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Enter Stage Left and Right: Tax Plans of the 2016 Presidential Candidates

Two parties, both alike in dignity,
In fair Washington, where we lay our scene,
From ancient grudge break to new tax proposals…

The 2016 presidential candidates will take the stage this week to kick off the first round of primary debates in the new year. This evening, the Republican contenders will make their case once more in a televised debate in North Charleston, SC. Last year the GOP put up more than a dozen candidates, but in just a few short months, the field of competitive candidates has been cut in half. Only seven are left standing for the Jan. 14 primetime debate: Former Governor Jeb Bush, Donald Trump, Senator Marco Rubio, Governor Chris Christie, Senator Ted Cruz, Dr. Ben Carson, and Governor John Kasich. The Democrats will get their turn in Charleston on Sunday, Jan. 17. Standing behind the blue curtain will be former Secretary Hillary Clinton, Senator Bernie Sanders, and former Governor Martin O'Malley.

Nearly all of the candidates have offered ideas for changing the tax code. Some of the tax policy proposals are more detailed than others. Front-page stories on corporate inversions have only intensified calls to rewrite the U.S. tax code. And the completion of the Base Erosion Profit Shifting ("BEPS") project by the Organization for Economic Co-operation and Development ("OECD") has also compounded the sense of urgency to protect the U.S. tax base.

At first blush, Republican proposals differ only by degree — with simplification of the tax code as the common denominator. Meanwhile, the Democratic candidates have chosen to use their proposals to spotlight the perceived lack of fairness in the current tax code, underscoring the need for wealthy Americans to pay their fair share. Presidential campaigns are good incubators for new tax policy ideas, as the sky is the limit when pitching one's fix for the nation's economic ailments. But one of the major concerns with the proposals outlined below is the eye-popping costs associated with cutting rates across the board and cleaning up a code so riddled with complexities — a real obstacle to revenue-neutral tax reform.

That a majority of candidates has already given serious thoughts to overhauling the tax system bodes well for reform in 2017. By all indicators, the tax writers in Congress are eager to engage the next president on efforts to make the tax code fairer, simpler, and more competitive. Both House Speaker Paul Ryan and House Ways and Means Chairman Kevin Brady are determined to produce and vote on a blueprint for international tax reform this year. And Senate Finance Chairman Orrin Hatch recently announced that he would soon unveil a limited tax reform package to stem the tide of inversions. Congress is hoping these proposals would make the path towards comprehensive reform a little easier for the next administration.

For a more detailed look into how presidential campaigns influence the formulation of tax policy, be sure to tune into "The Policymakers' View: How Presidential Campaigns Steer Tax Policy" discussion panel at the Tax Council Policy Institute's 17th Annual Tax Policy & Practice Symposium on Feb. 12, 2016. McGuireWoods' own Russ Sullivan will be moderating the discussion. Click here to view the agenda and registration information.

THE CANDIDATES

JEB!

"Today, the tax code is a labyrinth littered with thousands of special-interest giveaways, subsidies and other breaks written to favor Washington insiders. At 80,000 pages, it's a tax code only an army of tax accountants and lobbyists could love—because they've written it."

What's the big idea?
Former Governor Jeb Bush's tax plan manages to stand out among those offered by his competitors. While it contains similar provisions to lower tax rates, close loopholes, and eliminate several credits and deductions, Bush's plan also features a few surprises such as closing the carried interest loophole that allows fund managers to pay lower taxes.

Breakdown:

Key Corporate Provisions

- Establish top corporate tax rate of 20 percent; establish top pass-through income tax rate of 28 percent.
- Allow full expensing of investment costs.
- Move to a territorial tax system and enact a deemed repatriation of foreign income at an 8.75 percent rate.
- Allow for a 100 percent exemption on dividends received from controlled foreign subsidiaries.
- Eliminate all corporate tax expenditures, such as the Section 199 manufacturers' deduction and various business credits.
- Eliminate the employee side payroll tax for workers over the age of 67.
- Eliminate the deductibility of interest expenses.
- Eliminate the carried interest loophole by taxing it at ordinary income rates.

