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Is Cain's 9-9-9 plan a winner?

By Jennifer Rubin

Herman Cain has touted his 9-9-9 plan from the beginning of his race. That's a nine percent business tax, a nine percent income tax and a nine percent sale tax. Some critics contend it would impact lower and middle class tax payers who would no longer get the benefit of items like the child tax credit or a home mortgage deduction, but would now have to pay a new federal sales tax on purchases. (It's not clear what items — food, housing, etc. — would be exempt.)

Today, Bloomberg reported: "Following the broad contours of Cain's plan, the U.S. would have collected almost \$2 trillion in 2010, according to a Bloomberg News calculation based on data from the Commerce Department's Bureau of Economic Analysis. The U.S. actually collected almost \$2.2 trillion that year, according to the White House Office of Management and Budget." Cain insists it is revenue neutral but won't release his numbers.

The national sales tax is also problematic, as Bloomberg points out:

Daniel Shaviro, a professor of taxation at the New York University School of Law, said a national sales tax is difficult to implement because it is easily evaded. "All the consumer and I have to do is turn off the register and do an informal sale," he said.

Others have problems with its reallocation of tax revenue:

There are plenty of questions remaining about the details of Cain's proposals. Chris Edwards, the director of tax policy studies at the Cato Institute, a Washington organization that advocates for limited government, said some of the business provisions were "odd."

The shift to taxing gross income instead of net income would mean that some business expenses, such as wages, could no longer be deducted, Edwards said. He questioned the benefit of such a move when Cain's plan would also protect businesses from paying taxes on dividends. . . . [Edward Kleinbard, a former chief of staff to the congressional Joint Committee on Taxation] said the bottom-line effect of Cain's proposal would be a greater shift of the tax burden to individuals from corporations and investors. He said eliminating the deductibility of wages would raise the cost of labor, which businesses would pass on to workers in the form of lower pay.

That, combined with no mention of the standard deduction, personal exemption or earned-income tax credit, "means a huge tax hike for the working poor," he said.

Rick Santorum, meanwhile, has problems with the entire idea of a national sales tax. He emailed me: "While some may like the way 9-9-9 sounds, if it were to pass no one will like the way it feels. All Mr. Cain's plan does is establish a new tax on the American people and, while a 9% tax may pass the Congress, Harry Reid and Nancy Pelosi will waste no time making 9% into 19%. Mr. Cain's 9-9-9 plan saddles the American people with a new consumption tax and a new income tax – just as with his support for other misguided economic policies like TARP, 9-9-9 is not conservative leadership." He continued, "The Federal tax system is broken, but we must fix it by making the system flatter and fairer, not by adding a new tax that Congress can raise on a whim."

I repeatedly asked the Cain campaign for comment today but received no response. If he is now going to compete at the top of the heap he'll need to start explaining his plan more specifically and respond to these criticisms.

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