

# Cooking the Numbers to Sell a Bad Idea

## *The Truth about Neal Boortz's Poorly-Named "Fair Tax Plan."*

In his FairTax Book, Neal Boortz makes the case for a national sales tax to replace most federal taxes as is currently being proposed with HR25, introduced by Rep. John Linder (R-GA). Unfortunately, the sales pitch being made for this new sales tax is wrought with misinformation and outright distortions.

**Distortion #1:** If you buy a \$100 item and pay \$30 in sales tax, that's a 30% tax, right? Not according to Boortz and other national sales tax advocates. They call this a 23% sales tax since 23% of the final \$130 purchase is the tax. By that measure, the sales tax in Knoxville would be 8.5%, but we all know it's really 9.25%. This kind of math is grossly misleading and dishonest.

**Distortion #2:** Almost a third of the projected sales tax revenues would come from taxes that the government will pay to itself. Build a road, pay yourself a tax. Build a bomber, pay yourself a tax. This, of course, is absurd. After eliminating these phantom payments, the 30% sales tax jumps to 42%.

**Distortion #3:** Finally, a quarter of the remaining sales taxes are supposed to be paid on things like church services, free care for veterans, and a variety of hard-to-tax items like free checking. When these are taken out, the 42% sales tax jumps even higher to 50% or more.

## The Bottom Line

To replace most federal taxes, as HR25 proposes, it would take a national sales tax of 45% to 53%. Replacing the current income tax and most federal taxes with a national sales tax of that rate would give a huge tax break to the wealthy at the expense of the other 80% according to a report by the Institute on Taxation and Economic Policy. The chart below shows how different families in Tennessee would be affected by a revenue-neutral version of HR25.

Income Group	Bottom 20%	2nd 20%	Middle 20%	4th 20%	Next 15%	Next 4%	Top 1%
Avg. Tax Hike	\$3,874	\$3,589	\$3,478	\$2,084	\$7		
Avg. Tax Cut						-\$6,637	-\$161,613

- ★ 80% of Tennessee taxpayers will pay MORE while the top 5% get yet another tax break from Uncle Sam.
- ★ Middle-income taxpayers will pay over \$3,400 in additional taxes while the bottom 20% of income earners will pay a whopping \$3,900 in additional taxes!
- ★ Meanwhile, with an annual tax cut of \$161,000, the top 1% of income earners could buy a new house each year, burn it down at the end of the year, and buy a whole new house the next year without skipping a beat!

*For more information, contact Tennesseans for Fair Taxation at 865-524-4424*

Source: "The Effects of Replacing Most Federal Taxes with a National Sales Tax: A State-by-State Distributional Analysis," Institute on Taxation and Economic Policy, September 2004.