

Americans For Fair Taxation



www.FairTax.org

Our Tax System Is Broken...



- ▶ The tax code has grown from 400 pages in 1913 to 75,000+ pages in 2012.
- ▶ American's spend over \$400 Billion dollars each year trying to comply with this overly complex tax code.
- ▶ The IRS loses \$600 Billion dollars a year in tax revenue due underpayment (cheaters and misfiling).
- ▶ Does not tax the \$1-2 Trillion dollars in black market and cash based economies.
- ▶ The IRS costs us over \$12 Billion dollars and they want to add 4000 more agents to enforce the tax code.
- ▶ The current system DISCOURAGES people from working.
- ▶ Puts US producers at a disadvantage in an increasingly global economy.
- ▶ The tax code is manipulated by the rich and corporations so they pay less or no tax.

We Need a Complete Overhaul.



- ▶ We can't just tweak the existing tax code.
 - That's what's been done for almost 100 Years!
- ▶ We need to completely throw out the existing tax code and put in place something that:
 - Is Simple – Easy to understand, Easy to collect.
 - Visible – People know how much they are paying.
 - Progressive – Taxes those who have and spend more.
 - Not subject to abuse by taxpayers, politicians and lobbyists.

We need the FairTax! (HR25 / S122)



- ▶ Abolishes:
 - Personal Federal Income Taxes.
 - Corporate Income Taxes.
 - Payroll Taxes
 - Gift, Estate (Death), Capital Gains, AMT, Social Security Taxes, Medicare Taxes, and Self-Employment Taxes.
- ▶ Replaces these with:
 - One Simple, Transparent, Federal Retail Sales Tax on all new Goods and Services. (Note this is NOT a Value Added Tax)
 - Administered primarily by existing state sales tax authorities

How does it work?



- ▶ All new consumer goods and services are taxed once at the final point of sale.
- ▶ No taxes are collected on transactions between legitimate businesses.
- ▶ No taxes are collected on used items.
- ▶ Investments are not taxed.
- ▶ To ensure the tax is progressive, All valid Social Security cardholders who are U.S. residents receive a monthly prebate equivalent to the Federal sales tax paid on essential goods and services.

Benefits for Business & Trade.



- ▶ Businesses can produce products tax free including no Payroll Taxes or Corporate Income Tax.
- ▶ By eliminating the embedded tax based costs from US products, US products can be sold for less allowing U.S. producers to compete in the global market place.
 - Our current tax makes it difficult or impossible to subtract US tax paid from the price of our products.
- ▶ Manufacturing comes home to the U.S. creating millions of new jobs.
- ▶ Foreign Corporations contribute to the U.S. economy by re-locating offices and facilities in the US.
- ▶ U.S. assets parked offshore are repatriated with no repatriation tax.

Benefits of the FairTax for the Nation



- ▶ The Fair Tax provides a tremendous economic stimulus boost to our economy!
 - ▶ Our economy grows by an additional \$2.8 Trillion (2.4% of GDP) in the first year and up 11.7% more of GDP by the 10th year.
 - ▶ More than 16 Million new jobs are created in the first year alone.
- ▶ A more efficient way to collect taxes.
 - Eliminates the IRS and the \$12B cost for the IRS alone.
- ▶ Provides the same revenue to the Federal Government.
- ▶ Funds Social Security and Medicare.
- ▶ Substantially improves the trade deficit, budget deficit and U.S. status as a debtor nation.
- ▶ Improves the personal savings rate in America.

Benefits for You



- ▶ Take home your entire paycheck or retirement payment.
- ▶ Removes penalties for personal effort and initiative.
- ▶ Encourages savings for home ownership, education and dignified retirement.
- ▶ No need to maintain tax records or file income tax returns.
- ▶ Eliminates Government intrusion into your personal life in the form of a Federal Tax Return.
- ▶ Your purchasing power increases.

What is the Rate?



- ▶ Before answering this keep in mind that:
 - Corporations are fictitious entities that pass the burden of taxes they pay on to ~~people~~ in one of three ways:
 - Higher prices for products produced.
 - Lower wages for employees.
 - Lower dividends for investors.
 - This amount compounds (like a VAT) in business to business transactions.
 - Payroll + Corporate Income Taxes + Compliance costs
 - So, some percentage of the cost of tax is built into to the price of every US product we buy.
 - **Everything US made product you buy is expensive because of embedded taxes.**
- ▶ A better question to ask is how much more expensive would this make US Products?
 - For exported US Products, they will likely be LESS expensive making US made products more competitive around the world!
 - In the US – The affect on prices depends on a variety of factors but ultimately **your purchasing power would go UP** after the Fair Tax was passed.

