

FAIRTAX 23% INCLUSIVE AND 30% EXCLUSIVE TAX RATES EXPLAINED

When discussed, you hear both 23% and 30% mentioned for the FairTax: 23% is "inclusive" like today's income tax and 30% is "exclusive" like sales tax at the cash register. But they are the same in terms of dollars paid and the consumer's buying power – here's why:

Under Income Tax and Flat Tax

Through withholding, the Government owns and controls your paycheck and all the fruits of your labor. The Government decides first how much it will keep and then how much it will allow you have.

Under the FairTax

YOU own and keep all of your paycheck and the fruits of your labor and through spending choices YOU control and decide where, when, and how much of YOUR money you will let the Government have. It's called economic freedom.

Understanding Tax Rates – Inclusive and Exclusive Types

Under the FairTax, all Federal income withholding, payroll (FICA), corporate, self employment, gift and estate taxes ends. The 71,000+ pages of the U.S. income tax code, regulations and rulings plus the IRS disappears. In order to fund the \$3.7 trillion Federal budget, a 23% inclusive consumption levy will be placed on every dollar we spend in the consumer retail market on ALL "end use" NEW goods and services with no exceptions (keeps Government out of the system). This is not a Value Added Tax (VAT), no double taxation, no used goods are taxed, no layering of taxes, no business to business items are taxed.

The 23% Inclusive FairTax Rate

The consumer will take home 100% of his/her entire paycheck, retirement check, social security check, capital gains and investments. Then at the time of spending and only at the time of spending, for every \$1 the consumer pays out at the retail level, \$.23 or 23% will be given to the Federal government to supply the revenues needed to cover the budget expenditures, and \$.77 will be left in the hands of the consumer as "buying power" to spend in any way he/she chooses. The FairTax levy will be charged only on dollars you spend (not save), and only on new goods and services at retail. Save your money, pay your current mortgage, pay tuition bills, buy used goods such as a used car or home, and you pay no tax levy against those dollars spent. It's your choice, not your Government's.

In other words, instead of being asked to give one big share of taxes to the Government first before you receive your earnings (income or flat tax), you will instead keep 100% of your income and then be asked to give a tax share of it to the Government just a little at a time, only at the moment you choose to "consume" or buy a new good or service. To quickly compare the percentage rate you currently pay in income tax levies per \$1 to the 23% that will be levied on you at time of spending a \$1, you must figure your current tax withholding rate (10% to 35%) and add to it a FICA tax withholding rate (7.65%) if your earnings are from wages. The comparison of Income tax and Fair Tax rates (both inclusive rates) is made on an equal basis, and will reveal the "buying power" per \$1 you retain under both systems. There are other

deductions, spending habits, and a refund under FairTax that will adjust these figures downward, but this is how you would begin the comparison.

Remember, this is a "buying power" per \$1 comparison. If you are in a withholding bracket of 20% and a 7.65% FICA tax is taken from your wages too, your total Income tax (inclusive) rate would be 27.65% as compared to the 23% inclusive rate under the FairTax. Translated, this means that under Income tax you have only \$.72 worth of buying power for every \$1 of wages you earn versus \$.77 for each \$1 under FairTax. Your current Income tax rate can never go lower than 7.65% if your income is from wages because FICA is always paid on every dollar earned. So your buying power for \$1 earned under Income tax can never go above \$.93 (\$1 minus 7.65%). Under FairTax, however, considering spending habits and the rebate that every citizen will get (talk later about rebates), it is possible for your FairTax levy to approach 0% and your buying power per \$1 to approach \$1. This shows the comparison of the 23% INCLUSIVE rate of FairTax to the INCLUSIVE rate of Income tax (or Flat Tax), in buying power.

How will the 23% consumption levy rate of the FairTax be collected, how much will be collected, and how much will you actually pay per purchase to achieve this?

The Government won't be taking any money from you when you get your paycheck, but they still need you to pay something. Americans For Fair Taxation (AFFT) determined that Government needs to collect \$.23 of every \$1 spent at the retail level on new goods and services to cover the \$3.7 trillion in revenues required to fund the current Federal budget. This figure is revenue neutral; i.e., FairTax simply is a substitute form of tax collection. It is NOT an increase or a decrease in total revenues collected — exactly the same amount of revenue is raised for the Government.

