Statement of Steven L. Hayes, President
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To the House Ways and Means
Subcommittee on Tax
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Chairman Kelly, Ranking Member Thompson, and distinguished members of the Subcommittee***:***

Thank you for the opportunity to appear before your Subcommittee and to submit this written testimony.

My name is Steven Hayes. Unlike many who come before you, I am not an economist and I do not work for a think tank.

I am a practicing attorney who for many years did tax planning for wealthy clients. Over 30 years ago, I became interested in finding a better way of taxing Americans. My practice changed to a business transaction practice and has allowed me to represent a wide range of companies and industries. My clients have included insurance companies, banks, cattle ranches, and many other private and public companies.

I have also operated businesses as a CEO, ranging from a hedge fund to a medical detox center, and know from personal experience the problems and costs of complying with the income/payroll tax system.

Although I now represent clients doing business transactions, I must continue to keep abreast of the damaging impact of the federal income tax code because it permeates the way that businesses operate in this country.

My desire for elimination of the present income tax system comes from direct observation of the adverse effect the system has on not only businesses but on individuals.

Clearly, it is the nature of the income tax that breeds complexity. No one political party can assign blame or take credit: The constantly growing complexity of our tax system is part of a trend that began in 1913 and has only accelerated with the nearly perennial enactment of new tax legislation with over 4,000 changes to the Internal Revenue Code in just the last decade.

Federal tax laws and regulations have grown to over 10 million words in length. This figure includes the federal Internal Revenue Code (2,412,000 words long) and federal tax regulations (7,655,000 words long). It does not include the substantial body of tax-related case law that is often vital to understanding the federal income tax code and how it applies to a client’s specific tax situation.

In addition to the sheer volume of the Internal Revenue Code, there is also the fact that it, in application, is often very vague. For example, if you have lunch with a client and spend five minutes talking business and the next hour speaking about your vacation plans—is it deductible? It may be that the five minutes was all that was required to keep the client but not talking about vacation plans would possibly lose the client.

Money Magazine used to create a hypothetical taxpayer and submit the information to a number of experienced tax preparers. The results were almost all very different and either had the taxpayer paying no additional tax or a large amount of tax.

Another unfortunate aspect of the income tax is that American taxpayers and businesses are forced to act as tax collectors for the federal government. According to an analysis of IRS data by the Taxpayer Advocate Service (TAS), individual taxpayers and businesses spend an estimated 6.1 billion hours each year complying with the filing requirements of the Internal Revenue Code (henceforth called “compliance costs”).

There have been numerous studies about the amount of compliance cost required to comply with the income tax laws, but it has been estimated to range from a low of $215 billion to over $900 billion.

Businesses bear the lion’s share of these fixed costs that stem from paperwork and record keeping, tracking wages, and interpreting the law – costs which, while disproportionately falling upon them, often cannot be passed along by raising the prices of their products.

Small firms, in particular, according to the National Commission on Economic Growth and Tax Reform, are forced to spend $3 to $4 complying with the law for every dollar they pay in taxes.

Perhaps one of the most important negatives concerning the present income tax is that there have been over 4,000 changes in the last decade and suggested other changes could more than double that amount.

My business clients complain that they have problems planning because they don’t know how the Internal Revenue Code provisions will affect them in future years. Some business owners committed to research and development expenses when they were deductible in the year paid but now such expenses must be amortized over several years. This creates a sudden, large, and unplanned income tax liability.

If the business owner knew that committing to a research and development plan would result in a large income tax liability two years later because of an income tax law change, they likely would not have undertaken the project.

Flat Tax

In the 1980’s, it seemed to me that a solution might be the flat income tax, a single rate on all income. However, as I examined this option it became apparent that the problem with any income-based tax system is not computing the percentage of tax owed on the net income but determining the income to be taxed.

Since many businesses like the big-box stores operate on very small margins, imposing a gross flat tax on sales would just cause all the prices we pay to increase by enough for the companies to pay the flat tax.

In addition, how long would it be until the “flat tax” had so many amendments that it was no longer flat. An income tax by its nature gives many opportunities for tinkering, as noted above with the 4,000 changes in just 10 years.

While no tax system is perfect, my search for an alternative to the present system led me to conclude that any tax reform should have the following characteristics:

- Raise the money required to fund the government in the least economically harmful manner and the least intrusive manner on businesses and individuals.
- Reward savings and investment rather than penalize them.
- Exempt the basic needs of a family from taxation.
- Not require the filing of forms by individuals and most companies.
- Make the tax easily seen by everyone.
- Not need the IRS to enforce the law.
- Make the U.S. more competitive in international trade and not provide an incentive to move production and jobs abroad.
- Let people decide how much federal tax they pay by how much they consume.

