

FairTax: How It Works

When Leo Linbeck and some associates decided to “study” the tax system in 1995, they didn’t dictate what results should be. Instead, they talked to economists at such venerable institutions as Harvard, Boston University, and MIT, and asked them to “design” a better system of taxation. The only requirements were that the system be fair, simple, encourage investment, and protect the poor. After \$23 million, and five years of study, some of the most brilliant economists in the world produced the most researched plan for funding the federal government ever proposed: The FairTax.

The FairTax would repeal the federal income and payroll taxes, along with a host of other taxes schemes such as the Alternative Minimum Tax (AMT), and replace them all with a simple, uniform, retail sales tax on all new goods and services. Workers would get to keep their whole paycheck, businesses would no longer be subject to hidden taxes, and the IRS would be drastically downsized, or eliminated.

But how would it work?

Simply put, we’d pay our taxes when we buy new goods or use common services. If we buy a new car, we pay taxes. If we buy a used car... no federal taxes at all. If we buy a used home, we’d pay no taxes on the home, but we’d pay taxes on the services of the real estate agent who helped with the purchase. More importantly, we’d have our whole paycheck with which to make those purchases. For most of us, that would be a 40% raise right off the bat.

In addition, because the FairTax is fair, no one pays taxes on the necessities. Everyone gets a prebate every month for purchases up to the poverty line. Under the FairTax, the poor, rather than being hurt by the regressive taxes hidden in the costs of goods and services today, would have their essential purchases are untaxed. Under the FairTax, the poor would finally have a chance at earning their way out of poverty.

We’ll be providing more details in future columns, but, if you need more information now, visit our website at www.ohfairtax.org or contact us directly.

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