OVERVIEW

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 (H.R. 25 / S. 122) 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.

FairTax Earning Power – Real Not Diluted Earnings

Under the FairTax proposal not only do more Americans have jobs, but they also take home 100% of their paychecks, pensions, or Social Security checks. Employees keep 100% of their paychecks. Pensioners keep 100% of their pensions.

THE FAIRTAX PREBATE

The Prebate is designed to ensure that no American pays federal taxes on spending up to the poverty level. All valid Social Security cardholders who are legal U.S. residents receive a monthly Prebate payment equivalent to the FairTax paid on essential goods and services, as measured by the Dept. of Health and Human Services poverty level expenditures. This is a well-accepted, long-used poverty level calculation that includes food, clothing, shelter, transportation, medical care, and so on. The amount of the Prebate payment is computed by multiplying the poverty level expenditures by the FairTax rate according to the following schedule. For a two adult, two child household the annual prebate amount is $7,236 or $603 per month.

2014 FairTax Prebate Schedule

One-Adult Household				Two-Adult Household			
Family Size	Annual Consumption Allowance[1]	**Annual Prebate Amount**	Monthly Prebate Amount	Family Size	Annual Consumption Allowance[1]	**Annual Prebate Amount**	Monthly Prebate Amount
1 person	$11,670	**$2,684**	$224	couple	$23,340	**$5,368**	$447
and 1 child	$15,730	**$3,618**	$301	and 1 child	$27,400	**$6,302**	$525
and 2 children	$19,790	**$4,552**	$379	and 2 children	$31,460	**$7,236**	$603
and 3 children	$23,850	**$5,486**	$457	and 3 children	$35,520	**$8,170**	$681
and 4 children	$27,910	**$6,419**	$535	and 4 children	$39,580	**$9,103**	$759
and 5 children	$31,970	**$7,353**	$613	and 5 children	$43,640	**$10,037**	$836
and 6 children	$35,790	**$8,232**	$686	and 6 children	$47,700	**$10,971**	$914
and 7 children	$40,090	**$9,221**	$768	and 7 children	$51,760	**$11,905**	$992

[1] For Families/households with 8 or more, add $4,060 to the annual consumption allowance for each additional person. The annual consumption allowance is based on the DHHS 2014 HHS Poverty Guidelines as published in the Federal Register, January 17, 2014. The annual prebate equals 23% of the annual consumption allowance.

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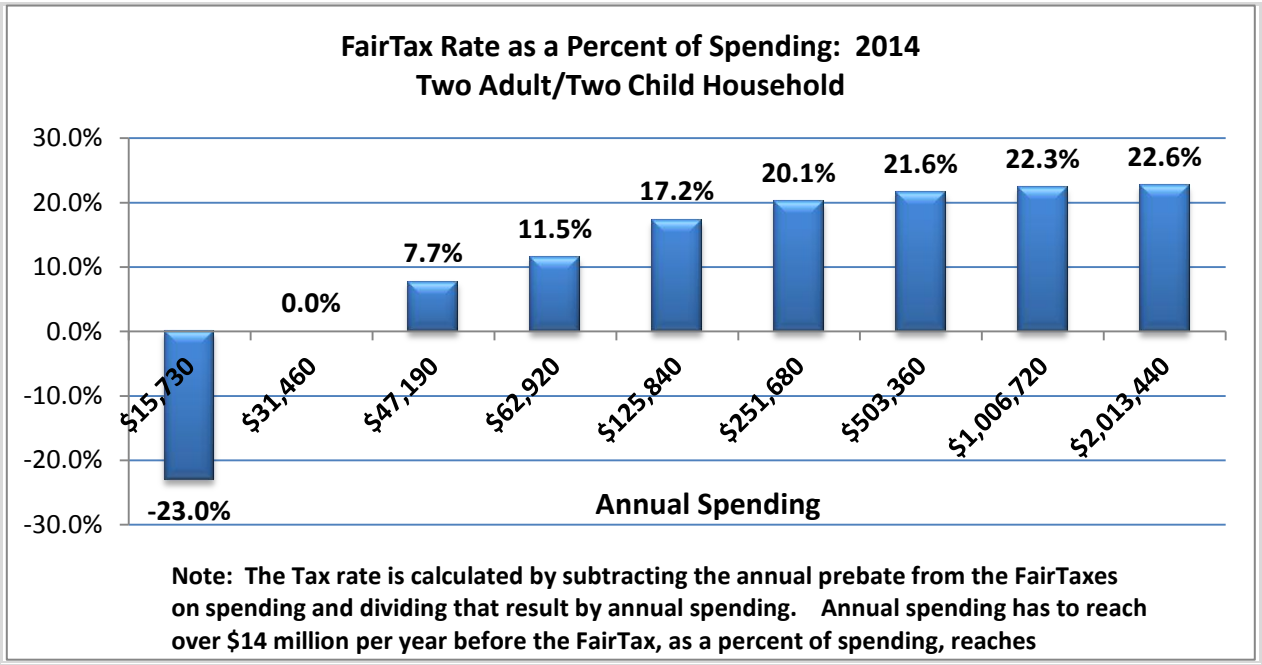
EFFECTIVE TAX RATE