The FAIRtax, accomplishes each of the above objectives, and I decided to see what I could do to make this change happen.

This decision led to my becoming president of Americans For Fair Taxation (“AFFT”), a 501(c)(4), promoting passage of the FAIRtax.

AFFT publishes its research and position papers at FAIRtax.org. It is the nation’s largest grassroots citizens’ organization dedicated to fundamental tax reform. As a nonpartisan organization, we have engaged the nation’s leading scholars and tax policy analysts to explore the infirmities of the existing system and the best means of correcting them and this input has helped refine the final version of the FAIRtax.

What is the FAIRtax?

The FAIRtax was introduced by Representative Buddy Carter as H.R. 25 short titled, *FAIRtax Act of 2023*. If enacted it would be effective January 1, 2025. The FAIRtax Act was first legislatively introduced in 1999 to the 106th Congress by Representative John E. Linder. The FAIRtax bill has been reintroduced to every new Congress since 1999.

The FAIRtax will:

- Replace all federal income, payroll, self-employment, alternative minimum, capital gains, estate, gift, and corporate taxes.
- Repeal in their entirety U.S. Code Title 26, Internal Revenue Code, Subtitle A (Income Taxes), Subtitle B (Estate and Gift Taxes), Subtitle C (Employment Taxes), and Subtitle H (Financing of Presidential Election Campaigns) and replace them with “Subtitle A - FAIRtax.”
- Not affect other forms of federal taxation (tariffs, duties, imports, excises, etc.) or direct changes to federal expenditures except for defunding of the IRS within 3 years (after the tax effective date). All taxable properties and services would be assessed the FAIRtax only once.
- Only tax retail purchases of new goods and not used retail products.

- Exempt all purchases up to the poverty level for every U.S. household using the Family Consumption Allowance.
- Have a rate that will produce, mathematically, a revenue neutral result, meaning it will collect a net revenue amount equal to the combined net result of those taxes it replaces.
- Have a 23% inclusive rate which means that for each dollar of retail purchases $.77 is payment for the product and $.23 is payment for the FAIRtax.
- Have a 30% exclusive rate if the FAIRtax is added to the price paid to the retailer--$1.00 plus $.30. $.30 is 23% of $1.30.
- Use the 'inclusive' rate of 23% when promoting the bill because the taxes replaced by the FAIRtax are calculated on an inclusive basis, i.e., a 25% marginal income-tax rate inclusive rate is a 33.3% exclusive rate.
- Be assessed on the retail consumption of all new tangible properties, some intangible properties, and all retail services purchased in or imported to the United States, the District of Columbia, and the commonwealths, territories, and possessions of the United States.
- Exempt from assessment of the FAIRtax all purchases for a trade or business (including research, testing, experimentation, and development that are used in the production of their products or their services.
- Be assessed on barter transactions as if a transaction had been made with a monetary instrument.
- Not be assessed on used property which is defined as one for which the FAIRtax has been paid after the effective date of the FAIRtax, or it can be any property purchased before the effective date of the FAIRtax and the property was used for other than a business purpose, i.e., used for personal consumption.
- Will require remittance of the FAIRtax, based on the fair market value (FMV) of any property that was used in a business for which the FAIRtax was not paid, or a credit taken and then sold and/or converted for personal use.
- Assesses the FAIRtax on the purchase of properties purchased abroad and imported into the United States for personal consumption when such purchases exceed $400.
- Exempt from the FAIRtax, casual or isolated sales of products not connected with a trade or business up to $1,200 annually.
- Be a destination tax, meaning it will be collected by (or for, as in internet sales) the State in which the properties or services are first delivered to the purchaser, located, or consumed.
- Defund the Internal Revenue Service (IRS) within three years after the effective date of the FAIRtax. Replacing the IRS will be a Sales Tax Bureau responsible for federal administration and oversight of the revenue system. In addition to the Sales Tax Bureau, an 'Excise Tax Bureau' will also be added to administer excise taxes not under the authority of the Bureau of Alcohol, Tobacco, and Firearms.
- Contain a 'Sunset Clause' mandating that all provisions of the FairTax Act, and any subsequent amendments to it, be repealed if the 16th Amendment to the U.S. Constitution is not repealed by the 7th year after the date of enactment of the FairTax.

