

Republicans conclude flat tax best way to stamp their White House ticket

By Bill Straub

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WASHINGTON — Most of the Republicans vying for the party's presidential nomination in 2012 have concluded the a flat income tax, which one analyst said could be computed by a third grader, is the best way to stamp their ticket to the White House.

The GOP contenders, with the exceptions of former Massachusetts Gov. Mitt Romney and former Utah Gov. Jon Huntsman, have either issued a flat tax plan or expressed support for the concept.

Texas Gov. Rick Perry, who announced his "'Cut, Balance and Grow" plan on Tuesday, said the shift to a flat tax "reorders the way they do business in Washington by reinventing the tax code."

"Central to my plan is giving every American the option of throwing out the three million words of the current tax code, and the costs of complying with that code, in order to pay a 20 percent flat tax on their income," Perry said, adding that taxpayers will be able to file their taxes on a document the size of a postcard with deductions only for interest on a mortgage, charitable giving and state and local tax payments.

Atlanta businessman Herm Cain, who polls show leading the pack at this juncture, has offered what he refers to as a "9-9-9" plan — a 9 percent flat tax, a 9 percent federal sales tax and a 9 percent business tax.

"This economy is on life support," Cain said. "That's why my 9-9-9 plan is a bold solution. It starts with throw out the current tax code."

The flat tax can be defined in a variety of ways. But generally, a flat tax is a system with a single tax rate. Currently, there are six brackets, ranging from the 10 percent bracket for those earning nothing to \$8,500 to the 35 percent bracket for those earning more than \$379,150. The flat tax sets a single rate for everyone — 20 percent in Perry's plan and 9 percent in Cain's proposal.

A flat tax plan generally offers few, if any, exemptions. The Perry plan offers three deductions while Cain exempts only charitable contributions.

The concept of a flat tax has been around for about 30 years. A pair of economists from the Hoover Institute in California, Alvin Rabushka and Robert Hall, first proposed "a low, simple flat tax" in *The Wall Street Journal* in December, 1981. Like Perry, Rabushka and Hall maintained taxes could be filed on the back of a postcard.

The idea generated a lot of support during the administration of President Ronald Reagan. The Tax Reform Act of 1986 actually cut the number of brackets to two — 15 and 28 percent. But it didn't last. In 1990 President George H.W. Bush agreed to an additional 31 percent bracket and President Bill Clinton made other changes.

But the flat tax has consistently had advocates. California Gov. Jerry Brown called for a flat tax during an unsuccessful 1992 presidential campaign. Republican businessman Steve Forbes made the flat tax the central tenet of his likewise unsuccessful presidential run in 1998 and again in 2000. Former House Republican Leader Dick Armey, of Texas, now chairman of FreedomWorks, an organization with ties to the tea party movement, offered a flat tax proposal to Congress in July 1995.

Overall, the American public appears divided on the issue. A Washington Post/ABC News poll released this week shows 47 percent of those questioned favor a flat tax while 48 percent expressed opposition. On the political scale, 56 percent of Republicans like the idea but only 46 percent of independents and 40 percent of Democrats lent support.

Daniel J. Mitchell, senior fellow at the Cato Institute, a Washington-based libertarian think tank, called the current tax system "a complicated failure that hinders America's growth." It should, he said, be "ripped up and replaced by a simple and fair flat tax."

"The current income tax system punishes the economy, imposes heavy compliance costs on taxpayers, rewards special interests and makes America less competitive," Mitchell said. "A flat tax would dramatically reduce these ill effects. There will never be a tax that's good for the economy, but the flat tax moves the system much closer to where it should be raising the revenues in the least destructive and least intrusive way possible."

Economists are attracted to the flat tax, Mitchell said, because the "high tax rates, corrupting loopholes and discriminatory taxation of savings and investment" found in the current tax system is anti-growth. It is also a matter of simplification — Mitchell said a third grader could file a family's tax return in about five minutes under most flat tax plans.

There are obvious drawbacks. The flat tax is considered a regressive tax since it takes a larger percentage from low-income people than from high-income people. A tax that is applied uniformly hits lower-income individuals harder.

President Obama, speaking to supporters in Buffalo, N.Y., in May 2010, maintains low and medium income earners will be financially harmed under a flat tax while it "would mean a huge tax break" for the wealthy.

"That means Warren Buffett is paying 10 percent," he said. "It means the construction worker is paying 10 percent. It means somebody who has got a minimum-wage job is paying 10 percent. And the question is does that 10 percent take a bigger bite out of the cashier at the supermarket than it does out of Warren Buffett? Because she is paying more of her income in food and rent and just basic necessities, and so does it make sense for Warren Buffett to be paying a little bit more?"

Obama, who favors some form of tax simplification, added that a flat tax rate would have to be "pretty substantial" to ensure the system doesn't further contribute to the deficit

"And so the question is, is there a way of achieving simplification, but still having some element of progressivity and some element of fairness in the tax system?" Obama said. "That's part of what makes it complicated."

Citizens for Tax Justice, a research and advocacy group that focuses on tax policy, reported that an analysis of Cain's 9-9-9 plan showed the richest 1 percent of the nation's taxpayers would each pay an average of \$210,000 less in taxes annually. At the same time, the poorest 60 percent of taxpayers would each pay an average of \$2,000 more.

In addition, according to the report, the federal government would collect less revenue, coming up about \$340 billion short based on 2011 projections.

Meanwhile, Howard Gleckman, a resident fellow at the Urban Institute, said the plan placed on the table by Perry "would result in a massive tax cut and, combined with his vow to balance the federal budget by 2020, implies huge reductions in federal spending. Perry, however, doesn't provide much detail about how he'd cut that spending."



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