What is the Rate?



- ▶ To be "revenue neutral" meaning the Federal Government is funded to the current level, the national retail tax rate would be set at:
 - 23% if you compare it to your current income tax rate. (This is an Apples to Apples comparison representing what it replaces)
 - 30% if you compare it to a typical sale tax.
- ▶ Federal Tax Rates are quoted as "tax-inclusive"
 - In a 25% income tax bracket, you have to earn ~\$133 to bring home \$100. The tax is "included" in the amount you earn and "withheld".
- ▶ Sales tax is typically added after the amount of purchase.
 - You buy a \$100 coat and pay 30% tax makes that a \$130 coat.
- ▶ When purchasing a new retail item, the Fair Tax would be included in the price of the item so if you were purchasing an item with a \$100 price tag, \$23 of that \$100 would go to fund the federal government. What percent would you call that?

How does this Affect the Price of Goods Sold in the US?



- ▶ It depends...
 - Is it made in the US or overseas?
 - Who gets the payroll tax now being collected on behalf of the federal government?
 - Employee?
 - Employer?
 - Is the product being produced labor intensive?
 - What is the cost if tax compliance for the company?
- ▶ There is a Better Question: How will passing the Fair Tax affect my purchasing power?

How will Passing the Fair Tax Affect my Purchasing Power?



- ▶ For almost all American's your purchasing power goes up after passing the Fair Tax!
 - Consider the following example: How many "widgets" could you buy today and after the Fair Tax?

<u>Income Tax</u>	<u>Widgets</u>
\$50,000 pay (1 person)	\$1 each
- \$10,169 (federal tax)	
\$39,831 (take home pay) → Buys:	39,831 widgets

<u>Fair Tax</u>	<u>Widgets</u>
\$50,000 pay (1 person)	\$1.30 each
+ \$2,505 (prebate)	
\$52,505 (take home pay) → Buys:	40,388 widgets

How Does the Pre-bate Work?



- ▶ Also known as the Family Consumption Allowance.
- ▶ Amount is based on the number of people in a family, NOT on income.
- ▶ Families must register for the FCA and provide valid SSN's for each person living in their household.
- ▶ After validation and cross checking the SSN's the Social Security Administration manages the sending of the checks / payments.
- ▶ Amount of payment determined Department of Health and Human Services annual poverty level spending.
 - Effectively un-taxes the poor.
 - Lowers the overall tax rate for middle class and lower income families.
 - Eliminates the Marriage Penalty
- ▶ This is NOT an entitlement program. The money refunded is the tax amount on dollars that people need to spend to stay alive at the poverty level.

FairTax Prebate



2011 FairTax Prebate Schedule

One-adult household				Two-adult household			
Family Size	Annual Consumption Allowance ¹	Annual Prebate	Monthly Prebate	Family Size	Annual Consumption Allowance ¹	Annual Prebate	Monthly Prebate
1 person	\$10,890	\$2,505	\$209	couple	\$21,780	\$5,009	\$417
and 1 child	\$14,710	\$3,383	\$282	and 1 child	\$29,420	\$7,105	\$592
and 2 children	\$18,530	\$4,262	\$355	and 2 children	\$37,060	\$9,266	\$772
and 3 children	\$22,350	\$5,141	\$428	and 3 children	\$44,700	\$11,175	\$931
and 4 children	\$26,170	\$6,019	\$502	and 4 children	\$52,340	\$13,084	\$1,090
and 5 children	\$29,990	\$6,898	\$575	and 5 children	\$60,000	\$15,000	\$1,250
and 6 children	\$33,810	\$7,776	\$648	and 6 children	\$67,640	\$16,910	\$1,409
and 7 children	\$37,630	\$8,655	\$721	and 7 children	\$75,280	\$18,819	\$1,569

¹The annual consumption allowance is based on the 2011 DHS Poverty Guidelines as published in the Federal Register, January 20, 2011. To eliminate the marriage penalty, the couple amount is twice the individual amount, to which \$3,820 is added for each child.