FAMILY CONSUMPTION ALLOWANCE (FCA) AND PREBATE

One of the strongest objections to any tax system is its regressivity, in that it falls more forcefully on lower income demographics than on higher income demographics.

Presently, the most regressive federal tax is the payroll tax because it is paid from the first dollar earned and stops at $160,000—except that higher earners pay 3.8% in Medicare tax calculated on their income above $160,000.

The FAIRtax eliminates the regressive payroll tax.

In addition, individuals make purchases from their "take-home pay." For most Americans they have to earn between $1.15 and 1.50 to net $1.00. Effectively Americans are paying a hidden sales tax now on every purchase, but most don't realize it. The FAIRtax shows all of us the cost of the federal government.

To make the FAIRtax more progressive, a prebate called the Family Consumption Allowance ("FCA") is paid on or before the first business day each month to qualified legal residents and families. (See the chart, The FAIRtax as a Percent of Annual Spending and the FAIRtax FCA and Prebate Calculator below as Exhibits A-1 and A-2). The prebate allows all spending up to the poverty level to be exempted from the FAIRtax.

- The prebate is paid in amounts based on family size (or to an individual) and is not affected by the family's or individual's actual income or expenditure amounts so there is no means testing required.
- A qualified prebate recipient must have a valid Social Security number, be a lawful resident of the U.S., not be incarcerated, and meet all other legal dependency qualifications for an individual or lineal family member residing at the same residence or in school and away from their home residence.
- When the Administrating State authorities process the prebate applications, they will validate all names and Social Security numbers against the Social Security Administration (SSA) database.
- States already do this in relation to the administration of other state/federal cooperative programs such as unemployment benefits and child support enforcement. The states will submit the file to the SSA which will provide the prebate in the form of a paper check via U.S. Mail, an electronic funds transfer to a bank account, or a "smartcard" that can be used much like a bank debit card—already in use to provide other federal benefits.
- The monthly prebate amount is calculated from the 'Poverty Guidelines' published annually by the Department of Health and Human Services (DHHS). There are three geographically focused charts, one for the 48 contiguous States and Washington D.C., Alaska, and Hawaii.
- The monthly prebate calculation for the single adult household begins by, first, identifying the geographically applicable DHHS poverty-guideline chart. Next, identify the number of qualifying individuals in the household and the 'poverty guideline' amount identified with that number. This amount equals the annual prebate for the individual or family.
- The annual prebate is divided by 12 to determine the monthly prebate.

ADMINISTRATION

- Forty-five states and the District of Columbia have a retail sales tax. The states will be offered the opportunity to administer and enforce the FAIRtax as an Administering State.

- Administering States will be authorized to retain 0.25% of all the FAIRtax revenues they collect as an administration fee for services rendered.
- States that are not Administering States may contract with another Administering State to act as their administering authority, but only as authorized by the Secretary of the Treasury ("Secretary").
- The Secretary will otherwise administer the FAIRtax in those states that are not Administering States and have not contracted with another Administering State.
- Administering States will remit the FAIRtax to the U.S. Treasury.
- In tax disputes, the burden of document production and records falls upon the person in dispute with the Secretary or the administering authority, but the burden of persuasion rests with the Secretary or the administering authority—unlike the present federal income tax

BUSINESSES

- Businesses selling new retail goods and properties or providing retail services will register (Registered Seller) with their administering authority and receive an 'Intermediate and Export Sales Certificate' with a 'Vendor Registration Number.' The certificate and registration number will be used to exempt the registered seller from paying the FAIRtax on products and services purchased to produce their respective products or services. (These are intermediate sales also addressed as business-to-business sales).
- All Registered Sellers of properties and services must submit a report indicating the gross payments received in the previous calendar month, taxes collected, any credits, and all other information that may be required by the respective administering authority or Secretary.
- Businesses (including the self-employed) shall continue reporting earnings for their employees to the Social Security Administration for the accumulation of individual benefit credits, even though there will be no payroll or income taxes deducted from employees' paychecks.
- The substance of a transaction will prevail over its form if the transaction has no bona fide economic purpose and is designed to evade the FAIRtax. In other words, giving something to someone that serves more to a personal consumption than a business purpose, is a taxable property or service and not a bona fide business expense.
- Gross income to foreign entities arising from the sale or lease of properties or services in the United States will be taxed and deducted from the gross amount of payments, excluding any taxes applicable to portfolio debt investments or where such action is contrary to Tax Treaty agreements.

