



Top ten reasons why Democrats should strongly support the FairTaxSM

Reason 1: The FairTax meets the entire Democratic tax agenda, starting with progressivity. The FairTax is far more progressive than the current income tax system. Under the FairTax, low-income households experience five times the benefit increase as compared to high-income households. And a switch to the FairTax causes real wages to rise.

Source: Jokisch, Sabine and Laurence J. Kotlikoff, "Simulating the Dynamic Macroeconomic and Microeconomic Effects of the FairTax," NBER Working Paper No. 11858, December, 2005 and Kotlikoff, Laurence J. and David Rapson, "Comparing Average and Marginal Tax Rates under the FairTax and the Current System of Federal Taxation," NBER Working Paper No. 12533, Revised October 2006. Available at <http://people.bu.edu/kotlikoff/Simulating%20the%20Dynamic%20Macroeconomic,%20October%204,%202006.pdf>.

Reason 2: The FairTax eliminates the highly regressive tax on wages of the working poor and middle class. The FairTax removes the single most regressive element (the payroll tax) for wage earners. Payroll taxes are currently imposed on the first \$97,500 of earnings but drop steeply to only a few percent above that amount. The FairTax repeals this unfair tax and allows wage earners to keep their entire paycheck. According to Robert Reich, former U.S. Secretary of Labor, "Everyone hates taxes, but the payroll tax has got to be the worst. Four out of five American workers pay more in payroll taxes than they do in income taxes. The payroll tax is also regressive as hell -- poorer workers pay proportionately more than richer ones."

Source: Reich, Robert B., "Whose Tax Cuts?" *The American Prospect*, Volume 13, Issue No. 22, December 16, 2002. Available at <http://www.prospect.org/print/V13/22/reich-r.html> and HR 25.

Reason 3: The FairTax is the only plan that completely untaxes the poor. Even a person with a zero percent income tax rate today must pay payroll taxes on the first dollar they earn and also pay hidden federal taxes in the prices of everything they buy. The FairTax removes these hidden taxes, eliminates the payroll tax, and holds all taxpayers harmless against any taxes on essentials such as food, clothing, and shelter.

Source: "The Prebate Explained," *Americans For Fair Taxation White Paper*. Available at <http://www.fairtax.org/PDF/FairTaxPrebateExplained2007.pdf>.

Reason 4: The FairTax stops the export of jobs. Our income tax favors imports over U.S. production by exempting imports from U.S. tax, and we penalize U.S. exports by allowing foreign nations to impose taxes when our goods enter their shores. This adds up to an average 17 percent price advantage over U.S. produced goods, which greatly depresses U.S. exports and costs us jobs. The FairTax stops this abuse by taxing all goods consumed in the U.S. alike and untaxing exports.

Source: "Hausman Study Shows Distortions in International Trading System Hurting U.S. Manufacturers: An Economic Analysis of WTO Rules on Border Adjustability of Taxes," May 2006. Available at <http://www.standupforsteel.org/hausman.html>.



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Reason 5: The FairTax untaxes education. The FairTax rewards education and upward mobility in the simplest and most powerful way: It eliminates tuition from all federal taxation. This allows individuals to apply their whole paycheck to tuition before any taxes are taken out.

Source: “Why the FairTax is good for young and low-income families,” *Americans For Fair Taxation White Paper*. Available at <http://www.fairtax.org/PDF/FairTaxIsGoodForYoungAndLowIncomeFamilies.pdf> and HR 25.

Reason 6: The FairTax is the only plan that targets and taxes existing wealth, not the fruits of labor. The FairTax will tax every dollar of accumulated wealth in the most efficient way possible – when it is spent. Tax shelters, loopholes, or other gimmicks to shield large wealth from taxation will be a thing of the past.

Source: Kotlikoff, Laurence J., “The Case for the FairTax,” *The Wall Street Journal*, March 7, 2005, page A18.

Reason 7: The FairTax boosts the real growth and prosperity of the U.S. Independent research studies confirm the powerful economic effects. Beacon Hill Institute predicts that real GDP would be 10.3 percent higher in just four years under the FairTax. Laurence Kotlikoff, Ph.D., predicts the capital stock to be 12.8 percent higher by 2010 and 43.7 percent higher by 2030, leading to real wages that would be 11.5 percent higher in 2030 than otherwise would be the case if the current tax system remained in place.

Source: Tuerck, David, et al., “The Economic Effects of the FairTax: Results from the Beacon Hill Institute CGE Model,” *The Beacon Hill Institute at Suffolk University*, February 2007 and Jokisch and Kotlikoff, “Simulating the Dynamic Macroeconomic and Microeconomic Effects of the FairTax,” September 2006. Available at <http://people.bu.edu/kotlikoff/Simulating%20the%20Dynamic%20Macroeconomic,%20October%2004,%202006.pdf>.

Reason 8: The FairTax is revenue neutral. The FairTax, at a 23 percent tax rate, raises the same amount of money for the federal government as today’s income tax system. This means that steep budget cuts are not required to pass meaningful tax reform.

Source: Bachman, Paul, Jonathan Haughton, Laurence J. Kotlikoff, Alfonso Sanchez-Penalver, and David G. Tuerck, “Taxing Sales Under the FairTax: What Rate Works?” *Beacon Hill Institute*, published in *Tax Notes*, November 13, 2006. Available at <http://www.beaconhill.org/FairTax2006/TaxingSalesundertheFairTaxWhatRateWorks061005.pdf>.

Reason 9: The FairTax promotes the American Dream. The FairTax makes home ownership more affordable because used homes are totally untaxed, and three out of four homebuyers buy used homes. For new and used homes, the FairTax does not tax the earnings used to pay mortgages, interest rates will be far lower under the FairTax, and a homebuyer can save for a down payment faster than under current law.

Source: “Promoting home ownership: How the FairTax’s benefits for homeowners exceed the mortgage interest deduction,” *Americans For Fair Taxation White Paper*. Available at <http://www.fairtax.org/PDF/PromotingHomeOwnership.pdf>.

Reason 10: The FairTax is not a political slogan. FairTax.org is nonpartisan. Our broken tax system hurts every American, and it will take leaders from all parts of the political spectrum to fix it.