



Thumbnail sketch of the FairTax®

A comprehensive plan to replace income and payroll taxes

The FairTax proposal is a comprehensive plan to replace federal income and payroll taxes, including personal, gift, estate, capital gains, alternative minimum, Social Security/Medicare, self-employment, and corporate taxes. The FairTax® proposal integrates such features as a progressive national retail sales tax, dollar-for-dollar revenue replacement, and a rebate to ensure that no American pays such federal taxes up to the poverty level. Included in the FairTax® Plan is the repeal of the 16th Amendment to the Constitution. The FairTax® allows Americans to keep 100 percent of their paychecks (minus any state income taxes), ends corporate taxes and compliance costs hidden in the retail cost of goods and services, and fully funds the federal government while fulfilling the promise of Social Security and Medicare.

Americans take home their whole paychecks. Not only do more Americans have jobs, but they also take home 100 percent of their paychecks (except where state income taxes apply). No federal income taxes or payroll taxes are withheld from paychecks, pensions, or Social Security checks.

The prebate makes the FairTax® progressive. To ensure no American pays tax on necessities, the FairTax® Plan provides a prepaid, monthly rebate (prebate) for every registered household to cover the consumption tax spent on necessities up to the federal poverty level. This, along with several other features, is how the FairTax® completely untaxes the poor, lowers the tax burden on most, while making the overall rate progressive. However, the FairTax® is progressive based on lifestyle/spending choices, rather than simply punishing those taxpayers who are successful. Do you see how much freer life is with the FairTax® instead of the income tax?

The amount you pay to fund the government No tax on used goods is totally visible.

With the FairTax® you are only taxed once on any good or service. If you choose to buy used goods—used car, used home, used appliances—you do not pay the FairTax®. If, as a business owner or farmer, you buy something for strictly business purposes (not for personal consumption), you pay no consumption tax. The FairTax® is charged just as state sales taxes are today. When you decide what to buy and how much to spend, you see exactly how much you are contributing to the government with each purchase.

Retail prices no longer hide corporate taxes or their compliance costs, which drive up costs for those who can least afford to pay. Did you know that income taxes and the cost of complying with them currently make up 20 percent or more of all retail prices? It's true. According to Dr. Dale Jorgenson of Harvard University, hidden income taxes are passed on to the consumer in the form of higher prices for everything you buy. If competition does not allow prices to rise, corporations lower labor costs, again hurting those who can least afford to lose their jobs. Finally, if prices are as high as competition allows

and labor costs are as low as practical, profits/dividends to shareholders are driven down, thereby hurting retirement savings for moms-and-pops and pension funds invested in Corporate America. With the FairTax®, the sham of corporate taxation ends, competition drives prices down, more people in America have jobs, and retirement/pension funds see improved performance

The income tax exports our jobs, rather than our products. The FairTax® brings jobs home. Most importantly, the FairTax® does not burden U.S. exports the way the current income tax system does. The FairTax® removes the cost of corporate taxes and compliance costs from the cost of U.S. exports, putting U.S. exports on a level playing field with foreign competitors. Lower prices sharply increase demand for U.S. exports, thereby increasing job creation in U.S. manufacturing sectors. At home, imports are subject to the same FairTax® rate as domestically produced goods. Not only does the FairTax® put U.S. products sold here on the same tax footing as foreign imports, but the dramatic lowering of compliance costs in comparison to other countries' value-added taxes (V.A.T.) also gives U.S. products a definitive pricing advantage which foreign tax systems cannot match.

The FairTax® strategy is revenue neutrality: Neither raise nor lower taxes so consumer costs remain stable. The FairTax® pays for all current government operations, including Social Security and Medicare. Government revenues are more stable and predictable than with the federal income tax because consumption is a more constant revenue base than is income.

If you were in a 23-percent income tax bracket, the federal government would take \$23 out of your paycheck for every \$100 you made. With the FairTax®, if the federal government gets \$23 out of every \$100 spent in America, the same total revenue is delivered to the federal government. This is revenue neutrality. So, instead of paycheck-earning Americans paying 7.65 percent of their paychecks in Social Security/Medicare payroll taxes, plus an average of 18 percent of their paychecks in federal income tax, for a total of about 25.65 percent, consumers in America pay only \$23 out of every \$100. Or about 30 percent at the cash register when they elect to spend on new goods or services for their own personal consumption. And this tax is collected only on spending above the federal poverty level, providing important progressivity.

Tax criminals – don't make criminals out of honest taxpayers.

Today, the IRS will admit to 16 percent noncompliance with the code. FairTax.org will be generous and simply take the position that this is likely a conservative estimate of the underground economy. However, this does not take into account the criminal/drug/porn economy, which equally conservative estimates put at one trillion dollars of untaxed activity. The FairTax® does tax this – criminals love to flash that cash at retail – while continuing to provide the federal penalties so effective in bringing such miscreants to justice. The substantial decrease in points of compliance – from every wage earner, investor, and retiree, down to only retailers – also allows enforcement to concentrate on following the money to criminal activity, rather than making potential criminals out of every taxpayer struggling to decipher the current code.

What is the FairTax® Plan?

The FairTax® Plan is a comprehensive proposal that replaces all federal income and payroll based taxes with an integrated approach including a progressive national retail sales tax, a prebate to ensure no American pays federal taxes on spending up to the poverty level, dollar-for-dollar federal revenue replacement, and, through companion legislation, the repeal of the 16th Amendment. This nonpartisan legislation (HR 25/S 155) abolishes all federal personal and corporate income taxes, gift, estate, capital gains, alternative minimum, Social Security, Medicare, and self-employment taxes and replaces them with one simple, visible, federal retail sales tax – administered primarily by existing state sales tax

authorities. The IRS is disbanded and defunded. The FairTax® taxes us only on what we choose to spend on new goods or services, not on what we earn. The FairTax® is a fair, efficient, transparent, and intelligent solution to the frustration and inequity of our current tax system.

What is Americans For Fair Taxation (FairTax.org)? FairTax.org is a nonprofit, nonpartisan, grassroots organization solely dedicated to replacing the current tax system. The organization has hundreds of thousands of members and volunteers nationwide. Its plan supports sound economic research, education of citizens and community leaders, and grassroots mobilization efforts. For more information visit the Web page: www.FairTax.org or call 1-800-FAIRTAX.

TAW 05 09, rev. KEW/km 6-18-07 (AFFT Documents\Thumbnail sketch)