Press Release

Evaluation and Macroeconomic Impact of the FairTax Act

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The FairTax Act of 2023 (H.R. 25), which may soon be considered by the House of Representatives, would replace the existing federal revenue system – individual income tax, corporation income tax, payroll taxes, and estate and gift taxes – with a single, national sales tax. The American Action Forum commissioned EY's Quantitative Economics and Statistics Group to evaluate the FairTax as designed in H.R. 25 and estimate its macroeconomic impacts.

The findings:

- The 23-percent tax rate in H.R. 25 is an optimistic lower bound; measured on a tax-exclusive basis, applied to a tax base typical of state sales taxes, and in the presence of significant non-compliance, the rate could reach a confiscatory level in excess of 380 percent.
- Under the FairTax, American families would face an immediate jump in inflation comparable in size to the applicable tax rate, and a reduced standard of living over the first five, and possibly 10, years.
- Ultimately, a shift to taxing consumption generates increases in capital accumulation, labor supply, and output; the most beneficial effects occur when discipline on the size of government keeps the tax rate as low as possible.

Read the study