Tax Plans Show Supply Side's Still-Formidable Grip on GOP

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For devotees of supply-side economics, it's like having a travel agent lay out one dreamy destination after another.

While they vary in particulars, the tax plans of those seeking the 2016 Republican presidential nomination stand united in philosophy: Lower taxes dramatically, and dramatic economic growth will follow.

So far seven of the 15 GOP candidates have committed such ideas to paper, promising deep cuts in individual and corporate rates, lower or no taxes on investment income, quicker capital cost recovery, and easy terms for repatriating overseas earnings.

Free-market conservatives can't wait for one of the plans' authors to be sworn in.

"So clearly if the next president is Republican, [tax cutting] would be on the agenda in the first few months of the administration, because that is also what GOP House and Senate taxwriting committees strongly support," fiscal analyst Chris Edwards of the libertarian Cato Institute told Tax Analysts.

Edwards looks at plans such as Louisiana Gov. Bobby Jindal's, which cuts the corporate rate to zero and the individual rate for most Americans to 10 percent, and has only one response: "Radical! And in a good way."

Supply-side economist Stephen Moore looks at much of what billionaire real estate developer Donald Trump wants to do and says "bravo."

But liberal analysts have quite a different view. The website ThinkProgress.org, associated with the Center for American Progress Action Fund, found the contrast striking: Jindal promising to zero out taxes on corporations while demanding that even the poorest of the poor pay something.

"All of the plans would hugely increase income inequality and would be a catastrophe for the economy," added Robert McIntyre, director of Citizens for Tax Justice.

Because of the dramatic reductions in federal revenue that accompany the GOP plans, liberal observers also perceive a "starve-the-beast" strategy to reduce government by cutting off its funding. It's a strategy that has never worked, they say, just as they contend supply-side has never worked as advertised.

The seven candidates who have released formal plans are Jindal, Trump, former Florida Gov. Jeb Bush, Florida Sen. Marco Rubio, Kentucky Sen. Rand Paul, former Pennsylvania Sen. Rick Santorum, and former Virginia Gov. Jim Gilmore.

What They Would Do

Rates for Individual and Joint Filers

- **Trump:** 0, 10, 20, and 25 percent. Individuals making less than $25,000 annually and couples making less than $50,000 would be exempt. (Prior coverage.)
- **Bush**: 10, 25, and 28 percent. Allows secondary earners to file separately to avoid marriage penalty. (Prior coverage.)
- **Rubio:** 15 percent for individual incomes up to $75,000 and married couples up to $150,000. Incomes above that taxed at 35 percent. (Prior coverage.)
- **Paul:** 14.5 percent flat tax, with the first $50,000 being exempt for a family of four. (Prior coverage.)
- **Jindal**: 2 percent for individuals making $10,000 or less and married filers making $20,000 or less; 10 percent for individual filers making $10,001 to $90,000 and married making $20,001 to $180,000; 25 percent for individuals making more than $90,000 and married making more than $180,000. (Prior coverage.)
- **Santorum:** 20 percent flat tax applicable to all streams of individual income. (Prior coverage.)
- **Gilmore**: 10, 15, and 25 percent. (Prior coverage.)

Deductions and Credits

- **Trump:** Allows those in the 10 percent bracket to keep "all or most" deductions and those in the 20 percent bracket to keep "more than half" of current deductions, while those in the 25 percent bracket "will keep fewer." Charitable and mortgage interest deductions remain. Keeps the earned income tax credit and the child tax credit.
- **Bush:** Increases the standard deduction by $5,000 for single filers and $10,000 for married couples filing jointly. Deduction for state and local taxes eliminated. Itemized deductions, including mortgage interest, capped at 2 percent of adjusted gross income. Deduction for charitable giving still capped at 50 percent of AGI. Expands the EITC, doubling its size for childless workers.
- **Rubio:** Allows only charitable deduction and a reformed mortgage interest deduction that's scaled back for larger mortgages. Abolishes standard deductions and personal exemptions, replacing them with a "personal credit" of $2,000 for individuals and $4,000 for joint filers. Creates $2,500 child tax credit in addition to current $1,000 credit. Keeps the EITC.

- **Paul:** Allows deductions only for home mortgage interest and charitable giving and keeps the EITC.
- **Jindal:** Eliminates the personal exemption, the standard deduction, and itemized deductions. Exceptions include the deductions for charitable giving and mortgage interest (capped at mortgages of $500,000 instead of $1 million). Also establishes a new, nonrefundable "dependents credit" that varies by household size. Administers EITC through payroll taxes.
- **Santorum:** Gives $2,750 individual credit, replacing the standard deduction and personal exemption. It is refundable and replaces the EITC. Child credit is retained. All itemized deductions eliminated except for charitable contributions, deductible in any amount, and mortgage interest, capped at $25,000 a year.
- **Gilmore:** Continues mortgage interest and charitable deductions.

