Submission for the House Ways and Means Hearing
"Consumption Tax – Fair Tax Panel"

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Introduction –

Corporations do not pay tax…consumers pay tax.

America has a complex tax system taxing both businesses' and individuals' income. However, consumers are double taxed. Business tax becomes a consumption tax for individuals as well since the business tax is a hidden tax in the price of goods and services.

In reality, businesses do not pay tax…they are simply tax collectors for the government.

A Georgia commission studying taxation for the state said this, "We currently tax the wrong things (income) versus taxing consumption and personal choices in discretionary spending."[23]

IRS Broken - It is widely agreed that the IRS tax system is totally broken beyond repair.

Former presidential candidate Steve Forbes stated very plainly. "We can't thinker with this tax code monstrosity or try to reform around the edges. The only thing we can do with this hideous beast is kill it, drive a stake through its heart, bury it, and hope that it never rises again to terrorize the American people.[3]

Problems with the tax code include: It is so large and complex it is incomprehensible; unfair, filled with loopholes; costly to administer; costly to comply with; not transparent; and subject to political influence from lobbyists, etc.

In **2002** Americans spent roughly $194 billion dollars on tax compliance. That amounts to **<u>20 cents of compliance cost for every dollar collected</u>** by the tax system.[7]

The Tax Advocate Service (TAS) estimates that the costs of complying with the individual and corporate income tax requirements for **2008** amounted to <u>$163 billion – or a staggering **11 percent of aggregate income tax receipts.**</u>[18]

"Now more than ever, Americans want to see policies that will help create increased growth, more jobs, and higher standards of living – <u>exactly the things that a lower and</u>

more streamlined corporate tax system can help achieve." Tax Foundation president and study author Scott A. Hodge, March 11, 2011.[8]

U.S. Highest Corporate Tax Rate – For the past 20 years America has stubbornly held the average federal, state, and local U.S. corporate tax rate at 39.2% while other countries have been reducing their corporate tax rate.

Transfer Pricing -- American companies with offshore earnings are taxed at a total rate of 35% if funds are brought to the United States. Consequently, many multinational companies take advantage of a process called "transfer pricing." Companies with facilities in countries with high tax rates use paperwork transactions to doubled transfer funds through Ireland or the Netherlands to countries such as the Cayman Islands and Bermuda, which depend primarily on tourist trade, and have no corporate tax, in order to avoid most taxes in all countries. Google reduced its taxes by $3.1B using this method and Facebook is working on implementing the process.[14]

Competitors Reducing Corporate Tax Rates –

"Dozens of countries around the world – including many of the United States' closest trading partners – have realized that sky-high corporate tax rates are an economic dead end."

"Since 2006, some 75 nations have cut their rates, many multiple times."[8, 17]

Between 2000 and 2010, nine (9) countries cut their corporate tax rates by double-digit figures including: Germany (22 points), Canada (13 points), Greece (16 points), Turkey (13 points), Poland (11 points), the Slovak Republic (10 points), Iceland (15 points), and Ireland (11.5 points). The Canadian government has explicitly set the goal of having the lowest corporate tax rate among the major G-7 nations.[8, 17]

"Here's the truth, Britain used to have the third lowest corporate tax rate in Europe," George Osborne said in his budget speech." 'It now has the sixth highest... So I can today announce that from April this year corporation tax will be reduced not just by 1% as I previously announced but by 2%..... Companies have naturally responded favorably to the move."[13]

High U.S. Taxes Moves Jobs Offshore -- 3M moved its plant abroad in order to reduce the tax load.[10]

Low U.S. Taxes Will Create American Jobs -- Two independent studies concluded that U.S. exports will increase by 18%, and $100 billion annually, respectively, if the corporate taxes based on income were eliminated. Much of the $12 trillion dollars American multinational companies hold off shore, rather than pay 35% tax, will come flooding to America. Thus, creating millions of American jobs.[5]

Reducing Corporate Taxes Increases Revenue -- Contrary to popular belief, reducing taxes actually increases revenue rather than reducing revenue and creates American jobs.

