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Herman Cain's 9-9-9 plan a road to a VAT

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The [criticism of Herman Cain's 9-9-9 tax plan](#) has been ramped up over the last couple of days. It had already been [knocked by Kevin Williamson of the *National Review* as unrealistic](#) [Dean Clancy of FreedomWorks explains that it could be used as cover for a VAT](#), and Grover Norquist also [notes the problems with the proposal](#).

The possibility that Cain's tax plan could be lead down this road is [also bothering Cato Institute economist Dan Mitchell](#), who had already [expressed an issue with the proposal](#):

it seems that I was too nice in my analysis of Mr. Cain's plan. [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).

This doesn't make Cain's plan bad from a theoretical perspective. The underlying principles are still sound — low tax rates, no double taxation, and no loopholes.

But if I was uneasy when I thought that the 9-9-9 plan added a sales tax on top of the income tax, then I am super-duper-double-secret-probation uneasy about adding a sales tax *and* a VAT on top of the income tax.

Over at The Daily Caller, Matt Lewis also [notes](#) that there is nothing really preventing Congress from increasing the sales tax rate to gain more revenue from the added stream:

Right now, Americans do not pay a *national* sales tax; Cain's plan would change that. And no matter what Cain says, it would only be a matter of time before taxes would be raised by others to, say, 11-11-11 — or 14-14-14 — or...

Interestingly, almost exactly one year ago, Indiana Governor Mitch Daniels was pilloried for proposing we replace the current tax code with a value-added ([VAT](#)) tax and a flat income tax.

Daniels plan was so objectionable that Americans for Tax Reform President Grover Norquist [told Politico](#): “Absent some explanation, such as large quantities of crystal meth, this is disqualifying. This is beyond the pale.”

My guess is that 9-9-9 may eventually become a political liability for Cain.

It's a gimmick, a talking point that has allowed him to grab more attention from a rabid base. But it's [not a real economic reform plan](#), especially since Cain isn't offering anything to deal with the real problem facing our economy through runaway entitlement programs.