

My Tax and Spending Reform Plan

Individuals will have the option of paying a 20% flat-rate income tax and I'll cap spending at 18% of GDP.

By RICK PERRY [With commentary by Jason at http://passionofamoderate.com](http://passionofamoderate.com)

The folks in Washington might not like to hear it, but the plain truth is the U.S. government spends too much. Taxes are too high, too complex, and too riddled with special interest loopholes. And our expensive entitlement system is unsustainable in the long run.

[This is classic Perry. The topic at hand is his own tax plan, but he starts (and ends) by establishing the rhetorical framework of Perry v. Washington. The choice of "Washington" is significant for its symbolic flexibility. Mainstream Republicans can read it as a substitute for the president or Democrats in general. Tea Party supporters can read it to include "establishment" Republicans, including Mitt Romney (who might not be in Washington but may still be seen as part of the problem and who is rejecting a flat tax).]

Without significant change quickly, our nation will go the way of some in Europe: mired in debt and unable to pay our bills. President Obama and many in Washington seem unable or unwilling to tackle these issues, either out of fear of alienating the left or because they want Americans to be dependent on big government. [Obama and the Democrats are either sinister or fearful – never well-meaning but mistaken.]

Comment [J1]: Note again the flexible Washington reference

On Tuesday I will announce my "Cut, Balance and Grow" plan to scrap the current tax code, lower and simplify tax rates, cut spending and balance the federal budget, reform entitlements, and grow jobs and economic opportunity.

Comment [J2]: This, of course, was published on Tuesday and was the broadest announcement he probably got. But he's hoping more people will tune in to the speech.

The plan starts with giving Americans a choice between a new, flat tax rate of 20% or their current income tax rate. The new flat tax preserves mortgage interest, charitable and state and local tax exemptions for families earning less than \$500,000 annually, and it increases the standard deduction to \$12,500 for individuals and dependents.

Comment [J3]: He's simply tweaked the Republican's "Cap, Cut, Balance" mantra of the debt ceiling fight to include a reference to job growth.

This simple 20% flat tax will allow Americans to file their taxes on a postcard, saving up to \$483 billion in compliance costs. By eliminating the dozens of carve-outs that make the current code so incomprehensible, we will renew incentives for entrepreneurial risk-taking and investment that creates jobs, inspires Americans to work hard and forms the foundation of a strong economy. My plan also abolishes the death tax once and for all, providing needed certainty to American family farms and small businesses.

This plan is, of course, anything but simple. Now, instead of one rate, everyone has two rates, which they can choose among. He's also keeping in place key exemptions for some people (mostly applicable to the middle-class) and raising a significant deduction. He also goes with the Republican line here that a proposed *change* in the tax code diminishes uncertainty.

My plan restores American competitiveness in the global marketplace and provides strong incentives for U.S.-based employers to build new factories and create thousands of jobs here at home.

First, we will lower the corporate tax rate to 20%—dropping it from the second highest in the developed world to a rate on par with our global competitors. Second, we will encourage the swift repatriation of some of the \$1.4 trillion estimated to be parked overseas by temporarily lowering the rate to 5.25%. And third, we will transition to a "territorial tax system"—as seen in Hong Kong and France, for example—that only taxes in-country income.

I will admit to being baffled by the intermediate stage regarding the temporary 5.25% to encourage repatriation of \$1.4 trillion. Wouldn't just moving to the "territorial tax system" be sufficient to invite repatriation of those funds, since they wouldn't be taxed under that new system? Also, we've done this before and found that it didn't do much for job creation. If that's the case, why else is it so important to "repatriate" those funds?

The mind-boggling complexity of the current tax code helps large corporations with lawyers and accountants devise the best tax-avoidance strategies money can buy. That is why Cut, Balance and Grow also phases out corporate loopholes and special-interest tax breaks to provide a level playing field for employers of all sizes.

I agree with this point, which I think is the best reason for an overhaul of the corporate tax code. Right now the complexity favors companies with the money to lobby for special loopholes and fight the legal battles to take advantage of them. A balanced marketplace should have a more equitable tax system. But why "phase out" loopholes and tax breaks? Won't that create more of the dreaded "uncertainty" we're supposed to avoid?