Key Individual Provisions

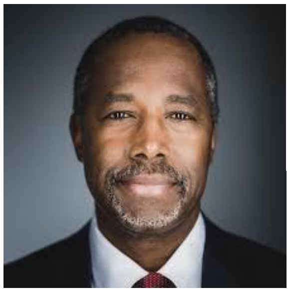
- Consolidate tax brackets from seven to three, with a top marginal income tax rate of 28 percent for those earnings more than $97,751. For those earning between $43,751 and

$97,750, the rate would be 25 percent, and those earning between 11,301 and $43,750 would pay 10 percent.
- Increase the standard deduction from $6,300 to $11,300 for single filers and from $12,600 to $22,600 for married joint filers.
- Allow secondary earners to file separately.
- Tax long-term capital gains and qualified dividends at a top marginal rate of 20 percent.
- Tax interest income at capital gains and dividend tax rates.
- Eliminate the Net Investment Income Tax of 3.8 percent.
- Eliminate the personal exemption phase-out (PEP); eliminate the Pease limitation on itemized deductions.
- Eliminate the state and local income tax deduction.
- Establish caps on all remaining deductions, besides the charitable deduction, at 2 percent of adjusted gross income.
- Eliminate the state and local income tax deduction.
- Eliminate the Alternative Minimum Tax.
- Double the Earned Income Tax Credit (EITC) for filers without children, and expands the EITC for those between 21 and 24.
- Eliminate the Estate Tax and ends stepped-up basis in capital gains for estates currently liable for the estate tax.

Read my lips: My tax plan will push growth to 4 percent

Governor Jeb Bush's tax plan rallies around his war cry and promise to "unleash" 4 percent economic growth, increased investment, and higher wages, while reducing the deficit. The ambitious tax plan tries to accomplish a lot—tax cuts for the top income bracket, tax relief for low earners, corporate tax reform, ending the world-wide tax regime, and major changes for Wall Street as well. The plan is far from revenue neutral, however. According to the Tax Foundation, the plan would reduce federal revenue on a static basis by about $4 trillion over the next ten years. Most of the revenue loss is due to the reduction in individual income tax rates, though the changes to the corporate income tax would cost a about $1 trillion over the next decade.

DR. BEN CARSON



"I do not believe we should abolish the IRS. However, I do believe that we must dramatically simplify the 75,000-page tax code. That is why I support a flat tax…with no deductions, no loopholes and no shelters."

What's the big idea?
By certain measures, Ben Carson's plan is perhaps the most far reaching of all. Carson is the first Republican candidate to completely eliminate all deductions and loopholes, including deductions for mortgage interest and charitable donations. Under the proposal, income would be taxed at a flat 14.9 percent rate. The single tax rate would kick in for those with income above 150 percent of the poverty rate, but Americans who fall below that threshold would still have to pay some unspecified "*de minimis*" tax annually.

Breakdown:

- Impose a flat 14.9 percent tax on income above 150 percent of poverty level.
- Eliminate all deductions and loopholes, including charitable deductions and the mortgage interest deduction.
- Repeal capital gains tax, estate tax, and the Alternative Minimum Tax.
- Provide full expensing for all capital investment.

It takes a brain surgeon.
Carson is the first candidate to eliminate ***all*** tax deductions on the books. He is also the first to get rid of the mortgage interest deduction without caveats, which will put Carson in the crosshairs of the real estate industry. According to the Tax Foundation's analysis, the plan would increase GDP by about 16 percent — the most of any of the plans out there thus far. Additionally, the plan would cost about $6 trillion over ten years based on a static scoring and $2.5 trillion when using dynamic scoring.

HILLARY CLINTON

"I've said I want to be the small-business president, and I mean it… I'm going to be talking about how we empower entrepreneurs with less red tape, easier access to capital, tax relief and simplification. I'll also push for broader business tax reform to spur investment in America, closing those loopholes that reward companies for sending jobs and profits overseas."

