



Tax Policy Center

Urban Institute and Brookings Institution

The Santorum Tax Plan

Urban-Brookings Tax Policy Center
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In his campaign for the Republican presidential nomination, Rick Santorum has proposed permanently extending the 2001-10 tax cuts and further reducing individual income taxes; cutting the corporate income tax rate in half; eliminating the estate tax; and repealing the alternative minimum tax and the taxes enacted in 2010's health reform legislation. The Tax Policy Center (TPC) has completed a preliminary analysis of the Santorum plan, based on information posted on the campaign website.¹

Description of Plan

Senator Santorum would permanently extend all the 2001-10 tax cuts now scheduled to expire in 2013 and further lower individual income taxes by collapsing the current six tax brackets into just two brackets with 10 percent and 28 percent rates.² He would also triple the exemption for dependent children, cut the top tax rate on long-term capital gains and qualified dividends to 12 percent, and repeal the alternative minimum tax. The senator says he would “eliminat[e] marriage tax penalties throughout the federal tax code” but does not explain how.³ Sen. Santorum's proposal retains deductions for charitable giving, home mortgage interest, healthcare, retirement savings, and children.⁴ The plan would also repeal the federal estate tax.⁵

¹ Sen. Santorum's tax plan is described in “Defender of the Taxpayer” at <http://www.ricksantorum.com/defender-taxpayer>. TPC contacted representatives of the Santorum campaign on Tuesday, January 10, 2012, asking for clarification of key details and positing assumptions about specific aspects of the plan. We have not received any substantive response as of Wednesday, January 18. 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 The plan lacks details on the two brackets but TPC assumes that the current 10-percent, 15-percent, and 25-percent brackets would be combined into a new 10-percent bracket and the current 28-percent, 33-percent, and 35-percent brackets would collapse into a new 28-percent bracket. This ensures that no households would pay a higher statutory tax rate than under the law in place in 2011.

³ TPC assumes that the plan would set all tax bracket widths, standard deductions, and taxpayer exemptions for married couples filing jointly equal to twice those for single taxpayers and would eliminate the head-of-household (HOH) filing status. Eliminating marriage penalties while maintaining the HOH status would require making the bracket widths, standard deduction and taxpayer exemptions for married couples with children three times as large as those for single taxpayers and would thereby substantially increase the revenue losses reported here.

⁴ Because the Senator does not state that he would repeal any tax expenditures, we assume he would also retain all other exclusions, deductions, and tax credits currently in the law.

⁵ The plan is silent about the gift tax but based on his repeated opposition to wealth transfer taxes, TPC assumes Sen. Santorum would repeal it.

At the corporate level, the Santorum plan would reduce the corporate income tax rate from 35 percent to 17.5 percent—and to zero for manufacturers.⁶ It would also boost the research and development tax credit from 14 percent to 20 percent and make it permanent, and allow full expensing of equipment. The plan would allow firms to repatriate profits held overseas without tax if the funds are invested in plant and equipment and otherwise at a 5.25 percent tax rate.

Sen. Santorum would also permanently repeal the 0.9 percent tax on wages and the 3.8 percent tax on investment income of high-income individual taxpayers that were imposed by the 2010 health reform legislation and are scheduled to take effect in 2013.

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 and temporary investment incentives).⁷ Compared with the current law baseline, the Santorum plan would cut taxes for about 81 percent of taxpayers by an average of more than \$9,700, while less than one-half percent would face tax increases averaging about \$175. In contrast, compared with current policy, about 1 percent of tax units would see their 2015 taxes go up an average of more than \$200 while 69 percent would get tax cuts averaging nearly \$7,800. Some people filing as head of household would experience tax increases because of the elimination of that filing status.⁸

The Santorum plan would reduce federal tax revenues substantially. TPC estimates that on a static basis, the Santorum plan would lower federal tax liability by about \$1.3 trillion in calendar year 2015 compared with current law, roughly a 40 percent cut in total projected revenue. Relative to a current policy baseline, the reduction in liability would be about \$900 billion in calendar year 2015.

The Santorum plan would change the distribution of the federal tax burden, as shown in these tables⁹

<http://taxpolicycenter.org/taxtopics/Santorum-plan-tables.cfm>

Sources

Official description of Santorum plan:

<http://www.ricksantorum.com/defender-taxpayer>

⁶ The plan does not define “manufacturer”. TPC assumes that the definition would be the same as used for the current domestic production activity deduction (section 199).

⁷ Current policy also assumes that the 0.9 and 3.8 percent surcharges enacted by the health reform legislation take effect as scheduled in 2013.

⁸ As noted above, absent clarification from the Santorum campaign TPC assumed that the plan would eliminate HOH filing status..

⁹ TPC assumes that the full burden of corporate income taxes falls on owners of capital in proportion to their income from capital. Under alternative assumptions that allocate some of the burden to workers, tax changes from the Santorum plan would be distributed differently. Tax units with the highest income would receive smaller tax cuts on average and low- and middle-income tax units would receive slightly smaller average tax increases or slightly larger average tax cuts than the distribution tables show. The results shown in the distribution tables would be little changed for the bottom 99 percent of tax units and the overall pattern of tax changes would be qualitatively the same—the largest tax cuts as a share of after-tax income would go to the highest income taxpayers.

Appendix: Detailed List of Assumptions Underlying Analysis

Based on the campaign's summary and Sen. Santorum's statements, TPC assumes that the 2001-10 tax cuts become permanent with three modifications: 1) the 10-percent, 15-percent, and 25-percent tax brackets are combined into a new 10-percent bracket and the current 28-percent, 33-percent, and 35-percent brackets become a new 28-percent bracket; 2) the exemption for dependent children is tripled; and 3) the tax rate on capital gains and dividends is zero for people in the new 10-percent tax bracket and 12 percent for those in the 28-percent bracket.

To eliminate the marriage penalty, the tax brackets and other parameters for married couples filing jointly are set to twice those for single filers and the head-of-household filing status is eliminated. Because it would not be possible to eliminate the marriage penalties inherent in refundable credits such as the child tax credit and the earned income tax credit, we assume the Senator would retain these in their current form.

The AMT is repealed along with the tax increases enacted in the 2010 health reform legislation and scheduled to take effect in 2013.