



A FairTax® Whitepaper

The FairTax®: Growth Opportunities for America and CPAs

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Executive Summary

With enactment of the FairTax Plan, federal income tax return preparers will no longer prepare federal income tax returns. It is not true, however, that they will become permanently unemployed upon passage of the legislation.

Quite the contrary, Certified Public Accountants (CPAs) will rapidly become much-sought-after professionals, with many experiencing significant increases in income. Corporations will be desperate for help in managing the financial records for the thousands of new companies and expansion projects that will result from a 75% increase in capital investment that will occur in the first year of the FairTax.¹

Consider the following facts:

- Currently, there are approximately 68,000 people who prepare federal income tax returns.²
- There are approximately 2.4 million non-tax financial professionals³ and \$16 trillion of gross domestic product (GDP), or more than 150,000 non-tax finance professionals per trillion dollars of GDP.
- Therefore, given that the FairTax will result in approximately \$1.5 trillion of GDP growth in its first year,⁴ organizations will require an additional 225,000 non-tax financial professionals⁵ *in just the first year of the FairTax.*

In other words, every current federal income tax return preparer who desires continued employment could be employed immediately. Further, since most non-tax financial professionals earn more than income tax return preparation professionals,⁶ these opportunities, in many cases, will be higher value-added, provide a greater level of personal satisfaction, and offer higher compensation.

Background

“Will the FairTax cost CPAs their jobs?” That’s an important question often asked by the CPA profession. It’s also important to us to maximize the opportunity for Americans to earn a fair wage and

¹ David G. Tuerck, et.al., “The Economic Effects of the FairTax: Results from the Beacon Hill Institute CGE Model,” The Beacon Hill Institute at Suffolk University, February 2007.

² U.S. Bureau of Labor Statistics, Occupational Employment Statistics: http://www.bls.gov/oes/current/oes_nat.htm#11-0000

³ U.S. Bureau of Labor Statistics, Occupational Employment Statistics figures for occupation codes 13-2011 (accountants and auditors), 13-2031 (budget analysts), 13-2041 (credit analysts), 13-2051 (financial analysts), 13-2052 (personal financial advisors), 13-2061 (financial examiners), 13-2099 (financial specialists, all other), and 11-3031 (financial managers): http://www.bls.gov/oes/current/oes_nat.htm#11-0000

⁴ See Tuerck, et. al., above.

⁵ 2.4 million non-financial jobs divided by \$16 trillion of GDP multiplied by \$1.5 trillion of GDP growth in the first year of the FairTax.

“The World Beyond Tax for Sole Practitioners, Accounting Today, June 30, 2014.

http://www.accountingtoday.com/debits_credits/world-beyond-tax-sole-practitioners-proprietors-71134-1.html

⁶ See note 2 above.

enjoy a comfortable standard of living. Thus, we believe it is important to carefully review any plan—tax or otherwise—that could theoretically result in the elimination of jobs. Let’s more closely examine what CPAs do and what will happen when the FairTax is implemented.

What Certified Public Accountants Do

It is important to understand that most CPAs do not prepare federal income tax returns. According to *Accounting Today*⁷ and other sources, most CPAs provide other advisory services to their clients. These services include but are not limited to:

- Financial statement audits (GAAP audits)
- Compiling financial statements
- Cash flow projections
- Payroll, benefits administration, and human resources assistance
- Selecting information technology systems and providing training (e.g., QuickBooks)
- Retirement and estate planning
- Capital expenditure analyses
- Regulatory compliance, e.g. Sarbanes-Oxley et. al.
- State tax planning

According to the National Association of State Boards of Accountancy, there are 575,000 registered CPAs. According to the Bureau of Labor Statistics (BLS), only 68,000⁸ prepare income tax returns. Additionally, *Accounting Today* summarized major revenue sources for the nation’s 100 largest accounting firms as follows:

Audit and Attest	\$19,829,000,000	40%
MAS-Consulting	14,336,000,000	29%
Tax	13,386,000,000	27%
Other	<u>1,916,000,000</u>	<u>4%</u>
TOTAL	\$49,467,000,000	100%

Since “Tax” includes federal income, state income, state sales, and international tax advice, it is reasonable to conclude that approximately one-half of that revenue involves domestic federal tax advice. Thus 13.5% of the 575,000 CPAs is approximately 78,000, which is very consistent with the 68,000 BLS estimate. At .02% of approximately 315 million Americans, this is a very small portion of the total population.

