

## **FAIRTAX 23% INCLUSIVE AND 30% EXCLUSIVE TAX RATES**

When discussed you will here 23% and 30% both mentioned for the FairTax 23% is "inclusive" like today's income tax and 30% is the "exclusive" or actual sales tax rate at the register.

But they are the same in terms of dollars paid and buying power– here's how.

### **UNDER INCOME TAX AND FLATTAX:**

The Government through withholding, owns and controls your paycheck and all the fruits of your labor, and the Government decides how much they will keep first and how much they 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 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 will be ended. The 30000+ page income tax code and the IRS disappears. In order to fund the 2.7 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, no exceptions (keeps Gov out of the system). Not a VAT tax, 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 their 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 Fed 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 they choose. 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 Gov 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 Gov 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 (10-35%) 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 inclusion 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 is taken from wages too, your total Income tax rate would be 27.65% as compared to the 23% inclusive rate under the FairTax. Translated this means for every \$1 of wages you earn under income tax you would have \$.72 worth of buying power VS \$.77 per 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. 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 FAIRTAX 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. The AFFT has decided Government needs to collect \$.23 of every \$1 dollar spent at the retail level to cover the \$2.7 trillion in revenues required to fund the current Fed budget. This figure is revenue neutral. FairTax simply is a substitute form of tax collection. It is not an increase in total revenues collected.

In order to achieve this level of steady income for the Government, the FairTax proposal has determined this level of revenue will be achieved by charging a National Sales Tax in the amount of 30% (exclusive rate) on all purchases of new goods and services only at the 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 for every \$1 (off the top) you earn in income for the year, through withholding or by writing them a check up front. Instead under FairTax, retailers will collect your levy little by little, by charging you the 30% sales tax at the retail register on purchases of new goods & services, and then remit it to the Government for you. The 30% is what they call an "exclusion" or indirect tax. Examples of inclusive and exclusive are below. In summary, in order to achieve the \$2.7 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, of all end-use retail new goods and services.

Under FairTax, while the 23% inclusion tax levy VS the 30% exclusion 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 levy rate is only quoted and used so that citizens have a way of equally comparing the FairTax "inclusion" rate to the current IncomeTax "inclusion 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 inclusion meaning Centigrade, and exclusion meaning Fahrenheit. Income tax rates are Centigrade (23%), and the FairTax Sales Tax rate (30%) is Fahrenheit. In order to compare 2 temperatures, one has to convert the Fahrenheit (sales tax) to the Centigrade scale so the 2

temperatures can be read on an equal basis. The fever is still the same under either scale. The centigrade for the Fair Tax is 23%. See examples below.

**EXAMPLES:**

EXAMPLE 1

FairTax "inclusive" (23% , Centigrade = to compare to Income Tax rates)

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

EXAMPLE 2

Fairfax "exclusive" (30% sales tax to be charged at register, Fahrenheit)

\$.77 (buying power - purchase price of new goods 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 shows the statement "for every \$1 spent the taxman gets \$.23 (23%) and the consumer gets \$.77 of value at the retail level."

Example 2 shows the 30% sales tax as it will apply to a taxable purchase, to achieve the above statement and achieve the 23% of every dollar spent, going to the taxman.

**IN SUMMARY**

Two figures will be talked about with the FairTax proposal. You must understand that they are both equal when it comes to what it will cost the consumer in dollars.

23% is the figure you will use to compare FairTax to your current tax liability rate  
23% is the levy per dollar spent that the federal government will charge you (inclusive)  
30% is the sales tax you will be charged on taxable spending to achieve the levy (exclusive)

