



How does the FairTaxSM compare?

Feature	Current income tax	FairTax Plan	Flat tax
Legislation	756 bills filed in 110th Congress to amend the Internal Revenue Code.	H.R. 25 introduced by Rep. Linder on January 4, 2007 has 62 co-sponsors, including bi-partisan support.	H.R. 1040 introduced by Rep. Burgess on February 14, 2007 has 4 Republican co-sponsors.
Type of tax	Individual and corporate income taxes, payroll, self-employment, capital gains, estate, gift, and alternative minimum taxes (AMT) that cascade on saving and investment.	Single-rate national sales tax on final retail consumption with no exemption. Business inputs are not taxed. Education tuition is not taxed.	A hybrid subtraction method VAT, which taxes capital valued added at the business stage and labor value added by a tax on wages, in addition to current payroll taxes.
Taxes replaced	Not applicable.	All income and payroll taxes including capital gains taxes, self-employment taxes, estate and gift taxes, and the AMT.	The current personal and corporate income taxes, capital gains taxes, and the AMT. Current payroll taxes are not replaced.
Base and rate	Estimated base is \$9.706T; however, it taxes the same income multiple times. Marginal income tax rates range from 10 to 35% for individuals and 15 to 39% for corporations with payroll taxes at 15.3%.	Estimated base is \$11.467T, while taxing income once when spent. Rate to fund current spending is 23.82%. Has the broadest base and lowest rate possible of any tax plan that does not tax the poor or double tax income.	Estimated base is \$10.347T. Rate to fund current spending is 26.76%; however, payroll taxes increase marginal rates by 15.3% on labor.
Progressivity and upward mobility	Steeply accelerating marginal rate structure taxes those who have to save or earn more in a given period to accumulate wealth. Earned income tax credit households face the highest marginal rates. Payroll taxes impose regressive rates on labor.	The prebate untaxes spending up to the poverty level, literally untaxing the poor. Since taxation is based on consumption, the FairTax allows taxpayers maximum choice as to the level and timing of taxation. The FairTax rewards hard work, savings, and wealth accumulation.	A standard deduction results in a progressive effective income tax rate; however, the retention of current payroll taxes maintains the regressive tax on labor.
16th Amendment	The 16 th Amendment is required to impose the income tax system.	FairTax Plan promotes repeal and is the only proposal that can repeal the 16 th Amendment.	Requires 16 th Amendment. Does not protect against coexistence of VAT and income taxes.
Effect on the economy	Taxes savings, labor, investment, and productivity multiple times; creating a disincentive to work, save, or invest, thereby reducing real wages.	Untaxes wages, savings, and investment; lowers interest rates by about 25%; increases productivity, capital stock, prosperity, and real wages.	Eliminates the tax bias against savings and investment and lowers interest rates. Increases productivity but taxes labor income at a higher rate than capital.
Complexity and compliance costs	66,498 pages of tax code, regulations, and IRS rulings. More than 6B man-hours wasted filing an estimated 249M forms by 2010. Total annual compliance costs exceed \$300B.	Individuals are exempt from filing tax returns. Businesses making retail sales will file sales tax returns for a total of about 15 to 20M tax filers. Compliance costs reduced 90%.	Tax withholding and payroll tax deductions from paychecks continue. Individuals and businesses must still track income and file income tax forms.