What's the big idea?
Former Secretary Hillary Clinton has not released an official tax plan, however, her economic policy speech contains several clues on her views regarding tax reform. The following are central recurring themes in her speeches on tax and economic reform: (1) ensuring that the wealthy pay their fair share and lowering the burden for low- and middle-income families; (2) reforming the U.S. financial system to bring accountability to Wall Street; and (3) creating tax incentives for socially responsible companies.

Breakdown:

Key Corporate Provisions

- Impose an "exit tax" on unrepatriated earnings of U.S. firms that are engaging in inversion transactions.
- Close the carried interest loophole and tax such earnings at ordinary income rates.
- Establish a tax on high-frequency financial transactions.
- Support closing corporate tax loopholes and drives domestic investment
- Eliminate the Volcker rule loophole allowing banks to invest up to 3% of their capital in hedge funds and other speculative investment vehicles and tighten the regulatory definition of what kinds of investment vehicles are considered capped by the 3% rule.
- Revamp the capital gains tax to reward long-term investments that create jobs.
- Create $1,500 "apprentice" business tax credit for every worker a company trains and hires.
- Establish a $750 business tax credit for every $5,000 profit-sharing payment that a business gives to a middle-income worker.

Key Individual Provisions

- Establish a 4 percent surtax on the wealthiest taxpayers who earn more than $5 million per year.
- Create a new minimum 30 percent rate for individuals earning over $1 million (Buffett Rule).
- Commit to no income tax increases for those earning less than $250,000
- Cap the tax benefit of itemized deductions at 28 percent of the deduction.
- Increase rates on medium-term capital gains (investments held for less than six years) to between 24 percent and 39.6 percent.

Focus Group-Tested, Billionaire Approved
Secretary Hillary Clinton recently unveiled her plan for a 4 percent tax on the wealthiest 0.02 percent of Americans making more than $5 million annually— the first step towards expanding the "Buffett Rule." The tax is expected to generate $150 billion in revenue over the next decade. Warren Buffett endorsed Clinton back in December 2015. Clinton has also released a detailed plan to curb corporate inversions. Additionally, investors should pay attention to her plan on reforming the capital gains tax. The plan is designed to encourage long-term investment and discourage short-term gain by activist investors by making it less profitable to sell stock in public companies that has been held for less than two years.

CHRIS CHRISTIE

"The country needs comprehensive tax reform now. The tax code is bloated—over 70,000 pages and four million words, filled with rules and regulations, quirks and quacks that aren't good for anybody. By the IRS's own estimates, Americans spend 3.32 billion hours of their time complying with the code."

What's the big idea?

Governor Chris Christie's tax plan is tame in comparison to other GOP candidates—no shooting range, no VAT, and no flat tax. Instead, Christie is taking lesson from the last major tax-reform effort during the Reagan era. The governor is focusing on lowering the rate on both the corporate and individual side and eliminating most itemized deductions except for the deductions on charitable donations and mortgage interest.

Breakdown:

Key Corporate Provisions

- Lower the top corporate rate to 25 percent from 35 percent.
- Allow for full expensing of investment costs.
- Enact a deemed repatriation of foreign income at an 8.75 percent rate.
- Eliminate the payroll tax for workers under the age of 21 and over the age of 62.

Key Individual Provisions

- Simplify the income-tax system to just three individual income-tax rates, instead of the current seven, with a top rate of 28 percent and a bottom rate of 8 percent.
- Eliminate all itemized deductions except for the charitable deduction and the mortgage interest deduction.
- Repeal the Obamacare 30-hour definition of full-time work, in favor of 40-hours.

Déjà vu?

If Governor Chris Christie's plan for tax reform seems familiar, it's because voters have seen it before. Christie's plan bears a striking resemblance to Mitt Romney's tax plan. Both plans eliminate several special exemptions and deductions, and cut taxes across the board, lowering the top rate to 28%. Christie has also promised voters that he will simplify the "bloated" code, allowing taxpayers to complete tax returns in 15 minutes or less. As the primaries draw closer, Christie still has several gaps to fill, as his position on income tax credits, the alternative minimum tax, income tax rates of capital gains and dividends, and several other issues remains unclear. Without these details, the true economic impact of his plan cannot be ascertained.

