

**Testimony of
Governor Mike Huckabee
Before the
House Committee on Ways and Means
Hearing on Tax Reform and Consumption-Based Tax Systems**

Chairman Camp, Ranking Member Levin, and Members of the Committee, thank you for the opportunity to testify before you today about the FairTax.

The fundamental flaw in the current tax system is that it penalizes work and productivity.

Common sense tells us that we get more of what we reward and we get less of what we penalize. If work and productivity are the foundation of a strong economy, then to penalize them is counterintuitive and damaging to a sound economic system. And yet our current tax structure as regulated by the IRS does exactly that.

Under the FairTax, no one would be taxed -- that is, penalized -- for their work, investments, savings, or earnings. After all, we want people to work, save, invest, and create capital, so we should cease to penalize it at all.

Income tax rates would be zero. Corporate tax would be zero. Payroll taxes would disappear. Savings and investments would no longer be subject to complicated tax codes. The tax rate on capital gains would be zero. There would be no paycheck deductions.

We could and should then eliminate the IRS.

The FairTax would shift taxes from what we earn to what we buy -- to a consumption tax. We would pay taxes when we bought something at the retail level that was new and therefore had not already been subject to the tax. You only pay taxes when you purchase something new, whether it's a product or it's a service.

The point is it's a completely transparent tax system. It doesn't increase taxes. It's revenue neutral. But here's what it will do. It will lower the tax burden and bring business back to the United States that's leaving our shores because our tax laws make it impossible for an American-based business to compete.

Under the FairTax we get rid of corporate taxes completely and totally -- because we all know those taxes are not really paid by the corporations. They're passed on to the customer. By eliminating the corporate tax and employer payroll taxes, the prices of what you purchase will go down.

As I mentioned earlier, the FairTax is revenue neutral, and if you eliminate the existing federal income tax system you would need to replace it with a 23 percent consumption tax. That might sound high, but please don't let that 23 percent fool you -- remember, you only pay when you purchase something new.

By taxing consumption instead of production, we encourage earning, work, risk taking in the marketplace, investment, savings, selling for a profit, and entrepreneurial activity. No one will have to try to find a way of hiding his or her efforts because we will finally reward people for their output.

For that reason, the FairTax would also virtually eliminate the underground economy. Do you think that drug dealers, prostitutes, pimps, gamblers, or people in this country illegally are filling out the same IRS tax forms each year and reporting the money they illegally earned? Of course not.

And because they don't pay tax on what they earn, you pay the taxes for them and for those who cheat the system.

The FairTax was designed based on research by noted economists and some of the country's leading think tanks. These are people without a political agenda. They came in with an idea of taking a blank slate and coming up with the fairest, most equitable way to create a tax structure that Americans could not only live with, but that would spur real growth in the economy. And the result was the FairTax.

Economists estimate that the FairTax would have a positive impact on the economy, in the first year and even 25 years after implementation.

In the first year:

- Real Gross Domestic Product would increase by 7.9 percent
- Domestic Investment would increase by 74.5 percent
- Labor supply would increase by 11.9 percent
- Real wages would increase by 10.3 percent

The bottom line is that the FairTax is Flat, Fair, Finite, and Family Friendly.

Here's how:

- **Flat:** It is a flat tax on consumption of new things we purchase at the retail level.
- **Fair:** It is oblivious to any demographic group's special interests.
- **Finite:** It has a single fixed rate with total transparency and no hidden costs.
- **Family Friendly:** It doesn't penalize people for being married and having children.

We the American people spend half a trillion dollars on compliance with current tax laws. Also, those who are at the bottom of the economic scale don't have 35,000 lobbyists in Washington working for them to create tax loopholes – like other people and groups do.

So I'm convinced that there's a reason 80 percent of the American people think we need a major overhaul of the tax structure – most American's realize it's wrong-headed thinking to penalize someone's productivity.

The FairTax will affect everyone across the economic spectrum in a positive way. It's even fair to the people at the lowest end because it gives them a real shot to reach the next rung on the ladder, a much fairer tax system than the current one, which penalizes them for trying to do better.

People below the poverty line won't be taxed at all. In fact, the genius of the FairTax is its' prebate. Every month, we'll get a monthly rebate that will reimburse us for taxes on purchases up to the poverty line, so that we're not taxed on necessities. That's why it's really fair. In fact, I believe it's a progressive tax for people at the lower end of the economic spectrum.

If you don't consume a whole lot — if you, for example, want to save money — you're not penalized for saving money like our current system.

One of my favorite benefits of the FairTax is that when you get your paycheck, you get the whole thing. The average American doesn't understand exactly what's going on with his paycheck so the FairTax eliminates confusion.

Many of you know that I strongly believe the FairTax is the best way for taxpayers and businesses to participate in the federal tax process because it's the only solution that's truly fair, finite and family friendly.

I campaigned on this issue in 2008 and my passion on this issue has only grown since then.

We as taxpayers can continue down this complex troublesome tax road, or we can adopt the FairTax and finally put the "out-of-business" sign on the door of the IRS. With Americans and Congressional leaders calling for major tax reform, never has there been a better political climate for the FairTax than right now.

I'd love to say April 15th has become just another beautiful spring day. I'd also like to be the person who helps nail the "going-out-of-business" sign on the Internal Revenue Service doors – a \$12 billion a year industry.

It's not only smart; it's the right thing to do. Thank You and I'll answer any questions you may have.