

# The Wall Street Journal

FROM THE ARCHIVES: July 23, 2003

## Abolish the Income Tax and the IRS

By Representative John Linder (R – GA)

In your July 11 editorial “Flat Tax Fever” you assert that it would be in America's interest to enact a flat income tax system. To which I said, “Again?”

The income tax code we have today, which everyone has come to know and love, is a flat tax on income — 90 years later. Indeed, we passed a fairly flat code in 1986 only to amend it 6,000 times since then. The IRS code has made criminals of us all and it's time for it to go away.

In July 1999, I first introduced the FairTax. Earlier this year, I re-introduced this legislation as H.R. 25. My proposal would shift the federal government's funding paradigm from income-based taxes to a personal consumption tax.

First, the FairTax repeals all federal personal income taxes, corporate income taxes, payroll taxes, self-employment taxes, capital-gains taxes, and gift and estate taxes. The FairTax would replace all of the burdens associated with these income taxes with a revenue-neutral 23% sales tax on all retail sales of new goods and services. That's it: a simple, fair, privacy-protecting, transparent, easy-to-understand and industry-neutral personal consumption tax.

One of the most compelling studies we commissioned was completed by Harvard economist Dale Jorgenson. He argues that 22% of what you currently spend at retail is the embedded cost of the current tax code. In effect, we are already paying this tax. A 23% embedded tax would fund the government at current levels, but you would keep your whole check. You would become a voluntary taxpayer paying taxes when you choose, as much as you choose, by how you choose to spend.

My proposal also provides for every family to get a check at the beginning of every month to totally rebate the tax consequences of spending up to the poverty line. Thus people living at or below the poverty line would get a 22% increase in purchasing power.

The current income tax system frequently costs more to comply with than it generates in revenues. For small businesses, it costs roughly \$700 to remit \$100 in revenues. Some who have studied the tax code's complexities and compliance costs estimate its overall compliance cost at hundreds of billions of dollars. By abolishing it and the Internal Revenue Service, the FairTax solves these problems.

All of the time, energy and cost devoted to complying with the tax code would be directed, instead, toward productive economic behavior. Using a very conservative estimate of \$250 billion in total income tax compliance costs, enacting the FairTax represents a \$2.5 trillion economic stimulus package over 10 years, dwarfing the 10-year, \$335 billion proposal Congress presented a few weeks ago. Imagine all of the jobs that could be created by U.S. businesses if they could invest \$2.5 trillion into research, development, capital equipment and technology.

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# FOX NEWS CHANNEL: YOUR WORLD WITH NEIL CAVUTO

INTERVIEW TRANSCRIPT: HOST NEIL CAVUTO & CONGRESSMAN JOHN LINDER

THURSDAY, JULY 24, 2003

**NEIL CAVUTO, HOST:** Well, while the president talks tax cuts, my next guest says let's get rid of the tax code altogether. His plan would abolish income taxes and the IRS for good.

Joining us now with the details, Republican Congressman John Linder of Georgia.

Congressman, thank you for coming.

**REPRESENTATIVE JOHN LINDER (R-GA):** Thank you, Neil.

**CAVUTO:** Everyone says it's -- it's a great idea, Congressman, but no way is it ever going to happen. What do you say?

**LINDER:** I think it's going to happen. We're starting to realize that we're spending more in just compliance costs than we're actually saving, and, last year, American corporations spent over a hundred billion dollars more complying with this complicated code than they actually sent in. We have a study that says for the average small business to collect, comply, and remit \$100 to the Federal Treasury, it costs them \$724. This is just crazy.

**CAVUTO:** So what would you do, Congressman, different to our tax cut?

**LINDER:** I'd eliminate all taxes on income, including the payroll tax, which is the most crushing tax, particularly on young working America, and replace it with a national point of sale retail sales tax.

One of the studies we found in the \$22 million we spent on economic and market research was done by Dale Jorgenson of Harvard that says, right now, American people who are buying retail are -- 22 percent of the retail cost is the embedded cost for the current system, which is to say 22 percent of everything you purchase at retail, you're paying businesses' taxes, their payroll taxes, and their compliance costs.

If we were to abolish the IRS, get rid of all tax on income, and replace that with a 23-percent embedded cost, your cost of living would go up about 1 percent, but everybody would get to keep their whole check and everybody would be a voluntary taxpayer.

And then to untax necessities, essentials, we use the government definition of poverty-level spending, which is defined as that spending necessary for a given sized household to pay for its

essentials. We would give every household, rich or poor, a check at the beginning of every month to totally rebate the tax consequences of spending up to the poverty line.

**CAVUTO:** But there...

**LINDER:** Right now...

**CAVUTO:** But, Congressman, here's what I worry about. I think a lot of your ideas are pretty sound, but they invite new complications for old ones. For example, even handing this up-front rebate for essentials, I can see that being a bureaucratic nightmare. In the meantime, the government...

