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**To the House Ways and Means Committee**  
**Hearing on Tax Reform and Consumption-Based Tax Systems**

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***Chairman Camp, Ranking Member Levin, and Members of the Committee on Ways and Means:***

The FairTax will harm my business. I am an importer of industrial commodities and today enjoy importing my foreign (mostly Chinese) produced goods without a significant tax component in the cost of the products I sell. This gives me a substantial advantage over my competitors that buy U.S. produced goods as the U.S. products on average have approximately a twenty percent (20%) imbedded tax in their price. (According to research by Dr. Dale Jorgensen while he was the Chairman of the Harvard University Economics Department, this imbedded tax is made up of U.S. corporate taxes, individual income taxes, Social Security and Medicare taxes, etc. that are expenses paid by U.S. businesses and passed on in the form of higher prices of the goods and services being produced.)

I have been quite successful importing foreign commodities and putting my U.S. competitors out of business because of the tax cost that is imbedded in the price of U.S. produced goods. Because the FairTax only taxes final consumption by a retail sales tax, it will eliminate the imbedded taxes from the cost of U.S. produced goods and I will lose my 20% advantage and have to compete on a level playing field with U.S. produced goods. I don't want a level playing field and think giving foreign producers a 20% advantage is the generous thing for rich America to do.

In many cases my foreign suppliers will lose business to American companies and American labor. Although this may be good for America's economy by decreasing unemployment, increasing government revenue, funding Social Security, Medicare and private retirement plans, it is not good for me and my retirement plan or for those poor workers in China.

If the FairTax is adopted I will have to realign my company to sell American produced products in China, as the cost of American goods will no longer be inflated by 20% due to our tax system. Such a realignment will be a burden to me, and because I will no longer have a very favorable tax advantage I will face real competition... and real competition hurts my bottom line.

Let's just leave things the way they are because I can be even more profitable as I eliminate more U.S. competitors. With less U.S. competitors I can increase my profit margins even more. I vote for ignoring the FairTax as I benefit from the tax system just like it is.

I realize that in the long run I will not be able to sell my foreign industrial commodities to American companies as the American companies will continue to go out of business or move offshore because of the 20% competitive disadvantage they incur due to our current tax system. That is a concern for my kids to deal with, as I'm in the game for what I can earn now.

I further realize that as American companies move their production to foreign countries to escape the U.S. tax system, they take their engineering and research with them, and that this is costing us our technological advantage. The loss of U.S. technological advantage, productive capacity and weaker economy also places America at increased risk of inability to defend itself and freedom around the world. However, this is my kids' problem... unless the decline of America is too rapid and disturbs my retirement.

On second thought, I encourage you to adopt the FairTax. I see no other action contemplated or possible that is sufficient in impact to grow America out of its current economic situation. (See below for the impact of the FairTax.) I'll start retraining to sell American goods in China.

### **Economic research tells us that . . .**

- The FairTax rate of 23 percent on a total taxable consumption base of \$11.244 trillion will generate \$2.586 trillion dollars – \$358 billion more than the taxes it replaces. [1]
- The FairTax has the broadest base and the lowest rate of any single-rate tax reform plan. [2]
- Real wages are 10.3 percent, 9.5 percent, and 9.2 percent higher in years 1, 10, and 25, respectively than would otherwise be the case. [3]
- Disposable personal income is higher than if the current tax system remains in place: 1.7 percent in year 1, 8.7 percent in year 5, and 11.8 percent in year 10. [4]
- The economy as measured by GDP is 2.4 percent higher in the first year and 11.3 percent higher by the 10<sup>th</sup> year than it would otherwise be. [4]
- Consumption increases by 2.4 percent more in the first year, which grows to 11.7 percent more by the tenth year than it would be if the current system were to remain in place. [4]
- The increase in consumption is fueled by the 1.7 percent increase in disposable (after-tax) personal income that accompanies the rise in incomes from capital and labor once the FairTax is enacted. [4]
- By the 10<sup>th</sup> year, consumption increases by 11.7 percent over what it would be if the current tax system remained in place, and disposable income is up by 11.8 percent. [4]
- Over time, the FairTax benefits all income groups. Of 42 household types (classified by income, marital status, age), all have lower average remaining lifetime tax rates under the FairTax than they would experience under the current tax system. [5]

- Implementing the FairTax at a 23 percent rate gives the poorest members of the generation born in 1990 a 13.5 percent improvement in economic well-being; their middle class and rich contemporaries experience a 5 percent and 2 percent improvement, respectively. [6]
- Based on standard measures of tax burden, the FairTax is more progressive than the individual income tax, payroll tax, and the corporate income tax. [7]
- Charitable giving increases by \$2.1 billion (about 1 percent) in the first year over what it would be if the current system remained in place, by 2.4 percent in year 10, and by 5 percent in year 20. [8]
- On average, states could cut their sales tax rates by more than half, or 3.2 percentage points from 5.4 to 2.2 percent, if they conformed their state sales tax bases to the FairTax base. [9]
- The FairTax provides the equivalent of a supercharged mortgage interest deduction, reducing the true cost of buying a home by 19 percent. [10]

## References

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