



# ***Americans For Fair Taxation<sup>®</sup>***

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[www.alfairtax.org](http://www.alfairtax.org)

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# *The Founding Fathers, being students of History, got it right!*



- **1791: “The Congress shall have power to lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defense and general welfare of the United States; but all duties, imposts and excises shall be uniform throughout the United States; ...” Article I, Section 8, Clause 1, United States Constitution**

*The Founding Fathers,  
being students of history,  
got it right!*



- **1791: “No Capitation, or other direct, Tax shall be laid [unless in Proportion to the Census or enumeration herein before directed to be taken.]” Article I, Section 9, Clause 4, United States Constitution**

*But we chose to ignore  
their advice and the  
lessons of history.*

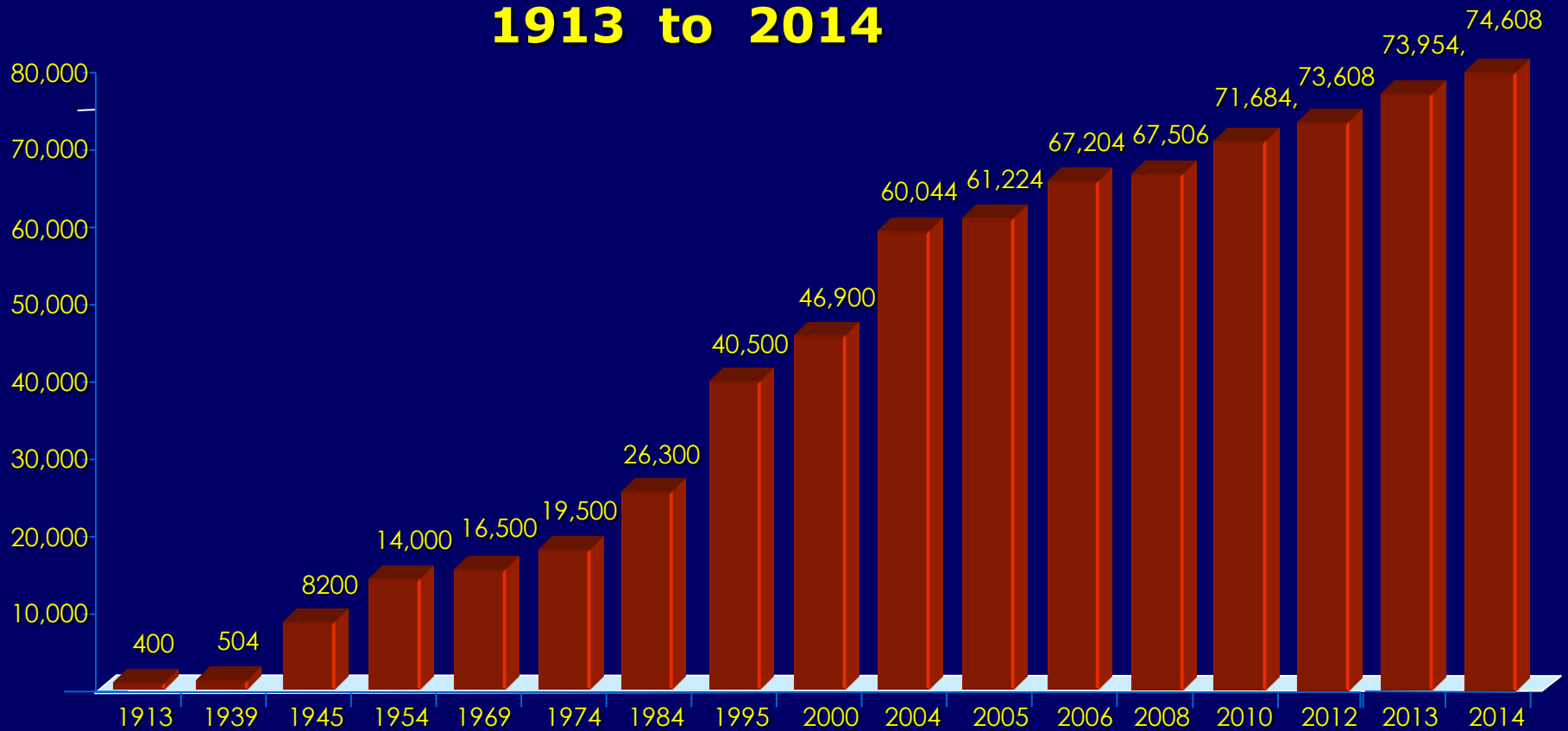


- **1913: “The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration.” 16<sup>th</sup> Amendment to the Constitution of the United States**

