Hudson Institute

The Main Street Tax Plan

Pro-Growth, Pro-American Worker, Pro-Fiscal Responsibility

Jeffrey H. Anderson

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Principles/guiding notions:

- Lower taxes, particularly for those who are getting hit hardest by the tax code
- Simplify the code
- Spur growth by reducing marginal tax rates and taxes on investment and employment
- End the marriage penalty
- Keep the tax code from discouraging people from having children: tax singles and families based on financial well-being, rather than penalizing or rewarding them based on family size

Specific proposals:

- **Eliminate the Medicare payroll tax**, both for employers and employees
- For married couples, raise the top of the 25% bracket to double that of singles (to $181,500)
- **Cut the first 1/4 of the 25% bracket to 20%** for both singles & couples (for 2015, the new 20% bracket would span from $37,451-$50,775 for singles and $74,901-$101,550 for couples)
- Lower the top of the 28% bracket to $100,750 for singles and $201,500 for married couples
- **Make 33% the top rate**
- Reduce the standard deduction by $1,000/person (to $5,300 for singles, $10,600 for couples)
- Eliminate the head-of-household filing status
- **Cut the child tax credit in half** (to $500 per child) and stop income-testing it
- **Add a child tax deduction** of $2,000 per child
- Convert the child-care tax credit into a deduction available to all incomes, allowing half of all child-care expenses up to $10K per child to be deducted (so, up to a $5K deduction per child)
- Eliminate almost all other tax deductions, credits, and exemptions (including the deduction for state taxes)—except those for business expenses (both for businesses and individuals)—but **preserve the charitable deduction and mortgage interest deduction** (for one home), as well as above-the-line reductions in individual taxes
- **Don't let anyone's income tax go negative**, aside from EITC or health-care tax credits—in other words, make all other tax credits non-refundable
- End the income-based phase-out of tax-deductible IRA contributions, the personal-exemption phase-out, and the Pease limitations (for remaining itemized deductions)
- Tax "carried interest" at regular income-tax rates
- Increase AMT exemptions by 50%, don't phase them out, and index them for inflation
- Lower the estate tax rate to 20%, matching the highest basic rate for long-term capital gains
- **Reduce the corporate tax rate to 25%**
- **Allow full expensing of all capital investments**
- End debt-financing preference: **eliminate the business tax deduction for interest paid**
- **Adopt a 2/3 "territorial," 1/3 "worldwide" tax system** for international business: end deferrals and tax foreign profits at 1/3 of the difference between U.S. and foreign corporate tax rates; short-term, deem repatriation of previously deferred profits, taxing them at 1/2 of the difference between current U.S. (~35%) and foreign tax rates (payable over a decade)

Those who would benefit the most:

- The working poor & lower-middle-class, who often pay more in Medicare tax than income tax
- Middle-class singles and couples who are just starting to get ahead (and perhaps thinking about getting married or starting a family) and then run right into the biggest marginal-rate-increase in the current code, the increase from 15% to 25%—which would be cut in half
- Upper-middle-class families, who are currently getting hit disproportionately hard by the code

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Hudson Institute
1201 Pennsylvania Avenue, N.W.
Suite 400
Washington, D.C. 20004

P: 202.974.2400
info@hudson.org
www.hudson.org

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For Americans, the first 16 years of the 21st century have unfortunately been a time of sluggish economic growth, exploding national debt, falling marriage rates, and stagnant or declining real incomes. The tax code has contributed to each of these problems.

Ideally, tax reform would ease and equalize the tax burden, simplify the code, end the marriage penalty, and spur growth to such an extent that, while cutting taxes, it would actually increase revenues over time—in other words, it would pay for itself. The Main Street Tax Plan would do all of these things. Designed to improve the lives of everyday citizens, it is pro-growth, pro-American worker, and pro-fiscal responsibility.[1]

In order to spur growth and ease the tax burden without undermining fiscal solvency, this tax plan features the following key provisions: Eliminate the Medicare payroll tax (to streamline the tax code and provide relief to all taxpayers, especially the working poor and lower-middle-class); cut the first quarter of the 25-percent tax bracket to 20 percent (to provide tax relief for middle-class workers); lower the corporate tax rate to 25 percent and allow full expensing of all capital investments (to generate growth); reduce the top individual income-tax rate to 33 percent (to spur small-business growth); eliminate the business tax deduction for interest paid (to end the preference for debt-financing); adjust tax brackets, filing statuses, and income-based phase-outs (to end the marriage penalty); and cut the child tax credit in half (to $500) while adding a child tax deduction (of $2,000 per child) (to help equalize the tax treatment of those with and without children).

Scoring by the nonpartisan Tax Foundation finds that, within a decade, the effects of this tax plan alone would increase the size of the United States economy by 7.6 percent, or $2.1 *trillion*. That's in addition to the growth that would otherwise have occurred. The Tax Foundation's Stephen Entin says 7.6 percent growth is only a "little less" than the extraordinary growth generated by the 1981 Reagan-Kemp tax cut and is "roughly comparable" to the growth generated by the Kennedy tax cuts of the early 1960s.[2]

Great Bang for the Buck

Not only would this tax cut spur growth; it would raise revenues. The Tax Foundation's scoring finds that, by spurring vibrant growth in an efficient way, this tax cut would actually *increase* revenues over a decade by $679 billion, thereby helping to reduce the national debt.

[1]I would like to thank everyone who provided helpful assistance in the development of this proposal. I would particularly like to thank Brian Blake, my other colleagues at the Hudson Institute (especially Kevin Philpott, David Tell, John Walters, Joel Scanlon, Dan McKivergan, and Ken Weinstein), Alan Viard of the American Enterprise Institute, Kyle Pomerleau and the rest of the folks at the Tax Foundation, and my wife, Margot.

[2]Entin is referring to the portion of Reagan-era growth that is attributable to the 1981 tax cut, not to all Reagan-era growth. Overall growth under Reagan is attributable to a blend of Reagan's (and Congress's) own policies, the growth that occurs under normal circumstances, and the increased growth that typically occurs when coming out of recessions, among other factors.