GAMING

- A chance (wager, bet, lottery ticket, etc.) alone is not a taxable property or service.
- Taxable gaming services are defined as the 'gross receipts' from the sale of chances minus the sum of total gaming payoffs and any other gaming specific taxes imposed by the Federal, State, or local governments.
- A 23% tax (inclusive) will be assessed on the gross receipts of gaming services and payable to the administering authority by the 15th day of the month following the month in which the taxable services were provided.

EXCLUSIONS AND EXEMPTIONS

- No tax shall be imposed on any taxable property or service purchased for a business purpose in a trade or business including that which is used for research, experimentation, testing and development.
- No tax will be assessed on the tuition applicable to qualifying primary, secondary, and postsecondary educational services, or job-related training services.
- The taxable employer assessment will not be imposed on the payroll amounts for government employees providing direct educational services (to the public).
- No FAIRtax shall be imposed on taxable properties or services purchased for an investment purpose and held exclusively for appreciation or the production of income and entailing no more than minor personal efforts.
    - Example 1: A developer builds a mall and then leases spaces in the mall to retail sellers. In this case, the mall construction is an investment and produces income to the developer. The developer is then exempt from taxes on the construction and the income produced from the leasing of mall spaces. This is because the retailers who lease the spaces in the mall and who sell taxable products and services, will, in effect, collect all the applicable taxes from their customers to cover the mall construction and the subsequent leasing costs to the retailers. This eliminates embedded and cascaded taxes that otherwise would result were the developer and the lessees assessed the tax.
    - Example 2: An individual (lessor) purchases a new or used home for the purpose of investment and the production of income (rent or lease). To purchase a new or used home, and to make future purchases to maintain the home exclusive of the FAIRtax, will require the lessor to become a registered seller and obtain a vendor registration number. (Though the used home has no FAIRtax assessed upon its price, like a new home, the closing costs and mortgage servicing fees would be taxable if purchased for personal consumption.) The lessor will also be required to monthly report and remit 23% of the rental fee (gross amount) to the administering authority. The lessor will be eligible for the credits and refunds described herein. If the lessor subsequently sells what was a new home purchased exclusive of the FAIRtax after imposition of the tax, or the home (new or used) was purchased before the imposition of the FAIRtax, then the FAIRtax will be assessed on the sale of the home at the fair market value of the home on the date of the sale. (The fair market value would normally be the sale price unless the administering authority finds some irregularity in the sale price as may be identified after an audit.)
- No tax shall be imposed on state government functions that do not constitute the final consumption of property or services (Intergovernmental Immunity).

CREDITS AND REFUNDS

- The Business Use Conversion Credit provides a means to recoup a portion of the taxes paid for a property or service formerly used for personal consumption that is subsequently transitioned for use in a trade or business.
- The reverse applies for any property or service converted from a business use to a personal consumption, which will require the FAIRtax be assessed on the fair market value of the product or service.
- The Mixed-Use Property or Services Credit can be claimed for that portion of a property or service used for both personal consumption and business use.

- The Intermediate and Export Sales Credit is used to exclude remitting taxes on items sold for businesses (business-to-business sales) or for items exported for consumption outside the United States.
- The Administration Credit, like that rendered to Administering States, rewards (retail) businesses that promptly report and remit taxes with a credit amounting to the greater of $200 or 0.25% of the taxes to be remitted, but no more than 20% of the amount of taxes due before the application of any credit.
- The 'Bad Debt Credit' provides a means to recoup that portion of taxes remitted by a business for a purchase upon which the buyer fails to remit the balance of payments (generally in arrears more than 180 days).
- The 'Insurance Proceeds Credit' is available to either the insurer (insurance company) or the insured for taxes that would be inclusive to the amount of the benefit paid to, or on behalf of, the insured. This credit is for policies in which the FAIRtax was paid inclusive to the insurance premiums.
- The Transitional Inventory Credit is applicable for the first year after the effective date of the FAIRtax. It may be used by the retail seller for all properties in 'inventory' or 'work-in-progress' and until such inventory or work-in-progress is either sold or the year has expired.
- This credit allows the retailer, and immediately after the imposition of the FAIRtax, to continue selling properties that are a work-in-progress or in inventory at the same price before the effective date of the FAIRtax. In other words, the seller, in their monthly report, will state the FAIRtax on the sale of affected properties and then, take a credit for the same sale which results in a zero monetary transaction and at no additional cost to the consumer or the seller.
- Registered sellers and other persons making an overpayment of the FAIRtax may apply for a refund in a form to be provided by the administering authority.

