

Huckabee Tax Plan Would Be A Disaster

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Marketplace, January 8, 2008—Mike Huckabee is right that our tax system badly needs reform. But his proposed plan, the FairTax, would be a disaster.

Sure, the FairTax sounds great. Dump all current federal taxes. Abolish the IRS! And replace them with a simple 23 percent national sales tax. Every household would get an annual "prebate"—Free money!—to help them handle the tax.

Only problem is that it really is just too good to be true.

First, there's fuzzy math: Say you buy something for \$10 and \$3 is added to the price. That sounds like a 30 percent sales tax, but FairTax promoters say that \$3 is only 23 percent of the final price of \$13. Yeah, sure.

And the 30 percent tax rate wouldn't come close to paying for current government services. Fairtaxers assume the government will pay sales tax on everything it buys. But unless Lockheed Martin just eats the \$9 million tax on a \$30 million fighter jet, the extra cost will just be passed on to the taxpayers. In fact, everything government buys would cost more. And states certainly wouldn't just roll over and let the federal government tack 30 percent onto all their purchases.

Tax rates this high invite cheating. A whole new underground economy would appear overnight. Why pay 30 percent tax on an item that you can get on the black market tax-free?

And the tax would hammer the middle class. Think about it. The prebate protects those with low incomes. People with high incomes only spend a fraction of their income, so they get a huge tax cut. But middle-class people end up holding the bag. The president's tax reform panel estimated that replacing just the federal income tax with a national sales tax would boost middle-income tax bills by \$5,000-- and that's after the prebate!

The FairTax isn't fair. It isn't even feasible. Let's move on to real tax-reform ideas.

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