



Why Voters Should Fear Romney's Tax Plan

By Betsey Stevenson & Justin Wolfers - Nov 5, 2012

Republican presidential candidate [Mitt Romney](#) has been strategically slippery about his tax plan, largely refusing to explain how he would pay for the sweeping tax cuts that represent his primary promise to voters.

In the second debate, though, he offered just enough detail for us to sketch the outlines of his program. If you're poor or worried about the state of the U.S. government's finances, the picture is not pretty.

The first course in Romney's plan is dessert: Tax breaks for everyone! He would start by extending the tax cuts put in place by former President George W. Bush. He would then cut everyone's rates by another 20 percent, repeal the alternative minimum tax, and get rid of the estate tax.

How would he pay for this? Mainly by limiting the amount people can deduct from their taxable income. Here's the most detailed statement Romney has made: "One way of doing that would be say everybody gets -- I'll pick a number -- \$25,000 of deductions and credits, and you can decide which ones to use. Your home mortgage interest deduction, charity, child tax credit and so forth, you can use those as part of filling that bucket, if you will, of deductions."

Big Shortfall

Putting both halves of Romney's plan together, we compared the impact of the tax cuts with the [offsetting effect](#) of limiting itemized deductions. The result: While a cap on deductions is an interesting idea, it couldn't possibly raise enough revenue to make up for the big tax giveaways Romney has promised. The shortfall would be a whopping \$3.7 trillion over the next decade. Lowering the deduction limit to, say, \$17,000 [wouldn't much change](#) the math. The gap would still be \$3.4 trillion.

Romney's plan is most striking in its distributional implications (see chart). The greatest benefit would go to the rich. The top one-fifth of households would enjoy a staggering \$16,000 average tax cut, offset by a tax increase of \$4,000 due to the deduction cap. Net gain: \$12,000. Actually, though, most of this group wouldn't see that large of a benefit. About half of the spoils would go directly to the top 1 percent, which would get an average net tax cut of \$100,000 a year.



The further one goes down the income scale, the worse Romney's plan looks. The average household in the middle of the income distribution -- the heart of the middle class -- would get a cut of a little more than \$800, which wouldn't be much changed by the limit on deductions. The poor would actually pay slightly more tax, because Romney would end stimulus-related measures -- such as an expansion of the Earned Income Tax Credit -- that have benefited them.

True, any across-the-board tax cut would give more money to the rich in dollar terms, because they pay most of the taxes in the first place. But Romney's plan goes further. It would reduce the amount the richest Americans pay relative to their income more than for anyone else. Specifically, the richest fifth would go from paying 26 percent of their income in taxes to 22 percent. The middle fifth would go from 16 percent to 15 percent. The tax burden on the poor would rise.

Romney has explicitly denied that his tax plan would favor the rich: "I will not, under any circumstances, reduce the share that's being paid by the highest-income taxpayers."

If this was truly his intention, he could have proposed tax cuts that were proportional to income -- say, by offering simply to cut everyone's tax rates by a few percentage points, rather than by a certain percentage. This would give the rich a bigger tax cut in dollar terms while preserving the distributional structure of our tax system.

Benefit Distribution

As it stands, Romney's plan would result in 48 percent of the net tax cut going to the richest 1 percent (see pie chart). Another 32 percent would go to the next richest 4 percent of the population. All told, 94 percent of the benefit would go to the top 10 percent of the income distribution, leaving only 6 percent for the rest.

Many of Romney's biggest boosters argue that he would be a more moderate president than he has been a candidate. Perhaps that's plausible. On taxes, though, he has left himself little room to maneuver. His constituency would expect him to deliver on the very specific tax cuts he has promised. Meanwhile, his vagueness on the offsetting deduction limits would leave him with no mandate to get rid of the most popular tax breaks, such as those for charitable giving, mortgage interest or health insurance.

Hence, the most probable outcome would be a tax system that is radically less progressive, achieved through cuts that would create a much larger long-run budget deficit. Both outcomes would be colossal failures at a time in which true tax reform is greatly needed.

(Betsey Stevenson is an associate professor of public policy at the University of Michigan. Justin Wolfers is an associate professor of business and public policy at the University of Pennsylvania, and a

non-resident senior fellow of the Brookings Institution. Both are Bloomberg View columnists. The opinions expressed are their own.)

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To contact the writers of this article: Justin Wolfers at jwolfers@umich.edu Betsey Stevenson at betseys@umich.edu

To contact the editor responsible for this article: Mark Whitehouse at mwhitehouse1@bloomberg.net

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