

The Progressive Democrat's Sales Tax

By Connor Carney, Running With Rocks and Paper

I consider myself to be fairly liberal on most issues. So some of you might be surprised that I am about to take a position that's usually the providence of hardcore conservatives. I support HR25—the Fair Tax Act of 2005. Yeah. The one that would replace virtually the entire tax system with a 23% sales tax.

I read about it most recently in an unnecessarily hostile editorial by Matthew Holmes. Truth be told, his article did nothing to convince me that the tax is a good thing. But it convinced me to wade through the full text of the legislation, and I've decided that not only is the Fair Tax Act justifiable, it is the ideal legislation for progressive Democrats. I'll explain why.

Defining "Progressive"

I used the word "progressive" up there in my introduction. Exactly what that term means can be a little shaky sometimes, but when we're talking about tax code, it has a pretty clear meaning: people with more money shoulder more of the tax burden. Using this definition, sales taxes are usually something progressives would avoid, since they often hit the poor the hardest. Most sales taxes make life considerably harder for the impoverished, because they increase the cost of basic necessities, making it harder for people to get by.

A National Luxury Tax

This proposal isn't like that. The secret lies in Title II, Sections 301-303, a provision called the "family consumption allowance." These provisions allow families to purchase necessities without paying taxes on them. ("Family" means "1 or more family members sharing a common residence").

This exemption does something interesting: it means that the government would only get taxes from the sales of nonessentials—things that the impoverished, by definition, don't buy. By allowing essential products to be purchased without the tax, it turns the "national sales tax" into something more like a "national luxury tax".

In other words, people who spend most of their money on things like food, clothing, and medicine end up paying almost none of the tax burden, while people who spend a greater percentage of their income on luxuries pay a greater percentage of the tax burden. People who don't have very much money almost uniformly fall into the former group, while people with lots of money almost uniformly fall into the latter group. People with more money shoulder more of the tax burden—it's as progressive as it gets.

Helping the Needy

The family consumption allowance is a rebate, mailed monthly by the Social Security Administration to families of 1 or more. According to II§301, the amount of the rebate check is equal to the product of the tax rate and the poverty level.

Using this definition, families making (and thus spending) less than the poverty level could conceivably receive more money in their rebate check than the actual sales tax rate.

This is a similar concept to the Earned Income Tax Credit currently administered by the IRS, with a few exceptions. Unlike the EITC, the consumption allowance can be claimed by the unemployed. The consumption allowance would also require a lot less paperwork than the EITC—just names, address, proof of citizenship, etc. That's a good thing for families who are especially time-constrained or people who are poorly educated. And statistics show that such families are exactly the ones who would need such a credit the most.

Tax Evasion

Of course, the Fair Tax Act would also virtually eliminate tax evasion. Right now, companies can move their assets offshore and avoid paying U.S. taxes on them. Some people, particularly business executives and accountants, consider it to be good business.

I, along with most Democrats, consider this to be tax evasion. The Fair Tax Act would put an end to it. The Act would mandate that anything sold in the United States would incur U.S. taxes. There's really no way to outsource that. Businesses couldn't get around it by moving production to China, or by moving their income to Bermuda. If they want to sell their product in America (and they all do), it will be taxed.

There are no less than a thousand articles out there that deal with the tax evasion issue, so I won't say much more about it, but corporate tax evasion is contrary to the spirit of a progressive tax system. It's currently legal in many forms, thanks to loopholes in our indecipherably complex tax code. That's bad, and this would put an end to it.

Illegal Immigration

The Act would also provide a serious new tool in the attempt to end illegal immigration. It wouldn't involve any weapons or border guards or checkpoints or fences—and it wouldn't cost the government a single extra cent. Again, it has to do with the consumption allowance that I talked about a few paragraphs back.

See, only citizens are eligible for the credit. That effectively increases the cost of living for illegal aliens (okay, okay, "undocumented immigrants") by 23% (assuming, of course, that they live under the ceiling for such a credit, which I'm just guessing that most do).

Since the primary motivations for the border jumpers are economic, this throws a wrench in the whole concept of entering the country illegally. It gets at the reasons that illegal immigrants are trying to come into America—which is exactly what a lot of Democrats have been saying we should do all along.

Where Does All The Money Go?