Tax Proposal Comparison*	Current Law (Rate & $)	Main St. (Rate & $)	20% Flat Tax (Rate & $)	J. Bush (Rate & $)	M. Rubio (Rate & $)	T. Cruz (Rate & $)
Single, 0 kids, $30K	**11.1%** *$3,364*	**8.7%** *$2,644*	**9.6%** *$2,910*	**7.7%** *$2,340*	**11.1%** *$3,370*	**8.8%** *$2,680*
Single, 2 kids, $30K†	**-0.8%** *-$255*	**0%** *$0*	**1.7%** *$510*	**-3.3%** *-$1,005*	**-2.2%** *-$668*	**-0.4%** *-$120*
Single, 0 kids, $60K	**16.4%** *$9,959*	**12.8%** *$7,806*	**14.6%** *$8,910*	**13.2%** *$8,048*	**14.4%** *$8,740*	**11.1%** *$6,760*
Married, 0 kids, $60K	**11.1%** *$6,728*	**8.7%** *$5,288*	**9.6%** *$5,820*	**7.7%** *$4,680*	**11.1%** *$6,740*	**8.8%** *$5,360*
Married, 2 kids, $60K	**5.8%** *$3,528*	**4.1%** *$2,488*	**5.6%** *$3,420*	**3.1%** *$1,880*	**-0.4%** *-$260*	**4.2%** *$2,560*
Marr., 2 kids, $120K	**13.5%** *$16,418*	**10.0%** *$12,213*	**12.7%** *$15,420*	**10.3%** *$12,595*	**9.0%** *$10,980*	**9.4%** *$11,406*
Effect on debt vs. current law††	***$0***	***$679 bil. decrease***	*hasn't been scored*	***$1.6 tril. increase***	***$2.4 tril. increase***	***$768 bil. increase***

**Federal tax for 2015, excluding Social Security payroll tax and EITC, and including both employee and employer shares of Medicare payroll tax (please see the chart on pp. 16-17 for more details).*

†This family also gets an Earned Income Tax Credit worth about 10% of their income ($3,000), in each scenario.

††Based on dynamic scoring by the nonpartisan Tax Foundation, not including the effects of interest on the debt.

In addition to scoring the Main Street Tax Plan, the Tax Foundation has recently scored the tax proposals of (in alphabetical order) former Governor Jeb Bush, then-House Ways and Means Chairman Dave Camp, Senator Ben Cardin, presidential candidate Ben Carson, former Senator Hillary Clinton, Senator Ted Cruz, Governor Bobby Jindal, President Barack Obama, Senator Rand Paul, Senators Marco Rubio and Mike Lee, Senator Bernie Sanders, former Senator Rick Santorum, and presidential candidate Donald Trump. Of these fourteen, the Main Street Tax Plan and Paul's proposal are the only ones that were scored as both cutting taxes *and* raising revenues. In other words, they are the only ones whose tax cuts would more than pay for themselves—by generating enough revenues from taxes on the increased growth to offset the lost revenues from the tax cuts themselves.

Of the other twelve proposals (apart from Paul's and the Main Street Tax Plan), two were scored as tax *increases* that would raise revenues. Clinton's proposal, a $498 billion tax increase, was scored as decreasing economic growth by 1 percent and increasing revenues by $191 billion. Sanders's proposal, a $13.6 trillion tax increase—27 times as large as Clinton's—was scored as reducing growth by 9.5 percent and increasing revenues by $9.8 trillion (while reducing the typical American's income by about a sixth).[3]

The remaining ten proposals were all scored as decreasing revenues. Obama's proposal, a $100 billion tax *increase*, was scored as reducing economic growth by 3.0 percent and thus decreasing revenues by $12 billion. Camp's, a very minor ($30 billion) tax cut, was scored as increasing growth by just 0.2 percent

[3]The Tax Foundation's scoring finds that, after accounting for effects on economic growth, Sanders's plan would reduce the after-tax incomes of those whose income is between the 40th and 60th percentiles by between 16 and 17 percent.

and decreasing revenues by $21 billion. The other eight proposals—all major tax *cuts*—were each scored as reducing revenues by more than $750 billion, *after* taking into account the increased economic growth they would generate. In other words, when it comes to effects on revenues—and hence on the debt—the Main Street Tax Plan would come out more than $1.4 trillion ahead of any of these other big tax cuts (aside from Paul's).[4]

Not only would this tax cut spur growth; it would raise revenues.

Paul's plan—the only other proposal that would raise revenues—calls for a radical overhaul of the existing tax code. His plan (like Cruz's) would abolish the corporate income tax, eliminate all payroll taxes, and institute a type of value-added tax.[5] In Paul's own words, it would "repeal the entire IRS tax code." The Main Street Tax Plan, in contrast, aims for political viability—offering reforms that could be made within the structure of the current tax code.

Importantly, these reforms would benefit Americans across the income spectrum. In fact, of all the tax cuts listed above, only the Main Street Tax Plan was scored by the Tax Foundation as benefitting the typical American more than it would benefit the top one percent of income-earners.[6]

Pro-Growth

This plan would increase economic growth in three main ways: by reducing the corporate tax rate to 25 percent (from a top rate of 35 percent today); allowing the full expensing of all capital investments; and lowering most Americans' marginal tax rates. The highest marginal income-tax rate would be cut to 33 percent, both to generate growth and because no one should have to pay more than a third of his or her earnings in federal income taxes alone (in addition to having to pay federal payroll taxes, state and local income taxes, state and local sales taxes, and local property taxes). It would also cut the estate tax to 20 percent, matching the highest tax rate (apart

[4]The Main Street Tax Plan would come out more than $2 trillion ahead of six of these eight plans (all but Cruz's and Santorum's). It would come out more than $10 trillion ahead of Trump's plan, more than $9 trillion ahead of Jindal's, more than $3 trillion ahead of both Rubio and Lee's and Carson's, and more than $2 trillion ahead of both Bush's and Cardin's. (Any of these plans' revenue losses could potentially be partly or fully offset by entitlement reforms providing major spending cuts.)

[5]Paul's and Cruz's VAT-based plans would lower taxes, be very pro-growth, and simplify income taxes. But they would open up another powerful line of revenue for the federal government (the VAT) without shutting off the most powerful existing line (the income tax), and the VAT wouldn't appear on receipts or paystubs and thus wouldn't generally be very transparent to the American people. In addition, by eliminating the Social Security payroll tax, they would transform Social Security from essentially a pay-in-for-yourself program to one that would be funded through general revenues—thus severing the link between paying into Social Security and taking money out of it.

[6]The Tax Foundation didn't score the distributional effects of Camp's minor tax cut, but since it was scored as reducing growth, most Americans likely wouldn't benefit from it. All of the other tax cuts were scored either as benefitting the top 1 percent more than any other income group or—in the case of Cardin, Rubio-Lee, and Santorum—as benefitting the top 1 percent more than any other group except for the bottom 10 percent (Rubio-Lee and Santorum) or bottom 20 percent (Cardin). The Clinton and Sanders tax *increases* were scored as making all groups worse off (especially the top 1 percent).

from the Obamacare surtax) for long-term capital gains.[7]

Providing Middle-Class Tax Relief

The Main Street Tax Plan is focused on boosting the economic prospects of everyday Americans. Among those struggling the most under the current tax code are those who are just beginning to hit their financial stride and then see their marginal tax rate abruptly jump from 15 to 25 percent—the biggest marginal-rate increase in the entire tax code. This hefty tax-increase kicks in right when people are starting to get ahead, at incomes of about $48,000 for singles and twice that for married couples. Just as they are beginning to feel more financially secure—and perhaps starting to think about getting married or having children—they get hit with a big tax increase.

