THE REAL FAIR TAX
Commentary by Joe Venuti

The “Fair Tax”, a national sales tax currently proposed by Steve Forbes and some other Republicans, is at best, the most unfair and regressive tax ever proposed by the wealthy to shift the tax burden onto the lower and middle classes. Lower income people spend a much higher percent of their income on purchases of taxable goods and services than do rich people. Ergo, the percent of their income consumed by sales taxes would be higher than that of rich people. End of story.

The basis of my plan is that, when I hold five one-dollar bills in my hand, you accept each of them as totally equal in value to the others. However, under the present system, the income tax which I have paid on each of these one-dollar bills could be drastically different. 1: wages/salaries (based on your personal labors) are taxed at full rate. 2: Bank account interest (your money making money) taxed at full rate. 3. Dividend income (your money making money) taxed at much lower rate. 4. Capital gains (your money making money) taxed at lower rate. 5. Social Security income, taxed at variable rates depending on your other taxable income. This is nuts! These special rate rules were enacted to allow the wealthy to make all of their income on dividends and capital gains, and pay a lower rate than those who work 40 hours a week for their wages. This point has been made often by Warren Buffet.

My proposed real fair tax (RFT) would be a flat rate tax applied to all income. It would be reported in a relatively simple process that would require only one side of one sheet of paper for most people. Before getting into the details, I must preface this proposal by stating that this wealthy nation must first join the other modern countries of the world by totally implementing the providing of health care to all Americans, and making a commitment to providing public higher education, free or subsidized, to those who qualify but cannot afford to pay.

The first condition of the RFT is that all government expenditures be combined into one pot. This would include the costs of the ACA, Medicare, and Medicaid medical plans, the Social Security obligations, the education budget, defense, and all others. The second requirement is that the budget be balanced.

To determine one’s tax obligation, the simplified form would ask for the taxpayer’s total income from all sources (W-2, all 1099s, Sch C, Sch D, Sch E, and K-1). From this total income, every taxpayer would subtract a dollar amount (provided by the government) representing “poverty level income” for their filing status, number of dependents, and zip code. Persons 65 or older or blind will use 1.5 times this figure. The resultant balance would be the “taxable income” and a flat rate percent for all taxpayers would be applied to determine their tax obligation. Such actual flat rate would be determined by the government on a year by year basis considering it’s proposed budget for that year, and on it’s best guess on what the total of all “taxable income” would be in that year. The objective would be a balanced budget. This is pretty much what localities do when determining a mil rate for property taxes, and it would change from year to year. I have no guess as to what that number would be in any given year. At this time, I would propose a ten-year amortized payoff of the national debt.

The only additional forms that might be required would be the C, D, E, and K-1 schedules which are needed to determine net incomes from those income-producing activities.

Please note that there are NO DEDUCTIONS ALLOWED in this tax proposal. All or most present deductions are expenses of choice, and they would no longer be allowed. The legitimate deductions for medical and higher education expenses would not be necessary because of the government programs.

People who choose to own a home will get no special privileges over those who choose to rent. People who choose to donate to churches or charities will have to do so for charitable reasons, not tax reasons.

For those who hate the IRS, there is good news. Since no deductions from personal income are allowed, the only concern of the IRS is that everyone reports all his income. If all of the providers of taxable income do their jobs correctly, then all income will be reported to the IRS along with the amounts withheld. All of the time spent by the IRS trying to make taxpayers "prove" their deductions would be eliminated. The only legitimate audits would be concerning Schedule C and E incomes.

No separate allowances for "personal exemptions" are required. Both standard/itemized deductions and personal exemptions are replaced by a single amount which is taken from a chart provided by the government: a "minimum subsistence income" (MSI) determined for each zip code in the country, and determined for a single person, a two-person, 3, 4, 5, 6, … etc household. Easy enough to determine based on standard statistics comparing costs of goods and services in each zip code. This also eliminates the need for having earned-income credit, child-care credit, or other welfare substitutes.

The other major change to note is that all income from every source is taxed at one rate, as opposed to the present system which gives lower tax rates for certain sources of income that are usually enjoyed by higher income taxpayers.

Withholding of tax at the prescribed percentage would be mandatory for all sources of income (including wages, interest, dividends, capital gains distributions, etc.). Estimated tax payments would be required for Sch C, &E estimated income. Note that there is no longer separate withholding for SS or Medicare since those programs are included in the total budget. Simplified withholding for income providers; same one flat rate withheld from everyone. The system is simplified, and the returns are simplified. Most taxpayers could fill out their own returns in a matter of minutes.

CORPORATE TAX: for corporations, I would propose the same flat rate as individuals applied to their profits, but with one provision. They would be required to pay the greater of (a) the flat rate percentage applied to their corporate profit, or (b) two percent of their gross income.