A Critique of Herman Cain’s 9-9-9 Tax Plan

Cain’s “9-9-9” tax plan calls for a complete overhaul of the current federal tax code, and it would replace the code, eventually and only temporarily, with three taxes — a 9 percent income tax, a 9 percent business transactions tax, and a 9 percent federal sales tax. On paper, the first two look like cuts, because payroll taxes for Social Security and Medicare (now nearly 15 percent, including corporate contributions) would be repealed. The sales tax would be new, on top of existing state sales taxes.

The most notorious critique of Cain’s 9-9-9 plan came from Minnesota Congresswoman Michele Bachmann in Tuesday’s debate. “One thing I would say is, when you take the 9-9-9 plan and you turn it upside down," Bachmann said, "I think the devil's in the details." The Republican presidential hopeful added that Cain’s plan merely creates another federal tax (the federal sales tax), and does little to address the need to reduce the national deficit. “The 9-9-9 plan isn't a jobs plan, it's a tax plan," Bachmann started.

She added: "I would say that from my experience — not only in Congress but also being a federal tax lawyer — the last thing you would do is give Congress another pipeline of a revenue stream. This gives Congress a pipeline in a sales tax. A sales tax can also lead to a value-added tax. The United States Congress put into place the Spanish-American War Tax in 1898. We only partially repealed that in 2006. So once you get a new revenue stream, you're never going to get rid of it."

Other prominent conservatives have criticized the plan. Bruce Bartlett, a former staffer to Jack Kemp and Rep. Ron Paul (R-Texas) and senior analyst in the Reagan and George H.W. Bush administrations, assailed 9-9-9 in an op-ed in Tuesday’s *New York Times*. Bartlett notes that Cain’s campaign has been cryptic in its presentation of the plan, and that his plan is in fact multi-faceted. The 9-9-9 plan is actually an intermediate step in Cain’s plan to overhaul the tax system and jump-start growth. Phase 1 would reduce individual and business taxes to a maximum of 25 percent, which means reducing the top statutory tax rate to 25 percent from 35 percent. The only taxpayers who would get a tax rate cut are those now in the 28 percent, 33 percent, or 35 percent brackets, which amounts to only 4 percent of taxpayers.

Cain’s plan also lacks concrete benefits or incentives for most American businesses; his proposal offers benefits to those companies with revenues of more than $1 million a year. Bartlett notes,

> Other business entities — sole proprietorships, S corporations (which have between 1 and 100

> shareholders and pass through net income or losses to shareholders) and partnerships — would not benefit because they are not taxed on the corporate schedule. But they represent 92 percent of all businesses. Second, Mr. Cain would eliminate all taxes on profits earned by multinational corporations outside the United States. It's hard to know the impact of this provision, but according to Martin Sullivan, an economist with Tax Analysts, the 50 largest corporations in the United States generated half of their profits in other countries.
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> The actual benefit of Mr. Cain's proposal would be much greater to many of them, because, according to Mr. Sullivan, while some of these 50 companies have no foreign operations, others derive 100 percent of their gross profits in foreign countries. In 2010 these included Philip Morris, Pfizer and Abbott Laboratories.

There are some positive attributes to Phase I of Cain's plan, though. It ends all taxes on capital gains, nearly all deductions and special-interest favors, all payroll taxes, the death tax, and gift taxes. It abolishes the double taxation of dividends and the taxation of repatriated profits, allows immediate expensing of business investments, shifts the burden of taxation from production to consumption, and increases capital formation, which will fuel productivity and wage growth.

In Phase II of Cain's plan, his 9-9-9 taxation scheme would be implemented. Rather than eliminating the federal income tax, which is what constitutionalists and many conservatives are hoping for, Cain's plan merely reforms the income tax and levies a new national sales tax on top of it. The 9 percent income, business, and sales tax rates dramatically alter the current tax code's room for exemptions. For instance, the 9 percent income tax rate applies to gross income and does not take into account charitable contributions or deductions that encourage marriage, family cohesiveness, and the like. In this aspect, Cain's plan resembles the IRS's effort under the Obama administration to crack down on tax-deductible contributions to religious, educational, and other philanthropic institutions.

In addition, 47 percent of those who now file taxes but do not pay income taxes due to their income level would now pay income tax, as the plan abolishes the Earned Income Tax Credit (EITC). These lower-income individuals would also pay an additional 9 percent national sales tax that could easily become (as is the case in Europe) a Value Added Tax (VAT) on all purchases (including groceries and gasoline), resulting in an increased cost-of-living. In addition, corporations would lack incentive to create jobs and increase hiring, as there would be no corporate tax deductibles for wages or other business-related expenses.

A VAT is a form of national sales tax that is collected at every stage of the process from the initial sale of raw materials to a manufacturer to the final sale of a finished product to an end-consumer. VAT's allow government to tax the public without their knowing it, since the taxes are already included in the price of the goods and services themselves; big government is perpetuated, as the taxpayers' ignorance is exploited (most people would assume that the increased prices are due to inflation, rather than taxes).

More insidiously, Cain would impose the so-called FairTax, which would amount to a total sales tax rate of 30 percent, along with a 9 percent income tax across the board. The possibility remains that if Cain's 9% personal flat tax failed to remain flat (as happened with Ronald Reagan's promising but ultimately failed 1986 tax reform), we would end up with the worst of both worlds: a confiscatory federal income tax *and* a national sales tax that could become job-crushing VAT, transforming America's relatively laissez-faire economic culture to that of European social democracy. It is also uncertain whether a consumption-based tax can coexist alongside an income tax, no matter how low the rates, and the rates would inevitably increase as government spending increases.

Rather than taking a principled stand against unconstitutional spending, Cain's plan merely perpetuates spending at unsustainable rates financed by a national sales tax. Cain, the former chairman of the Kansas City Federal Reserve, has no intention of tackling Medicare, Medicaid, and Social Security, the three entitlement programs bankrupting the country, nor has he articulated any coherent foreign policy, let alone one of restraint that would keep defense spending at reasonable levels. Cain's plan will generally keep tax revenue at its current levels, perpetuating fiscal largesse that can only continue to lead America to an untimely economic demise. Cain's 9-9-9 tax plan is a big-government "conservative's" dream plan; it allows the welfare-warfare state to continue unabated, all under the guise of being somehow "conservative."