



# ***ALABAMA ECONOMIC FREEDOM ACT***

***(Alabama State FairTax)***

**A Real Economic Stimulus Plan  
For the State of Alabama**

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**House Sponsor: Rep. Mike Holmes**  
**Senate Sponsor: Senator Tom Butler**

# *Ground Rules and Assumptions*

- The Alabama Economic Freedom Act only addresses replacement of the total current tax collection system
- It does not address spending
- All existing programs funded at same levels under the new system. That is, it is *revenue neutral*
- Defined to return economic freedom to Alabama

AS THESE CHARTS ARE VIEWED, REMEMBER THAT THE CURRENT SYSTEM (INCOME/SALES TAX) IS REPEALED AND REPLACED. NOTHING ASSOCIATED WITH THAT SYSTEM APPLIES!

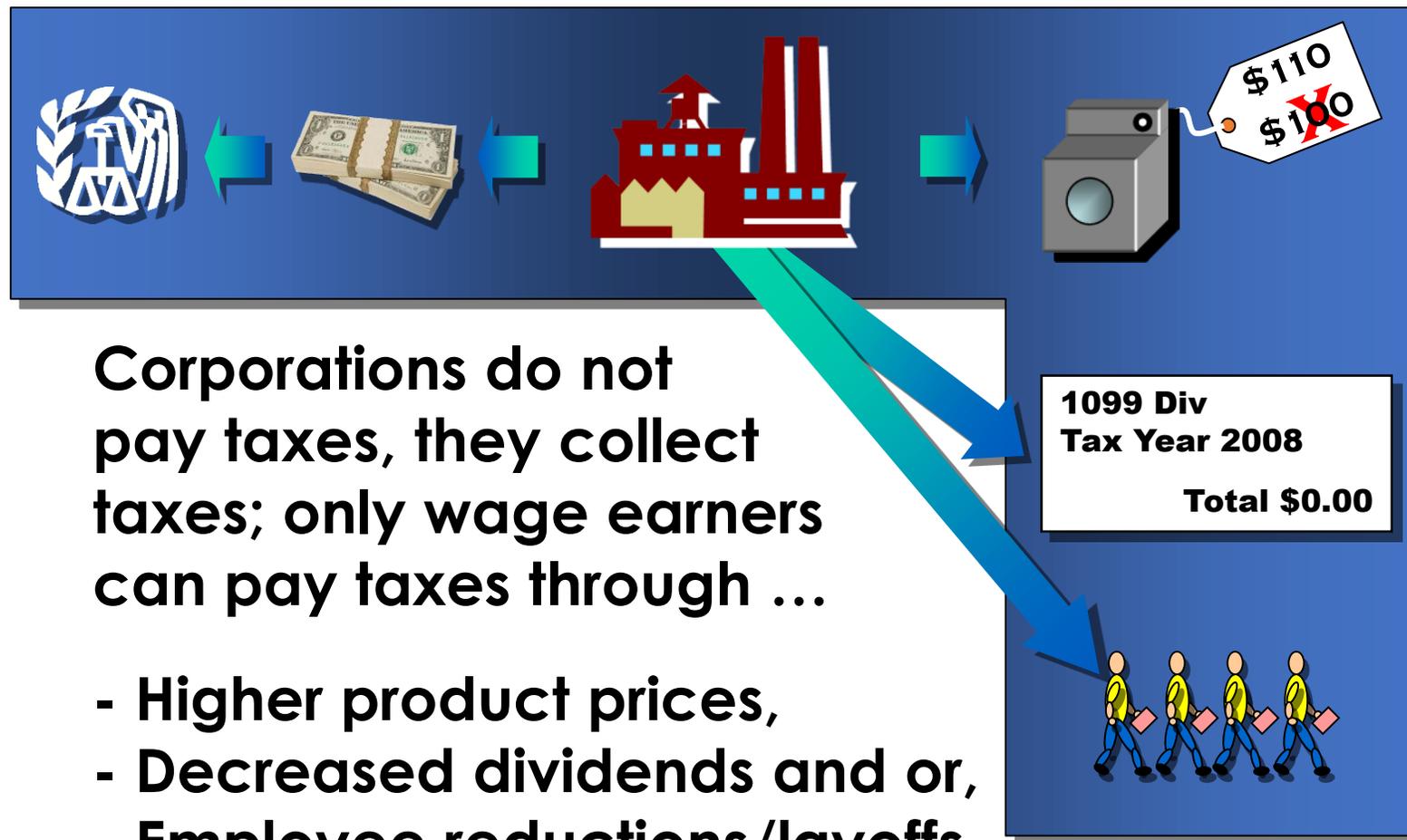
# ***The Alabama Economic Freedom Act: AEFA***

