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Congressman discusses FairTax details, outlook

Rep. John Linder (R-Ga.) is leading the effort in the House to create a FairTax to replace U.S. income taxes, capital gains taxes, estate taxes, self-employment taxes and more. Farm Bureau News recently spoke with Linder to find out more about how the FairTax would work and what needs to happen to take the proposal from concept to reality. The following are excerpts from that conversation.

Q In a nutshell, what is the FairTax and why are you supporting it?

A The FairTax would abolish all taxes on income, including the corporate income tax, the personal income tax and the payroll tax, which is the largest tax that three-fourths of Americans pay. It would get rid of capital gains taxes, the gift tax, the death tax. It would replace all of these with a single, one-time national sales tax.

We've spent \$22 million in the last seven or eight years on research, and the most compelling piece of information is that 22 percent of what you're currently paying for retail is the embedded cost of the current tax system. You're paying the taxes of every company that's had anything to do with a tractor—from rubber manufacturers to tire manufacturers to steel builders. You're paying their income taxes, their payroll taxes and their tax compliance costs. So we say if you can abolish income taxes and all business taxes and get that cost driven out of the system, and replace it with a 23 percent embedded cost, your cost of living goes up 1 percent but you can keep your whole paycheck. You become a voluntary taxpayer.

To help low-wage taxpayers, the FairTax would un-tax living essentials by giving every household a check at the beginning of each month that would totally rebate the tax consequences of spending up to the poverty line. For a household of one, it would be \$9,000 a year. For a household of four, it would be \$24,500 a year. And for a household of six, it would be \$30,000 a year. Those taxpayers would get a check sufficient to totally rebate the tax consequences of spending that amount of money.

Again, the FairTax would make everyone voluntary taxpayers. You would pay taxes when you choose and as much or as little as you choose, depending on how much you choose to spend.

The FairTax would also fix Social Security. The way things are going now, we will have an \$8 trillion shortfall in 75 years in the Social Security account.

Q How would, say, the purchase of a tractor be taxed?

A There would be no tax on a tractor. That's a business input. All business inputs would be exempt from the tax, so buying a tractor or seed or even land for farming would not be taxed. Only personal consumer items would be taxed.

If you buy a piece of land to develop, it would not be taxed because it's a business input. However, if you buy a piece of land to put your house on, that's consumption and it would be taxed.

Q How long has this proposal been around?

A It was first introduced as legislation in 1999. But research on it started in about 1995.

Q How did you become a supporter of the FairTax?

A I've always been a fan of this. [Former Rep.] Bill Archer (R-Texas) and I talked about it everyday practically when he was a member of Congress. He said there was a group of people in Houston who were working hard to raise money to do the research needed to show that it would work, and he put me in touch with them. Bill was getting ready to retire, so he asked me to become the sponsor.

Q You have introduced legislation, and there is a Senate bill. What needs to happen to get that legislation moving?

A We need to educate. We now have 515,000 members of Americans for Fair Taxation. I'm looking forward to getting 5 million families to join that. This is truly a grassroots effort. [Rep.] Ric Keller (R-Fla.) called the other day and asked us to put his name on the bill because he had been contacted by the people in his district. I have not asked anybody to sign onto the bill, and we now have 39 or 40 cosponsors. I met with Sen. Rick Santorum (R-Pa.) this morning and am getting some keen interest from him and other senators about raising the level of awareness of it.

We also need to get this into the presidential campaign discussion, because that would elevate it tremendously.

Q It's been said the proposal would eliminate the Internal Revenue Service. Who would then administer the FairTax? Doesn't someone still need to collect the money?

A There would be an agency in the Treasury Department that would contract with the states and the states would collect the tax from retailers. They would be paid a fee to do that. The retailer or whoever is collecting the tax from the individual would also be paid to do that.

Q Most people heard a great deal about the flat tax a few years ago. How does the FairTax proposal differ from the flat tax proposal?

A The difference is the flat tax is still a tax on income. The FairTax would be a tax on consumption. Under our system, the government won't know how much money you make, how you make it or how you spend it.

Q How do you know that the FairTax can raise sufficient revenue to run the federal government and all of its programs?

A The income economy is much more volatile than the consumption economy. It has been that way as long as we've been measuring it. Tax revenues are down today 20 to 25 percent. Under the FairTax, the government's revenues would have increased in nine of the last 10 quarters and we wouldn't be looking at these deficits, because the economy has actually grown in nine of the last 10 quarters. In a study done in 1995, the proposed national retail sales tax of 23 cents was revenue neutral. It would probably be revenue neutral at even less than 23 cents now because tax revenues are currently down.

Q Farm Bureau supports the FairTax. Who else is for and against this proposal?

A Retailers are cool to it because they don't necessarily want to be tax collectors. But certified public accountants universally support it. They know the current system is broken. They have said, 'We would make more by sitting down and plotting the future for our clients than by recording the past.' There isn't any organized opposition to this proposal.

Q How long do you think it will take to get the FairTax proposal moving toward reality?

A Our biggest problem is inertia because of the fact that this is such a big idea. Some people think it will never happen. People will talk to me when I'm on the stump campaigning about it and ask, 'Why hasn't this passed already?' Again, I think if we could get it into the presidential campaign discussions it would get more people talking about it and supporting it.

Q As you know, Farm Bureau members are very politically active. What could Farm Bureau members do if they want to help advance this proposal?

A I would like them to learn about it. I want them to visit the Web site (www.fairtax.org) and educate themselves so they can educate their members of Congress.

