sum to the retail price.
Investment goods are among the intermediate products that producers buy from earlier production stages and for which they may claim an immediate credit or deduction (depending on the VAT collection method). This immediate tax recognition of investment costs is in contrast to an income tax system, which often makes businesses wait years – sometimes decades – to fully deduct investment costs. Because of the time value of money, the income tax's delayed write-off schedules generate a bias against investing, as well as being very complicated. An important attribute of a VAT is that its prompt recognition of investment costs avoids the anti-investment bias and is relatively simple.

The main features of the Progressive Consumption Tax are as follows.

- The PCT would use the credit-invoice collection method.
- Senator Cardin envisions a 10 percent tax rate but is prepared to modify the rate to achieve revenue neutrality under the restrictive no-growth (static) assumption.
- The senator seeks a uniform tax rate, with only a few exceptions, because that simplifies the tax, facilitates compliance and enforcement, and avoids distortions among products. Most actual VATs include multiple rates, but several countries have taken the uniform-rate approach.
- To increase revenue and minimize tax distortions among products, the tax base would include almost all goods and services sold in the private sector. Among the few exemptions would be financial services, which are difficult to handle within a VAT and are often exempted, residential rents, and sales of existing residential housing.
- Following the pattern of almost all nations with VATs, the PCT would exempt exports but tax the value of arriving imports. There is some disagreement about the effectiveness of border adjustments. Business people usually view border adjustments as stimulating exports and reducing imports, but most economists think border adjustments quickly trigger offsetting exchange rate movements and furnish no lasting trade advantage.  

- The government sector would be exempt from the PCT except for items sold commercially, such as the products of the U.S. Postal Service. (For government services not sold in markets, value added is typically measured as the compensation of government workers minus purchases from firms within the tax system. Professor Graetz’s plan would tax the value added by the government sector, but the Cardin plan generally would not.)
- Likewise, the nonprofit sector would be exempt from the PCT, except for items for which fees are charged. (For nonprofit services not sold in markets, value added is typically measured using the approach described above for the government sector.)

One of Senator Cardin’s priorities is keeping the tax system at least as progressive as it is now. To accomplish that, he pairs the value added tax, which in isolation would be regressive,9 with other provisions that would be highly progressive. One of the progressive changes is the plan’s generous family allowance, which would exempt from federal income tax every low-income family and much of the middle class. Additionally, the Cardin plan includes three rebates that would phase in at low levels of earned income and phase out as earned income rises. The three rebates are an earned income supplement, a child benefit, and an additional child benefit. For example, a couple with one child and an earned income of $25,000 would receive an earned income rebate of $3,699, a child benefit of $1,590, and an additional child benefit of $2,200, for total rebates of $7,489. These rebates would be sufficiently large to replace the EITC and other personal credits in current law (which would be repealed) and to offset the sales tax on thousands of dollars of consumption.10 VATs in other countries often try to offset regressivity through reduced rates on some products and elevated rates on others. However, Senator Cardin rejected that approach because it significantly complicates tax administration, creates tax distortions among products, invites political cronyism in picking favored and disfavored products, and is often poorly targeted.

- Recognizing that VATs can become government money machines because seemingly small rate increases can collect huge amounts of revenue, the plan directs that if the PCT’s collections ever exceed 10 percent of GDP, the excess is to be refunded to tax filers. The refund would be based on filing status and the number of eligible children.

**Modeling the Plan**

We modeled the provisions outlined above with four main exceptions. First, we did not evaluate the plan’s impact on taxpayers’ paperwork costs. The income tax provisions would slash tax compliance costs for most households, but the PCT would impose new compliance burdens on businesses, and the three new personal rebates would still require many households to file returns. Second, the model did not exclude the financial sector from the PCT, assuming that financial institutions would be obliged to pay an alternative tax of equal magnitude. Next, we did not model the positive and negative compliance effects of the tax changes. The dramatically lower corporate income tax rate and the much lower top individual income tax rate would improve compliance because the payoff from tax avoidance and evasion would be smaller. On the other hand, some businesses would try to evade the PCT, although compliance rates for credit-invoice VATs tend to be high. Finally, we did not

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9 It should be noted that sales taxes look less regressive, and closer to proportional, over a lifetime than they do in a single year. The reason is that people sensibly smooth their consumption streams relative to income. In temporarily low income years, people tend to consume heavily relative to income (high consumption-income ratios in those years). In temporarily high income years, people tend to consume lightly relative to income (low consumption-income ratios in those years). Over a lifetime, the consumption-income ratio does not decline nearly as fast as one-year snapshots make it appear.

