



## How the FairTax Compares

| Feature                                       | Current Income Tax  | FairTax   | Flat Tax  |
|---|---|---|---|
| <b>Legislation</b>                            | 114 <sup>th</sup> Congress: 155 bills to amend the Internal Revenue Code have been filed. There were over 4500 changes to code in last decade.  | <b>114<sup>th</sup> Congress: H.R. 25 has 68 co-sponsors and the Senate bill, S. 155 has 6 (as of 4-6-2015). Referred to House Ways &amp; Means and Senate Finance Committees.</b>  | <b>114<sup>th</sup> Congress: H .R. 1040, The Flat Tax Act, has been introduced, but it has no cosponsors and no Senate companion bill.</b>   |
| <b>Type of tax</b>                            | Individual and corporate income taxes, payroll, self-employment, capital gains, estate, gift, and alternative minimum taxes (AMT).  | Single-rate <b>national sales tax on final retail consumption</b> with no exemption. Business inputs are not taxed. Education tuition is not taxed.   | Allows a one-time irrevocable election by the taxpayer to be subject to a flat income tax -- a hybrid subtraction method VAT, which taxes capital value-added at the business stage and labor value added by a tax on wages, keeps current payroll taxes. |
| <b>Taxes replaced</b>                         | Not applicable.   | All income and payroll taxes including self-employment taxes, capital gains and estate and gift taxes, and the AMT.   | Repeals the estate, gift, and generation-skipping transfer taxes. Current payroll taxes are not replaced.   |
| <b>Base and rate</b>                          | Taxes the same income multiple times. Marginal income tax rates range from 10 to 39.6% for persons and 15 to 39% for corporations. Payroll taxes at 15.3 percent. Estimated net tax base is \$8,000 T and revenue neutral rate is 24.7%.; (2010 est.) | Taxes income once when spent. Revenue neutral rate is 23%. <b>Has the broadest base and lowest rate possible of any tax plan that does not tax the poor or double tax income.</b> Estimated net tax base is \$9,511 T (2010 est.)   | Statutory tax rate on income is 19%. The 7.65% payroll tax on wages remains in effect. Estimated net tax base is \$8,614 T. The Revenue neutral rate is 22.92%; however, payroll taxes increase marginal rates by 15.3% on labor. (2010 est.)             |
| <b>Progressivity and upward mobility</b>      | Steeply accelerating marginal rate structure taxes those who have to save or earn more in a given period to accumulate wealth. Earned Income Tax Credit households face the highest marginal rates. Payroll taxes impose regressive rates on labor.   | The prebate untaxes spending up to the poverty level, literally untaxing the poor. Since taxation is based on consumption, the FairTax allows taxpayers maximum choice as to the level and timing of taxation. The FairTax rewards hard work, savings, and wealth accumulation. | A standard deduction results in a progressive effective income tax rate; however, the retention of current payroll taxes maintains the regressive tax on labor.   |
| <b>16th Amendment</b>                         | The 16 <sup>th</sup> Amendment is required to impose the income tax system.   | FairTax plan promotes repeal and is the only proposal that can repeal the 16 <sup>th</sup> Amendment.   | Requires 16 <sup>th</sup> Amendment. Does not protect against coexistence of VAT and income taxes.  |
| <b>Effect on the economy</b>                  | Taxes savings, labor, investment, and productivity multiple times, creating a disincentive to work, save, or invest thereby reducing real wages.  | Untaxes wages, savings, and investment; lowers interest rates by about 25%; increases capital stock, productivity, and real wages.  | Eliminates the tax bias against savings and investment, lowers interest rates. Increases productivity but taxes labor income at a higher rate than capital.   |
| <b>Compliance rates and effect on tax gap</b> | System increasingly disregarded, contributing to unfairness. Through evasion and innocent error, <b>tax gap now totals more than \$450B.</b>  | Reduced tax rates, fewer numbers of collection points, visibility, and simplicity ensure the FairTax is enforced at lower cost with higher compliance rates. States have used sales taxes for over 60 years.  | Improved compliance from simplification and rate reduction; however, same number of collection points as current law and international enforcement is complicated through territoriality.   |
| <b>Complexity and compliance costs</b>        | <b>73,954</b> pages of tax code, regulations, and IRS rulings. More than 6B man-hours wasted filing an est. 249M forms by 2010. <b>Total annual compliance costs exceed \$431B.</b>   | <b>Individuals exempt from filing tax returns.</b> Businesses making retail sales will file sales tax returns for a total of about 15 to 20M tax filers. <b>Compliance costs reduced 90%.</b>   | Tax withholding and payroll tax deductions from paychecks continue. Individuals and businesses must still track income and file income tax forms. <b>Compliance costs reduced by 50%.</b>   |
| <b>IRS</b>                                    | \$12.1 B budget w/ 97,000+  | Abolished. Administered by states and   | Little or no reduction in IRS as it has to  |