# The Income Tax was a Flat Income Tax in 1913



## Tax Code, Rules and Regulations Page Growth 1913 to 2014

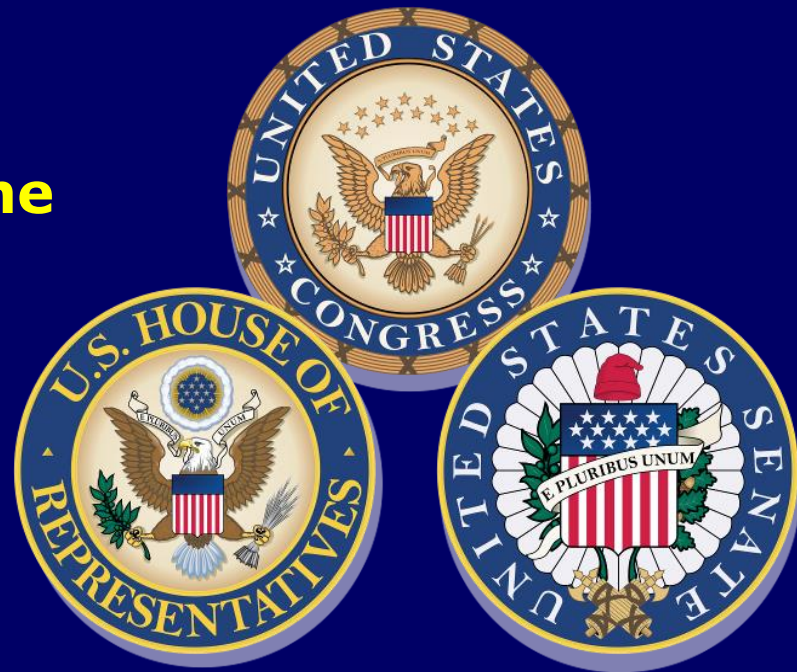


Source: FairTax.Org

# *What's Wrong with the IRC*



- ★ **Internal Revenue Code (IRC) resides in Title 26 of the U.S. Code.**
- ★ **The IRC of 1986 is the governing tax code as amended.**
- ★ **By 2005 amended over 14,000 times.**
- ★ **Updated 969 times by the 110<sup>th</sup> Congress.**



# *Four Major Issues*



**Four major economic issues drive us to a consumption tax such as the FairTax**

- 1. Embedded Taxes Amounting to an Average of 22%**
- 2. Tax Compliance Costs of \$400B - \$500B per Year**
- 3. An Underground Economy in Excess of \$2 trillion not paying its share**
- 4. More than \$15T in offshore financial centers in dollar denominated deposits looking for an opportunity to get into our markets**



# Who Pays Corporate Taxes?



★ Corporations do not pay taxes, they collect taxes; only wage earners can pay taxes through ...