10 For a couple with one child, the earned income rebate would be 25.1 percent of the first $12,200 of earned income and 17.1 percent of earned income in the range of $12,200-$18,000, with the rebate phasing out at a 5 percent rate over the earned income or AGI (whichever is greater) range of $18,000-$98,988. The child benefit rebate would phase in at a 15 percent rate on the first $10,600 of earned income, with the rebate phasing out at a 5 percent rate over the earned income or AGI (whichever is greater) range of $110,000-$141,800. The additional child benefit rebate would be 11 percent of the first $20,000 of earned income, with the rebate phasing out at a 15 percent rate over the earned income or AGI (whichever is greater) range of $25,000-$39,667. People would have to file returns to claim these rebates, but the government would undoubtedly provide tables on which people could look up their rebate amounts, avoiding the phase-in and phase-out computations.
estimate the cost of the transition to the new system or the effect on government revenue during the transition.

The Taxes and Growth Model is long run. It estimates the effects of a tax change after the economy has had time to adjust to the new rules. However, the long run is not that far in the future. With labor, most of the adjustment occurs within the first few years. With capital equipment, the high equipment turnover rate observed in the marketplace indicates most of the adjustment there is completed within five years. Structures require more time, but the data suggest most of the adjustment there has been completed after 10 or 12 years.

In modeling the Cardin plan, we assumed the Federal Reserve does not respond to the PCT by expanding the money supply. That assumption has the advantage of keeping the effects of tax policy separate from those of discretionary monetary policy.\textsuperscript{11}

### The Economic Effects of the Cardin Tax Reform Plan

The Taxes and Growth Model predicts that the tax changes in the Cardin plan would improve work, saving, and investment incentives in the United States, leading to several years of above-normal growth and to a permanent increase in the size of the U.S. economy.

If the PCT’s rate is 10 percent, the model estimates that in the long run annual gross domestic product (GDP) would be 4.4 percent higher than otherwise (equivalent to an extra $779 billion annually in terms of 2015’s GDP), the stock of capital used in production (equipment, structures, intellectual property, etc.) would be about 15 percent larger, the number of jobs would rise by 1.1 million, and real after-tax hourly wages would increase 6.5 percent. (See Table 1.)

However, for the package to be revenue neutral after it has been fully phased in, the PCT’s rate would need to be considerably higher, about 14.2 percent, according to a conventional (static) revenue score. With that tax rate, the Taxes and Growth Model predicts the Cardin plan would still be pro-growth but less strongly: a 2.6 percent rise in the level of GDP in the long run (equivalent to almost $470 billion annually in terms of 2015’s GDP), a 13.2 percent increase in the stock of capital, and a 3.7 percent increase in the average after-tax real wage. Employment would fall, however, by 187,000 jobs.

\textsuperscript{11} If a national sales tax is imposed, the Fed might “accommodate” the new tax by expanding the money supply so the tax will be passed forward to consumers through a one-time increase in the price level. Alternatively, the Fed might hold the price level constant, in which case the tax will be passed back to the factors of production: labor and capital. The model assumes the Fed will maintain a constant price level and not alter monetary policy in response to the tax. The long-run, real economic effects would be the same in either case.
The Cardin Plan’s Revenue Impact

In a static revenue estimate that ignores tax-induced growth effects, the model predicts that the PCT’s proposed 10 percent rate would be too little to offset the revenue drop from the large cuts in individual and corporate income taxes and the generous new rebates. Assuming the plan is fully phased in, the static revenue estimate would be over -$300 billion annually at the 10 percent tax rate.

However, the Cardin plan is solidly pro-growth, mainly because it would moderate income tax biases against saving and investment. Because the size of the economic pie is a major determinant of tax collections, that growth would generate a healthy economic feedback. At the 10 percent PCT rate, it would close about half the revenue shortfall over time. The model’s long-run dynamic revenue estimate is -$163 billion annually, as shown on Table 1. Because the dynamic estimate for the GDP gain ($779 billion) is about 4.8 times larger than the dynamic estimate for the revenue loss ($163 billion), the results indicate that unless each dollar of federal spending is extraordinarily valuable, the best way to maintain revenue neutrality would be to finance Senator Cardin’s tax package through spending cuts.

As mentioned, the model estimates that attaining static revenue neutrality solely by increasing the PCT’s rate would require setting that rate at 14.2 percent. Even at that higher rate, the package would still grow the economy, leading to a positive feedback on federal revenue and an estimated dynamic revenue gain of $80 billion annually.