It is important to distinguish between CPAs and federal income tax return preparers when evaluating the magnitude of the impact of the FairTax. Clearly, the vast majority of CPAs does not prepare federal income tax returns or provide advice regarding federal income taxation.

Thus, the FairTax would have no real impact on a significant majority of CPAs.

⁷ “The World Beyond Tax for Sole Practitioners, *Accounting Today*, June 30, 2014.
http://www.accountingtoday.com/debits_credits/world-beyond-tax-sole-practitioners-proprietors-71134-1.html

⁸ See note 2 above.

The Outlook for CPAs Who Do Prepare Federal Income Tax Returns

As previously noted, there are approximately 68,000 to 78,000 CPAs who spend a majority of their time preparing federal income tax returns. Under the FairTax Plan, the outlook for them is quite good, because the FairTax will help create an abundance of attractive and high value employment opportunities.

Several sources support this conclusion. First, more than 80 economists⁹ from many of the nation’s leading universities support the FairTax Plan and understand that, beginning in its first year, the FairTax will generate a higher level of economic growth than if the current income tax system remains in place. According to the Beacon Hill Institute at Suffolk University, the benefits persist for at least the next 25 years.¹⁰

Summary of FairTax Economic Impact compared to Current Law

Year(s) After FairTax Implemented	1st	25th
Real GDP	7.9%	10.3%
Domestic investment	74.5%	65.2%
Employment	11.9%	4.7%
Real wages	10.3%	9.2%

Second, Audit Analytics estimated in April 2014 that United States corporations have more than \$2.1 trillion invested overseas.¹¹ With the enactment of the FairTax, a significant portion of this \$2.1 trillion would be repatriated once it would no longer be subject to corporate income taxes. Under the FairTax, the United States would become the global “go-to” nation for corporate investing and growing a business.

Third, even more interesting is a conclusion reached by the Tax Justice Network (TJN), whose study was supervised by former McKinsey & Company chief economist James Henry. TJN found that the total amount of global wealth shielded from tax collectors of all countries and, therefore, available to be invested in the United States after the elimination of the income tax, is between \$21 and \$32 trillion¹² — an amount in excess of the 2014 United States GDP of approximately \$17.0 trillion.

Even without enactment of the FairTax, the BLS estimates that, over a ten-year period ending in 2022, “the number of accountants and auditors needed is projected to add 166,700 new jobs from 2012 to 2022, the largest projected growth of any business or financial operations occupation.¹³ Accountants and auditors will be increasingly needed to prepare and examine financial documents because of a

⁹ An Open Letter to the President, the Congress, and the American People Concerning Reform of the Federal Tax Code, http://www.fairtax.org/site/Clubs?club_id=1590&sid=8651&pg=other

¹⁰ Tuerck, et. al, “The Economic Effects of the FairTax: Results from the Beacon Hill Institute CGE Model, “ The Beacon Hill Institute at Suffolk University, February 2007. <http://www.beaconhill.org/FairTax2007/EconomicEffectsFTBHICGEModel4-30-07.pdf>

¹¹ “U.S. corporations holding more than \$2.1 trillion in untaxed profits overseas,” April 10, 2014. <http://rt.com/usa/audit-analytics-fire-report-476/>

¹² “The Price of Offshore Revisited,” Tax Justice Network, June 22, 2012. http://www.taxjustice.net/cms/upload/pdf/The_Price_of_Offshore_Revisited_Presser_120722.pdf

¹³ U.S. Bureau of Labor Statistics, Monthly Labor Review, Dec. 2013. <http://www.bls.gov/opub/mlr/2013/article/occupational-employment-projections-to-2022.htm>

growing number of regulations that have been developed in response to the 2008 financial crisis.” The point is that there are more than enough opportunities for federal income tax preparers if they tried to find new roles right now.

