



## **Tax Policy Center**

Urban Institute and Brookings Institution

### **The Romney Tax Plan**

Urban-Brookings Tax Policy Center  
January 5, 2012

In his campaign for the Republican presidential nomination, Mitt Romney has proposed permanently extending the 2001-03 tax cuts, eliminating taxation of investment income of most individual taxpayers, reducing the corporate income tax, eliminating the estate tax, and repealing the taxes enacted in 2010's health reform legislation. The Tax Policy Center (TPC) has completed a preliminary analysis of the Romney plan, based on information posted on the campaign website and email exchanges with campaign policy advisors.<sup>1</sup>

#### **Description of Plan**

Governor Romney would permanently extend all the 2001 and 2003 tax cuts now scheduled to expire in 2013 and continue to "patch" the alternative minimum tax, but would allow some recently enacted provisions to expire and would repeal certain tax provisions in the 2010 health reform legislation. Tax provisions in the 2009 stimulus act and subsequently extended through 2012 would expire. These include the American Opportunity tax credit for higher education, the expanded refundability of the child credit, and the expansion of the earned income tax credit (EITC). The plan would also eliminate tax on long-term capital gains, dividends, and interest income for married couples filing jointly with income under \$200,000 (\$100,000 for single filers and \$150,000 for heads of household) and repeal the federal estate tax, while continuing the gift tax with a maximum tax rate of 35 percent.<sup>2</sup>

At the corporate level, the Romney plan would make two major changes: 1) reduce the corporate income tax rate from 35 to 25 percent and 2) make the research and experimentation credit permanent and extend for one year the full expensing of capital expenditures. It would also allow a "tax holiday" for the repatriation of corporate profits held overseas but does not specify whether repatriated earnings would face any tax (and, if so, at what rate). In the longer run, Gov. Romney would reduce the corporate rate further in conjunction with base broadening and simplification and would move the corporate tax to a territorial system.

Gov. Romney 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.

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<sup>1</sup> Gov. Romney's tax plan is contained in "Believe in America: Mitt Romney's Plan for Jobs and Economic Growth" at <http://mittromney.com/blogs/mitts-view/2011/09/believe-america-mitt-romneys-plan-jobs-and-economic-growth>. TPC obtained additional information about details of the plan from campaign policy advisors.

<sup>2</sup> Gift tax provisions would follow 2010 law: \$1 million lifetime exemption and a 35 percent top rate.

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). Compared with the current law baseline, the Romney plan would cut taxes for about three-fourths of taxpayers by an average of more than \$4,700. In contrast, compared with current policy, about 13 percent of tax units would see their 2015 taxes go up an average of more than \$900 while 42 percent would get tax cuts averaging nearly \$2,900. Some people would see their taxes rise relative to the current policy baseline because of the expiration of the American Opportunity Tax Credit and expiration of the expansion of the earned income credit and the child credit enacted in 2009.

The Romney plan would reduce federal tax revenues substantially. TPC estimates that on a static basis, the Romney plan would lower federal tax liability by \$600 billion in calendar year 2015 compared with current law, roughly a 16 percent cut in total projected revenue. Relative to a current policy baseline, the reduction in liability would be roughly \$180 billion in calendar year 2015.

The Romney plan would change the distribution of the federal tax burden, as shown in these tables:<sup>3</sup>

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

## Sources

Official description of Romney plan:

<http://mittromney.com/blogs/mitts-view/2011/09/believe-america-mitt-romneys-plan-jobs-and-economic-growth>

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<sup>3</sup> 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 Romney 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 Gov. Romney's statements, TPC assumes that the 2001-03 tax cuts and AMT relief become permanent but that temporary tax cuts enacted in 2009 and 2010 are allowed to expire. Provisions that are permanently extended include the annual patches to the AMT, the lower marginal rates and marriage penalty relief, the 0 and 15 percent tax rates 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. The American Opportunity tax credit would expire and be replaced by the permanent Hope tax credit for higher education. The temporary reduction in the phase-in threshold for refundability of the child credit and the increase in the EITC for larger families enacted in 2009 would also expire in 2013 as scheduled.

Of particular importance are details of applying the exemption of investment income (long-term capital gains, dividends, and interest income) for most taxpayers with income less than threshold amounts (\$200,000 for married couples, \$100,000 for single returns and \$150,000 for heads of households). We assume that all other income is counted first in determining whether investment income is subject to tax. Therefore, for any married couple with income from other sources above \$200,000, all capital gains, dividends, and interest would continue to be subject to current tax rules. For taxpayers with other income below the relevant threshold, the maximum exemption for investment equals the threshold minus other income. For example, a married couple with \$150,000 of income from sources other than long-term gains, dividends, and interest would pay no tax on the first \$50,000 of investment income and statutory tax rates on any investment income in excess of \$50,000. This income would face current statutory rates—0 percent or 15 percent for long-term gains and qualified dividends and as high as 35 percent on other dividends and interest income.

Because non-qualified dividends and interest income would face higher statutory rates than long-term gains or qualified dividends, we assume that the former would be exempt ahead of the latter. Thus, a couple with \$150,000 in other income, \$40,000 in interest income, and \$30,000 in qualified dividends would pay no tax on the interest income and \$10,000 of the dividends but would pay tax on the remaining \$20,000 of qualified dividend income.

The plan would allow businesses to continue to claim the research and experimentation credit, which is scheduled to expire under current law (but is assumed to be extended in the current policy baseline).