



## Santorum Calls For Equalizing Tax Rates

Paul C. Barton

October 14, 2015

A flat tax of 20 percent on both individual and business income lies at the center of a tax plan former Pennsylvania Sen. Rick Santorum, a candidate for the 2016 Republican presidential nomination, released October 12.

"The disastrous federal tax code and the IRS that runs it have come to symbolize everything that is wrong with Washington. It's time to drain the swamp," Santorum said on his campaign website.

Santorum became the seventh of 15 remaining GOP candidates to release a formal plan. But in a twist, Santorum also offered a long list of steps he would take to offset the cost of it.

Santorum said his tax plan is the centerpiece of his "economic freedom agenda" to help workers and families that also calls for negotiating better trade agreements, raising the minimum wage, auditing the Federal Reserve, and canceling an array of business regulations that President Obama has implemented.

Calling it the "20/20 Flat Tax Plan," the former senator also described it in an op-ed in The Wall Street Journal. The 20 percent tax on individuals, he said, would apply to "all streams of income," including capital gains and dividends.

Santorum's plan would give a \$2,750 individual credit that replaces the standard deduction and personal exemption. The credit would be refundable and would replace the earned income tax credit. All itemized deductions would be eliminated, except for charitable contributions -- deductible in any amount -- and mortgage interest, capped at \$25,000 a year.

Santorum says his plan also eliminates the estate tax, alternative minimum tax, and the "marriage penalty."

For businesses, the 20 percent flat tax would start at zero for manufacturers and then ramp up to that level after two years. He also calls for full, immediate expensing and repatriation of overseas earnings at a 10 percent rate, but no deductibility of interest.

The Tax Foundation estimates the cost of Santorum's plan at \$1.1 trillion over 10 years on a dynamic basis and \$3.2 trillion under static scoring.

Santorum pledged to pay for his plan by repealing the Affordable Care Act and "all of its associated taxes."

The Tax Foundation analysis said that over a decade, GDP would increase by 10.2 percent beyond projections under current law. Also compared with current projections, capital investment would grow by close to 30 percent, wages would increase by 7.3 percent, and more than 3.1 million additional jobs would be created.

As president, Santorum said, he would propose to Congress within his first 100 days that the current tax code be abolished and his plan enacted.

### Spending Cuts

While other Republican candidates have drawn criticism for not saying how they would pay for their plans, Santorum, in addition to calling for ACA repeal, offered 15 other steps he would take to control government spending, ranging from a 10 percent reduction in the non-defense federal workforce to cutting non-humanitarian aid to countries that "do not support America's interests." (Prior coverage .)

Further, Santorum proposes paring "ineffective programs" in the departments of Commerce, Housing and Urban Development, Health and Human Services, Energy, and Education, along with transferring many other federal programs to the states.

Also included was a call for Congress and the states to pass a balanced budget amendment to the Constitution that would limit federal spending to 18 percent of GDP and require supermajorities in the House and Senate to pass tax increases.

### Reaction

Jay Soled, professor of tax law and accounting at Rutgers University Business School, told Tax Analysts most economists would say that under Santorum's plan "wealth disparities would continue to escalate. Santorum prides himself as being very religious. I would love for the [Catholic] church to comment on his tax plan."

Soled added, "In terms of equity, the progressive rate structure would be squeezed out of existence."

Howard Gleckman of the Urban-Brookings Tax Policy Center said: "Like most of these one-rate flat taxes, this would likely be extremely regressive. Top rate is cut in half -- 39.6 to 20 percent -- and the two deductions he preserves are [mortgage interest] and charitable giving, both of which disproportionately benefit upper-income taxpayers."

And while Santorum says he is avoiding a VAT, Gleckman said, "On the business side, this looks like a consumption tax: full expensing, no interest deduction. Curious that he says [no VAT] since this is in fact quite close to a VAT."

But Chris Edwards of the Cato Institute said Santorum hit the bull's-eye. "Kudos to Senator Santorum for a tax proposal that reestablishes a single-rate individual and business tax as the gold standard for GOP reforms," Edwards said.

But Edwards added that the time-limited tax break for manufacturers was unneeded. "A 20 percent flat corporate tax with capital expensing would make the U.S. economy boom, including manufacturing companies," Edwards said. "So there is no need for Santorum's additional tax break for manufacturing, which would unnecessarily complicate the code."

Lastly, Edwards credits Santorum for going further than most candidates in proposing spending cuts. "I don't like all his proposals, but Santorum gets credit for providing a very detailed list of reforms to the government," he said.