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Follow Us Contact Us Americans For Fair Taxation 2501 N. Harwood Street 20th Floor Dallas, TX 75201 800-FAIRTAX (324-7829) General Information info@FAIRtax.org Media Contacts & News Tips media@FAIRtax.org A fair tax plan refers to a tax system proposed in the United States to install a single sales tax replacing all other taxes. For example, it would replace federal taxes such as personal income, payroll, and corporate tax with a single national sales tax.The proposal aims to simplify the tax system and reduce the tax burden on individuals. The rate for the sales tax has varied over time and has been the subject of debate, but the proposal generally calls for a tax rate of around 23% on retail goods and services. It would also help cover the sales tax on necessities for households below the poverty line.The fair tax plan could potentially change the role of the IRS, but it is not explicitly stated that the IRS will be removed. The impact of fair tax on consumers would depend on various factors, such as the tax rate and tax exemptions. It is impossible to determine in advance whether consumers would save more on taxes under the fair tax plan.HistoryThe history of the fair tax proposal in the United States dates back to the late 20th century. The idea of removing unwanted deductions from corporate and personal income taxes had been discussed among political leaders in the 1980s.In 1986, the U.S. Congress passed the tax reform act to simplify the tax system. However, this system had its disadvantages, and Georgia representative John Linder saw an opportunity to propose a new solution. In 1999, during the 106th United States Congress, Linder proposed a 133 pages fair tax reform, which aimed to replace various taxes, including payroll taxes, corporate taxes, gift taxes, and others, with a single national sales tax.The term "fair tax" was popularized by the founders of "American for Fair Taxation" (AFFT) in the 1990s. The proposal gained national attention again during the 2008 U.S Presidential Elections, reminding the public of its potential impact on the tax system and the economy. Yet, despite the proposal's long history and continued advocacy, the system has yet to be fully implemented in the United States. Click here for our page of the State Leaders List Steven L. Hayes - Florida Chair of the Board of Directors,President Steven L. Hayes graduated with honors from the University of Arkansas and the University of San Francisco Law School. As a self-describedrecoveringtax attorney he spent considerable time and resources investigating alternatives to the income tax. Based on his research, including interviewing tax practitioners, business owners, employees and economists, he determined the best solution was to eliminate the income tax and the IRS and replace them with a national retail sales tax collected by the states. In 1990, Mr. Hayes joined and became President of Citizens For An Alternative Tax System (CATS), a non-profit 501(c)(4) lobbying organization, which was the 1st organization dedicated to the idea of replacing the federal income tax with a national sales tax. He was also instrumental in forming the Florida FairTax Educational Association, Inc., (FFETA) and currently serves on the FFETA board of directors. Hayes has appeared on hundreds of radio and television shows, had numerous articles published in newspapers and magazines, and regularly speaks to groups of citizens around the country about why we must eliminate the income tax and the IRS and replace them with a national retail sales tax. Mr. Hayes has testified before the House Ways & Means Committee and former Congressman Jack Kemps Tax Reform Committee. He is widely sought after as a subject matter expert on tax reform panels and forums. Randy Fischer - Florida Board Member, Vice President, and Marketing Team Leader. It was a short leap for Randy Fischer to move from private advocate for insureds, self-insurers and insurance carriers where he conducted over 300 jury trials, to fighter for tax reform. After multiple not so friendly encounters with IRS Randy became aware of HR-25 The FairTax Act. He founded several local groups to support FAIRtax in Florida in the early 2000's but his busy legal practice forced him to step away. Upon retirement in 2012, Randy immediately planned to become a public policy advocate for the tax reform he had supported for more than a decade. That public policy was a total replacement of our existing income tax system and IRS. Now, more than a decade later he is just as passionate that we, as a nation, must stop taxing income so that workers keep 100% of what they earn. Using his skills in marketing, communication, advertising and research he stepped on to a position as Marketing Director for Florida FairTax Education Association taking over a dormant social media campaign. He quickly expanded it to grassroots advocacy and helped coordinate Florida's growing FAIRtax movement. He was added to the Board of Directors in 2012 quickly undertaking adoption of platforms to do letters to the editor, Twitter advocacy. and assisted in a major campaign to get Florida Legislators to adopt Senate Memorial 118 to acknowledge HR-25 the national FAIRtax Bill as the best tax reform for Florida. The last decade has included post cardcampaigns, targeted flyers, working with FAIRtax Power Radio and attending events and rallies. In 2014 as a transition was ongoing at the Americans For Fair Taxation he was nominated to be first a Delegate then a Director with AFFT taking over national social media and other communications duties. And the rest as they say is history. In early 2024 Randy was asked to step up as Vice President of Americans For Fair Taxation. Randy has appeared on radio and podcasts along with live broadcasts on Facebook and YouTube. He is married to his high school sweetheart and relocated from their small farm in Ocala, Florida to Gainesville, Florida home of the University of Florida. Randy jokes that he is addicted to great blues music, terrific southern bar-b-cue and his collection of early American political campaign memorabilia. John Grafer - Texas Vice Chair of the Board of Directors, Treasurer John Grafer was elected to the AFFT Board of Directors in 2014. He is a member of Satori Capital's investment committee and a board member of FWT, Longhorn Health Solutions, and California Products Corporation. Prior to joining Satori in 2009, John was senior vice president of Giuliani Partners, an investment and consulting firm founded by former New York City Mayor Rudolph W. Giuliani. Before joining Giuliani Partners in 2003, John was a member of the mergers and acquisitions group at Credit Suisse First Boston, a member of the proprietary trading group at J.P. Morgan Chase, and a team member at Ernst & Young, where he earned his C.P.A. John has also assisted a family office with early stage investments in sustainably managed companies including Honest Tea. John is a first-round judge for the McCloskey Business Plan competition at the University of Notre Dame. He received a B.B.A. from the University of Notre Dame and an M.B.A. in finance from the University of Chicago Booth School of Business. John enjoys unique and adventurous challenges. He rode his bicycle from New York City to Montreal, earned his HAZMAT certification to remediate an anthrax-contaminated building, and survived The SEAL physical training course. James M. Bennett - New Jersey Board Member, Secretary, and Grassroots Leader Jim Bennett, Secretary and Grassroots Director, was a FairTax advocate before ever hearing about the FairTax, having decided that consumption taxes were the best option. He heard about the Fair Tax on the radio in 2005 and decided immediately to dedicate himself to the cause.Jim retired several years ago from the New Jersey Attorney Generals Office after a nearly 20-year career there. Jim holds a Bachelor of Arts Degree in History from Lafayette College and a Juris Doctor from New York Law School. He also took graduate law courses in International Law at the NYU Law School before leaving for overseas. His career started in Mannheim, Germany, with the US Army Judge Advocate Generals Corps. Jim then took a position at Gerling-Konzern, an insurance conglomerate in Cologne, Germany, where he worked for three years. He was transferred to New York, where he became a Vice President. Jim later took a position as a Vice President and General Counsel at the Colonia Insurance Group, a US branch of a German insurance company in New York. Jim is fluent in German. Jim started a private