Bush Draws Praise for Detail on Tax Cuts, Criticism on Cost

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Sharp reductions in individual and corporate tax rates, combined with sweeping changes in allowable deductions at both levels, mark the tax plan Republican presidential candidate Jeb Bush unveiled September 9.

It aims to spark 4 percent GDP growth annually but eschews common conservative prescriptions on some issues, such as its treatment of capital gains and dividend taxes, which it would leave unchanged except for eliminating the extra 3.8 percent tax that the Affordable Care Act added to the capital gains and dividends rate for high-income taxpayers.

While groups on the left characterized Bush's plan as another Republican giveaway to the rich, numerous other observers praised it for the detail it showed in addressing particular tax preferences.

But on September 10, following the release of two analyses of the plan's expected drain on federal revenues, watchdog groups and others stepped forward to warn that the country couldn't afford it without significant spending cuts.

Tax Cut Specifics

Bush, a former governor of Florida, calls for consolidation of the seven individual tax brackets into three -- set at 10, 25, and 28 percent, according to an explanation of the plan posted on his website.

The corporate tax rate would be reduced from 35 percent to 20 percent, which Bush noted was 5 percentage points lower than China's.

In addressing deductions for individuals, Bush increases the standard deduction by $5,000 for single filers and $10,000 for married couples filing jointly. At the same time, he eliminates the deduction for state and local taxes, which he said encourages higher state taxes and poor fiscal management, and he would cap most itemized deductions, including the deduction for mortgage interest, at 2 percent of adjusted gross income. The deduction for charitable giving would remain capped at 50 percent of AGI.

"Since it is dependent on a progressive tax schedule, a filer in a lower bracket will be able to have more deductions as a share of their incomes. Low- and middle-income filers in the 10 percent tax bracket could deduct up to 20 percent of their income, while high-income filers in the top bracket could only deduct about 7 percent," the explanation states. "The cap has the virtue of allowing the taxpayer to use any of these deductions but not to an excessive extent."
Also notable is the plan's elimination of the carried interest provision that favors hedge fund managers and those involved in other partnerships by allowing ordinary income to be taxed as capital gains. (Prior analysis: *Tax Notes*, Aug. 31, 2015, p. 90.)

For corporations, Bush would allow immediate and full expensing for capital investments and would allow profits held abroad to be repatriated under a one-time 8.75 percent tax, payable over 10 years. In the future, corporations would have to pay taxes only on profits earned in the United States, a switch to a territorial tax system.

But the plan would eliminate tax breaks related to the deferral of foreign earnings and accelerated depreciation and would end the corporate deduction for interest payments.

The proposal would also:

- expand the earned income tax credit for the working poor, doubling the size of the credit for childless workers;
- eliminate the alternative minimum tax;
- end the estate tax;
- eliminate the personal exemption phaseout and limit on deductions for high-income taxpayers;
- allow the married spouse who earns less to file as a single filer, eliminating the so-called marriage penalty; and
- end Social Security payroll taxes for workers older than 67.

Bush himself portrayed it as a return to Reagan-era tax policies. "We need to jump-start our economy, and we can do that by fixing our broken tax code. It's a disaster. We all know it," he said when announcing his plan in Garner, North Carolina.

He added: "Of all the terrible things that can be said about our tax code -- and I can think of a few -- the worst is probably this: It punishes people for doing things we should encourage and rewards people for doing things that may not be so good."

Many conservatives immediately praised his proposals.

"It's a very good plan from a growth and tax integrity point of view," Douglas Holtz-Eakin, former director of the Congressional Budget Office, told Tax Analysts. Holtz-Eakin said the plan squarely addresses economic growth, "which is the top problem facing America."
Chris Edwards of the libertarian Cato Institute described it as "generally good; it's a supply-side plan." But Edwards criticized some aspects of the proposal, such as the EITC expansion, saying they would shield more taxpayers from income taxes altogether, a trend that conservatives decry.

At the Urban-Brookings Tax Policy Center, analyst Howard Gleckman praised the amount of detail on deductions and preferences that Bush would eliminate. Too many other candidates, he said, only address those vaguely. Still, Gleckman said it looked like most of the benefits would go to higher-income filers.

Two liberal organizations, the Center for American Progress Action Fund and Citizens for Tax Justice, denounced the Bush proposal as a giveaway to the rich and to corporations.
"The bigger problem with Bush's plan is that it talks about tax cuts in a vacuum, as though taxes are unrelated to the nation's need to raise revenue and pay for vital public services," Bob McIntyre, director of Citizens for Tax Justice, said in a statement. "He claims his tax cut plan will spur 4 percent growth, but history has demonstrated that aggressive tax cuts for corporations and the wealthy do not, in fact, stimulate economic growth."

