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## 1) Description of Proposal

- a) **Tax Base:** I support a FAIR TAX-type new-product CONSUMPTION SALES TAX (not a value added tax, though the VAT is preferable to the income tax). The tax should only apply to new product sales for goods sold in the U.S and its territories. The sales tax should entirely replace the income tax. Accordingly, an effort should be made to repeal the 16<sup>th</sup> Amendment to the federal constitution, lest we end up with both a federal sales and income tax.
- b) **Exemptions, deductions, credits and exclusions:** The FAIR TAX could exempt non-prepared food, utilities (water, power, natural gas, sewage) up to some specified limits (units, not cost, since costs vary across the nation), expenses related to public transportation (which could be regarded as a service and not a new product, so not be taxable anyway) and gasoline / motor vehicle fuels, up to some specified limit. Goods produced for sale overseas should be exempted, since they will not be sold domestically. All other purchases of new products would be fully taxable.
- c) **Tax Rate:** The tax rate should be sufficient to be entirely revenue-neutral at its inception – neither increasing nor decreasing total federal revenues. Some reduction in revenues may be achieved by discounting the costs of administering the current income tax reporting and collection system.
- d) **Tax Burden:** Such a scheme, including exemptions, would provide for the poor without creating complex reporting requirements (for means-testing). A low income person could thus entirely avoid paying taxes by purchasing necessities and used products.
- e) **Charitable Giving:** As the tax would be entirely consumption-based, there would be no exemptions for charitable giving.
- f) **Home Ownership:** As a new home is a new product being sold, it should be subject to the sales tax. Existing home re-sales should not be taxed. Exemption could be made for new homes costing below a certain value (indexed to inflation relative to increases in the cost of real-estate). Such an exemption would provide relief for lower-income purchasers.
- g) **Collection Methods:** New product sales taxes should be collected in the same way that existing state sales taxes are currently collected – by point-of-sale businesses.
- h) **Treatment of Businesses:** Products should only be taxed at their final point of sale, whether to businesses or to individuals. A product sold to a business for the purpose of generating income should still be

taxed at that final point of sale, so long as it could not be reasonably anticipated that the business would further refine and enhance the product for further resale. For instance, the sale of steel to a car manufacturing plant would not be taxed, as the steel is not an end product, prepared for use. The sale of a car would be taxable, whether sold to a business or an individual.

## **2) Impact of Proposal Relative to Current System:**

- a) simplicity (including transparency and stability):** The new-product sales tax is clearly much simpler than the current income tax system. As there are substantially fewer businesses than there are individuals, and as the sales tax percent would be fixed, collection should be greatly simplified. Arguments exist on both sides as to whether a sales tax is more or less stable than an income tax. Stability could be provided by creation of a limited "rainy day" fund during times of high economic prosperity.
- b) Fairness:** The proposed solution is ultimately fair, as essentially, each person sets their own tax rate based on their purchasing decisions. A person desiring to reduce costs and / or preserve capital could elect to pay no taxes at all by not purchasing non-exempt goods. A person with greater prosperity would elect, through their own purchasing decisions, to pay a greater tax rate.
- c) Economic growth and competitiveness:** The proposed system will greatly facilitate economic growth by allowing each person total control over their economic destiny – the essence of a successful economy. The proposed system eliminates the \$180B in revenue currently consumed each year just to administer the current income tax system. The proposed system reduces costs to businesses, making it highly unlikely that, even with the new sales tax, there would be any increase in the net cost of goods sold. With the tax exemption on goods sold internationally, our goods become extremely competitive on the world market. Further, since foreign producers would also be subject to the sales tax domestically on the same basis as domestic producers (indeed, possibly more through the addition of a flat import duty on all goods, as a cost of participating in the U.S. marketplace), efficient U.S. producers should well be able to compete. As individuals feel they are in greater control of their economic futures, they will not be economically discouraged from trying to earn more income – the burden of our current "progressive" income-tax system.
- d) compliance and administration costs:** These costs would be substantially less, owing to a much simpler system and far fewer points of contact. Companies – even small companies – are better equipped to handle reporting (which they do now, anyway) than individuals, and reporting for a simple new-product sales tax would be

substantially easier and cheaper, both for the reporter and for the government.

**3) Transition, Tradeoffs and Special Issues:** The system should take place at the break of a calendar year, owing to current tax law. There are some transition difficulties – existing inventories not sold prior to year’s end would be subject to the new sales tax. However, at the same time, individuals would almost immediately have more disposable income, as income taxes would no longer be withheld from individuals or businesses. Private institutions, the CBO, and OMB should be able to determine an accurate tax rate which is revenue-neutral, and transition should occur relatively quickly. States which are tied to the current federal income tax system will need to either separate and continue their own tax system or transition likewise to a modified (or new) state sales tax.