Other Issues for Individual and Joint Filers

- **Trump:** Eliminates marriage penalty, estate tax, and alternative minimum tax while causing high-income filers to reach personal exemption phaseout and Pease limit on deductions sooner. Phases out exemption on life insurance interest for high-income filers.
- **Bush**: Eliminates alternative minimum tax, estate tax, and marriage penalty. Eliminates the personal exemption phaseout and Pease limit. Ends Social Security payroll taxes for workers older than 67.
- **Rubio:** Eliminates the marriage penalty, alternative minimum tax, and estate tax. Eliminates taxes on capital gains and dividends. Reduces subsidies for employer-sponsored health insurance and offers refundable tax credit for use in shopping for health coverage. (Prior coverage .)
- **Paul:** Eliminates payroll taxes, as well as gift and estate taxes. Capital gains and dividends taxed at 14.5 percent.
- **Jindal:** Creates tax-free savings accounts with deposit limit of $30,000 a year. Eliminates marriage penalty, alternative minimum tax, and estate and gift taxes. Capital gains and dividends taxed as ordinary income. Replaces exclusion for employer-based health insurance with a standard deduction for health coverage, whether provided by employer or purchased by individuals.
- **Santorum**: Eliminates marriage penalty, estate tax, and alternative minimum tax. Capital gains and dividends fall under 20 percent tax for other individual and joint income.
- **Gilmore:** Eliminates the estate tax. Abolishes taxes on capital gains and dividends. All pay at least 10 percent, with the tax taken out of a refundable family credit for the poor.

Business Taxes

- **Trump:** Taxes all businesses, regardless of size, at 15 percent. Repatriation of foreign earnings under a one-time rate of 10 percent but no deferral. Puts a "reasonable cap" on deductibility of interest expenses. Abolishes carried interest preference for hedge fund managers and others involved in "speculative partnerships." Reduces or eliminates "corporate loopholes that cater to special interests."
- **Bush**: Lowers corporate rate to 20 percent, with top passthrough rate of 28 percent. Immediate expensing of capital investments. Allows repatriation of overseas earnings at a one-time rate of 8.75 percent -- payable over 10 years -- as part of a switch to a territorial tax system. Ends deferral on foreign earnings and deductibility of interest payments. Abolishes carried interest preference.

- **Rubio:** Lowers corporate rate to 25 percent, which also applies to passthrough entities. Allows for 100 percent expensing and repatriation of foreign earnings at 6 percent rate payable over 10 years. Switches to territorial system. Eliminates deductibility of new debt but exempts most interest income. Would not renew tax extenders. Gives tax credits to firms offering paid leave, up to $4,000 for each worker receiving it. (Prior coverage.)
- **Paul:** Sets a 14.5 percent "business activity tax" on all companies, applied to revenue minus allowable expenses, such as parts, computers, and office equipment. Immediate expensing for all capital equipment.
- **Jindal**: Gets rid of corporate income taxes altogether. Immediate expensing of capital investments for passthroughs. Removes deductibility of interest expenses. One-time repatriation rate of 8 percent.
- **Santorum:** Sets a 20 percent rate, with an initial zero rate for manufacturers, increasing to 20 percent after two years. Allows full, immediate expensing and repatriation of foreign earnings at 10 percent rate. Eliminates deductibility of interest.
- **Gilmore:** Taxes all businesses at 15 percent, with immediate expensing. Allows tax-free repatriation of foreign earnings.

Cost Over a Decade (as estimated by the Tax Foundation)

- **Trump**: $10.14 trillion (dynamic) and $11.98 trillion (static).
- **Bush**: $1.6 trillion (dynamic) and $3.6 trillion (static).
- **Rubio**: $1.7 trillion (dynamic) and $4.14 trillion (static).
- **Paul:** $960 billion (dynamic) and $2.97 trillion (static).
- **Jindal:** $9 trillion (dynamic) and $11.3 trillion (static).
- **Santorum:** $1.1 trillion (dynamic) and $3.2 trillion (static).
- **Gilmore:** No estimate available.

While the plans emphasize many of the same points, there are significant differences. For example, while several eliminate or lower taxes on capital gains and dividends, Bush leaves them unchanged -- except for removing the 3.8 percent net investment income tax added on for high-end filers due to the Affordable Care Act. And Trump actually increases the capital gains and dividends rate from 15 percent to 20 percent for single filers making more than $150,000 and couples making more than $300,000. Another difference involves passthroughs. Five of the seven plans equalize tax treatment of passthroughs and C corps, but Jindal's and Bush's do not, making the former still pay at individual rates, albeit lower ones.

What Businesses Want

For the most part, said Douglas Holtz-Eakin, president of the American Action Forum, the GOP plans "are right in the mainstream of what's been conservative tax policy for several years."

He added in an interview, "Our No. 1 problem is a way-too-slow trend in growth."

The primacy of helping corporations and passthrough entities shows through in all seven proposals. Rubio's, for instance, devotes 11 pages to tax issues involving business levies before devoting six pages to individual and family taxes. And it promises "the United States will once again be a prime destination for business."