GOVERNMENTS
(Federal, State and Local)

- Public finance economists realize that the current system imposes taxes on government, albeit indirectly through the higher wages government must pay its employees, the payroll taxes it must pay, and the higher payments it makes to government contractors, than would otherwise be the case if there were no federal income tax system.
- They further realize that when you shift from an income tax to a consumption tax you must maintain the same "tax wedge" in government. Not doing so would distort the private marketplace, creating an incentive to consume through the medium of government.
- Federal taxation of units of government has already been upheld by the Supreme Court when it affirmed that the federal government could require all units of government to pay payroll taxes on wages paid to its employees.
- If the FAIRtax were to exempt government from tax and if federal spending were held constant, then the purchasing power and size of the federal government as a share of the economy would be dramatically increased. Further, not taxing government consumption would artificially make government consumption appear cheaper and promote increased consumption via government. So, there would be negative economic consequences if the FAIRtax did not continue the practice of taxing government consumption.

- All governments will pay the FAIRtax on the purchases of taxable properties and services excluding purchases by entities within a government that are designated a government enterprise.
- A government enterprise is an entity of any government that provides properties and or services for which the consumer (consumer being the public or other government agency) renders a gross payment. The U.S. Post Office, local government utility services, and parks operating on a pay-as-you-go fee are examples of entities that may claim status as a government enterprise.
- Government enterprises will collect the FAIRtax on the sale of properties and services and enjoy the same exemptions, credits, and refunds extended to a commercial trade or business.
- Purchases from a government enterprise by a government entity that is not a government enterprise shall include the FAIRtax. For example, the State Department will pay the FAIRtax on the purchase of stamps from the U.S. Post Office and local governments would pay FAIRtax for using public utilities.
- The sales-tax (exclusive rate) will be assessed on the payroll of all government employees for services rendered to the government (taxable employer), excluding those payroll amounts for government enterprise employees and educators providing 'direct' educational services (to the public).

SOCIAL SECURITY

- All employers and the self-employed are required to report employee wages and self-employment income to the Social Security Administration for the accumulation of benefit credits.
- If, after the imposition of the FAIRtax, if the CPI increases the Social Security benefits will be increased.

NOT-FOR-PROFIT ORGANIZATIONS

- Qualified not-for-profit organizations will enjoy tax exempt benefits similar to those allowed under the current tax system and typical to treatment under state taxes today.
- Not-for-profit organizations meeting applicable qualifications will be issued a 'qualification certificate,'' which may be used to make FAIRtax exempt purchases to operate, maintain, and provide the not-for-profit qualifying services of the organization.
- Taxable properties or services provided by a qualified not-for-profit in connection with contributions, dues, or other similar payments will be treated as the provision of a taxable property or service. In such cases, the FAIRtax will be imposed on the property or service at the sale price or fair market value of the product or service.
- For example, a not-for-profit organization whose tax-exempt purpose is to feed children gives a hat to those who donate to the organization. When the organization buys the hats for its contributors, the organization will pay the FAIRtax on the purchase of the hats, which is a taxable item that is provided outside the organization's qualifying tax-exempt function.

TRANSITION

- Transition issues under the FAIRtax are more easily handled than under a flat tax or business transfer tax (subtraction method VAT).

