Tax Policy Center
Urban Institute and Brookings Institution

The Gingrich Tax Plan

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In his campaign for the Republican presidential nomination, Newt Gingrich has proposed major changes to the federal tax code. The Gingrich plan would give all taxpayers the choice between paying tax under current policy or paying tax under an alternative system characterized by a single 15 percent tax rate. The Tax Policy Center has completed a preliminary analysis of the Gingrich plan, based on information posted on the campaign website and in the candidate's speeches, interviews, and writings.[1]

Description of Plan

Mr. Gingrich's individual "flat tax" proposal would create an optional alternative tax system with a single 15 percent tax rate, which would apply to an income base similar to that in current law, with three major modifications: 1) capital gains, dividends, and interest income would not be taxable; 2) taxpayers could claim a standard exemption of $12,000 for each individual and dependent; and 3) the plan would eliminate the standard deduction and most itemized deductions and credits but would retain deductions for mortgage interest and charitable contributions as well as the child and earned income tax credits.[2] The plan would also repeal the alternative minimum tax (AMT). The plan is unclear about whether taxpayers could switch back and forth between the current tax system and the alternative "flat tax" system. We therefore offer two analyses, one in which taxpayers can make the choice every year and another that assumes everyone moves to the flat tax system.

At the corporate level, the Gingrich plan would make two major changes: 1) reduce the corporate income tax rate from 35 to 12.5 percent; and 2) allow full expensing of capital expenditures[3] (other than residential rental housing and inventories). The plan would not broaden the tax base by eliminating

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[1] TPC contacted representatives of the Gingrich campaign on Wednesday, November 30, asking for clarification of key details. An initial response addressed only two of our questions, stating that the new system would be indexed for inflation and would allow deductions for mortgage interest and charitable contributions. We contacted the campaign again on Wednesday, December 7, asking for confirmation of the assumptions underlying this analysis. We have not received any substantive response as of Monday, December 12. If the campaign provides answers to our questions that differ substantially from what we have assumed, TPC will revise its analysis in line with that new information.

[2] Based on statements from Mr. Gingrich, we also assume that the plan would retain some tax preferences not explicitly included in the tax plan itself. In particular, we assume that taxpayers could continue to claim above-the-line deductions for contributions to traditional IRAs and health savings accounts (HSAs) and the foreign tax credit.

[3] The Gingrich plan is not specific about what capital expenditures will be expensed. TPC assumes he would allow full expensing of all capital expenditures with the exception of residential housing structures and inventories.

existing tax expenditures or reducing the tax deductibility of interest payments.

Mr. Gingrich would also permanently repeal the federal estate tax and the surtaxes contained in the 2010 Patient Protection and Affordable Care Act (PPACA).

Because the Gingrich plan would retain the current system as an option, the details concerning that system matter a lot for estimating the plan's impact. Of particular importance is whether or not the Gingrich plan would extend the various individual income tax provisions that are scheduled to expire at the end of 2012. Descriptions of the plan do not address this issue but Mr. Gingrich has repeatedly called for extension of the tax cuts scheduled to expire in 2013.[4] TPC's analysis therefore assumes that the "current tax policy" alternative would include permanent extension of all of the 2001-2010 tax cuts in place in 2011 (other than the one-year payroll tax cut).[5]

TPC's analysis measures the change in tax liabilities against two alternative baselines: current law, which assumes that the 2001-10 tax cuts all expire in 2013 as scheduled, and current policy, which assumes that the 2011 law is permanent (except for the one-year payroll tax cut). No one would experience a tax increase from the Gingrich plan under either baseline if they have the option of filing their tax returns under current policy.[6]

The 15-percent flat tax option in the Gingrich plan differs substantially from the standard flat tax as originally developed by Robert Hall and Alvin Rabushka and subsequently proposed by former House Majority Leader Dick Armey, former presidential candidate Steve Forbes, and others. On the individual side, that plan would apply the same single tax rate only to wage income and pension benefits (above a basic exemption) and would allow no deductions. The Gingrich deviates from that approach by maintaining deductions for mortgage interest and charitable contributions as well as the child and earned income tax credits. On the business side, the standard flat tax would impose the single tax rate on the entire cash flow of businesses and firms could not deduct the cost of employee fringe benefits like health insurance and retirement contributions, employer-paid payroll taxes, and interest payments (because they would not be taxable on workers' tax returns). In contrast, the Gingrich plan's retention of current business tax preferences, the deductibility of interest, and omission of employee fringe benefits from the business (and individual) tax base would shrink the tax base significantly, compared to the base of the standard Hall-Rabushka flat tax.