Effective Tax Rates vs. Stated Tax Rates. Is the 23% FairTax revenue neutral rate higher or lower when compared to income and Social Security taxes people pay today? Most people are paying that much or more today – much of it just hidden from view. The income tax bracket most people fall into is 15 percent, and all wage earners pay 7.65 percent in payroll taxes. That's 23% right there, without taking into account the 7.65% employer matching! On top of that, you have to add in the business taxes and associated compliance costs passed on to consumers in the form of higher prices. Because the 23% FairTax rate of $0.23 on every dollar spent is not imposed on necessities, a household spending $31,460 pays an effective rate of 0.0%, not 23%. That same household will have a federal tax burden of 6.0 percent of his or her income under current law.



ADMINISTRATION

The FairTax is administered primarily by existing state sales tax authorities. It requires no itemization, receipts, IRS forms, tax audits, tax brackets, deductions, capital gain concerns nor individual or corporate tax compliance costs. There are no hidden taxes on goods purchased and no loopholes, exemptions or exclusions. Corporate taxes are abolished and used goods are not taxed. Retailers are paid a minimum of 20% of taxes collected under $1,000, or a maximum of 0.25% of taxes collected over $80,000 to collect the FairTax at the original point of purchase and the same amount goes to state sales tax authorities as a collection fee.

STATE TAX SYSTEMS

No state is required to repeal its income tax or piggyback its sales tax on the federal sales tax. All states have the opportunity to collect the FairTax on behalf of the federal government. Most states will probably choose to conform, making the administration of their state taxes more cost effective, and reducing the compliance costs of their state retail businesses. The state is paid a 0.25 percent collection fee by the federal government to collect the tax. For states that already collect a sales tax, this fee proves generous. A

state can choose not to collect the federal sales tax, and either outsource the collection to another state, or opt to have the federal government collect it directly. If a state chooses to conform to the federal tax base, it will raise the same amount of state sales tax with a much lower rate – in many cases more than 50 percent lower – since the FairTax base is broader than its current sales tax base. States may also consider the reduction or elimination of property taxes by keeping their sales tax rate at or near where it is currently. Finally, conforming states that are part of the FairTax system will find collection of state sales tax on internet and mail-order retail sales to their states greatly simplified.

SCHOLARLY RESEARCH

The FairTax has been called the most thoroughly researched tax reform plan in recent history.

- If the FairTax had been in effect in 2009 and 2010, it would have generated $171 billion more in revenues in 2009 and $267 billion more in 2010 than the current federal income tax system. The FairTax rate of 23 percent on a total taxable consumption base of $11.809 trillion will generate revenues of $2.188 trillion [1]
- The FairTax has the broadest base and the lowest rate of any single-rate tax reform plan. [2]
- Real wages are 10.3 percent, 9.5 percent, and 9.2 percent higher in years 1, 10, and 25, respectively than would otherwise be the case. [3]
- Disposable personal income is higher than if the current tax system remains in place: 1.7 percent in year 1, 8.7 percent in year 5, and 11.8 percent in year 10. [4]
- The economy as measured by GDP is 2.4 percent higher in the first year and 11.3 percent higher by the 10th year than it would otherwise be. [4]
- Consumption increases by 2.4 percent more in the first year, which grows to 11.7 percent more by the tenth year than it would be if the current system were to remain in place. [4]
- The increase in consumption is fueled by the 1.7 percent increase in disposable (after-tax) personal income that accompanies the rise in incomes from capital and labor once the FairTax is enacted. [4]
- By the 10th year, consumption increases by 11.7 percent over what it would be if the current tax system remained in place, and disposable income is up by 11.8 percent. [4]
- Over time, the FairTax benefits all income groups. Of 42 household types (classified by income, marital status, age), all have lower average remaining lifetime tax rates under the FairTax than they would experience under the current tax system. [5]
- Implementing the FairTax at a 23 percent rate gives the poorest members of the generation born in 1990 a 13.5 percent improvement in economic well being; their middle class and rich contemporaries experience a 5 percent and 2 percent improvement, respectively. [6]
- Based on standard measures of tax burden, the FairTax is more progressive than the individual income tax, payroll tax, and the corporate income tax. [7]
- Charitable giving increases by $2.1 billion (about 1 percent) in the first year over what it would be if the current system remained in place, by 2.4 percent in year 10, and by 5 percent in year 20. [8]
- On average, states could cut their sales tax rates by more than half, or 3.2 percentage points from 5.4 to 2.2 percent, if they conformed their state sales tax bases to the FairTax base. [9]
- The FairTax provides the equivalent of a supercharged mortgage interest deduction, reducing the true cost of buying a home by 19 percent. [10]

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