law practice in Summit, New Jersey in 1990 before taking his position at the New Jersey Attorney Generals office. Jim lives in Summit, New Jersey, with his wife, Christine. Jim and Christine have three adult children and seven grandchildren. Jim enjoys sailing, volunteering in the local Lions Club, volunteering on the Executive Committee of his local Republican party, and appearing at town council meetings on various civic issues. He writes the weekly Grassroots Corner that goes out to the FAIRtax subscriber base. Brad Carver - Georgia Board Member Brad is the Senior Managing Director of Government Affairs at the law firm of Hill, Booth, Smith, P.C. in Atlanta. He is also a member of many other practice groups within the firm: Government Affairs, Energy, Regulatory and Utilities, Environmental, Mass Torts and Land Use, and International and Business Litigation. Brad is the Republican District Chairman of the 6th Congressional District of Georgia and a member of the Executive Committee of the Georgia Republican Party. He has also been Chairman of the Election Confidence Task Force since 2021 and helped pass SB 202, the Election Integrity Act of 2021. He was an alternate delegate to the 2012 Republican National Convention in Tampa, Florida, and a delegate to the 2016 Republican National Convention in Cleveland, Ohio. Prior to Hall Booth Smith, P.C., Brad worked for Miller & Martin, Alston & Bird, the Georgia Municipal Association, and Georgia Power Company. During law school, Brad deployed with the Army to Tuzla, Bosnia, from May 1996 to January 1997 as the Commander of a Detachment of the 341st Adjutant General Co. and was awarded the Meritorious Service Medal. In September 2003, Brad returned to Atlanta from a 14-month tour of duty in Kuwait and Iraq, where he supported 3rd Army as the Deputy Chief of Staff for Personnel. He was awarded the Bronze Star Medal for exceptionally meritorious service during combat operations in Afghanistan and Iraq during Operations Enduring Freedom and Iraqi Freedom. Brad retired after 28 years of service at the end of 2018 from the U.S. Army Reserves in the rank of Lieutenant Colonel, with his last duty position being Team Leader at Fort Rucker, Alabama. Brad believes that the burdens of government ought to be shouldered by everybody. Brad also likes the FAIRtax because it allows you to decide when you pay your taxes and how much you pay based on how much you choose to spend. Brad favors selling the FAIRtax first at the state level. Brad lives in the City of Atlanta. He is married with two sons, Bradley and Wesley. Brad and his wife belong to the Crossroads Christian Church in Dunwoody, Georgia. Dr. Tony Urbanek - Tennessee Board Member Dr. Tony Urbanek, holds a B.S. in Chemistry from John Carroll University, Cleveland Ohio, a D.D.S. from Indiana University School of Dentistry, and M.S.in Cell Biology and Anatomy from Indiana University School of Medicine, and an M.D from Vanderbilt University School of Medicine, Nashville, Tennessee, along with his training as an Oral and Maxillofacial Surgeon. Tony was also a Research Fellow in Facial Growth and Development at the National Institute of Health. Tony has helped 76 million women in the United States who suffer from TMD. TMD is a disorder of the jaw muscles, temporomandibular joints, and nerves associated with chronic facial pain. Ninety percent of those who suffer from this disorder are women. Tony, an oral and maxillofacial surgeon, was dissatisfied with dispensing standard treatments. Tony invented, developed, and patented the Urbanek Device and Protocol. Separating the posterior teeth over two months, followed by using the device for sleeping, the patient experiences relief from the symptoms. There had been dental and basic scientific literature for sixty years indicating this fix - but in separate buckets. Tony combined the two. Tony launched TMJ Services LLC in 2013 to support manufacturing and distributing his non-surgical, FDA-approved, and independently university-study-validated device and protocol. He has a manufacturing facility. Aside from his device and protocol, he started medical clinics in Jamaica and Haiti. In Haiti, he literally persuaded patients to forsake witch doctors for medical treatment. Tony is also an avid pilot and past President of the Flying Physicians Association. Other accolades in Tony's resume are too numerous to fit in a Grassroots Corner. Tony has been an avid supporter of the FAIRtax since 1991, when he first met our President, Steve Hayes. As early as 1991, he sent materials educating and supporting the FairTax to 500 doctors in his professional network throughout Middle Tennessee. In 2014, he founded Fair Tax Tennessee Inc., which is proud to be included and supported by the AFFT central organization today. Tony lives in Brentwood, Tennessee. He and his wife, Ann, have three children, seven grandchildren, and one great-grandchild. Dr. Karen Walby - Florida Board Member, Economist Dr. Karen Walby graduated from Ohio State University with a doctoral degree in Political and Economic Geography and brings over 20 years of experience in tax policy and administration to the FAIRtax movement. She has been in academia, state government, and the private sector. Dr. Walby began her career as a Research Consultant with the Florida Resource and Environmental Analysis Center while holding down another position as an Adjunct Assistant Professor at Florida State University. She became an economist for the Florida Department of Commerce, where she performed analytics to help Florida attract new businesses to the state. While at the Department of Commerce, she provided information to the Governor's Office, causing the Governor's Office of Planning and Budgeting to recruit her. Dr. Walby was promoted to Policy Coordinator for Tax and Economic policy during the Bob Graham Administration (Graham was Governor of Florida from 1979 to 1987). Then-Governor Bob Martinez appointed her to Deputy Director of the Governor's Office of Planning and Budgeting (Martinez was Governor from 1987 to 1991). Dr. Walbys career took her to the legislative branch to serve as Senior Tax Policy Analyst for the first Florida Tax & Budgeting Reform Commission. This commission met every ten years afterward. Following her work with that Commission, Dr. Walby directed the Florida Unemployment Compensation Tax Program during the Administration of Governor Lawton Chiles (Chiles was Governor from 1991 to 1998). Dr. Walby also worked in the private sector. She was the first Director of Research for Florida TaxWatch, Inc., a nonprofit organization that oversees tax and spending policy. She was also a senior consultant for Price Waterhouse Coopers, LLP, researching and consulting in government affairs for nonprofit organizations and small businesses. Dr. Walby first became interested in consumption taxes while working in Governor Graham's tax policy unit. The Governor asked the team to estimate the impact of a national consumption tax on state revenues and the Florida economy. The team found that such a tax change would significantly boost both. In 2004, Leo Linbeck, Jr., CEO of Americans for Fair Taxation, approached her about conducting paid research for the FAIRtax. She enthusiastically accepted. Dr. Walby now volunteers for our cause. She serves as a Board Member of Americans for Fair Taxation and as Treasurer of the Florida FairTax Educational Association, a 501(c)(3) organization in Florida. Dr. Walby lives in Clearwater, Florida, with her husband, Mike. Her two sons and three grandchildren live nearby. James R. Duffie - Georgia Board Member Jim Duffie served in the U. S. Navy from June 1961 to July 1968, the last 4.5 years of that time as a NUKE, operating the nuclear reactor and secondary systems on the nuclear submarine, USS Skate (SSN-578), as well as chemist and radiation controls expert. He then studied nuclear engineering at Georgia Tech. Duffie has had a successful career in real estate and mortgage businesses, spanning more than 40 years. Additionally, he has invested in several start-up business ventures, and helped numerous others access the capital markets over the last 30 plus years. He has many continuing philanthropic interests, some of which will have world changing outcomes. He is an original co-founder of A Better Life Experience, LLC, which is now ABLELIFE BIOTECH, INC., of which he is Chairman, CEO, and CFO. Marketing a water and air purification technology which will save millions of lives worldwide! Duffie has been an advocate to eliminate the U. S. and Georgia income tax systems and replace them with