Estimates of Significant Revenue Losses

According to a September 9 analysis prepared by his own team of economic advisers and released September 10, Bush's proposed tax proposals would cost $3.4 trillion over 10 years, based on static analysis, and $1.2 trillion under dynamic scoring, requiring Washington to exercise uncharacteristic spending restraint.

The paper's authors -- John F. Cogan and Kevin Warsh of Stanford University, Martin Feldstein of Harvard University, and R. Glenn Hubbard of Columbia Business School -- also contend that the plan would add 0.5 percent to annual GDP growth, compared with what would happen under current tax law, according to the 17-page review made public by campaign staff.
Meanwhile, the Tax Foundation released an analysis showing the cost at $3.6 trillion under static scoring and $1.6 trillion under dynamic scoring, which accounts for the impact of economic growth on federal revenues.

The foundation projected GDP growth of 10 percent over 10 years.

There was widespread recognition that the cost of the tax cuts, no matter what the scoring method, required countering to keep them from greatly exacerbating the federal deficit and national debt problems. Even Bush's advisers wrote: "To fully realize the Governor's aspiration of 4 percent economic growth, the governor's economic reforms require strong fiscal discipline on the federal budget ledger's spending side. Without this discipline, increases in the national debt will act as an economic drag on the pro-growth economic policies."

The Bush team called for trimming growth in federal spending by 1 percent per year. Spending, they said, is projected to grow 4.2 percent a year from 2017 to 2025. Reducing that to 3.2 percent, they said, could produce $1.4 trillion in savings over those years.

In contrast, the advisers painted the Obama years as showing a "rapid surge of federal expenditures unprecedented outside of wartime."

Watchdog Groups Unhappy

Groups that closely monitor federal spending, such as the Committee for a Responsible Federal Budget and the Concord Coalition, said Bush needs to be specific about how he would achieve such spending restraint. (Prior coverage: *Tax Notes*, Sept. 7, 2015, p. 1075.)

"It's not enough to say, 'We have to have spending restraint and this is a very detailed tax cut proposal,'" Robert L. Bixby, executive director of the Concord Coalition, told Tax Analysts. "I give it an incomplete as a policy proposal."

He added, "We're in a position where we can't afford a large tax cut that isn't paid for."

Bixby noted that Bush's economic advisers project a feedback rate -- the amount of lost revenue made up by economic growth -- of 39.7 percent. "That's a really optimistic estimate," he said.

Gleckman agreed. "Their dynamic score of $1.2 trillion assumes the tax cut would boost growth by 0.5 percent annually, which is extremely aggressive," he said, adding that the plan "would add significantly to the national debt over 10 years unless it is offset by spending reductions."

Similarly, Marc Goldwein, senior vice president and policy director of the Committee for a Responsible Federal Budget, said, "As much as I think this is a thoughtful pro-growth tax plan that moves the conversation forward, with record high debt levels I don't think now is the time to be cutting taxes. And if it is, we need to see a lot more spending offsets to show Governor Bush would not only pay for these tax cuts but also put the debt on a clear downward path."

Kyle E. Pomerleau of the Tax Foundation commented, "This is a meaningful increase in the deficit unless accompanied by spending cuts."

Bush campaign spokesman Tim Miller said in response to the criticism: "We will have additional reforms to roll out in the coming months."

Bush, in his September 9 announcement, said nothing about spending cuts or reducing the rate of growth in spending. Materials related to the plan on his website did not mention spending, either.

The economic analysis that Bush's campaign released showed Feldstein was also part of his team of economic advisers, joining Warsh, a former member of the Federal Reserve Board of Governors who is now a visiting fellow in economics at Stanford University's Hoover Institution; Cogan, a senior fellow specializing in U.S. budget and fiscal policy at the Hoover Institution; and

Hubbard, dean of Columbia University's Graduate School of Business, who previously served as chair of the Council of Economic Advisers under President George W. Bush and as a Treasury deputy assistant secretary under President George H.W. Bush. Feldstein's name had not been previously disclosed.

In releasing his proposal, Bush joined Sens. Marco Rubio, R-Fla., and Rand Paul, R-Ky., as well as former Virginia Gov. Jim Gilmore, as GOP presidential candidates with detailed tax plans. Several others, including billionaire Donald Trump, have promised to release theirs in coming weeks.