The Main Street Tax Plan would convert the first quarter of the 25-percent tax bracket into a 20-percent tax bracket, thereby smoothing over this abrupt tax-increase and providing a tax break for millions of middle-class Americans. For example, for the 2015 tax year (the year used for all tax figures in this publication), a single person who makes $60,000 and doesn't itemize would save $613 in taxes from this provision alone—and $2,153 overall from this plan (a 22 percent reduction[8]). Most of those who do itemize would see their taxes cut as well. For example, a family of four (a married couple with two kids) who itemizes, earns $130,000, pays $1,500 a month in mortgage interest, gives $3,000 a year to charity, and pays 5 percent in state taxes (assuming that the state allows the same deductions and exemptions as the federal government, except for the deduction for state taxes), and who currently has no other deductions, would save $673 in taxes from this provision alone—and $4,312 overall from this plan (a 26 percent reduction[9]).[10]

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[7]This plan wouldn't change the tax rate on capital gains or dividends. As for other plans' treatment of dividend or capital-gains taxes, Santorum's, Trump's, and Jeb Bush's plans wouldn't change them (aside from eliminating the Obamacare surtax); Camp's, Cardin's, Clinton's, Jindal's, and Sanders's, would raise them (although not necessarily across the board); Cruz's and Paul's would lower them; and both Rubio and Lee's and Carson's would eliminate them—so that someone living entirely on income from capital gains or dividends (or interest, which their plans also wouldn't tax) would pay no federal income tax. (Rubio's latest plan, a variation on Rubio-Lee, would limit this zero percent rate on capital gains and dividends to future investments.)

[8]The Social Security payroll tax and the Earned Income Tax Credit are excluded from this analysis, for reasons explained subsequently, while both the employee's and employer's share of the Medicare payroll tax are included (the latter because economists say it is passed on to the employee).

[9]See previous note.

[10]For ease and consistency of comparison, most examples in this publication are of taxpayers who don't itemize. However, the vast majority of those who do itemize would also get a tax break under this proposal, and almost all of them would still be better off itemizing than claiming the standard deduction. This relative parity in the treatment of current itemizers and current non-itemizers is quite different than their respective treatment under some proposals. For example, by dramatically reducing the value of the mortgage interest deduction for most taxpayers, while nearly doubling the standard deduction, Jeb Bush's plan would greatly reduce the tax benefit of owning a home and would therefore (in that plan's own words) "reduce the number of itemizers by almost 80 percent (from 47 million to 13 million)." In contrast, Rubio and Lee would allow homeowners to claim the mortgage interest deduction without having to itemize. This means homeowners would also get to claim the new "personal credit" that would replace the standard deduction (not currently available to non-itemizers) under the Rubio-Lee plan. In relation to current law, therefore, homeowners (or at least those homeowners who would be eligible to claim the full mortgage interest deduction) would fare much better under Rubio-Lee than renters would.

Streamlining the Tax Code

Politicians and pundits often maintain that reducing the number of tax brackets simplifies the tax code. In truth, however, what makes the tax code so maddeningly complex has almost nothing to do with the number of tax brackets. Indeed, reducing the number of brackets would have little effect other than to make the tax code less smooth. Take the prospect of taxpayers having to pay, say, a 15-percent tax rate up to a certain point and then having to pay, say, a 35-percent tax rate on any additional money earned. Such a situation is basically the opposite of a flat tax—instead of facing a level field of taxation, or even a relatively smooth incline, the taxpayer abruptly slams into a tax wall upon reaching a certain income level.

What truly would simplify the tax code, however, and make it more transparent, is *reducing the number of different taxes* people must pay. Right now, at the federal level, Americans have to pay income tax, Social Security payroll tax, and Medicare payroll tax. The Main Street Tax Plan would eliminate the Medicare payroll tax. Doing so would particularly ease the tax burden of the working poor, many of whom pay more in Medicare tax than in income tax. (In addition, this plan would simplify the tax code by ending most income-based phaseouts and eliminating most deductions, credits, or exemptions in the individual tax code—including the deduction for state and local taxes[11]—while preserving the mortgage interest deduction (for one home) and the charitable deduction.)

The Main Street Tax Plan does not touch the Social Security payroll tax or the Earned Income Tax Credit (EITC), because they both function very differently from regular income tax and should be regarded as distinct entities. Social Security is largely a pay-in-for-yourself program (imperfectly so, to be sure—but still essentially so). The EITC, meanwhile, was designed to offset the adverse work-disincentives caused by (other) federal welfare programs. Whatever their merits, the reason for both the Social Security tax and the EITC is clear.

Only the Main Street Tax Plan was scored by the Tax Foundation as benefitting the typical American more than the top one percent.

In contrast, there is no real justification for the Medicare payroll tax—and whatever rationale there might once have been is becoming less compelling by the day. Unlike Social Security, Medicare is not a pay-in-for-yourself program—not remotely. Whereas people stop paying into Social Security after they earn $118,500 in income—because they have then paid in for themselves—under Medicare, they pay in perpetually, with richer people also paying in at a higher tax *rate* than poorer people. The Medicare payroll tax, then, is like a mini income tax. The Main Street Tax Plan would simplify the tax code by getting rid of this needless de facto second income tax.

Moreover (and, again, unlike Social Security), Medicare isn't remotely self-funded. According to the Medicare Trustees Report, a larger portion of Medicare funding comes from general revenues—mostly funded

[11]Allowing the deduction for state and local taxes is a boon for high-tax states and localities. Moreover, federal payroll taxes are not similarly deductible, creating something of an inconsistency in the current tax code.

through income taxes—than from the Medicare payroll tax. In fact, the Medicare payroll tax covered only 37 percent of Medicare's costs in 2014[12]—and is projected to cover less than a third by 2023, and even less from that point forward.[13]

Unlike the Social Security payroll tax, the Medicare payroll tax is a needless de facto second income tax.

In this light, either of two options make sense: The Medicare payroll tax should be roughly tripled, so as to make Medicare a truly self-funded program. Or the Medicare payroll tax should be eliminated, and Medicare should be financed like every other non-self-funded, non-pay-in-for-yourself program: through general revenues.

The current halfway house, of having a little over a third of Medicare be funded through a separate tax, needlessly complicates the tax code and helps mask both Americans' tax burdens and Medicare's financial woes. What's more, reducing the Medicare payroll tax without eliminating it, as some have proposed, would be the worst of all worlds—as it would maintain the fiscal fiction that Medicare is a self-funded program while simultaneously making it even less self-funded than it is today. Medicare should either become genuinely self-financed or should be financed out of general revenues.

The Main Street Tax Plan chooses the latter course, which would be far better for low-income workers. In fact, freed from the Medicare payroll-tax burden, any married couple (without children) who doesn't itemize their taxes would get a tax cut under this plan, as would any single person (without children) who doesn't itemize. (Most of those who do itemize, and most of those with children, would get tax cuts as well.)

Moreover, under this plan, there wouldn't be less money available for Medicare but more. According to the Tax Foundation's scoring, $679 billion in additional revenues would be available over a decade to be spent on Medicare or whatever else—whereas under current law, that money either wouldn't be available or would have to be borrowed. To be clear, the hope here would be that this $679 billion would go toward deficit reduction, leaving the same amount of money to be spent on Medicare and other federal programs as under current law. Still, the point remains: This tax plan's elimination of the Medicare payroll tax, combined with its other pro-growth provisions, would leave *more* money available to be spent on Medicare, not less.

