

# Fundamental Tax Reform: The Fair Tax

*NSBA endorses the 23 percent national retail sales tax*

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The U.S. tax code is irretrievably broken. It discourages personal savings and investments by taxing capital gains, dividends and earned interest. Business owners and wage earners struggle under the burden of a very regressive payroll tax. The income tax—not to mention the Alternative Minimum Tax—is unbelievably complex, time consuming and costly to administer.

In response to overwhelming sentiment calling for a simpler, more fair and efficient, and less intrusive system of taxation, NSBA became the first small-business organization to endorse the Fair Tax—a 23-percent, single rate, national retail sales tax which would be applied to the sale of all consumer goods and services at the final point of consumption. The Fair Tax ensures that every taxpayer will be subject to the same tax rate with no exceptions and no exclusions. Those who are least able to share in the cost of government will bear no burden at all. Tax rates will depend on the amount of purchases made. Used items will not be taxed, which promotes reutilization. Business-to-business purchases for the production of goods and services will not be taxed. In addition, the Fair Tax will replace the individual federal income tax, the capital gains tax, all payroll taxes, corporate income taxes, the self-employment tax and the estate and gift taxes.

Contrary to opponents' arguments that Fair Tax would harm elderly and low-income individuals, the system actually would place these individuals in greater control over how much they pay in taxes. The Fair Tax will include a rebate system, where all valid Social Security beneficiaries will receive a rebate equivalent to the tax paid on essential goods and services. This rebate will be paid in advance in equal installments each month. The size of the rebate will be determined by the government's poverty level for a particular household (defined as one or more individuals), multiplied by the tax rate. The Fair Tax also will be beneficial in terms of compliance costs, which are continually seen as one of the most detrimental characteristics of the current system. It is estimated that Americans spend at least \$225 billion each year to comply with the current tax code.

Under the Fair Tax, compliance costs will fall to less than \$10 billion, creating enormous net savings that eventually would be incorporated in lower product prices for consumers. The tax will be collected at retail businesses, taking the tax burden out of the hands of the consumers. Already, 45 states have a sales tax system, and the Fair Tax would simply add an additional line onto the current sales tax reporting form. Businesses will collect the tax and send it to the state's tax-collecting authority. All businesses serving as collecting agents will receive a fee for collection, and the states also will receive a collection fee. While the Fair Tax should not be interpreted as a tax cut, the reduction in work required to administer the new tax will certainly be a relief for business owners and consumers alike.

On Jan. 2, 2011, the first day of the 112th Congress, *H.R. 25* (the *Fair Tax Act*) was introduced by freshman Rep. Rob Woodall (R-Ga.), with 48 original cosponsors—the most the Fair Tax has ever had at the time of introduction.

NSBA continues to advocate that the Fair Tax is a fair, efficient, transparent, and intelligent solution to the frustration and inequity of the United States' current tax system. NSBA supports fundamental reform and looks forward to working with supporters of the Fair Tax to educate taxpayers about the proposal.