



THE DALLAS MORNING NEWS

October 25, 2011 Tuesday

Perry's flat tax: Job creator or middle-class burden?

BYLINE: TODD J. GILLMAN, Washington Bureau tgillman@dallasnews.com

SECTION: NEWS; Pg. A01

LENGTH: 1172 words

DATELINE: WASHINGTON

WASHINGTON - The flat income tax that Rick Perry will start pitching Tuesday represents an elusive dream for many conservatives. Backers envision a tax system that is fairer, simpler and cheaper to comply with, unleashing a torrent of growth.

"Whenever the economy booms, you do get job creation," said Perry adviser Steve Forbes, the billionaire publisher who unsuccessfully campaigned for president twice on a flat-tax platform. "IRS agents, tax lawyers and some lobbyists may have to find new lines of work. Maybe we'll have job retraining programs for those folks. But it's a huge job creator."

The Perry camp is expected to reveal details of the tax plan and other economic policy proposals when he speaks Tuesday in South Carolina. Economists and taxpayers will then be able to figure out what the flat tax could mean to individuals and the country.

But critics say any flat tax would shift some of the burden of funding the federal government to the middle class. Currently, the more you make, the higher your tax rate (depending on deductions and credits). At a time of growing inequality, that could set up an us-against-them dynamic if Perry wins the nomination.

Perry will propose a 20 percent rate, with a deduction of \$12,500 for each person in the household, and taxpayers could choose to stay with the current tax code, Perry spokesman Mark Miner said late Monday. The plan, which Perry will tout as "Cut, Balance and Grow," will also address Social Security, Medicare and Medicaid, federal regulations and the federal budget, Miner said.

Perry, in a Wall Street Journal piece published Tuesday, said his plan would allow families that earn up to \$500,000 to continue deducting mortgage interest, charitable donations, and state and local taxes. On the corporate side, Perry would lower the tax rate to 20 percent.

In the context of the GOP primaries, it's a bold countermove to Herman Cain's 9-9-9 plan - less catchy, perhaps, but without the widely scorned idea of creating a national sales tax.

And by offering a complete alternative to the current tax code, with its loopholes and preferences for certain taxpayers and behaviors, it builds on Perry's Washington-is-broken theme.

For longtime flat-tax advocates, Perry's embrace comes with risk, given how far he has sunk in the polls.

"We don't want the idea besmirched by politicians who just make it like a gimmick," said Daniel Mitchell, a senior fellow at the Cato Institute, a libertarian think tank. "Is he trying this to resuscitate a campaign that began to flag? And if so, does he undermine a flat tax by pushing for it because it looks like a political stunt rather than a deeply held view?"

Mitchell is pleased to see the idea have a new champion - as long as Perry sticks with it and doesn't fizzle, discrediting the idea along the way.

The choices Perry makes will say much about his willingness to attack the status quo.

It's possible to craft a flat tax and keep some popular deductions - for mortgage interest, or employer-paid health insurance, or charitable donations. But that's a trade-off that takes away from the flat tax's simplicity, and it would require a higher rate to avoid giving up revenue.

No matter the fine points, flat-tax backers see big benefits. Lowering top-end rates would give businesses and families more to spend and invest, they say. And scrapping some 72,000 pages of tax code could save as much as \$400 billion a year just in compliance costs.

"It's definitely a job creation mechanism," Mitchell said.

Assessing the prospects

Front-runner Mitt Romney has at various times lauded the idea of a flat tax, though last week, rival Jon Huntsman pointed out that in 1996, Romney bought a full-page newspaper ad attacking Forbes' flat-tax plan as a "tax cut for fat cats."

More recently, tea party activists have brooded over the fact that nearly half of Americans pay no federal income tax - fueling demand for a drastic overhaul of one sort or another.

Bill Archer, a Houston Republican who chaired the tax-writing House Ways and Means Committee in the 1990s, still prefers a national sales tax. But he agreed that a flat tax would be an improvement over the current system.

"It's going to be awfully difficult," he said Monday, predicting that even if Perry campaigns hard for a flat tax and wins the presidency, he would still face stiff resistance.

Archer agreed that a flat tax shifts some of the burden away from the wealthiest, but to him, the overall benefits justify that trade-off.

The main flaw, he said, is that even with just one rate, the pressure to tinker would be enormous - to carve out loopholes to encourage research, for instance, or to allow deductions for state income tax, charitable donations and home mortgage interest.

"Where do you draw the line? A loophole to one is an incentive for another," Archer said. "Income tax is like a magnet that draws in steel filings that make it very complex."

Closely watched debate

Most flat-tax plans include an exemption on some portion of income, protecting the lowest-income Americans. Forbes' plan called for a 17 percent rate and a \$36,000 exemption, and he said Perry's plan would include generous protections for low-income families.

But it's nearly impossible to design a flat tax that incorporates the "progressive" elements of the current tax code, which has three tiers of rates that rise with income.

"It's a big tax cut for rich people, and somebody else has to pay more," said Leonard Burman, a tax policy expert at Syracuse University and former director of the Tax Policy Center of the Urban Institute and Brookings Institution. "The only thing you can say is that it's not as bad as the 9-9-9 plan, because there's at least some accommodation for people with low incomes."

Forbes, who promoted a flat tax when he ran for president in 1996 and 2000, said he's delighted that Perry has taken up the mantle. Forbes called it a "winner politically," though he doesn't expect it to assure victory for Perry any more than it did for him.

Tax experts are watching closely.

Fred Giertz, executive director of the National Tax Association and an economist at the University of Illinois-Urbana, is somewhat dubious about claims of job creation. A flat tax, he predicted, would act as a "very modest, very long-term stimulus. ... It's not an instant remedy for the aftermath of the recession."

He said the political pushback could be intense, because a flat tax inevitably boosts the burden on the middle class, while easing it for higher-income taxpayers. Whether that's good or bad, like art, is in the eye of the beholder.

"It's a value judgment," Giertz said.

BACKGROUND

Forbes' endorsement

Publishing magnate and former presidential candidate Steve Forbes announced over the weekend that he's endorsing Rick Perry. Forbes has advised Perry on his flat-tax plan, and he predicted Perry's version would lead to an economic boom. Perry, in a written statement, praised Forbes for his "strong support and advice throughout the process of drafting my economic and jobs plans."

From staff reports