Revenue Neutrality

The FairTax is designed to be revenue neutral. In other words, it is not meant to increase or reduce the amount of money flowing to the federal government. Most of the data necessary to analyze the size of the FairTax base and the required revenue neutral rate are available either in the National Income and Product Accounts (NIPA) published by the Department of Commerce or the Federal Budget.

A number of adjustments to NIPA personal consumption expenditures need to be made to arrive at the base which the FairTax actually would tax. NIPA personal consumption expenditures include as consumption by homeowners the amount for which owner-occupied housing would rent. This imputed amount of consumption is not taxed by the FairTax and, therefore, it is subtracted for purposes of calculating our base. Similarly, NIPA treats education expenses as a consumption item but under the FairTax education is treated as an investment and not placed in the taxable base. Conversely, because the FairTax would tax all consumption, not only personal consumption but also consumption through government, government consumption is added to the tax base.

The FairTax would replace individual and corporate income taxes, payroll taxes and the estate and gift tax. Accordingly, the amount that these taxes raise ($1.7 trillion) is the amount that the FairTax would need to raise. Therefore, the rate required is 23%.