

## FairTax: How It Works

When Leo Linbeck and some associates decided to “study” the tax system in 1995, they didn’t dictate what results should be. Instead, they talked to economists at such venerable institutions as Harvard, Boston University, and MIT, and asked them to “design” a better system of taxation. The only requirements were that the system be fair, simple, encourage investment, and protect the poor. After \$23 million, and five years of study, some of the most brilliant economists in the world produced the most researched plan for funding the federal government ever proposed: The FairTax.

The FairTax would repeal the federal income and payroll taxes, along with a host of other tax schemes such as the Alternative Minimum Tax (AMT), and replace them all with a simple, uniform, retail sales tax on all new goods and services. Workers would get to keep their whole paycheck, businesses would no longer be subject to hidden taxes, and the IRS would be drastically downsized, or eliminated.

But how would it work?

Simply put, we’d pay our taxes when we buy new retail goods or use common retail services. If we buy a new car, we pay taxes. If we buy a used car... no federal taxes at all. If we buy a used home, we’d pay no taxes on the home, but we’d pay taxes on the services of the real estate agent who helped with the purchase. More importantly, we’d have our whole paycheck with which to make those purchases. For most of us, that would be a 40% raise right off the bat.

In addition, because the FairTax is fair, no one pays taxes on the necessities. Every legal citizen automatically gets a prebate every month compensating them for purchases up to the poverty line. Under the FairTax, the poor, rather than being hurt by the regressive taxes hidden in the costs of goods and services today, would have their essential purchases are untaxed. Under the FairTax, the poor would finally have a chance at earning their way out of poverty.

Between the prebate and getting our whole paycheck, most of us would have about 15% greater purchasing power under the FairTax than under the current system.

But, as you might guess, there is no free lunch. Some who don’t pay any taxes now will end up paying under the FairTax. Drug dealers, pimps, prostitutes, illegal workers, and those thriving in the underground economy, who don’t currently pay any income or payroll taxes, will pay the FairTax. Tourists visiting the United States will pay the FairTax when they make their purchases. Even members of Congress, who now seem to have great difficulty living under the laws they pass, will not be able to escape the FairTax.

And the very wealthy who earn a substantial portion of their income from either tax-exempt or reduced tax investments will end up paying a lot more under the FairTax. (That means you Warren Buffet!!)

Simple, fair, and easy to understand. You get every penny you earn and pay no taxes on the necessities, plus you decide how much and when you pay your taxes based on what you buy and when you make your purchases.