- To prevent the double taxation of inventory held on the effective date of the FAIRtax, the FAIRtax provides a credit when the inventory is sold at retail.
- With respect to unused income tax credits and deductions, some form of transition relief is appropriate under a flat tax or reformed income tax, since firms and investors are going to continue paying tax.
- Under the FAIRtax, corporations and investors don't need transition relief; after all, how can a corporation or an investor be worse off because it has been relieved from having to pay income tax altogether?
- With respect to property owned when the FAIRtax is enacted, the FAIRtax exempts the sale of used property from tax as the simplest approach.
- The upshot of this is that market demand will bid up the price of used property, especially homes, until the price of the exempt used property (adjusting for wear and tear) is the same as the cost of new taxable property (inclusive of the tax).
- Taxing used property as well as new property would eliminate these windfall gains; however, it would violate a basic tenet of the FAIRtax: that the value of the property be taxed only once.
- It would also result in tax cascading every time the same property were sold.
- No transition relief is necessary for savings distributed from pension plans, IRAs and other qualified plans because neither the contributions nor the earnings on the plan would have been subjected to income tax.
- Income earning assets that are currently subject to income tax will not now be paying tax, causing the market value of these assets to climb considerably to reflect the repeal of the income tax.
- And finally, the FAIRtax provides that the cost-of-living adjustment for Social Security benefits be computed on a tax-inclusive basis.
- The FAIRtax does incorporate two transition rules.
- First, since inventory is not deductible under the income tax until it is sold, that inventory will have been acquired from after-tax dollars.
- To then subject that inventory to a FAIRtax would constitute double taxation and disrupt markets.
- Accordingly, the FAIRtax provides a credit to businesses for the inventory equal to the value of the inventory on the last income tax return times the FAIRtax rate.
- Second, the FAIRtax pushes forward the effective date to allow time for the economy to adjust to a consumption tax.
- Businesses that have inventory held on the date prior to the enactment of the FAIRtax qualify for a **transitional inventory credit** if the inventory is sold subject to the FAIRtax within a one-year period.
- Businesses may sell the right to receive the inventory credit, so the credit can follow qualified inventory through the supply chain.
- Qualified inventory includes work in process. The transition credit indirectly allows for a transitional period for production and retail to adjust to pricing without the inclusion of income and payroll taxes, corporate taxes, and compliance costs that before the FAIRtax were a large percentage of the cost passed along to the consumer.
- This means being able to keep some prices the same immediately after the effective date and then change prices over time consistent with new-found production and retail savings as tax burdens are lifted.

TAX GAP

As stated by the IRS in the publication *Tax Gap Projections for Tax Years*:

- *The gross tax gap is the difference between true tax liability for a given tax year and the amount that is paid on time. It is comprised of the nonfiling gap, the underreporting gap, and the underpayment (or remittance) gap.*
- *The net tax gap is the portion of the gross tax gap that will never be recovered through enforcement or other late payments.*
- *The projected annual gross tax gap for TY 2021 is $688 billion.*
- *The voluntary compliance rate (VCR) is a ratio measure of relative compliance and is defined as the amount of "tax paid voluntarily and timely" divided by "total true tax," expressed as a percentage.*
- *The projected VCR is 84.9 percent.*
- *The TY 2021 gross tax gap comprises three components:*
  - *Nonfiling (tax not paid on time by those who do not file on time, $77 billion),*
  - *Underreporting (tax understated on timely filed returns, $542 billion), and*
  - *Underpayment (tax that was reported on time, but not paid on time, $68 billion).*

While some studies have calculated that the actual gross tax gap is over $1 trillion, the fact is that $685 billion is over ten percent of the 2023 U.S. budget.

What is not fully appreciated is that the over $600 billion of unpaid federal taxes represents unpaid taxes to the 43 states collecting state income tax. No one under reporting or not filing federal income tax returns will file and report the omitted earning on state tax returns.

Also, to have a tax gap of $600 billion, you would have to have unreported or unfiled income of at least $6 trillion if the tax rate of 10%. This means that the 15.3% payroll tax or $910 billion, is not paid. If this amount was paid each year the Social Security Trust fund would be solvent for many years to come.

The key question to ask, "Is there any way to dramatically reduce the size of the income tax gap?"

To address this Tax Gap, an additional $80 billion was allocated to the IRS over the next ten years to upgrade the IRS computer systems and increase the audits of income tax returns—primarily income tax returns showing income more than $400,000 per year.

The IRS will not be able to focus on taxpayers who are intentionally underreporting their income, $542 billion, are not going to file income tax returns stating that they have under reported their income. In fact, they will try to disguise this fact carefully because they know that they can face heavy financial or even criminal penalties.

Many of the people who are underreporting are people whose income tax returns show incomes much lower than $400,000. Therefore, the IRS will have no way to determine underreporting except to audit everyone in the same manner.

The Peter G. Peterson Foundation published a paper entitled *Would Increased Funding for the IRS Narrow the Tax Gap?* The paper stated the following:

The Inflation Reduction Act allocated $80 billion in additional funds to the IRS from 2022 to 2031. While the increased funding would go towards a variety of IRS activities, 58 percent is directed towards enforcement activities, which would increase the agency's ability to perform audits and collect taxes owed — decreasing the tax gap as a result. CBO estimates that the increased funding would yield additional revenues of $186 billion over the 2023–2032 period.

If the CBO, which the paper cites, is correct, the additional IRS funding of $80 billion will yield only $186 billion over ten years—narrowing the tax gap by $100 billion over ten years.

There were over 262,000,000 returns and other forms filed with the IRS in 2022.

