

Tax Plans Duel for Primacy in GOP

Romney's Proposal Is More Achievable, As Gingrich Goes for the Radical Redo

JANUARY 20, 2012

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South Carolina's roller-coaster primary could help influence more than the GOP presidential nominee—it could play a big role in determining the direction of Republican policy on taxes for 2012 and beyond.

Just as much of the focus narrows to two candidates, Mitt Romney and Newt Gingrich, the race also offers voters sharply contrasting approaches to tax policy, one that is familiar to Republicans and more achievable, the other newer and farther-reaching.

Mitt Romney, shown in Charleston, S.C., Thursday, favors eliminating investment taxes for middle-class filers.

The GOP presidential race reaches a dramatic and potentially course-altering moment as Mitt Romney begins to lose his air of inevitability. Neil King has details on The News Hub. Photo: Getty Images

Mr. Romney appears to be sticking with GOP orthodoxy that calls for extending Bush-era tax rates while working toward lowering the top tax rates for corporations and individuals to 25% from the current 35%. That aligns him closely with congressional Republicans. He favors eliminating investment taxes for middle-class filers, including couples with incomes under \$200,000, and ending the estate tax. Mr. Romney's plan envisions a long-term corporate-tax overhaul that includes a reduction of tax breaks, though he has offered few specifics.

Like other GOP candidates, the former Massachusetts governor also favors rolling back some tax increases passed under President Barack Obama, such as a new levy on investment income to help offset a health-care overhaul.

By contrast, Mr. Gingrich, the former House speaker, has embraced more radical changes to the tax code. He would offer taxpayers a choice of the current system or a flat-tax system with a 15% rate and a \$12,000 exemption for each individual. The flat-tax system would have elements of a consumption tax, according to tax experts, by exempting investment income. It also would reduce the corporate tax rate to 12.5% and get rid of many deductions, though not the mortgage-interest deduction.

Mr. Gingrich's approach is similar in broad strokes to the "9-9-9" plan—a 9% tax on consumer purchases, a 9% business tax and a 9% flat-rate income tax—that former business executive Herman Cain proposed while in the GOP race. It promises a big boost to investment and economic growth, at least in the minds of supporters.

But the plan has opened Mr. Gingrich to attack for offering big tax breaks for the wealthy. Mr. Romney, a wealthy former private-equity executive who has taken hits for his own tax rate of about 15%, has said Mr. Gingrich's plan would essentially exempt the likes of Warren Buffett and Bill Gates from any tax.

Analysts at the nonpartisan Tax Policy Center say Mr. Romney's proposed reductions in corporate tax rates would disproportionately help wealthier Americans, in part because they are more likely to have investments in corporate stocks.

A third GOP candidate, former Pennsylvania Sen. Rick Santorum, would extend the Bush-era rates and aim for a new tax system with just two rates of 28% and 10%. He would cut the corporate rate in half and eliminate that tax for manufacturers.

Texas Rep. Ron Paul proposes repealing the income tax and doing away with the Internal Revenue Service, while drastically reducing government spending.

Some conservative experts expressed doubt about the ability of achieving radical overhauls anytime soon, however, no matter whom the party selects.

If Mr. Romney were nominated and then elected president, "we probably won't get radical tax reform because he hasn't promised it and he doesn't seem supportive," said Chris Edwards, tax-policy director of the libertarian Cato Institute. If Mr. Gingrich became president, there probably would be more discussion and hearings on radical tax changes.

But "there is unfortunately huge entrenched institutional resistance to something big like a flat tax, so Gingrich would probably have to do reforms in bite sizes anyway, if he placed it as a high priority," Mr. Edwards said.

A big wild card is the plans' impact on the federal budget. Mr. Gingrich's plan would be the most costly of any candidate's, reducing federal revenue by \$850 billion a year by 2015, the Tax Policy Center said. Mr. Romney's plan, before he suggested this week the lowering of the top rate to 25%, would cost \$180 billion a year by 2015.

The dueling plans point not only to different policy priorities but also to the differing characters of the two candidates. Mr. Romney's more achievable plan conforms to his pitch as an executive who could get things done, while Mr. Gingrich's burnishes his appeal as a candidate who would bring dramatic change to Washington.

Kevin Hassett, an economist at the conservative American Enterprise Institute and former adviser to 2008 GOP nominee John McCain, said Mr. Gingrich's platform is a good starting point for negotiations, "but wouldn't likely ever see the light of day in legislation." By contrast, Mr. Romney's plans are likely the proposals he would actually try to legislate, Mr. Hassett said.

"I think there is much to recommend both approaches," Mr. Hassett added. "I think the big difference is that there is more mystery about what we might actually get out of a Newt presidency."