USA APRIL 15
MAKE IT JUST ANOTHER DAY
Americans For Fair Taxation

Removing America's Economic Albatross
Making "Made in America" affordable again.

Why all Americans should
strongly and actively support the
FairTax Act of 2005
House Bill HR 25 and Senate Bill S 25
A non-partisan bill

This article was written with my colleagues in the real estate industry as its target audience; however, this is a must-read for all Americans who own a home or wish they could, work for wages, own a business, are political leaders, or are seeking political office.

Human nature is reluctant to change, especially if the change is not fully understood. Lack of knowledge about the possibilities of a completely new taxing system is the number one reason change has not happened yet. But can we change and change for the better? Ask women who now vote. Ask yourself the next time you legally buy a beer. Ask yourself the next time you see people of all types sharing a lunch counter. Ask a free-market entrepreneur from the Czech Republic. We can change for the better; help *is* possible.

A. Harvey Abernethy, Realtor®

What will the FairTax do? Simply put, the FairTax:

- Makes a stronger, expanding economy in America with more good jobs. "Made in America" is a reality again. More jobs in an expanding economy raise the standard of living even further for Americans, and especially for the poor and middle-class earners.
- Eliminates federal income and payroll taxes including personal, gift, estate, capital gains, alternative minimum, Social Security, Medicare, self-employment, and corporate taxes.
- Establishes a federal retail sales tax payable on the purchase of all new consumer goods and services consumed in America, except education.
- Exempts business-to-business transactions, for to apply the tax to these transactions would create the "hidden tax costs" we have now – something the FairTax is designed to eliminate.
- Raises the same amount of money our government raises from the federal income and Social Security taxes to be replaced – it will amount to 30 percent if expressed as a (tax-exclusive) sales tax, or 23 percent if expressed as a (tax-inclusive) income tax.
- Enables all Americans to keep 100 percent of their earnings (not counting any state income tax deductions) without ever paying the 15.3 percent for payroll taxes they pay now, and without paying any federal income taxes in addition to payroll taxes.

- Frees businesses from the burden of dealing with a payroll tax and income tax system, deriving more time for improving and expanding their businesses.
- Removes the double and triple taxation of savings, thus encouraging us to do so.
- Makes retirement savings simple and logical; with no taxation, there is no need for trustees, custodians, lawyers, accountants, and other costly services or to limit withdrawals.
- Makes the U.S. the biggest tax haven in the world, encouraging companies to headquarter and manufacture here.
- Makes U.S.-manufactured goods much more competitive here at home and in export markets, leveling the playing field everywhere in the world.

With the passage of the FairTax Act of 2005, all Americans will enjoy the following benefits:

1. **More affordable homes (See page 7.)**
   Home prices (and most new products and services) remain approximately the same – even when the federal retail sales tax is added to the end price of the *newly built* home. This is called cost neutrality.
2. **Increased *spendable* income (See page 7.)**
   Many Americans will immediately see a 30-percent-plus increase in their *spendable* income, thereby generating tremendous increases in purchasing power for new homes and investments.
3. **Even lower interest rates (See page 11.)**
   Homeowners, investors, and businesses will see interest rates drop by over 25 percent, thus reducing their cost of homeownership, business expansion, or acquisition costs for investments.
4. **Even lower home mortgage costs (See page 11.)**
   Home mortgage costs, as a percentage of *spendable* income, drop by over 35 percent for the homeowner, thereby creating greater opportunities for real estate homeownership and investment:
   a. More citizens will be able to own a home.
   b. Homeowners will be able to afford to move up to better and bigger homes, without increasing their overall cost of homeownership.
   c. Homeowners may choose to own a second home with their new increase in purchasing power.
5. **Enhanced purchasing power (See page 12.)**
   Americans' true after-tax *purchasing power* will rise by over 30 percent, thus increasing the standard of living for all Americans.

Defining what is taxed and what is not

The FairTax is a tax on *new* consumer goods and services only! The federal retail sales tax is not collected on:

- Business-to-business transactions, for to do so would result in double taxation of the consumer, as is now the case
- Existing homes or any type of existing real estate transfer, be it residential or commercial
- Used products of any type. If they were produced before the FairTax, they have the "hidden tax costs" in their used value, and if they are produced after the FairTax, the FairTax was paid when they were initially purchased.
- Land transfers
- Commercial real estate of any kind, since all transactions related to their development costs, ownership, or leasing are considered business-to-business transactions, i.e., they are not consumer transactions
- Newly built homes purchased by the consumer will be taxed once when title transfer occurs to the homeowner, and then the home will be considered an existing home and never subjected to any federal taxes again.