- Object of the Act
  - Totally repeal and replace current tax system
  - Abolish the Income Tax Division and records within three years
  - Enact a single rate 'inclusive' consumption tax at retail
    - Collected one time
    - Only on new goods and services
    - Only on purchases for personal use
    - No business-to-business taxes
  - Create a positive business climate to bring industry to Alabama

# *What's the Problem?*

- Alabama's tax system distorts economic activity
- It depresses total income and employment
- It hides the cost of government
- Its complexity significantly increases compliance costs and enforcement challenges
  - Taxing income inhibits productive work
  - Money and time are wasted filling in forms
- System is riddled with exemptions
  - Fosters winners and losers
  - Unfair to those not eligible to receive
- Government knows more about you than you're willing to tell your children

# Who Really 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 reductions/layoffs

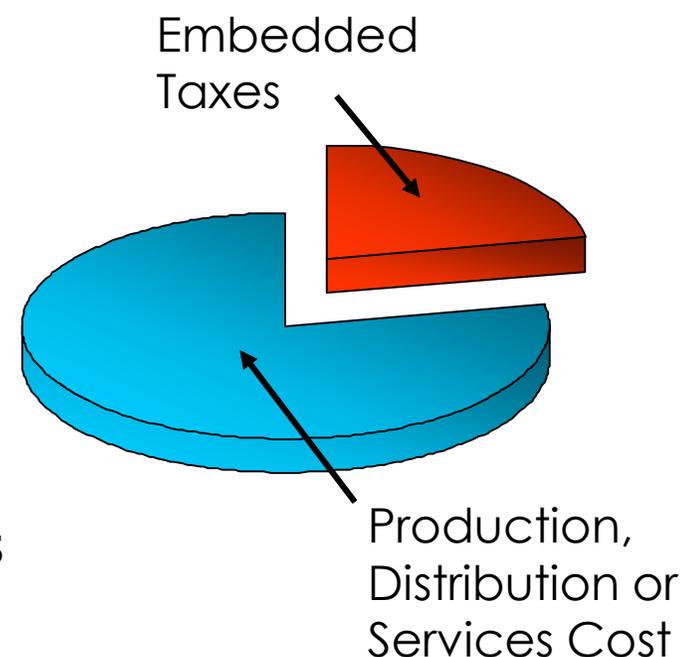
# ***Question: What are Corporate Taxes?***

## ***Answer: Embedded Taxes!***

- ★ The aggregate of all goods and services are sold with an estimated average embedded tax of 6.0%

