

FairTax and Tax Evasion

Many detractors of the FairTax claim that people will be more likely to “cheat” with the FairTax because, after all, there is a 23% tax on new goods and services, and “that’s a lot of money”. What they fail to recognize, or refuse to accept, is that the FairTax is actually less subject to fraud and abuse than the current system.

Let’s use the common example of a home owner who pays cash for home repairs or yard work. Under the current system, if the person doing the work wants to cheat on their taxes, all they have to do is fail to report the income. Since the home owner doesn’t file any record of the payment, the IRS can’t track the money and prove fraud. Therefore, the only way the cheater can be caught is if the IRS can track his expenditures, and prove that he spent more money than he claimed on his income. A difficult task at best. And to add insult to injury, the cheater can go ahead and claim his new lawn mower as business expense, and use it to offset any other taxes he does owe.

But the situation is different under the FairTax since expenditures, not income, are taxed. The home owner can still get his lawn cut, and pay cash, but now, when the “cheater” spends the money, their purchases include the FairTax. No matter how much they earn, when they spend it, they pay their taxes. Even if he wants to, the potential cheater can’t avoid the FairTax.

It is true that the cheater could include the sales tax in his price to the home owner, and then refuse to send the taxes collected into the State, and certainly some of that will happen on a small scale.

But even here, the FairTax works better than the current system. If the cheater makes any business purchases, such as that new lawn mower, and tries to avoid the sales tax by claiming it’s for his “business”, then a record of that sale to “a business” is created. When the State sees that the so-called business had expenses, but failed to send in any of the taxes it was supposed to be collecting, a red flag goes up, and the cheater can expect a letter asking for an explanation.

Not only is the FairTax simpler, it is also less prone to fraud and abuse than the current system.