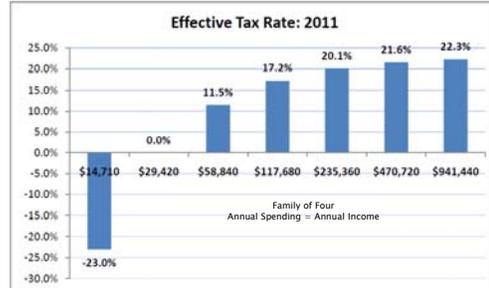
Source: Americans For Fair Taxation, www.fairtax.org, Karen Walsh, Ph.D., April 8, 2011.

Effective Fair Tax Rate:

Income	Spending	Sales Tax	Prebate*	Effective Tax	Tax %
\$ 14,710	\$ 14,710	\$ 3,383	\$ 6,766	\$ (3,383)	-23%
\$ 20,000	\$ 20,000	\$ 4,600	\$ 6,767	\$ (2,167)	-11%
\$ 30,000	\$ 30,000	\$ 6,900	\$ 6,767	\$ 133	0%
\$ 40,000	\$ 40,000	\$ 9,200	\$ 6,767	\$ 2,433	6%
\$ 60,000	\$ 50,000	\$ 11,500	\$ 6,767	\$ 4,733	8%
\$ 100,000	\$ 80,000	\$ 18,400	\$ 6,767	\$ 11,633	12%

* 2011 Annual Prebate for a family of 4 – 2 adults, 2 children

Effective Fair Tax Rates when the prebate is included:



To Recap: What is the Fair Tax?



- ▶ A comprehensive bill (HR25/S122) that replaces all Federal Income and Payroll based Taxes with:
 - A Progressive National Retail Sales Tax
 - (23% when compared to Income Tax Rates)
 - A Prebate that ensures no American pays federal tax on spending up to the poverty level. (Covers taxes paid on food, clothing, shelter, etc.)
 - A dollar for dollar federal revenue neutral solution ensuring the government is funded to current levels.
- ▶ In Addition the FairTax
 - Repeals the 16th Amendment (through companion legislation)
 - Abolishes the IRS
 - Taxes the Shadow Economies.
 - Creates Millions of Jobs in the US, stimulating the US Economy.
 - Taxes us only on what we choose to spend - not on what we earn.

What Can You Do?



- ▶ Together we can make a difference and get the Fair Tax passed. So what can you do?
 - Get IN THE GAME!
 - Volunteer to help. Sign-up at the back of the room!
 - Check www.FairTax.org and find your local leaders.
 - Contact your Representatives and let them know you want them to co-sponsor the FairTax bills.
 - Donate to FairTax CA and/or FairTax.org
 - Sign up on the www.fairtax.org website.
 - Spread the word! Get more people educated and involved!



Make it happen
Join Today!

www.fairtax.org



Reference / Back-up Slides

Common Questions



- ▶ **What about senior citizens, retired people, and anyone on a fixed income?**
 - All taxes on income from social security, investments, pensions or retirement plans and are eliminated. Unlike under the current tax system, you keep 100%.
 - Social Security will be indexed to offset any cost increase as a result of the Fair Tax.
 - The Prebate provides a monthly income to offset the cost of tax paid on basic necessities to the poverty level.
 - Used goods are not taxed. Most seniors are not big consumers of new goods.
 - No tax on capital gains from the sale of homes.
 - No tax on gifts or inheritance.
 - No need to spend money on tax planning, estate planning, tax preparation, etc.

Common Questions



- ▶ **Won't a Sales Tax Lead to Massive Cheating / Underground Economy?**
 - No, for the following reasons:
 - 1. Unlike income tax, a sales tax takes two sides to cheat.
 - 2. You would have to cheat on larger items to have it really make a difference.
 - 3. Resellers would still have to file monthly sales reports and it would be easier for the government to review these reports than the current system.
 - 4. Higher tax rates give more incentive for cheating. A 23% sales tax rate is lower than most people's income tax bracket.