- Higher product prices,
- Decreased dividends and or,
- Employee layoffs

1099 Div  
Tax Year 2008  
Total \$0.00

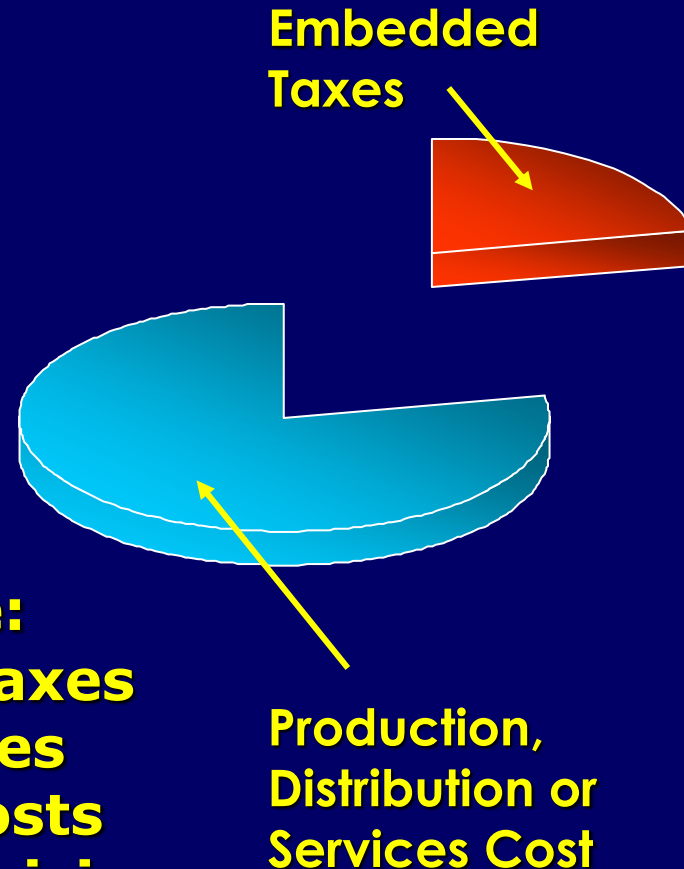
# *Embedded Taxes*



★ **The aggregate of all goods and services are sold with an estimated average embedded tax of 22% (16% - 29%).**

- ★ **Embedded taxes include:**
- **Hidden Withholding Taxes**
  - **Hidden Corporate Taxes**
  - **Hidden Compliance Costs**
  - **Cost of Tax Driven Decisions**