I ask you to take a moment to dream and imagine some of the following thoughts:

- Imagine a country where all wages you earn, capital appreciation, and profits from being in business are not taxed.
- Business expands.
- Foreign companies want to locate in America where there are no taxes on their production.
- Our American-made exports leave this country costing on average 22 percent less than they do now, thus making them more competitive overseas.

All these mean a stronger, expanding economy in America. "Made in America" is a reality again. This leads to many more job opportunities for all Americans. More jobs in an expanding economy raise the standard of living even further for Americans, and especially for the poor and middle-class earners.

For individual Americans and non-retail businesses: No withholding. No reporting. No records. No filing. No audits. No enforcement. No confiscation.

Imagine never having to file a personal or business income tax return. Being able to give your assets or income to anyone you wish to without any paperwork, reporting, taxes, or other complication. There will be no more need for special tax schemes for retirement accounts, or other tax reduction maneuvers, which absolutely add no productive benefit to the American economy. In the interest of full disclosure, retailers will have retail sales tax returns to file, very similar to the state sales tax returns they file today. In comparison to the total number of filers we have today, this is about a 90-percent reduction, which will greatly enhance compliance and enforcement scrutiny in the retail sector.

Social Security is funded by a broad, progressive sales tax paid by all.
Imagine a country in which the Social Security and Medicare systems are supported by every purchase of new goods or services made in America. Those purchases will be made not only by honest, hard-working Americans, but also by non-working but big-spending teenagers, tourists, illegal aliens, and by those today who escape paying the payroll tax and income taxes altogether because they are part of the trillion-dollar underground/criminal economy in America.

Education is an investment in human capital.
Imagine also a country where education is treated as an investment not subject to any kind of taxes, thus allowing the *purchasing power* of Americans to go so much further in the education of their children. This applies to public schools also, thus dramatically reducing their cost. By some estimates, public education consumes more than half the cost of any government's operational budgets; the FairTax would greatly ease this burden.

An efficient solution for states as well, should they choose to use it.
The FairTax is only a federal tax, and so does not change any state's individual income taxes or sales taxes. However, states that have an income tax may elect to drop their income tax structure and adopt the tax base used by the federal retail sales tax. States like Texas, Tennessee, and Florida do not have income taxes, derive most of their revenue from a sales tax and local property taxes, and recovered from the recent recession faster than states with income taxes. The tax base for the federal retail sales tax is broad enough that such states could follow one of two courses of action and still raise the same amount of money for their needs: They could either cut their current state sales tax rates approximately in half, or keep them the same and do away with all property taxes. Any changes will be up to each state's legislature, and ultimately the citizens of that state.

Given these facts, all Americans would choose to support this legislation. But why, then, have Americans from all walks of life not yet poured out into the streets to insist on the passage of the FairTax Act? There are two reasons:

- First, human nature is reluctant to change, especially if the change is not fully understood. Lack of knowledge about the possibilities of a completely new taxing system is the number one reason change has not happened yet.
- Second, the American public has been programmed to believe that there is no way our elected representatives in Washington would ever be able to pull together, set aside their turf wars, and act for the benefit of all Americans, and so most Americans feel it would be a waste of time even to attempt to fight for a change.

Note: The above information tells you what the FairTax does and does not do and it outlines for you the real dramatic benefits all Americans will realize from the passage of the FairTax. If this is what you want for America and yourself, and you don't like details or proof, then go to page 16 of this article to see how you can help make this a reality in America. The rest of this article is the support for those bold statements.

Now that we have made the ground rules clear, let's see how the FairTax compares to the current federal income tax code.

One must ask, "How can I possibly understand taxes and make an intelligent determination about the validity of these bold statements first written above?" You will be able to understand them, for the FairTax simplifies our tax code system from some 45,000 pages of law, rules, and regulations, to less than 135 pages, which is the full length of the FairTax Act of 2005. Most of those pages simply establish the rules for transition, and then define what a new consumer purchase is. Yes, many additional pages of implementing regulations will be required, but we have many successful sales tax models in most states upon which to base these implementing regulations. Again, the actual tax Americans will pay is simple, visible, and obvious to all.