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

*(See the Hammer Scenario)*

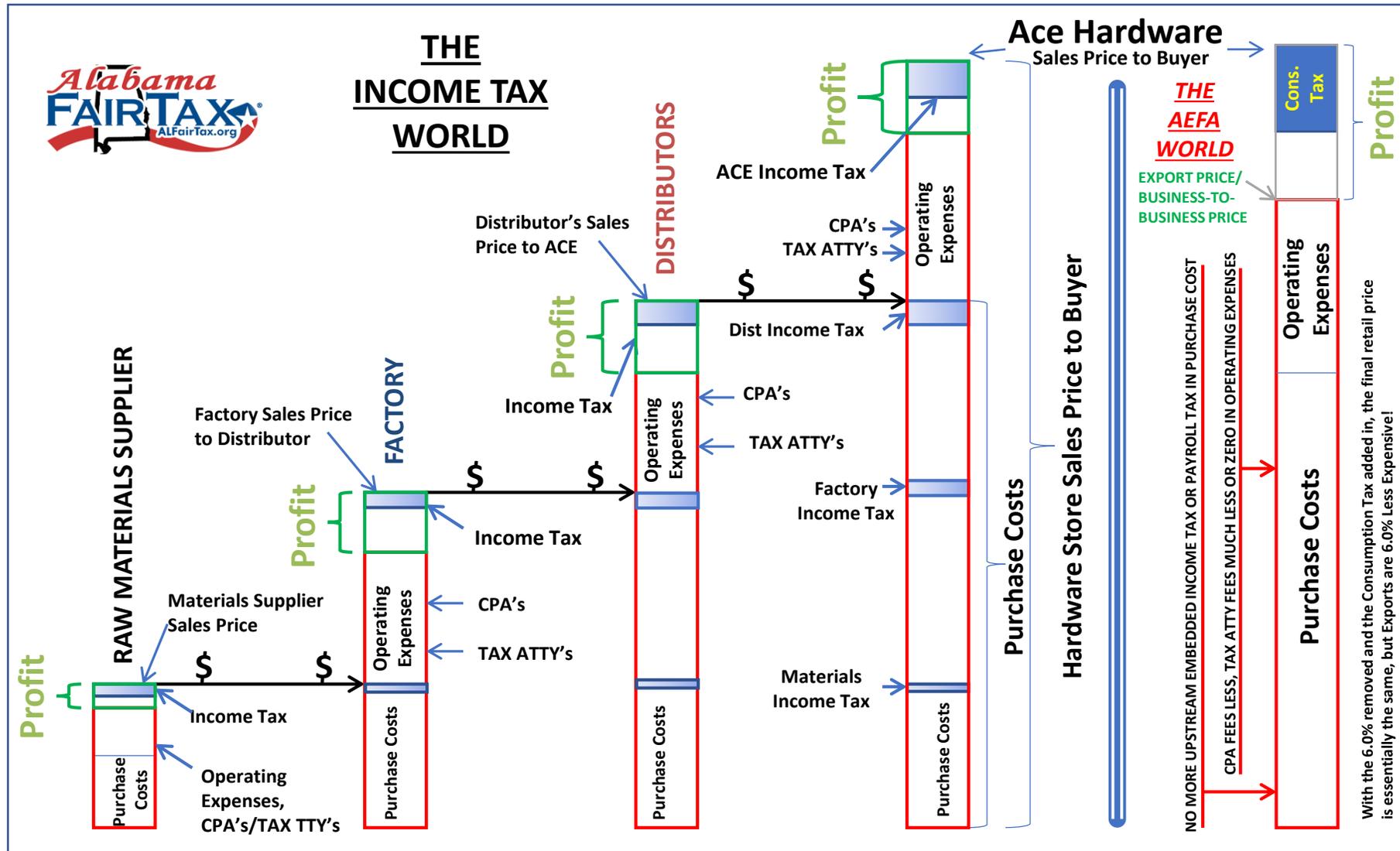


# ***Question: Where do embedded taxes come from?***

- Answer: Aggregation of the following at each level of the production cycle,
  - Hidden Withholding Taxes
  - Hidden Corporate Taxes
  - Hidden Compliance Costs
  - Cost of Tax Driven Business Decisions
- The effects are illustrated in the following “Hammer Scenario” Slide
  - Notice the intensive reporting and support required on income tax side (Blue Bands + Tax Compliance = Wasted \$\$\$ embedded in final price)
  - A single form is submitted by the Retailer on the AEFA side to report all taxes
  - No other known tax system is as simple, fair, visible, neutral, efficient, stable or fosters robust economic growth like the AEFA

# THE HAMMER SCENARIO – A PER/UNIT ANALYSIS

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



# ***AEFA: Business Friendly***

- 0.0% Corporate Taxes
  - No business-to-business taxes
  - Makes Alabama an industry magnet
  - Increases investment
  - Attracts more high skill/high pay jobs
  - Robust, sustainable economic growth ensues
  - Draws subcontractors into Alabama

# ***AEFA: Initiates Consumption Tax***

- Inclusive consumption tax collected at point of retail sales
  - Collected one time
  - Only retailers collect and report the tax (see last slide)
  - Reduces number of entities to be audited
  - Reduces cost of collection
  - Retailers receive ¼% of the tax to offset the collection costs
    - Administration Credit
    - \$200 min. up to 20% of max. sales
- No forms or accounting for individual or business income tax
- Eliminates all exemptions
  - Education and charitable donations treated as investments
  - Investment, dividend and savings account interest not taxed
- Removes embedded taxes

