Biden, congressional Democrats rail against 'Fair Tax' proposal

Previewing what could be a continuing line of attack by Democrats against the GOP's fiscal policy priorities, President Biden and congressional Democratic leaders this week came down hard against a proposal in the House of Representatives to institute a "Fair Tax" that would replace the current income tax with a national sales tax.

A lot depends on the meaning of 'consider'

The perennial Republican tax proposal, which this year was introduced as the Fair Tax Act of 2023 (H.R. 25) by Rep. Earl "Buddy" Carter, R-Ga., would institute a 23 percent national sales tax (or up to 30 percent, depending on how it is calculated) beginning in 2025 in lieu of the current individual and corporate income taxes, payroll taxes, and estate and gift taxes. Certain exemptions would apply to business purchases, exports, intangible property, and state government functions. Funding for the Internal Revenue Service would be entirely curtailed after fiscal year 2027.
URL: https://www.congress.gov/bill/118th-congress/house-bill/25/text

Similar proposals have been introduced multiples times since 1999 and routinely have been relegated to the legislative back burner; but the Fair Tax has attained a new level of prominence in the current Congress resulting from an apparent promise made by Rep. Kevin McCarthy, R-Calif., to certain far-right conservatives as he worked to secure enough support within his party to become Speaker of the House.

According to reports, McCarthy made a "handshake" deal to, among other things, provide for some form of consideration of the Fair Tax during the 118th Congress, although the exact mechanism for considering the proposal remains unclear. House Ways and Means Committee Chairman Jason Smith, R-Mo., for example, has said he would hold a hearing on the legislation; however, there has been no apparent discussion of any further action that might be taken, such as a committee mark-up or a floor vote.

No prospects in the Senate, or at the White House

Even if the Fair Tax were to get through the GOP-controlled House, it would certainly be blocked or ignored by Senate Democrats, who have long used the proposal as a political punching bag, arguing that it would represent a highly regressive shift in the distribution of federal taxes and also subject the Social Security and Medicare trust funds to more uneven revenues based on consumer activity rather than wages.

President Biden doubled down on those arguments January 26 during an economic policy speech in Springfield, Va., where he blasted the proposal for effectively raising the final sales prices that consumers would face on houses, cars, and other consumer goods.

"[Republicans] want to raise your gas prices. They want to cut taxes for billionaires. . . . They want to impose a 30 percent national sales tax. . . . Do they think this is going to help with inflation?" Biden said. He also vowed to veto any such legislation that reached his desk.

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Biden will likely elaborate on his tax-and-spending priorities—and the GOP policies he is opposed to—during his State of the Union address to a joint session of Congress scheduled for February 7.

The two top congressional Democrats—Senate Majority Leader Charles Schumer, D-N.Y., and House Minority Leader Hakeem Jeffries, D-N.Y. —similarly blasted the proposal during a joint press conference a day ahead of the president's speech.

"I believe it would cause the next Great Depression if we . . . impose it," Schumer said of the national sales tax idea.

For his part, Rep. Carter of Georgia—the bill's primary sponsor this year—argued in a press release that the distributional impact of his proposal would not be as regressive as opponents claim.

"Each household will receive a monthly prebate based on federal poverty levels and household size that will allow families to purchase necessary goods, such as food, shelter, and medicine, essentially tax-free," the release states. "This is similar to our current individual exemption and refundable tax credit system."

Even some in the GOP distance themselves

The Fair Tax enjoys only limited support on Capitol Hill, even among Republicans, and the number of GOP lawmakers who have been willing to co-sponsor Fair Tax proposals has been dwindling in recent years; moreover, the tone of comments from House Republican taxwriters and Republican leadership this week regarding the current proposal has ranged from noncommittal to dismissive.

"I have no opinion yet," said Ways and Means Committee member Carol Miller, R-W.Va., in response to questions from reporters.

Meanwhile, Rep. David Schweikert, R-Ariz., who also sits on the taxwriting committee, suggested the bill has no political legs and will likely die in committee.

"There's never going to be a vote for it," Schweikert said.

Perhaps the most influential indictment of the proposal, however, came from Speaker McCarthy himself, who responded "no" when asked this week by reporters if he backed the bill.

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