Common Questions

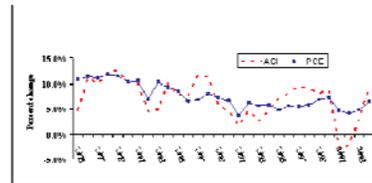


- ▶ **Since business purchases are not taxable, how does the FairTax keep individuals from pretending to have a business so they can buy things tax free?**
 - In order for any person to purchase items tax free for business purposes, the business has to be a registered seller and possess a registered seller certificate issued by the state sales tax authority.
 - Registered sellers are expected to file monthly or quarterly sales tax returns with the state (depending on sales volume). The certificate enables the business to purchase tax free from wholesale vendors, but the vendor must retain a copy of the registration certificate to justify not having collected tax on the sale.
 - When a business purchases items for business use from a retail vendor, they have to pay the tax on the purchase and take a credit against the tax due on their monthly sales tax return. They must keep invoices/receipts to document what they purchased and the amount of the purchase. They might also make note of the purpose of the purchase on the invoice.

Common Questions



- ▶ **Is consumption a reliable source of revenue?**
 - Yes, in fact, consumption is a more stable source of revenue than income. Consider the fact that consumption comes from three sources: Income, Savings and Borrowing. Taxing income has only one source.



The chart above compares the yearly changes in the tax bases for the income tax (adjusted gross income -- AGI) and the FairTax (personal consumption expenditures -- PCE) for years 1974 to 2004. PCE has always grown from year to year, whereas AGI dropped from 2000 to 2001 and from 2001 to 2002 -- two years in a row. The higher growth rates of AGI in boom years result in overspending and then when the economy slows down either budget cuts are needed or, what is more often the case, taxes are raised or the budget deficit increases.

Common Questions



- ▶ How does the FairTax affect income tax preparers, accountants, and many government employees?
 - There will still be some need for auditors, sales tax administrators and sales tax preparers for businesses.
 - The 10.5% projected growth in the economy will create jobs for many of the displaced.
 - As a Nation we will save over \$265 Billion dollars by not having to measuring, tracking, sheltering, documenting, and filing our annual income.

Common Questions



- ▶ Do corporations get a windfall with the abolition of the corporate tax?
 - Corporations are legal fictions that have not, do not, and never will bear the burden of taxation.
 - Corporations pass on their tax burden in the form of higher prices to consumers, lower wages to workers, and/or lower returns to investors.
 - Under the FairTax Plan, money retained in the business and reinvested to create jobs, build factories, or develop new technologies.
 - Free markets will ensure that prices adjust.

Common Questions



- ▶ Can Congress just simply raise the rate once the FairTax is passed into law?
 - Yes, just like Congress has mucked with the current tax code but:
 - FairTax is highly visible. And because there is only one tax rate, it will be very hard for Congress to adopt the typical divide-and-conquer, hide-and-disguise strategy employed today to ratchet up the burden gradually, by manipulating the income tax code.
 - Ultimately, the tax rate will be dictated by the size of government. This is no different than from today but the simplicity of the FairTax makes it much more visible.
 - We as citizens will need to continue to be vigilant to keep Congress from mucking with the tax code going forward.

Common Questions



- ▶ Could we end up with both the FairTax and an income tax?
 - No current supporter of the FairTax would support the FairTax unless the entire income tax is repealed.
 - Concurrent with the repeal of the income tax, a constitutional amendment repealing the 16th Amendment and prohibiting an income tax will be pushed through Congress for ratification by the states (filed as HJR 16 in the 110th Congress).

A MACROECONOMIC ANALYSIS OF THE FAIRTAX PROPOSAL



- ▶ Incentives drive all economic behavior.
 - Taxes are a negative incentive.
 - People do not work, invest, or engage in entrepreneurial activities in order to pay taxes.
 - They engage in such economic activities in order to earn after-tax income.
 - When the government increases its share of the income earned by its citizens, the incentive to engage in growth-enhancing economic activities falls; alternatively, the disincentive to these activities rises.
 - The higher the tax on the next dollar earned (the marginal tax rate) the larger the disincentive.

Arduin, Laffer & Moore Econometrics, "A Macroeconomic Analysis of the FairTax Proposal," July 2006

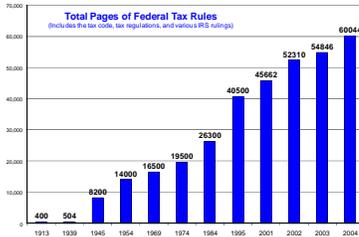
The FairTax Plan HR25 / S13



The ONLY tax proposal created and tested using modern marketing techniques to find out what the American people, across the political spectrum, wanted in a tax system.

