

1. Mark your confusion.
2. Show evidence of a close reading.
3. Write a 1+ page reflection.

The Fair Tax Act, Explained

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Is America ready for a national sales tax? Rep. Earl L. "Buddy" Carter (R-Ga.) has introduced the Fair Tax Act, a bill in Congress that would eliminate most federal taxes and replace them with a sales tax on goods and services. A so-called "consumption tax" deserves support because it "simplifies our tax code," says Rep. Bob Good (R-Va.). But Democrats like Senate Majority Leader Chuck Schumer (N.Y.) say Carter's bill would actually raise taxes on "90 percent of the American people." What is the case for a consumption tax? And does it have a chance of actually becoming reality?

Here's everything you need to know:

What is the Fair Tax Act?

The proposal "represents the first serious challenge to the American tax code in recent memory," *Reason* reports. Carter's bill does more than impose a national sales tax, *Money* reports. It would completely abolish the Internal Revenue Service, along with most of the taxes it collects — "including payroll, self-employment, estate, death, and corporate taxes." In their place, it would create the aforementioned sales tax. "That means workers would get to keep the entirety of their paychecks without having to pay out anything to the government," *The Hill* reports. "But it also means that buying everything from groceries to automobiles would be hugely more expensive." Some exceptions: There would be no sales tax on used goods, and "business-to-business" transactions would also go untaxed.

How much would the sales tax add to my purchases?

That is actually the topic of some fierce debate. Carter says the bill imposes a 23 percent tax, but critics say the real amount ends up being 30 percent. How to explain the disparity? Carter offers this description in a "Myth v. Fact" explainer: "Under the FairTax, if you pay \$100 for a good, you pay \$77 for the good and an inclusive \$23 tax." But while \$23 is 23 percent of \$100, it's actually 29.9 percent of \$77 — which suggests that Carter is underselling the actual impact of his proposal on American pocketbooks.

What do supporters like about the sales tax?

The short answer: It's simpler than the current tax code. More broadly, though, some conservatives have long favored shifting federal government funding from taxing the money Americans earn and to taxing the money they spend — a "consumption tax." That means workers would "get an instant raise" in their paychecks, say the advocates at FairTax.org. That would encourage both work and savings: "You alone can control your tax burden. If you're thrifty, you'll pay lower taxes than somebody who is not."

What are the drawbacks?

It's regressive. America's tax burden would disproportionately affect the poor, critics say. *Reason* points out that 40 percent of households pay no income tax. "Under a FairTax system, those households would marginally increase their take-home pay but take it on the chin at the grocery store." And John Buhl at the Tax Policy Center tells CBS News that middle-class families that itemize their taxes and take deductions that reduce their income tax bill would also take a "quite sizable" hit. But

while wealthy people spend more money on stuff, it's often a smaller percentage of their overall income. The result? "The wealthiest of the wealthy would actually see the biggest tax cuts from this switch," Buhl said. As you might expect, Democrats are ready to hammer Republicans over the proposal: President Biden sarcastically called it a "great idea" to "raise taxes on the middle class" during a White House appearance.

Is there any part of it that liberals like?

Almost? Dylan Matthews at *Vox* points out that Carter's bill includes a provision to offset the effects of the sales tax on poorer families by sending every household in America a monthly check worth 23 percent of the poverty line for a household their size — nearly \$7,000 a year for a family of four. That looks a lot like the universal basic income that progressives have long sought, but Matthews says it's not enough to offset the Fair Tax Act's overall effect of imposing an even greater tax burden on the poor and lightening the load for the wealthy.

But conservatives like it, right?

Funny you should ask. One of the fiercest critics of the Fair Tax Act is Grover Norquist, perhaps the most famous anti-tax activist of his era. He writes in *The Atlantic* that he likes the idea of abolishing the IRS, but he hates the idea of sending checks to American households — the so-called "prebate" provision. And Americans are likely to despise the idea of a national sales tax, Norquist writes. "Democrats are right to be confident they have the winning message there." He's not the only conservative to feel nervous. *The Wall Street Journal* has editorialized against the Fair Tax Act, and House Speaker Kevin McCarthy (R-Calif.) has said he opposes the bill.

What's next, then?

Normally, a House speaker's opposition to a bill would be the end of the story. But you'll remember that McCarthy had a tough time actually winning the speaker's gavel — and managed to succeed only through a series of concessions to his hard-right opponents. That includes a vote on the Fair Tax Act. *Politico* reports that the bill's GOP opponents hope the bill can "be bottled up in the Ways and Means Committee, where only a couple of Republicans are on record supporting the idea." Even in the unlikely event the House passes the bill, Democratic opposition in the Senate and White House means it's probably dead on arrival — for now.

Possible Response Questions

- What are your thoughts about the Fair Tax Act? Explain.
- Did something in the article surprise you? Discuss.
- Pick a word/line/passage from the article and respond to it.
- Discuss a "move" made by the writer in this piece that you think is good/interesting. Explain.