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Tax overhaul bill to get first floor vote since initial introduction in 1999

By Jordan Williams

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The House is expected to vote on a bill to overhaul the U.S. tax code this year, marking the first time in the bill's 24-year history that either chamber of Congress has considered it on the floor.

Rep. Buddy Carter (R-Ga.) introduced on Jan. 9 the Fair Tax Act of 2023, which would repeal income, payroll and estate taxes and impose a national sales tax.

A vote on the bill was one of the concessions House Speaker Kevin McCarthy made to his defectors during his weeklong battle to secure the gavel. It's unclear when exactly the bill will head to the floor, but Carter told POLITICO that he is confident it will happen this year.

WHAT'S IN THE BILL?

This Pro Bill Analysis is based on the text of the bill as introduced on Jan. 9.

H.R. 25 outlines various Congressional findings related to federal income tax, payroll taxes, estate and gift taxes, national sales taxes and the administration of such taxes. The bill states that federal income tax stunts economic growth, federal payroll taxes cause unemployment and federal estate taxes force the sale of family businesses and farms, among other findings. It also says that Congress should repeal the 16th Amendment of the U.S. Constitution, which establishes Congress' right to impose federal income taxes.

Repeal of the Income Tax, Payroll Taxes, and Estate and Gifts (Title I): This title would repeal Subtitle A of the Internal Revenue Code of 1986 on income and self-employment taxes (Sec. 101), as well as Subtitle C on payroll taxes (Sec. 102) and Subtitle B on estate and gift taxes (Sec. 103).

Section 104 of the bill would strike Subtitle H of the Internal Revenue Code of 1986, which deals with financing presidential election campaigns. It would also redesignate the Internal Revenue Code of 1986 as the Internal Revenue Code of 2023.

Sales Tax Enacted (Title II): Sec. 201 of the bill would implement a tax on the "use or consumption" of taxable property and services in the U.S.

The rate would be 23 percent of the gross payments for a taxable property or service in calendar year 2025. In subsequent years, it would equal the combined federal tax rate percentage of the gross payments for the taxable property or service — or the sum of the old-age survivors and disability insurance rate, the 14.91 percent general revenue rate and the hospital insurance rate. This tax would be in addition to any import duties on products and services.

The tax would not be imposed on a taxable property or service that is purchased for:

— A business purpose in a trade or business, meaning that it is used for resale, to produce or sell taxable property services, or in furtherance of other business purposes.

— Investment purposes, meaning that it is purchased exclusively for the appreciation or production of income without "more than minor personal efforts."

— For State government functions that do not constitute the final consumption of property or services.

The section would allow each individual a monthly credit with respect to the taxes imposed by this legislation, which would be the sum of several factors, including an administration credit, a bad debt credit and an insurance proceeds credit, among others. It would also establish a monthly "family consumption allowance" for qualified families whose members are lawful residents of the U.S., which would be an amount equal to the rate of the sales tax and the monthly poverty level. Qualified families would have to register every year to receive the rebate, which would be paid by the Social Security Administration.

The legislation would also mandate that "administering states" — defined as states that maintain a sales tax and enter into a cooperative agreement with Treasury regarding the imposition of said taxes — administer, collect and remit the sales tax to the Treasury Department in a "timely manner." Failure to transmit the taxes within five days of receipt would result in an interest rate of 150 percent of the federal short-term rate. States would be permitted to retain an administration fee, totally no more than a quarter of one percent of the amounts remitted to the Treasury.

The measure would allocate revenue imposed by the sales tax among the general revenue, the old age and survivors insurance trust fund, the disability insurance trust fund, the hospital insurance trust fund, and the federal supplementary medical insurance trust fund. For calendar year 2025:

— 64.83 percent would go to the general revenue.

— 27.43 percent would go toward the old-age and survivors insurance and the disability insurance trust funds.

— 7.74 percent would go toward the hospital insurance and federal supplementary medical insurance trust funds.

Section 202 would make further conforming and technical amendments to the Internal Revenue Code of 1986.

Other Matters (Title III):H.R. 25 would authorize funding for IRS operations after fiscal year 2027. It would also require federal records related to the administration of taxes repealed by the bill to be destroyed at the end of fiscal year 2027, except for records needed to calculate Social Security benefits and any records necessary to support ongoing litigation on taxes owed and refunds due. The measure would also repeal the Oversight Board of the IRSand reassign any other oversight responsibilities to the Treasury Department (Sec. 301).

The bill would establish an Excise Tax Bureau within the Treasury, which would be responsible for administering excise taxes that are not administered by the Bureau of Alcohol, Tobacco, Firearms and Explosives — as well as a Sales tax Bureau to administer the national sales tax (Sec. 302).

The measure would also modify how cost-of-living increases in Social Security benefits are calculated to factor in the national sales tax (Sec. 303).

Sunset of Sales Tax if Sixteenth Amendment Not Repealed (Title IV): This title would terminate the national sales tax if the Sixteenth Amendment of the Constitution is not repealed, within seven years after the bill's enactment. The tax would not apply after Dec. 31 of the calendar year that the amendment is repealed.

WHO ARE THE POWER PLAYERS?

Carter is the lead sponsor of the bill and also led the effort in the 117th Congress.

The bill has 23 Republican co-sponsors, as of Jan. 19. The following 11 lawmakers signed onto the bill when it was first introduced: Reps. **Andrew Clyde** (R-Ga.), **Jeff Duncan** (R-S.C.), **Kat Cammack** (R-Fla.), **Scott Perry** (R-Pa.), **Bob Good** (R-Va.), **Thomas Massie** (R-Ky.), **Ralph Norman** (R-S.C.), **Bill Posey** (R-Fla.), **Gary Palmer** (R-Ala.), **Jim Banks** (R-Ind.), and **Barry Loudermilk** (R-Ga).

WHAT'S HAPPENED SO FAR?

The Fair Tax Act was first introduced in 1999 by former Rep. John Linder (R-Ga.) and a largely similar version has been reintroduced in Congress every year since then — with the effort largely being led by members of Georgia's Congressional delegation.

Neither the House nor the Senate have ever held a vote on the measure, with all previous measures stalled in committee.

But the bill’s trajectory changed at the start of the 118th Congress in January, as McCarthy spent nearly a week fighting to win the votes of 20 Republican lawmakers who initially refused to support his run for speaker.

Carter told POLITICO that McCarthy would allow the Fair Tax Act to have its first floor vote as one of his concessions to the 20 holdouts. Six of them are listed as co-sponsors of the bill: Clyde, Perry, Norman, Good, as well as Reps. Byron Donalds (R-Fla.), Matt Gaetz (R-Fla.).

H.R. 25 has been referred to the House Ways and Means Committee for consideration, where it is awaiting further action.

WHAT’S NEXT?

It’s unclear when the House will hold a vote on the bill, but Carter and advocates believe it will happen this year. However, the measure is not likely to make it through the Senate, which is controlled by Democrats.

WHAT ARE SOME STORIES ON THE BILL?

Read POLITICO news on H.R. 25.

Katherine Tully-McManus, Olivia Beavers and Sarah Ferris contributed to this report.