

Key Principles of Fundamental Tax Reform

H.R. 25, the “FairTax” – Representative John Linder (R-GA)

- H.R. 25, the “FairTax” achieves the President’s objectives of simple, fair and growth-oriented tax reform.
- **Simple:** Tax reform must result in a tax code that is easy to understand for all Americans - no matter one's education, occupation, or station in life. The FairTax plan is simple. It eliminates the more than 10,000 pages of complexities in the current income tax code once and for all, replacing them with a simple uniform sales tax.
- **Fair:** Fundamental tax reform proposals must protect the poor and treat everyone else the same. No exemptions. No exclusions. No advantages. The FairTax plan is fair. It contains a rebate of the sales tax for every household, designed to totally rebate the tax consequences of spending up to the poverty line. This rebate mechanism protects low-income Americans, ensuring that every household can buy necessities tax-free. Under the FairTax, all Americans receive equal, fair treatment.
- **Voluntary:** Americans deserve a tax system that is not coercive or intrusive. Under the FairTax, every citizen becomes a voluntary taxpayer, paying as much as they choose, when they choose, by how they choose to spend.
- **Transparent:** The cost of government should be transparent to all Americans, with no "hidden" taxes. According to a Harvard study, the current tax component in our price system averages 22 percent, meaning that the least well off among us lose 22 percent of their purchasing power from the embedded costs of corporate taxes, payroll taxes, and compliance costs. The FairTax eliminates the hidden tax component from our price system and allows the market to drive the tax component out of the price system.
- **Border Neutral:** Any fundamental tax reform plans must ensure that our exports are unburdened by any tax component in the price system, while imports carry the same tax burden at retail as our domestic competition. Under the FairTax, imported goods and domestically produced goods would receive the same U.S. tax treatment at the checkout counter. Moreover, our exports would go abroad unburdened by any tax component in the price system.
- **Industry Neutral:** The President's tax reforms must be neutral between businesses and industries. There is no good reason that our neighbor who builds a bookstore, hires our kids, votes in our elections, and supports our community should be placed at a seven percent disadvantage against an Internet bookstore. Nor is there a good reason why I, as a dentist, didn't have to collect a sales tax in Georgia while my neighbor, the retailer, did. The first principle of government ought to be neutrality, and a plan like the FairTax would ensure industry neutrality.
- **Strengthens Social Security:** Fundamental reform must address the future of Social Security. The FairTax plan would strengthen Social Security by paying Social Security benefits out of the general sales tax revenues. The sales tax would be collected from 296 million Americans and 51 million visitors to our shores. Revenues to Social Security and Medicare would double, as we expect the size of the economy to double, in 13 to 14 years under the proposal.