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Rick Perry's Flat Tax Hopes to Simplify Code, Redistribute Tax Burden

By Amy Bingham

First there was a [59-point plan](#), then a [9-9-9 plan](#) and now a third tax reform strategy is being tossed into the ring: a flat tax.

Think of the plan GOP presidential candidate Rick Perry will [announce next week](#) as the halfway point between Mitt Romney's extensive [161-page economic proposal](#) and Herman Cain's [simplistic 9s](#).

Like Romney's plan, Perry's apparently retains portions of the current tax code, such as the payroll tax. But similar to Cain's plan, it scraps the majority of the multi-thousand-page code in favor of a simpler, single-rate system.

"I want to make the tax code so simple that even [Treasury Secretary] Timothy Geithner can file his taxes on time," Perry said Wednesday.

A flat tax might do just that. Proponents of the decades-old proposal say that filing taxes under a flat tax system would be so simple the entire tax form would fit on a postcard.

The premise of a flat tax is to streamline the current system of loopholes and deductions and replace it with one rate that individuals and businesses at all income levels will pay. Similar to both [Cain's and Romney's plans](#), a flat tax eliminates taxes on interest payments such as capital gains and dividends, as well as the estate, or "death," tax.

"It is essentially protecting people from taxes on their investments as a way of encouraging more business development and the expansion of jobs," said Robertson Williams, a senior fellow at the non-partisan Tax Policy Center. "That's the intention."

Williams said about half of the tax filers that will see a lower tax burden because of these exemptions are in the top 1 percent of income earners and make more than \$2.2 million per year.

Steve Wamhoff, the legislative director at Citizens for Tax Justice, said he does not support a flat tax because it amounts to a "consolidation of loopholes for investment income and grants one big exemption for the rich."

"Clearly, it seems like the unstated goal is to make the overall tax system less progressive," Wamhoff said. "Almost seems like they are trying to make the rich pay less and the poor pay more."

While Cain's plan provides no exemptions for low-income workers, flat taxes rarely apply to people at the lowest end of the income scale. So while low-income workers might lose deductions such as the Earned Income Tax Credit and deductions for having children that knock many of them off the income tax rolls, they might be able to exempt most or all of their wages up to a certain threshold from being taxed.

"Just about every flat tax plan assumes relatively generous family allowance," said Dan Mitchell, a senior fellow at the libertarian Cato Institute. "Under the current system the poor don't pay any tax, and under a flat tax the poor don't pay any tax."

High income people would be most impacted by flat taxes because their rates would likely drop by about 15 percent or more, depending on the flat tax rate Perry settles upon.

Proponents of the flat tax claim that lowering taxes on the rich and eliminating the double taxation that comes from capital gains and dividends taxes will encourage people and businesses to invest, thereby jump-starting the economy.

"We don't want rich people putting money into municipal bonds," Mitchell said. "We want them creating the next Microsoft and Apple to grow the economy."

Mitchell said that [Cain's 9-9-9 plan](#) and the flat tax plan that Perry is expected to propose are "both equally good" for economic growth."

"Cain's plan is based on the notion that you are going to have a low tax rate and no double taxation," Mitchell said. "So the underlying theory of Herman Cain's plan is the exact same as the underlying theory of the flat tax."

Mitchell said the "drastic difference" between the plans is that 9-9-9 gets rid of payroll taxes, which fund Social Security and Medicaid, and makes up for the lost revenue by instituting a 9 percent national sales tax.

The tricky part lies in the politics of passing such drastic overhauls of the tax system, Mitchell said.

"I would bet money that I will live my entire life and we'll never have a flat tax in America," he said. "I hope I'm wrong, but there are just so many special interest groups."

Mitchell said implementing a flat tax or any sweeping tax reform is an "enormous undertaking" because America has "100 years of barnacles on the income tax with all of its different loopholes and preferences, every one of which has a special interest group attached to it."