

## **An Open Letter to the President, the Congress, and the American people Concerning Reform of the Federal Tax Code**

Dear Mr. President, Members of Congress, and Fellow Americans,

We, the undersigned business and university economists, welcome and applaud the ongoing initiative to reform the federal tax code. We urge the President and the Congress to work together in good faith to pass and sign into federal law H.R. 25 and S. 25, which together call for:

- Eliminating all federal income taxes for individuals and corporations,
- Eliminating all federal payroll withholding taxes,
- Abolishing estate and capital gains taxes, and
- Repealing the 16th Amendment

We are not calling for elimination of federal taxation, which would be irresponsible and undesirable. Nor does our endorsement call for reduced federal spending. The tax reform plan we endorse is revenue neutral, collecting as much federal tax revenue as the current income tax code, including payroll withholding taxes.

We are calling for elimination of federal income taxes and federal payroll withholding taxes. We endorse replacing these costly, oppressively complex, and economically inefficient taxes with a progressive national retail sales tax, such as the tax plan offered by H.R. 25 and S. 25 – which is also known as the FairTax Plan. The FairTax Plan has been introduced in the 109<sup>th</sup> Congress and had 54 co-sponsors in the 108<sup>th</sup> Congress.

If passed and signed into law, the FairTax Plan would:

- Enable workers and retirees to receive 100% of their paychecks and pension benefits,
- Replace all federal income and payroll taxes with a simple, progressive, visible, efficiently collected national retail sales tax, which would be levied on the final sale of newly produced goods and services,
- Rebate to all households each month the federal sales tax they pay on basic necessities, up to an independently determined level of spending (a.k.a., the poverty level, as determined by the Department of Health and Human Services), which removes the burden of federal taxation on the poor and makes the FairTax Plan as progressive as the current tax code,
- Collect the national sales tax at the retail cash register, just as 45 states already do,
- Set a federal sales tax rate that is revenue neutral, thereby raising the same amount of tax revenue as now raised by federal income taxes plus payroll withholding taxes,
- Continue Social Security and Medicare benefits as provided by law; only the means of tax collection changes,
- Eliminate all filing of individual federal tax returns,
- Eliminate the IRS and all audits of individual taxpayers; only audits of retailers would be needed, greatly reducing the cost of enforcing the federal tax code,

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- Allow states the option of collecting the national retail sales tax, in return for a fee, along with their state and local sales taxes,
- Collect federal sales tax from every retail consumer in the country, whether citizen or undocumented alien, which will enlarge the federal tax base,
- Collect federal sales tax on all consumption spending on new final goods and services, whether the dollars used to finance the spending are generated legally, illegally, or in the huge “underground economy,”
- Dramatically reduce federal tax compliance costs paid by businesses, which are now embedded and hidden in retail prices, placing U.S. businesses at a disadvantage in world markets,
- Bring greater accountability and visibility to federal tax collection,
- Attract foreign equity investment to the United States, as well as encourage U.S. firms to locate new capital projects in the United States that might otherwise go abroad, and
- Not tax spending for education, since H.R. 25 and S. 25 define expenditure on education to be investment, not consumption, which will make education about half as expensive for American families as it is now.

The current U.S. income tax code is widely regarded by just about everyone as unfair, complex, wasteful, confusing, and costly. Businesses and other organizations spend more than six billion hours each year complying with the federal tax code. Estimated compliance costs conservatively top \$225 billion annually – costs that are ultimately embedded in retail prices paid by consumers.

The Internal Revenue Code cannot simply be “fixed,” which is amply demonstrated by more than 35 years of attempted tax code reform, each round resulting in yet more complexity and unrelenting, page-after-page, mind-numbing verbiage (now exceeding 54,000 pages containing more than 2.8 million words).

Our nation’s current income tax alters business decisions in ways that limit growth in productivity. The federal income tax also alters saving and investment decisions of households, which dramatically reduces the economy’s potential for growth and job creation.

Payroll withholding taxes are regressive, hitting hardest those least able to pay. Simply stated, the complexity and frequently changing rules of the federal income tax code make our country less competitive in the global economy and rob the nation of its full potential for growth and job creation.

In summary, the economic benefits of the FairTax Plan are compelling. The FairTax Plan eliminates the tax bias against work, saving, and investment, which would lead to higher rates of economic growth, faster growth in productivity, more jobs, lower interest rates, and a higher standard of living for the American people.

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The America proposed by the FairTax Plan would feature:

- no federal income taxes,
- no payroll taxes,
- no self-employment taxes,
- no capital gains taxes,
- no gift or estate taxes,
- no alternative minimum taxes,
- no corporate taxes,
- no payroll withholding,
- no taxes on Social Security benefits or pension benefits,
- no personal tax forms,
- no personal or business income tax record keeping, and
- no personal income tax filing whatsoever.

No Internal Revenue Service; no April 15th; all gone, forever.

We believe that many Americans will favor the FairTax Plan proposed by H.R. 25 and S. 25, although some may say, “it simply can’t be done.” Many said the same thing to the grassroots progressives who won women the right to vote, to those who made collective bargaining a reality for union members, and to the Freedom Riders who made civil rights a reality in America.

We urge Congress not to abandon the FairTax Plan simply because it will be difficult to face the objections of entrenched special interest groups – groups who now benefit from the complexity and tax preferences of the status quo. The comparative advantage and benefits offered by the FairTax Plan to the vast majority of Americans is simply too high a cost to pay.

Therefore, we the undersigned professional and university economists, endorse a progressive national retail sales tax plan, as provided by the FairTax Plan. We urge Congress to make H.R. 25 and S. 25 federal law, and then to work swiftly to repeal the 16th Amendment.

Respectfully,

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