



The National Sales Tax: A Direction of Moral Clarity

by John R. Hendrickson

President Ronald Reagan described the tax code as a daily mugging, and it's a mugging we still have to put up with each and every day. "Americans pay too much tax to support too much government."¹ The current tax code simply is not working and a new system of revenue collecting is needed. The best solution is the national sales tax, more famously known as the FairTax. If adopted the national sales tax would eliminate many different taxes, simplify the system, cave in the underground economy, allow the United States to compete more affluently, and provide more economic liberty to both individuals and businesses.

The national sales tax is defined as "a nationwide tax imposed on final retail sales of goods and services to the consumer. This tax presumably would apply to all goods and services and usually is discussed in conjunction with total repeal of the income tax."² A number of various sales tax plans have been proposed. Some have called for a flat 18% rate while other plans have called for a 23% rate. Advocates of the national sales tax argue that it will simplify the tax code, promote economic growth, and eliminate special interest tax loopholes, among other incentives to economic liberty. The plan would completely replace the 16th Amendment to the Constitution, and in order to safeguard against both an income and a sales tax the Amendment would have to be repealed.

The national sales tax would also eliminate both personal and corporate income taxes. In addition this would eliminate double taxation. The FairTax plan would eliminate income tax, Social Security and Medicare taxes, estate taxes, corporate and business taxes, Capital gains taxes, and others.³ Some proposals also call for rebates given back to families up to the federal poverty line. Entrepreneurs and businesses would also benefit because of the elimination of corporate and income taxes, and the new economic freedom created for industry and individuals will make the private sector more vital in the global economy.

The national sales tax would also undermine the underground economy and end the unfair tax loopholes. In terms of the underground economy, the Internal Revenue Service estimates that \$345 billion in tax revenues is lost.⁴ The sales tax would terminate this shadow economy and force it into the light with the rest of the law-abiding taxpayers. In addition, "it does not contain specific exemptions, exclusions, or credits for the well-to-do or the politically powerful, but instead treats people equally."⁵

The United States would also be a more effective global competitor with a national sales tax. Currently many businesses are relocating or outsourcing to countries with better tax structures, less regulations, or cheaper labor conditions. The national sales tax would not tax American exports, which means that our manufactured products being shipped to various markets will be cheaper, and thus creating a stronger manufacturing base. This in turn creates a stronger and more competitive economy, while benefiting the middle class. The opposite also holds true for imports, which would be taxed at purchase. This is an American first approach that benefits all of us whether we are businessmen, consumers, or laborers.

The sales tax would not change or abolish any existing government programs such as Social Security or Medicare. The plan, unfortunately, would not create less government spending nor would it cut the size of government. The major idea behind the plan is to uproot the intrusive income tax system and replace it with more liberty-oriented simplified system of collecting revenue. The only government entity that would be abolished would be the IRS.

The entitlement programs of both Social Security and Medicare are in financial trouble as more and more Americans retire and rely on those services. In addition, as a nation we have witnessed the hostility to reform in both

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programs. With the danger and reality of bankruptcy within each program, more revenue needs to be found and collected. That means two solutions: raise taxes or find a better route to create economic growth, which in return provides more revenues by increasing the number of taxpayers. “The FairTax will raise money from the overall size of the economy, not just from Americans currently working.”⁶ “Since the FairTax applies to every retail purchase, this means that 300 million Americans — plus about 50 million visitors to our shores — will be adding to federal revenues every time they make a purchase.”⁷

The idea of the national sales tax has picked up pace as a legitimate and serious tax reform proposal. “Economists estimate that in the first years after the FairTax Act becomes law, the economy will grow by 10.5 percent. Exports will grow by 26 percent, and capital spending will increase more than 70 percent.”⁸ In addition, the authors of the FairTax book write:

Economists have made some amazing predictions as to how our economy would grow with the FairTax. If, as many predict, we double the size of our economy in the first fifteen years after passage of the Fair Tax, we will also double the federal revenues from which Social Security and Medicare must be paid.⁹

We often hear the words “moral clarity” spoken by politicians of all stripes and colors. It is often associated with foreign policy, but it can also be associated with tax policy. “Lowering the tax burden is vital to our strategy for lasting growth through greater savings, investment, and production,” said President Reagan.¹⁰ Adopting the national sales tax is a position of moral clarity.

(Endnotes)

¹ Haley Barbour, *Agenda For America: A Republican Direction for the Future*, Regnery Publishing, Washington, D.C., 1996, p. 3.

² “A Glossary of Tax Policy Terms,” WebMemo #139, The Heritage Foundation, August 26, 2002, <<http://www.heritage.org/research/Taxes/WM139.cfm>> (8 August 2006).

³ Neal Boortz and John Linder, *The Fair Tax Book: Saying Goodbye to the Income Tax and the IRS*, Regan Books, New York, 2005, pp. 74-75.

⁴ *Ibid.*, p. 93.

⁵ David R. Burton, “The National Sales Tax Alternative,” in Jack Kemp and Ken Blackwell (eds.), *The IRS V. The People: Time for Real Tax Reform*, The Heritage Foundation, Washington, D.C., 1999, p. 191.

⁶ Boortz, p. 136.

⁷ *Ibid.*

⁸ *Ibid.*, p. 106.

⁹ *Ibid.*

¹⁰ Ronald Reagan, *The President's Point of View: Ronald Reagan Speaks*, Braddock Publication, Washington, D.C., 1984, p. 18.

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