As any business consultant will tell you, if a company does not have a mission statement that can be expressed in a paragraph or two and can be completely understood by someone outside the company who has no more than a 10th grade high school education, then the mission statement will fail in accomplishing its goal to set forth the company's primary objective for being in existence. Therefore, our federal tax system should be that straightforward.

It is little wonder that all Americans have such blank stares on their faces when the subject of how much they actually pay in income taxes is posed to them. It is said that 95 percent of Americans cannot tell you with any accuracy the amount of taxes they pay each year (Our government loves it that way). The remaining five percent will boast, "Yes, I paid 'X' and that included my payroll taxes, income tax, some alternative minimum tax, tax on the gain of my investment, and oh yes, that tax on that gift from granddad I received last year." Yet with this boast of accuracy, they are still way off in knowing the real cost to them of the income tax structure we have in America.

Every consumer in America is in a 22-percent tax bracket, at least, and few know it.

There is another tax cost all consumers pay, and most never realize they are paying it. It is a consequence of the corporate income tax code and the cost of compliance with it. Few realize the true financial and human impact of corporate taxes. These hidden costs are truly a tax all consumers pay, putting us all in a 22-percent tax bracket with every dollar we spend.

The hidden costs of the federal government average more than 20 percent of *any* retail purchase.

Assume for a moment someone gave you $30,000 this year, tax-free, and this was the only income you had for the year. You have to live and eat, so you spend that $30,000 during the year buying the basic necessities of life. Question: How much in federal taxes did you pay that year? Most everyone in America would say, "I can figure that one out." They would answer zero, since the money you spent was tax-free money, and you had no other income. You did not even have to file a federal tax return. Unfortunately, this answer would be dead wrong. The correct answer would be approximately $6,600 for the year, or 22 percent of the amount you spent. It matters not – the poorest of Americans making $5,000 per year, or someone making $30,000 per year, are both in the 22-percent tax bracket under our current payroll tax and income tax system, without ever filing a tax return. How? Why?

We as American consumers spend most of our money each year just to live. Extensive research by Harvard economist Dale Jorgensen shows that for every dollar in cost of a new product or service we buy, an average of 22 percent of that cost originates in our current payroll tax and income tax structure. Prices we pay are higher by this amount because businesses must build these costs into their price structure – no differently than if they were the cost of raw materials for the product being produced.

These tax costs are numerous. A few would be payroll taxes paid by employers, administrative costs to keep up with the taxes, complicated tax compliance costs on all aspects of running their business, and, finally, the actual corporate income taxes. In addition, prices must be higher for the investor/risk taker. For investors and stockholders to earn a return on their investments associated with the risk taken, their returns must be higher due to the taxes they must pay on their potential profits.

The sham of corporate taxes: Burdening our poor and retirees with hidden taxes and the consequences of these covert taxes.

Think about this: You work for a chewing gum manufacturing company. The government says, "Wow, chewing gum is cheap – let's put a corporate income tax amounting to 10 cents for every package of gum sold in America." The company you work for makes a profit of only five (5) cents on each package of gum they sell. What is your employer going to do? If the price is left the same, you are out of a job because the company will lose money and go bankrupt. Not a pretty choice. For you to keep your job, you insist that they raise the price for each package of gum and simply pass the 10 cents on to the consumer, who will pay the tax in the form of a higher price. You, the worker, like that choice – you kept your job, and the consumers just thought the price of gum got more expensive, *but they have no idea why*. Makes sense, does it not? And this is exactly what happens in the real world of business, and this is how the cost of the federal tax system affects the prices you and I pay at the cash register.

Now, the next time you hear a politician boast about wanting to raise taxes on business in order to protect the American worker from having to pay higher taxes, you will know something about their ability to think through the process, or perhaps, about their political agenda.

How does this economic reality affect all Americans, homeownership, and real estate in general?

The first benefit statement listed above was: More affordable homes
When the income tax code and all its associated costs are eliminated from the price structure of all new products and services produced in America, under our free enterprise system, competition will cause all prices to fall by the cumulative amount of these savings. Due to this economic effect, the price you will pay for new products and services will remain approximately the same even after the sales tax is added to the final sales price. This is called cost neutrality.