# How to calculate the administrative credit

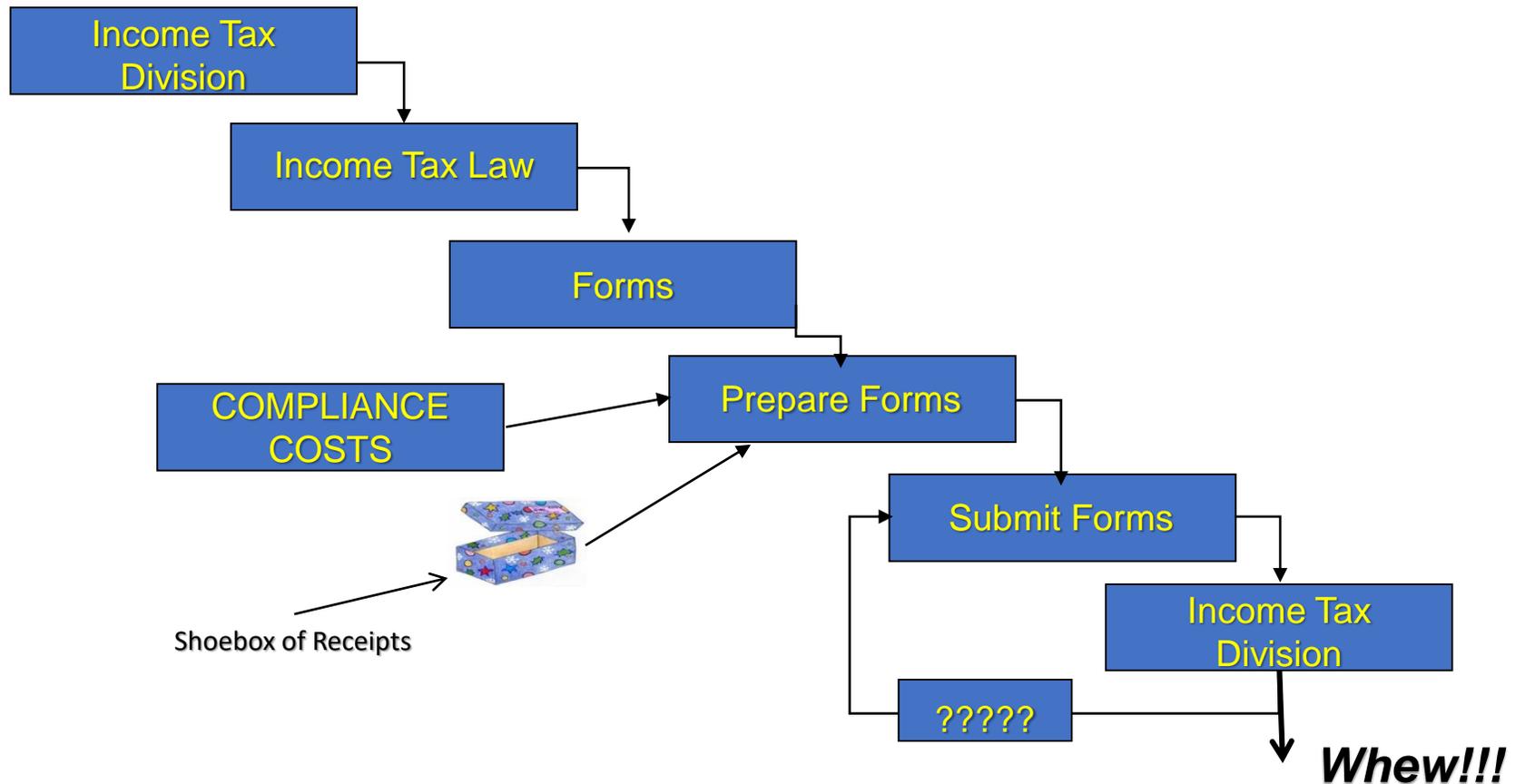
(1) Monthly Retail Sales Volume	(2) Monthly Taxes Collected	Monthly Administrative Credit		
		(3) ¼ of 1 Percent	(4) Minimum	(5) Maximum 20% of Tax Paid
\$500.00	\$ 43.50	\$ 0.11	\$200.00	\$ 8.70
\$1,000.00	\$ 87.00	\$ 0.22	\$200.00	\$ 17.40
\$10,000.00	\$ 870.00	\$ 2.18	\$200.00	\$ 174.00
\$12,000.00	\$ 1,044.00	\$ 2.61	\$200.00	\$ 208.80
\$14,000.00	\$ 1,218.00	\$ 3.05	\$200.00	\$ 243.60
\$16,000.00	\$ 1,392.00	\$ 3.48	\$200.00	\$ 278.40
\$18,000.00	\$ 1,566.00	\$ 3.92	\$200.00	\$ 313.20
\$20,000.00	\$ 1,740.00	\$ 4.35	\$200.00	\$ 348.00
\$100,000.00	\$ 8,700.00	\$ 21.75	\$200.00	\$ 1,740.00
\$500,000.00	\$ 43,500.00	\$ 108.75	\$200.00	\$ 8,700.00
\$1,000,000.00	\$ 87,000.00	\$ 217.50	\$200.00	\$ 17,400.00
\$1,200,000.00	\$ 104,400.00	\$ 261.00	\$200.00	\$ 20,880.00
\$1,400,000.00	\$ 121,800.00	\$ 304.50	\$200.00	\$ 24,360.00
\$1,600,000.00	\$ 139,200.00	\$ 348.00	\$200.00	\$ 27,840.00
\$1,800,000.00	\$ 156,600.00	\$ 391.50	\$200.00	\$ 31,320.00
\$2,000,000.00	\$ 174,000.00	\$ 435.00	\$200.00	\$ 34,800.00
\$3,000,000.00	\$ 261,000.00	\$ 652.50	\$200.00	\$ 52,200.00
\$4,000,000.00	\$ 348,000.00	\$ 870.00	\$200.00	\$ 69,600.00
\$5,000,000.00	\$ 435,000.00	\$ 1,087.50	\$200.00	\$ 87,000.00
\$10,000,000.00	\$ 870,000.00	\$ 2,175.00	\$200.00	\$ 174,000.00

