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Presidential Candidate Tax Plan Report Card

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Introduction

To compile the following grades, we scored each candidate's plan against the principles laid out in the *Tax Foundation Fiscal Fact* "How to Judge a Tax Plan." We gave each of the 10 questions therein equal weight. We relied on candidate statements, websites, and all other available information for the specifics of each plan.

However, the candidates differ in their degree of specificity, and we took this into account in regard to the issue of certainty in the tax code. We also took into account not only the specified ideal of each plan but the practical implementation as we see it. This introduces an unfortunate amount of speculation and subjectivity on our part, particularly for the more radically unprecedented proposals. However, we believe this is the right approach, since the history of taxation tells us that the law and the practice are often two very different things.

Huntsman: B+

Pros:

1) This "wipe the slate clean" approach, eliminating all tax expenditures, knocks out preferential taxation in one fell swoop.
2) Lowering the corporate income tax rate to 25 percent, from the current 35 percent, and switching to a territorial system would make the U.S. more globally competitive and would improve America's attractiveness to investors.
3) Eliminating capital gains and dividends taxes would spur investment and bolster economic growth.
4) Reducing the number of tax brackets from 6 to 3 (8, 14, and 23 percent) and eliminating the AMT will simplify the tax code.

Cons:

1) The progressive, three-bracket tax system does not treat all taxpayers equally, leaving a degree of special treatment and complexity in the code.

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2) It treats different business forms differently. Corporations would pay a 25 percent rate while pass-through business entities would pay the individual rates of 8, 14, or 23 percent. This could encourage some corporations to reorganize as pass-through entities, thus eroding the corporate tax base and distorting business decision-making.
3) Including state and local corporate income taxes, the combined corporate rate would be about 30 percent, which is still well above the OECD average of 25 percent.
4) It lacks specificity regarding the business provisions, particularly the treatment of full expensing versus depreciation.

Perry: B

Pros:

1) It introduces an optional 20 percent flat tax on wages, exempts long-term capital gains and dividends, and ends the estate tax, thus removing nearly all sources of double and triple taxation of saving and investing.

2) By lowering taxes on business income to 20 percent and long-term capital gains and dividends income to zero, it makes the U.S. more competitive globally, more attractive for investment, and more pro-growth.

3) It is self-help tax reform, in that taxpayers would be able to opt out of the complexities of the current code, which would have a limiting effect on special-interest lobbying.

Cons:

1) It keeps the deductions for mortgage interest, charitable donations, and state/local taxes for those making less than $500,000. This is an arbitrary nod to maintaining progressivity in the tax code while appeasing certain special interests – both of which undermine the simplicity of a "flat tax."

2) By making the flat tax optional – and parallel to the current code – it does not necessarily create a simpler system overall.

3) The optional nature of the flat tax can potentially introduce some additional instability in revenues.

Cain: B-

Pros:

1) The 9-9-9 plan applies a single-rate tax on a very broad tax base. In its ideal form, this is superior to our current multi-rate, narrow-base tax system.

2) It would significantly reduce the targeted preferences, social engineering, and preferential rates of the current code.

3) It would end the double and triple taxation of saving and investing.

4) By lowering taxes on businesses and investment, it would make the U.S. more competitive, more attractive for investment, and more pro-growth.

5) It could lead to more stable federal tax revenues due to its reduced reliance on volatile high incomes, including investment income and profits

Cons:

1) In a field of "reform" plans, the 9-9-9 plan is exceptionally radical and would entail a considerable amount of uncertainty as America transitioned to the new system. A further transition to the FairTax would keep the tax code in constant flux and make economic planning nearly impossible, thus hindering economic growth.

2) The plan essentially contains two consumption taxes: a national sales tax and a business activity tax (i.e. a Value Added Tax or VAT). The combination of these taxes has little precedent in the world. Thus it is hard to predict how these two taxes would be implemented together or what their combined economic consequences would be. In practice, both sales taxes and VATs involve numerous exemptions and special-interest lobbying. VATs lack transparency and the rates tend to start low and end much higher than 9 percent, creating a considerable amount of tax evasion. The most likely outcome is a higher overall level of taxation compared to the current code, which at some level cancels any growth benefits of shifting to a consumption tax base.

3) The empowerment zones introduce a degree of preferential treatment, social engineering, and the potential for special interest lobbying.

Paul: B-

Pros:

1) By cutting the corporate rate to 15 percent, moving to a territorial system, and exempting capital gains and dividends, it would make the U.S. more competitive, more attractive for investment, and more pro-growth.

2) By exempting capital gains and dividends and ending the estate tax, it would remove nearly all sources of double and triple taxation of saving and investing.

Cons:

1) By making permanent the 2001/2003/2010 tax laws, it would not reduce the complexity of the current tax code.

2) Likewise, it fails to significantly reduce the tax preferences in the current code, which distorts economic decision-making in an effort to pick winners and losers.

3) Likewise, it would ensure that corporations and pass-through business entities would pay vastly different rates. Pass-through entities would pay as much as 35 percent, the top individual rate, while corporations would pay only 15. This would cause a huge number of pass-through businesses to reorganize as C-corporations, incurring great costs for the businesses but also taxpayers, because of the instability of tax revenues.

