



A FairTaxSM White Paper

Why residential Realtors[®] support the FairTax

by Harvey Abernethy, Realtor[®]

The FairTax plan has many positive features, not the least of which are the advantages that accrue to real estate ownership. The FairTax plan allows homeowners to:

- Pay an entire house payment, both principal and interest, with “pre-tax” dollars, a major improvement over the paltry home-interest tax deduction, which only pays interest with pre-income tax/post-payroll tax dollars.
- Get this benefit without itemizing deductions, which only a small percentage of homeowners do today.
- Save for down payments much faster, without the penalty of taxation.
- Reduce interest rates even lower than they are today.

The current system punishes those who would own property.

The federal income tax is unfair, complex, and riddled with loopholes. Even worse, it punishes work, savings, investment, and productivity. It contributes to high interest rates and a lack of savings among the American people. But now, fundamental tax reform is seriously being discussed in Washington. The most innovative proposal is HR 25, called the Fair Tax Act. The FairTax is revenue-neutral legislation, repealing and replacing the following with a progressive retail sales tax:

- The individual income tax (including capital gains and alternative minimum taxes)
- The estate and gift tax
- The corporate income tax
- All payroll taxes including the Social Security, Medicare, and self-employment taxes

This single-rate sales tax is calculated to raise the same amount of money raised by the current system (revenue neutral). This proposal does not seek to raise or lower taxes but just to change the collection system. The change in the collection system provides the least expensive, least intrusive, most efficient way of raising the same amount of money, which removes significant friction from the American economy.



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A 30-percent¹ federal sales tax is imposed on all retail sales of goods and services. *Used goods are not taxed, including pre-owned homes.* American exports do not have tax costs embedded in their prices. Businesses-to-business transactions are not taxed, *therefore no commercial real estate transactions are taxed.* The sales tax is separately stated and charged. Social Security and Medicare benefits are fully funded and secure, with funds raised from a broad-based, progressive sales tax, rather than a narrow, regressive payroll tax.

States can elect to collect the federal sales tax on behalf of the federal government. Strong taxpayer rights provisions are incorporated into the act. The burden of proof in disputes is on the government.

Because of these features, the FairTax (a) makes all federal taxes visible, (b) untaxes the poor, (c) raises only the same amount of money as the current system does, and (d) untaxes savings and investments. In other words, it only taxes spending, not income.

Not only is this plan a fantastic benefit to individual Americans, it particularly benefits the real estate industry, both commercial and residential.

The FairTax supercharges the mortgage interest “deduction.”

Under an income tax, the mortgage interest deduction is half a loaf. It allows home mortgage interest payments to be made with *pre-income* tax dollars. But mortgage interest payments must still be made with money that has already been *payroll*-taxed (the payroll tax comprises the most significant taxes first time homeowners pay). Under the FairTax, mortgage interest *and* principal payments are simply not taxed, so the entire payment is made *with both pre-income and pre-payroll tax dollars.*

Individuals are able to save for the purchase of a home much faster, which increases and accelerates the volume of home sales.

Today, buyers seeking to buy a new home or to step up to a larger or second home are taxed on their savings, reducing them. No wonder our savings rates are so low. Under the FairTax, savings and investment are not taxed, allowing buyers to save the down payment in about half the time (nothing is deducted from their paychecks). As a result, a chain effect takes place: Accumulation of down payments is easier and faster, existing owners are able to sell their homes faster and more new home sales take place. Realtors make more money faster since there are more qualified buyers faster.

¹ This issue is often confusing, so we explain more here.

When income tax rates are quoted, economists call that a *tax-inclusive* quote: “I paid 23 percent last year.” For every \$100 earned, \$23 went to Uncle Sam. Or, “I had to make \$130 to have \$100 to spend.” That’s a 23-percent *tax-inclusive* rate. We choose to compare the FairTax to income taxes, quoting the rate the same way, because the FairTax replaces such taxes. That rate is 23 percent. Sales taxes, on the other hand, are generally quoted *tax exclusive*: “I bought a \$77 shirt and had to pay that same \$23 in sales tax.” This is a 30-percent sales tax. Or, “I spent a dollar, 77¢ for the product and 23¢ in tax.” This rate, when programmed into a point-of-purchase terminal, is 30 percent. 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.



