

## Setting the Record Straight on the "Fair Tax"

Gus is a cosponsor of legislation that would implement fundamental tax reform known as the "Fair Tax".

H.R. 25, The Fair Tax Act of 2007, would repeal the individual income tax, the corporate income tax, all payroll taxes, the self-employment tax, and the estate and gift taxes and levy a 23% (tax-inclusive) national retail sales tax as a replacement.

Other notable provisions in H.R. 25 include . . .

- Every family would receive a rebate of the sales tax on spending up to the federal poverty level (plus an extra amount to prevent any marriage penalty).
- The Social Security Administration would provide a monthly sales tax rebate to registered qualified families.
- The 23% national retail sales would not be levied on exports. The sales tax would be separately stated and charged.
- Social Security and Medicare benefits would remain the same with payroll tax revenue replaced by some of the revenue from the retail sales tax.
- States could elect to collect the national retail sales tax on behalf of the federal government in exchange for a fee.
- Taxpayers rights provisions are incorporated into the act.

While critics have lodged countless attacks against this proposal claiming there is nothing "fair" about it, this "FairTax" legislation has gained broad support among those seeking meaningful and lasting reform of our nation's complicated tax system.

This recent column in WSJ highlights some of the misconceptions of the "FairTax," while addressing the many benefits and relief such tax reform would provide to millions of Americans . . .

Much has been written lately about the FairTax, the proposal to replace the current federal income tax with a national retail sales tax. Unfortunately, much of it is wrong.

This country needs a spirited and wide-ranging debate about fundamental tax reform. But that debate is not advanced by misimpressions and distortions of the FairTax. Let us then clear up a few.

One assertion about the FairTax is that it began as a project of the Church of Scientology at a time when it was seeking tax-exempt status. This is false. The FairTax actually comes to us from market research conducted more than a decade ago by a handful of business leaders. Their goal was to determine what type of tax system would be most acceptable to the American public. The studies they paid for cost millions of dollars, included hard economic research by respected scholars, and were subjected to critical peer review. The result is a proposal, since introduced as legislation in Congress, now known as the FairTax.

What emerged from this research is that a national retail sales tax is a preferred method of taxation among most Americans surveyed. Another is that the tax would have significant benefits for the nation's economy.

Why? Because it eliminates income taxes and payroll taxes (for Social Security and Medicare), which are costly to collect and end up as "embedded" in the price of everything we buy. Along with getting rid of the Internal Revenue Service and the complexities of the income tax code, the FairTax would eliminate the distorting effect that income and payroll taxes have on the economy.

Research on the price of consumer goods reveals that up to 20% of all prices today represent hidden income taxes and payroll taxes. Once these taxes are repealed and replaced with the FairTax, it is likely that market pressure would force retail prices to fall.

Eliminating embedded taxes will also do something else -- it will remove significant price disadvantages suffered by American producers competing with tax-free imports. Eliminating corporate income taxes and capital gains taxes, which the FairTax would do, would likely make the American economy the most desirable place in the world to do business.

Another benefit of the FairTax is that, unlike other sales taxes, it would not hit the poorest Americans the hardest. The FairTax proposal calls for sending every American a "prebate" check to offset the cost of the national sales taxes paid by those living in poverty. This feature would effectively exempt those living below the poverty line from paying taxes to the federal government, and provide all taxpayers with a reimbursement of a portion of taxes paid.

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