



Review of *The FairTax Book*
By Neal Boortz & Congressman John Linder

by Ross Korves

For a new policy initiative to become successful a book needs to be written about it to broaden understanding and appeal so the idea becomes part of the acceptable political agenda. *The FairTax Book* was written to spread the message of a national retail sales tax on new goods and services as a replacement for individual and corporate income taxes (including the alternative minimum tax), estate taxes, and Social Security and Medicare taxes. The FairTaxSM is designed to collect the same amount of revenue as the current tax system.

Farmers and ranchers need a grasp of the basic economic and public policy issues surrounding the FairTax to judge how it could impact the overall agricultural economy and individual operations. At 200 pages the book is a quick read. It has enough facts and information to make it worth reading and a radio talk show style (Neal Boortz is a radio talk show host based in Atlanta) that keeps you reading. The co-author, Congressman John Linder (GA-7), the primary sponsor of the Fair Tax Act in the U.S. House of Representatives, adds political understanding.

Discussions about tax reform usually address three issues: Economic growth, cost of compliance, and IRS abuse. Most of the book's content is related to economic growth and cost of compliance. This is not an indication that improper behavior of some IRS employees should be passed over lightly, but a successful tax reform effort must have a positive agenda that changes how taxes are collected.

The authors state that economic growth would be faster under the FairTax than under the current code. That is true, but most tax reform proposals would result in more economic growth. What sets the FairTax apart from the rest of the tax reform proposals is its impact on international trade and investment. The authors explain how the FairTax would make the U.S. one of the best places in the world for business investment. The U.S. economy is expected to grow by 10 percent in the first year under the plan and double in size in 15 years.

The trade impact of tax policy has huge implications for U.S. agriculture. With 20 to 50 percent of the production of most major crops and increasingly larger amounts of livestock and poultry production moving into international trade and increases in imports of agricultural products, a U.S. tax policy that does not put U.S. agriculture at a competitive disadvantage should be a key component of economic policy.

Work by the Tax Foundation is used to explain the cost of compliance with the existing tax system. The authors calculate total compliance costs at \$500 billion per year. That may be at



the high end of the range of estimates, but certainly within reason given the difficulties of estimating total costs. While farmers and ranchers have benefited from many of the tax changes since 1997, the system has gotten increasingly complex and costly to comply with for individuals and businesses.

Under the FairTax individuals would not have compliance costs, but businesses would have costs, though considerably reduced. Businesses that sell items to consumers as well as to businesses (like an auto parts store in a rural community) would have the challenge of keeping the two separate because products used in further production would not be taxed while retail products would be taxed. Except for education tuition there would be no exclusions or exemptions for new consumer goods and services. Used items that have been previously taxed would not be taxed again when resold.

Farmers and ranchers as buyers of tax-exempt production input items would need registered seller certificates. Those vendors who sell products both at wholesale and at retail would maintain records to verify the amount sold in each market. Employee payroll information would be reported to the federal government for Social Security and Medicare eligibility requirements, but no federal taxes would be owed because there would be no payroll taxes.

As noted earlier, the FairTax is designed to collect the same amount of revenue as the taxes it replaces. The taxes will be paid in one place – final retail sales – rather than in the many places and ways under the current system. Taxes represent a large gap between what firms now pay to hire labor and capital and what the suppliers of labor and capital receive for their services. The book cites economic analysis by Dr. Dale Jorgenson of Harvard University that, on average, existing federal taxes account for 22 percent of the prices paid for consumer goods. Changes in wages and prices under the FairTax will vary among industries based on the taxes they currently pay and their competitive circumstances. The share of the economy going to taxes would be the same, but the economic distortions caused by the current tax system would be removed. After the FairTax is implemented, the out-the-door retail cost of goods and services on an after-tax basis would be roughly the same as under the current tax code.

The book clears up a key issue about the tax rate. The FairTax is promoted as a 23-percent tax. It is important to note that the rate is calculated on a tax-inclusive basis. Tax inclusive means like an income tax, where the tax is part of the base of calculations. For example, with a 23-percent income tax rate a factory worker may be paid a \$100 in wages. The government takes \$23 in taxes and the worker has \$77 to buy a coat. The \$23 in taxes is part of the tax base of \$100 of wages. A sales tax is usually calculated on a tax-exclusive basis. The worker gets the \$100 and buys a \$77 coat and pays a 30-percent sales tax on the coat, which is \$23. Because the sales tax is not included in the tax base of \$77, the sales tax rate is 30 percent. The dollars in taxes are the same, but the rate percentages are quoted differently.

The FairTax plan includes a “prebate” to protect all Americans from paying taxes on necessities. The prebate is a monthly check sent to all qualified households to pay the sales tax on necessities based on the federal government’s poverty level guidelines used for qualification for various government programs. In 2006, each family of four would receive a monthly prebate



check of \$506 per month based on an annual family consumption allowance of \$26,400 per year. Each household would report to their state of residence¹ the Social Security numbers of all people in the household to determine the amount of the prebate.

One chapter is devoted to Social Security and Medicare. As noted earlier, the FairTax would replace current payroll taxes and shift to a broader tax base, consumption. Stronger economic growth would increase the size of the economy and the amount of sales taxes collected. The FairTax is not a cure-all for the problems of the two programs, but stronger economic growth could give policy makers more flexibility in redesigning the programs. With the average age of farm operators at about 55 years and a large number of retirees living in rural areas, the impact of tax policy on Social Security and Medicare cannot be ignored.

The FairTax Book gives farmers and ranchers a better understanding of a tax proposal that would have major positive impacts on their businesses and the overall economy.

About Ross Korves

Ross Korves is an independent economic policy analyst.

He is a Trade Policy Analyst with Truth About Trade and Technology, a group begun and run by farmers and ranchers who believe in increased international trade and the use of biotechnology, and an Economic Policy Analyst with the ProExporter Network, a transportation and grain processing analysis firm. He also provides analysis and advice on federal tax policy for farmers and ranchers and health care policy.

Ross spent 25 years as an economist for the American Farm Bureau Federation. He is a native of southern Illinois and a graduate of Southern Illinois University.

What is the FairTax Plan?

The FairTax Plan is a comprehensive proposal that replaces all federal income and payroll based taxes with an integrated approach including a progressive national retail sales tax, a prebate to ensure no American pays federal taxes on spending up to the poverty level, dollar-for-dollar federal revenue replacement, and, through companion legislation, the repeal of the 16th Amendment. This nonpartisan legislation (HR 25/S 1025) abolishes all federal personal and corporate income taxes, gift, estate, capital gains, alternative minimum, Social Security, Medicare, and self-employment taxes and replaces them with one simple, visible, federal retail sales tax – administered primarily by existing state sales tax authorities. The IRS is disbanded and defunded. The FairTax taxes us only on what we choose to spend on new goods or services, not on what we earn. The FairTax is a fair, efficient, transparent, and intelligent solution to the frustration and inequity of our current tax system.

What is Americans For Fair Taxation (FairTax.org)?

FairTax.org is a nonprofit, nonpartisan, grassroots organization solely dedicated to replacing the current tax system. The organization has hundreds of thousands of members and volunteers nationwide. Its plan supports sound economic research, education of citizens and community leaders, and grassroots mobilization efforts. For more information visit the Web page: www.FairTax.org or call 1-800-FAIRTAX.

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¹ The proposal would have the state governments administer the FairTax on behalf of the federal government.