CTJ Citizens for Tax Justice

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Herman Cain's 9-9-9 Plan:

$210K Tax *Cut* for Richest 1%, $2K Tax *Hike* for Bottom Three-Fifths of Taxpayers

If presidential candidate Herman Cain's proposed "9-9-9 tax plan" was in effect today, then the richest one percent of taxpayers would each pay $210,000 less in annual taxes on average, while the poorest 60 percent of taxpayers would each pay about $2,000 more in annual taxes on average, than they do now. Moreover, under the 9-9-9 plan, the United States government would collect about $340 billion less in revenue in 2011 alone.

Impacts of Herman Cain's 9-9-9 Plan if in Effect During 2011

Income Group	Average Tax Changes: Replace Personal Income & Payroll Taxes with 9% Individual Flat Tax	Replace Corporate Income Tax with 9% Business Flat Tax	Replace Estate & Excise Taxes with 9% Sales Tax	Net Tax Change
Lowest 20%	$ +418	$ +598	$ +1,057	$ +2,073
Second 20%	–509	+1,272	+1,762	+2,524
Middle 20%	–2,934	+2,258	+2,311	+1,635
Fourth 20%	–7,024	+3,965	+3,079	+20
Next 15%	–14,621	+6,500	+3,614	–4,507
Next 4%	–35,885	+9,391	+5,511	–20,983
Top 1%	–209,974	–7,663	+7,508	–210,129
ALL	$ –7,631	$ +2,851	$ +2,425	$ –2,354
Addendum:				
Lowest 60%	$ –1,009	$ +1,376	$ +1,710	$ +2,077

Source: Institute on Taxation and Economic Policy tax model, October 2011

Note: The "baseline" against which the 999 plan is measured is current law taxes for 2011 except that the temporary payroll tax holiday (which is not part of the normal tax rules) is not included.

Cain's proposed tax plan would replace all existing federal taxes with three new taxes: a flat nine percent individual income tax, a flat nine percent "business tax," and a nine percent national sales tax.

9% Individual Flat Tax: The nine percent individual tax would apply to "gross income less charitable deductions" and would exempt capital gains. This individual tax would generate much less revenue than the existing federal income and payroll taxes and the change would especially benefit the richest taxpayers, who currently pay effective tax rates much higher than nine percent and receive most capital gains. Cain's individual income tax would also result in a big tax *increase* on the poorest Americans, who would lose the benefit of existing tax breaks like the Earned Income Tax Credit and the Child Tax Credit.

9% Business Flat Tax: The nine percent business tax would apply to a business's "gross income less all investments, all purchases from other businesses and all dividends paid to shareholders." As a result, it appears that there would be nothing left of a business's revenue to tax other than the revenue going towards wages. (Companies would have no incentive to retain unreinvested earnings, since they could avoid the "business tax" by paying those earnings out as dividends.) In other words, the nine percent "business flat tax" under Cain's plan actually seems to be a payroll tax. Of course, such a payroll tax would affect low- and middle-income people far more than the corporate income tax it would replace, as illustrated in the table above. These calculations incorporate the assumption of the Congressional Budget Office that the existing corporate income tax is ultimately paid by the "owners of capital," or the owners of stocks and other business and investment assets, which are concentrated among the well-off. This is why replacing the existing corporate income tax with Cain's proposed business tax (which has the effect of a wage tax) would result in an average tax increase for all income groups illustrated in the table except for the richest one percent.

9% National Sales Tax: Finally, Cain's plan would introduce, for the first time, a broad-based national sales tax, with a rate of nine percent. Replacing the remaining federal taxes (estate and gift taxes, tobacco taxes, gas taxes) with the nine percent sales tax will result in a tax increase for all income groups. Compared to income taxes, consumption taxes like sales taxes or value-added taxes are very regressive, meaning they take a larger percentage of a poor family's income than they take of a rich family's income. Unlike an income tax, a consumption tax does not apply to income that is saved or invested, and rich families are able to save and invest a much larger percentage of their income than less well-off people. Poor families are likely to put all of their income towards consumption; they typically have nothing left to save after buying necessities.

Revenue Loss and Regressive Impacts Even Greater in the Future

The estimates here compare the Cain plan to the tax rules in effect in 2011, which themselves collect less revenue, and are more regressive, than the tax rules that will be in effect in 2013. That's because the tax cuts first enacted under President George W. Bush and recently extended under President Obama are in effect only through 2012. Under current law, the federal tax system in 2013 will therefore generate more revenue and will be more progressive, because the Bush tax cuts (which disproportionately benefit the wealthy) will have expired.[1] In other words, the Cain plan would be even more costly and regressive compared to the tax rules that will go into effect in 2013.

Appendix: Technical Details

The nine percent individual flat tax would apply to gross income minus capital gains and minus charitable deductions. It is assumed that the exemption for capital gains would apply only to long-term capital gains. The plan says nothing about Social Security benefits, most of which are excluded from gross income under current tax law. This analysis assumes that the individual flat tax only applies to the portion of Social Security benefits that are taxable under current law.

Current law only allows charitable contributions to be deducted by taxpayers who "itemize" their deductions. It is assumed that taxpayers who currently take the itemized deduction for charitable contributions would deduct the same amount of contributions under the Cain plan as they do now and that many of those who are non-itemizers under current law would also deduct contributions. It has been estimated that non-itemizers make a fifth of all charitable contributions,[2] meaning their charitable contributions are equal to about one fourth of the contributions deducted by itemizers. This analysis therefore assumes that those who are currently non-itemizers would deduct about a fourth as much in charitable contributions as those who currently itemize.

The 9 percent sales tax would be essentially a tax on personal consumption. Cain's plan does not specify what exactly the base of this tax is. (In other words, the plan does not specify the types of consumption the tax would apply to). It is practically impossible to tax all personal consumption. (For example, it would be difficult practically and politically to tax all consumption of health care services.) For states that currently levy a sales tax, the base of the sales tax is only 43 percent of total personal consumption expenditures (PCE), on average. It is assumed that the base for Cain's national sales tax would be larger, but not unrealistically out of line with those of European countries that have a VAT (which has the same effect). We therefore assume his 9 percent sales tax would apply to 55 percent of PCE.

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[1] If the Bush income and estate tax cuts were extended through 2013 and beyond, federal revenue would be reduced by about $5.4 trillion over a decade and over 47 percent of the benefits would go to the richest one percent of taxpayers. See Citizens for Tax Justice, "Another Decade of Bush Tax Cuts Will Cost More than Twice as Much as the First Decade," June 7, 2011; Citizens for Tax Justice, "The Bush Tax Cuts After Ten Years," June 2, 2011.

[2] Congressional Budget Office, "Effects of Allowing Nonitemizers to Deduct Charitable Contributions," December 2002, p.2.