If these facts are not convincing enough that federal income tax return preparers will have an abundance of attractive opportunities under the FairTax Plan, there are other factors that mitigate any perceived difficulties about which they may have concerns. For example:

- **International tax work will yield significant opportunities.** Thanks to the increasing complexity of international tax law and the proliferation of global trade, the need for experts in international taxation continues to grow. According to The Tax Foundation, the percent of tax compliance costs derived from international work by Fortune 500 companies is 44 percent.¹⁴ Many federal income tax return preparers are already qualified for this work.
- **Legacy federal income tax system issues will require the continued services of income tax experts.** Although the transition from the current income tax system to the FairTax will be more efficient than the transition to any other tax system, there are a few issues that will require special treatment. For example, organizations that have paid tax on certain inventory will have several years to divest the inventory without paying the FairTax. These organizations will need assistance to understand these inventory issues created by the legacy income tax system.

We could also take other steps to ease any perceived difficulties. For example, the FairTax could be enacted with a multi-year, advance notice, giving federal income tax return preparers sufficient time to enhance their education portfolio in preparation for new, higher value-add opportunities. According to *The Constant Analyst*,¹⁵ a blog for accounting and finance professionals, a Certified Management Accountant (CMA) certification broadens employment opportunities for finance and accounting professionals. A CMA may be obtained in as little as six months and provides an increase in median annual compensation from approximately \$105,000 for non-certified accounting and finance professionals to nearly \$140,000. Accounting and finance professionals could self-educate while continuing to assist with the federal income tax system transition issues that will take a few years to complete.

Finally, if the federal government fully funded a Master of Business Administration (MBA) degree (one of the most expensive degree programs) for all 68,000 federal income tax return preparers, it would cost taxpayers approximately \$4.1 billion (\$60,000¹⁶ average tuition per preparer). This potential outlay would equate to \$1.49 trillion less than the \$1.5 trillion increase in gross domestic product during the first year of the FairTax. If paying for this education were a condition of enacting the FairTax, there

¹⁴ Joel Slemrod and Marsha Blumenthal, "The Income Tax Compliance Cost of Big Business," The Tax Foundation, 1993. Based upon a survey of the tax officers of 1,672 large firms, the authors found that the costs these companies incur to comply with U.S. international tax laws represent about 39 percent of their overall tax compliance costs. For Fortune 500 companies the cost ratio was nearly 44 percent.

¹⁵"CPA vs. CMA vs. CFA," The Constant Analyst, Jan. 13, 2013.

<http://theconstantanalyst.com/2013/01/cpa-vs-cma-vs-cfa/>

¹⁶ <http://businessmajors.about.com/od/bschoolrankings/a/How-Much-Does-It-Cost-To-Earn-An-Mba-Degree.htm>



would be no material impact on the benefits derived from the FairTax Plan.

Conclusion

Many CPAs support the FairTax because they believe it is in the best interest of the United States. They also understand that it will benefit them both personally and professionally. And, CPAs who exclusively prepare federal income tax returns can look forward to providing higher value services, opportunities to continue their education, and near-immediate increases in their standard of living.

Reinventing oneself as technology, industry, and society evolve is not new. William Pollard, a clergyman and entrepreneur who lived during the 1800s, said, “Without change there is no innovation, creativity, or incentive for improvement. Those who initiate change will have a better opportunity to manage the change that is inevitable.” Individuals who made their livings through hard labor were replaced with steam engines. Milkmen were replaced with modern distribution systems, and social media, Facebook and email are replacing mail carriers. With the enactment of the FairTax plan, CPAs and federal income tax return preparers will also reinvent themselves as they gravitate towards higher value opportunities. New industries will emerge, greater levels of personal satisfaction will be enjoyed, and increased income will be afforded.

