



**Thought Experiments from AI**  
**What If We Replaced the IRS With a National Sales Tax?**  
**By Perplexity, an AI assistant**  
**April 8, 2026**

Americans love to complain about the tax code. But what if, instead of tweaking it, we scrapped federal income taxes entirely and taxed what we buy instead of what we earn?

*This column is part of an ongoing Wilmington Standard series, “Thought Experiments from AI.” Each piece is generated by an artificial intelligence in response to a prompt from our editors. In this installment, we asked: “What would happen if we did away entirely with a federal income tax and replaced it with a national retail sales tax?”*

### **How a National Sales Tax Would Work**

The leading version of this idea is the FairTax, a national retail sales tax that replaces federal income and payroll taxes with a single tax on new goods and services. Under FairTax-style plans, you would pay no federal withholding from your paycheck, no federal income tax return in April, and no federal payroll tax taken out for Social Security and Medicare.

Instead, every time you buy something new for personal use—a refrigerator in Wilmington, a car in Raleigh, a haircut in Burgaw—you would pay a federal sales tax at the register, on top of any state and local sales taxes. The FairTax proposal uses a 23 percent “inclusive” rate, which works out to about a 30 percent tax added at the register on top of the sticker price. Used goods are generally excluded, so a used boat in New Hanover County would not be taxed again at the federal level.

To address concerns about low-income families, FairTax includes a monthly “prebate”—an advance refund to every legal-resident household that covers the tax that would be paid on spending up to the poverty level. In theory, that makes basic necessities effectively tax-free, and shifts most of the burden to spending above that baseline.

### **Take-Home Pay and Prices**

The most immediate change North Carolinians would feel is in their paychecks. Under a national retail sales tax that truly replaces federal income and payroll taxes, your gross pay would become your take-home pay—no federal tax withholding, no Social Security or Medicare taken out. FairTax advocates emphasize that this would look like an instant raise for workers across the state.

But that “raise” meets higher prices at the store. With a roughly 30 percent tax at the register, a \$100 grocery trip in Wilmington (before state tax) becomes \$130 under the federal tax, plus state and local sales tax. In the long run, many economists expect prices and wages to adjust: with income and payroll taxes gone, businesses’ tax and compliance costs fall, which can lower pre-tax prices and support higher wages. Some macroeconomic studies project that over several years, real wages and overall output would rise as investment and productivity increase.

The net effect on a typical family’s **real** take-home pay depends on how much they spend and how much of that spending is above the poverty-level baseline covered by the prebate. A thrifty family in Pender County that saves aggressively and buys used vehicles could come out ahead, while a high-spending household in a growing area like Brunswick County might see more of its higher income taxed through consumption.

### **What Happens to the Economy?**

Shifting from taxing income to taxing consumption changes the basic incentives in the system. Because earnings, savings, and investments are no longer directly taxed, the after-tax return to work and investment goes up. Several FairTax-aligned models project that in the first five to ten years, GDP could be modestly higher than under current law, with stronger capital formation and higher real wages. For a port city like Wilmington, that could mean stronger export competitiveness as compliance costs embedded in prices fall.

However, there are tradeoffs and uncertainties. Critics argue that the rate needed to fully replace all federal income and payroll taxes might have to be higher than advertised, or that consumption could slump if households are reluctant to spend under a visibly high sales tax. Some analyses suggest that, at least initially, households might cut back on big purchases, which could hit sectors like housing, autos, and retail in North Carolina’s urban corridors. The long-run outcome hinges on how quickly wages, prices, and behavior adjust—and how disciplined Congress is about spending.

### **Who Wins, Who Loses?**

Politically, a national sales tax reshuffles who feels the burden. High earners who save and invest a lot could pay less than under today’s progressive income tax, especially if much of their wealth is accumulated rather than spent. Retirees in places like Brunswick County, living off prior savings that were earned and taxed under the old system, could feel squeezed if they now face a new tax on their consumption without offsetting income-tax relief.

Lower-income households that currently owe little federal income tax but do pay payroll tax could benefit from the end of payroll taxes plus the monthly prebate, assuming it is fully

funded and protected over time. But because everyone sees the tax at the register, the politics of any later rate increase would be very visible, and pressure to trim the prebate could become a recurring fight in Washington. For North Carolina, where rural counties already rely heavily on sales taxes, layering a large federal sales tax on top raises concerns about cumulative tax burdens in poorer regions.

### **Could This Actually Happen?**

Unlike some thought experiments, this one already comes with a bill number: the Fair Tax Act (H.R. 25) has been introduced repeatedly in Congress, including most recently to replace federal income, payroll, estate, and gift taxes with a national sales tax. To implement it, Congress would need to pass the legislation, phase out withholding, and stand up a national collection system that works through states and retailers—something that would require major coordination with Raleigh and other state capitals. The IRS as we know it would shrink or disappear, with state revenue departments and businesses taking on more of the day-to-day collection role.

Legally, Congress can change the tax base by statute, though some argue you would want constitutional protections to prevent the old income tax from being layered back on top of a new sales tax. Politically, the obstacles are huge: shifting winners and losers, fear of visible price spikes, and the risk of transition shocks all make lawmakers cautious.

As a thought experiment, though, this swap forces a useful question for North Carolina readers: do we prefer a system that quietly takes from every paycheck and every business filing, or one that is simpler, more visible, and tied directly to how much we consume? Even if a full FairTax never passes, wrestling with that choice helps us see the hidden tradeoffs inside the status quo tax code we live with today.