A tax system understandable by all will simplify home sales.
How does this work? Remember, our goal is to have a tax system that can be understood by all. Let's apply these economic facts to the cost of building a new home in America and see what happens (The same principles apply to any new product or service in America).

If a home costs $100,000 to build today, it includes some $22,000 of cost (22 percent) that will disappear with the elimination of the income tax code. This same home under the FairTax could sell for $78,000 and the builder will make approximately the same amount of profit. When the buyer goes to the closing table, the builder will collect the 30 percent (tax-exclusive) federal retail sales tax on its sale, or in this example, $23,400 in tax. This home will now cost the buyer $101,400 ($78,000 cost + $23,400 tax).

Under the current payroll tax and income tax system, $22,000 worth of "hidden tax costs" is spread throughout the thousands of products and services that were used to build the home. Under the FairTax, those tax-related costs are simply removed from the cost structure of the home being built and placed at the end where they can be easily collected, and most importantly, made visible to all.

Let's look at the second benefit statement: Increased *spendable* income
The emphasis is on the word *spendable* because in reality, that is how our lives operate and how the qualification for homeownership is calculated. We all know it makes no difference how much you earn – it only matters what you have left to spend after all your taxes have been paid. You can only spend money you have, and today the money that is your *spendable* income is the amount left after Uncle Sam gets his. We will look later at after-tax *purchasing power*, which is the only true measurement of our money that really matters to us.

In the rest of this article, we will examine a real American family's personal situation under our current income tax system, and then under the FairTax system. You may view this as your personal situation or as that of a potential homebuyer. This example is based on a family that makes $100,000 a year. There will be those who say, "That is not a fair analysis for most Americans because they do not make that much money." We use the $100,000 figure for two reasons. One, it is easy to see certain percentages when dealing in 100's. The second reason is even more important. The economic effects of the FairTax are even better for everyone making less than $100,000 per year.[1] The beauty of the FairTax is that it helps all Americans, but it helps the poor and middle-income Americans the most. So, if anything, choosing an income of $100,000 is conservative when demonstrating the benefits of the FairTax.

Here are the facts about one American family.
Our breadwinner's occupation is in sales and, like most American jobs in sales, is classified as self-employed. He or she must pay both the employee's and employer's part of payroll taxes. In 2005, that amount is calculated on the first $90,000 of earnings for the Social Security tax, and on 100 percent of their earnings for the Medicare tax.

Our family has two children, and they just bought a home that has a $250,000 mortgage payable at seven percent over 30 years. Because of the size of their mortgage, they have a large mortgage interest deduction. They therefore itemize all their deductions on their federal income tax return. Let's assume a few other fairly typical facts about our family. Their total tax deductions, most of which is the interest deduction from their home mortgage, amount to $22,000 and they managed to put $2,000 in a tax-qualified retirement plan. Excluding any unusual effects or state income taxes, and with their four (4) personal exemptions and other standard income adjustments, an accountant would calculate this family's total tax picture pretty close to the following exhibit:

Exhibit 1: Example One

Gross income	$100,000	
Less payroll taxes	-14,060	
Less federal income taxes	-9,381	
Total taxes	-23,441	23.44%
Spendable income?	76,559	
Mortgage payment	-19,960	
After mortgage *spendable* income?	56,599	x 22% (hidden taxes & compliance costs)
Cost of hidden taxes & compliance	-12,452	
Finally! The true after-tax *purchasing power*	$44,147	

Is $76,559 their *spendable* income? Yes, but not their complete *after-tax purchasing power* income. Remember, for every $1.00 of their *spendable* income they spend on new goods or services, $0.22 is going to pay the "hidden tax and compliance costs" built into the price of those new products and services.

Income tax rates are quoted "tax inclusive."
Look at the example again. You can quickly see our family paid $23,441 in total taxes or 23.44 percent. Economists call this way of looking at the tax rate "tax inclusive." What you keep and what the government gets are added together to give you your gross income. Have you ever thought about what the rate is when expressed as a sales tax? It is a different way of looking at the total taxes we pay, and since we are examining a change to a federal retail sales tax, this is a good time to examine this.

