

Giffords, Kelly differ on fairness of Fair Tax plan

[Andrea Kelly Arizona Daily Star](#) Arizona Daily Star | Posted: Friday, September 17, 2010 12:00

U.S. Rep. Gabrielle Giffords has accused her opponent, Jesse Kelly, of supporting what she calls a 23 percent tax increase.

Kelly says the tax model he backs is not an increase in taxes, but a 23 percent sales tax to replace all federal income taxes. Representing it as a 23 percent increase is a lie, he said.

The proposal is called the Fair Tax, and it comes up time and time again in taxation and budget debates, including during the 1990s and in the middle of this decade. How much such a tax could cost or save an individual compared with the income tax, and whether it's a good or bad way to fund the federal government, isn't cut and dried. Many of the talking points depend on political perspective.

The Fair Tax is a proposal to institute a 23 percent national sales tax on new goods and services, including food and medicine, and to eliminate federal income taxes. Each taxpayer would keep his paycheck, minus state taxes, and each would choose how to spend it. Some say that means each taxpayer could choose how much tax to pay, based on selective purchasing.

The proposal includes a rebate to cover the taxes that everyone spends on items "up to the federal poverty level," according to the Fair Tax website. Rebate checks would be based on what it costs a family or individual at the poverty level to buy necessities, derived from federal calculations. Taxes up to that level of spending would be rebated for everyone.

There would be no tax on used goods, including used homes, but new homes would be subject to the sales tax.

Replacing the income tax with a national sales tax would result in taxes going up, Giffords said.

"If you're not paying income tax now, and there's no sales tax now, and you're slapped with 23 percent sales tax. That's a tax increase," Giffords said, though the rebate would come into play in that situation.

A news release from Giffords' campaign said the average Arizona taxpayer would see a tax increase with the Fair Tax proposal.

"Under the radical Fair Tax scheme, the bottom 80 percent of Arizona taxpayers would see their average tax burden increase by \$3,828. The top 5 percent of Arizona taxpayers would see their average tax burden decrease by \$40,005," the news release said, citing a 2004 analysis by the Institute on Taxation and Economic Policy.

The reason it would disproportionately affect lower-income earners is that "poor people buy products; wealthier people buy services, generally speaking," Giffords said. "When you look at the tax structure that we have right now, which is a tiered structure, this would be an enormous tax break for the very wealthy and a huge tax increase for working-class Americans."

The issue must be put in the proper perspective, Kelly said, which is that the sales tax would be the only tax and would not come on top of income taxes.

Once other taxes are eliminated, it wouldn't be a 23 percent tax increase, he said. Nor would it raise the cost of taxable goods, he said.

"On that 23 percent sales tax, people will not see an increase in the price of goods or services because there's about 23 percent in taxes that are already built in, in taxes that corporations pay for other things," Kelly said.

While Kelly said a 10 percent flat income tax is more realistic, he also would "welcome" the Fair Tax and the repeal of the 16th Amendment, which authorizes Congress to collect income taxes.

"Whichever one you can get in first," he said about the proposals. "Anything to massively simplify the tax code in this country and make it workable for every single American."

Giffords said she is opposed to the Fair Tax and to any tax increase on working-class Americans, and she generally supports allowing the tax cuts to expire for the wealthiest 1 percent or 2 percent of Americans, and keeping tax cuts for the remaining 98 percent.

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