the FAIRtax model consumption tax. He has served as State Director and member of the BOD of Georgians for Fair Taxation, and member of the BOD of Americans for Fair Taxation for 20 plus years. Jim Duffie has been married to Mary for 58 years, has 3 sons, 10 grandchildren, and 2 great grandchildren. He is active in his church, the Kiwanis Club of Atlanta, and a lead volunteer with USO Georgia, and other important initiatives! Martin Sturmer - California Board Member Martin Sturmer received his BS in Business Administration, with a concentration in Finance, from California State University Sacramento, where his interest in business and finance got its start. Martin recognized the need for tax reform long before the Tea Party held its first protest, growing out of his frustration at having to file tax returns in 6 different states because his Wife was a partner in a NY law firm. The whole system was mind-boggling. His search for an organization devoted to tax reform ultimately led him to Americans For Fair Taxation, a grass roots organization devoted to eliminating the federal income tax system and replacing it with a federal consumption tax as best expressed by The FAIRtax, which would also eliminate the need for the IRS as an enforcement agency. Martin currently serves as the State Director in California. Ron Babin - Michigan Board Member Ron grew up and lives in the Great Lakes State and enjoys sailing in Lake Huron. After graduating from Central Michigan University with a B.S. Business Administration with a Major in Accounting, he worked for a private manufacturing company based in Detroit as Assistant Controller. After working his way up to division General Manager, he returned to school at Walsh College where he received a Masters of Science in Finance. Ron has since run his own business assisting small employers in administrative procedures with a focus on becoming computerized with in-house accounting systems and user-friendly database programs. After seeing the significant negative impact the tax system had on businesses, Ron started his FAIRtax involvement in 2004 as the District Director covering Michigans 10th & 12th Congressional districts. Given his diverse business background and thorough understanding of The FAIRtax, he accepted the position of Michigan Deputy State Director for FAIRtax.org in mid-2005, and then President of The Michigan FAIRtax Association in 2017. Ron was elected to the Americans For Fair Taxation Board of Directors in 2019. The Fair Tax Act proposes a fundamental shift in tax collection, aiming to simplify the tax code and promote transparency. By replacing federal income taxes with a national sales tax, it seeks to eliminate complexities in the current system while maintaining revenue neutrality. Understanding its potential impact on taxpayers and the economy is essential as discussions progress.Legislative FrameworkThe Fair Tax Act, outlined in H.R. 25, seeks to replace federal income, payroll, and estate taxes with a national sales tax. Recently introduced in the 118th Congress, the proposal is designed to simplify the tax code and reduce administrative burdens. It broadens the tax base while eliminating loopholes present in the current system.A central feature is a 23% sales tax rate on goods and services, designed to be revenue-neutral. To alleviate the burden on necessities, the Act includes a monthly rebate, or prebate, based on federal poverty levels, ensuring basic living expenses remain untaxed. States would collect and remit the tax to the federal government using their existing sales tax systems, which could reduce compliance costs and improve efficiency. However, this reliance on state systems raises concerns about uniform enforcement and potential disparities between states.Rate CalculationThe proposed 23% sales tax rate is based on extensive economic modeling to ensure revenue neutrality, replacing the revenue generated by federal income and payroll taxes. This calculation considers consumer spending patterns, GDP projections, and inflation to evaluate its impact on federal revenues and consumer behavior.The Act addresses concerns about the potential regressive nature of a flat consumption tax, which could disproportionately affect lower-income households. The prebate mechanism offsets this by exempting basic living expenses from taxation, calculated based on family size and poverty levels.Collection StructureThe Fair Tax Act shifts tax collection responsibilities from federal entities to state systems. By leveraging existing state sales tax infrastructures, the Act aims to streamline the process and reduce administrative overhead.States would collect and remit the national sales tax, relying on their revenue departments to manage the process. To incentivize efficiency, states would receive a small percentage of the taxes collected as a service fee. This approach encourages states to refine their systems for accurate and effective tax collection.Exemptions and AllocationsThe Fair Tax Act minimizes exemptions to maintain the simplicity of a flat consumption tax. However, specific allocations address economic disparities and public welfare. The prebate mechanism exempts basic living costs from taxation, calculated in alignment with federal poverty guidelines.To prevent tax pyramiding, which could inflate prices and distort markets, the Act exempts business-to-business transactions. These exemptions ensure that taxes are only applied at the final point of sale, preserving market stability and competitiveness.Implementation OversightTransitioning to a national sales tax requires a comprehensive oversight framework to ensure efficient operation. Federal, state, and local authorities must coordinate to address challenges such as fraud prevention, accurate reporting, and integrating state tax infrastructures with federal requirements.A federal agency or commission would oversee compliance, auditing state remittances and ensuring uniform enforcement across jurisdictions. This agency would replace the IRSs current functions and work closely with state revenue departments to provide guidance and support.Technology would play a key role in improving transparency and reducing errors. Advanced data analytics and real-time reporting systems could monitor transactions and detect anomalies. Blockchain technology, for example, could create secure records of sales transactions, minimizing tax evasion. Periodic audits would evaluate the systems effectiveness and recommend adjustments as needed.Compliance RequirementsUnder the Fair Tax Act, compliance shifts from individual taxpayers to businesses and retailers, who would calculate, collect, and remit the tax at the point of sale. This change requires businesses to adapt to new tax rules and update their systems accordingly.Retailers must maintain detailed records of taxable transactions, which would be subject to audits by state or federal oversight bodies. Failure to comply could result in penalties, including fines or interest on unpaid taxes.Educational initiatives would support compliance by helping businesses navigate the new system. State and federal agencies would offer training programs, online portals for tax filing, and detailed guidance on business responsibilities under the Act. Providing these resources would streamline the compliance process and foster cooperation between businesses and tax authorities. UNITED STATES - MAY 11: Reps. Buddy Carter, R-Ga., and Jeff Duncan, R-N.C., left, leave a meeting of ... More the House Republican Conference, May 11, 2016. (Photo By Tom Williams/CQ Roll Call)CQ-Roll Call, Inc via Getty ImagesU.S. Rep. Earl Buddy Carter (R-GA) has introduced the FairTax Act of 2023. Much of the commentary on the bill, including mine, has been about whether it is a good idea. The politics surrounding FTA23 have been tinged by the fact that its underlying concept replacing income, estate, gift and payroll taxes with a sales tax has been around for a long time. Americans For Fair Taxation was founded in 1995. Still, its worthwhile to look at FTA23 and imagine that it was actually just signed into law, unlikely as that may seem. The interest in the proposal seems mainly fueled by hostility to the IRS. FTA23 repeals Subtitles A, B, C and H of the Internal Revenue Code of 1986: income and self-employment taxes; estate and gift taxes; and payroll and withholding taxes; and financing of presidential election campaigns. All the other subtitles have been moved up a couple of notches and it would now be the Internal Revenue Code of 2023 (IRC 2023) with a new Subtitle A - Sales Tax. The references that will follow will be to the sections of IRC 2023 as opposed to sections of FTA23 (the bill that enacts the new Code). The effective date is January 1, 2023. I am at a loss as to how that is supposed to work. To stay sane, I will assume that the Sales Tax kicks in and the others go out on January 1, 2025. 