

The problems of the income tax are well documented. By taxing savings and investment at least twice, the income tax has become the biggest impediment to economic growth in the country. Each year it costs Americans more than 5 billion hours of time to comply with it. The system is unfair and riddled with loopholes. It favors foreign imports and discourages American exports. As witnesses testified before Congress last year, the IRS regularly violates the privacy rights of individuals while enforcing the income tax. And finally, the system doesn't work. By its own admission, the Internal Revenue Service fails to collect from nearly 10 million taxpayers, with an estimated \$127 billion in uncollected taxes annually. Anything this broken should be ended decisively.

One can evaluate a tax system using many criteria. It must be: (1) simple, (2) the least intrusive, (3) fair, (4) transparent, (5) border adjustable, and (6) friendly to savings and investment. I have studied tax reform proposals with these six factors in mind. Many are better than the current income tax. But if we are going to overhaul our tax system, we should choose the one that meets these criteria. I have concluded that a national sales tax is the best alternative.

An effective tax system should be simple. Under a national sales tax, the burden of complying with the income tax code would be lifted. There would be no records to keep or audits to fear. According to the Tax Foundation, businesses and individuals spend more than \$225 billion to comply with the Tax Code. Under a national sales tax, compliance costs would drop by 90 percent. More than 100 million individuals who currently file taxes would be dropped from the tax rolls. With a national sales tax, the money individuals earned would be their own. It's your decision to save it, invest it, or give it to your children. It is only when you buy something that you are taxed.

The national sales tax is the least intrusive of the tax proposals. The IRS would be substantially dismantled. The IRS would no longer look over the shoulders of every taxpayer. Americans would not waste time and effort worrying about recordkeeping, deductions, or exemptions that are part of the current Tax Code.

The national sales tax is the fairest alternative. Everyone pays the tax including criminals, illegal aliens, and others who currently avoid taxation. Wealthy Americans with lavish spending habits would pay substantial amounts of taxes under the national sales tax. Individuals who save and invest their money will pay less. Gone are the loopholes and deductions that provide advantages to those with the resources to shelter their income.

The national sales tax would also tax the underground economy. When crimi-

nals consume the proceeds of their activities, they will pay a tax. Foreign tourists and illegal aliens will pay the tax. Tax systems that rely on income reporting will never collect any of this potential revenue.

Of course, the fairness test must likewise consider those with limited means to pay taxes. Like the income tax system, a national sales tax can and should be constructed to lessen the tax burden on those individuals with the least ability to pay. One strategy for addressing this problem would exempt a threshold level of goods and services consumed by each American from the federal sales tax. Another strategy is to exempt items such as housing, food or medicine. I am committed to designing a tax system that does not fall disproportionately on the less fortunate.

The national sales tax is the most transparent. A federal tax that is evident to everyone would bolster efforts in Congress to achieve prudence in federal spending. There should be no hidden corporate taxes that are passed on to consumers or withholding mechanisms that mask the amount we pay in taxes. Harvard economist Dale Jorgenson estimates that the corporate income tax and its compliance costs increase the cost of goods by 20 to 25 percent. The national sales tax would bring all these hidden costs into the sunshine. Every year the public and Congress should openly debate the tax rate necessary for the federal government to meet its obligations. If average Americans are paying that rate every day, they will make certain that Congress spends public funds wisely.

American exports would also benefit from the enactment of a national sales tax. We must adopt a tax system that encourages exports. Most of our trading partners have tax systems that are border adjustable. They are able to strip out their tax when exporting their goods. In comparison, the income tax is not border adjustable. American goods that are sent overseas are taxed twice—once by the income tax and once when they reach their destination. In comparison, the national sales tax would not be levied on exports. It would place our exports on a level playing field with those of our trading partners.

But the last and most imperative reason for replacing the income tax with a national sales tax is that it would energize our economy by encouraging savings. The bottom line is that as a nation, we do not save enough. Savings are vital because they are the source of all investment and productivity gains—savings supply the capital for buying a new machine, developing a new product or service, or employing an extra worker.

The Japanese save at a rate nine times greater than Americans, and the Germans save five times as much as we do. Today, many believe that Ameri-

cans inherently consume beyond their means and cannot save enough for the future. Few realize that before World War II, before the income tax system developed into its present form, Americans saved a larger portion of their earnings than the Japanese.

A national sales tax would reverse this trend by directly taxing consumption and leaving savings and investment untaxed. Economists agree that a broad-based consumption tax would increase our savings rate substantially. Economist Laurence Kotlikoff of Boston University estimates that our savings rate would more than triple in the first year. Economist Dale Jorgenson of Harvard University has concluded that the United States would have experienced one trillion dollars in additional economic growth if it had adopted a consumption tax like the national sales tax in 1986 instead of the current system.

As I have outlined here today, I believe the national sales tax is the best tax system to replace the income tax. If we enact a tax system that encourages investment and savings, billions of dollars of investment will flow into our country. This makes sense—America has the most stable political system, the best infrastructure, a highly educated workforce and the largest consumer market in the world. Our economic growth and prosperity would be unsurpassed. I am committed to bringing this message of hope to all Americans, and I look forward to working with my colleagues on advancing this important endeavor.

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**SENATE RESOLUTION 25—TO REFORM THE BUDGET PROCESS BY MAKING THE PROCESS FAIRER, MORE EFFICIENT, AND MORE CLEAN**

Mr. MCCAIN (for himself and Mr. KYL) submitted the following resolution; which was referred to the Committee on Rules and Administration.

S. RES. 25

**SECTION 1. REQUIREMENT OF AUTHORIZATION FOR PROGRAMS OVER \$1,000,000.**

(a) IN GENERAL.—Paragraph 1 of rule XVI of the Standing Rules of the Senate is amended by inserting “in excess of \$1,000,000,” after “new item of appropriation.”

(b) 60 VOTE POINT OF ORDER.—Rule XVI of the Standing Rules of the Senate is amended by adding at the end the following:

“9. Paragraph 1 may be waived or suspended only by the affirmative vote of three-fifths of the Members, duly chosen and sworn. An affirmative vote of three-fifths of the Members, duly chosen and sworn, shall be required to sustain an appeal of the ruling of the Chair on a point of order raised under paragraph 1.”

**SEC. 2. PROCEEDING TO APPROPRIATIONS BILLS IN THE SENATE.**

Rule XVI of the Standing Rules of the Senate is amended by adding at the end the following: