Client Alert

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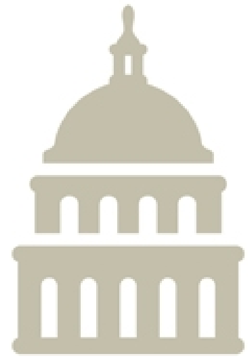
If you read one thing…

- A crowded field of presidential candidates advances many competing tax plans, with many specific details yet to come
- A consensus on the need for comprehensive reform has developed on both sides of the aisle, but disagreements over which tax rates to change and how to allocate revenue remain.



The Developing 2017 Tax Agenda: The Tax Plans of Presidential Candidates

With Gov. John Kasich (R-OH) officially in the race for President, the total number of Republican candidates for President stands at 17, while Democrats, led by former Secretary of State Hillary Clinton (D-NY), total five. This crowded field of presidential candidates has produced a wide variety of tax policy positions and plans for tax reform as evidenced in the Democratic and Republican candidate breakdown. While almost every candidate has acknowledged the need for tax reform, many have been slow to disclose the specifics of their reform proposals. Nonetheless, general themes are taking shape, with Republicans favoring lower rates overall and Democrats seeking to ease the tax burden on middle-class taxpayers. Candidates in both parties seem focused on the need for stimulating economic growth.

Republican Field

A number of Republican candidates favor some version of a “flat” tax rate on personal income, with proposals ranging from 10 to 15 percent based on income levels. Sen. Marco Rubio’s (R-FL) proposal would implement a 15 percent rate on middle-class earners, with a rate of 35 percent for higher-income taxpayers. Similarly, Sen. Rand Paul (R-KY) has proposed a 14.5 percent “Flat and Fair” tax rate that would apply to all earners and businesses, with the first $50,000 of family income untaxed. Sen. Ted Cruz (R-TX) has said that he supports a flat tax, but he has not provided details as to a specific rate level. Neurosurgeon Ben Carson (R-MD) has proposed a flat tax rate of 10 percent.

Another priority for Republican candidates appears to be lowering the corporate tax rate to encourage investment in the United States and the repatriation of foreign earnings. Proposals by Sen. Rubio and Gov. Chris Christie (R-NJ) would reduce the maximum corporate rate to 25 percent, while former Gov. Rick Perry (R-TX) has proposed a 20 percent rate. Other candidates support lowering the corporate rate but have not given a specific tax level. As stated above, Sen. Paul's plan would apply a 14.5 percent rate to businesses, as well as individuals.

The candidates generally agree that taxes on capital gains and dividends should be lowered or eliminated. In addition, many proposals assert that any revenue loss from reducing tax rates should be offset by restricting or eliminating various tax deductions, with the exception of charitable donations and mortgage interest.

While candidates have stated that their proposals would result in either revenue increases or at least no increase in the federal deficit, none of the plans to date has been scored by the Congressional Budget Office or Joint Committee on Taxation, who are the official budget and revenue scorekeepers for Congress. However, Sen. Paul's tax plan was analyzed by the Tax Foundation, which concluded that it would "grow the economy by 9.4 percent in the long run, create 1.4 million jobs, and cost $2.97 trillion over ten years on a static basis and $960 billion when accounting for economic growth".[1] The Tax Policy Center declined to do a full analysis of the Paul plan until more details are disclosed, but did comment that Sen. Paul's plan would likely result in dramatically reduced revenue for entitlement programs, such as Social Security and Medicare.[2] Senator Lindsey Graham (R-SC) has said that he supports the Simpson-Bowles budget plan, which would lower individual and corporate rates and broaden the tax base. Of the 17 Republican Presidential candidates, only Gov. Bush (R-FL), Gov. Pataki (R-NY), Gov. Gilmore (R-VA) and Mr. Trump (R-NY) have not signed the Americans for Tax Reform Taxpayer Protection Pledge, by which candidates pledge not to support any tax increase.