Table 1.
The Economic and Revenue Estimates of the Cardin Tax Reform Proposal

<table>
<thead>
<tr>
<th>Economic and Budget Changes Versus Current Law, Billions of 2015 Dollars Except as Noted</th>
<th>10 Percent Tax Rate for PCT</th>
<th>14.2 Percent Tax Rate for PCT (Revenue Neutral)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>4.4%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Private business stocks</td>
<td>15.2%</td>
<td>13.2%</td>
</tr>
<tr>
<td>After-tax wage rate</td>
<td>6.5%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Full-time equivalent jobs (in thousands)</td>
<td>1,053</td>
<td>-187</td>
</tr>
<tr>
<td>Annual Static federal revenue estimate, GDP assumed constant ($ billions) *</td>
<td>-$306</td>
<td>-$2</td>
</tr>
<tr>
<td>Annual Dynamic federal revenue estimate after GDP gain or loss ($ billions) *</td>
<td>-$163</td>
<td>$80</td>
</tr>
<tr>
<td>Weighted average service price</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate</td>
<td>-8.6%</td>
<td>-8.5%</td>
</tr>
<tr>
<td>Noncorporate</td>
<td>-8.2%</td>
<td>-8.1%</td>
</tr>
<tr>
<td>All business</td>
<td>-8.5%</td>
<td>-8.4%</td>
</tr>
</tbody>
</table>

*Annual number. Includes change in refundable credits and rebates.
Source: Tax Foundation Taxes and Growth Model.
Distributional Analysis of Senator Cardin’s Proposal

To address the concern that sales taxes can be regressive, Senator Cardin includes three large rebates in his proposal. He claims the result is that his plan is actually progressive. We used the Taxes and Growth model to estimate the distributional impact of the plan, and the results support Senator Cardin’s claim. Table 2 provides static and dynamic estimates of how the plan would change the distribution of after-tax incomes at the 10 percent rate. (Income is measured after income taxes, the PCT, and rebates. The plan is assumed to be fully phased in.)

According to the static distribution, which relies on the simplifying but faulty assumption that tax changes have zero influence on economic growth, all income classes would have more after-tax income, with the greatest gains for those with low incomes. For example, while the average gain in after-tax income would be 5.2 percent, it would be 9.1 percent for the 10-20 percent decile, 4.0 percent for the 50-60 percent decile, and 5.9 percent for the highest decile. With the rebates most strongly helping those with low incomes and the reduction in the top income tax rates mainly helping those with high incomes, the gains would be smallest for the middle class, but their after-tax incomes would still increase.

<table>
<thead>
<tr>
<th>All Returns with Positive AGI by Decile Class</th>
<th>Changes in Static Aftertax AGI</th>
<th>Changes in Dynamic Aftertax AGI</th>
</tr>
</thead>
<tbody>
<tr>
<td>0% to 10%</td>
<td>11.2%</td>
<td>16.9%</td>
</tr>
<tr>
<td>10% to 20%</td>
<td>9.1%</td>
<td>14.1%</td>
</tr>
<tr>
<td>20% to 30%</td>
<td>6.6%</td>
<td>11.0%</td>
</tr>
<tr>
<td>30% to 40%</td>
<td>5.5%</td>
<td>10.0%</td>
</tr>
<tr>
<td>40% to 50%</td>
<td>4.5%</td>
<td>9.6%</td>
</tr>
<tr>
<td>50% to 60%</td>
<td>4.0%</td>
<td>9.4%</td>
</tr>
<tr>
<td>60% to 70%</td>
<td>3.9%</td>
<td>9.2%</td>
</tr>
<tr>
<td>70% to 80%</td>
<td>4.1%</td>
<td>9.3%</td>
</tr>
<tr>
<td>80% to 90%</td>
<td>4.8%</td>
<td>9.9%</td>
</tr>
<tr>
<td>90% to 100%</td>
<td>5.9%</td>
<td>11.1%</td>
</tr>
<tr>
<td>99% to 100%</td>
<td>6.6%</td>
<td>12.0%</td>
</tr>
<tr>
<td>TOTAL FOR ALL</td>
<td>5.2%</td>
<td>10.4%</td>
</tr>
</tbody>
</table>

Source: Tax Foundation Taxes and Growth Model.

The gains are larger in the dynamic distribution table, which takes growth into account, but the pattern is the same. For example, the after-tax income increases would be 10.4 percent on average, 14.1 percent for the 10-20 percent decile, 9.4 percent for the 50-60 percent decile, and 11.1 percent for the highest decile.

The model estimates that the plan would continue to be progressive even if the PCT’s rate is increased enough for static revenue neutrality, although the higher rate would narrow the gains in all deciles.
Modifications Could Bring Additional Growth

Using the PCT as a scaffolding, Senator Cardin could extend his plan to increase its growth potential. Many options are available, but one possibility that will be mentioned here is allowing businesses to expense their investments in equipment and structures. Full expensing would remove much of the income tax system's bias against investment; it is consistent with how the PCT would treat investment expenditures; and a somewhat higher PCT rate would cover its revenue cost while still generating a substantial boost to economic growth.