**LINDER:** There would be nothing more...

**CAVUTO:** ... doing without money. What do you say?

**LINDER:** There would be nothing more or less than a computer action, an electronic transfer at the beginning of every month. The states would do the collecting for us, and you'd sign up with your state, depending how many people are in the household and the Social Security numbers, and that would determine how much you got at the beginning of every month.

**CAVUTO:** OK, but, Congressman, here -- here's the rap against you and -- fair and balanced, we're going to give the rap against you. That is this unfairly hits the lower- and middle-income folks because they're the ones more inclined to go to the store and purchase some things, make impulse purchases on things way beyond needy things...

**LINDER:** Those people are...

**CAVUTO:** ... and -- then they're going to share the onerous part of this. What do you say?

**LINDER:** Well, first of all, we're not -- we're not going to define what is essentials and what is a necessity. We're going to say that you can spend up to the poverty line with no tax consequences whatever. Right now, people spending now at or below the poverty line are losing 22 percent of the purchasing power to the current system.

**CAVUTO:** OK. Now let's talk about what the fallout would be on retailers, and the reason why they're against this sort of -- or they would come out against this sort of tax, Congressman, is they feel it would adversely affect them, and people, when times are tight, would be less inclined to buy things and therein dries up opportunities for them and, for that matter, the government.

**LINDER:** Actually, the consumption in the economy is a much more steady predictor of economic activity than is the income economy.

Right now, our collections are down for a third year in a row because people aren't earning, and many people are laid off, and yet we would have had increased collections for nine of the last 10 quarters because the overall economy grew.

If you take a study from 1945 to 1995, you'll see that the consumption economy went up every

year just slightly, and the biggest downturn ever in that period of time was a 3-percent decline. We're now facing 20-percent to 25-percent declines in revenues because of the income economy.

**CAVUTO:** Has anyone, Congressman, said, hey, you know, John, you're on to something good here?

**LINDER:** Oh, lots of people do.

**CAVUTO:** How many?

**LINDER:** ... people get it. Four hundred and thirty-five thousand members of Americans for Fair Taxation. I believe, in January, the Farm Bureau with five-million families will endorse it officially.

**CAVUTO:** OK.

**LINDER:** ... close to it. I've talked to Vice President Cheney, Secretary Evans...

**CAVUTO:** So maybe you're on -- maybe you're on to something, Congressman. We'll see what happens.

**LINDER:** It's time to get rid of this broken system...

**CAVUTO:** OK.

**LINDER:** ... and turn everybody into a voluntary taxpayer.

**CAVUTO:** All right. Congressman John Linder of Georgia.

**LINDER:** Thank you, Neil.

**CAVUTO:** Thank you, sir. Appreciate it very much.

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# CNN SATURDAY MORNING NEWS: THE NOVAK ZONE

INTERVIEW TRANSCRIPT:  
HOST ROBERT NOVAK & CONGRESSMAN JOHN LINDER

SATURDAY, JULY 26, 2003

**THOMAS ROBERTS, CNN ANCHOR:** Well, imagine if there was no more federal income tax, and you could keep your whole paycheck for yourself. Sounds pretty good, right? Well, that's being proposed by a Republican Congressman John Linder of Georgia, who joins Robert Novak in this week's edition of The Novak Zone.

**ROBERT NOVAK, HOST:** Welcome to The Novak Zone. We're in the rotunda of the Cannon House Office Building on Capitol Hill, Washington, D.C., talking to Congressman John Linder, Republican of Georgia.

Congressman Linder, you had a letter to the editor of "The Wall Street Journal" this week with this headline, "Abolish the income tax and the IRS." How do you do that?

**REP. JOHN LINDER (R), GEORGIA:** Gone. Gone. Repeal the tax code, abolish the IRS, and replace it with national point-of-sale retail sales tax.

**NOVAK:** Now, people think of -- or would love to abolish the income tax. But they say, what happens to our army, what happens to our aircraft carrier, what happens to the national parks? Where do we get the money?

**LINDER:** We spent \$22 million in research over the last seven years. And one of the things we discovered is that 22 percent of what you're currently paying for at retail is the embedded costs of the IRS. You're paying all the businesses that have touched that product, their income taxes, their payroll taxes, their accountants and attorneys to avoid the taxes.

If we were to abolish the IRS and let competition drive that cost out of the price system and replace it with a 23 percent embedded cost, your cost of living would go up 1 percent, it would raise the same amount of revenue we're raising today, but you'd be a voluntary taxpayer. You pay taxes when you choose, as much as you choose, by how you choose to spend.

**NOVAK:** Congressman, the young people work for this program are not very rich. They said 23 percent...

**LINDER:** They're currently paying...

**ROBERTS:** ... I wouldn't buy anything.

**LINDER:** They're currently paying it, Bob. They're currently paying it. The prices would stay roughly the same, but they'd get to take their whole check home. And then to protect people up to the poverty line, we would give every household, rich or poor, a rebate check at the beginning of every month to totally rebate the tax consequences of spending up to the poverty line. Bill Gates would get it too.