During the Republican presidential debates on August 6, candidates were not asked many questions about tax policy and therefore did not elaborate on their tax policy positions. However, two candidates, former Gov. Mike Huckabee (R-AR) and Dr. Carson, did express support for the Fair and Flat tax plans as a way to simplify the tax code. Dr. Carson described his 10 percent flat tax rate as a form of "tithe" for all earners, regardless of income level. Gov. Bush and current Gov. Scott Walker (R-WI), as well as Gov. Kasich, touted various reductions in state taxes enacted in their respective states. Several of the other candidates pledged to lower corporate tax rates as a means to stimulate economic growth.

Democratic Field

Secretary Clinton remains the front-runner of the Democratic field. While she has not released a specific tax plan, Secretary Clinton has expressed support for lowering the tax burden on middle-class taxpayers. In addition, Secretary Clinton has indicated that, if elected, she would close several business tax "loopholes", including the current tax treatment of carried interest. Secretary Clinton has also stated that she opposes the current tax incentives for oil and gas companies and would seek to end them. That said,

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[1] "The Economic Effects of Rand Paul's Tax Reform Plan," by Andrew Lundeen, Michael Schuyler, Tax Foundation, available at http://taxfoundation.org/blog/economic-effects-rand-paul-s-tax-reform-plan

[2] "Rand Paul's Tax Cut Isn't Quite What It Seems," Forbes, available at http://www.forbes.com/fdc/welcome_mjx.shtml

she has expressed support for implementing tax incentives to encourage profit-sharing between businesses and their employees and has proposed a $1,500 tax credit for businesses that hire apprentices. Recently, Secretary Clinton proposed a comprehensive college affordability plan, financed by a 28 percent cap on itemized deductions similar to the budget proposal advanced by President Obama.

Sen. Bernie Sanders (I-VT) appears to be narrowing the gap with Secretary Clinton in several national and state-specific polls. With respect to Sen. Sanders' tax policy positions, he has proposed to increase and restructure the estate tax, beginning with a 45 percent rate on estates worth up to $7 million, a 50 percent rate on those worth $7 million to $10 million and a 55 percent rate on those worth $10 million to $50 million. In addition, Sen. Sanders has expressed support for an additional 10 percent surtax on estates valued at more than $1 billion. Sen. Sanders has also sponsored legislation that would change the current tax rules for corporate inversions and earnings stripping by foreign companies, and another bill that would prohibit U.S. corporations from deferring federal income taxes on profits of offshore subsidiaries. Like Secretary Clinton, Sen. Sanders opposes current tax incentives for the oil and gas industry.

Other Democratic presidential candidates, such as former Maryland Gov. Martin O'Malley (D-MD) and former Sens. Jim Webb (D-VA) and Lincoln Chafee (D-RI), have all expressed support for lowering individual tax rates generally while not advancing any specific tax plans. The one exception was an open letter written by Gov. O'Malley to the financial sector on July 9, 2015, outlining steps that he would take to prevent another major banking crisis. In that letter, he proposes a tax on financial instruments to discourage high-frequency trading and a separate financial transaction tax to discourage speculation.

Outlook: The Developing 2017 Tax Agendae

At this stage, the field of presidential candidates in both parties is quite diverse and unsettled—as is the eventual tax agenda for 2017 after the election of a new President in November 2016. Obviously, the congressional elections in November 2016 will also have a significant bearing on the specific issues that eventually comprise the tax agenda in the new Congress. Understandably, most candidates have not provided many specifics of their tax reform plans, but a general consensus for comprehensive tax reform appears to be developing on both sides of the aisle. However, the devil is always in the details, and "tax reform" means many different things to many different candidates. At this point, the developing consensus appears to be one of theoretical agreement that the current tax system is broken—measured by its complexity, inefficiency and policy sclerosis. We will be tracking developments among these presidential candidates and will be reporting on any that may have a significant bearing on the 2017 tax agenda and the prospects for comprehensive tax reform.

For more information, please review the charts summarizing Democratic and Republican presidential candidates' public tax positions.

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