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[1] See the progressive nature of the FairTax, greatly benefiting those with consumption below $100,000, in the chart on page 16 (Exhibit 6).

Sales tax rates are quoted "tax exclusive."
To look at this as a sales tax, you have to start with the *spendable* income, just as when our family has $76,559 after taxes as their *spendable* income. Our family started with $100,000 of income. The question becomes, "What would be the sales tax rate if they spent the $76,559 and paid a sales tax on that spending that would bring the total cost of their purchases up to the $100,000 of total income?" The answer is 30.62 percent. We determined this by taking the $23,441 in taxes they paid and dividing it by the actual income they had to spend, or $76,559 in this example. The proof of that is as follows: $76,559 times 30.62 percent equals the same amount of taxes they paid, $23,441.

What was the point of this exercise? Some say they can't imagine paying a 30-percent sales tax. Now you know there is absolutely no difference in this family's total taxes paid under either calculation (unless they elect not to spend as much, which will reduce their total taxes paid). As an income tax expression, they paid 23.44 percent in taxes, and as a sales tax expression, they paid 30.62 percent in taxes. So when we examine the effect of a 30-percent federal retail sales tax on our family, we can think of it as a 23-percent income tax rate. Either calculation will create the same exact number in actual taxes paid.

Exhibit 2: Quoting *in*clusive rates vs. quoting *ex*clusive rates
The rates are *stated* differently, but the taxes you *pay* are identical.

Income taxes are quoted tax *in*clusive.

You earn	You keep		Your income tax rate	Gov't takes
$100	$77		23%	$23

Sales taxes are quoted tax *ex*clusive.

You earn	You keep	Choose to spend	FairTax rate	Gov't gets
$100	$100	$77	30%	$23

Important side note: Perhaps you have heard of the flat (income) tax. In this example, our family only paid $9,381 in income tax, an effective rate of 9.4 percent. If the flat tax were passed at the proposed rate of 20 percent of gross income, no deductions, this same family would have paid $20,000 in federal income taxes instead of $9,381. In addition, the current flat tax proponents do *not* remove the payroll taxes. You will still pay them.

Now that you have a better understanding of the different ways to think about the taxes we all pay, let us examine the *spendable* income of our family under the FairTax version of the federal retail sales tax.

The rebate that ensures no American pays the federal tax on necessities.
One aspect of the FairTax not discussed yet in this document is that every registered American family will be paid a rebate of the sales tax based on family size, irrespective of their income or their actual spending. This is a simple way to exempt all families in America from having to pay the federal retail sales tax on the necessities of life. The cost of necessities is known as "Poverty Level Spending" and it is calculated according to family size. Poverty level spending for our family of four (4) has been determined by the

Department of Health and Human Services in 2005 as $25,660. The rebate is paid monthly in advance to each American family (A family can be one person). Thus, in 2005 our family will have additional *spendable* income of $5,902 from the sales tax rebate, which equals the amount of sales tax payable on the family's "Poverty Level Spending." Let's see what their *spendable* income is now under the FairTax:

Exhibit 3: Example Two

Their gross income	$100,000
Less payroll taxes	0.00
Less federal income taxes	0.00
Total taxes	0.00
Spendable income? (Not yet)	$100,000
Add the sales tax rebate	5,902
Spendable income? (Yes)	$105,902
Mortgage payment	-16,566
After mortgage *spendable* income	89,336
Federal sales tax with 100% consumption	-20,547
True after-tax *purchasing power*	$68,789

Now we have established that their *spendable* income has increased substantially. But by how much? Under the FairTax it is $105,902, while under the current income tax code it is $76,559. As a dollar amount, it has increased by $29,343. By a percentage amount, it has increased by 38.3 percent ($29,343 divided by $76,559 equals 38.3 percent).

Now, our family is not completely free from paying taxes. This is *spendable* income, not after-tax income. On any amount our family spends on new goods and services, they are going to be paying the federal retail sales tax.

To recap, so far we have seen that prices of new goods and services will remain approximately the same, and that *spendable* income will go up immediately by over 30 percent. This alone is enough to make a Realtor's ability to sell homes to Americans much easier. Some of their customers will qualify for the first time in their lives to own a home, or they will qualify to own a larger home and/or a second home.

But, that is not all the FairTax does to help all Americans with homeownership in America. There is another very special benefit that will affect any capital purchase in America – be it a home, a car, new office buildings, a business acquisition, or anything that might require financing.

