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TO: U.S. House Ways and Means Committee
RE: FairTax Hearing

Please consider the analyses provided below, and at the websites referenced below, as you consider the FairTax. Please refer this bill out of Committee for consideration by the full House. This tax reform will provide the revenues needed to operate the Federal government in the most equitable way possible – citizens and non-citizens pay; legal and non-legal residents pay; underground economies pay; the poor are shielded from paying; the rich must pay. It is predicated upon the most basic of our founding principles.

A **consumption tax** is a tax on spending on goods and services. The term refers to a system with a tax base of consumption. The "FairTax" creates it in the form of an inclusive tax that is part of the price of the goods and services. The "FairTax" is NOT an exclusive tax that would be added at the point of sale, i.e., at the time of purchase at the cash register, such as a state or local sales tax is added at the cash register.

Throughout most of American history, taxes were levied principally on consumption. Alexander Hamilton, one of the two chief authors of the anonymous Federalist Papers, favored consumption taxes in part because they are harder to raise to confiscatory levels than incomes taxes. In the Federalist Papers (No. 21), Hamilton wrote:

"It is a signal advantage of taxes on articles of consumption that they contain in their own nature a security against excess. They prescribe their own limit, which cannot be exceeded without defeating the end proposed—that is, an extension of the revenue. When applied to this object, the saying is as just as it is witty that, 'in political arithmetic, two and two do not always make four.' If duties are too high, they lessen the consumption; the collection is eluded; and the product to the treasury is not so great as when they are confined within proper and moderate bounds. This forms a complete barrier against any material oppression of the citizens by taxes of this class, and is itself a natural limitation of the power of imposing them."

Need more proof? Check out Boston University Economist, Dr. Kotlikoff's comments at http://www.fairtaxblog.com/20080116/lawrence-kotlikoff-why-the-fairtax-will-work/.

The following is an example to illustrate the difference between tax-inclusive and tax-exclusive tax rates. Assume there is a worker named Joe who earns $125 and spends all of his earnings. Let's further assume that the government requires him to pay $25 in taxes. If the government put a tax on Joe's income, he would earn $125 before tax and would have $100 after tax to spend at the General Store. Thus, Joe has to earn $125 to have $100 to spend. Joe would also have to file an income tax return. Now consider what happens if the government taxed Joe based on what he spends and not on what he earns. Joe would earn $125 and would have $125 to spend at the store. Joe decides to spend $125 at the store. The storekeeper would keep $100 for the goods sold at the store and send $25 to the Federal government to pay for the 25% tax on the $100 worth of goods sold. Joe would not have to file a tax return. The storekeeper collects and sends the tax receipts. Either way, Joe pays $25 in taxes and the government gets $25 in taxes. With a tax on income, Joe pays the $25 directly to the government, and with the tax on spending (sales tax), he pays the $25 in taxes indirectly when he buys a good or service. The provider of the good or service sends the tax that Joe paid to the Federal government, using the sales tax collection systems already in place in the States.

Joe	**Taxation under the Income Tax system**		**Taxation under the Consumption Tax system**	
	Joe	**Federal Government**	**Joe**	**Federal Government**
Gross pay	$125		$125	
Pays tax on income	-$25	+$25	$0	
Has left to spend	$100		$125	
Pays tax on consumption	$0		-$25	+$25
Amount of goods purchased	$100		$100	
Taxes as a % of pay ($25/$125)	20%		20%	
Taxes as a % of consumption ($25/$100)	25%		25%	

We may report the tax rate as $25/$125 = 20%, which is the tax-inclusive rate (meaning that the tax is included in the base cost of the good or service). Alternately, we may think of the tax rate as $25/$100 = 25%, which is the tax-exclusive rate (meaning the tax is excluded from the base cost of the good or service). The 23% FairTax rate set out in H.R. 25 / S. 1025 is a tax-inclusive rate, as is the current personal income tax, whereas most state and local sales taxes are quoted on a tax-exclusive basis (the tax shows up as a separate line item on the receipt from the provider of the good or service). The Federal government collects $25 for every $100 spent, regardless of whether we call the FairTax an inclusive or exclusive tax. Both rates are relevant, since the FairTax is replacing an income tax system, and 23% correctly represents the tax burden compared to the current system. **To review some of the research that determined a 23% (inclusive) rate is correct, please read <u>Taxing Sales Under the FairTax: What Rate Works?</u> This paper is a collaborative effort of 5 respected and independent economists.** <u>http://www.fairtax.org/PDF/Tax%20Notes%20article%20on%20FT%20rate.pdf</u>.

The consumer benefits by being able to control entire income. The economy benefits by allowing consumers to have more income to spend. Businesses benefit by having more capital to invest and more businesses will come home to take advantage of the newly created competitive advantage. The poor are exempted from pay the tax on the necessities of living indexed to the poverty rate and inflation. All households receive a monthly pre-bate. Credit card companies have volunteered to issue monthly pre-bates, because it benefits them to have the data from all households. There are built in consumer safeguards, because the credit card companies are already regulated by existing privacy and FTC regulations.

FairTax FACTS

1. **Creates jobs** by stripping out hidden federal income taxes and compliance costs. The FairTax makes U.S. goods more competitive overseas and more affordable at home, thereby sharply increasing job creation while sharply reducing our balance of payments deficit.
2. **No federal withholding!** Workers receive their entire paycheck.
3. **Eliminates Social Security withholding,** the most regressive tax of all, while ensuring the system fulfills its promise to one generation without being a terrible burden on the next.
4. **Eliminates the corporate taxes and cost of compliance** hidden in both wholesale and retail prices.
5. **Dramatically lowers effective tax rates** for lower- and middle-income households, because a pre-bate *ends* taxes up to the poverty level.
6. **Allows families to save more and faster** for home owner-ship, education, and retirement.
7. **Allows homeowners to pay their *entire* house payment with pretax dollars,** a great improvement over the current home interest deduction.
8. **Frees up time and money wasted** on filling out cumbersome and inscrutable IRS forms throughout the economy, which currently costs $325 billion or more.
9. **Raises the same amount of revenue** for the federal government. ***THE FAIRTAX IS REVENUE NEUTRAL.***
10. **Abolishes the IRS.**

The FairTax Plan features:

- no federal income taxes,
- no payroll taxes,
- no self-employment taxes,
- no capital gains taxes,
- no gift or estate taxes,
- no alternative minimum taxes,
- no corporate taxes,
- no payroll withholding,
- no taxes on Social Security benefits or pension benefits,
- no personal tax forms,
- no personal or business income tax record keeping, and
- no personal income tax filing whatsoever.

Looking for your support,

Dr. Nanette Parratto-Wagner
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