Referring to the 2003 tax reduction legislation the Joint Economic Committee, United States Congress, Report, January 2007 states, "This research paper presents the case that JGTRRA played a key role in the turnaround in investment and the turnaround in the economy."[21]

"Every time in American history that we've lowered the tax burden, the American people have responded with energy, imagination, and innovation. The standard of living has improved, better jobs were created, and government revenues have gone up, not down." Publisher and Former Presidential candidate Steve Forbes.[3]

Economist Victor Canto, Ph.D. explains it this way.

> "On paper, a lower tax rate collects less per dollar of taxable income. But what politicians fail to see is that lower taxes bring more earners above ground while increasing the incentives to save, work, and invest. The net result is that both the economy and the tax base expand, which in turn allows for the provision of additional services and/or a further reduction of tax rates."[11]
> (I suggest debt reduction)

Example 1 -- Increased Revenue and Increased Business Investment -- American companies hold an estimated $12 T in off shore accounts rather than pay a total of 35% tax on funds brought to the United States.[5]

Former Federal Reserve Chairman, Alan Greenspan, said that most of the offshore funds would come to America in months if the tax rate were reduced to **zero**.[5] **And he was right.**

The Wall Street Journal reported that Congress passed the American Jobs Creation Act of 2004, reducing the 35% rate to 5.25% for one year only, 2005, estimating that $200 B would be repatriated, generating $2.8 B in revenue. The IRS reported that 800 companies actually repatriated $362 B (1.8X estimate) generating $18 B (6.4X estimate) in revenue. Business investment increased 9.6%, the highest in ten-years.[12]

Example 2 -- Increased Business Investment – in 1998, Ireland with its 50% corporate tax rate and near 20% unemployment rate initiated a phased reduction of the tax rate to 12.5% over five years. The GDP increased by 9.6% the first year.[16]

Summary -- So, it is very clear that **major tax reform is urgently needed**. The IRS tax system is completely broken and beyond repair. It is also clear that the corporate tax rate dramatically affects economic growth, the movement of jobs, and government revenue. **The optimum tax plan is a consumption tax with a zero corporate tax rate.**

Fair Tax Optimum Solution –

I studying the requirements for the optimum tax system I have found 13 criteria that have been put forth by various individuals and groups.

The Fair Tax is the **only** tax plan that meets all 13 criteria. The Fair Tax has been endorsed by 150 economists. [25]

The Fair Tax, H.R. 25 and S. 13, are perhaps the most thoroughly researched legislation ever presented to Congress for consideration. It sole goal was to develop the optimum tax plan. The Americans for fair taxation invested $22 million in **totally non-partisan** research. The goal was to develop the optimum tax system. The research was led by prominent American economists with no input from politicians or lobbyist.

<u>Fair Tax Mets 13 Tax Plan Criteria</u>

Simple - 134 pages versus 70,000-plus pages

Fair - All business are treated the same and all individuals are treated same

Progressive, **not increase tax for low income people** -- A prebate off tax owed on expenditures at the poverty level makes the tax progressive.

Low marginal tax rate – The corporate tax rate is zero providing the ultimate economic stimulus and job creation through tax policy. Although all consumers pay the same 23% sales tax at the register, the effective rate varies from zero at poverty level to a maximum of 23% regardless of expenditures.

Broad economic base - The tax base is doubled as all consumers, including those in the current underground cash economy and 30 - 40 million annual visitors to America now pay tax.

Abolishes IRS - The IRS is abolished

Repeal the 16th amendment - Repeal of the 16th amendment is required in order to prevent double taxation

Minimize administrative costs - Elimination of the IRS reduces both administrative and compliance costs. Businesses and states will receive one quarter of1% fee. Forty-five states already have income taxes, thus making implementation easy.

Reduce disincentives to work, save, and invest - Individuals take home more pay since there are no federal withholdings and all taxes based on income are eliminated.

Transparent - The tax paid is printed on each purchase receipt so that it is easy for the consumer to see how much tax he is paying.

Widespread support - More than 1 million people had endorsed the Fair Taxx concept before the Fair Tax webpage was created. There are Fair Tax support organizations in all 50 states. In February 2011, House Speaker Boehner sent a letter to the president with a list of 150 economists who endorse the Fair Tax.

Avoid unintended of consequences of AMT - All income base taxes are eliminated.

Revenue neutral - The 23% tax sales rate was calculated to provide the same income as currently received, during the first year. However, due to economic growth, revenue will increase in succeeding years.

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