The FAIRtax and the Tax Gap

Under the FAIRtax, the number of tax collection points reduces dramatically because the only entities collecting the FAIRtax will be retailers of new goods and retail services—estimated to be about 15 million businesses.

No longer are Americans required to submit forms containing their income and pay federal income and payroll taxes.

No longer do businesses have to comply with the federal income/payroll tax rules that cost them time and money.

No longer are Americans not conducting retail sales of new products or retail goods going to endure an audit.

Since the FAIRtax will be administered by the states, the IRS is no longer needed to enforce the FAIRtax.

It is also not an added burden to the states because 45 states and the District of Columbia already collect sales taxes. The retailer payment systems will just add another button to automatically calculate the FAIRtax on the purchases and both the state and the retailer will be paid for being a federal tax collector.

State sales taxes are enforced at an equal or higher compliance rate than the income tax with lower overall administrative and compliance cost.

Ask any retailer if they prefer collecting and remitting sales taxes or complying with federal income/payroll tax rules and the answer will be the sales tax return.

As all goods and services for final consumption are taxable, the retailer need answer only "how much did I sell to consumers?" The twin advantages of simplicity and visibility produce another benefit: Greater enforceability with less intrusiveness.

Will the FAIRtax eliminate the Tax Gap? No, but since an increasing amount of retail sales, estimated to be over 90% from less that 10% of retailers, is coming from fewer businesses—Amazon, Target and the like, the opportunities for evasion will be much lower.

However, even if the Tax Gap was not reduced, who can offer that moving the federal tax compliance burden from ordinary Americans who are not getting paid to calculate and pay federal taxes to businesses who are being paid to collect the federal taxes?

BORDER ADJUSTED TAX SYSTEM

The U.S. tax system imposes heavy income and payroll taxes on U.S. workers and domestic producers whether their products are sold here or abroad.

At the same time, the U.S. tax system imposes no corresponding tax burden on foreign goods sold in the U.S. market.

Moreover, foreign VATs, which are a major component of the total revenue raised elsewhere, are rebated when foreign goods are exported to the U.S. market. This creates a large and artificial relative price advantage for foreign goods, in both the U.S. market and abroad.

The WTO has objected to and prevented previous Congressional attempts to ease the burden on U.S. exports.

The FAIRtax is fully compliant with WTO standards. It exempts exports from taxation, while taxing imports the same as U.S. produced goods for the first time. It is the simplest plan that could be devised, without the inter-company (and intra-company) transfer pricing problems present in an origin-principle income or consumption tax.

It reduces U.S. corporate rates to zero, ensuring the U.S. is the most competitive environment in which to produce and from which to export.

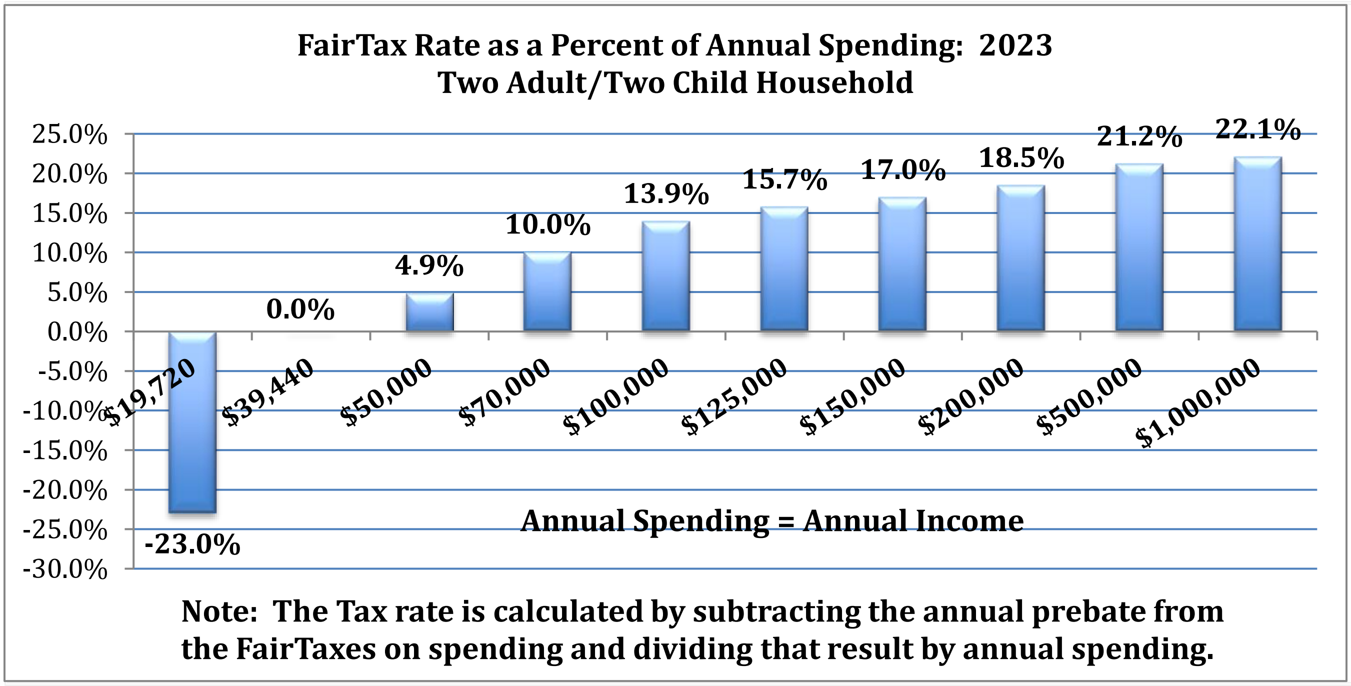
And it would stimulate economic growth by broadening the tax base and reducing marginal rates well beyond any other proposal and do so in a way that does not tax the poor, punish savings and investment or tax income more than once.