In order to achieve this level of steady income for the Government, the FairTax proposal has determined this level of revenue can be achieved by charging a National Sales Tax in the amount of 30% (exclusive rate) on all purchases of new goods and services at the cash register. You keep 100% of your paycheck, but this is how your payment to the Government will be achieved. Think of it this way: Currently you send the Government \$.23 (off the top) of every \$1 you earn in income for the year, through withholding or by writing them a check. Under FairTax, retailers will collect your fair share little by little, by charging you the 30% sales tax at the retail cash register on purchases of new goods and services, and then remitting it to the Government for you. The 30% rate is called an "exclusive" or indirect tax. Examples of inclusive and exclusive are shown below. In summary, in order to achieve the \$3.7 trillion level of Government revenues needed to replace the current withholding and income taxes, a 30% sales tax will be added to the purchase price at the register on all end-use retail new goods and services.

Under FairTax, while the 23% inclusive tax rate versus the 30% exclusive sales tax rate seem like they are at odds with each other, in actuality they both produce exactly the same amount of "buying power" per \$1 you spend. The 23% inclusive FairTax rate is quoted and used only so citizens have a way to accurately compare the FairTax "inclusive" rate to the current Income tax "inclusive" rate we are being charged today. The 30% sales tax rate is actually what you would see on your sales receipt when purchasing something taxed under the FairTax. Think of it this way: the temperature at which water freezes is 32 degrees Fahrenheit or 0 degrees Centigrade. These are just two different ways to represent one temperature. Here's another example: A

teacher holds up a ruler and asks her students how long it is. One student says it's 12 inches long and another student says it's one foot long. They are both correct — just two different ways to represent one length. It's the same way with the 23% inclusive tax rate and 30% exclusive tax rate used to represent the amount of money FairTax will raise for the Federal government.

Examples

Example 1

FairTax "inclusive" 23% rate — to compare to Income Tax rates

\$1.00 (earnings)
 - .23 (23% of \$1.00 earned goes to pay Federal taxes)
 \$.77 (buying power — left to spend on value of good or service)

Example 2

FairTax "exclusive" 30% sales tax — to be charged at cash register

\$.77 (buying power — purchase price of new good or service)
 + .23 (plus 30% sales tax)
 \$1.00 (dollar earned and spent)

In both cases, \$.77 is what the consumer had in "buying power" to apply to the value of a new good or service and \$.23 is the tax paid.

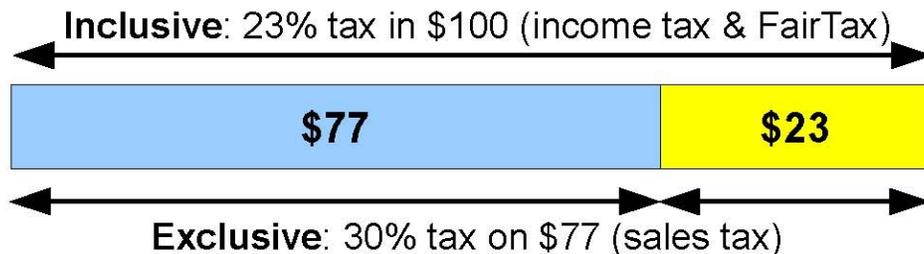
Example 1 illustrates the statement "for every \$1 earned the taxman gets \$.23 (23%) and the consumer gets \$.77 of value at the retail level."

Example 2 illustrates the statement that "30% sales tax will apply to a taxable purchase to achieve the \$.23 of every \$1 spent, going to the taxman."

Summary

Two tax rates are talked about with the FairTax proposal: 23% inclusive and 30% exclusive. It's very important to understand that they are equal when it comes to what it will cost the consumer in dollars and the amount of money the Federal government will receive.

23% is the figure used to compare FairTax to your current Income tax liability rate
 30% is the sales tax rate charged on taxable spending to raise the same amount of revenue



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