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# Critiquing Cain’s 9-9-9 Plan

October 13, 2011 Craig D. Schlesinger Leave a comment Go to comments

When Herman Cain initially launched his catchy, infomercial-like 9-9-9 tax plan, I found it rather amusing. Now that Cain is somehow making waves in the GOP primary polls, 9-9-9 is coming under scrutiny from all sides. The criticisms from the left are predictable; however, I’m more interested in the critiques offered by free market advocates.

Cato’s Dan Mitchell airs his concerns:

Josh Barro and Bruce Bartlett are both claiming that the business portion of Cain’s 9-9-9 is a value-added tax (VAT) rather than a corporate income tax.

In other words, instead of being a 9 percent flat tax-9 percent sales tax-9 percent corporate tax, Cain’s plan is a 9 percent flat tax-9 percent sales tax-9 percent VAT.

Let’s elaborate. The business portion of Cain’s plan apparently does not allow employers to deduct wages and salaries, which means — for all intents and purposes — that they would levy a 9 percent withholding tax on employee compensation. And that would be in addition to the 9 percent they presumably would withhold for the flat tax portion of Cain’s plan.

Employers use withholding in the current system, of course, but at least taxpayers are given credit for all that withheld tax when filling out their 1040 tax forms. Under Cain’s 9-9-9 plan, however, employees would only get credit for monies withheld for the flat tax.

In other words, there are two income taxes in Cain’s plan — the 9 percent flat tax and the hidden 9 percent income tax that is part of the VAT (this hidden income tax on wages and salaries, by the way, is a defining feature of a VAT).

Dean Clancy of Freedom Works shares Mitchell’s concerns:

Cain doesn’t get rid of the income tax. Instead, he reforms it. And then he adds a new levy — a national retail sales tax — on top of it.

[…]

The second problem with Cain's plan is more serious than the first. It puts in place the infrastructure for a VAT, a Value Added Tax. That's bad.
No, that's very bad.

A VAT is a form of national sales tax that is collected at every stage of the process from the initial sale of raw materials to a manufacturer to the final sale of a finished product to an end-consumer. It's the most insidious of all taxes, because it is built into the price of everything and consumers can't see how much of the price is due to the tax. When taxes rise, prices rise, but consumers mistakenly assume that's just market forces at work. Politicians love a VAT: it lets them take a lot more money out of our wallets. And VATs usually exist side by side with income taxes, not in lieu of them. Taxpayers should hate VATs for the same reasons politicians love them.

Reason's Tim Cavanaugh also weighs in:

Not only has Cain avoided tying his national sales tax to even a vague promise of future repeal of the 16th Amendment (as H.R. 25 does); he doesn't even want to suspend, let alone repeal, the income tax.

In fact, 9-9-9 is a significant step back from the Flat Tax proposals Republican business candidates used to offer in the Clinton era. In 1996 Steve Forbes got attention for supporting a no-exemptions income tax pegged at 17 percent. That wasn't perfect, but at least it would have reduced the number of distortions the IRS causes in the private economy.

Now Cain would have you believe that in exchange for a near-halving of a flat tax target that was vaporware when Steve Forbes proposed it, we should agree to give Congress the same power of taxing all business transacted in its jurisdiction that now belongs to your local city hall or governor's mansion?

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