Gingrich: C+

Pros:

1) By moving to a 15 percent flat tax on wages only (not investment income), and ending the estate tax, it would remove the double and triple taxation of saving and investing.

2) By lowering taxes on business and investment, it would make the U.S. more competitive, more attractive for investment, and more pro-growth.

Cons:

1) It would keep far too many tax expenditures (deductions for mortgage interest and charitable donations, the child and earned income tax credits, and most business tax expenditures), thus maintaining much of the current tax code's social engineering, preferential treatment, and special interest provisions.

2) There are a number of moving parts or unspecified portions, which adds to uncertainty, makes the tax code more complex and less understandable, and introduces potential instability in revenues. In particular: a) the optional flat tax means the current tax code will continue in parallel; b) the flat tax option will not go into effect immediately but will transition in some unspecified way; and c) the payroll tax will eventually be replaced with private accounts.

3) Unlike many of the other candidates' plans, it continues the current system of worldwide taxation of U.S. corporate income, which is costly to comply with, raises little revenue, and is out-of-step internationally.

Bachmann: C

Pros:

1) Reducing the corporate income tax rate to 9 percent and moving to a territorial system of taxation of foreign earnings would immediately make America more globally competitive and attractive for foreign investment.

2) Reducing the number of individual income tax brackets would make the tax code marginally simpler to understand (to what extent is difficult to say, however, because of the lack of specifics in the proposal).

3) By ending the estate tax and capital gains taxes, it eliminates two sources of double taxation of saving and investing.

Cons:

1) The lack of specificity in this plan is a major drawback. The proposal seeks to reduce the number of tax brackets but gives no specifics regarding the cut-off floors or the rates of these brackets.

2) Targeted, biased tax expenditures are not dealt with, leaving special interest provisions and a tremendous amount of social engineering intact.

3) By maintaining multiple tax brackets in the individual code, it ensures individuals will pay different rates (as mentioned, the rates themselves have not been proposed).

4) Business income will be taxed at different rates since the corporate rate would go down to 9 percent, while the individual rate paid by pass-through entities would be as high as 20 percent.

Romney: C-

Pros:

1) By making permanent the 2001/2003/2010 tax laws, it would remove some of the uncertainty in the tax code.

2) Lowering the corporate rate to 25 percent, making permanent 100 percent expensing, and moving to a territorial tax system would make the U.S. more competitive globally and improve our attractiveness for investment.

3) By ending the estate tax, it would eliminate one layer of double taxation of saving and investing.

Cons:

1) On the individual side of the code, it really takes no step toward fundamental reform.

2) By making permanent the 2001/2003/2010 tax laws, it fails to reduce significantly the complexity of the current tax code.

3) The exemption of capital gains and dividends for those making $200,000 and below is an arbitrary nod to progressivity. It would do practically nothing to incent investment, since the vast majority of individuals who pay capital gains and dividends taxes make more than $200,000. Instead, it further complicates the code.

4) It fails to reduce significantly the special-interest provisions of the current code.

5) By maintaining multiple tax brackets in the individual code, it ensures individuals will pay different rates.

6) By taxing C-corporations at 25 percent and pass-through business entities at a top rate of 35 percent, the plan would distort business decision-making and could cause some private businesses to flip to C-corporations.

Santorum: D+

Pros:

1) Cutting the corporate rate by half would make American corporations much more globally competitive.

2) Eliminating the estate tax removes one source of double taxation of saving and investing, and marginally improves certainty in the tax code.

Cons:

1) By making permanent the 2001/2003/2010 tax laws, it fails to reduce significantly the complexity of the current tax code.

2) Likewise, it fails to address the special-interest provisions and the preferential rates of the current code.

3) Santorum has talked about taxing manufacturers at a zero percent rate, blatantly adding a targeted tax preference to the code.

4) It also maintains much of the current code's double and triple taxation of saving and investing, since there is no mention of the tax treatment of capital gains and dividends.

5) Though it drastically reduces the corporate income tax rate, the plan would still tax different forms of business income unequally.

6) Unlike many of the other candidates' plans, it continues the current system of worldwide taxation of U.S. corporate income, which is costly to comply with, raises little revenue, and is out-of-step internationally.

7) It lacks specificity, particularly regarding the corporate rate structure.

Johnson: Incomplete

Pros:

1) Assuming this is a Hall-Rabushka type flat tax, it would tax all personal income at one rate.

2) Eliminating taxation on saving and investment would grow the American economy by making capital more accessible and mobile.

3) Eliminating the corporate income tax, and perhaps replacing it with a business VAT, would potentially drastically lower the tax burden on business and investment. However, it remains unspecified.

Cons:

1) It has the potential for a high grade, assuming the basic idea is a Hall-Rabushka type flat tax, but it remains unspecified.

Roemer: Incomplete

Pros:

1) Like Gary Johnson, Roemer invokes a flat tax, specifying a rate of 17 percent. Presumably this means all personal income would be taxed at one rate.

2) If it is a Hall-Rabushka type flat tax it would exempt all investment income, and this would incent a tremendous amount of saving and investing.

Cons:

1) Like Gary Johnson's plan, this remains insufficiently specified.

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