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Title of Hearing: Hearing on Tax Reform and Consumption-Based Tax Systems

On June 7, 2007, the following article, written by myself, appeared on TriplePundit.com, a major business and sustainability blog. I would like to submit the following excerpts, from the article, as my testimony for the Ways and Means Committee's Hearing on Tax Reform and Consumption-Based Tax Systems, explaining why I think the United States Congress should adopt the FairTax legislation.

Promote Sustainability by Rethinking the Income Tax?

As a first-semester student in [Presidio School of Management's](#) MBA in Sustainable Management program, I've been learning quite a bit about what sustainability really means, and what it will take for business and our economy to become sustainable. One topic that gets discussed quite a bit is how to encourage people and business to use natural resources more efficiently, while encouraging them to use more of the one resource that isn't in short supply: human labor. Inevitably, the discussion turns to tax policy, specifically, how the [US income tax system makes labor more expensive while discouraging savings and encouraging consumption](#). One professor suggested that a possible solution is to stop taxing labor and begin to tax things that we want less of, like carbon emissions.

This really caught my attention, because I have been a long-time advocate of the [FairTax](#) legislation, which would replace the Federal income tax and payroll taxes, and many other federal taxes with a consumption tax. It occurred to me that enacting the FairTax would, in addition to a myriad of other benefits, solve one piece of the puzzle, namely untaxing labor and making labor more attractive in the marketplace. I also realized that there are a number of other benefits, of the FairTax, which apply to sustainability, such as encouraging savings and discouraging consumption, encouraging purchases of used items (re-use), encouraging investment in education, and creating a safety net for the poor. In the remainder of this article, I will explain how the FairTax can be a positive tool in the effort to make the U.S. more sustainable.

The FairTax legislation is a nonpartisan effort to create a simple, fair and transparent tax system which does not favor any particular ideology. The FairTax bill was first introduced into Congress in 1999, and has been re-introduced in each successive congress, substantially unaltered.

I am sure you are painfully aware of the many problems with the IRS and the income and payroll tax system in general, so I will not bore you with a lengthy discussion of those. [This article](#) give a good overview of the [costs of compliance inherent in the current](#)

[system](#) and [this article](#) talks about [the origins of the income tax](#).

The greatest benefits of moving away from the current system, based on income and payroll taxes, lie in its effects on wage earners. Under the current system, employees have income, and payroll taxes (social security and medicare), deducted from their paychecks, before they get a chance to decide what they would like to do with that money.

Employers also pay payroll taxes, equal to the amount that each of their employees pay. Since this cost is born by the employer, it is, essentially, a tax on labor. The effects of a labor tax are decreased employment, decreased pay and increased prices on goods. It should also be noted that payroll taxes disproportionately affect low- and middle- income workers, because the tax is only applied to the first \$90,000 of wages. By eliminating income and payroll taxes, real wages will increase, employment will increase as the cost of labor goes down, and, consequently, the price of goods will decrease.

My favorite benefit, of the FairTax, is regaining control over my income. By eliminating the income and payroll taxes, and enacting a sales tax, my income, once again, become "my" money. (Currently, the U.S. government, considers it to be "their" money, until they get their share.) Under the FairTax, I don't have to worry about 401(k)s, medical savings plans, etc., because everything has become pre-tax!! With the FairTax in place, if I want to save my money, to buy a house, I can save as much as I want, and not pay any tax on that savings (at least until I buy the house) This means that I will be able to achieve my savings goal faster. If I simply want to pay less taxes, I can endeavor to purchase less.

When many people think about a sales tax, they assume that the sales tax will not be progressive, and will negatively affect the poor, since poor people spend a much higher percentage of their income on necessities. This is not so, under the FairTax plan, because each legal taxpayer in the U.S. will receive a monthly check, called the "prebate", for the amount of tax they would pay, on purchases up to the poverty level of spending. This prebate would protect all families from paying sales tax on the necessities of life. Thus, a couple, with two children, receives a prebate of \$6,297 per year, allowing them to consume \$27,380 free of tax, and reducing the effective tax rate, on this family's annual spending of \$54,760, to 11.5 percent. In contrast, all families today, even the poor, pay 15.3 percent in payroll taxes.

The FairTax is the only tax reform plan that can entirely eliminate taxes for the most poor among us, because it is the only tax reform plan that repeals the high, and regressive, payroll tax. In addition, taxpayers, who earn well below the poverty level wage, will see their effective tax rate drop, up to the point where they actually have a negative tax rate. This is commonly known as creating a "floor" for the worst off in our society, such as homeless persons, by providing them with a basic level of income.

The FairTax considers education to be an investment, and, as such, it is not taxed. This makes it much easier for people to afford to pay for college, and, with the previously

mentioned incentive to save, helps them to save for college, as well. In creating a sustainable world, we want to make more use of human resources, and less of natural resources, and I can think of no better way to do this than by having more people go to college.

On a final note: elimination of the IRS and the income tax, and implementing a consumption tax will have one very direct environmental impact: a massive reduction in the use of paper. Reportedly, the IRS sends out 8 billion pages of forms and instructions each year. Laid end to end, they would stretch 28 times around the earth. Nearly 300,000 trees are cut down yearly to produce the paper for all the IRS forms and instructions. A consumption tax, administered by the states, has a much smaller bureaucracy and a greatly reduced need for paper consumption.

I feel that the income tax challenge seems as insurmountable as the sustainability challenge. I would like to put forth that they are actually the same struggle: the struggle for a fair and equitable world.