Giving Citizens Skin in the Game

One of the central notions on which the Main Street Tax Plan is based is that nearly everyone should be paying something in income tax, however small, and Americans shouldn't regard April 15 as a payday. Accordingly, under this plan, no one's regular income-tax rate could go negative. People could still get a refundable tax credit in the form of the EITC or the new health insurance and HSA tax credits proposed in "An Alternative to Obamacare," but their regular income-tax rate could not go below zero. In other words, all tax

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[12]It covered 84 percent of Medicare Part A's costs.
[13]See tables II.B1 (p. 11), III.B4 (p. 54), V.B1 (p. 178), and V.B5 (p. 185) in the 2015 Medicare Trustees Report: www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/reportstrustfunds/downloads/tr2015.pdf.

credits not involving the EITC or health care would be made non-refundable.[14]

Some commentators argue that if people are paying payroll taxes, that's sufficient. But those who are not paying income tax are not helping to fund national defense, national parks, or any of the regular costs of government. Because they are not contributing, they perhaps have less incentive to consider the cost of federal programs. This tax plan would broaden the income-tax base by reducing the standard deduction by $1,000 per person and $2,000 per couple, thereby giving more citizens skin in the game. (Anyone who would be added to the income-tax rolls under this provision would still get an overall federal tax cut, due to the elimination of the Medicare payroll tax.)[15]

Ending the Marriage Penalty

The current tax code often penalizes marriage.[16] Take, for example, two single people making $75,000 a year, with one of them having two children. Under current law (assuming they don't itemize their taxes but instead claim the standard deduction), the person with children pays $7,935 in federal taxes (apart from Social Security tax), while the person without children pays $14,144; so, together they pay $22,079. If they were to get married (and their incomes didn't change), they would instead have to pay $26,288—for a marriage penalty of $4,209 in that year alone, with similar marriage penalties in the years to follow.

Nearly everyone should be paying something in income tax, however small, and Americans shouldn't regard April 15 as a payday.

Under the Main Street Tax Plan, meanwhile, they would collectively pay $19,106 if they were not married and $19,105 if they were—for a marriage bonus of $1 (the dollar being the result of a rounding error). To eliminate the marriage penalty, three main things must be done, and this plan would do all three: eliminate the head-of-household filing status; make the married tax brackets double the size of the single tax brackets; and stop income-testing the child tax credit.[17] Most tax plans

[14]The Patient Protection and Affordable Care Act, commonly known as Obamacare, generally gives direct subsidies to insurance companies rather than tax credits that lower people's taxes. Regardless, any financial assistance under Obamacare, or under "An Alternative to Obamacare" (http://www.hudson.org/research/12004-an-alternative-to-obamacare) would be unaffected by this tax plan.

[15]Some tax plans tout how many people they would take off the income-tax rolls. Jeb Bush's tax plan would increase the standard deduction by $5,000 per person and $10,000 per couple. As a result, the Bush plan highlights in its write-up that "married couples with two children with incomes below $38,600 would no longer pay income taxes"—and that's even without taking into account the existing child tax credit. With that tax credit taken into account, Bush's plan would take every married family of four with an income of $55,000 or less off the income-tax rolls altogether and would have a check sent to them at tax time. It would do the same for every married family of six with an income of $80,000 or less. The Rubio-Lee plan, meanwhile, would take every married family with four kids and an income of exactly $100,000 off of the income-tax rolls and send them a check for $3,000 (and sometimes more).

[16]People also sometimes end up paying lower tax rates as a result of getting married, but that is presumably a matter of lesser concern.

[17]Income-testing tax credits is overkill—tax credits are already highly progressive without being income-tested—and leads to high marginal tax rates. Under Marco Rubio's latest tax plan, which introduces two new income-tested tax credits,

don't do all three of these things—so while they may reduce the marriage penalty, they don't actually eliminate it (see the chart on pp. 16-17).[18]

Neither Rewarding nor Punishing Americans for Having Children

It is important that the tax code not discourage Americans from having children. At the same time, everyone—singles, couples, families with children— should be taxed on the basis of their financial well-being, rather than being penalized or rewarded on the basis of their family size.

The Marco Rubio-Mike Lee tax plan claims that the current tax code contains a "parent tax penalty."[19] In truth, however, this "parent tax penalty" doesn't exist—at least not for most

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marginal income-tax rates would be as high as 64 percent for some upper-middle-class taxpayers. For example, a single woman who has four kids, makes $150,000, and claims only those deductions, exemptions, and credits that anyone of her family's income and size can claim, would have to pay $3,200 in federal income taxes on her next $5,000 in income under the Rubio plan, leaving her with just $1,800. (Rubio's earlier plan, released with Sen. Mike Lee, did not income-test these tax credits and hence did not create such high marginal tax rates.)

[18]The Cruz, Paul, Rubio-Lee, and Santorum plans would wisely eliminate the head-of-household filing status and make the married tax brackets double the size of the single tax brackets (or, in Cruz's, Paul's, and Santorum's cases, have there be only one tax bracket), so those plans would nearly end the marriage penalty. But they wouldn't stop income-testing the child tax credit, and this would keep the marriage penalty partly in effect.

[19]The Rubio-Lee plan argues, "As parents simultaneously pay payroll taxes while also paying to raise the next generation that will pay payroll taxes, parents pay more into the old-age entitlement systems. This creates a situation known as the 'Parent Tax Penalty' where parents pay more, but are not compensated for these payments." While it is certainly true that someone needs to raise the next generation—and that federal programs and taxes shouldn't disincentivize having children—it's hard to see how this means that if parents are not compensated for having children, they are having to "pay more into the old-age entitlement systems." Parents pay into those programs and then eventually receive benefits from them. Then their children will pay into those same programs and eventually receive benefits from them. The cost of raising children would seem to have little or nothing to do with what someone is paying into the old-age entitlement system. Moreover, some of the costs of raising children (most notably 13 years of public education) are borne in part by those without children. The Rubio-Lee argument seems to be that any money that parents spend on their children should ideally be deductible from what those parents would otherwise have to contribute to federal entitlement programs—but who, then, is supposed to pay for the share of benefits from those entitlement programs that these parents receive?

In a *National Affairs* essay (http://www.nationalaffairs.com/publications/detail/taxes-and-the-family) that helped inspire the Rubio-Lee plan, Robert Stein makes a different argument, namely that the very existence of federal entitlement programs disincentivizes people from having children—because the state, not one's own offspring, then becomes the expected provider of an old-age safety net. The tax code, Stein suggests, should thus provide preferential treatment to parents, so as to make the overall effect of federal programs on the decision of whether or not to have children—or how many children to have—more neutral.

While Stein's argument is compelling, it is basically an argument that two wrongs make a right; that it's worth skewing the tax code in favor of parents to help mitigate some of the other damage that federal entitlement programs are causing, even at the cost of skewing the tax code *against* single people and married couples without children.

