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RAHN: Tax advice for GOP candidates

Better than Obama is good, but not good enough

By Richard W. Rahn
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Of those who are running for president, who has the best and worst tax plans? The worst plan is easy: President Obama's.

By way of disclosure, I was part of the small team that developed and helped market President George H. W. Bush's economic platform back in 1988. The first President Bush won, in part, because he had a clear, understandable plan - "Read my lips: No new taxes" - and a "flexible freeze" to control spending. Unfortunately for him and the country, he abandoned the "flexible freeze" soon after taking office and the tax pledge two years later. His reversal played a big part in his subsequent defeat in 1992.

Mr. Obama seems not to have learned from the mistakes of the first President Bush. He has repeatedly pledged not to increase taxes on anyone making less than $250,000 a year and to do everything possible to increase jobs. Yet, in fact, he has already signed 21 tax increases into law. Six of these tax increases directly increase taxes on those making less than $250,000, and a number of others indirectly increase taxes on middle- and lower-income groups. The tax proposals contained in his budget, if passed, would result in massive tax increases on the job creators - small-business people, corporations and entrepreneurs. Increasing taxes on job creators reduces the number of jobs being created - a simple concept that the president does not seem to grasp.

Rep. Ron Paul has said he wants to get rid of the income tax and downsize government to the point at which it is operating well within the Constitution. Laudable goals - but until there are many more economic libertarians elected to Congress, it is not going to happen, even if the Texas Republican were to be elected president.

Former House Speaker Newt Gingrich has a good tax plan by going to an optional 15 percent tax rate, cutting the corporate rate to 12.5 percent, and eliminating the Alternative Minimum Tax (AMT), capital gains, dividend and death taxes - as well as allowing businesses to deduct their capital investments in the first year (i.e., full business expensing) and moving to a territorial tax system.

This plan would be a big revenue loser, even with the considerable dynamic growth effects coming from it. Mr. Gingrich has said he wants to downsize government to equal tax revenue, rather than vice versa. It's a good line, but to be credible, he needs to detail where the cuts would come from, including the cuts in entitlements. Given his earlier criticism of House Budget Committee Chairman Paul Ryan's constructive plan to deal with the entitlements, Mr. Gingrich needs to stay focused on how he would cut spending in order to be credible.

Former Sen. Rick Santorum's tax plan is not as good and bold as Mr. Gingrich's. He would bring the maximum personal rate down to 28 percent and the corporate rate down to 17.5 percent, reduce the tax on capital gains and dividends to 12 percent, eliminate the death tax and AMT, and go to expensing for capital investment.

However, he also wants to go to a zero rate for manufacturers, under the misunderstanding that manufacturing is more important and has been harder hit than other forms of business. Also, in the modern age, manufacturing is less easy to define, and many businesses would do what they need to do to redefine themselves as "manufacturers."

Mr. Santorum's rhetoric is good on spending, but his track record when he was in office makes his current claims questionable. Mr. Santorum gives credence to the charge that he is a "big-government conservative," as he seems to feel he knows more than markets about how money should be taxed and spent. He continues to drive away libertarians of all stripes, even though a majority of Americans have some economic, foreign-policy and social-libertarian leanings.

Former Gov. Mitt Romney has the worst tax plan among the Republicans. Even though it is a great improvement over the current system, it is both too timid and too complex. Ronald Reagan knew, and most good politicians realize, that their proposals need to be simple and understandable to be elected and their proposals enacted.

Mr. Romney's "59-point" plan ignores the fact that most people cannot even remember the Ten Commandments, let alone a 59-point plan. Parts of the plan make little economic sense, such as a zero capital-gains tax rate on those making under $200,000, but a 15 percent rate for those making more. Many people who make far less than $200,000 in the average year will occasionally have a several hundred-thousand dollar capital gain when they sell something like a farm or small business - and these one-time events do not make them rich.

Advice to the Romney team: Redo your tax plan - make it simple. Reduce tax rates on labor, eliminate the double taxation of capital, and allow businesses full expensing. Make sure you can explain the highlights in two or three sentences. Then develop a spending (cut) plan that fits the revenues from your tax plan.

Mr. Romney is supposed to be the business-savvy candidate. Therefore, he should, more than anyone else, have an economically solid tax-and-spending plan that can be easily marketed. Without it, he has greatly reduced his chances of both obtaining the nomination and winning the election.

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