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What Newt's South Carolina Win Could Mean For Your Taxes

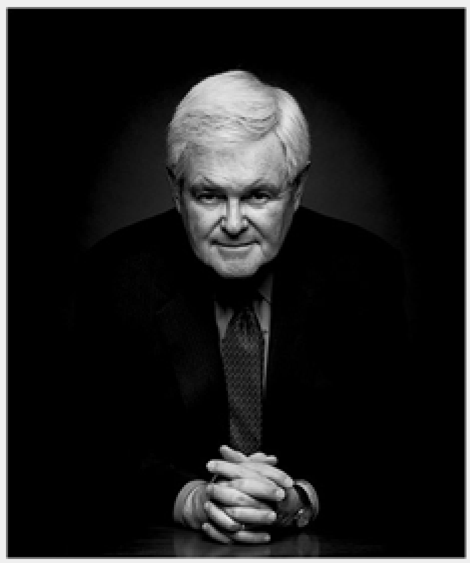

Image via thinkprogress.org

Former House Speaker Newt Gingrich may have upset Romney in South Carolina, but he's a long way from the nomination or President Obama. Yet conservatives have to like the radical surgery to the tax code he's proposed. For one, he would wipe out the capital gain tax. That wouldn't mean applying ordinary income rates to capital gains. It would mean ***no*** tax, period.

He is not the only one saying this, of course. Yet his rival Mitt Romney would eliminate the tax on long-term capital gains and dividends only for married couples with income under $200,000 and for singles earning less than $100,000. Beyond those income levels the 15% capital gain rate would remain in place.

Gingrich's Plan For Individuals. Gingrich has called for an optional alternative tax system with a single 15% tax rate. Newt's plan would repeal the alternative minimum tax (AMT). His 15% rate would apply to income 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. There would be no standard deduction, and most itemized deductions and credits would be eliminated. However, deductions for mortgage interest and charitable contributions would remain as well as the child and earned income tax credits.

Gingrich's Plan for Corporations. At the corporate level, the Gingrich plan would make two major changes:

1. Reduce the corporate income tax rate from 35 to 12.5%; and
2. Allow full expensing of capital expenditures (other than residential rental housing and inventories).

The plan would not broaden the tax base by eliminating existing tax expenditures or reducing the tax deductibility of interest payments.

Gingrich's Plan for Estates. Mr. Gingrich would also permanently repeal the federal estate tax and the surtaxes contained in the 2010 Patient Protection and Affordable Care Act.

Revenue Effects? Observers believe Gingrich's plan would reduce federal tax revenues dramatically. The Tax Policy Center of the Brookings Institution and Urban Institute 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. See Gingrich Tax Plan. That is roughly a 35% 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.

For more, see:

Gingrich's Tax Plan: Big Tax Cuts, Big Deficits

Fact Check: Gingrich's Tax Plan

Gingrich Tax Plan Gets Close Look

New Capital Gain Tax Reporting For 2011 Tax Returns

Mitt's Taxes Stoke "Carried Interest" Flames

After Iowa Squeaker, Getting Our Mitts on Mitt's Taxes

Will Everyone Pay AMT Next Year?

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