

# Sununu Flat Tax Plan Would Raise Taxes on Vast Majority of New Hampshire Families

## Typical New Hampshire Couple Would Face Tax Hike of \$5,300 a Year

An analysis of the “flat tax” endorsed by New Hampshire U.S. Senate candidate John E. Sununu finds that the plan would raise taxes substantially on almost all New Hampshire families. The typical New Hampshire couple making between \$50,000 and \$75,000 this year would pay \$5,300 a year more in federal taxes if the Sununu plan were adopted.

The analysis of the flat tax plan was performed using the Washington, DC-based Institute on Taxation and Economic Policy’s Microsimulation Tax Model. Robert S. McIntyre, director of Citizen for Tax Justice, which released the analysis, said: “John Sununu needs to rethink his approach to tax policy, given that his tax plan would be a whopping tax increase on the vast majority of New Hampshire families.”

Mr. Sununu has co-sponsored a bill to replace the current federal income tax with a single-rate tax solely on earned income. The bill’s main sponsor is House Majority Leader Dick Armey (R-Tex.). Publisher-politician Steve Forbes has a similar proposal.

“The arithmetic of the flat tax is simple,” Mr. McIntyre noted. “As even the authors of the tax agree, it’s simply impossible to cut taxes by huge amounts on the wealthiest Americans without creating even bigger federal budget deficits or raising taxes a lot on the vast majority of non-rich families to make up the cost.”

“To break even, the flat tax rate would have to be about 25 percent,” Mr. McIntyre noted, continued. “That means that the Sununu plan raises tax rates on people now in lower tax brackets and cuts tax rates on those in the highest tax brackets. These effects are compounded by the fact that the flat tax plan exempts capital gains, interest and dividends from personal income taxes, while imposing new taxes on employer-paid fringe benefits such as health insurance.”

McIntyre added that “even at the hugely inadequate 19 percent flat tax rate Sununu has suggested, his flat tax plan would increase taxes on most families, while slashing federal revenues by upwards of \$200 billion a year. That kind of additional deficit spending simply isn’t going to—and shouldn’t—happen.”

“In a nutshell,” Mr. McIntyre said, “Steve Forbes would win big under the Sununu flat tax plan, but the vast majority of Americans—including all but the very richest New Hampshire families—would be big losers.”

The details of the ITEP analysis of the effects of a flat tax on New Hampshire families are on page two.

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“Now for some bad news. . . . it is an obvious mathematical law that lower taxes on the successful will have to be made up by higher taxes on average people.”

—Robert Hall and Alvin Rabushka, authors of the original “flat tax,” in *Low Tax, Simple Tax, Flat Tax* (1983), p. 58.

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## Effects of a Flat-Rate Tax Plan on Non-Elderly New Hampshire Married Couples In 2002 by Income Groups

Married Income Group	% of New Hampshire Couples	Average 2002 Income	Income Tax Now		Flat-Rate Tax at a Revenue-Neutral 25% Rate				Change in Tax	
			Average Tax Now	% of Income	Average Tax on Wages & Pensions	Average Tax on "Fringes"	Average Total Flat Tax	Flat Tax as a % of Income	As a % of Income	Average Change
<b>Below \$20,000</b>	3.1%	\$ 16,100	\$ -2,575	-15.9%	\$ —	\$ 690	\$ 690	4.3%	<b>+20.2%</b>	<b>\$ +3,266</b>
<b>\$20-30,000</b>	4.8%	25,200	-718	-2.8%	426	1,485	1,912	7.6%	<b>+10.4%</b>	<b>+2,629</b>
<b>\$30-40,000</b>	5.3%	34,700	643	1.9%	824	1,669	2,492	7.2%	<b>+5.3%</b>	<b>+1,849</b>
<b>\$40-50,000</b>	5.9%	45,500	2,235	4.9%	2,898	2,204	5,102	11.2%	<b>+6.3%</b>	<b>+2,867</b>
<b>\$50-75,000</b>	30.2%	62,900	4,841	7.7%	7,417	2,724	10,141	16.1%	<b>+8.4%</b>	<b>+5,300</b>
<b>\$75-100,000</b>	21.8%	87,700	9,732	11.1%	12,713	3,272	15,985	18.2%	<b>+7.1%</b>	<b>+6,253</b>
<b>\$100-200,000</b>	22.0%	133,000	18,993	14.3%	22,320	3,841	26,161	19.7%	<b>+5.4%</b>	<b>+7,168</b>
<b>\$200,000+</b>	6.8%	490,000	116,468	23.8%	69,439	4,828	74,266	15.2%	<b>-8.6%</b>	<b>-42,202</b>

**Taxes under the Flat-Rate Tax** include personal taxes on wages, self-employment earnings and pensions (with a \$24,400 exemption for couples, plus \$6,100 per child, but no other deductions or credits) and taxes assessed on employer-paid "fringe benefits" such as health insurance and FICA taxes paid on workers' behalf by employers (with no exemptions). The tax was modeled at a 25% rate to approximately break even with current personal income tax receipts, consistent with the typically stated "revenue-neutral" goal. (At the 19% rate sometimes suggested, the plan would add at least \$200 billion per year to the budget deficit, at 2002 levels.)

**Taxes under current law** include the effects of the earned-income tax credit and the child credit (\$600 per child in 2002)—both of which would be repealed under the flat tax. These credits are often "refundable," meaning that they can generate "negative" income taxes for many lower-income working families.

**Source:** Institute on Taxation and Economic Policy Microsimulation Tax Model.

**Citizens for Tax Justice, October 2002**