*(See the Hammer Scenario)*



Source: The FairTax Book, FairTax.org

# THE HAMMER SCENARIO – A PER/UNIT ANALYSIS

## APPLIES TO THE SALE OF ANY SERVICE OR PRODUCT BOUGHT IN FINAL PERSONAL CONSUMPTION

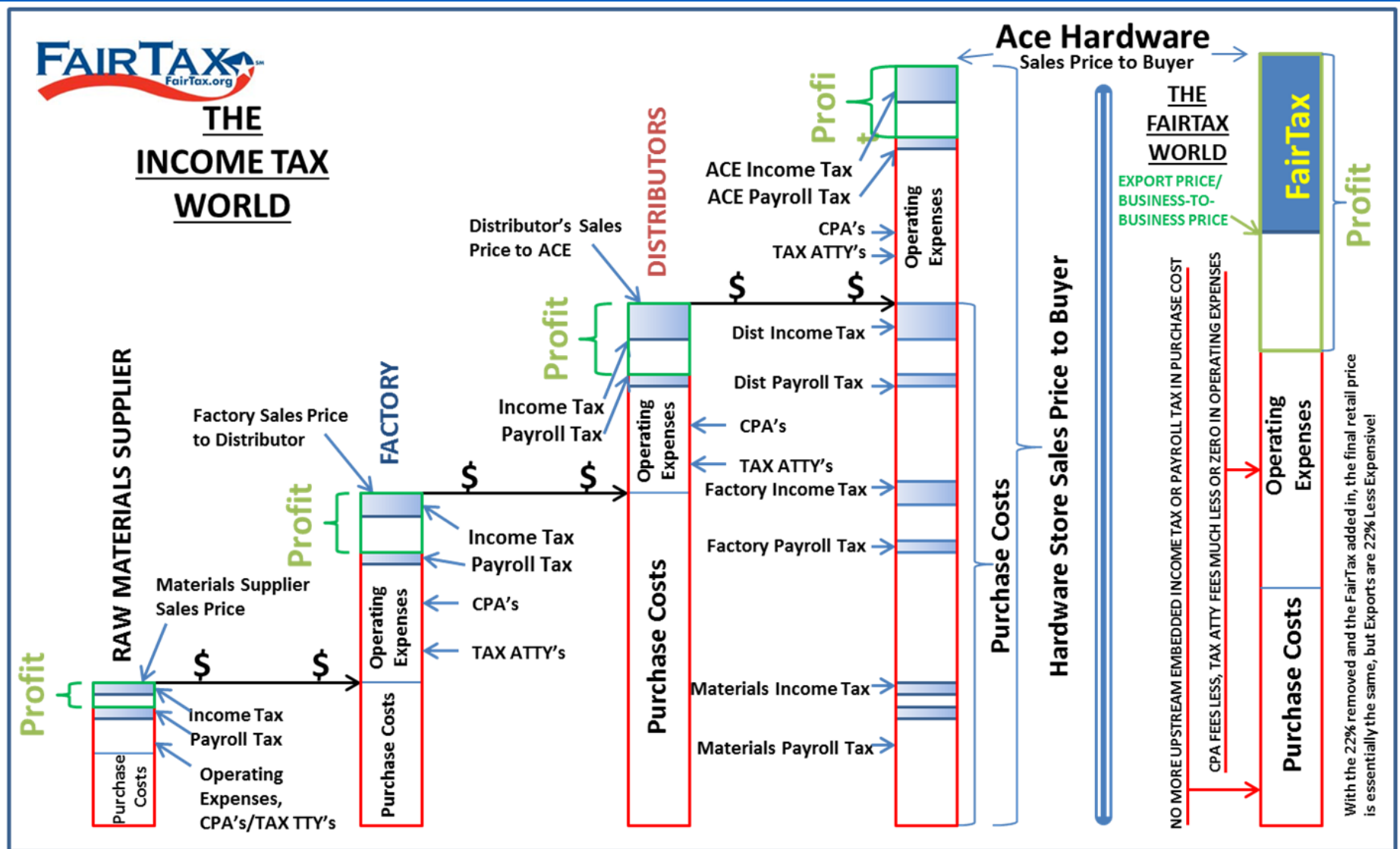


Chart by Dan Borowicz, Realtor, MN

# *FairTax Act*



- **The FairTax Act of 2015 is HR 25 and S 155**
- **Totally replaces income tax with consumption tax**
- **Allows You to Keep Your Whole Paycheck**
- **Reduces price of goods and services up to 20%**
- **Collected one time on new goods and services**
- **Un-Taxes Low Income Earners and Poor: Prebate**
- **Abolishes the IRS within three years**
- **Simple and Revenue Neutral**
- **Invigorates the economy with private funds**