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Mortgage interest rates fall.

Today, mortgage interest rates are artificially inflated because they include a tax premium, which is the amount lenders pay in taxes on the income they receive. Because lenders don't pay taxes on income under the FairTax, it is as if every homeowner is entitled to finance with a tax-free municipal bond. Home mortgage interest rates fall by 25 to 30 percent (i.e., about two points on a 30-year conventional mortgage). Real interest rates also stay low because the supply of capital for borrowing increases. With lower interest payments, everyone wins – especially homebuyers, sellers, and Realtors.

The FairTax makes housing more affordable by repealing upstream taxes.

Like other businesses, homebuilders pay corporate taxes, significant compliance costs, and payroll taxes, not only directly, but also in the form of upstream producer price increases that are included in their material and labor costs. Under the FairTax, these upstream costs are eliminated. Under the FairTax, principal payments are still sales taxed (as they are today, since the income earned to pay for that principal is taxed) but new home sales prices fall as a result of the removal of upstream tax costs.

A home buyer can earn less to buy the same home.

Considering the fact that a consumption tax taxes purchases, but the income and payroll taxes take the money before we purchase, the proper comparison question between the two methods is simply this: How much money would a purchaser have to make to pay for the home? Since the FairTax lowers marginal rates, homebuyers face lower after-tax costs of their principal payments.

A far simpler, fairer system for Realtors

Under the FairTax, no sales tax is collected or paid in commercial transactions, so commercial Realtors are essentially removed from the tax system completely. There is no longer any record keeping for income taxes, payroll taxes, or any other such items. All Realtors earn their commissions and put 100 percent of that money in their pockets.

The FairTax ensures no American pays this tax on necessities.

Because there are no exemptions or exclusions from the FairTax, it provides every family with a rebate of the sales tax on spending up to the federal poverty income level (about \$25,660 for a family of four). The rebate is paid monthly in advance. In this way, no individual or family pays tax on essential goods and services and middle-class families are effectively exempted on a large part of their annual spending. The poor and those on fixed incomes pay no tax whatsoever – hidden or obvious – up to the poverty level.

Get the FairTax residential real estate affordability calculator and worksheets.

FairTax.org provides both an automatic calculator, to compare the amounts homeowners can spend on homes under the current and FairTax systems, as well as worksheets for doing these calculations with pencil and calculator. To obtain these, please send an e-mail to info@fairtax.org and put "Need auto calculator" in the subject line.



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About Harvey Abernethy

Harvey Abernethy is a volunteer district director of FairTax.org in the 2nd congressional district of Tennessee. A graduate from the University of Tennessee with a major in real estate and urban development, he has practiced all facets of real estate as a professional for 33 years. He can be reached via email at h.abernethy@att.net or by mail at 221 West Young High Pike, Knoxville, Tennessee 37920.

What is the FairTax Plan?

The FairTax Plan is a comprehensive proposal that replaces all federal income and payroll based taxes with an integrated approach including a progressive national retail sales tax, a prebate to ensure no American pays federal taxes on spending up to the poverty level, dollar-for-dollar federal revenue replacement, and, through companion legislation, the repeal of the 16th Amendment. This nonpartisan legislation (HR 25/S 1025) abolishes all federal personal and corporate income taxes, gift, estate, capital gains, alternative minimum, Social Security, Medicare, and self-employment taxes and replaces them with one simple, visible, federal retail sales tax – administered primarily by existing state sales tax authorities. The IRS is disbanded and defunded. The FairTax taxes us only on what we choose to spend on new goods or services, not on what we earn. The FairTax is a fair, efficient, transparent, and intelligent solution to the frustration and inequity of our current tax system.

What is Americans For Fair Taxation (FairTax.org)?

FairTax.org is a nonprofit, nonpartisan, grassroots organization solely dedicated to replacing the current tax system. The organization has hundreds of thousands of members and volunteers nationwide. Its plan supports sound economic research, education of citizens and community leaders, and grassroots mobilization efforts. For more information visit the Web page: www.FairTax.org or call 1-800-FAIRTAX.

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(AFFT Documents\Papers on a specific subject\Why residential Realtors support the FairTax)