To help older Americans, we will eliminate the tax on Social Security benefits, boosting the incomes of 17 million current beneficiaries who see their benefits taxed if they continue to work and earn income in addition to Social Security earnings.

We will eliminate the tax on qualified dividends and long-term capital gains to free up the billions of dollars Americans are sitting on to avoid taxes on the gain.

All of these tax cuts will be meaningless if we do not control federal spending. Last year the government spent \$1.3 trillion more than it collected, and total federal debt now approaches \$15 trillion. By the end of 2011, the Office of Management and Budget expects the gross amount of federal debt to exceed the size of America's entire economy for the first time in over 65 years.

Under my plan, we will establish a clear goal of balancing the budget by 2020. It will be an extremely difficult task exacerbated by the current economic crisis and our need for significant tax cuts to spur growth. But that growth is what will get us to balance, if we are willing to make the hard decisions of cutting.

Tax cuts: relatively specific. Spending cuts: TBD. Also, how does he know the budget can (or should) be balanced in 7 years if he doesn't know how he'll do so. And, of course, until the budget is balanced he'll be adding to that alarming debt. Only a budget surplus (target date 2030?) will start reducing the debt.

We should start moving toward fiscal responsibility by capping federal spending at 18% of our gross domestic product, banning earmarks and future bailouts, and passing a Balanced Budget Amendment to the Constitution. My plan freezes federal civilian hiring and salaries until the budget is balanced. And to fix the regulatory excess of the Obama administration and its predecessors, my plan puts an immediate moratorium on pending federal regulations and provides a full audit of all regulations passed since 2008 to determine their need, impact and effect on job creation.

Economists are already having a field day with the numbers here, so I'll leave that to them. But unlike the spending cuts, he doesn't really have a plan for reforming regulation. Instead, he's going to take the bold step of ... an audit! (In seriousness, though, who can disagree that regulations should take job creation into account as variable in the decision process?)

ObamaCare, Dodd-Frank and Section 404 of Sarbanes-Oxley must be quickly repealed and, if necessary, replaced by market-oriented, common-sense measures.

Quick, what's the "common-sense" solution to health-care or financial regulation? (Only "market-oriented" responses will be accepted.) Wait, there isn't one. Otherwise, we'd all have agreed and passed it by now. But I do appreciate that Perry leaves open the possibility that the government might actually have to address these issues.

America must also once and for all face up to entitlement reform. To preserve benefits for current and near-term Social Security beneficiaries, my plan permanently stops politicians from raiding the program's trust fund. Congressional IOUs are no substitute for workers' Social Security payments. We should use the federal Highway Trust Fund as a model for protecting the integrity of a pay-as-you-go system.

Cut, Balance and Grow also gives younger workers the option to own their Social Security contributions through personal retirement accounts that Washington politicians can never raid. Because young workers will own their contributions, they will be free to seek a market rate of return if they choose, and to leave their retirement savings to their dependents when they die.

Congressional borrowing against Social Security is simply not the problem (with Social Security). It's a matter of demographics. Guaranteeing existing benefit levels to "current and near-term" beneficiaries while allowing younger workers to contribute less of the system will result in a speedier end of the system for those workers caught in between (the not-quite-near-enough-term workers). We need some combination of cutting benefits and/or increasing inputs, not maintaining benefits and diminishing inputs.

Fixing America's tax, spending and entitlement cultures will not be easy. But the status quo of byzantine taxes, loose spending and the perpetual delay of entitlement reform is a recipe for disaster.

Cut, Balance and Grow strikes a major blow against the Washington-knows-best mindset. It takes money from spendthrift bureaucrats and returns it to families. It puts fewer job-killing regulations on employers and more restrictions on politicians. It gives more freedom to Americans to control their own destiny. And just as importantly, the Cut, Balance and Grow plan paves the way for the job creation, balanced budgets and fiscal responsibility we need to get America working again.

Comment [J4]: Perry returns to the Perry v. Washington framework. Apparently one significant reason for tax reform is sticking it to government bureaucrats and politicians.

Comment [J5]: Oh, good, so at least employment is an equal priority to anti-government message-sending.

Mr. Perry, a Republican, is the governor of Texas and a candidate for president.