This table illustrates how the retailer is reimbursed to collect the consumption tax. Collections up to \$1,000 are reimbursed from column (5); \$1,000 to \$80,000 from column (4); and from column (3) for taxes collected above \$80,000.

# THE INCOME TAX SYSTEM TODAY

*The income tax flow down*

**Taxes what you earn**



# THE AEFA

## Taxes what you spend

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

8.03¢



# ***AEFA: Family Friendly***

- Protects *ALL* Alabama citizens from tax on essentials of life
  - Family Consumption Allowance (FCA)
    - Monthly rebate of tax on life's essentials
    - Based on US Dept. of Health & Human Services poverty guidelines
    - Must be a legal U.S. *AND* Alabama resident with *verifiable* SSN to receive
  - Calculated by family size *NOT* income
    - Poverty Level times Tax Rate divided by twelve

# 2019 AEFA Rebate Schedule



One-Adult Household				Two-Adult Household			
Size of Family	Family Consumption Allowance	Annual Rebate	Monthly Rebate	Size of Family	Family Consumption Allowance	Annual Rebate	Monthly Rebate
1 person	\$12,490	\$1,003	\$84	Couple	\$24,980	\$2,006	\$167
And 1 child	\$16,910	\$1,358	\$113	And 1 child	\$29,400	\$2,361	\$197
And 2 children	\$21,330	\$1,713	\$143	And 2 children	\$33,820	\$2,716	\$226
And 3 children	\$25,750	\$2,068	\$172	And 3 children	\$38,240	\$3,071	\$256
And 4 children	\$30,170	\$2,423	\$202	And 4 children	\$42,660	3,426	\$285
And 5 children	\$34,590	\$2,778	\$232	And 5 children	\$47,080	\$3,781	\$315
And 6 children	\$39,010	\$3,133	\$261	And 6 children	\$51,500	\$4,135	\$345
And 7 children	\$43,430	\$3,889	\$324	And 7 children	\$55,920	\$4,490	\$374

# 2019 AEFA Rebate Schedule

Data Source



For Families/households with more than 7 dependents, add \$4,420 to the annual consumption allowance for each additional dependent (includes grandparents, children, adopted children or children under legal guardianship). The annual consumption allowance is based on the DHHS 2019 HHS Poverty Guidelines as published in the Federal Register, January 18, 2019. The annual prebate equals 8.03 % of the annual consumption allowance.

