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Not so simple

The virtues and flaws of Cain's tax plan.

As you might expect of a former CEO of Godfather's Pizza, [Herman Cain](#) has a flair for marketing. There are lots of ways the federal tax system could be overhauled, but his "9-9-9" plan has the catchiest label and the simplest concept: taxing business income, individual income and sales each at a flat 9 percent rate.

Taxpayers who currently face marginal income tax rates of up to 35 percent will find those "9's" appealing. Cain proclaims that his plan would allow the abolition of capital gains, payroll and estate taxes. It would produce "an economic boom," he promises.

The idea has some things going for it. It would be far simpler than the existing tax code, and it would foster savings and investment by taxing them less. It would minimize distortions caused by existing tax deductions and loopholes, which would be a positive for economic growth.

Those are not trivial virtues. Too bad they're outweighed by the plan's less visible but considerably larger drawbacks.

First is that it would greatly increase tax rates on Americans in the middle class and working class. Many of them pay no federal income taxes now and would face a 9 percent rate on all their income. Cain would abolish the personal exemption and standard deduction, allowing most taxpayers to deduct only charitable contributions.

On top of that, economists say, the business tax would effectively be paid by employees, because employers would no longer be able to deduct wages and salaries. That brings the effective tax rate on these workers to 18 percent.

When people spend their earnings, of course, there is that 9 percent sales tax. So those who spend all or almost all of what they make would be surrendering 27 cents of each dollar. That, by the way, is on top of existing state and local sales taxes, which in some places exceed 10 percent. More affluent Americans, however, would get a tax cut.

Cain says his approach would raise just as much revenue as the government gets now. That remains to be proven. If it falls short, the nines could become 11's or 12's.

If you don't like this plan, though, then just wait. In Cain's mind, it is merely "Phase 1" of his program. Phase 2 would be the "Fair Tax," which would scrap all federal taxes in favor of a single national sales tax of 23 percent (though critics assert it would actually be 30 percent).

But if we're going to radically restructure the federal tax system, why do it twice? And why spend so much time on the merits of "9-9-9" if it's merely a brief stop on the path to the real goal?

Cain says his sales tax would apply only to new goods and homes, not used ones. That disparity, says economist Alan Reynolds of the [Cato](#) Institute, would be a "huge incentive" for tax evasion — say, by buying products from abroad on [eBay](#). Even if federal authorities could police such transactions, the sellers could claim the items were used and thus exempt.

The rule would have perverse effects in the real estate market. If homebuyers had to pay a 9 percent sales tax on a new house but zero on an existing house, who would ever build a new one instead of remodeling an old one?

We're picking on the details, but we want to applaud Cain for some creative thinking and for focusing the political debate on the great need for a tax system that offers simplicity, low rates, more incentives for saving, and fewer distortions than the system we have now.

Cain hasn't cornered the market on tax reform. Republican candidate [Jon Huntsman](#), for one, has an appealing proposal that would greatly reduce personal and corporate rates and abolish most exemptions. Huntsman just doesn't have a catchy name for it like 9-9-9.

Final thought: Why do we have to wait until 1-20-13 to do any of this? We have a Congress. We have a president. We have the framework for tax reform. They could do it tomorrow.