



Analysts Say Cruz Tax Proposal Is a VAT

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A low flat rate for individuals along with what some are calling a 16 percent VAT for businesses highlight the tax plan of Republican Sen. Ted Cruz of Texas, a candidate for the 2016 GOP presidential nomination.

Cruz unveiled his "Simple Flat Tax Plan" in an October 28 op-ed in *The Wall Street Journal* and during a debate among Republican White House candidates the same day in Boulder, Colorado. (Related coverage [📄](#).) Cruz became the ninth of 15 GOP candidates to commit a tax plan to paper. (Cruz release [📄](#). Prior coverage [📄](#).)

Key provisions include:

- replacing the corporate income tax with a 16 percent tax on net business sales -- gross sales minus expenses and capital investments -- which the Tax Foundation characterized as a subtraction method VAT;
- eliminating payroll taxes;
- allowing repatriation of overseas profits at a one-time rate of 10 percent;
- consolidating the seven tax brackets for individual and joint filers into one 10 percent bracket on all wage, salary, and investment income, with a family of four paying nothing on the first \$36,000;
- keeping the child tax credit and the earned income tax credit, although the latter would have "anti-fraud" and "pro-marriage" reforms;
- keeping deductions for charitable giving and home mortgage interest, with the latter capped at principal values of \$500,000;
- eliminating estate taxes, taxes on overseas profits, the alternative minimum tax, and all taxes related to the Affordable Care Act; and
- establishing tax-free savings accounts worth up to \$25,000.

As he did when he launched his presidential campaign in March, Cruz said his flat tax would lead to the abolishment of the IRS "as we know it" and would end its use as "political weapon, with a simple tax code that is transparent and resistant to corruption." He did not, however, specify how taxes owed would be collected under his plan. (Prior coverage .)

The Tax Foundation estimated the cost of Cruz's plan at \$768 billion over 10 years on a dynamic basis and at \$3.6 trillion under static scoring. The foundation also said it would add 1.39 percent annually to economic growth compared with current tax law.

On the revenue side, it said the VAT alone would bring in at least \$25 trillion over a decade, many times more than the corporate income tax it would replace. The latter brought in \$321 billion in fiscal 2014, according to the Joint Committee on Taxation (JCX-70-15).

A VAT for Americans?

Some, but not all, conservatives warmly greeted Cruz's plan.

"Under the Cruz tax plan, everyone's rate would be lower than today, and everyone would pay taxes at the same rate as their neighbor," said Grover Norquist, head of Americans for Tax Reform. "The Cruz universal savings account is a fantastic idea. In one fell swoop, it would revolutionize savings for every family in America who can't afford a team of financial advisors."

Similarly, Club for Growth President David McIntosh, said: "Ted Cruz's tax reform plan is another example of his strong and steady record on fighting for lower taxes. A flat tax for individuals and for businesses, a generous opportunity for tax-free savings, and the elimination of the death tax and Obamacare taxes are all policies that would clearly stimulate economic growth."

Economist Kyle E. Pomerleau of the Tax Foundation called the business tax proposal "a pure consumption tax. As such, the plan would be pro-growth."

But Chris Edwards, fiscal policy analyst at the Cato Institute, didn't like what he saw. "While Senator Cruz is a champion of small government, his business value added tax would spur government growth," Edwards said. "VATs have fueled the growth of large welfare states in Europe, and a VAT would have the same effect if introduced in the United States."

Edwards added: "Senator Cruz's plan would hide a large share of the cost of government in a much expanded business tax where average voters could not see it. Individuals ultimately pay the burden of business taxes, so for transparency in a democracy, taxes ought to be collected from individuals, not businesses."

Harry Stein, fiscal policy analyst at the left-leaning Center for American Progress Action Fund, said Cruz's VAT would amount to "a huge consumption tax," hitting low- and middle-income Americans the hardest -- especially many retirees and others without wage, salary, or investment income. "They will pay much higher prices because of the VAT," Stein said.

As for the 10 percent rate for individuals, Stein said it represents "huge tax cuts to wealthy people" by increasing the after-tax income of the top 1 percent by almost 30 percent, which would be "enormously expensive." And he said it would be hard for lower-income Americans to take full advantage of the tax-free savings accounts.

While Cruz says his plan will guarantee the future of Social Security and Medicare, Stein said he needs to explain how, since he is eliminating the payroll taxes that fund them now.

Howard Gleckman of the Urban-Brookings Tax Policy Center said: "High-income households would get a big tax cut. Low-income households might also. Hard to know what happens in the middle."

Cruz is at least the second GOP presidential candidate to propose what many regard as a VAT. Similar comments were made about the proposal of Sen. Rand Paul, R-Ky., who in June called for a 14.5 percent rate applied to business revenues minus some allowable expenses. Paul also called for eliminating payroll taxes. (Prior coverage [📄](#).)

Some Democrats have also demonstrated support for a VAT-style tax, notably Senate Finance Committee member Benjamin L. Cardin, D-Md., who proposed the Progressive Consumption Tax Act of 2014 late last year. (Prior coverage [📄](#).)