Let us look at our third benefit statement: "Homeowners, investors, and businesses will see interest rates drop by over 25 percent, thus reducing their cost of homeownership, business expansion, or acquisition costs for investments."

Most buyers of homes have to borrow money in order to buy their dream home. There are not many cash buyers out there. In fact, any Realtor will tell you, "The number one factor in America that makes a home purchase more affordable and that makes our business expand is low interest rates." Under the FairTax, interest rates will be approximately 25 percent lower.

This is not a guess. This is a fact and can be proven by what happens in the lending markets today. How? Being in the business of lending money is just like any other business. Lenders will see the cost of operating their businesses drop by approximately 22 percent, and there will be no income taxes on the money the homeowner pays them as interest payments. This combination will produce interest rates approximately 25 percent lower. This is well documented in today's lending markets where certain kinds of lending for affordable housing qualify for tax exemption. These lending rates are historically some 25 percent less than comparable lending rates that are loaned at taxable rates. The same fact is also well documented when we examine borrowing by municipalities. The interest rates paid by municipalities are today 25 percent lower than a company or individual with similar credit risk would have to pay. That is because the municipality's interest payments to their lenders are tax-free income to the lender. Under the FairTax, all lending in America of any kind will be tax free.

Our fourth benefit statement says, "Home mortgage costs, as a percentage of *spendable* income, drop by over 35 percent for the homeowner, thereby creating greater opportunities for real estate homeownership and investment."

So far we have discussed stable prices, increases of *spendable* income, and lower interest rates. Anyone in the real estate business knows that they have to "qualify" their potential customer. Like we said, there are not too many cash buyers out there. As a general rule, a homeowner should not devote more than approximately 30 percent of their *spendable* income toward making their house payment.

Using the example of our family of four, let us see how all of the above benefits affect our family. Remember, our family had a 30-year mortgage on their home in the amount of $250,000 payable at seven percent. Their mortgage payment with those terms was $19,960 per year.

Under the FairTax, they can refinance their home mortgage at approximately 5.25 percent (25 percent less). Their new home mortgage payment will fall to $16,566 per year. Let's look further. What about "qualifying" our family as you would qualify a potential customer? How is that affected?

Under the current income tax code, our family has $76,559 in *spendable* income and a mortgage payment of $19,960. That means their mortgage payment consumes 26.1 percent of their *spendable* income.

Under the FairTax analysis, we determined that our family has $105,902 in *spendable* income. Now, they have a mortgage payment of $16,566. That means their mortgage payment consumes only 15.6 percent of their *spendable* income. My guess is our family will be headed to the beach, lake, or mountains to buy that second home they have always dreamed about.

Let's not forget that benefit statement about their home mortgage payment being 50 percent less under the FairTax. Our family under the FairTax will have a house payment that represents 15.6 percent of *spendable* income. If America replaces our current federal income tax code with a federal retail sales tax, our family's mortgage payment will drop from 26.1 percent to 15.6 percent of their spendable income – this is a 40.2 percent drop in home mortgage costs.

This all sounds well and good, but our family has not paid any taxes in this analysis so far. Will not taxes eat up a large chunk of their income? Excellent question, and one that needs to be answered. After all, we did agree that the only true measurement of the well being of our family is the true after-tax *purchasing power* of their income.

Our fifth benefit statement says, "Americans' true after-tax *purchasing power* will rise by over 30 percent, thus increasing the standard of living for all Americans." When we think about changing our federal tax system, most of us would be happy to have a tax system we can understand, to know that it is fair for all people, does not punish hard work, un-taxes the working poor, rewards risk taking, and inspires the entrepreneurial spirit of our citizens.

The FairTax does all that, but it also will increase the standard of living of all Americans irrespective of their income, and it will have the greatest positive effect on the poor and middle class. To do that, the after-tax purchasing power of all citizens must go up.

Let's see how our family makes out in the after-tax *purchasing power* analysis. Remember, the purpose of this analysis is to determine how far their money will go. How many new products and services free of all tax effects can they buy under either taxing system? In both cases, we are going to start our analysis to determine how much tax-free spending power they have after they have made their home mortgage payments.