TED CRUZ

"Imagine a 10 percent income tax, with every American filling out his or her taxes on a postcard or iPhone app. And abolishing the IRS as we know it."

What's the big idea?
Ted Cruz's tax plan has ruffled quite a few feathers, even within his own party. Cruz's plan takes a radical approach by proposing to abolish the IRS and the entire income tax system in its current form. The central theme of Cruz's plan is simplicity. His plan for individuals purports to allow individuals to file their returns on a postcard. He achieves this by replacing the individual tax system with a single 10 percent flat tax for individuals. For businesses, Cruz has proposed the elimination of the corporate income tax in favor of the 16 percent "business transfer tax."

Breakdown:

Key Corporate Provisions

- Eliminate the corporate income tax.
- Create a broad-based 16% "business transfer tax" or value-added tax (VAT) levied on all business profits, minus capital investment.
- Allow for full expensing of investment costs.
- Abolish the payroll tax, while maintaining full funding for Social Security and Medicare.
- Establish a temporary tax holiday at 10 percent (instead of the full 35 percent) on any deferred foreign profits that are repatriated.
- Levy a 10 percent flat tax on pass-through business income.

Key Individual Provisions

- Replace current individual tax system with a 10 percent tax on all personal income. This includes wages, salaries, interest, capital gains, and dividends.
- Eliminate the Alternative Minimum Tax (AMT).
- Eliminate all individual tax credits except the Child Tax Credit and the Earned Income Tax Credit (EITC).
- Expand the EITC by 20 percent.
- Increase in the Standard Deduction from $6,300 ($12,600 married filing jointly) to $10,000 ($20,000 married filing jointly), while retaining the personal exemption.
- Eliminate all itemized deductions except for the home mortgage interest deduction and the charitable deduction.
- Eliminate certain taxes that were passed as part of the Affordable Care Act, including the Net Investment Income Tax of 3.8 percent and the Medicare surtax of 0.9 percent.
- Create a new "universal savings account" that allows up to $25,000 of tax-deductible saving.

What's in a name?
To some observers, the business transfer tax (BTT) is simply a VAT by another name. Despite efforts to rebrand the BTT as a "flat tax," it has all the characteristics of what tax wonks call a tax-inclusive subtraction-method value added tax. That is, in Cruz's words "a tax on gross receipts from sales of goods and services, minus purchases from other business, including capital investment." This has caused quite a stir amongst conservatives as the VAT is historically unpopular in the U.S., though it is favored in most OECD countries. However, according to a generous estimate from the Tax Foundation, Cruz's VAT may net the government $25.4 trillion over the next decade. This may help Cruz garner some much needed support for his plan, though the overall cost of the plan is anywhere between $3.7 to $16.2 trillion, depending on who is doing the math.

JOHN KASICH

"I think we can have some tax reform, but that doesn't mean tax increases. We ought to make the, the rates flatter. We ought to get rid of a bunch of these loopholes."

What's the big idea?
Ohio Governor John Kasich believes the high tax rate and complexity of the tax code impede economic growth. Kasich's tax plan focuses on: (1) cutting personal and business taxes; (2) simplifying the tax code; and (3) encouraging innovation and risk-taking by creating a globally competitive tax environment.

Breakdown:

Key Corporate Provisions
- Lower the tax rate for corporation to 25 percent from 35 percent.
- Double the value of R&D tax credit for small businesses.
- Replace the current worldwide tax system with a territorial system.
- Apply a low rate to the repatriation of deferred foreign income.
- Allow immediate expensing of capital investments like new equipment, machinery, and buildings.

Key Individual Provisions
- Reduce the number of brackets from seven to three, cutting the top rate to 28 percent and 39.6 percent.
- Reduce long term capital gains rate to 15 percent.
- Increase the Earned Income Tax Credit by 10 percent
- Eliminate the estate tax.

