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Cain’s 9-9-9 Math Raises Questions on Revenue

By Steven Sloan - Oct 5, 2011

Herman Cain’s bid for the Republican presidential nomination is fueled in part by his proposed U.S. tax code overhaul that tax policy veterans say doesn’t add up.

Cain’s proposal is gaining attention after a Washington Post-ABC News poll released yesterday found his campaign is tied for second place with Texas Governor Rick Perry among Republicans and Republican-leaning independents.

In campaign stops, Cain touts his 9-9-9 plan as a concept that will lead to a fairer tax system. The proposal would tax sales transactions and gross income for individuals and businesses at 9 percent while eliminating levies on capital gains. It also ends the taxes that fund Social Security, and corporations wouldn’t pay a tax on dividends.

Following the broad contours of Cain’s plan, the U.S would have collected almost $2 trillion in 2010, according to a Bloomberg News calculation based on data from the Commerce Department’s Bureau of Economic Analysis. The U.S. actually collected almost $2.2 trillion that year, according to the White House Office of Management and Budget.

Tax policy experts say Cain’s plan is unrealistic because it presumes that no deductions and exemptions will be permitted, no matter now popular.

“Either Herman Cain is the tax messiah or is proposing a system that has no correspondence to real-world tax systems,” said Edward Kleinbard, a former chief of staff to the congressional Joint Committee on Taxation. He is now a professor at the University of Southern California Gould School of Law.

‘Replicate’ Current Revenue

Speaking on radio host Don Imus’s program yesterday, Cain said the 9-9-9 proposal would be revenue neutral, meaning it would generate as much revenue as the U.S. collects now.

“We calculated based upon initially no growth, just replicate the amount of revenue we’re already bringing in,” he said.

Cain’s campaign hasn’t produced specific revenue estimates for its proposal and didn’t respond to requests for comment yesterday.

Using 2010 figures, Cain's plan would have collected $922.1 billion in revenue from the national sales tax with no exemptions, $912.7 billion at a 9 percent individual income tax with few deductions or other tax benefits and $127.7 billion from a 9 percent tax on U.S. corporate income with no deductions.

Taxes on Individuals

The federal government in 2010 actually collected $898.5 billion from individuals, including levies on capital gains; $191.4 billion from the corporate income tax; $864.8 billion from Social Security and retirement taxes; $141 billion in other taxes, such as estate and gift taxes and $66 billion in excise taxes. This doesn't include the taxes levied by states on retail sales and property.

Cain's proposal is worded in a way that suggests nothing -- food, housing or clothing -- would be exempt from the national sales tax. It is unlikely that Congress would endorse such a broad-based consumption tax, and even if it did, consumers might change their buying habits. That could reduce consumption and would then lower revenue from the national sales tax.

If lawmakers were to exempt everyday items such as food and clothing and provide a rebate to low-income individuals to offset the regressive nature of the sales tax, the plan would generate much less revenue, said David Kautter, managing director of the Kogod Tax Center at American University in Washington. With the information available, it's almost impossible to develop a precise revenue estimate, he said.

'Subject to Tax'

"The revenue estimate is largely dependent on the rate and what's subject to tax," Kautter said. "When you pull out housing, clothing and food, the amount you raise drops by a lot."

Cain, 65, has signaled resistance to exemptions from the sales tax. In an appearance on "Fox News Sunday" on Oct. 2, he said his goal is to "grow the base and make sure the tax code is fairer for everybody."

"It levels the playing field," he said. "It gets rid of all the loopholes. But the most interesting is, it gets the government out of the business of trying to pick winners and losers and trying to decide what's regressive and what's not regressive."

Cain's proposal is notable for its lack of deductions and benefits compared with the current tax code. Business deductions would be limited to investments, purchases from other companies and dividends paid to shareholders. Individuals could deduct charitable deductions. Businesses and individuals in so-called empowerment zones could qualify for additional deductions.

Turnaround Manager

Cain is pitching himself as a turnaround manager who saved Godfather's Pizza Inc., a restaurant chain, from bankruptcy. An Atlanta native, he was on the board of the Federal Reserve Bank of Kansas City in the 1990s and was its chairman from 1995 to 1996.

He won Florida's Republican presidential straw poll on Sept. 24 with 37.1 percent of the votes. Perry was second with 15.4 percent.

There are plenty of questions remaining about the details of Cain's proposals. Chris Edwards, the director of tax policy studies at the Cato Institute, a Washington organization that advocates for limited government, said some of the business provisions were "odd."

'Significantly Different'

The shift to taxing gross income instead of net income would mean that some business expenses, such as wages, could no longer be deducted, Edwards said. He questioned the benefit of such a move when Cain's plan would also protect businesses from paying taxes on dividends.

"The business base would be much broader because businesses don't get a wage deduction, but then it would be narrower because they get to deduct dividends paid to shareholders," Edwards said. "That's a significantly different base."

Kleinbard said the bottom-line effect of Cain's proposal would be a greater shift of the tax burden to individuals from corporations and investors. He said eliminating the deductibility of wages would raise the cost of labor, which businesses would pass on to workers in the form of lower pay.

That, combined with no mention of the standard deduction, personal exemption or earned-income tax credit "means a huge tax hike for the working poor," he said.

There's a long way to go before any of that happens, said Joseph Thorndike, an editor at Tax Analysts, a non-partisan publisher in Fall Church, Virginia.

"I do not believe they made a serious effort to estimate the revenue from these plans but most other candidates' plans aren't any different," he said. "They spout out all kinds of stuff."