

Summary of Tax Reform Proposal

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4/27/2005

PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM

2005 APR 29 P 3: 23

The Fair Tax (HR25/S25) offers the most ideal solution to this country's tax woes because of the following reasons:

The Fair Tax would be revenue-neutral for funding the U.S. Treasury at the present amount. It would fully fund Social Security And Medicare, thus solving two urgent problems we are facing as a country.

It will be Fair to every person because it rebates each household for the basic necessities each and every month, ensuring that the working poor would not be disadvantaged. They would pay Zero taxes on purchases for the basic necessities. It would be progressive since those who purchase more would pay more. Every individual would take home an entire paycheck—no withholding, AMT, income tax, anything. It would encourage saving and enable the poor to eventually purchase homes and decent automobiles. It would make home-ownership more affordable because of the elimination of compliance costs built into construction and interest rates by banks.

Since consumption taxation is a more stable form of taxation the Fair Tax would be a more reliable form of taxation for our country.

The Fair Tax would enormously reduce the burden of compliance and operation of our tax collection agency by cutting the compliance costs by around 90-95 percent from its present costs, saving the country and its citizens billions per year.

It would allow businesses to grow and expand, impacting our economy by building jobs and growing the GDP by as much as 10 percent in the first year alone.

It would help our economy further by allowing U.S. companies to export products overseas without the embedded income taxes and compliance costs, making them much more competitive. This would attract business to our shores and build our economy.

Finally, the Fair Tax would vastly reduce tax cheating and offshore accounts. Money would come back home and we would finally be able to tax the entire underground economy—tourists, pornography, drug pushers and prostitution—since all these people are consumers.

The Fair Tax would be the only truly fair solution to our tax woes caused by the present income tax system which confuses, inspires fear and anger, which allows congress and lobbyists to twist the code and favor different groups repeatedly, and which has become a nightmare of backroom deals and convoluted language designed to confuse citizens and enrich politicians at the increasing expense of our country's health and growth.

Part I Description of Proposal

I.1 the tax base (income, consumption, hybrid)

The FairTax (HR 25 / S 25) is a consumption tax, a National Retail Sales Tax on all new goods and services purchased by the end consumer

I.2 exemptions, deductions, credits and exclusions

There should be no exclusions, deductions or credits from the FairTax for anything purchased as new

The only exemption from a consumption tax should apply only to anything purchased as used or as previously-owned

No exclusions. No deductions. No credits. Anything sold as New should be subject to a sales tax. Every individual and business would pay exactly the same tax rate based simply on their consumption. But Larger consumers would pay a greater overall rate for larger purchases over the poverty level—totally fair.

The FairTax considers education tuition as an investment expense – it is an investment in human capital and is exempt. Tuition at all education levels is exempt (primary, secondary, and college) as well as job related training fees.

A credit based on family size only is provided (in the form of a monthly rebate) for taxes on spending up to the poverty level (as defined by the Dept. of Health and Human Services). Poor people and all other Americans would receive a pre-payment recompense for the sales tax they would pay for basic necessities, thus ensuring that those purchasing only at the poverty level would actually pay Zero taxes since the rebate would pay them back for these purchases every month. This would make progressivity a major feature of this bill while still being totally fair to all. Bill Gates and other very wealthy people will not stop purchasing luxuries because of the Fair Tax. Because presently embedded taxes in the present system will be eliminated the real costs of new goods and services will be approximately the same when the Fair Tax is added at “the cash register.”

I.3 tax rate(s)

The FairTax percentage specified in HR25 / S25 for the NRST should be enough to maintain the same flow of funds to the government. Government should be funded as-is. No more. No less. This has been estimated at around 23 percent. The present embedded taxes passed up the line of production under the present system is now estimated at between 25 and 30 percent. Thus, without the embedded taxes, prices would essentially remain the same or even less.

This rate will fund the government at its present rate and will include funding of Social Security and Medicare, thus ensuring the solvency of those systems by shifting from a

system that depends on more and more workers to pay retirees to one that does not depend on demographics to accomplish this funding. This fact alone would enable our government to solve several problems with this one reform in our tax system.

The amount of total tax money collected into the U.S. Treasury should remain the same. The manner of collecting those taxes should be changed to a sales tax. The sales tax rate should be exactly enough to replace the funds currently collected even minus the rebates at poverty level consumption.