- Eliminate itemized deductions except the charitable and mortgage interest deductions

It's the economy, stupid.
The key objective of Kasich's tax plan is economic growth. The governor proposes to balance the budget in eight years but has not yet provided details on how he would do so. His tax plan includes cuts to both the individual and corporate tax rate, which would primarily be paid for by the elimination of the itemized deductions. Unlike other GOP candidates that support some form of repatriation, Kasich has not set a definitive rate. Kasich's plan also lacks details on capital investment property eligible for immediate expensing.

RAND PAUL

"Some of my fellow Republican candidates for the presidency have proposed plans to fix the tax system. These proposals are a step in the right direction, but the tax code has grown so corrupt, complicated, intrusive and antigrowth that I've concluded the system isn't fixable."

What's the big idea?
Rand Paul's tax plan would "blow up the tax code and start over" by replacing all federal taxes with a 14.5 percent flat tax on personal and corporate income, with a few "minor" exceptions—the plan would still retain several popular tax write-offs. Estimates by the Tax Foundation have placed a $1 trillion to $3 trillion price tag on the plan over a decade. The Citizens for Tax Justice have come up with a higher number—estimating a ten-year loss of $15 trillion.

Breakdown:

Key Corporate Provisions
- Replace the corporate income tax with a 14.5 percent business transfer tax.
- Establish a 14.5 percent rate for pass-through income.
- Allow for the full expensing of investment costs.
- Move towards territorial tax system.
- Eliminate the payroll tax.

Key Individual Provisions
- Replace the individual and corporate income tax, the payroll tax, the estate tax, and federal excise taxes with a flat tax at a rate of 14.5 percent. Increase the standard deduction to $15,000 per filer.
- Increase the personal exemption to $5,000 per person.
- Eliminate all credits except for the earned income tax credit and the child tax credit.
- Eliminate all itemized deductions except for the charitable deduction and the mortgage interest deduction.
- Eliminate the Alternative Minimum Tax.

- Lower the rate on capital gains and dividends income to 14.5 percent.
- Eliminate the estate tax.

Start with a Bang

Rand Paul unveiled his tax reform plan at a shooting range, riddling a copy of the Internal Revenue Code with bullet holes from his AR-15 assault rifle. The theatrics match the radical nature of his plan. On the corporate side, the plan introduces a business transfer tax, which is Paul-speak for a value added tax. The VAT draws criticism from anti-tax conservatives and liberals alike. For conservatives, VATs are seen as fueling big government; for liberals, they are too regressive, falling more heavily on lower-income taxpayers who spend a larger portion of their income on day-to-day necessities, unlike high-income earners who can afford to save most of what they make.

Critics have pointed out that Paul's flat tax would fail to raise enough revenue, costing the government about $1 trillion to $3 trillion over a decade. However, according to the Tax Foundation, cutting the tax on wage income to 14.5 percent also increases the incentive to work and results in 3.5 percent additional private business hours of work, the equivalent of 4.3 million full-time jobs.

MARCO RUBIO

"I believe by cutting taxes and simplifying the tax code, we will grow our economy and create more taxpayers rather than more taxes."

What's the big idea?

Senator Marco Rubio was the first among his field to put forth a detailed proposal to rewrite the country's tax code. Rubio's plan features three key components: (1) all business income would face a 25 percent tax, (2) foreign income would be exempt from taxation in the shift to a territorial system of taxation, and (3) a new child tax credit for the middle class.

Breakdown:

Key Corporate Provisions

- Lower the tax rate for corporations *and* pass-throughs to 25 percent.
- Shift the U.S. to a territorial system of taxation for corporate earnings.
- Impose a 6 percent deemed repatriation rate over 10 years for deferred income.
- Allow businesses to immediately expense the cost of investments – 100% expensing.
- Simplify the individual tax code by reducing the number of tax brackets from seven to two – with rates at 15 percent and 35 percent.
- Eliminate most business tax credits and deductions, except for the charitable contribution deduction and mortgage interest deduction (*with some reforms*).

