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Marco Rubio tax plan challenges GOP orthodoxy

A big child credit, no across-the-board cut and a top rate of 35 percent put him at odds with rivals.

By Ben White

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Marco Rubio is about to shake up the Republican presidential primary by running on a tax plan that tosses out decades of GOP allegiance to the idea of simply slashing rates across the board and expecting faster economic growth to follow.

Instead, Rubio plans to campaign hard on the complex plan he introduced this year with Utah Sen. Mike Lee that would use the tax code to reward families with children while slashing levies on business and investment income but keeping a top rate personal income rate of 35 percent, far higher than many Republicans would like.

Rubio appears to be hoping his plan will appeal to Republican voters concerned about rising economic inequality and tired of getting beaten up in the general election over plans that Democrats say would hand massive tax cuts to the rich at the expense of the middle class.

“America right now suffers from slow growth, and the growth there is doesn’t seem to be helping most Americans, including the folks who vote in GOP primaries,” said James Pethokoukis of the conservative American Enterprise Institute. “The Rubio-Lee plan would address both issues through sweeping corporate tax reform and cutting investment taxes while also directing immediate tax relief for families.”

But not all Republicans are embracing the plan. Some argue that it leaves the top rate far too close to the current highest bracket of 39.6 percent. And they note that it would apply the 35 percent rate to individual incomes as low as \$75,000, possibly exposing many middle-income earners to a significant tax hike.

And in a field that already includes flat tax proposals from Senators Ted Cruz of Texas and Rand Paul of Kentucky, analysts say this could leave Rubio as seemingly out of step and too timid on the tax cut front. It could also allow former Florida governor Jeb Bush, who will compete with Rubio in the more centrist lane of the GOP primary, to come up with a less complicated tax cut plan that hews more closely to Republican orthodoxy.

“If you are a GOP primary voter and not a policy wonk who follows this stuff closely, you might not really understand what Rubio is trying to do here,” said Daniel J. Mitchell of the libertarian-

leaning Cato Institute. “There is a risk that with Cruz and Paul both talking about a flat tax that Rubio, even though he does some big and important things, might get lost in the clutter.”

Advocates of cutting taxes across the board to spur faster growth argue that Rubio, through his generous child credits and possible increases in marginal rates for some, is pursuing an approach much more traditionally associated with Democrats.

“This business side of the plan is pretty darn good and I like it,” said Larry Kudlow, a conservative economist who served in the Ronald Reagan administration. “The personal side of it is a mess and will be politically and economically indefensible and he is going to take tremendous criticism for it and my guess is he will have to back off it very fast.”

Rubio spokesman Alex Conant suggested the Florida Senator would do no such thing, pointing to comments in which Rubio said the plan would be the only one he would propose. He and Lee will defend it at a town hall at the conservative Heritage Foundation next week.

“No matter what I run for, whether it’s the Senate or the presidency, of course this will be part of our platform,” Rubio said in March when introducing the plan. “You think I’m going to come up with a second tax plan? This one was long enough,” Rubio joked. “I hope that ideas like this are embraced by everyone running for president. Because I think our party has to be the pro-family, pro-growth party.”

Under Rubio’s plan, there would be just two tax personal income tax brackets, 15 percent and 35 percent. The plan would also create a new child tax credit worth \$2,500 and eliminate the estate tax.

On the corporate side, it would create a top rate of 25 percent, down from the current 35 percent, allow immediate deductions for investments and create a territorial tax system that would not apply U.S. tax rates to foreign income earned abroad by U.S. businesses. It would also eliminate business tax credits and many deductions.

Unlike some other previous GOP tax plans, including the 20 percent across-the-board reduction proposed by Mitt Romney in 2012, Rubio and Lee make no claims that the plan would not increase the deficit.

Instead, on a static basis – which does not include any possible faster economic growth through tax cuts – an analysis by the Tax Foundation found that the plan would add around \$4 trillion to the current \$18 trillion debt over ten years.

Rubio and Lee look to offset some of the revenue loss under the plan by having the top rate kick in at \$75,000 for individuals and \$150,00 for married couples. Many high earners could avoid the hit because of the rate cuts for dividends and capital gains and by earning profits from business ventures that would be capped at the 25 percent rate. But those who simply earn labor income could get hit with a significantly higher rate, something that Rubio’s opponents are likely to highlight early and often.

“There will be some set of taxpayers who earn labor income and don’t have kids who would all of a sudden be hit with a 35 percent rate,” said Mitchell. “That would be the bad part of the plan.”

Still, the so-called “reform conservative” movement, made up of younger policy wonks who want to nudge the GOP away from its reliance on massive, across the board tax cut plans, has mostly embraced Rubio’s approach, giving the Florida senator some significant intellectual cache that other candidates lack. “I can see the appeal of something like the Rubio-Lee plan that says we are going to charge families less and when you have kids we are going to help you out,” said Charles C.W. Cooke, author of “The Conservatarian Manifesto.”

Other conservatives to embrace the plan so far include Reihan Salam who said the child credit could help restrain the growth of government because if enacted it would cost a lot of money and be politically impossible to reverse. Ramesh Ponnuru of Bloomberg View wrote that the plan was “the most pro-growth tax reform since Calvin Coolidge’s presidency.”

The conservatives – along with the Rubio campaign – are clearly hoping that the idea of rewarding child-rearing while only marginally reducing top tax rates will swamp concerns among more traditional Republican audiences that Rubio does not go anywhere near far enough in transforming the tax code.

“I think it usually is good politics to push policies that address actual problems people face in their everyday lives,” said Pethokoukis.