

CALCULATING YOUR ACTUAL TAX RATE UNDER FAIRTAX

$$23\% \text{ Income Tax Rate (inclusive)} = 30\% \text{ Sales Tax Rate (exclusive)}$$

The 23% inclusive FairTax rate is used to compare to the inclusive current Income Tax system.

While the FairTax is calculated on dollars spent rather than dollar earned, you can compare your current rate of tax under the income tax system (inclusive tax system) which would include both withholding and FICA payroll (7.65%) against the FairTax 23% inclusive tax rate (for every \$1 spent, 23 cents goes to tax and 77 cents goes to the retailer). This allows both tax systems to be calculated in the same terms and is calculated this way...

ON A SEPARATE PAPER ...

Begin with your GROSS income, before any tax deductions or negative adjustments are deducted, as stated on your most recent income tax return. Include all taxable income under the current system: wages, earnings, business profits, dividends, interest, and taxable income from any other sources. Then add to that any non-taxable income from retirement, social security, gifts, estates, insurance, major withdrawals from savings, etc. In other words, calculate the total amount of money you had to spend last year - this is your GROSS SPENDING AMOUNT.

CALCULATE YOUR PERSONAL FairTax INCLUSIVE ANNUAL RATE FOR LAST YEAR:

1. Start with your GROSS SPENDING AMOUNT calculated above (all money you had to spend last year) \$ _____

SUBTRACT THE TAX-FREE SPENDING/SAVINGS ITEMS LISTED BELOW (#2-11):

2. Mortgage payments (principal & interest) for the year - mortgages only, not rent —\$ _____

3. Payments (principal & interest) made for the year on any CURRENT loans —\$ _____

4. Payments made toward education tuition only (any level) —\$ _____

5. Amount you saved in any savings account through work or on your own —\$ _____

6. Amount you invested in stocks or bonds —\$ _____

7. Amount of cash you gave to non-profit charities —\$ _____

8. Amount of cash you simply gave away to relatives or anyone —\$ _____

9. All state and local income taxes & property taxes paid either from payroll withholding or on your own —\$ _____

10. Amount you spent on any large "used" items, such as land or secondary market real estate, used cars, used furniture, etc. —\$ _____

11. Annual Health & Human Services (HHS) poverty level of spending for your —\$ _____

household. This amount is determined solely by the number of dependents in your household and represents your tax free spending amount for necessities. (see chart at <http://www.pafairtax.org/images/FTrebatetable.jpg> for current figures)

12. Subtract the sum of Lines # 2-11 from Line 1. This total (Line 12) equals the maximum amount of money you would have had left over last year (after non-taxed items) to spend on taxable items at retail (NEW goods and services). = \$ _____
NET TAXABLE SPENDING AMOUNT

13. Since we are dealing with "inclusive" rates, to compare to income tax you will figure 23% of Line 12 to go toward sales tax and 77% of Line 12 will be yours to keep. Multiply Line 12 by .23 (23%) to determine the maximum dollar amount you could have paid in taxes last year through the national sales tax program (FairTax). This total would cover your total federal and Social Security/Medicare tax levy for the year. X .23
= \$ _____
MAXIMUM FAIRTAX AMOUNT PAID

14. Finally, simply figure what percent of the entire Gross Spending Amount (Line 1) was the maximum tax levy you could pay: calculate this by dividing Line 13 by Line 1 (Line 13 / Line 1). _____ %
FAIRTAX ANNUAL TAX RATE

LINE 14 REPRESENTS WHAT YOUR FAIRTAX ANNUAL FEDERAL TAX RATE FOR LAST YEAR WOULD HAVE BEEN IF ALL ELSE STAYED THE SAME. Under FairTax, your personal tax rate could change up or down if you had more money to spend, or if you adjusted your own personal spending choices to include more or less taxable items under lines 2-11, such as including more used goods, tax exempt goods or more savings and investments. The rate you have calculated is the MAXIMUM you could have paid last year. Under FairTax, you ultimately will determine your own bottom line annual tax levy AMOUNT and RATE through personal choices, NOT regulations of the federal government through the IRS.

CALCULATE YOUR INCOME TAX RATE ON THE SAME TOTAL AMOUNT AVAILABLE TO SPEND LAST YEAR (Inclusive tax percentage terms equal to FairTax 23%)

15. Simply figure the annual rate you paid last year by using your income tax form. Just divide the Total Tax Due by your Total Gross Income and this is your withholding tax rate as a percent of your total income. Total Tax Due: \$ _____
Total Gross Income: ÷ \$ _____
= _____ %

BUT YOU MUST REMEMBER... at this point you must also add another 7.65% to this figure to represent the Social Security Tax that was also taken out of your check separate from withholding tax. This tax is eliminated by FairTax and included in the sales tax rate. So your final income tax rate for last year would be the sum of these two percentages: percent you figured in line 15 plus 7.65%. + 7.65 %
= _____ %
INCOME TAX WITHHELD RATE

Compare this to the figure you got in line 14 (FairTax rate) to determine if you would have done better under FairTax or income tax last year. Keep in mind that prices of all goods and services should drop by 20% or more

under the FairTax when free markets take hold.

You also need to remember that under the income tax your employer is paying an ADDITIONAL 7.65% for you, as well as other federal unemployment taxes. These payments reduce the amount your employer can afford to pay you in salary.

FLAT TAX COMPARISON

Finally, under any flat tax proposed, you will need to add the 7.65% you pay to the income tax rate proposed. Most flat tax proposals are between 17%-19% so most are looking at a total of at least 25% with little or no deductions. Keep in mind, the employer pays another 7.65% for you under any flat tax. Most people who pay taxes will pay more under a flat tax system.

In addition, there will still be 20% of Americans and ALL the illegal residents that will pay NO tax under a flat tax. In many instances, a flat tax will be worse for the American taxpayer, and the flat tax does NOT address the higher costs of Social Security that will no doubt bring the tax burden up in the near future. Flat taxes are a leveling of rates, not a redistribution of tax liability, therefore unless corporations are tax free (and they are not under a flat tax), there will not be any expansion of the economy through free markets. As long as U.S. businesses pay taxes, the American citizens' tax burden will remain hidden from view within IRS tax compliance costs included in the price of all goods and services.

Prepared by Marlene Tobin
Western PA AFFT Coordinator