

FairTax vs VAT

Washington is talking about using a Value Added Tax (VAT) on businesses to raise more money for various programs and reduce federal deficits. VATs are very popular in Europe, and Washington politicians have long wanted to implement them in the US, not only because of the money they raise, but because VATs are stealthy, easy to increase, and provide enormous opportunity for manipulation and political skullduggery.

VATs are added to products during each step of the production process. Each business uses a complicated formula to calculate the "value added", and the applicable tax, which is then added to the cost of the product. The business collects the tax, and then sends it to the government.

In most instances, the final consumer never knows how much they are paying in taxes because the VAT is hidden in the total cost. (In special cases, such as goods for export or business to business sales, the VAT is shown on the receipt.)

Because VATs are hidden, politicians are able to raise them without being held accountable by the public. Instead, businesses can be demonized by politicians for raising prices, when it's the government who is responsible. Because VATs are applied at every step of the production process, politicians can manipulate VAT rates, exemptions, and credits to extract massive campaign contributions or lucrative contracts for friends and family.

Contrast VATs with the FairTax. Where the VAT is hidden from consumers, the FairTax is visible and explicit. Where politicians use VATs to make businesses the scapegoat and redirect public anger, the FairTax reveals the true costs of government and helps the public to hold politicians accountable. Where VATs are highly regressive (ie. hurt the poor the most), the FairTax, with the prebate, helps the poor escape the clutches of poverty.

Citizens shouldn't be fooled. VATs are not taxes on businesses. VATs may be collected by businesses, but they are paid by individuals each and every time they make a purchase. VATs are not more fair than regular taxes, they are highly regressive and punish the poor with every purchase of goods and services.