2025 is the first year for which a rate is set. If the bill were actually to pass. I think there might be a lot more extensive transitional stuff included. Sections 1 and 2 give us principles of interpretation and definitions. I will refer to them as needed. Section 101 imposes the sales tax at a rate of 23% of the gross payments for taxable property or services. "Gross payment" is the payment for taxable property or services plus the federal taxes (Sec 2(a)(5)). That works out to a conventional sales tax rate of 29.87 % and change (23 divided by 77). Commentators usually refer to that as 30%, which I suppose you might use for planning purposes, but it is not the right number.23% is the rate for 2025. After 2025 the rate is broken down among general revenue, old-age survivors and disability, and hospital insurance rate. The general revenue rate after 2025 is 14.91%.The sales tax is on top of any import duties and there will be effort made to collect the two taxes together. The person using or consuming the taxable property or services in the United State has primary liability for the tax (Sec 101(d)(1)). If the consumer pays a seller the tax and receives a proper receipt, they are no longer liable. Exclusions And ExemptionsTaxable property and services is defined as "any property" (including leaseholds or any term or rents with respect to such property). Excluded from "taxable property and services" are intangible property and used property (Sec 2(a)(14)). The exclusion of used property strikes me as a feature of the tax which may give rise to the greatest opportunity for planning particularly in the transition.No tax is imposed on property or service purchased for a business purpose or an investment purpose (Sec 102(a)). There is an exemption for certain state government functions, but I am not going to discuss the way the tax falls on federal and state government functions, since that is really not a practical concern to you and me."Business purposes" requires that there be a trade or business, but is otherwise very broad exempting what is for resale, required to produce, provide, render or sell taxable property or services and "in furtherance" of other bona fide business purposes (Sec 102(b)). This exemption seems to also offer a lot of planning opportunities. There is a rule similar to the current hobby loss provision so that you can't claim business purpose if you don't have an actual business (Sec 701). There are special rules for gambling businesses and financial intermediary services."Investment purposes" is also very broad. It is property purchased exclusively for purposes of appreciation or the production of income but not entailing more than minor personal efforts (Sec 102(c)).CollectionGenerally the tax will be collected and remitted by the seller (Sec 103(a)). For property or services purchased outside the United States for use or consumption in the United States, the purchaser remits the tax. A "taxable employer" paying wage for "taxable services" must remit the tax (Sec 103(b)(2)). When it comes to that think something like Downton Abbey or maybe a live-in nanny.You will need to pay sales tax on what you pay "the help".gettyThen there is "converted property". If property that was purchased for a trade or business starts being used for personal purposes, there is a deemed sale at the propertys fair market value. The person using or consuming the property is liable to remit it per Sec 103(c). Bartered goods or services require remittance as if the transaction had been for cash per Sec 103(d).Credits And RefundsThere is a credit for business use conversion, intermediate and export sales, an administration credit, a bad debt credit and an insurance proceeds credit (Sec 201(a)). Only one credit can be taken with respect to any gross payment.The business use conversion credit (Sec 202) applies to property on which the tax has been paid which is converted to be 95% or more used for business. Imagine you bought a pickup truck because you thought it was cool and a couple of year later you decide to start a roofing business. The credit is the lesser of the tax rate times the fair market value of the property when it is converted divided by one minus the tax rate or the amount of tax paid with respect to the property.Say you bought your pickup for $50,000. You would have paid $14,935 in tax. If it is worth $30,000 when you convert it your refund is $30,0000*0.23/0.77 which equals $8,961. If it is worth $60,000 your refund is $14,935.Probably the most complicated parts of the new law are the rules governing "mixed use" property i.e. property that is used in business but falls below the 95% threshold.The intermediate and export sales credit (Sec 203) is the amount of tax paid on property purchased for business use, export or use of consumption outside the United States.The administrative credit (Sec 204) goes to anyone filing a timely monthly report. The administrative credit is the greater of $200 or 0.25% of the tax remitted. The credit cannot be more than 20% if the tax due to be remitted prior to the application of the credit. So if you are sending in $100,000 in tax you get a credit of $250. If you are sending in $50,000 or $10,000 or $1,000 you get a credit of $200. If you are sending in $500 your credit is $100.There is a bad debt credit (Sec 205) for people who choose to be on the accrual method, but I find it hard to figure why you would want to do that.Apparently if you paid tax on an insurance policy you get a credit if the policy pays off. This strikes me as possibly subject to shenanigans in the case of life insurance, but otherwise seems to make sense.Family Consumption AllowanceA "qualified family" is one or more family members sharing a common residence. Family members are an individual, the individual's spouse, lineal ancestors or descendants of either of them, legally adopted children and children under legal guardianship. To count as a family member, they must have a bona fide Social Security number and be a lawful resident of the United States. There are rules about how to count students and children of divorced or separated parents. Incarcerated family members are excluded.In order to receive the allowance the family must register with the "sales tax administering authority". That will probably be an agency of a state, but it could be federal if that state decides they don't want to collect the tax. Registration is not mandatory. You just don't get the consumption allowance if you don't register.The allowance is based on the Health and Human Services Poverty Guidelines. Currently in the lower 48, it is $12,880 for a family of 1 and then goes up by $4,540 for each additional person. For purposes of the allowance, there is a "marriage penalty elimination amount". So, a household that consisted of just a married couple would be at $25,760. The family consumption allowance is the relevant income level times the tax rate. The Social Security Administration will send out a monthly check. For a family of four, I make that to be $667.76 per month, but feel free to check my math and mock me if I am wrong. The idea is that the family of four spending $34,840 per year on taxable stuff on net is paying no tax.Federal And StateFTA23 has a lot about the federal agencies that replace the IRS and how the federal government and states will cooperate in collecting the tax. You really can't tell exactly how it will work from just the statute, so I will not dig into that. We don't know how many or which states will join in the fun, but it does seem that it will be a little chaotic for a while.Used PropertyIt strikes me that "used property" is the most intriguing exclusion from the tax. "Used property" is property on which the sales tax has been paid without anybody claiming a credit for it having been used in a business, held as an investment or written off as a bad debt (Sec 2(a)(16)). Also included in used property is property which was held other than for a business purpose on December 31, 2024.So imagine you own a vacation home that you have been pretty much renting out. You probably want to convert it to personal use sometime in 2024. Otherwise when you sell it there has to be a 30% tax paid by the buyer if the person plans to use it personally. Overall it would seem that "used