CONCLUSION

To gain a more thorough understanding of the FairTax and the details not addressed in this paper please refer to H.R. 25 short titled, *FAIRtax Act of 2023,* the 132-page bill available in multiple formats at www.congress.gov.

In addition, any questions about the source of the statements in this report will be furnished on request.

EXHIBIT A-1



Source: Americans For Fair Taxation, www.FAIRtax.org, Karen Walby, Ph.D., January 31, 2023.

EXHIBIT A-2

FAMILY CONSUMPTION ALLOWANCE

2023 Fair Tax FCA and Rebate Calculator								
48 States	1 Adult FCA	Annual Rebate	Monthly Rebate			2 Adult FCA	Annual Rebate	Monthly Rebate
1 Adult	$14,580	$3,353	$279		2 Adult	$29,160	$6,707	$559
+1	$19,720	$4,536	$378		+1	$34,300	$7,889	$657
+2	$24,860	$5,718	$476		+2	$39,440	$9,071	$756
+3	$30,000	$6,900	$575		+3	$44,580	$10,253	$854
+4	$35,140	$8,082	$674		+4	$49,720	$11,436	$953
+5	$40,280	$9,264	$772		+5	$54,860	$12,618	$1,051
+6	$45,420	$10,447	$871		+6	$60,000	$13,800	$1,150
+7	$50,560	$11,629	$969		+7	$65,140	$14,982	$1,249
>7 add	$5,140	$1,182	$99		>7 add	$5,140	$1,182	$99
Alaska								
1 Adult	$18,210	$4,188	$349		2 Adult	$36,420	$8,377	$698
+1	$24,640	$5,667	$472		+1	$42,850	$9,856	$821
+2	$31,070	$7,146	$596		+2	$49,280	$11,334	$945
+3	$37,500	$8,625	$719		+3	$55,710	$12,813	$1,068
+4	$43,930	$10,104	$842		+4	$62,140	$14,292	$1,191
+5	$50,360	$11,583	$965		+5	$68,570	$15,771	$1,314
+6	$56,790	$13,062	$1,088		+6	$75,000	$17,250	$1,438
+7	$63,220	$14,541	$1,212		+7	$81,430	$18,729	$1,561
>7 add	$6,430	$1,479	$123		>7 add	$6,430	$1,479	$123
Hawaii								
1 Adult	$16,770	$3,857	$321		2 Adult	$33,540	$7,714	$643
+1	$22,680	$5,216	$435		+1	$39,450	$9,074	$756
+2	$28,590	$6,576	$548		+2	$45,360	$10,433	$869
+3	$34,500	$7,935	$661		+3	$51,270	$11,792	$983
+4	$40,410	$9,294	$775		+4	$57,180	$13,151	$1,096
+5	$46,320	$10,654	$888		+5	$63,090	$14,511	$1,209
+6	$52,230	$12,013	$1,001		+6	$69,000	$15,870	$1,323
+7	$58,140	$13,372	$1,114		+7	$74,910	$17,229	$1,436
>7 add	$5,910	$1,359	$113		>7 add	$5,910	$1,359	$113