The Main Street Tax Plan takes a different approach, aiming to get the tax code right as an end in itself, rather than using it as a means to right other wrongs. It aims to treat parents and non-parents equally in the tax code (taxing everyone based on their financial well-being), end the marriage penalty, and ease the tax burden not only for those who already have children but also for those who might be striving to become financially independent enough to have children.

The Rubio-Lee plan, on the other hand, would increase the child tax credit from $1,000 to

taxpayers. Indeed, the reverse is closer to the truth, at least for the working class and the center of the middle class. Parents in that income-range get a better deal from the tax code than do single people or married couples without children.

> Everyone should be taxed on the basis of their financial well-being, rather than being penalized or rewarded on the basis of their family size.

To better gauge financial well-being in light of family size, this author has developed a measure called Modified Percent of Poverty, or MPP (see the right-hand column of the chart on pp. 16-17). MPP starts with the federal government's own percent-of-poverty figure. It then modifies it to reflect the fact that, if it costs about $4,000 to raise a child at the poverty level (as the government says), that doesn't mean that a couple whose income is 100 times the poverty level, or about $1.6 million, needs another $400,000 in income to maintain their same standard of living if they have a child. That is, as income rises, the cost of raising a child rises along with it, but not proportionally. (For more on MPP, see the appendix at the end of this publication.) MPP shouldn't be treated as gospel, but it is a useful tool for gauging financial well-being.

Using this measure, one can see that for most working-class or middle-class Americans, the tax code is already disproportionately generous to those (whether married or single) with children. For example, a married couple who makes $25,000 and has no children, and whose MPP is 157 percent, pays a federal tax rate of 4.6 percent.[20] Meanwhile, a family of four (a married couple with two children) who makes $50,000, and whose MPP is 222 percent, pays a federal tax rate of just 3.4 percent. This family is better off financially than this married couple, yet the family pays just three-quarters of the couple's tax rate. (The assumption in all of these examples is that the taxpayers don't itemize.)

Moreover, one need not rely on MPP to come to this conclusion. Even just based on the federal government's own (unmodified) percent-of-poverty tallies,[21] the income of the family in question is about twice the poverty level (206 percent), while the couple's income is only about one-and-a-half times the poverty level (157 percent—the same as under MPP); yet the family pays a lower tax rate.

Likewise, a single person (with no children) making $25,000, whose MPP is 212 percent, pays a federal tax rate of 9.7 percent. In comparison, a single parent who makes $70,000 and has two children, and whose

$3,500—thereby removing every married family with four kids and an income of exactly $115,000 from the income-tax rolls, removing every married family with four kids and an income of exactly $100,000 from the tax rolls even after taking into account the Medicare payroll tax, and sending income-tax-refund checks of $9,000 (and often more) to every married family with four kids and an income of exactly $60,000. Meanwhile, a single person making just $20,000 would continue to pay income tax—and in many cases would have his or her taxes *raised* slightly under the Rubio-Lee plan.

[20]That's including both the employee and employer share of the Medicare payroll tax, and excluding the Social Security payroll tax and the EITC (which aren't included for reasons explained above).

[21]The federal poverty level for 2015 is $11,770 per person plus $4,160 for each additional family member.

MPP is 415 percent, actually pays a lower rate: 9.4 percent. Even based on the federal government's own (unmodified) percent-of-poverty tallies, the income of this single person without kids is barely over twice the poverty level (212 percent—the same as under MPP), while the income of this single-parent family is nearly three-and-a-half times the poverty level (348 percent). Indeed, the government's own tallies suggest that this single-parent family would still be better off than this single person even if the family's income were just $45,000 (in which case the family would pay a tax rate of only 4.8 percent—half of what the single person pays). Far from a "parent tax penalty," the current tax code—at least in this income-range—offers a parent tax bonus.

The situation changes, however, for the upper-middle-class. For many upper-middle-class families, the tax code arguably does disincentivize having children—a policy that would seem ill-advised. For example, a family of five (with married parents) who makes $140,000, and whose MPP is 621 percent, pays a federal tax rate of 14.8 percent. Meanwhile, a married couple who makes $100,000 and has no kids, and whose MPP is slightly higher—at 628 percent—pays a lower federal tax rate: 14.1 percent. If the family of five instead paid a tax rate of 14.0 percent—more in keeping with their financial well-being in relation to the couple, according to MPP—it would drop their tax burden by more than $1,000.

The Main Street Tax Plan would address all of these concerns by cutting the existing child tax credit in half (from $1,000 to $500 per child), no longer income-testing it, and adding a child tax deduction of $2,000 per child. (As noted above, this change would have the added benefit of being a key element in eliminating the marriage penalty, which partly results from income-testing the child tax credit.) The combination of these three things would cause people's tax rates to line up much better with their actual financial well-being (as the chart on pp. 16-17 helps demonstrate).

> This plan would convert the first quarter of the 25-percent tax bracket into a 20-percent tax bracket.

This tax plan would take an additional step toward tax equity and simplification, moreover, by changing and streamlining how the tax code handles child-care expenses. Parents who rely on child care often have a large share of their earnings eaten up by child-care payments; yet, apart from a child-care tax credit that usually works out to $600 per child and is capped at two children, they are taxed on their full income, even though their "net" income, after their child-care payments are subtracted, may be much lower. This tax plan would provide tax relief for a great many working parents by converting the relatively complicated child-care tax credit into a simple child-care tax deduction, making it available to people of all incomes, and allowing half of all child-care expenses up to $10,000 per child to be deducted. In other words, working parents would be able to deduct up to $5,000 per child for child care. Right now, a single mother who makes $58,000 and pays $27,000 in total for her three children's child care gets a child-care tax credit of $1,200, thereby reducing her tax burden by that same $1,200. Under this proposal, she would instead be able to deduct $13,500 from her taxable income (half of $27,000), which, given her marginal tax rate of 15 percent, would

reduce her tax burden by $2,025—or $825 more than under current law.

The combination of these reforms would go a long way toward providing equal tax treatment for those with and without children.

Reforming Business Taxation

In addition to lowering the corporate tax rate to 25 percent and allowing the full expensing of all capital investments, this tax plan would end the preference for debt-financing by eliminating the business tax deduction for interest paid. For international business, this plan would adopt a two-thirds "territorial," one-third "worldwide" tax system. That is, because it makes little sense to have a system that incentivizes American companies to keep money abroad—as the current tax code does—this plan would end deferrals and tax foreign profits at one-third of the difference between U.S. and foreign corporate income-tax rates (if the U.S. rate is higher). In the short term, this plan would create a deemed repatriation of previously deferred profits, taxing them at half of the difference between current U.S. and foreign income-tax rates (payable over a decade).[22]

A Comparison of Tax Plans

The chart on pp. 16-17 highlights how various taxpayers would be affected by each of five different tax plans: the Main Street Tax Plan; the Marco Rubio plan; the Ted Cruz plan; the Jeb Bush plan; and a hypothetical 20-percent flat tax (which is designed to be relatively politically viable, in part by eliminating the Medicare payroll tax—a reform that would disproportionally help lower-income tax-payers, who wouldn't generally benefit from a flat tax.)

