

House Committee on Ways and Means

Statement of The Honorable Steve King, a Representative in Congress from the State of Iowa

Testimony Before the Subcommittee on Select Revenue Measures
of the House Committee on Ways and Means

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Mr. Chairman and Members of the Subcommittee,

Thank you for the opportunity to appear before you today.

Many of the proposals that are being brought before you have merit. But they have merit in the same sense that treating the symptoms of a serious disease rather than the underlying cause of the disease has merit. If we have no means of treating the underlying disease, then we treat the symptoms in the hope the disease will run its course and the patient will improve. If we have not yet accurately diagnosed the disease, then we alleviate the symptoms until the tests are completed and we can attack the underlying problem. On the other hand, if we understand the disease and we have the means to treat it, there is no merit in withholding curative treatment from the patient and only treating the patient's symptoms.

Yet that is precisely what this Congress is doing with our tax policy. We understand the destructive impact that the current tax system is having on the American people. We understand that the current tax system is driving high paying jobs overseas and destroying opportunity for the American people because we tax American producers heavily whether the goods are sold in the U.S. or abroad but impose no tax on foreign production sold here. We understand that the current tax system has a dramatic adverse impact on the standard of living of the American people by discouraging work, savings, investment and entrepreneurship. We understand that the current tax system is obscenely complex and costly. We understand that the current tax system is unfair. We understand that the current tax system can barely be administered and fosters evasion at an ever accelerating pace notwithstanding ever more severe penalties and ever more intrusive reporting requirements.

Yet all Congress has done is tinker with an irretrievably broken tax system. We owe the American people a better tax system. And we should deliver one.

What would a better tax system look like? What are the criteria by which we should measure whether a tax system is good or bad?

A good tax system should not favor consumption over savings and investment. A good tax system should have the lowest possible marginal tax rates, removing to the greatest extent possible the disincentive to work, save and invest and providing the greatest opportunity for upward mobility. A good tax system should not put US producers at a disadvantage with those who produce abroad; it should not provide an artificial incentive to move jobs and production

overseas. A good tax system should impose the same tax burden on all forms of productive activity and should tax each activity at a uniform rate. A good tax system should treat human capital formation and physical capital formation alike. A good tax system should dramatically reduce the administrative and compliance burden on the public. Such a tax system would lead to a dramatic increase in the prosperity of the American people.

A good tax system should exempt the poor from tax and allow everyone to meet the necessities of life before paying tax. Once the necessities of life have been met, however, a good tax system should treat people equally without favoring one set of taxpayers over another. A good tax system should not play favorites or reward the politically powerful and well connected.

A good tax system should be transparent and understandable so the public understands it; it should not hide the true tax burden or obfuscate. A good tax system should be politically stable, so that the reform will last. The transition to such a system should be manageable and fair. Such a tax system would be honest and improve the American political system.

The tax reform proposal that best meets these criteria is H.R. 25, the FairTax.

The FairTax replaces the individual and corporate income tax, all payroll taxes and the estate and gift tax with a 23 percent national retail sales tax on all consumption of goods and service without exception. A prebate would be provided monthly in advance to all households. The prebate amount would be equal to the poverty level times 23 percent. An extra amount is provided to married couples to prevent a marriage penalty.

The FairTax eliminates the current tax bias against saving and investment. It would, therefore, promote capital formation, increase productivity and enhance the competitiveness of American workers. The FairTax would get the government out of the business of picking favorites among industries and investments and allow businesses to invest based on what makes business sense. The FairTax has the broadest possible tax base consistent with economic growth. It, therefore, has the lowest possible marginal tax rates. It will dramatically reduce the tax drag on work, savings and investment and promote economic growth and prosperity to the maximum degree.

The current tax system drives good jobs and businesses out of the U.S. Why? The current tax system taxes U.S. American producers – both workers and companies – whether the goods and services are sold in the U.S. or abroad. The current tax system imposes no tax burden whatsoever on foreign goods and services sold in the U.S. The U.S. tax system accords a nearly 20 percent advantage to foreign producers. And virtually every foreign country relies to a great degree on consumption taxes (usually VATs) that are imposed on U.S. goods sold there and rebated on foreign goods sold here. It should come as no surprise that we produce only 2/3 of what we consume, that our great manufacturing companies are in decline and that high quality blue collar jobs are rapidly leaving the U.S. We have now lost our agricultural surplus and our services sectors are under intense pressure.

The FairTax remediates this problem by taxing foreign and U.S. goods alike when sold at retail. U.S. exports are not taxed. It levels the playing field. No other tax plan with wide support does this.

The FairTax treats investments in human capital and physical capital alike. Both are treated as investments and not taxed. No other tax plan does this.

The FairTax repeals the regressive payroll tax and entirely untaxes the poor. The prebate ensures that no poor American will pay tax on their consumption expenditures and dramatically reduces the tax rate on middle income Americans. No other tax plan does this.

The FairTax would eliminate the massive administrative burden on the American people imposed by the current system. For the first time in living memory, April 15th would be just another Spring day. What people earned would be what they keep. And every American would understand the tax system and how it worked.

By reducing marginal tax rates dramatically, the Fairtax reduces the incentive to engage in tax evasion. By radically simplifying the tax system, if audit resources are held constant, audit rates will increase and the likelihood of apprehending tax evaders will increase. Thus, the benefit of evading taxes will decline and the cost of tax evasion will increase and tax evasion will decline.

The FairTax offers us an unprecedented opportunity to make the lives of the American people better. It will enable U.S. workers and businesses to compete effectively in world markets. It will stop the hemorrhaging of high quality jobs that we are experiencing. It will promote entrepreneurship and enhance capital formation and productivity improvement. It will be fair and it will be comprehensible. It will reduce the tax gap and it will reduce compliance costs.

It is time to adopt the FairTax.

Thank you.