# *Keep Your Whole Paycheck???*



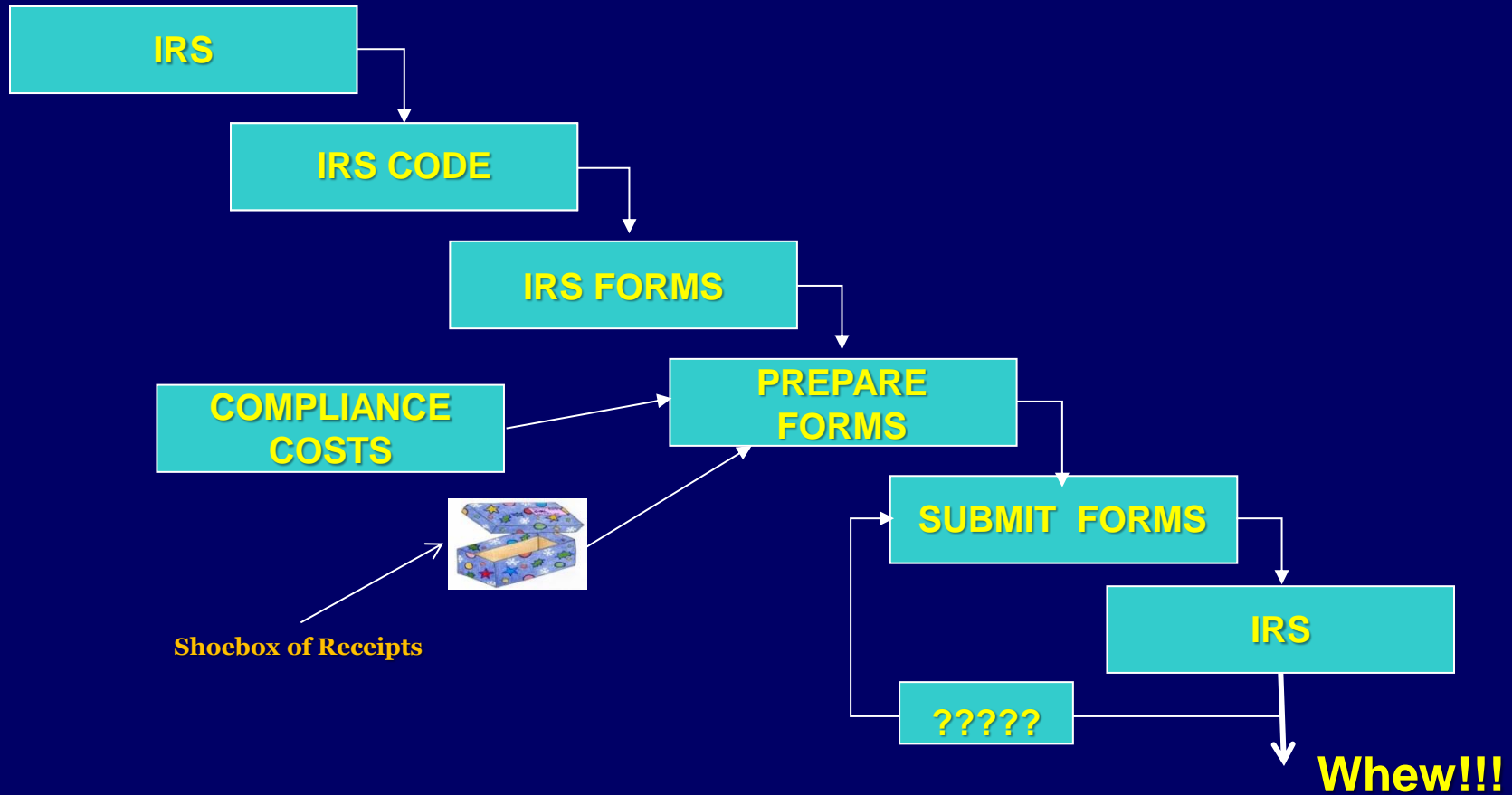
- **The FairTax eliminates all forms of income tax**
  - **Individual income taxes**
  - **Social Security taxes**
  - **Medicare taxes**
  - **Self-Employment taxes**
  - **Alternative Minimum Taxes**
  - **Corporate taxes**
  - **Interest and Dividends taxes**
  - **Capital Gains, Estate and Gift taxes**
- **The FairTax eliminates all exemptions**
- **When enacted, requires repeal of 16<sup>th</sup> Amendment within seven years**
- **When enacted, REPLACES income tax, REMOVES embedded taxes**

# THE TAX SYSTEM TODAY

Taxes what you earn



## The income tax flow down





# THE FAIRTAX

Taxes what you spend



**23 CENTS OUT OF EACH DOLLAR SPENT ON NEW PURCHASES AND SERVICES.**

General Revenue Fund: **15¢**

**23¢**



Social Security and Medicare **8¢**  
Trust Funds:

