



**The American Citizens' FairTax Plan
vs.
the current income & payroll tax systems:**

**A Retort to the Democratic Staff Report of the
Ways & Means Committee**

The price of doing nothing is too high.

An overview of the issue

Prepared by a Nonpartisan Body of Volunteers and Researchers Affiliated with
Americans For Fair Taxation
(FairTax.org)
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It is a troubling sign of the times when a serious public policy matter – critically important to the long-term well-being of the American people cannot be intelligently discussed in the public forum without it becoming cannon fodder for political partisanship. That is the case even when the Congressional Ways and Means Committee staff undertakes what Americans For Fair Taxation (FairTax.org) believes the American people in general rightfully consider their most important obligation. Rather than using taxpayer dollars to study ways to rid the American people of a broken, costly, intrusive, inefficient, and unfair tax system, some staff believe it prudent to spend those dollars in political rhetoric designed to defend the income tax, criticize the other political party, and denigrate those who seek a better system as partisan.

Dispassionate study or blueprint to partisan electioneering?

A report issued on September 24, 2002 at taxpayer's expense, prepared by the Democratic staff of the Committee on Ways and Means and published on their web site, purports to “analyze” a national retail sales tax. However, the report does nothing of the kind in any objective sense. The highly political 25-page “study” contains many errors and misrepresentations that make their report more a “study” in political discourse (disinformation?) than an objective “analysis” of the FairTax version of a national sales tax. The staff's report offers no constructive criticism of the current system; it implies by default that the current income tax is the best the American people can do. The “study” offers no solution, except perhaps more tireless tinkering and further complexities. It is instructive to note that a Democratic member of the Committee on Ways and Means is also head of the Democratic Congressional Campaign Committee, which has used this “survey” and its misinformation to attack Republican candidates nationwide.

FairTax.org's intentions:

Give our country a tax system competitive in a global environment.

FairTax.org has a message for the Democratic staff of the Ways and Means Committee: We have a more important goal in mind than the election of Members of Congress that belong to one or the other political party. We seek the replacement of income and payroll taxes. And we urge you to take seriously the demands of FairTax.org – the largest, single-issue taxpayer group ever assembled in the history of the U.S. – to use the taxpayer's resources to consider and deliberate in good faith the overwhelming virtues of our plan and to establish the criteria against which tax reform should be measured.

We would note that the politically charged nature of the report not only lacks the loose rules of decorum Americans have come to regret in our political process, but may cross the line established by the House rules meant to ensure Members do the people's business. There is a distinction between when Members of Congress engage in appropriate policy discourse, and when they use Committee resources to engage in politicking.



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Vested interests and long alliances militate for no threatening changes.

At a basic political level, the staff's rabid defense of the current tax system is understandable. There is good reason for vested interests – including Members of Congress – to support the current system and to fear change. The current system has made a good life for generations of politicians and the special interests that support them. For instance, today there are more than 40,000 lobbyists (many of whom were Congressional staff or Members of Congress), and each day they jockey to give their industries and their causes a special advantage over other taxpayers. That is why the Tax Code has become the new Tammany Hall, a means of dispensing pork without the need to write a check directly to the recipients of Congressional largess. Simply exempt them from income. Defer income. Create a deduction. Create a credit. But the problem is, almost every one of these causes is considered worthy in the abstract.

There are so many vested beneficiaries for each sentence in each Code section that the Code itself represents an employment security act for the many Members of Congress who represent those special interests and for the legions of accountants, tax collectors, and others necessary to prop up the unstable system. The 7,000 Code sections and the 10,000 pages represent hours upon hours of efforts of advocates to mold the Code to their desires. But, while the lobbyists and the Members of Congress that defend the income tax have benefited, and the industries like tax lawyers feed off the complexity, the American people suffer under the weight of its inefficiency, complexity, and unfairness.

Americans need solid, truthful information about tax reform alternatives.

If the Democratic Ways and Means staff report were only another shot by those whose livelihood depends on the current system, FairTax.org would not have bothered to respond. We believe our proposal and the skyrocketing growth in membership of FairTax.org speaks for the need for change. But the errors in the report are regrettable because the report purports to bear the imprimatur of an allegedly objective House staff and comes at a time when Americans need solid and truthful information about tax reform alternatives. The report is especially disturbing because it emanates from the staff of a key Congressional committee – the Ways and Means Committee – the American people are asking to seriously deliberate and consider these proposals.

The politicization of the Congressional report is regrettable; but it is also in a strange way constructive. By fleshing out the best arguments defenders of the income tax can muster, and by addressing these arguments, it enables us to show just how bad the current system has become and just how ill-equipped the income tax is as a suitable alternative.

This response is in several parts. So that the reader can follow the arguments and understand the errors in the Democratic staff's report, we follow the flow of their offering. We begin at the logical point by summarizing the arguments (using their arguments first) as to why the FairTax is a far better plan than current law.