Table 3 presents the economic and revenue estimates. The model's long-run dynamic predictions are a 5.3 percent rise in the level of GDP compared to current law (equivalent to an extra $938 billion annually in terms of 2015's GDP), an increase of 22.2 percent in the nation's capital stock, a 5.6 percent boost to the after-tax wage rate, and 103,000 additional jobs. The model estimates the higher PCT rate would keep the package revenue neutral on a static basis and lift federal revenue by $165 billion annually on a dynamic basis.

Table 3.
Senator Cardin’s Tax Plan with Full Expensing and a 14.75 Percent PCT
Economic and Budget Changes Versus Current Law, Billions of 2015 Dollars Except as Noted

<table>
<thead>
<tr>
<th>GDP</th>
<th>5.3%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private business stocks</td>
<td>22.2%</td>
</tr>
<tr>
<td>After-tax wage rate</td>
<td>5.6%</td>
</tr>
<tr>
<td>Full-time equivalent jobs (in thousands)</td>
<td>103</td>
</tr>
<tr>
<td>Annual Static federal revenue estimate, GDP assumed constant ($ billions) *</td>
<td>-$1</td>
</tr>
<tr>
<td>Annual Dynamic federal revenue estimate after GDP gain or loss ($ billions) *</td>
<td>$165</td>
</tr>
<tr>
<td>Weighted average service price</td>
<td></td>
</tr>
<tr>
<td>Corporate</td>
<td>-12.7%</td>
</tr>
<tr>
<td>Noncorporate</td>
<td>-13.1%</td>
</tr>
<tr>
<td>All business</td>
<td>-12.8%</td>
</tr>
</tbody>
</table>

*Annual number. Includes change in refundable credits and rebates. Source: Tax Foundation Taxes and Growth Model.
The 10 Percent of GDP Limitation

Senator Cardin should be commended for acknowledging that a VAT introduced at one rate might, after a few years and some budget fights, end up with a much higher rate. For instance, seven nations in the OECD levied VATs at rates of 15 percent or lower in 1980. Between 1980 and 2014, though, the unweighted average VAT rate in those countries rose from 12.1 percent to 17.1 percent. The Cardin plan seeks to give U.S. taxpayers some protection by specifying that, if the PCT is enacted, its revenue shall not exceed 10 percent of GDP.\(^\text{12}\)

The protection is welcome, but it is not ironclad. One consideration is that a future Congress could vote to increase the limit by a simple majority vote. A stronger protection would be requiring a congressional supermajority to raise the rate, if that could be written into legislation, and the strongest protection would be a constitutional amendment. It should also be understood that 10 percent of GDP is not the same as a 10 percent tax rate. For example, the PCT, which would be broader than most existing VATs, could be increased to a 15 percent rate or so and still stay well within the 10 percent of GDP limit.

Conclusion

Those trying to reform the woefully complex and internationally uncompetitive individual and corporate income tax systems often impose two additional requirements on their plans: revenue neutrality according to a conventional static revenue score and maintaining the tax system’s current extremely high level of progressivity. Unfortunately, crafting genuine tax reform while staying revenue and distributionally neutral is extraordinarily difficult.\(^\text{13}\)

Former Ways and Means Committee Chairman Dave Camp demonstrated that with a plan he introduced in 2014, after several years of hard, conscientious work. The Camp plan was revenue neutral and distributionally neutral, but it would have added little to growth and would have left the tax system about as complicated as it is now.\(^\text{14}\)

Senator Cardin seeks to escape this box by dramatically scaling back the individual and corporate income taxes while introducing a major new tax widely used in other countries. The Taxes and Growth Model finds that the Cardin plan would meet its objectives and be pro-growth tax reform.

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\(^{13}\) Closing tax loopholes is often suggested as a supposedly easy way of meeting all the objectives. However, about 60 percent of so-called tax expenditures serve the important purpose of moderating tax biases against saving and investment (and would not be considered loopholes at all in a tax system that treated saving and consumption evenhandedly), and another 35 percent or so consists of social welfare spending that is politically popular and difficult to eliminate. Only the small remainder represents true loopholes that are unconnected to social welfare spending. See William McBride, A Brief History of Tax Expenditures, TAX FOUNDATION FISCAL FACT, NO. 391, AUG. 22, 2013, http://taxfoundation.org/article/brief-history-tax-expenditures. Also see Scott Hodge, The Challenges of Corporate-Only Revenue Neutral Tax Reform, TAX FOUNDATION FISCAL FACT, NO. 471, JUNE 18, 2015, http://taxfoundation.org/article/challenges-corporate-only-revenue-neutral-tax-reform.