- ✓ Polling
- ✓ Focus Groups
- ✓ Paid Advertising
- ✓ Grassroots Organizations
- ✓ Earned media (4000+ radio stations & 80+ TV programs)
- ✓ Cyber Campaign

The System Is Broken



Benefits of the FairTax for Senior Citizens



- ▶ Contributions to pension plans are made with un-taxed dollars and compound tax-free.
- ▶ Pension plans and Social Security benefits are free of federal income taxes.
- ▶ Estates can be passed on to heirs without federal tax implications.
- ▶ Real Estate holdings can be sold without federal tax implications.
- ▶ Purchasing power is maintained.

Why Democrats Like the Fair Tax



- ▶ Tax Wealth, Not Wages
- ▶ Ends Corporate manipulation of our Tax Code.
 - Many corporations pay more money to lobbyists and campaign donations than they pay in taxes!
- ▶ It's progressive. Those who have more, spend more and pay a higher tax rate.
- ▶ Puts Americans back to work.
- ▶ Eliminates tax loopholes that unfairly benefit the rich.

Ten Principles of Federal Tax Policy



1. **Simplicity**
 - Citizens have a fundamental right to know what tax laws require, and compliance should be easy and inexpensive.
2. **Noninvasiveness**
 - A minimally invasive tax code encourages voluntary compliance and reduces the need for enforcement.
3. **Efficiency**
 - The total cost of collecting taxes can be reduced by lowering the number of collection points.

Ten Principles of Federal Tax Policy



4. **Stability**
 - The tax code should be stable and reliable from year to year and generation to generation.
5. **Visibility**
 - The cost of government should be readily apparent to taxpayers.
6. **Neutrality**
 - Taxes should not fall more heavily on one industry or class of individuals than on others.
7. **Economic Growth**
 - Taxes should not impede the investment and consumption decisions that make economic growth possible.

Ten Principles of Federal Tax Policy



8. **Broad-based**
 - Broad tax bases allow rates to be kept low, which in turn encourages voluntary compliance
9. **Equality**
 - The tax system should treat people equally and fairly.
10. **Constitutionality**
 - Taxes must be imposed solely to fund clearly defined constitutional functions.

Imagine...



- ▶ Truly lowering tax rates for low and middle income families.
- ▶ Families being able to save more for home ownership, education and a dignified retirement.
- ▶ A system that assures that no one pays federal income tax on basic necessities.

Imagine...



- ▶ Bringing home your entire paycheck, pension or Social Security payment.
- ▶ Never having to file a personal or corporate Federal Income Tax return.
- ▶ Strategic business decisions based on sound economic principles rather than tax code implications.
- ▶ American products being more competitive at home and overseas.

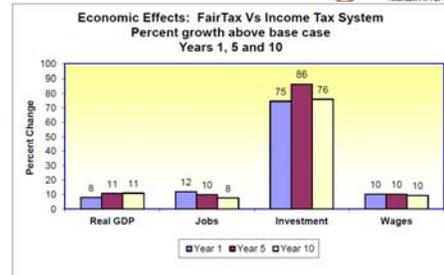
Imagine...



- ▶ The ability to tax black market economies such as drug dealers, prostitution and all other cash only earnings.
- ▶ The ability to protect and assure funding for Social Security and Medicare.
- ▶ All this happening without lowering the revenue projections for the federal budget.

If this were possible...
Would You Be Interested?

Economic Effects



Source: 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.

Fair Tax vs. Flat Tax



	Fair Tax	Flat Tax
Better than the system we currently have	✓	✓
Is a tax on consumption - encourages working and investment	✓	
Is a tax on income - discourages working and investment		✓
Eliminates all Personal and Corporate Federal Income Taxes including inheritance taxes	✓	
Eliminates Payroll Taxes	✓	?
Eliminates the IRS	✓	
Taxes the 1-2 Trillion dollar shadow economy (drug dealers, prostitution, cash businesses)	✓	
Allows Companies to produce goods TAX FREE in the US	✓	
Eliminates the "repatriation tax" bringing Trillions of off-shore dollars back to the US TAX FREE	✓	?
Captures tax from tourism	✓	
Eliminates lobbyists and tax loop holes	✓	?
Gets the government out of our private lives - NO income tax forms to complete	✓	
Untaxes the poor (through the Family Consumption Allowance - a.k.a. Prebate)	✓	
Is HIGHLY Visible	✓	
Is Easy to collect	✓	
Untaxes U.S. Exports	✓	