A FairTax[SM] White Paper

A nonpartisan/neutral definition sheet for the various tax proposals vying to replace the current income and/or Social Security tax systems

Only four things can be taxed: Earnings (wages and salaries), income from investments, wealth (property, stocks, etc.) and consumption. The FairTax, the flat income tax, and the value-added tax are different approaches to taxing consumption.

National retail sales tax (The Fair Tax Act, HR 25)
In general a national retail sales tax imposes a tax on the retail price of all taxable goods and services to the final consumer. Businesses do not pay taxes on purchases of items that are incorporated into a good or service sold at retail to consumers. The tax is collected and remitted to the federal government only by businesses that sell directly to consumers (end users). Individuals pay tax only when they purchase a good or service, thus making the cost of government highly visible.

Specifically, the FairTax imposes a revenue-neutral, progressive, national retail sales tax whereby the wealthiest/biggest spenders pay $23 in tax out of every $100 spent on the purchase of new (not used) goods and services. Savings, investments, and exports are not taxed. Revenues from the FairTax replace the revenues generated by the current system of income and Social Security taxation dollar-for-dollar. The FairTax abolishes all federal income/payroll taxes, including personal, estate, gift, capital gains, alternative minimum, corporate, Social security/Medicare/Medicaid payroll taxes, and self-employment taxes; has taxes collected by state sales tax agencies; and reduces the federal tax collection bureaucracy by some 90 percent.

Flat income tax (The Freedom Flat Tax Act, HR 1040)
The flat income tax is essentially a modified version of the existing federal income tax that has a single or flat tax rate, using the current system of payroll deductions and the Internal Revenue Service. It can be considered a consumption-based tax because it does not tax income from investments or savings. The tax would be collected in lieu of the current income tax on both individuals and businesses.

The Freedom Flat Tax Act would allow individuals and businesses to elect to be subject to a flat tax of 19 percent of taxable income for the first two years and 17 percent thereafter, in addition to existing payroll withholding for social Security/Medicare/Medicaid. Individual taxable income is the amount of earned income received during the tax year that exceeds the year's standard deduction – the sum of a basic standard deduction plus an additional $5,510 for each dependent. These deductions would be adjusted annually for inflation.

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The tax on business is, in effect, a value-added tax (see VAT definition below). The tax base is total gross income minus deductions: Wages paid to employees, pension payments, and purchases from other businesses.

Value-added tax or VAT (Simplified USA Tax Act, HR 269)
The value-added tax has the same tax base as a national retail sales tax: Final consumption, though it is imposed and collected on the value that is added at each stage in the production and distribution of goods or services. It taxes imports and exempts exports. The VAT is imposed on businesses that sell goods or services and is calculated by applying the tax rate to the sales price. Businesses can claim a credit against taxes due for all VAT paid on purchases of goods and services (inputs). The credit system is used to avoid taxes upon taxes in the final purchase price. Individual consumers are not eligible for such credits so the amount of taxes does not have to be disclosed to them. Most European nations have value-added taxes instead of corporate income taxes, in addition to personal income taxes.

The USA Tax would replace the corporate income tax with a modified value-added tax. The tax base would be total receipts of the business minus the cost of business purchases including purchase or rental of property, capital equipment, inventory, and business services. Business purchases do not include employee compensation or state and local property and income taxes. Taxes due are equal to eight percent of the first $150,000 and 12 percent on any amount thereafter.

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\A nonpartisan-neutral definition sheet for the various tax proposals)

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