I.4 distribution of the tax burden (including provisions for relief for low-income individuals)

The tax burden should be spread among the estimated 290 million Americans. It should also be spread among any and all in America that are not citizens; including visitors, tourists and illegal aliens. It should tax the entire underground economy—drug pushers, prostitution, pornography, etc. While these people presently pay state sales taxes, they do not pay Federal taxes on their incomes. This alone is a several trillion dollar economy not presently being taxed.

The 290 million Americans (per the last census) should all be given equal opportunity to share in supporting our government. All the ones that come to our country, legally or otherwise, should be provided the same equal opportunity.

All of us in America enjoy the many benefits of America. We are all equally obliged to pay for what we enjoy. A sales tax will let us all honor that obligation – equally.

Lower-income Americans should be free of a tax burden. All their spending up to the government-established poverty level is free of taxes. They pay the sales tax on any spending above that amount like everyone else. They should receive relief by way of re-compensation. In the spirit of a fair system of taxation – the compensation should be given to all qualified Americans.

Replacing the present system with the Fair Tax would also enable every person to take home an entire gross paycheck, thus ensuring that saving would become possible for even the poor at last, enabling them to afford further education, saving for home-ownership, and for a higher standard of living.

I.5 treatment of charitable giving

Charitable giving in America will take care of itself after we transition away from the income tax to a sales tax. Charity or giving is not consumption and would not be taxed. As a result, all contributions would be made with pre-tax dollars. There will be no need to make special provision for charity. Americans are charitable by nature. The more

money we have -- the more we give. This fact has been borne out by scholarly studies many times over.

Americans will have more money to give when the income tax is replaced by a sales tax. We will give more when we have more to give. Government is neither required nor welcomed into this process.

Under the FairTax, everyone (not just those who itemize) can give to any charities on a pre-tax basis with no limits or restrictions established by the federal government. The FairTax is MORE gift friendly than the current system, not less.

I.6 treatment of home ownership

Home ownership will be much more affordable under the FairTax. Used homes will sell with no tax consequence. New home prices will be reduced when the 20 - 25 percent embedded tax cost is eliminated. Interest rates should go down with the elimination of embedded taxes to the lending institutions as well. The result?--Many more Americans will be able to afford a home.

The deduction for home-mortgage interest will become a moot point since there will be no form 1040 or Schedule A. Under the FairTax, we will be able to buy and pay for our homes with tax-free dollars. We won't have to pay our mortgage in the hope that we'll get a nominal tax break for the interest we paid. Since people will pay Zero income tax and will receive their entire gross paychecks they will be immensely more advantaged than under the present system which simply gives a Reduction opportunity to their present taxes.

I.7 collection method(s)

A National Retail Sales Tax will fit into point-of-sale tax systems already in place in almost every business in almost every state. With slight modification, they will serve to collect the NRST. Any cost to modify those systems pales to insignificance when compared to the billions spent annually to comply with the current income tax system. The cost to upgrade them would be a one-time expense by business and tax-free as well.

States would be compensated for their efforts to collect, report and submit federal funds -- ¼ of one percent of total collections. That expense will be miniscule in comparison to current income tax reporting requirements. It should also compensate the retailers as the present system definitely does Not. In addition, the states would also receive ¼ of a percent for processing the tax payments and forwarding them to the U.S. Treasury.

Collection would be simplified vastly compared to the present system and with the reduction in staff need to monitor and audit collections, there would be up to 95 percent greater efficiency in collection methods as compared with the massive system now needed to monitor and audit every individual and business as is the present case. The taxpayers--retailers--is a vastly smaller entity to monitor.

I.8 treatment of businesses

Under the FairTax, businesses would pay nothing in taxes. Any business-to-business transaction would be free of any tax consequence. Businesses would be free to do business, create product, make money and create jobs. They would be unleashed to serve as dynamos for the American economy and job creation. The Fair Tax would put jet fuel into our economy and grow the GDP as never before.

With the FairTax, businesses would be relieved of their current onerous reporting responsibility. This would free the hundreds of billions of dollars they now spend on tax record keeping and reporting to be spent growing their business and creating more jobs. Compliance costs would be almost eliminated, thus advantaging companies by allowing them to focus on growing their business and expanding and hiring.

The FairTax does give business the responsibility to collect sales tax from retail customers and send that tax money to the government on a monthly basis. That would be the beginning and end of their responsibility. They would otherwise be left alone to create product, make sales, grow their business and create more jobs for Americans.