Four representative examples (each highlighted on the chart in yellow)—a typical single person, a typical large family, a typical upper-middle-class family, and a well-off

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[22]Under "worldwide" taxation (current law), U.S. companies are taxed at U.S. corporate rates regardless of where they are operating, but only when (or if) they bring their foreign earnings back to the U.S. For example, a U.S. company operating in Ireland, which has one of the world's lowest corporate tax rates, at 12.5 percent, pays a 12.5-percent tax rate on earnings kept in Ireland and a 35-percent effective tax rate on earnings brought back to the U.S (the 35 percent U.S. rate minus the 12.5 percent rate that the company pays to Ireland, for a U.S. rate of 22.5 percent and a total effective rate of 35 percent). This tax system encourages inversions—whereby U.S. companies become subsidiaries of foreign-chartered companies and thus avoid U.S. taxation—encourages U.S. companies that operate abroad not to bring their earnings back to the U.S., and discourages companies from chartering in the U.S. in the first place.

Under "territorial" taxation, U.S. companies would pay the corporate tax rate only in the country in which they were operating. So a U.S. company operating in Ireland would pay only the 12.5 percent rate. Such a tax system would improve U.S. companies' competitiveness. But it would also encourage U.S. companies to set up shop abroad, rather than in the U.S.

Of these two options, "territorial" taxation seems to provide far fewer harmful incentives. But a hybrid approach—one that's based mostly on the "territorial" model but isn't as encouraging of companies' moving operations abroad—could well be the best option for American workers.

Under a two-thirds "territorial," one-third "worldwide" tax system, a U.S. company that operates in Ireland would pay an effective tax rate of 16.67 percent, whether it brought its earnings back to the U.S. or not: 12.5 percent to Ireland, 4.17 percent to the U.S. (one-third of the difference between 12.5 percent and the new 25 percent U.S. rate). So the company would reap two-thirds of the potential tax benefit of having operations in Ireland—or two-thirds more than it is now allowed to benefit on any earnings that it brings back to the U.S.—but not the full amount. This hybrid approach should help keep U.S. companies competitive without rolling out the welcome-to-move mat at the expense of American workers.

single person—help demonstrate the real-world impact these respective tax plans would have on taxpayers of various family compositions and income levels.

It makes little sense to have a system that incentivizes American companies to keep money abroad.

The first example is a single person making $30,000 a year, who (if not itemizing, which is the assumption in all of these examples) pays $3,364 (or 11.1 percent) in federal taxes under current law (apart from Social Security tax and EITC, which—for reasons explained above—are not included in any of these tallies, and including both the employee and employer share of the Medicare payroll tax). This person's taxes would *increase* by 0.2 percent under Rubio, and they would *decrease* by 13 percent under the flat tax, 20 percent under Cruz, 21 percent under the Main Street Tax Plan, and 30 percent under Bush.

The second example is a family of six, with married parents, making $100,000 a year and paying $7,488 (or 7.4 percent) in federal taxes under current law. This family's taxes would *increase* by 20 percent under the flat tax, and they would *decrease* by 24 percent under the Main Street Tax Plan, 31 percent under Cruz, 43 percent under Bush, and 101 percent under Rubio (going negative).

In the third example, a family of five with married parents making $140,000 a year[23] pays $20,998 (or 14.8 percent) in federal taxes under current law. This family's taxes would decrease under all four plans—by 13 percent under the flat tax, 18 percent under Bush, 23 percent under Cruz, 30 percent under the Main Street Tax Plan, and 43 percent under Rubio.

The fourth and final example is a single person making $250,000 a year, who pays $70,407 (or 27.8 percent) in federal taxes under current law. This person's taxes would *increase* by 3 percent under Rubio, and they would *decrease* by 5 percent under the Main Street Tax Plan, 6 percent under Bush, 31 percent under Cruz, and 33 percent under the flat tax.

In short, the flat tax would be great for the single person making $250,000 and bad for the family of six making $100,000. The opposite would be true under the Rubio plan, with the family of five making $140,000 also benefitting greatly. The Bush plan would reduce taxes in each of the four examples by between 6 and 43 percent but—based on the Tax Foundation's scoring—at a cost of $1.6 trillion in lost revenues (still far less than the $2.4 billion in projected lost revenues under Rubio). The Cruz plan would reduce taxes in each of the four examples by between 20 and 31 percent, but at the cost of introducing a VAT and reducing revenues by more than $750 billion. And for all but the single person making a quarter of a million dollars (whose taxes would be lowered by 5 percent), the Main Street Tax Plan would reduce taxes by between 21 and 30 percent—while raising revenues.

Finally, the Main Street Tax Plan and the flat tax would each end the marriage penalty, while the Bush, Cruz, and Rubio plans would reduce it but not eliminate it. As the example at the bottom of the chart on pp. 16-17 shows, if two single people, one with a child, make

[23]After adjusting for inflation, this is the rough equivalent of having made $60,000 a year in the middle of the Reagan years, according to the Bureau of Labor Statistics.

$70,000 apiece, they now face a collective federal tax bill of $21,289 a year (apart from the Social Security payroll tax). If they were to get married and their incomes were to stay the same, their federal tax bill would rise to $24,498—for a marriage penalty of $3,209. Worse, they would have to pay that penalty, or something close to it, every year. Under the Main Street Tax Plan, the marriage penalty for this couple would be essentially $0 (-$1, to be exact); under the flat tax, it would be $0; under Cruz and Rubio, it would be $1,000; and under Bush, it would $1,857.[24]

Conclusion

The Main Street Tax Plan would cut Americans' taxes, make the tax code simpler and fairer, end the marriage penalty, increase the size of the U.S. economy by an estimated $2 trillion, and raise revenues by an estimated $679 billion. It would follow in the footsteps of the Reagan and Kennedy tax cuts—each of which spurred a decade or so of prosperity—while also emphasizing fiscal responsibility. In sum, it would improve the lives of everyday Americans and strengthen the nation's financial well-being.

[24]The Bush plan's method of reducing the marriage penalty, which involves letting the second earner in a married couple file more or less as a single person, results in the peculiar circumstance of having families of the same size and income paying different tax amounts depending upon their income split. For example, under the Bush plan, a married couple with one child and an income of $140,000 would pay $20,675 in federal taxes (apart from Social Security payroll tax) if their income is earned by one person, $14,808 if $100,000 of their income is earned by one person and $40,000 is earned by another, and $18,633 if they earn $70,000 apiece.