- Reform treatment of interest income, making it no longer taxable or deductible.

Key Individual Provisions

- Create a new $2,500 Child Tax Credit.
- Eliminate the standard deduction, replacing it with a refundable personal credit.
- Lower capital gains to zero percent, but the sale of appreciated assets will face a one-time tax.
- Simplify and consolidate higher education tax credits into a single $2,500 tax credit.
- Repeal all taxes under the *Affordable Care Act*.
- Repeal the estate tax.

The $6 Trillion Question.
Rubio set himself apart early from the rest of his competitors by unveiling a well-baked tax reform proposal. Though the Rubio's plan gives much consideration to low-income Americans, the treatment of capital gains has some critics pointing to the regressivity of the plan. Simplifying the code as Rubio proposes improves efficiency, but based on the Tax Foundation's analysis, simplification comes at a cost: $6 trillion over the ten years to be exact. That's a hefty price tag that would frustrate any attempts to implement the plan.

BERNIE SANDERS

"We haven't come up with an exact number yet. But it will not be as high as the number under Dwight D. Eisenhower, which was 90 percent," Sanders said when asked how high he would raise the top tax rate.

What's the big idea?
Since the launch of his campaign, Senator Bernie Sanders has yet to unveil a comprehensive tax plan. The Vermont senator told reporters that he would release a detailed proposal on Feb. 1. As we wait for the official plan, a tax bill introduced by Sanders back in April 2015 is telling. The *Corporate Tax Dodging Prevention Act* outlines six key provisions to reform the U.S. tax code.

Breakdown of the *Corporate Tax Dodging Prevention Act*

- End the deferral of taxes on overseas earnings but maintain the foreign tax credit.
- Close loopholes that allow firms to claim foreign tax credits even if that income is not subject to U.S. tax.
- Make it harder for U.S. companies to invert — a company would not be able to claim to be "foreign" if their management and operations are primarily based in the United States. A company that has inverted would still be subject to U.S. taxes so long as the company is majority-owned by Americans.
- Prevent "earnings stripping" by limiting the ability of companies to deduct interest

- payments.
- Close a loophole that treats certain royalty payments as "foreign taxes."

Feel the Bern.
Though Sanders has yet to introduce a comprehensive tax plan, the senator's fire-and-brimstone speeches across the country against the widening wealth inequality portend higher taxes for high-income individuals and big businesses.

DONALD TRUMP

"It'll simplify the tax code. It'll grow the American economy at a level that it hasn't seen for decades, and all of this does not add to our debt or our deficit."

What's the big idea?
It's huuuuuuge. Donald Trump's plan would slash the current corporate tax rate from 35 percent and cap it at 15 percent. Americans earning less than $25,000 ($50,000 for couples) would owe no income tax. Trump also sets out to eliminate the controversial "carried interest" loophole.

Breakdown:

Key Corporate Provisions
- Levy a one-time 10 percent tax on U.S. multinationals' foreign earnings, whether the money is brought back to the U.S. or not ("deemed repatriation").
- Reduce the corporate rate to 15 percent from the current 35 percent.
- End the deferral of taxes on overseas earnings while maintaining the foreign tax credit.

Key Individual Provisions
- Taxpayers making less than $25,000 (or $50,000 for couples) would pay no taxes, while individuals making more than $150,000 would be taxed at a top rate of 25 percent.
- Consolidate the current individual tax brackets from seven to four: at 0 percent, 10 percent, 20 percent, and 25 percent.
- Set capital gains rate at 20 percent for those making more than $150,000.
- Eliminate "carried interest" loophole.
- Reduce or eliminate deductions for higher-income taxpayers and cap deductions for middle-income taxpayers.
- Maintain deductions for mortgage interest and charitable giving.
- Repeal the estate tax.

Just how huge?
Trump's plan is pretty huge according to estimates by the Tax Foundation. By both static and dynamic scoring methods, the package would cost more than $10 trillion over a decade. Trump's 10 percent repatriation rate is also the highest proposed rate among the Republican contenders.

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