# 2015 FairTax Rebate Schedule



## 2015 FairTax Prebate Schedule

One-adult household				Two-adult household			
Size of Family	Annual Consumption Allowance	Annual Prebate	Monthly Prebate	Size of Family	Annual Consumption Allowance	Annual Prebate	Monthly Prebate
1 person	\$11,770	\$2,707	\$226	couple	\$23,540	\$5,414	\$451
and 1 child	\$15,930	\$3,664	\$305	and 1 child	\$27,700	\$6,371	\$531
and 2 children	\$20,090	\$4,621	\$385	and 2 children	\$31,860	\$7,328	\$611
and 3 children	\$24,250	\$5,578	\$465	and 3 children	\$36,020	\$8,285	\$690
and 4 children	\$28,410	\$6,534	\$545	and 4 children	\$40,180	\$9,241	\$770
and 5 children	\$32,570	\$7,491	\$624	and 5 children	\$44,340	\$10,198	\$850
and 6 children	\$36,730	\$8,448	\$704	and 6 children	\$48,500	\$11,155	\$930
and 7 children	\$40,890	\$9,405	\$784	and 7 children	\$52,660	\$12,112	\$1,009

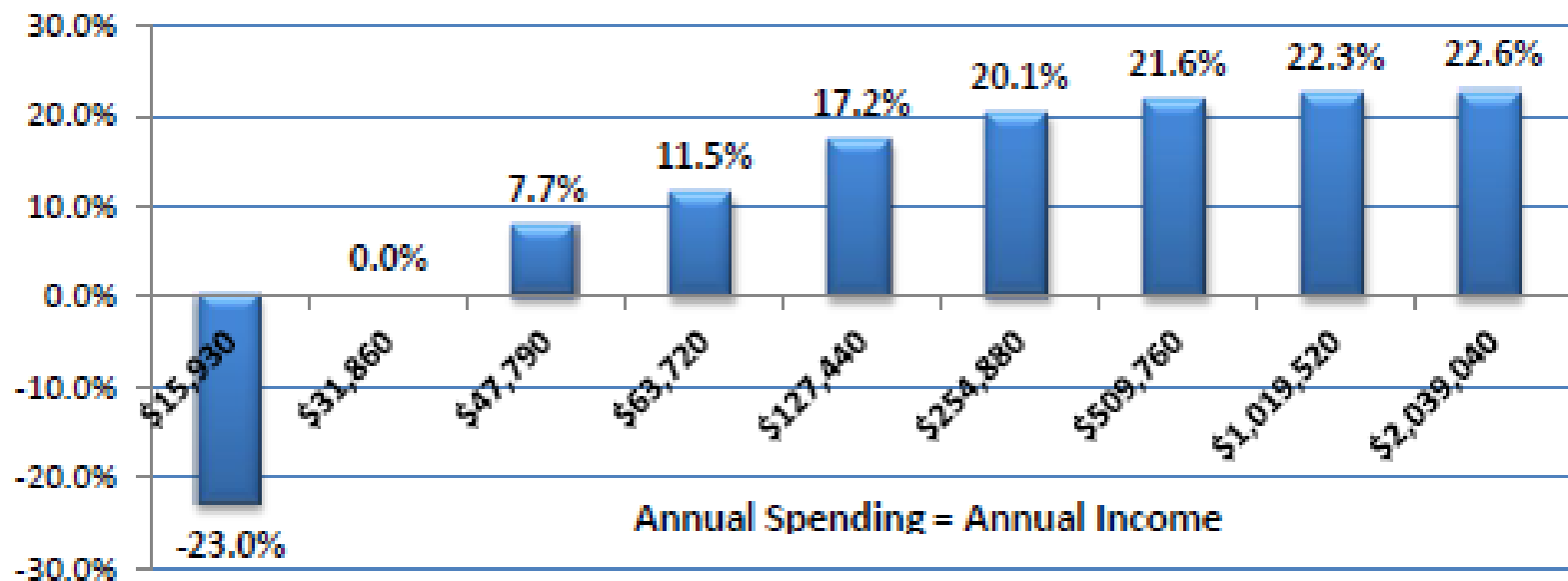
For Families/households with more than 8 persons, add \$4,160 to the annual consumption allowance for each additional person. The annual consumption allowance is based on the DHHS 2015 HHS Poverty Guidelines as published in the Federal Register, January 22, 2015. The annual prebate equals 23% of the annual consumption allowance.