Tax Proposal Comparison*

	Current Law (2015 tax year)		Main Street			20% Flat Tax***		
					% change			% change
	Fed tax	Rate**	Fed tax	Rate	in fed tax	Fed tax	Rate	in fed tax
Married, 0 kids, $15K	$436	2.9%	$0	0.0%	-100%	$0	0.0%	-100%
Single, 0 kids, $20K	$1,574	7.8%	$1,144	5.6%	-27%	$910	4.5%	-42%
Married, 0 kids, $25K	$1,166	4.6%	$640	2.5%	-45%	$0	0.0%	-100%
Married, 1 kid, $30K	$410	1.3%	$40	0.1%	-90%	$0	0.0%	-100%
Single, 2 kids, $30K†††	-$255	-0.8%	$0	0.0%	n/a	$510	1.7%	n/a
Single, 0 kids, $30K	$3,364	11.1%	$2,644	8.7%	-21%	$2,910	9.6%	-13%
Married, 4 kids, $50K	-$1,210	-2.4%	$0	0.0%	n/a	$0	0.0%	n/a
Married, 2 kids, $50K	$1,738	3.4%	$988	1.9%	-43%	$1,420	2.8%	-18%
Married, 0 kids, $50K	$4,938	9.7%	$3,788	7.5%	-23%	$3,820	7.5%	-23%
Married, 4 kids, $60K	$327	0.5%	$0	0.0%	-100%	$1,020	1.7%	212%
Married, 2 kids, $60K	$3,528	5.8%	$2,488	4.1%	-29%	$3,420	5.6%	-3%
Married, 0 kids, $60K	$6,728	11.1%	$5,288	8.7%	-21%	$5,820	9.6%	-13%
Single, 0 kids, $60K	$9,959	16.4%	$7,806	12.8%	-22%	$8,910	14.6%	-11%
Married, 2 kids, $80K	$7,108	8.8%	$5,488	6.8%	-23%	$7,420	9.1%	4%
Single, 1 kid, $90K	$14,870	16.3%	$13,303	14.6%	-11%	$13,710	15.0%	-8%
Married, 4 kids, $100K	$7,488	7.4%	$5,688	5.6%	-24%	$9,020	8.9%	20%
Married, 0 kids, $100K	$14,338	14.1%	$11,613	11.4%	-19%	$13,820	13.6%	-4%
Single, 4 kids, $110K	$15,450	13.8%	$12,303	11.0%	-20%	$14,110	12.6%	-9%
Single, 0 kids, $120K	$27,267	22.4%	$23,899	19.6%	-12%	$20,910	17.2%	-23%
Married, 4 kids, $130K††††	$15,708	11.9%	$10,813	8.2%	-31%	$15,020	11.4%	-4%
Married, 2 kids, $130K	$19,708	14.9%	$14,213	10.8%	-28%	$17,420	13.2%	-12%
Married, 3 kids, $140K	$20,998	14.8%	$14,605	10.3%	-30%	$18,220	12.8%	-13%
Married, 1 kid, $140K	$24,498	17.2%	$18,605	13.1%	-24%	$20,620	14.5%	-16%
Married, 4 kids, $175K	$30,513	17.2%	$21,355	12.0%	-30%	$24,020	13.5%	-21%
Married, 2 kids, $250K	$56,294	22.2%	$46,137	18.2%	-18%	$41,420	16.3%	-26%
Single, 0 kids, $250K	$70,407	27.8%	$66,799	26.3%	-5%	$46,910	18.5%	-33%
Married, 4 kids, $275K	$62,402	22.4%	$49,427	17.7%	-21%	$44,020	15.8%	-29%
Married, 0 kids, $300K	$76,881	25.3%	$67,597	22.2%	-12%	$53,820	17.7%	-30%
Effect on debt vs. current law †††††	*$0*		***$679 billion** decrease*			*n/a (hasn't been scored)*		

(Sngl, 1 k, $70K)+(Sngl, 0 k, $70K)	$21,289	15.0%	$18,606	13.1%	-13%	$20,620	14.5%	-3%
Married, 1 k, $140K ($70K+$70K)	$24,498	17.2%	$18,605	13.1%	-24%	$20,620	14.5%	-16%
Marriage penalty	*$3,209*		*-$1*			*$0*		

**All tallies in this chart exclude Social Security payroll tax and EITC (as they are of a different nature than the tallies are for those who don't itemize and claim only those decuctions, exemptions, & credits that everyone of*
***The employer share of Medicare payroll tax (1.45%) is counted as income when computing tax rates; e.g., for*
****With standard deductions and personal exemptions increased by 50%, head-of-household filing-status*
*****Tallies reflect the version of Rubio's plan released in late October of 2015; the debt score listed is for the*
†Cruz's VAT effectively imposes a 16% payroll tax in lieu of current payroll taxes; Social Security tax (12.4% up to
††Modified Percent of Poverty shows financial well-being in relation to the poverty level, reflecting that the
†††In addition, this family receives an Earned Income Tax Credit worth approximately $3,000, which it would
††††Under Rubio's plan, if their mortgage interest payments and charitable contributions add up to $3,000 a
†††††Based on dynamic scoring by the nonpartisan Tax Foundation; actual effects on the debt would be even

Jeb Bush			Marco Rubio****			Ted Cruz			Modified
Fed tax	Rate	% change in fed tax	Fed tax	Rate	% change in fed tax	Fed tax[†]	Rate	% change in fed tax	% of Poverty[††]
$436	2.9%	0%	-$1,316	-8.6%	-402%	$540	3.5%	24%	94%
$1,050	5.2%	-33%	$1,580	7.8%	0.4%	$1,320	6.5%	-16%	170%
$726	2.9%	-38%	$476	1.9%	-59%	$900	3.5%	-23%	157%
-$130	-0.4%	-132%	-$1,373	-4.5%	-435%	$80	0.3%	-80%	152%
-$1,005	-3.3%	-294%	-$668	-2.2%	-162%	-$120	-0.4%	n/a	155%
$2,340	7.7%	-30%	$3,370	11.1%	0.2%	$2,680	8.8%	-20%	255%
-$2,210	-4.4%	-83%	-$5,412	-10.7%	-347%	-$1,600	-3.2%	-32%	162%
$590	1.2%	-66%	-$2,050	-4.0%	-218%	$1,200	2.4%	-31%	222%
$3,390	6.7%	-31%	$4,950	9.8%	0.2%	$4,000	7.9%	-19%	314%
-$920	-1.5%	-381%	-$7,260	-11.9%	-2320%	-$240	-0.4%	-173%	203%
$1,880	3.1%	-47%	-$260	-0.4%	-107%	$2,560	4.2%	-27%	273%
$4,680	7.7%	-30%	$6,740	11.1%	0.2%	$5,360	8.8%	-20%	377%
$8,048	13.2%	-19%	$8,740	14.4%	-12%	$6,760	11.1%	-32%	510%
$4,460	5.5%	-37%	$3,320	4.1%	-53%	$5,280	6.5%	-26%	377%
$12,268	13.4%	-17%	$12,860	14.1%	-14%	$10,190	11.2%	-31%	645%
$4,240	4.2%	-43%	-$100	-0.1%	-101%	$5,200	5.1%	-31%	376%
$10,515	10.4%	-27%	$13,900	13.7%	-3%	$10,800	10.6%	-25%	628%
$12,848	11.5%	-17%	$8,940	8.0%	-42%	$9,710	8.7%	-37%	518%
$25,356	20.8%	-7%	$23,980	19.7%	-12%	$15,106	12.4%	-45%	1020%
$11,885	9.0%	-24%	$6,270	4.8%	-60%	$11,706	8.9%	-25%	512%
$15,885	12.0%	-19%	$13,270	10.1%	-33%	$14,506	11.0%	-26%	641%
$17,175	12.1%	-18%	$12,060	8.5%	-43%	$16,206	11.4%	-23%	621%
$20,675	14.6%	-16%	$18,560	13.1%	-24%	$18,506	13.0%	-24%	779%
$26,691	15.0%	-13%	$19,076	10.7%	-37%	$25,656	14.5%	-16%	718%
$52,471	20.7%	-7%	$45,750	18.0%	-19%	$46,706	18.4%	-17%	1280%
$65,976	26.0%	-6%	$72,700	28.7%	3%	$48,906	19.3%	-31%	2124%
$58,182	20.9%	-7%	$47,951	17.2%	-23%	$52,406	18.8%	-16%	1181%
$70,611	23.2%	-8%	$65,150	21.4%	-15%	$60,506	19.9%	-21%	1883%
$1.6 trillion increase			***$2.4 trillion increase***			***$768 billion increase***			