property" should command a significant premium.Everything being equal (which granted it never is in the real world) it would seem that if you went into business selling anything you would have a big advantage if you could characterize it as fitting the definition of used. With big ticket items like house, cars and planes there would presumably be a good audit trail on whether the property was ever claimed as business property but it is hard to see how that will work with smaller- value items.It seems likely that there will be some sort of regulation to determine when things that are renovated, repaired or reconditioned no longer qualify as being used or something equivalent to the mixed-use rules.The Final Year Of The Income TaxThe Year 2024 will be a really interesting time as people strive to defer income and accelerate deductions and position property most favorably under the new tax regime. What will happen to investors who paid for low income housing tax credits that still have years to run on them? A lot of the shenanigans that will likely happen will get by.After September 30, 2027, no money will be appropriated for enforcing the taxes repealed by the act (income, estate, payroll) and all records related to the administration of those taxes are to be destroyed by then except for records related to ongoing litigation. It does strike me as an invitation to go out of compliance, but being a CPA and all I'm not supposed to give that kind of advice.SunsetPart of the overall plan is repeal of the Sixteenth Amendment. Of course it takes a lot more to get that done. If the Sixteenth Amendment is not repealed within seven years of the date of enactment, the act will not apply to any use or consumption in any subsequent year. The Sales Tax Bureau will not be terminated until six months after the end of such year.Note On This DiscussionAs noted the Fair Tax concept has been kicking around for a long time. The Fair Tax Book: Saying Goodbye to the Income Tax and the IRS by Neal Boortz and John Linder came out in 2006. Their description is shorter and simpler than the Fair Tax Act of 2023, but it seems to agree in the basic elements. Regardless, what I have done here is treat FTA23 as I would any newly passed or proposed tax bill. You could take a look at How To Enjoy The Tax Cuts And Jobs Act to get a sense - or not.If you have strong feelings about the Fair Tax concept, you might think that I have it wrong, because you know what the Fair Tax is supposed to be. Well this was not about the Fair Tax as an ideal, it was about the Fair Tax Act of 2023, which is what will be voted on. There is a lot going on with it and I did not cover everything and I may have misunderstood something, but the reference point is the bill not Boortzs book or your favorite YouTube channel.UpdateI am please to see that @FairTaxOfficial seems to think I mostly got it right and spin free. The premise of this piece was to look at the act as a tax professional. Reillys First Law of Tax Planning is: It is what it is. Deal with it. Hence in this context I eschew commentary on whether it is a good or bad idea. The Fair Tax plan is a sales tax proposal that would replace the current U.S. income tax structure. It would abolish all federal personal and corporate income taxes, as well as the alternative minimum tax. It would end taxes on gifts, estates, capital gains, Social Security, Medicare, and self-employment. The plan would replace all these taxes with a federalretail salestax of 23% to be administered by state sales tax authorities. It was first introduced to Congress in 1999, and has been reintroduced several times over the years. The Fair Tax plan is a 23% sales tax that would replace the current U.S. income tax.It would reduce the headache of annual tax preparation because it's simple, but it would raise the tax burden for 90% of taxpayers.Only the top 10% of incomes would actually see a tax cut.It was first introduced to Congress in 1999 and has been reintroduced several times over the years. The Fair Tax plan, as discussed here, is an early version of the Fair Tax Act of 2023 that Republican members of the House of Representatives reintroduced in January. A group known as Americans for Fair Taxation developed the Fair Tax plan. It would require the repeal of the 16th Amendment, and it would disband and defund the Internal Revenue Service (IRS). A 23% sales tax isregressivebecause it impacts the poor the most. To make it moreprogressive, the Fair Tax Act includes a provision that all Americans would receive a monthly prebate" that would be equal to 23% of the monthlycost of livingat the federal poverty level. For example, the poverty level for a family of four is $27,750 in 2022, according to the Department of Health and Human Services, so the prebate would be $6,383. The most obvious advantage of the plan is the elimination of the annual income tax headache and the cost of hiring tax preparers.Government spendingwould also be reduced by eliminating the IRS, and some advocates argue that increased consumer spending would lead to an increase ingross domestic product, jobs, productivity, and wages. Workers would not pay federal income tax on their wages, but would still have to pay state income taxes, where applicable. The Fair Tax is unfair to those who aren't earning an income, such as seniors. It would be especially unfair to the first generation of seniors because they paid income taxes all their lives and would have to start paying higher sales taxes in addition to the taxes they've already contributed over decades. Although the IRS would be eliminated, another agency would take its place. This agency would have to send out prebate checks, settle disputes, and collect taxes from the states. It would also have to enforce the tax and go after cheaters. For example, business expenses that are used to create the final product wouldn't be taxed.Small businessowners could therefore declare that a purchase was a business expense to avoid the sales tax. Compliance could become very expensive to monitor and enforce. The Beacon Hill Institute calculated that the base for the Fair Tax would be 81% of the 2007gross domestic product(GDP) or $11.2 trillion. A 23% sales tax would collect $2.6 trillion, which is $358 billion more than the income tax that it would replace. The study also used a model showing a GDP increase of 7.9% in the first year, and up to 10.3% in the 25th year. Domestic investments are projected to be 74.5% higher in the first year, up to 65.2% higher in year 25. Consumption drops slightly in the first two years (0.6% and 0.8%) but it's 6% higher by year 25. The spending is fueled by an average 1.7% increase in disposable income. William Gale of the Brookings Institute has noted that it isnt accurate to refer to the Fair Tax as 23%. He indicates that the rate isactually30%. Fair Tax defines the sales tax as "$0.23 out of every dollar spent," which means that a $0.23 tax is added to every $0.77, not to every dollar. Gale also points out that the tax rate would likely need to be raised even higher because states would have to abolish or significantly alter their income tax systems without the IRS to determine tax on wages. This lost state revenue would require an additional 10% sales tax to replace it. Another 5% would have to be added to recoup revenue from those who have figured out how to avoid the sales tax. These three adjustments push the sales tax to 45%. Many Americans would protest having such a high tax on essentials such as food and health care. The effective rate could skyrocket to 67% on other items if food and health care weren't taxed. Gale's calculations show that the Fair Tax would cause taxes to rise for 90% of all households. Only those in the highest 10% of incomes would really get a tax cut. Those in the top 1% would receive an average tax cut of over $75,000. Those in the bottom two-thirds of the distribution would pay less if the Fair Tax plan were adjusted so households would be classified by consumption level, while those in the top third would pay more. But those at the very top would still pay much less, again receiving a tax cut of about $75,000. It's difficult to determine how the Fair Tax would affect the economy without being able to examine the calculations and assumptions of each study closely. Implementation would have to be slow and consistently evaluated if the Fair Tax Act is ever passed. Perhaps the best approach would be a gradual shift from theincome taxto the Fair Tax, or perhaps a less-populous state could be used as a test market to iron out the problems. The scale of change alone