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|   | employees   | small sales tax bureau in Treasury Dept.  | run both existing system and flat tax.   |
| <b>Border adjustability</b>                         | Ensures U.S. exports are taxed twice – once by the U.S. tax system and then by the importing jurisdiction with ad valorem taxes. Favors imports over domestic products by failing to tax imports after VAT rebates (a 17% price advantage).   | Naturally border adjustable. <b>U.S. exports are not taxed since consumed abroad, but imports are taxed on an equal basis as U.S. produced goods.</b> World Trade Organization (WTO) compliant.   | Favors imported goods and effectively punishes exports. Could potentially be made border adjustable; however, uncertain if border-adjustable subtraction method VAT would be approved by the WTO.                                      |
| <b>Other international competitiveness concerns</b> | Imposes the highest marginal corporate tax rate in the world, impelling companies to locate overseas and market back to the U.S.  | Makes the U.S. the only advanced country in the world with a zero rate of taxation on income, creating the world's largest tax haven for direct investment.   | Territorial system - income generated overseas is not taxed by the U.S. This will further encourage the migration of industry and jobs overseas.   |
| <b>Taxpayer rights</b>                              | Tax code requires massive disclosure, recordkeeping, individual audits, and collection activities where constitutional protections yield.   | As the Founding Fathers intended, the FairTax does not directly tax individuals and privacy rights are preserved.   | A flat tax still requires individual reporting, individual audits, and collection activities.  |
| <b>Effect on non-filers and illegal immigrants</b>  | An estimated 18% of “taxpayers” have simply dropped out of the system and no longer file returns. The income tax fails to capture the cash payments and other undocumented transactions with illegal immigrants.  | Non-filers and illegal immigrants are taxed when they purchase goods and services for consumption. Illegals who do not have a valid SSN will not receive the prebate. FairTax fosters coordination of tax immigration policy.   | Unlikely the tax gap attributable to non-filers will change. Nonpayment of payroll taxes by illegal immigrants will likely remain problematic.   |
| <b>Payment of taxes</b>                             | Taxes due when income is earned or an item of income is sold or exchanged. Income & payroll taxes deducted from individual paychecks.   | <b>Taxpayers pay tax when they elect to consume beyond the poverty level.</b> Retailers are provided a credit of one one-quarter of one percent to offset compliance costs.   | Taxpayers are taxed on income when earned.   |
| <b>Social Security and Medicare funding</b>         | Labor foots the bill with a highly regressive 15.3% payroll tax on wages up to \$118,500 and 2.9% Medicare tax imposed thereafter.  | A portion of the tax is dedicated to funding Social Security based on total wages and the current payroll tax rates. Social Security benefits are adjusted to preserve purchasing power.  | The flat tax leaves the payroll taxes under the current system in place to fund Social Security and Medicare   |
| <b>Visibility and effect on future tax burden</b>   | 47% of filers pays zero income tax and are completely unvested in the tax system. Among the hidden costs they do not see are the \$431B in compliance costs, \$307B in corporate taxes, and the drag on economic growth from the <b>deadweight loss</b> it engenders. <b>Estimated to be 2-5% of GDP.</b> | The FairTax ensures a built-in downward pressure on the size of the government by vesting everyone equally in the tax system, by exposing the full costs of the federal government, and by requiring the government to raise taxes for everyone rather than to shuffle taxes from one industry or income class to the next. | The flat tax buries capital value-added taxes in the business sector. The flat tax's touted two-thirds supermajority to raise rates offers only illusory protection, as a simple majority can override that supermajority requirement. |
| <b>Sustainability and feasibility</b>               | Lawmakers, policy makers, economists, and taxpayers agree that the current system is a monstrosity held in place by an intricate web of special interest groups and must be replaced.   | Once enacted, taxes must be raised on every consumer in the U.S. to change the base. States have used sales taxes for over 60 years; they are in effect in 45 states. The tax can be collected in conjunction with state sales taxes.   | A flat tax just won't stay flat. Nearly flat in 1913, it eventually devolved into the mess we see today. The flat tax bill itself cannot even be introduced in pure form.  |