A COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET PROJECT

USBUDGETWATCH

Primary Numbers: The GOP Candidates and the National Debt

Addendum: Governor Romney's New Tax Reform Plan

February 23, 2012

On February 22, 2012, Governor Mitt Romney unveiled some details for a comprehensive tax reform plan designed to lower corporate and individual rates, reduce tax expenditures, maintain progressivity in the tax code and ensure that the entirety of his proposals – including tax and spending measures – is deficit-neutral.[i] The components of his tax plan include:

1) Abolishing the Estate Tax.
2) Eliminating taxes on capital gains, dividends, and interest for those with income below $200,000 per year.
3) Reducing the corporate tax rate to 25%.
4) Moving to a "territorial system" for taxing corporate income abroad.
5) Reducing all individual tax rates across-the-board by 20%, meaning the top rate would fall from 35 to 28 and the bottom rate from 10 to 8.
6) Eliminating the Alternative Minimum Tax on both the corporate and individual sides.
7) Permanently extending the Research & Experimentation tax credit.
8) Reforming or repealing various credits, exclusions, and deductions – particularly for higher earners – while retaining some provisions for savings, housing, and charitable giving for middle-income Americans.

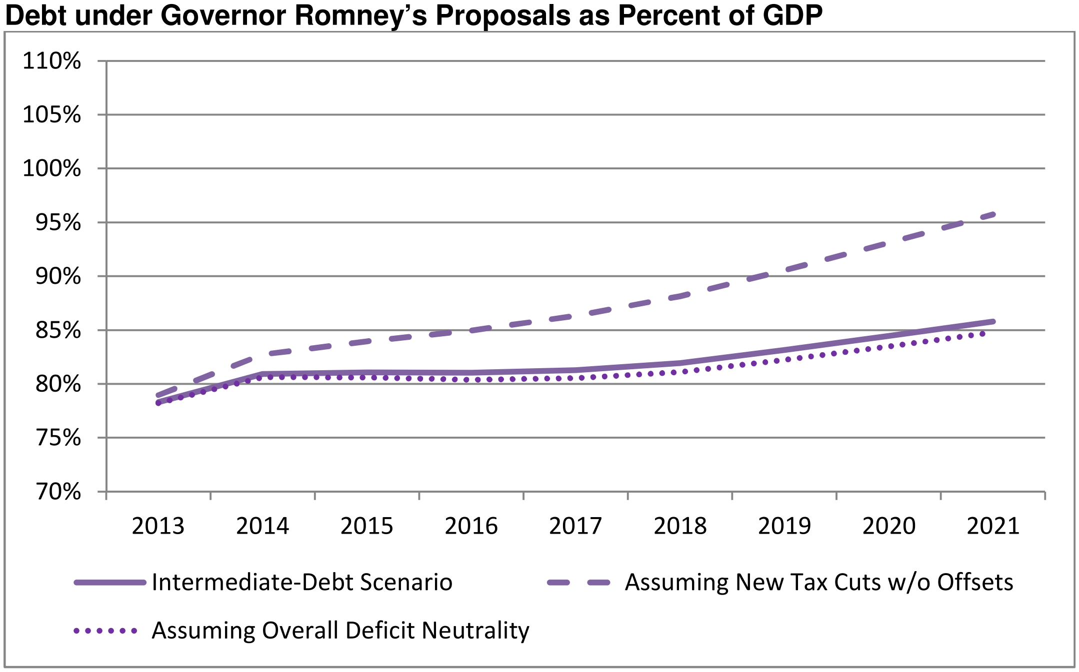
Items #1 through #4 were previous staples of Governor Romney's tax plan, which we have included in our broader analysis and which we estimated would cost more than $1.3 trillion through 2021 in our report, ***Primary Numbers***. The effect of the additional policies will depend on the extent to which Governor Romney would broaden the tax base by repealing or reforming tax expenditures. For simplicity, we have looked at the potential effects of this plan assuming Romney's policies are otherwise measured as in our intermediate-debt scenario; under this scenario we project an increase of **$250 billion** in the debt through 2021. We have attempted to provide an upper- and lower-bound estimate of his newly-released tax plan, which will be refined as further details emerge.

The Romney campaign has said that there will be significant enough base broadening to make their plan as a whole (including the spending cuts) deficit-neutral. While they have not named any specifics, it is important to note that doing so would require making substantial changes to many tax expenditures, among the largest of which are for mortgage interest, charitable giving, employer-provided health care, and state and local taxes. By definition, if Governor Romney proposed sufficient base broadening to make his entire plan deficit-neutral, his policies on the whole would have **no measurable effect** on the debt by 2021.

Although the campaign has said the plan would include corporate and individual base broadening, they have not yet identified any tax expenditures that would be cut or modified. Absent offsets, the cost of a 20% rate reduction, repeal of the AMT, and extension of the Research & Experimentation tax credit would add to the debt. According to the Tax Policy Center, the 20% rate cut would cost about $150 billion in 2015 alone[ii] -- and we estimate the other policies would cost an additional $50 billion. Estimated roughly, ignoring interactions and microdynamic effects, we find that without offsets Governor Romney's plan on the whole would increase the debt by about **$2.6 trillion**.

This difference can be seen more clearly in looking at the impact on the debt as a percentage of GDP. In our current intermediate-debt scenario, we estimate that Governor Romney's plans would result in debt levels at about **86 percent of GDP** in 2021. Should Romney enact sufficient base broadening – likely including substantial changes to the major itemized deductions and exclusions – so that his entire plan is deficit-neutral to current policy, his debt levels would be at about **85 percent of GDP** in 2021**.** On the other hand, if Governor Romney enacted these additional tax cuts without offsets, his 2021 debt levels would be **96 percent of GDP.**

Debt under Governor Romney's Proposals as Percent of GDP



As more details arise and we are able to more fully study Governor Romney's plan, U.S. Budget Watch will continue to update its estimates and analysis.

Note that U.S. Budget Watch does not support or oppose any candidate for office and these estimates are for informational purposes only.

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[i] "Fact Sheet – Restore America's Promise – More Jobs, Less Debt, Smaller Government," Feb. 22, 2012, http://www.mittromney.com/blogs/mitts-view/2012/02/restore-americas-promise-more-jobs-less-debt-smaller-government

[ii] "A 20 Percent Tax Rate Cut Would be a Huge Hole in the Budget," Nov. 15, 2011, http://taxvox.taxpolicycenter.org/2011/11/15/a-20-percent-tax-rate-cut-would-blow-a-huge-hole-in-the-budget/