Fed tax	Rate	% change in fed tax	Fed tax	Rate	% change in fed tax	Fed tax	Rate	% change in fed tax	
$16,776	11.8%	-21%	$17,560	12.4%	-18%	$14,840	10.4%	-30%	
$18,633	13.1%	-24%	$18,560	13.1%	-24%	$15,840	11.2%	-35%	
$1,857			*$1,000*			*$1,000*			

rest of the tax code) and include both the employee and employer shares of Medicare payroll tax; all
their family size & income can claim; unless specified, tallies assume 1 employee (& 1 income) per family.
those making $100,000, taxes paid (including the $1,450 paid by their employer) are divided by $101,450.
eliminated, the Medicare payroll tax eliminated, and the child tax credit eliminated.
earlier Rubio-Lee plan—the debt score for the new Rubio plan would be somewhat worse.
$118,500 in income) is excluded from this analysis, so the same amount is subtracted from Cruz's total.
cost of children isn't flat but instead rises with income, but not proportionally (see appendix).
continue to receive under any of these plans (and which would increase by 20% under Cruz's plan).
month (or more), they'd pay no federal tax (except for Social Security) and would get a refund instead.
greater, as the scoring does not take into account the economic or fiscal effects of interest on the debt.

Appendix

Modified Percent of Poverty (MPP) starts with the federal government's own percent-of-poverty figure. It then modifies that figure to attempt to provide a reasonable estimate of the true cost of raising a child at a given standard of living. MPP is based on the notion that, as income rises, the cost of raising a child rises along with it, but not proportionally.

For example, according to the government's own percent-of-poverty figures, it costs about $4,000 to raise a child at the poverty level, meaning that a couple whose income is at the poverty line—about $16,000—needs about an extra $4,000 in income to raise a child and stay at that same standard of living. It does not at all clearly follow, however, that a couple whose income is 100 times the poverty level, or about $1.6 million, needs an extra $400,000 (100 times $4,000) to maintain *their* same standard of living if *they* have a child. Nor does that couple need only $4,000, the amount needed to raise a child at the poverty level. Their true cost of raising a child, while staying at their same standard of living, is clearly somewhere in between these two numbers.

Simply averaging the two numbers would presumably yield a more accurate result than using solely the $4,000 figure or solely the unmodified percent-of-poverty figure. Averaging the two numbers would yield a tally of $4,000 for the cost of raising a child at the poverty level (($4,000+$4,000)/2) and $202,000 for the cost of raising a child at 100 times the poverty level (($4,000+$400,000)/2).

In truth, however, the cost of raising a child seems to rise more proportionally with income at first and less so as income rises. That is, from the poverty level, the cost of raising a child seems to rise pretty much alongside an increase in income. Gradually, however, the cost of raising a child falls off and doesn't increase at the same rate. Imagine two rockets that are launched, with one's trajectory continuing in a straight line from the launch (income), while the other's trajectory starts to fall off, eventually becoming almost parallel with the horizon (the cost of raising a child).

In other words, merely averaging the two numbers (the cost of a child at poverty and the cost of a child at X percent of poverty) seems to *understate* the true cost of raising a child at, say, twice the poverty level, while it seems to *overstate* it at, say, 100 times the poverty level.

Modified Percent of Poverty attempts to correct for this. According to MPP—and using (for ease of comparison) $4,000 as the rough poverty line—the following tallies more closely approximate the true cost of raising a child: $4,000 at the poverty line; $6,667 at twice the poverty line; $8,444 at three times the poverty line; $10,000 at four times the poverty line; $14,286 at seven times the poverty line; $18,400 at ten times the poverty line; and $138,640 at 100 times the poverty line.

The following estimates show the cost of raising a child based on four different measures (again, for ease of comparison, using $4,000 as the cost of raising a child at the poverty level and $16,000 as the poverty line for a couple, instead of the actual (2015) figures of $4,160 and $15,930):

Estimated Cost of Raising a Child

	Flat	Linear	Average	MPP
Poverty level ($16K/couple)	$4,000	$4,000	$4,000	$4,000
2 x pov. ($32K/couple)	$4,000	$8,000	$6,000	$6,667
3 x pov. ($48K/couple)	$4,000	$12,000	$8,000	$8,444
4 x pov. ($64K/couple)	$4,000	$16,000	$10,000	$10,000
7 x pov. ($112K/couple)	$4,000	$28,000	$16,000	$14,286
10 x pov. ($160K/couple)	$4,000	$40,000	$22,000	$18,400
100 x pov. ($1.6M/couple)	$4,000	$400,000	$202,000	$138,640

So MPP reflects that, at up to four times the poverty level, it costs *more* to raise a child than would be suggested by the average of the flat cost of raising a child at the poverty level ($4,000) and the linear (unmodified) percent-of-poverty cost. At the same time, MPP reflects that, *beyond* four times the poverty level, it costs *less* to raise a child than the average of the flat and linear tallies would suggest—and this gap widens as income rises.

Thus, at the poverty level, MPP says that it costs 100 percent of what a linear percent-of-poverty progression would say that it costs to raise a child, while at 100 times the poverty level, MPP says that it costs barely over one-third of what a linear percent-of-poverty progression would suggest.

Formula for MPP

MPP = A/(((A/B-1)*(C/D)/3+1)*D*E+(A/B)*F)*(A/B)*G

A = income
B = modified income = D*E+F
C = “full price” kid = if E>0, then (A-F)/E; otherwise, D
D = additional income per kid needed to stay at same financial level = if G<1, then G*4160; otherwise, 1/3*(G*4160)+2/3*((G*4160+(G-1)*4160)/G)
E = # of kids
F = equivalent income without kids = G*(11770+((# of adults)-1)*4160)
G = % of poverty (based on the federal government figures of $11,770 per adult and $4,160 per additional family member)

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Hudson Institute
1201 Pennsylvania Avenue, N.W.
Suite 400
Washington, D.C. 20004

P: 202.974.2400
info@hudson.org
www.hudson.org