The FairTax is industry neutral. No industry would get any break. Under the FairTax, no business or industry would need it. No business would pay any taxes. American businesses would be free to invest in their businesses, increase the GDP and create more jobs.

At present the only businesses benefitting from the present tax system are those who can advantage themselves by outsourcing their work, thus eliminating jobs for our hard-working citizens.

Part II Impact of Proposal Relative to Current System

II.1 simplicity (including transparency and stability)

The FairTax would be the most simple of tax solutions. Everybody would pay exactly the same percentage sales tax on the purchase of new goods and services.

The FairTax would be completely transparent to all that use it. All would see the percentage tax they paid as sales tax on every receipt, every time. No sneakiness there. No way to hide any sneakiness either.

The FairTax would finally make the tax code understandable. Citizens would be able to understand how much they are paying in taxes every time they get a receipt for their purchase. The sales tax amount listed on the receipt would replace the 60,000 pages (and growing every year) of inscrutable IRS code we now endure.

The FairTax relies upon the historically proven stability of a consumption tax. A consumption tax has been statistically and historically proven to be more stable and reliable than an income tax.

II.2 fairness

The FairTax would enable all Americans to participate in funding government. We would all be given the opportunity to participate. Nothing could be more fair. The poor would pay nothing in taxes up to the poverty level. Nobody else would pay taxes up to the poverty level as well. Nothing could possibly be more fair.

The FairTax would eliminate all possibility of anyone taking unfair advantage to avoid paying their fair share of taxes. The rich, the poor, tax dodgers, those in the underground economy and undocumented aliens would all participate equally.

Anyone buying goods or services would pay the tax. They would pay their fair share no matter what. The rich wouldn't be able to find their way around it, the underground economy wouldn't be able to escape it, illegal aliens and other visitors who enjoy the services provided by the United States would be required to contribute as well.

II.3 economic growth and competitiveness

The FairTax would eliminate the bias that the current system provides in favor of foreign producers; would put US producers (esp. agriculture and manufacturers) on a level playing field with the rest of the world. By raising 95% of the federal government's revenues with a totally border adjustable mechanism, the USA would go from one of the worst tax systems in the world with respect to international trade to one of the best.

The FairTax is automatically border adjustable. No sales tax is levied on goods or services exported to other countries. Therefore, American produced goods and services would have no tax costs embedded in them making them immensely competitive in the global marketplace.

The replacement of the income tax system with a national sales tax would attract the return of trillions of dollars to our economy that are currently kept offshore. Tax consequences now keep that money offshore. The FairTax would eliminate those consequences and allow for that money to come back and be added to the American economy. The new money would enable increased investment, resulting in productivity improvement and job creation.

The FairTax would mean a huge influx of money into the American economy. Trillions of dollars that belong to Americans are currently invested offshore because of taxes. The FairTax would eliminate any reason for those dollars to stay offshore. The American economy would boom with new jobs for Americans when those dollars come home.

II.4 compliance and administration costs

The FairTax would reduce compliance costs by 95%, according to the Tax Foundation. That money would be freed up to be spent by businesses, as they see fit, to make their business more successful.

The FairTax would eliminate untold hours of work and effort by elected officials, and their staffs, to deal with tax code considerations. Their time would be freed up to consider other things of greater importance to the voters that elected them.

The hours, the work, the concern and the money spent by individual taxpayers would be freed up to more productive endeavors under the FairTax. The same would apply to all American businesses.

Part III Transition, Tradeoffs and Special Issues

III.1 Transition

The transition to FairTax will be greatly simplified by systems already in place that collect state and local sales taxes. Those systems can be easily modified to include a national sales tax.

III.2 Tradeoffs

The FairTax would require no "tradeoffs". The FairTax is very specific in that no special consideration would be given to any people, any industry or any business.

III.3 Special Issues

The FairTax will require that checks be sent to qualified households on a monthly basis. The check would represent the tax "pre-bate" to cover tax on purchases up to the poverty level. This would be done by the Social Security Administration which has a good track record of accuracy in benefit payments.

Businesses that have inventory in stock on the close of business the day before the FairTax goes into effect, will qualify for a transitional FairTax credit if the sale of the inventory is taxed under the FairTax and is sold within two years.

The transitional inventory credit is equal to the cost of the qualified inventory times the FairTax rate. The credit may be claimed on the monthly sales tax report when the inventory is sold subject to the FairTax.

Businesses may sell the right to receive the credit, so the credit can follow the qualified inventory through the production process. Qualified inventory includes work-in-process.