# Effective Tax Rates: 2015



FairTax Rate as a Percent of Spending: 2015  
Two Adult/Two Child Household



Note: The Tax rate is calculated by subtracting the annual prebate from the FairTaxes on spending and dividing that result by annual spending.

# Question?



- Which would you rather do?
  - *Pay an average of 33% of what you earn as income tax*
  - *Pay 23% on what you spend on new goods and services\**

*\* Remember: The rebate totally un-taxes you up to the poverty level*

# *Only Three Forms Required*



- **Request for Prebate**
- **Employer Verification of salary for Social Security and Medicare**
- **Retailer's Periodic Submittal of FairTax to the State**

# *Abolishes the IRS*



- **Enactment in 2015, FairTax implemented in 2016**
- **Taxpayers are still required to file their 2015 income tax returns by April 15, 2016**
- **The IRS remains in place until September 30, 2018 to reconcile tax returns for the 2015 tax year**
- **All Income Tax Data Destroyed except for FICA**
- **September 30, 2018 – No funding of the IRS beyond this date as specified in Sec. 301 of HR 25 / S 155**

# *Revenue Neutral and Progressive*



- **Changes from 160 Million Income Tax Filers to 300+ Million Spenders**
- **Up to 150 Million Foreign Visitors Pay FairTax yearly**
- **Illegal Immigrants and Criminals contribute (over \$2 Trillion currently not taxed)**
- **Prebate Un-Taxes Low Wage Earners and the Poor**
- **Saves Over \$431 Billion in Compliance Costs**
- **Saves Over \$125 Billion in Tax Driven Decisions**
- **Collects \$350+ Billion Previously Lost to Tax Evasion**
- **6.9 Billion Man-hour Reduction in Compliance and Record Keeping Effort**

# *U.S. -- THE Tax Haven*



- **Estimated Over \$15 Trillion Exists in Dollar Denominated Off-Shore Accounts**
- **Dollars to be Safe**
- **Offshore to be Secret**
- **Some of it Legit, Some Not!**
- **Within Months of enacting the FairTax , Money, Manufacturing, Jobs and Many Company Headquarters Would Return to the U.S.**
- **The American Jobs Creation Act of 2004 is a Case in Point**

# *Things to Remember*



## ■ **With the FairTax**

- **The Income Tax Law is TOTALLY REPLACED**
- **Collection is ONLY at the Point of Sale of New Goods and Services**
- **Everyone Pays at the Cash Register: no Exemptions**
- **Necessities of Life are Un-taxed Through a Rebate**
- **Saves Social Security and Medicare for the Near Term**
- **The Amount Collected is Revenue Neutral**
- **Over \$15 Trillion Dollars Returns to the U.S. Meaning Manufacturing Facilities, Jobs and even Company Headquarters Return and Revive our Economy**

## ■ **FAIR TAX: The Real Stimulus Plan!**

# *So ... You Think You Want a Flat Income Tax??*



- **Which flat income tax bill are you thinking about?**
  - **HR 1040 in the U.S. House, or**
  - **HR 1824 in the U.S. House, S 929 in the Senate**
  
- **The flat income tax *DOES NOT*:**
  - **have a coordinated bill in the House and Senate**
  - **Have over \$22 Million in privately funded scholarly research to back it up**
  - **Repeal the income tax law**
  - **Abolish the IRS**
  - **Require the repeal of the 16<sup>th</sup> Amendment**