The Gingrich plan would reduce federal tax revenues dramatically. TPC estimates that on a static basis, the Gingrich plan would lower federal tax liability by $1.28 trillion in calendar year 2015 compared with current law, roughly a 35 percent cut in total projected revenue. Relative to a current policy baseline, the reduction in liability would be roughly $850 billion in calendar year 2015. If taxpayers were required to file under the flat tax option (that is, they could not opt to remain under current tax law), revenues in 2015 would fall by about $1.25 trillion relative to a current law baseline and by about $830 billion relative to a current policy baseline.

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[4] For example, on the campaign website, Mr. Gingrich says "I pledge to veto any tax increase. American families and businesses deserve certainty and predictability, and I will work to make permanent all current rates of taxation that would otherwise increase automatically in 2013." See http://www.newt.org/contract/legislative-proposals

[5] Mr. Gingrich would temporarily extend the payroll tax cut but his campaign told NPR that "the former House speaker plans to phase out the payroll tax cut but did not specify when." (http://www.npr.org/2011/12/06/143211080/gingerly-gop-contenders-address-payroll-tax-cut)

[6] Note that extending the 2001-10 tax cuts would mean that some people choosing to file under current tax rules would see a tax cut relative to the current law baseline for years after which the 2001-2010 tax cuts would have expired.

The Gingrich plan would also change the distribution of the federal tax burden, as shown in these tables http://taxpolicycenter.org/taxtopics/Gingrich-plan-tables.cfm

Sources

Official description of Gingrich plan:

http://www.newt.org/contract/legislative-proposals
http://www.newt.org/news/lets-bump-plans-comparison-gingrich-and-romneys-tax-plans
http://www.newt.org/news/gingrichs-plan-restore-american-manufacturing-far-bolder-romneys
http://www.newt.org/solutions/jobs-economy

Appendix: Detailed List of Assumptions Underlying Analysis

Based on the campaign's summary and Mr. Gingrich's statements, TPC assumes that the tax law in effect for 2011 becomes permanent (except the temporary payroll tax cut).[7] In other words, all provisions currently scheduled to expire under current law are permanently extended, including the annual patches to the AMT, the lower marginal rates and marriage penalty relief originally passed in 2001, the 15 percent maximum tax rate on long-term capital gains and qualified dividends, and the higher amounts and increased refundability of the earned income tax credit and child tax credit. Extending those provisions would guarantee that no taxpayer would pay more compared to a current policy baseline.

Given the choice between paying the 15 percent flat tax and the tax owed under current policy, taxpayers elect to pay the lower tax. Because the campaign has not clarified whether taxpayers would retain the current policy option indefinitely, TPC conducted an alternative analysis that requires everyone to pay the 15 percent flat tax. Those results are reported in the set of tables labeled, "All Taxpayers Pay Flat Tax."

Income under the optional flat tax system equals current law total income less net capital gains, dividends, and interest income. Taxable income equals that income less a standard exemption of $12,000 for each individual and dependent and applicable deductions for mortgage interest, charitable contributions, and contributions to traditional IRAs and HSAs.[8] These deductions are available to all taxpayers who opt into the alternative system. Qualifying taxpayers may also claim the child credit, the earned income tax credit (EITC), and foreign tax credit.[9] The new tax does not include a standard deduction or any other above-the-line deductions, itemized deductions, or credits.

Businesses may fully expense all capital expenditures (equipment and structures other than rental housing and inventories). We estimate the effect of this expensing allowance on a long-run (fully phased in) basis. Businesses may continue to deduct normal business expenses, including interest paid and employee fringe benefits, as under current law, as well as all existing business-related tax expenditures.

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7 Mr. Gingrich would phase out the payroll tax cut (see footnote 3 above). We assume that by 2015—the year for which we produce our distributional analysis—the payroll tax cut would expire in both the baseline and in Mr. Gingrich's tax proposal.

8 The Gingrich plan does not explicitly allow the deduction of contributions to traditional IRAs or HSAs but including those deductions is consistent with previous statements by Mr. Gingrich.

9 The Gingrich plan does not mention foreign tax credits but not allowing them would result in significant double-taxation of foreign earnings, something the candidate has opposed in the case of corporations and which, we assume, he would also oppose for individuals.