would probably make this plan unworkable unless a great deal more research is done. The Fair Tax plan is a proposal developed by a group called Americans for Fair Taxation to eliminate the IRS and replace the federal income tax with a federal sales tax of 23%. Proponents say it would promote economic growth. Critics say it would be regressive and fall more heavily on people who earn lower incomes. The Fair Tax Act of 2023 is a bill to enact the Fair Tax plan, which is a proposal to replace the federal income tax with a federal sales tax. It was introduced to Congress by Georgia Representative Earl "Buddy" Carter in January. Thanks for your feedback! The Fair TaxA tax is a mandatory payment or charge collected by local, state, and national governments from individuals or businesses to cover the costs of general government services, goods, and activities. is a proposal to replace all major sources of the federal governments revenuethe individual income taxAn individual income tax (or personal income tax) is levied on the wages, salaries, investments, or other forms of income an individual or household earns. The U.S. imposes a progressive income tax where rates increase with income. The Federal Income Tax was established in 1913 with the ratification of the 16th Amendment. Though barely 100 years old, individual income taxes are the largest source of tax revenue in the U.S., corporate income taxA corporate income tax (CIT) is levied by federal and state governments on business profits. Many companies are not subject to the CIT because they are taxed as pass-through businesses, with income reportable under the individual income tax., estate and gift taxes, and payroll taxA payroll tax is a tax paid on the wages and salaries of employees to finance social insurance programs like Social Security, Medicare, and unemployment insurance.Payroll taxes aresocial insurance taxes that comprise 24.8percent of combined federal, state, and local government revenue, the second largest source of that combined tax revenue.with a national sales taxA sales tax is levied on retail sales of goods and services and, ideally, should apply to all final consumption with few exemptions. Many governments exempt goods like groceries; base broadening, such as including groceries, could keep rates lower. A sales tax should exempt business-to-business transactions which, when taxed, cause tax pyramiding. and rebate, abolishing the Internal Revenue Service (IRS) in the process. Overall, the plan would likely result in a significant reduction in federal tax revenue and a more regressive taxTaxes can create different burdens on taxpayers of different income levels, measured by comparing taxes paid as a fraction of income. A regressive tax is one that creates a larger burden on lower-income taxpayers than on middle- or higher-income taxpayers. system as measured by tax rates on income.What is the history of the Fair Tax, and why is it back in the discussion? The FairTax Act was first introduced in 1999 by then-Congressman John Linder (R-GA). It has since been introduced in each new Congress, only garnering a small number of cosponsors and never moving out of committee. The FairTax Act has also received attention in presidential campaigns, most prominently in 2008.As part of deliberations over the House Speakership, Speaker Kevin McCarthy (R-CA) reportedly committed to holding a House floor vote on the FairTax Actas introduced by Rep. Earl Buddy Carter (R-GA). It would be the first time the proposal has been given a floor vote, and it could happen sometime this year.Is the Fair Tax a consumption tax?A consumption taxA consumption tax is typically levied on the purchase of goods or services and is paid directly or indirectly by the consumer in the form of retail sales taxes, excise taxes, tariffs, value-added taxes (VAT), or income taxes where all savings are tax-deductible. is a tax on what people spend, as opposed to an income tax on what people earn. As a retail sales tax, the Fair Tax is one form of a consumption tax.In general, consumption taxes are more economically efficient than income taxes because they do not place an economic burden on investment or saving, but they do still place a burden on labor by reducing the after-tax return to work. Consumption taxes also tend to be regressive because lower-income households tend to spend more of their incomes than they save.What is the Fair Tax rate?Tax rates can be stated in tax-inclusive or tax-exclusive terms. Tax-inclusive rates compare the tax paid to the total price including taxes. Tax-exclusive rates compare the tax paid to the price excluding taxes.The FairTax Act proposes a tax-inclusive rate of 23 percent, but taxpayers will be more familiar with the tax-exclusive rate, which is how state sales taxes are typically described. The FairTax Act would result in a tax-exclusive sales tax rate of about 30 percent (29.8 percent), meaning for every $1 spent, taxpayers would pay about 30 cents in sales taxes to the federal government.What would the Fair Tax tax base include? The Fair Tax would apply a national retail sales tax to goods and services broadly, estimated to cover about 90 percent of all consumptionor about 61 percent of GDP. The proposal would repeal the federal individual income tax, capital gains taxes, corporate income tax, payroll taxes, and estate and gift taxes.It would be important for the Fair Tax to maintain a broad tax baseThe tax base is the total amount of income, property, assets, consumption, transactions, or other economic activity subject to taxation by a tax authority. A narrow tax base is non-neutral and inefficient. A broad tax base reduces tax administration costs and allows more revenue to be raised at lower rates. on final consumption, which is an existing challenge for state sales taxes. A narrower tax base would require a higher tax rate to raise equivalent revenue, which would distort consumption decisions.The Fair Tax would also need to ensure in practice that it exempts business inputs. Including them would tax consumption more than once, leading to tax pyramidingTax pyramiding occurs when the same final good or service is taxed multiple times along the production process. This yields vastly different effective tax rates depending on the length of the supply chain and disproportionately harms low-margin firms. Gross receipts taxes are a prime example of tax pyramiding in action. and distorted business decisions. It would require a simple process to exempt business purchases from sales tax if they were within the sales tax base.Who would administer the Fair Tax? The FairTax Act would abolish the IRS and outsource the administration of the national sales tax to the governments of the 50 states and the District of Columbia. Currently, 45 states and D.C. collect statewide sales taxes. In states without a sales tax, the Secretary of the Treasury (or another state) would administer the national sales tax.Each states sales tax base varies, ranging from a breadth of 20 percent in Massachusetts to 111 percent in Hawaii. States could conform to the national sales tax base definition, or administer two separate sales tax systems. Ensuring compliance would also be difficult due to the relatively high national sales tax rate, which would create a large incentive for evasion.States would retain 0.25 percent of the revenue they collect to help offset administrative costs. Similarly, businesses would receive a taxpayer administrative credit of 0.25 percent of the amounts collected as compensation.For example, if the national sales tax was levied at a high enough rate to generate enough revenue to maintain current levels in 2023 ($4.6 trillion), states and businesses would retain about $11.5 billion for administrative costs. The IRS budget in FY 2022 was $11.9 billion, implying no cost savings.How would the Fair Tax rebate work?The FairTax Act would provide a family consumption allowance to each household worth the amount of national sales tax paid on goods and services up to the poverty level. It would effectively exempt households at or below the poverty line from the tax and make the plan more progressive than it would be without the allowance.One trade-off is that the rebate would reduce the amount of net revenue raised. For example, based on 2023 poverty guidelines, a single-person household would receive a $279 monthly rebate. It has been criticized asa form of universal basic incomefor American households.Fair Tax Rebates Based on 2023 Federal Poverty GuidelinesPersons in Family/HouseholdPoverty GuidelineMonthly Rebate (single)Monthly Rebate (married)1$14,580$279n/a2$19,720$378$5593$24,860$476$6574$30,000$575$7565$35,140$674$8546$40,280$772$9537$45,420$871$1,0518$50,560$969$1,150Source: HHS Poverty Guidelines for 2023 and author calculations.What effect would the Fair Tax have on federal tax revenue? According to the Congressional Budget Office, the individual income tax, corporate income tax, payroll taxes, and estates and gift taxes raised a combined $3.8 trillion in revenue in 2021 (16.8 percent of GDP). Over the next decade, CBO projects the four revenue sources will raise a combined $53.5 trillion.Estimates indicate a 23 percent inclusive (29.8 percent exclusive) tax rate would fall short of maintaining current levels of tax revenues. The Fair Tax rebate would further reduce the revenue raised under the proposal. Past analysis by economist Bill Gale suggests a tax rate of at least 44 percent, not the proposed 29.8 percent, would be needed to approach revenue neutrality.How would the Fair Tax impact the distribution of federal taxes?The FairTax Act would be less progressive than the existing federal tax system as measured by income. The likely regressivity is because higher-earning households consume a smaller portion of their income than lower-earning households, even after adjusting for the Fair Tax rebate.Some economists argue the Fair Tax plan would be progressive if measured by consumption because the rebate is a smaller portion of consumption for higher earners.One distributional challenge for the Fair Tax is how the tax would apply to taxpayers who are not paying much in income tax under the current system but who would pay increased sales tax. That group would include retirees, large families, and students who would not benefit from the tax cuts under the plan but would see a tax hike on consumption.What are the trade-offs of moving to the Fair Tax? Moving the federal tax system away from taxing income and toward taxing consumption is a step in the right direction for a pro-growth and simpler tax code. Taxing consumption is a less economically damaging way to raise revenue than taxing income and would potentially be less complex for individual taxpayers to navigate than the current complicated system.However, devolving the administration of the federal tax system to the states would have its own challenges, as taxpayers would have to navigate up to 51 different agencies rather than a single IRS. While compliance costs for taxpayers would fall under the Fair Tax, those collecting sales taxes would still need to coordinate on tax collection and remittance, receive and interpret guidance, and have credible enforcement under the plan.The Fair Tax would also run into distributional challenges compared to the current system, even after the rebate. Policymakers could instead consider alternative ways to tax consumption progressively, which would deliver economic benefits without dramatically changing the distribution of the tax burden or the administration of the tax system compared to current law.What would the transition from the current tax system to the Fair Tax plan look like?Imposing a new national sales tax would lead to some double taxationDouble taxation is when taxes are paid twice on the same dollar of income, regardless of whether thats corporate or individual income. in the transition period. One way to think about it is like a one-time tax on existing wealthall consumption, including consumption paid for out of existing savings, would be subject to the new tax. The double taxation, then, occurs when households face the new tax on spending paid for by income already taxed under the old income tax system. This specific impact would be progressive, as saving is positively correlated with higher incomes.Some exceptions to double taxation would apply. For instance, income saved in 401(k) plans or individual retirement accounts (IRAs), would not face a double tax because contributions are deductible against the individual income tax.The FairTax Act may also have transitional impacts on retirees in particular. The Fair Tax proposal attempts to mitigate this by adjusting Social Security benefits for the tax and by providing the rebate. Even so, retirees may still face a higher burden as they would not benefit from income tax repeal if they do not plan to earn additional taxable incomeTaxable income is the amount of income subject to tax, after deductions and exemptions. Taxable income differs fromand is less thangross income. , and they currently benefit from reduced taxes on Social Security benefits. Get the latest tax data, news and analysis.Subscribe Anyone whos prepared and filed a tax return knows the United States tax system is complex and difficult to understand. Many people also feel corporations, wealthy individuals, and special interest groups have unfair access to loopholes and exemptions that help them avoid paying their fair share. One idea for fixing this system is called the FairTax, which seems to resurface every few years. Simply put, the proposed FairTax plan would eliminate all federal income taxes, payroll taxes, gift taxes, and estate taxes and replace them with a flat national sales tax. Proponents of the flat tax believe this initiative would eliminate loopholes, evenly spread the tax burden, and eliminate hassle without diminishing federal tax revenues. But opinions vary widely, and opponents contend the plan would require the middle class to pay the most in taxes, while the wealthy would enjoy an even lighter tax burden. To figure out where you stand on this high-profile issue, get the facts, weigh the pros and cons, and draw your own conclusions. FairTax legislation was first introduced in the House in 1999 by Georgia Republicans John E. Linder and Rob Woodall. While it didnt gain much traction that first year, similar bills were introduced in each subsequent session of Congress. During former President George W. Bushs term in office, his tax reform panel considered a national sales tax. However, they ultimately rejected the idea. Because of these obstacles, this proposal has very little chance of becoming law as written. Despite these findings, Woodall hasnt given up hope. He most recently introduced the FairTax Act of 2019 (H.R. 25), suggesting a national sales tax to replace income taxes, payroll taxes, and estate and gift taxes. The bill would set the sales tax rate at 23% for 2021, with adjustments to the rate in subsequent years. The FairTax concept proposes that the federal government stop collecting many different types of income tax, including: Instead, the government would generate tax revenue by instituting a national sales tax on most purchased items the FairTax. Businesses would collect the tax at the point of sale and send the revenue to the federal government. Your tax bill would no longer have anything to do with how many dependents you claim or whether you rent or own a home. Instead of having taxes withheld from your paycheck, your take-home pay would simply be exactly how much money you make: tax-free. To prevent a national sales tax from negatively impacting low-income individuals, the FairTax would also give all households a prebate, or a monthly payment for the amount of tax a household spending a poverty-level income would pay. The FairTax legislation would also repeal the 16th Amendment, which means the federal government would no longer have the right to levy income taxes. However, states and local governments would still collect revenue via income and sales taxes at their discretion. The proposed sales tax would amount to 23% of the total payment on just about all purchases. Sounds like youd simply pay a 23% sales tax, right? Not quite. It actually works out to be a 30% sales tax rate. Currently, Americans pay an exclusive tax, meaning they tack sales tax onto your purchase at the register. Under a FairTax system, sales tax would be an inclusive tax, meaning they include it in the items price from the get-go. For example, under a FairTax system, an item marked $100 would already include the sales tax within it in this case, $23. In other words, the cost of the item without the tax would be $77. But $23 paid on a $77 purchase is roughly 30% the way were used to calculating it. While 30% is steep, youd be working with a much larger paycheck because your employer wouldnt have withheld any federal tax. According to FairTax.org, proponents of the FairTax use the 23% figure to compare the FairTax to our current income tax system, not our current sales tax system. As explained in the websites frequently asked questions: Note that no matter which way it is quoted, the amount of tax is the