# Prebate Made Easy: Points to Remember

- **Individuals and corporations fare better under the AEFA**
- **The AEFA is revenue neutral**
- **Looking at the Effective Rate chart, from \$0 to poverty level spending, no eligible Alabamian pays the consumption tax. The Prebate covers poverty level spending on new goods and services for life's necessities**
- **The tax is progressive in a positive sense**
  - At 1.5 times poverty level spending, the effective tax is 2.7%
  - At 2 times poverty level spending, the effective tax is 4.0%
  - At 4 times poverty level spending, the effective tax is 6.0%
  - At 8 times poverty level spending, the effective tax is 7.0%
  - Etc.
- **Actual spending doesn't reach the current 4% sales tax rate until 2 times poverty level spending**
- **Actual spending doesn't reach the current 5% income tax rate until 5 times poverty level spending**
- **The 8.03% maximum rate isn't approached until 128 times poverty level**
- **For those worried about taxes on groceries:**
  - If desired, single persons could spend \$1,041 per month on groceries tax free
  - A family of four could spend \$2,818 per month on groceries tax free
  - A family of nine could spend \$5,397 per month on groceries tax free

# 2019 AEFA Effective Rate



One-Adult Household			Two-Adult, Two-Child Household		
FCA Multiples	Total Spending	Effective Tax Rate	FCA Multiples	Total Spending	Effective Tax Rate
1 X FCA	\$12,490	0.0%	1 X FCA	\$33,820	0.0%
1-1/2 X FCA	\$18,735	2.7%	1-1/2 X FCA	\$50,730	2.7%
2 X FCA	\$24,980	4.0%	2 X FCA	\$67,640	4.0%
4 X FCA	\$49,960	6.0%	4 X FCA	\$135,280	6.0%
8 X FCA	\$99,920	7.0%	8 X FCA	\$270,560	7.0%
16 X FCA	\$199,840	7.5%	16 X FCA	\$541,120	7.5%
32 X FCA	\$399,680	7.8%	32 X FCA	\$1,082,240	7.8%
64 X FCA	\$799,360	7.9%	64 X FCA	\$2,164,480	7.9%
128 X FCA	\$1,598,720	7.96%	128 X FCA	\$4,328,960	7.96%



# ***Abolishes the Income Tax Division***

- Enactment in 2020, AEFA implemented January 1, 2021
- Taxpayers are still required to file their 2020 income tax returns by April 15, 2021
- Retailers file their final 2020 sales tax returns in January 2021
- Sales Tax Division takes over for all consumption tax collections
- The Income Tax Division remains in place until September 30, 2023 to reconcile tax returns for the 2020 and previous tax years
- All Alabama Income Tax Data Destroyed
- September 30, 2023 – No funding of the Income Tax Division beyond this date as specified in Sec. §40-23-83 of The Alabama Economic Freedom Act

# Revenue Neutral and Progressive

- Changes from 2.30 million income tax filers to 4.9+ million spenders (tax base is roughly 2.13 times bigger)
- Enforcement changes from 2.30 million income tax filers to about 60,000 retailers
- Millions more U.S. and foreign visitors pay the tax yearly
- Illegal immigrants and tax evaders contribute at the cash register (tens of thousands currently don't pay income taxes)
- Prebate un-taxes low wage earners and the poor
- Saves tens of millions of dollars in compliance costs
- Saves tens of millions in tax driven business decisions
- Helps mitigate \$3+ billion dollars previously lost to tax avoidance/evasion
- Millions of wasted man-hours of compliance and record keeping eliminated

# Things to Remember

- With The Alabama Economic Freedom Act
  - The income/sales tax laws are TOTALLY REPLACED
  - Collection is ONLY at the point of retail sale of new goods and services
  - Everyone pays at the cash register: no exemptions
  - Necessities of life are un-taxed through a rebate
  - There are no business-to-business taxes (0.0% corporate tax)
  - The amount collected is revenue neutral
  - Billions of dollars in investment will be “lured” to Alabama, meaning manufacturing facilities, jobs and even company headquarters move in and grow our economy
- ***AEFA: The Real Economic Freedom Plan!***