# *The flat income tax* *IS NOT:*



- **A replacement for the income tax**
- **Less oppressive on the low income earner**
  - **Low income earners still pay 7.65% or 15.3% in FICA taxes**
- **A long term economic growth vehicle**
- **A long term jobs bill**
- **A tax on the wealthy**
  - **Wealthy people don't have salaries, don't pay FICA taxes**
  - **Wealthy people live off of investments, capital gains and dividends**
  - **Steve Forbes, Dick Armey, Mitt Romney and other wealthy people want the flat income tax**

# *The flat income tax in HR 1040 IS:*



- In addition to the present income tax make up of over 74,000 pages of federal tax rules
- 19% for the first two years, 17% thereafter
- Actually 34.3% for the first two years, then 32.3% thereafter for the low income earner due to the addition of the regressive FICA tax
- A penalty on young income earners
- Only 19%, then 17% for the wealthy as explained before
- Permanent once chosen (unless congress later changes the law)
- A catalyst for a whole new surge of exemptions for vote buying and favors for large donors
  - An average of two changes per day to the law recorded since 1986 "tax reform"
  - Flat income tax just reboots the congressional exemption factory

# Exclusive Tax Rates



## Present Income Tax Calculated as Being Exclusive

Inclusive Tax Rate*	Medicare	Social Security	Exclusive Tax Rate	Total Exclusive
10%	1.45%	6.2%	$[(10 + 1.45 + 6.2)/(100-17.65)] \times 100$	21.4%
15%	1.45%	6.2%	$[(15 + 1.45 + 6.2)/(100-22.65)] \times 100$	29.3%
25%	1.45%	6.2%	$[(25 + 1.45 + 6.2)/(100-32.65)] \times 100$	48.5%
28%	1.45%	6.2%	$[(28 + 1.45 + 6.2)/(100-35.65)] \times 100$	55.4%
33%	1.45%	6.2%	$[(33 + 1.45 + 6.2)/(100-40.65)] \times 100$	68.5%
35%	1.45%	6.2%	$[(35 + 1.45 + 6.2)/(100-42.65)] \times 100$	74.4%

Formula:  $[\text{Inclusive Tax Rate} / (100 - \text{Inclusive Tax Rate})] \times 100 = \text{Exclusive}$

\* IRS Tax Rates

# *Exclusive Tax Rates*



## 17% and 19% Flat Income Tax Calculated as Being Exclusive

Inclusive Tax Rate*	Medicare	Social Security	Exclusive Tax Rate	Total Exclusive
17%	1.45%	6.2%	$[(17 + 1.45 + 6.2)/(100 - 24.65)] \times 100$	32.7%
19%	1.45%	6.2%	$[(19 + 1.45 + 6.2)/(100 - 26.65)] \times 100$	36.3%

\* Flat Income Tax Rates

# Wages Needed to Have \$100 to Spend - 2015



Employment Status	2015 Income Tax Bracket					
	10%	15%	25%	28%	33%**	35%**
Percent of total tax returns in bracket*	27.4%	41.8%	23.5%	4.5%	1.8%	1.0%
<b>Employee</b>						
Gross Earnings	\$121.43	\$129.28	\$148.48	\$155.40	\$149.25	\$153.85
Income Tax	\$12.14	\$19.39	\$37.12	\$43.51	\$49.25	\$53.85
Payroll tax at 7.65%	\$9.29	\$9.89	\$11.36	\$11.89	\$0.00	\$0.00
Available Spending	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00
<b>Self-employed person</b>						
Gross Earnings	\$133.87	\$143.47	\$167.50	\$176.37	\$149.26	\$153.84
Income Tax	\$13.39	\$21.52	\$41.88	\$49.38	\$49.26	\$53.84
Payroll tax at 15.3%	\$20.48	\$21.95	\$25.63	\$26.98	\$0.00	\$0.00
Available Spending	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00

\*All filing statuses combined: married joint, married separate, single, single head of household

\*\*Income for these brackets exceed payroll tax wage cap(\$118,500), so no effect.

Note: Self-employed persons pay both the employee and employer share of payroll taxes.