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The income tax code is a mess with nonpartisan origins.

Next we address their partisan historical commentary that the Republicans have been responsible for the income tax code as we know it. We explain that no single group is responsible for the state of the income tax system; rather, it is the system itself that has bred its own malignant complexity. And, truth be told, the current debacle we call the income tax has developed under both Democrats and Republicans. There is enough blame to go around. And there is no advantage in assigning blame. Blame should be placed on the shoulders of those who stand in the way of progress. The staff needs to have a longer view and a more accurate historical summary of how we got here from there. Simply blaming the party in office is not sufficient.

Why FairTax.org's strategy is revenue neutrality.

In the second part, we present the FairTax proposal in terms that accurately represent to the American people how it works. In doing so, we explain why the rate is what it has to be to maintain revenue neutrality. FairTax.org seeks a system that raises the same amount of tax as is currently raised, but in a manner that is fair, obvious, visible, efficient, pro-growth, respectful of privacy rights, and not an impediment to savings and upward mobility.

What is the distribution of the tax burden under the FairTax?

Third, we discuss the general impact of the FairTax, by discussing the issues raised in the report. These include:

- Distributional issues
- The effect on state and local governments
- The effects on seniors and on families
- Housing
- Charitable activities

As does the report, we then move to discuss the effect on specific sectors of the economy, which includes the automobile industry and farmers. Contrary to what the report argues, the FairTax would literally revitalize American manufacturing since, among other reasons, it is the only plan that imposes the same tax on imports as on domestically produced products (unlike today, when we allow imports to compete against U.S. products with an unfair advantage). We note that it is the plan is already listed in the American Farm Bureau Federation's policy book, its bible of legislative preferences and intentions. Many state farm bureaus have gone several steps further that this, which more than belies the report's arrogant position that the FairTax would hurt farmers and ranchers.

The FairTax and competitiveness, civil liberties, jobs, and more . . .

Finally, however, we make a number of points conveniently left out in the report, such as the effect of the FairTax on U.S. competitiveness, on individual privacy interests, on our ability to save, and on the general well-being of the American people. These are the issues on which a true tax reform debate should center. We beseech the Congress – particularly those Democratic Members – not to cast off the serious national debate over tax reform as political rhetoric. Look beyond that rhetoric. Take the high road. Do the

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hard work. And work to rid the American people of a tax on the sweat of our brows and
toils of our labor.



Title: "Try to Make Out My Theory and Your Income Tax Work Will Look Simple!"

Artist: Clifford Berryman

Date: 1929

Location: Library of Congress, Prints and Photographs Division

Middle Class Taxes: Comparison of Current Law vs FairTax				
Overall Income	Current Law \$65,000	FairTax \$65,000	Current Law \$130,000	FairTax \$130,000
Income Adjustments				
1) Tax Exempt Fringe Benefits				
a) Health Care(\$10,000)	(\$5,000) A)	\$0	(\$5,000) A)	\$0
b) 401K (\$10,000)	(\$5,000)	(\$5,000)	(\$10,000)	(\$10,000)
2) Adjusted Gross Income	\$55,000		\$115,000	
3) Allowable Deductions				
a) Personal Exemptions	(\$12,500)		(\$12,500)	
b) Home Interest	(\$12,000)	(\$8,000) B)	(\$15,000)	(\$10,000)
c) Property Tax	(\$5,000)	(\$5,000) B)	(\$6,000)	(\$6,000)
d) Charitable Contributions	(\$1,000)	(\$1,000) B)	(\$1,000)	(\$1,000)
4) Taxable Income	\$24,500		\$80,500	
5) Pre-credit income tax	\$2,979		\$13,751	
6) Child Credit	(\$2,000)		(\$2,000)	
7) Net Income Tax	\$979		\$11,751	
8) Payroll Tax	\$4,207		\$7,045	
9) Spendable Income	\$31,814	\$46,000	\$74,204	\$103,000
10) National Sales Tax		\$10,580		\$23,690
11) Prebate		\$5,745		\$5,745
12) Total Taxes	\$5,186	\$4,835	\$18,796	\$17,945
13) After Tax Purchasing Power	\$31,814	\$41,165	\$74,204	\$85,055
14) Effective Tax Rate	8.0%	7.4%	14.5%	13.8%

Source: Americans For Fair Taxation, www.FairTax.org., Oct. 27, 2004.

A) Appendix C of the Democratic Ways & Means Committee Report says that health benefits include employee and employer share so not all of it would be a reduction to the employee's taxable income. We assumed 50%.

B) Home interest, property taxes, and charitable contributions are nontaxable spending and are deducted from disposable income under the FairTax.

BOTTOM LINE

Both wage earners have a lower tax burden under the FairTax than they do under today's income/payroll tax system. Taxes for the \$65,000 wage earner are 7% LOWER and taxes for the \$130,000 wage earner are 5% LOWER.