



## A FairTax<sup>SM</sup> White Paper

### Why retailers should support the FairTax

#### Retailers are more profitable under the FairTax.

- Like other firms, retailers enjoy a zero corporate tax rate and their shareholders are not taxed on dividends or capital gains on their investments.
- Retailers receive a collection fee of 25 basis points on federal funds collected.
- Compliance costs (discussed below) are lowered by a conservative estimate of \$225 billion.<sup>1</sup>

#### The economy grows, more people have jobs, incomes increase more rapidly.

- Those taxpayers who receive a payroll check benefit from more disposable income from the first day under the FairTax, due to the repeal of the payroll tax in its entirety.
- All known economic projections predict a much healthier economy.<sup>2</sup> People are willing and able to purchase more goods and services in a healthy economy. Typical estimates are that the economy is 10 to 14 percent larger within 10 years and consumption grows very substantially. Some studies show the potential gains to be much higher.<sup>3</sup> Real wages increase. Retailers make more money in a prosperous, growing economy.
- Consumer interest rates fall dramatically, between 25 to 30 percent.<sup>4</sup> Therefore, consumers' ability to finance consumption increases. In the case of interest that is presently deductible (home mortgage interest deductions, etc.), this projected drop in interest rates should more than offset any benefits lost due to the lack of deductibility. With regard to consumer loans, since consumer interest is not deductible under present

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<sup>1</sup> Hall, Arthur P., "Compliance Costs of Alternative Tax Systems II," The Tax Foundation, Special Brief, House Ways & Means Committee Testimony, March 20, 1996. He estimates that under a national retail sales tax plan compliance costs would decline by 95 percent to \$8.2 billion.

<sup>2</sup> See e.g., Burton, David R. and Dan R. Mastromarco, "The National Sales Tax: Moving Beyond the Idea," *Tax Notes* 71, No. 9, May 27, 1996, pp. 1237-47; Kotlikoff, Laurence J., "The Economic Impact of Replacing Federal Income Taxes with a Sales Tax," Cato Institute Policy Analysis No. 193, April, 15, 1993; Jorgenson, Dale W., "The Economic Impact of Taxing Consumption," testimony before the Committee on Ways and Means, U.S. House of Representatives, March 27, 1996; Jorgenson, Dale W., "The Economic Impact of Fundamental Tax Reform," testimony before the Committee on Ways and Means, June 6, 1995.

<sup>3</sup> Jorgenson, "The Economic Impact of Fundamental Tax Reform," op. cit.; Robbins, Gary and Aldona, "Looking Back to Move Forward: What Tax Policy Costs Americans and the Economy," Institute for Policy Innovation, Policy Report No. 127, September 1, 1994.

<sup>4</sup> Golob, John E., "How Would Tax Reform Affect Financial Markets?" *Economic Review*, Federal Reserve Bank of Kansas City, Fourth Quarter, 1995. He estimates a 25 to 35 percent drop (p. 27). See also Hall, Robert E. and Alvin Rabushka, *The Flat Tax*, Second Edition, Stanford, California: Hoover Institution Press, 1995.



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law, the effect of lower interest rates strongly and positively impacts credit card or consumer loan-financed purchases.

### **The replacement of the current federal tax system frees up consumer capital.**

- The criticism by some that consumers will not have available funds to pay the sales tax is incorrect. Consumers see their paychecks immediately increase by over \$1.6 trillion (estimated for 2001) because income and payroll taxes are eliminated. In addition, the FairTax plan provides a prepaid monthly rebate (prebate) for every registered household to cover the consumption tax spent on necessities up to the federal poverty level.
- The income tax is embedded in the price of everything we buy. Once the current tax system is repealed, pre-sales-tax prices come down because these embedded tax costs are removed. Prices, including the FairTax, remain close to the prices found in the marketplace today.

### **Retailers suffering from direct mail competition and cross-state sales benefit.**

- Direct mail sales from out-of-state sources are, in practice, made tax free because state use taxes are not enforced. Under the FairTax, retailers must collect the sales tax on all sales occurring within the United States. States that choose to conform to the federal base will have the added advantage of information sharing and clear interstate revenue allocation rules. The ability for the states to collect these heretofore uncollected taxes is a major incentive for states to conform their sales tax to the FairTax base. Retailers suffering from tax-free direct mail competition or from tax-free sales from out-of-state retailers see a major competitive disadvantage removed.

### **Retailers' compliance costs are lower.**

- Instead of having to comply with the complexities of the income tax and payroll tax, there is one national retail sales tax on all goods and services. The retailer simply needs to calculate its total retail sales on a monthly basis.
- No more uniform inventory capitalization requirements.
- No more complex rules governing employee benefits and retirement plans.
- No more tax depreciation schedules.
- No more tax rules governing mergers and acquisitions.
- No more international tax provisions.
- Over time, most states will conform their sales taxes to the FairTax, reducing the costs of complying with multiple rules in each state and its political subdivisions.
- The retailer's accounting, tax, and personnel (human resources) departments shrink dramatically.



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## The National Retail Association and the Nathan Associates Study

- A study prepared by Nathan Associates<sup>5</sup> for the National Retail Institute, which by its own admission made every conceivable adverse assumption, represents the worst case scenario for a consumption tax. It predicts that the economy will grow **only** three percent more in ten years than it would have under the income tax and that the increase in consumption will be 1.15 percent less in the first year relative to what it would have been under the income tax. The Nathan study concludes that **consumption will be higher in the fourth year and every year thereafter than it would have been under the income tax.** *In other words, even in the Nathan Associates' worst-case scenario, consumption will continue to grow at a healthy pace.* (The Nathan study did not assume the repeal of the payroll tax in its entirety, as called for by the FairTax Plan.) Even if the growth in consumption is reduced in the first year by the amount predicted by Nathan Associates, **retailers will be more profitable after tax because of the repeal of the income tax and lower compliance costs.** This study assumes 1) very low labor responsiveness to lower tax rates on labor, 2) that every dollar in new U.S. investment must come from the U.S. rather than foreign investors and, 3) there will be very small effects of increased investment on productivity. Additionally, the study assumes no gain in productivity from lower compliance costs.

### 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 16<sup>th</sup> 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](http://www.FairTax.org) or call 1-800-FAIRTAX.

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(AFFT Documents\Papers on a specific subject\Why retailers should support the FairTax)

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<sup>5</sup> “Replacing the Federal Income Tax with a Consumption-Based Tax System,” Nathan Associates, Inc., for the National Retail Institute, March, 1996.