same. Under an income tax rate of 23 percent, you have to earn $130 to spend $100. Spend that same $100 under a sales tax, you pay that same tax of $30, and the rate is quoted as 30 percent. Further, the FairTax plan attempts to solve the issue of double taxation. Currently, businesses pay sales tax on the materials they use to create the goods they sell, which then get taxed again. In effect, the same material gets taxed twice. However, under the proposed legislation, new goods purchased directly by businesses could avoid the sales tax and thereby avoid being double-taxed. That should bring the wholesale cost of your purchase down and, in theory, reduce the retail price. The Prebate or advanced tax refund is designed in part to relieve poverty-level Americans by providing a monthly check that would essentially offset all their sales tax expenditures. The amount of the allowance would be based on the U.S. poverty-level guidelines and would increase for larger families. According to the 2020 FairTax Prebate Factsheet issued by Americans for Fair Taxation, the prebate would range from $2,935 to $10,148 annually for a one-adult household or $5,870 to $13,082 for a two-adult household, depending on the number of dependents living in the household. Similar to a universal basic income, the prebate is geared toward poorer families. But everyone would receive monthly checks, regardless of income. The prebate brings up yet another point of contention between critics and supporters. It is the most expensive element of the entire plan, would be the most extensive entitlement program in American history, and would constitute a welfare payment, even for those without a need. In other words, a two-parent billionaire household with two kids would receive the same monthly prebate as a two-parent, two-child household getting by on $20,000 per year. The FairTax plan may be advantageous to many groups, especially the wealthy and those at or below the poverty line. Significant benefits include: Paying Tax Only on What You Spend. Our tax system is currently based on tax brackets: The more you make, the more you pay in taxes. Under the FairTax plan, only the amount of income you spend gets taxed. For example, someone who makes $200,000 and spends $100,000 would pay only 11.5% of their income to taxes. Helping Investors. Because the capital gains tax would be eliminated, individuals who can afford to invest will enjoy tax-free compound growth. That would be similar to having an individual retirement account (IRA) in which you could invest as much as you want and withdraw funds at any time without taxes or penalties. (Under current IRA rules, you can only invest a certain amount per year and must be 59 1/2 to withdraw funds without penalty.) Making Tax Revenues Easier to Predict. Because consumption rates are much more stable than income, figuring out tax revenues will likely be simpler, and estimates will be more accurate. Benefiting Businesses. Under the FairTax system, business-to-business purchases arent taxable. Only sales to consumers are taxed. Along with eliminating double taxation, the proposed plan would get rid of corporate income taxes, self-employment taxes, payroll taxes, and taxes on capital and investments. That change could substantially benefit small businesses and corporations. Proponents of the FairTax say consumers would also benefit because wages and employment would increase and businesses would pass their savings on to consumers in the form of lower prices. However, theres no guarantee that will happen. Eliminating Tax Administration and Filing. Simply put, you would no longer need to file a tax return with the IRS each year. Providing Prebates. The monthly check would help offset some portion of every households sales tax payments, especially for families near and below the poverty line. While the FairTax plan sounds reasonable in theory, some economists say it would wreak havoc upon the middle class. That includes Alan Viard of the American Enterprise Institute, who studies federal tax and budget policy and sat for an interview about the subject with AEI. Major concerns include: Penalizing the Lower and Middle Classes. Detractors say that individuals and families above the poverty level and considered middle class will bear the brunt of the tax burden for the country. Its billed as a progressive tax, which means that the wealthy pay more and the poor and middle class pay less as a percentage of their income. But thats only true if individuals spend 100% of their incomes on taxable expenditures. In reality, very high-income taxpayers save a larger percentage of their income than low- and middle-income people. So this plan would indeed be regressive meaning those with less money end up paying a higher percentage of their income in taxes. Increasing Potential for Tax Evasion. One of the reasons Bushs tax reform panel scrapped the FairTax idea was concern that a high sales tax rate would result in widespread tax evasion, possibly through trade and purchasing goods in other countries. Eliminating Tax Deductions and Credits. Currently, many tax deductions and credits incentivize specific social policy goals, such as buying a home, giving to charity, getting a college education, and saving for retirement. The FairTaxs prebate is designed to make up for those lost deductions. However, because its given to all households rather than encouraging people to spend their income in certain ways, people may be less motivated to take certain actions that could benefit them in the future. Making State Income a Bigger Burden. Though federal income tax would go away, state income tax would remain, and it would no longer be deductible against federal taxes. The effect would be a great burden on residents of high-income tax states like California and Hawaii. Moreover, unless you live in a sales-tax-free state, like Oregon or New Hampshire, you could pay your states sales tax on top of the FairTax and on top of your states income tax. For a family living in Los Angeles making $100,000, that would be well over 40%! Depending Too Much on Spending. This tax is dependent on spending. However, since many wealthy individuals already invest on their own and in other businesses, they may be further motivated to do so. Those moves could benefit the economy overall, but since these activities would be nontaxable, the national burden shifts to the lower economic classes. Increasing Costs for Immigrants. Prebate checks would only go to U.S. citizens. That would significantly raise the cost of living for lower-income immigrants, permanent residents, and visa holders. It could also deter highly educated foreign workers with highly sought-after expertise, such as doctors, engineers, and technology sector workers, from immigrating. The FairTax is gaining traction because many people feel our current income tax system is needlessly complex and unfair. But though proponents of the FairTax plan claim its a simple and fair replacement, that might not be accurate. Consider that many families can currently get their effective federal tax rate down far below 30%. For example, lets consider a married couple who files a joint tax return and has two dependent children. Assuming they claim the standard deduction, we can estimate their federal income tax bill as follows: Federal Income Tax AnalysisGross income$100,000Standard deduction$24,800Taxable income=$75,200Tax liability before credits$8,629Child tax credits$4,000Estimated tax liability=$4,629 They also have an additional $7,650 of their wages withheld for Social Security and Medicare, making their total tax paid to the federal government $12,279. That means their effective tax rate is just over 12% far less than the FairTax effective tax rate of 30%. Take a look at your tax return to find your effective tax rate. If you use a service likeH&R Block, it is likely on one of the forms that accompany your tax return. How much more (or less) would you pay under the FairTax plan? Almost everyone agrees that our current income tax system is too complicated. For that reason, its easy to get behind the idea that throwing out our current tax system is the only answer. But tax reform is rarely so simple. When lawmakers float a FairTax proposal, read the text of the bill and analyze it from reliable sources. Run the numbers for yourself. Then you can decide whether the FairTax is really fair or just a catchy sound bite.

Would the fair tax work. Fair tax explained. What does the fair tax tax. What is the fair tax. How does the fair tax act work.

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