

# We're broke ... time for a new tax

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Given the country's fiscal hole, former Fed chair Paul Volcker and many tax experts say there may be a need for a value-added tax.

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NEW YORK (CNNMoney.com) -- President Obama has been steadfast in his pledge that he won't raise taxes on those making less than \$250,000. But that doesn't mean only high-income households will be subject to higher taxes.

An increasing number of influential Democrats and fiscal-policy experts have signaled that lawmakers will have to get a handle on the deficit. And they recommend seriously considering the creation of a value-added tax (VAT) on top of the federal income tax.

That could mean more money out of everyone's pockets when buying virtually anything -- sweaters, school books, furniture, pottery classes, dinners out.

A VAT is tax on consumption similar to a national sales tax. But it's not just paid at the cash register. It's levied at every stage of production. So all businesses involved in making a product or performing a service would pay a VAT. And then the end-user -- such as the retail customer -- ponies up as well.

No one is suggesting raising taxes or creating new ones before the economy stabilizes.

But Paul Volcker, the former chairman of the Federal Reserve who heads President Obama's tax reform panel, is advocating a little advance planning.

When it comes to getting control of the country's debt burden, "I think if we can't do it on the cost side, we've got to go on the revenue side. And it's too early to do it, but it's not too early to begin wondering," Volcker said Wednesday in a televised interview with PBS' Charlie Rose. "You've got talk about some tax that hits consumption," said Volcker. "Value-added is one."

John Podesta, the head of the liberal think tank Center for American Progress who headed President Obama's transition team, also raised the issue of a VAT this week. He noted that the only way to stabilize the debt situation is to reduce spending, reduce the growth in health care costs and add new revenue.

"As progressives we need to debate the policy merits and likelihood of enacting a range of options -- including designing a small and more progressive value-added tax, changes to the corporate tax code, and taxing-upper income earners beyond reversing the Bush tax cuts," Podesta said in a statement.

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