



Executive Summary: The FairTaxSM

www.FairTax.org

The genesis of the FairTax began in 1995 when Americans For Fair Taxation, a private, nonprofit advocacy and research group, assembled a team of America’s leading economists spanning the ideological and political spectrum.

- **Their task:** To make the federal tax code fairer, simpler, and more progressive.
- **Their objective:** To devise a revenue-neutral tax system to “unleash the potential” of the U.S. economy and empower “new wealth creation for every working American.”
- **The result:** HR 25, The Fair Tax Act.

The novel simplicity of the FairTax anticipated the aims of both the President’s Advisory Panel on Federal Tax Reform and the pragmatic ideals articulated by the Democratic leadership in the Senate and House. The philosophical thrust and specific provisions of the FairTax attain the simple, but previously elusive, concept of tax reform by:

Simplifying the code
Expanding home ownership
Igniting new job creation
Untaxing the poor

Generating new sources of revenue
Enhancing new global competitiveness
Fostering more efficient charitable giving
Promoting higher education

The FairTax Plan presents a common sense approach to address our overly complicated, over-lawyered, and over-lobbied tax code. The common sense appeal of the FairTax is advanced by fundamentally changing the long-broken income-taxing base of the current system. The code will change from one that taxes income and innovation to one that taxes what Americans want taxed: Resource use and the consumption of new goods and services. Consumption represents a broader, more stable and more fair base upon which to raise federal revenues. It is the only tax reform plan that taxes accumulated wealth – only when it is spent – and it eliminates the necessity for the federal government to track every citizen’s income, investments, and spending.

The FairTax Plan

Economists formulated the FairTax Plan around the taxation of new retail goods and services at a rate of 23 cents out of every dollar spent at the time of purchase and only paid once for new goods and services. The tax is completely transparent in that it is easily seen and understood at the time of purchase. As such, it makes clear to the citizenry the amount of federal revenues collected. This transparency also makes embedding “hidden” federal taxes almost impossible, unlike the current system which taxes goods and services multiple times before the point of purchase. The table below summarizes the plan’s features:



The FairTax eliminates

The FairTax promotes

Individual income tax and corporate tax filings	A revenue-neutral tax
Individual and corporate loopholes	A transparent and progressive tax code
Taxation on self-employment	Domestic job growth
Payroll taxes	New investment and production
Estate taxes	More U.S. exports
Capital gains taxes	A tax code that respects generational continuity
The alternative minimum tax	Reduced burdens on middle-class Americans
Taxation of the poor	Elimination of tax burdens on the poor
Gift taxes	The concept of gross pay = net pay
“Hidden” preparation and compliance costs of the code (estimated at \$265 billion by the Tax Foundation)	The integrity of charitable giving
	The value of home ownership
	Advancement of higher education
	Greater personal savings and enhanced individual investment
	Cohesion and durability for entitlement programs

In developing the FairTax Plan, emphasis was placed on addressing the needs of the less fortunate in our country who benefit most from a simpler, fairer system that also promotes job growth. The FairTax Plan differs materially from other pure consumption-based tax schemes that are frequently and correctly criticized for their regressivity. It *eliminates* the commonly recognized abuse of the poor by including a creative provision – the Family Consumption Allowance (FCA). As a result, the FCA *untaxes* the poor. The FCA feature makes the FairTax even more progressive than the current tax code, including the Earned Income Tax Credit (EITC).

The FairTax was also designed to increase compliance to ensure that everyone pays his fair share. The IRS estimates that \$345 billion in taxes is not being collected every year from non-filers, tax cheats, and the underground economy, thereby increasing the tax bill for honest taxpayers. The FairTax levies taxes at the point of purchase, reducing tax evasion and the tax burden on law abiding taxpayers.

There are alternatives to the FairTax. The value-added tax or the so-called flat tax have their advocates, but both approaches have been rejected by a series of Democratic and Republican presidents and, alternately, by a Democrat-led and a Republican-led Congress. Both proposals attempt to only modify, again, the existing tax code and continue to use income-based taxes. Beyond Washington, studies show that most Americans have no confidence in continued



tinkering with the current code. Many of them feel that such arbitrariness can never rise to the level of real, sustainable reform for a tax code which is widely perceived to suffer systemic unfairness. Relying upon the tax code to pick winners and losers will never generate the widespread public support upon which comprehensive reform depends.

In recent years, polls increasingly show that the public's impatience has turned to outrage at the inaction and the lack of innovation and courage to "fix the problem!" Alternatives to the FairTax will never constitute proper reform of a system that cries out for fairness and radical simplification. A consensus has begun to form aiming to "enlarge the pie" by adopting a tax system that untaxes work and shifts burdens where they should be, onto nonproductive activity. That ideal – what economists now call a prudent, progressive consumption tax – is embodied in the FairTax Plan.

What is the FairTax Plan?

The FairTax Plan is a comprehensive proposal that replaces all federal income and payroll based taxes with an integrated approach including a progressive national retail sales tax, a prebate to ensure no American pays federal taxes on spending up to the poverty level, dollar-for-dollar federal revenue replacement, and, through companion legislation, the repeal of the 16th Amendment. This nonpartisan legislation (HR 25/S 1025) abolishes all federal personal and corporate income taxes, gift, estate, capital gains, alternative minimum, Social Security, Medicare, and self-employment taxes and replaces them with one simple, visible, federal retail sales tax – administered primarily by existing state sales tax authorities. The IRS is disbanded and defunded. The FairTax taxes us only on what we choose to spend on new goods or services, not on what we earn. The FairTax is a fair, efficient, transparent, and intelligent solution to the frustration and inequity of our current tax system.

What is Americans For Fair Taxation (FairTax.org)?

FairTax.org is a nonprofit, nonpartisan, grassroots organization solely dedicated to replacing the current tax system. The organization has hundreds of thousands of members and volunteers nationwide. Its plan supports sound economic research, education of citizens and community leaders, and grassroots mobilization efforts. For more information visit the Web page: www.FairTax.org or call 1-800-FAIRTAX.

TL/km 2-23-06
(AFFT Documents)