The budget of the IRS is currently over ten billion dollars per year, plus the equivalent of a hundred thousand federal employees. Let's think about that for a moment: ten billion dollars and a hundred thousand people... what could we do with that?

Some of it, of course, would go to the collection agencies established in III§302, but not nearly the scale of the IRS. For one thing, there's a lot of administrative overhead that gets out of the way because the new Federal Sales Tax Bureau would, for states that already implement sales tax, be working with an infrastructure that is mostly already in place.

So let's look at what we could do with the money, and with those employees. Let's assume that a high school can accommodate 2400 students for 3 million dollars a year. That's an average—in some places it costs more, in some places less, but it's a fairly realistic estimate. \$10 billion would cover the entire cost of operating over three thousand high schools—that's the total cost of educating 7,200,000 students.

And that doesn't include the agency's hundred thousand employees. Let's say we divided them evenly among the states and put them to work in DMV offices. Anybody who has ever applied for a driver's license can appreciate the notion of having 2000 extra people in the DMV office. We could do that, in addition to the school thing, for no more than we are already paying just to operate the IRS.

No Tax Cuts for the Rich

The income tax and payroll tax systems that HR25 would replace have not been working out too well for progressives in the past four years. Why? Because the systems we have in place are too obscure. How many people even know what it means to "tighten the tax brackets?" How many people even realize that their income is not all taxed at the same rate?

The simple fact is, George Bush's "tax cuts for the rich" that were so offensive to the idea of a progressive tax system were only possible because the tax system is so unbelievably complex. Under the system that HR25 proposes, targeting tax cuts at the top 1% of income earners would be not only politically impossible, but literally impossible. Why? Because the system inherently gets a greater percentage from those with more disposable income. (See the section above, "A National Luxury Tax").

Unlike the current system, the national sales tax would do this without any disparity in the established rates. In other words, the only way that politicians could shift the tax burden away from the rich would be to explicitly give them a lower rate. That, my friends, sits in the dictionary as the cardinal example of "political suicide."

But Shouldn't Businesses Pay Their Fair Share?

One of the more obvious questions that comes up when we talk about replacing our entire tax system with a sales tax is whether it shifts too much of the burden away from business. A few people go so far as to say it shifts the entire burden away from business. And quite honestly, I cannot see how that is the case.

The argument that a sales tax shifts the burden away from businesses is fallacious because it assumes that consumers have unlimited disposable income. I will concede that if you are rich enough to believe that, you should absolutely oppose HR25. Most people I know do not have an unlimited supply of money.

If consumers had unlimited spending money, then the businesses could go on as usual. They'd hang on to their existing margins, pass the entire cost of the tax on to consumers, and the price of everything would go up by 23%. Again, that's assuming that every customer has unlimited money.

In the real world, if the price of almost anything were to actually go up by 23%, they would price almost all of their existing customers out of the market. We're talking a serious hit to their sales. So, we can expect most of them to change things to keep their numbers up—to decrease margins in exchange for increased sales. They don't have to, but those who don't will find that most of their customers can't afford their products. No customers, No income, No business.

There is actually an exception to this. Businesses that cater almost exclusively to the indescribably wealthy could conceivably pass the entire cost of the tax to customers, but keep in mind that that is a relatively small market (and will remain that way), simply because so few consumers fall into the "indescribably wealthy" category.

Conclusion

It's kind of hard to believe that I'm finishing up an 1900-word analysis of the tax code. I mean, who am I to evaluate the complex intricacies of tax law?

Ordinarily I'd defer to the accountants on an issue like this. After all, they've studied economics and spent years of their life working with and around the tax code. They know taxes like some people know their way home from work. I, by comparison, am a rank amateur.

But this is an issue where deferring to accountants is profoundly dumb. The accountants, as people who make their living off of a tax code so complex that only trained professionals can understand it, are inherently biased against a tax code so simple that garbage men can understand it.

And so I don't, in this case, trust the people who I would usually look to for analysis. Instead I've done my own analysis, and I'm liking the prospect of a tax code that even I am able to analyze. Pretty cool.

Like most progressive democrats, I've learned to be pretty averse to sales taxes. But in this case, we have a proposition that actually bolsters everything that progressives fight for in a tax code. I don't believe that any progressive worthy of the cause can oppose HR25, and those who give any thought to it should wholeheartedly support it.

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