



## The Truth about Paul Ryan's Tax Plan

- **Chris Edwards**

When House Budget chairman Paul Ryan (R-WI) released his tax reform plan recently, liberals pounced on it as an unfair giveaway to the rich. In *The Washington Post*, E.J. Dionne claimed that Ryan's tax plan would increase the deficit and "expand benefits for the wealthy," while Dana Milbank said that the plan would "disproportionately help the rich." A *New York Times* editorial said that under the Ryan plan, "the rich pay less in taxes than the unfairly low rates they pay now."

What hogwash! Personally, I favor cutting taxes on the rich and everyone else, but that's not the goal of the Ryan plan. The goal is to simplify the tax code and spur economic growth, and you can do that without changing the total revenue raised or who it is raised from. Ryan's strategy is to eliminate tax deductions and credits while replacing the current six-rate income tax structure with two rates of 10 and 25 percent. The result would be less tax paperwork, more jobs and more investment, which would be good for everybody.

Liberals rail against the idea of cutting the top income tax rate from the current 35 percent, but Ryan's lower 25 percent rate was not picked out of thin air. IRS data show that taxpayers with the highest incomes currently pay an average of about 25 percent of their income in income taxes. At the same time, middle-income taxpayers pay an average of roughly 10 percent. That is why Ryan's two-rate tax structure of 10 and 25 percent would collect about the same amount of money from the same income groups as the current code if we got rid of the deductions and credits.

Ryan's plan is not a single-rate flat tax, which would be the fairest and most efficient tax reform. However, a two-rate "flatter" tax would be a big step in the right direction. I proposed a similar two-rate plan to the 2005 Bush tax reform commission. I also championed the inclusion of a Ryan-style tax in the 2010 report of the "Fiscal Future" committee of the National Academy of Sciences (NAS).

The NAS committee included three former directors of the Congressional Budget Office and other prominent budget scholars. Most of the members were center-left in their politics, so my libertarian views were in the minority on the committee. Nonetheless, the committee generally agreed that a Ryan-style two-rate plan with a simplified tax base was a serious alternative to the current tax-code mess, and such a plan was included as an option in the NAS report.

Paul Ryan and the House Republicans haven't provided details of their two-rate tax plan yet, but the NAS plan showed how it could be designed. The plan set the rates at 10 and 25 percent, with the top bracket applied to incomes above \$73,000. Then the NAS plan eliminated nearly all of the deductions and credits in the tax code, including the mortgage interest deduction.

However, the NAS plan retained pro-savings parts of the tax code, such as 401(k) accounts. And it included a refundable credit like the current earned income credit. Refundable credits are bad policy in my view, but the committee wanted to match the current tax code's impact on low-income households. The committee also trimmed — but did not eliminate — the tax exclusion for employer-provided health care. It also included a much larger standard deduction than the current code.

Like the Ryan plan, the NAS plan repealed the alternative minimum tax and chopped the corporate tax rate from 35 to 25 percent. The committee took this plan and ran it through the Tax Policy Center's computer model. Sure enough, the Ryan-style NAS plan raised about the same amount of revenue from the same income groups as the current system. The benefit would be that we would have a much simpler tax code that generated stronger economic growth because of the lower rates and fewer tax-code distortions.

That's why it's unfortunate that some liberal commentators seem intent on poisoning the public discussion around Ryan's tax plan. It's true that Ryan and the Republicans have yet to fill in the details, but getting agreement on the broad structure of reform is a productive first step. Ending tax loopholes and increasing the incentives for work and investment should be something that everyone from liberals to libertarians can support.

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