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Border adjustability	Taxes U.S. exports twice – once by the U.S. tax system and then by the importing jurisdiction with ad valorem taxes. Favors consumption of imports over domestic products by failing to tax imports after VAT rebates (a 17% price advantage).	Naturally border adjustable. U.S. exports are not taxed since they are consumed abroad, but imports are taxed on an equal basis as U.S. produced goods. World Trade Organization (WTO) compliant.	Favors imported goods and effectively punishes exports. Could potentially be made border adjustable; however, unclear if border-adjustable VAT would pass WTO muster.
Other international competitiveness concerns	Imposes the highest marginal corporate tax rate in the world, impelling companies to locate overseas and market back to the U.S.	Makes the U.S. the only advanced country in the world with a zero rate of taxation on income, creating the world’s largest tax haven for direct investment.	Territorial system where income generated overseas is not taxed by the U.S. This will further encourage the migration of industry and jobs overseas.
Taxpayer rights	Tax code requires massive disclosure, record keeping, individual audits, and collection activities where constitutional protections yield.	As the Founding Fathers intended, the FairTax does not directly tax individuals, and privacy rights are preserved.	A flat tax still requires individual reporting, individual audits, and collection activities.
Compliance rates and effect on tax gap	System is increasingly disregarded, contributing to unfairness. Through evasion and innocent error, the tax gap now totals more than \$400B.	The lowest marginal rates of any plan (i.e., lower cheating reward), fewer number of collection points (i.e., greater concentration of enforcement resources), visibility, and simplicity (i.e., elimination of gap attributable to non-fraud) ensure the FairTax is enforced at lower cost with higher compliance rates. States have used sales taxes for over 60 years with higher compliance rates than their income taxes.	Improved compliance from simplification and rate reduction; however, same number of collection points as current law, and international enforcement is complicated through reliance on a territorial system that will encourage intercompany pricing problems.
Effect on non-filers and illegal immigrants	An estimated 18% of “taxpayers” have simply dropped out of the system and no longer file returns. The income tax fails to capture the cash payments and other undocumented transactions with illegal immigrants.	Non-filers and illegal immigrants are taxed when they purchase goods and services for consumption. Illegals who do not have a valid SSN will not receive the prebate. Hence, the FairTax fosters coordination of tax and immigration policy as an economic fence.	Unlikely the tax gap attributable to non-filers will change. Nonpayment of payroll taxes by illegal immigrants will likely remain problematic.
Payment of taxes	Taxes due when income is earned or an item of income is sold or exchanged.	Taxpayers pay tax when they elect to consume beyond the poverty level. Retailers are provided a credit of one-quarter of one percent to offset compliance costs.	Taxpayers are taxed on income when earned.
Social Security and Medicare funding	Labor foots the bill with a highly regressive 15.3% payroll tax on wages up to \$97,500 and 2.9% Medicare tax imposed thereafter.	Offers a more stable and visible source for Social Security and Medicare funding. A portion of the tax is dedicated to funding Social Security based on total wages and the current payroll tax rates. Social Security benefits are adjusted to preserve purchasing power.	The flat tax keeps payroll taxes under the current system in place to fund Social Security and Medicare.



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IRS	\$11B budget with 90,000+ employees.	Abolished. Administered by the states.	Retained with reduced role.
Visibility and effect on future tax burden	Nearly half of the U.S. population pays no income tax and is completely unvested in the tax system. Among the hidden costs they do not see are the \$300B in compliance costs, \$307B in corporate taxes, and the drag on economic growth from the deadweight loss it engenders.	The FairTax ensures a built-in downward pressure on the size of the government by vesting everyone equally in the tax system (including illegal aliens), by exposing the full costs of the federal government on every purchase, and by requiring the government to raise taxes for everyone rather than to shuffle taxes from one industry or income class to the next.	The flat tax buries capital value-added taxes in the business sector, which some believe will help its political viability, and continues to exclude many Americans from the income tax. The flat tax's touted two-thirds supermajority to raise rates offers only illusory protection because 50% plus one can override that supermajority requirement.
Sustainability and feasibility	Lawmakers, policy makers, economists, and taxpayers agree that the current system is a monstrosity that must be replaced. It is held in place by an intricate web of special interest groups and new changes are added every year.	Once enacted, taxes must be raised on every consumer in the U.S. to change the base. States have used sales taxes for over 60 years; they are in effect in 45 states. The tax can be collected in conjunction with state sales taxes.	A flat tax just won't stay flat. Nearly flat in 1913, it eventually devolved into the mess we see today. The flat tax bill itself cannot even be introduced in pure form.

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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(AFFT Documents\Papers on a specific subject\How does the FairTax compare?)