While some pro-business Washington organizations hesitate to comment on the proposals of specific candidates, they will say what kind of tax reform they want -- and it sounds a lot like what these plans offer.

Curtis Dubay of the Heritage Foundation says the best way to boost the economy "is to lower marginal tax rates for families, businesses, investors, and entrepreneurs, reduce the double taxation of saving and investment, and to stop the tax code from picking winners and losers in the marketplace."

U.S. Chamber of Commerce spokeswoman Megan Van Etten told Tax Analysts the organization has "long supported comprehensive tax reform that lowers tax rates to a level that enables U.S. businesses to compete successfully in the global economy, attracts foreign investment, increases capital for investment, and drives job creation in the U.S."

The National Association of Manufacturers lists capital cost recovery and the double taxation of capital gains and dividends as among its foremost tax reform concerns.

And Doug Sachtleben, spokesman for the Club for Growth, says his organization lobbies for lower rates, "and there are elements of those in all the Republican plans, and the club hopes the Republican presidential candidates will continue to make that case."

'Donald Dust'

Watchdog groups on the national debt and deficits, however, contend the plans largely offer "goodies" but don't confront hard choices about cutting government spending to offset their revenue losses. The nearly $19 trillion national debt is so high, they add, the country can't afford any more gambles on tax plans that aren't paid for. Paul, though, claims a budget-balancing plan that includes abolishing four cabinet-level departments, and Trump told New Hampshire voters on October 12 he would slash "hundreds of billions of dollars" by going after cabinet departments. Santorum pledges to pay for his plan by repealing the Affordable Care Act. Several candidates also promise to support a balanced budget amendment to the Constitution. Budget groups, however, call that "pie in the sky" talk.
Some, however, credit Santorum with being a little more specific. In addition to calling for ACA repeal, he proposes a 10 percent reduction in the non-defense federal workforce, vetoing appropriations bills that don't take spending restraint "seriously," paring programs in various cabinet departments, transferring numerous others to the states, and close to a dozen other steps to limit federal spending. (Prior coverage .)

Holtz-Eakin agreed that the deficit consequences are an unavoidable issue. "You have to be real and honest about it," he said.

Steven Rosenthal, analyst at the Urban-Brookings Tax Policy Center, took one look at Jindal's plan and dismissed it, saying, "Just another package of large tax cuts, the easy part of tax reform."

Trump, though, claims significant offsets to his lower rates through eliminating many deductions and other preferences available to high-income taxpayers, ending many corporate deductions, ending the deferral on corporate income earned abroad, and encouraging the repatriation of corporate profits. In fact, Trump claims revenue neutrality for his plan, although independent scoring belies it.

Rubio says the kind of economic growth that only tax reform can engender is key to controlling the debt and deficits, along with "holding the line on spending," although he doesn't offer specifics on the latter. And despite scoring to the contrary, he has even claimed his plan would create a surplus after several years.

Add Dennis J. Ventry Jr., law professor at the University of California, Davis, to the skeptics. "The obvious shared theme among the proposals is sharp tax cuts that will magically boost the economy to unseen heights," Ventry said, adding that "equally magical" is the bipartisanship that candidates assume will arise to close loopholes and help pay for what threaten to be "guaranteed and gargantuan revenue losses."

Trump in particular, Ventry said, attempts to sprinkle "Donald Dust" in voters' eyes so that they believe his plan "will not add trillions of dollars to the deficit, raise interest payments on our national debt, or slow the economy but rather [would] double the rate of economic growth from the present rate of 3 percent to 6 percent."

Speaking of revenue losses, even some of the worst-case or static estimates from the Tax Foundation undershoot, other groups say. For instance, Citizens for Tax Justice puts the losses from Paul's plan at $15 trillion over a decade, far more than the foundation's dynamic scoring estimate of $960 billion, its static estimate of $2.97 trillion, or Paul's own estimate of $2 trillion.

Harry Stein of the Center for American Progress Action Fund says history shows supply-side economics doesn't work as promised, with the most recent evidence being the years following the 2001 and 2003 tax cuts under former President George W. Bush. Any growth that followed, he said, was modest at best before the decade closed with the Great Recession.

"They are clinging to this increasingly discredited trickle-down mantra," Stein said, adding that middle-income taxpayers have benefited little from supply-side policies when they've been tried. "The bulk of the economic growth has flowed to the top," he added.
And if these candidates intend to reduce government by starving it of funds, that policy won't fly, some liberals say. They point to, among other support, a 2009 Brookings Institution paper (http://goo.gl/CnTRgH) written by two University of California researchers who studied government spending patterns following tax cuts and found that "the lack of support for a starve-the-beast effect is highly robust." The researchers examined all tax changes approved by Congress from 1945 to 2007.

But candidates like Jindal aren't buying it. In an October 8 blog for Forbes.com he wrote: "We cannot grow both the government economy and the real economy at the same time. My tax plan chooses to starve Washington and feed the heartland."