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The 23 Percent Solution?

By Robert S. McIntyre

WASHINGTON
Suppose a bunch of rich people want to promote a national sales tax to replace the Federal income tax. How do they try to persuade the public to support such a plan? Simple: play with the arithmetic.

Earlier this month, the well-financed group Americans for Fair Taxation, based in Texas, kicked off a sales-tax campaign with a full-page advertisement in several large newspapers. It called for replacing all the main Federal taxes—personal and corporate income taxes, payroll taxes and the estate tax—with a 23 percent national retail sales tax.

According to the group, such a plan would raise exactly as much money as current laws do, while cutting taxes for just about everyone. The group's plan has been implicitly endorsed by Representative Bill Archer, a Republican from Texas, the chairman of the tax-writing House Ways and Means Committee and a longtime sales-tax fan and income-tax hater.

I was curious about how the group did its arithmetic, so I checked out

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its Web site—www.fairtax.org—and sent a note to the E-mail address to get further information about the group's calculations.

According to the group's figures, at 1995 levels a new sales tax would have to raise \$1.36 trillion to replace all Federal income taxes, payroll taxes and estate and gift taxes. Under its plan, the group says, taxable spending would be \$4.6 trillion (after accounting for rebates to partly protect lower-income families). So, \$1.36 trillion divided by \$4.6 trillion would be the required sales tax rate.

A simplified sales-tax plan just doesn't add up

Fine, except that \$1.36 trillion divided by \$4.6 trillion is not 23 percent. It's about 30 percent.

It turns out that the group's purported 23 percent tax rate is misleading and hypothetical. It came up with that number by dividing the sales tax by the cost of a purchase plus the tax. So if the tax on a \$100 purchase is \$30, the group prefers to call it a 23 percent "tax inclusive rate" (\$30 divided by \$130). Ever hear of computing a sales tax like that?

The fact that the group's sales tax, even by its own figures, entails a 30 percent tax rate is only the beginning of the math problems. The group's backup materials also assert that almost a third of its projected sales-tax revenue is supposed to come from taxes the Government will pay to itself. Build a road, pay yourself a tax. Buy some planes for the Air Force, pay yourself some more. And so on.

Unfortunately, that shell game won't work. Without these phantom governmental tax payments, the sales tax rate would have to jump to 42 percent to break even.

A bit more digging reveals that a quarter of the remaining sales taxes are supposed to be paid on things like church services, free care at veterans hospitals and a variety of hard-to-tax financial services like free checking accounts. If we discount the taxes on these items, the sales tax rate would have to climb to an astronomical 56 percent to break even.

Apparently, the millions of dollars that Americans for Fair Taxes says it has spent on focus groups and polling have taught it an important lesson: giving people the real facts about a national sales tax is politically disastrous for its proponents. So the group is trying the only other available route: cooking the numbers. □