**NOVAK:** How much would that be?

**LINDER:** Poverty level spending for a household of one is \$9,000 a year. For a household of six, it's \$30,000 a year, for a household of four, it's \$24,500 a year. Those folks right now are losing 22 percent of the purchasing power to the embedded costs of the IRS today. They'd have a 22 percent increase in tax -- in purchasing power.

**NOVAK:** So what are the consequences for a middle-class family, we'll say \$40,000, four people, what are the consequences of this?

**LINDER:** Depends on how they spend. If they live on the farm and grow their groceries, they'll live off the rebate. If they spend more than poverty level spending, they'll pay the 23 percent just like everyone else. But most importantly, everybody would be a voluntary taxpayer.

**NOVAK:** Do you have any apprehension, Congressman Linder, that somebody with an old clinker car will say, Boy, I'm not going to buy a car because I'm worried about that 23 percent tax?

**LINDER:** No, I'm not, because the average income earner is going to have a 56 percent increase in take-home pay the next day. They're going to have money in their pocket. We will have no taxes on used things. They might get rid of the clinker and buy another used car. No tax. We think everything should be taxed only one time. New houses would be taxed, just like new cars would be taxed.

But currently, our studies show that 28 percent of the costs of a new house is the embedded costs of the IRS. Plus, if you're earning \$5,000 a month, you're only taking home \$3,800. Under our system, you'd take home \$5,000 a month, and interest rates would be lower.

**NOVAK:** Now, I have always felt that this kind of a tax reform, which I think is very interesting, will never go anywhere unless the guy who sits in the Oval Office pushes it. Do you agree with that?

**LINDER:** Yes. This is a -- it requires a large national consensus, and the president's going have to speak out on it. But if the president speaks out favorably, and for the first time in his end of the year economic report, nine pages of that were dedicated to a consumption tax, to changing the system, to taxing people for what they take out of society, not what they put into it. And I think the president will come to it. And if he does, it will be a landslide victory.

**NOVAK:** Now, you have -- you started off, I think, as I remember, you just had you and Congressman Colin Peterson of Minnesota, Democrat. You have more co-sponsors now, don't you?

**LINDER:** We have about 32 co-sponsors. And I'm not working very hard to get co-sponsors. I'm working hard to convince the people to call their congressmen. I've done 500 talk-radio shows, I've done town meetings across the country. The public is ready for this. It's -- this -- the principal impediment to movement in this town is inertia. We need somebody to pull the starter gun, and it's got to be the president.

**NOVAK:** You have some of the House leadership with you on this?

**LINDER:** Tom DeLay.

**NOVAK:** The majority leader.

**LINDER:** The majority leader's on the bill. But more important than that, to me, is that the speaker has taken a keen interest in it. He wants me around the country, he wants to make it part of next year's House campaign agenda. He knows it will turn out votes. We won in 1994, spending the least amount of money we've ever spent, because we believed something. And 9 million additional voters turned out.

You tell them that you're going get rid of the IRS, and those 9 million folks will be back.

**NOVAK:** Milton Friedman, the great Nobel laureate, has always said we will never have comprehensive tax reform because of the relationship between the lobbyists and the members of the tax-writing committee. They give them the money, and the members of the committee make the tax act more complicated. How do you get around that?

**LINDER:** There is a growing consensus that the current system is irretrievably broken. We have 1 percent of the American people are paying 38 percent of all the taxes. The bottom 50 percent of Americans, earners, collectively pay 3 percent of all the taxes.

This is a system that can't continue to work. We can't even have more tax relief to create growth and create jobs, simply because too few people are paying taxes. We need to go to a system where everybody is treated the same.

**NOVAK:** And now for the big question.

Congressman Linder, you're a practical politician. You were head of the campaign committee at one time. You had a -- you ran a terrific campaign against a fellow Republican Congressman Bob Barr in the last election. When the people of America read in "The Wall Street Journal," abolish the income tax, abolish the IRS, when can they really expect that to happen, if ever?

**LINDER:** I don't think it's that far away. We're going to come to the conclusion that having a 22 percent tax component in our price system, when we're trying to export goods and services into a global economy, is just counterproductive. We can sell Caterpillar tractors overseas for 20 percent less and make the same profit. We'll change the world.

And I think the American people are going to come to this conclusion, but more importantly, the people in Washington are coming to this conclusion too. There's simply no opposition to it.

I believe in January the Farm Bureau, with 5 million family members, are going to endorse this bill. We're getting growing interest from all across the economy. There's very little opposition to it including CPAs. CPAs think this system is broken.

**NOVAK:** Congressman John Linder, thank you very much.

And thank you for being in The Novak Zone.

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