Scholars Question Tax Foundation's Score of Tax Reform Blueprint

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The Tax Foundation on July 5 released its revenue estimates of the House Republican tax reform blueprint, raising questions among tax observers about its use of dynamic scoring as well as critiques of the small-government bona fides of the blueprint itself.

The blueprint, unveiled June 24 by House Speaker Paul D. Ryan, R-Wis., proposed broad reforms for both the individual and corporate tax bases. (Prior coverage.) In its analysis of the plan, the Tax Foundation said the proposal would significantly reduce marginal tax rates and capital costs, generate about 1.7 million new jobs, and increase the nation's GDP by 9.1 percent.

On a static basis, the plan would increase after-tax income by 0.7 percent for all taxpayers, while the top 1 percent would see a 5.3 percent increase. On a dynamic basis, the blueprint would increase after-tax income by at least 8.4 percent for all taxpayers, according to the report.

The large increase in GDP, the result of the plan's corporate tax reform proposals, shows "why corporate tax reform should be the top reform priority of the next president and Congress," Chris Edwards, director of tax policy at the Cato Institute, said in an email, though he was critical of blueprint proposals he said would only complicate the code.

House Ways and Means Committee Chair Kevin Brady, R-Texas, praised the report in a statement, saying it "proves that our Blueprint will deliver a tax code built for growth and will improve the lives of all Americans." He added that as lawmakers put the proposal "into actual legislative text, we will ensure the final product is revenue neutral within dynamic scoring."

Matt Gardner, executive director for the Institute on Taxation and Economic Policy, criticized the Tax Foundation's use of dynamic scoring. According to the foundation's analysis, the House GOP plan would reduce federal revenue by $2.4 trillion under a static model, but under dynamic scoring the plan would reduce revenue by $191 billion.

Gardner noted that his group's analysis of the plan estimated a $4 trillion revenue loss and that the foundation's $191 billion figure reflects the uncertainty surrounding dynamic scoring. "Their approach only focuses on the tax side effects, not the government spending side effects," Gardner said. "Their revenue impacts are virtually meaningless. It's hard to see how the Tax Foundation approach is at all very helpful [in] understanding the economic effects."

Edwards took issue with aspects of the plan. He said the border-adjustable consumption tax proposal "would not help the economy, make the tax code more complicated, and is bad politics," adding that the Tax Foundation report found it would have zero effect on GDP. Gardner argued that a border-adjusted income tax could result in international trade violations.

"If Congress dropped the corporate rate to 20 percent, cut the small business rate, [and] adopted expensing, that would create such a big improvement in business competitiveness that the border adjustable provision would not be needed even if it did help some businesses," Edwards said. "It would just add wasteful paperwork."