Enactment of the FairTax will be the most historic and transformational change of the last 100 years. The United States will experience an economic rebirth as domestic and foreign companies establish or significantly expand operations in the United States. The FairTax will result in the greatest transfer of power from the government to the people since the writing of the Constitution, and Americans will once again know government as our Founding Fathers intended.

The FairTax is our 21st century American Revolution! We welcome your support.

What is the FairTax Plan?

The FairTax Plan is a comprehensive proposal that replaces all federal income and payroll based taxes with an integrated approach including a progressive national retail sales tax, a prebate to ensure no American pays federal taxes on spending up to the poverty level, dollar-for-dollar federal revenue replacement, and, through companion legislation, the repeal of the 16th Amendment. This nonpartisan legislation (HR25/S122) abolishes all federal personal and corporate income taxes, gift, estate, capital gains, alternative minimum, Social Security, Medicare, and self-employment taxes and replaces them with one simple, visible, federal retail sales tax – administered primarily by existing state sales tax authorities. The IRS is disbanded and defunded. The FairTax taxes us only on what we choose to spend on new goods or services, not on what we earn. The FairTax is a fair, efficient, transparent, and intelligent solution to the frustration and inequity of our current tax system.

What is Americans for Fair Taxation® (FairTax.org)?

FairTax.org is a nonprofit, nonpartisan, grassroots organization solely dedicated to replacing the current tax system. The organization has hundreds of thousands of members and volunteers nationwide. Its plan supports sound economic research, education of citizens and community leaders, and grassroots mobilization efforts. For more information visit the Web page: www.FairTax.org or call 1-800-FAIRTAX.

Appendix— More About The FairTax®

Major Favorable Economic Effects

Elimination of Domestic Costs

Nearly every American will be better off than he or she is within the existing federal income tax system partially because the FairTax is much less expensive to administer. All taxpayers will receive the same amount of government for less tax, and they will have more money to spend on increasing their standard of living. This is possible because most of the estimated \$1.1 trillion that is currently spent on tax compliance and foregone in lost tax revenue due to tax evasion and the underground economy would be recaptured by taxpayers to be spent or saved.

Tax compliance, excluding lobbyists	\$430 billion ¹⁷
Tax evasion (the “tax gap”) ^{(a)(c)}	\$450 billion ¹⁸
Underground economy ^{(b)(c)}	<u>\$200 billion¹⁹</u>
Total income tax system waste	\$1.1 trillion

(a) Includes the “shadow economy,” or legal activities not reported

(b) Includes illegal activities not reported, also known as “The Black Market”

(c) It isn’t entirely clear what legal or illegal activities are included, but the magnitude of the waste is significant.

An overwhelming majority of economists agree that United States gross domestic product per capita (typically accepted as a proxy for standard of living) would increase by 3-10% in the first year.²⁰ Elimination of compliance costs, the tax gap, and the underground economy alone would account for approximately a 7% GDP increase (\$1.1 trillion costs ÷ \$16 trillion gross domestic product = 7%), and those benefits would be reaped every year thereafter. These figures don’t even begin to account for the favorable effects of increased capital investment, elimination of the foreign tax barrier, or other efficiencies to which the FairTax would lead. These figures also do not include what the Government Accountability Office (GAO) refers to as “economic efficiency costs,” or the costs to society of changes in individual behavior that result in lower personal values of consumption or leisure. The GAO estimates those costs at \$340 to \$850 billion.²¹

¹⁷ Arthur Laffer, et. al., The Economic Burden Caused by Tax Code Complexity, April, 2011.

<http://www.laffercenter.com/wp-content/uploads/2011/06/2011-Laffer-TaxCodeComplexity.pdf>

¹⁸ IRS Releases New Tax Gap Estimates; Compliance Rates Remain Statistically Unchanged From Previous Study, Jan. 2012.

<http://www.irs.gov/uac/IRS-Releases-New-Tax-Gap-Estimates;-Compliance-Rates-Remain-Statistically-Unchanged-From-Previous-Study>

¹⁹ In *Reefer Madness*, Eric Schlosser estimates the black market for drugs, gambling and prostitution to be 10% of GDP. The lost tax revenue from the black market, therefore, is likely more than \$200 million.

