

Comparison of FairTax and Value-Added Tax

Feature	National Sales Tax Fair Tax Act HR 25	Value-Added Tax VAT
Tax Base	Final Consumption	Final Consumption
Method of Collection	Business selling goods and services at retail collect and remit the tax.	A VAT is imposed and collected on the value-added at each stage in the production and distribution of goods and services.
Filing of Returns	Individuals do not have to keep records or file a tax return resulting in 85 to 90% reduction in compliance costs. Businesses selling goods and services at retail remit sales taxes monthly.	All businesses – manufacturing, wholesale and retail -- collect and remit the tax. Compliance costs are reduced compared to current system but are much higher than the FairTax which is collected at the retail level.
Calculation of Tax	Tax rate times retail price. For a given tax rate, and a given price, the taxes collected on an item are the same under the FairTax and the VAT.	Taxes due = total taxes collected on consumers purchases – total taxes paid on the business's purchases.
Transparency	The amount of tax on a retail purchase must be separately stated on the receipt.	The amount of tax on a purchase is usually not separately stated on the receipt. It is hidden in the retail price.
Deductions	None. All final consumptions items are taxable. (See Impact on Poor - Rebate)	Businesses claim a credit for all value-added taxes paid on the purchase of taxable goods and services (inputs).
Items Excluded	Income is only taxed when spent and an item is taxed only once. So used goods are not taxed. Returns on saving an investment are not taxed. Exports Education & Training (investment in human capital)	Returns on Investment Savings Exports VATs often exempt items or have lower rates for certain categories of items.
Impact on Poor/Rebate	A two-adult/two child family at the poverty level would receive a rebate payment of \$614 each month to pay the FairTax on spending up to the poverty level..	None. Regressive.
Tax Administration	State sales tax collection agencies with oversight by Treasury Dept.	IRS or new national revenue agency