²⁰ See Tuerck, et. al., above.

²¹ “Tax Policy: Summary of Estimates of the Costs of the Federal Tax System,” U.S. Government Accountability Office Report No. GAO-05-878, August, 2005, p. 20. Estimates are based on applying the GAO estimate of 2 to 5% of GDP to the GDP estimate for 2014.

Foreign Tax Barrier Eliminated

The FairTax also transfers value from foreign companies to domestic taxpayers. Total tax revenue would remain the same, but domestic taxpayers would pay a smaller share of the tax revenue than their foreign counterparts.

Here's how: Under the current system, foreign corporations receive a tax rebate from their home countries on value-added taxes (VAT) that are embedded in their products. This rebate allows foreign companies to sell products in the United States less expensively than their United States counterparts, whose products include embedded income, payroll, and other taxes. With the FairTax, foreign entities would sell products subject to a retail sales tax in the United States just like domestic companies, thereby leveling the playing field.

Further, the FairTax would eliminate the advantage that foreign companies currently hold versus United States companies selling products in foreign countries. Under the current system, foreign companies' products include the embedded VAT costs similar to produced products in the United States that include embedded payroll and other taxes. However, foreign countries further tax United States products sold in those countries, thereby making United States products more expensive than those of their foreign counterparts. Some experts estimate the cost to domestic companies of the foreign tax barrier to be several hundred billion dollars.

Other Economic Benefits and Issues

- More foreign companies would establish a presence in the United States since the tax advantage would be eliminated. Fewer U.S. companies would move overseas
- United States exports would increase their share of foreign markets with lower prices
- Consumption is a more stable and predictable tax base because unemployment directly affects income taxes whereas unemployed people continue to spend from their savings and unemployment benefits
- Inflation would not eliminate the benefit to taxpayers of having more money because the providers of goods/services would increase output to meet demand

Bi-Partisan Benefits

There are many political and social benefits for people of all political parties:

- Progressive—a tax rebate provided to all households each month (a “prebate”) equal to taxes paid on poverty level spending completely untaxes the poor unlike the current system
- Lowers the tax burden on the lower middle class. A family of four that earns and spends \$60,000 per year would pay 11.5%, or \$6,900, in FairTax versus the \$10,600 (17.6%) of tax the same family pays in the current income and payroll tax system
- Eliminates current tax code discrimination against gays, singles, childless couples (marriage tax)
- Reduces the cost of home ownership—pre-tax dollars would be used to make both principal and interest payments versus an income tax deduction for interest payments only.
- Increases charitable contributions—charitable contributions correlate with the health of the economy, not tax deductibility. During the last 40 years, charitable giving almost exactly tracked personal income (which would be higher under the FairTax).
- Transfers power from politicians to taxpayers, eliminates favors, and avoids backroom deals.



Other

The FairTax:

- Code is 132 pages long versus 74,608 pages in the CCH Standard Federal Tax Reporter for the current system.²²
- Eliminates off-shore “tax havens.”
- Differs from the flat tax because the flat tax is an income tax with many of the same embedded costs and other challenges/inefficiencies as the current system, and the flat tax requires the 16th amendment.
- Increases disposable income by 11.8% in the 10th year versus what it would be if the current tax system remained in place; likewise, consumption would be 11.7% higher.²³
- 75 members of Congress are co-sponsors of the FairTax. The number continues to grow

Summary

A policy shift from the current tax system to the FairTax would increase economic growth, savings, foreign investment, and personal income. It is a more advantageous system for nearly all domestic taxpayers because of the saved compliance costs associated with the current system and the capture of currently foregone tax revenues. Please refer to www.fairtax.org, *The FairTax Book*, and *FairTax: The Truth* for more information.

²² <http://www.cch.com/TaxLawPileUp.pdf>

²³ Arduin, Laffer & Moore Econometrics, A Macroeconomic Analysis of the FairTax Proposal, June, 2006, p. 30.