We will look at our family under our current income tax structure first:
Example One – We previously determined our family's spendable income was $76,559. After their mortgage payment of $19,960, they have a spendable income of $56,599. Assume our family does not save a nickel and spends 100 percent of their $56,599 in spendable income on new consumer goods and services. We have come to understand that all new goods and services are on average 22 percent higher because of the costs associated with our current taxing system. This means our family will pay "hidden tax costs" under the current income tax structure of $12,452 ($56,599 x 22 percent). To wash out the effects of these "hidden tax costs" our family is paying as they spend their money, we need to deduct these "hidden tax costs" from the money they are spending. When we do that, it can only be concluded that the true after-tax *purchasing power* of our family is only $44,147 ($56,599 - $12,452 in "hidden tax costs").

It is quite amazing, is it not? Our family started with $100,000 of earnings, paid their federal taxes, made their house payment, and were only able to purchase new goods and services in the amount of $44,147 that were free of any effect of the payroll tax and income tax system we have in America. Now we are really beginning to understand the effects of what I referred to as "America's Economic Albatross."

Now let's look to see how our family does under the FairTax:
Example Two – Under the FairTax, we determined their spendable income is $105,902. Their house payment with the 5.25 percent interest rate on their loan is $16,566, and that leaves them $89,336 of spendable income. Assume our family still does not save a nickel and spends 100 percent of their $89,336 in spendable income on new consumer goods and services. Yes, this is the first time they have had to pay any type of taxes. Now our family only has $89,336 to spend. They must pay the federal retail sales tax as a part of that $89,336. If we figure it out in the same way we determine our income taxes, we

simply multiply their $89,336 times a 23-percent tax rate, and we see they will pay $20,547 in taxes. This means they will actually be able to buy $68,789 worth of products or services before they add the 30 percent federal retail sales tax. Their purchases plus a 30 percent federal sales tax of $20,547 will consume the $89,336 they have to spend. Since none of the products and services they purchase under the FairTax has any "hidden tax cost" in their prices, then the federal retail sales tax is truly the only tax they are paying. So, what did we just determine? We learned that our family has true after-tax purchasing power of $68,789 under the FairTax.

Exhibit 4: Comparing how one family earning $100,000 would fare under the current and FairTax system

	Current system	FairTax system[2]	
Gross income	$100,000	$100,000	
Less payroll taxes	-14,060	0.00	
Less federal income taxes	-9,381	0.00	
Total taxes	-23,441	0.00	
Add the sales tax rebate	0.00	+5,902	
Spendable income	76,559	105,902	
Mortgage payment	-19,960	-16,566	
After mortgage *spendable* income	56,599	89,336	
Cost of hidden taxes & compliance	-12,452	0.00	
Federal sales tax	0.00	-20,547	
True after-tax *purchasing power*[3]	$44,147	$68,789	a 55.80% increase

Exhibit 5: With a skeptical 11 percent drop in prices, rather than the conservative 22 percent

Spendable income	76,559	105,902	
Mortgage payment	-19,960	-19,167	
After mortgage *spendable* income	56,599	86,735	
Cost of hidden taxes & compliance	-6,226	0.00	
Federal sales tax	0.00	-19,949	
True after-tax *purchasing power*	$50,373	$66,786	a 32.26% increase

No argument can dispute this basic math. Under our current system, our family, after their home mortgage payment, has a true after-tax purchasing power of only $44,147. Under the FairTax, our family has a true after-tax purchasing power of $68,789. This is an increase of $24,642, or a 55.80-percent increase in true after-tax purchasing power ($44,147 x 55.80 percent = $24,642). This is a real 55.80 percent increase in their financial standard of living.

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[2] With prices falling 22 percent on average

[3] In both cases, we assume that all *purchasing power* amounts are completely consumed. If saved or invested under the current system one can assume additional returns and additional taxes. If saved, invested, or spent on education under the FairTax system, one can assume additional returns and *absolutely no* additional taxes.

I have stated that no argument can dispute this basic math. That is absolutely true. But the skeptic can dispute the assumption that prices will fall on average 22 percent, and that would change everything I have explained. That is an absolutely true statement also. So let's assume the economists and analysts are wrong, and prices only fall by half the projected 22 percent, or 11 percent, as our skeptic will declare.

Let's review our family's position under the current income tax code system first. We need to adjust the "hidden tax costs" they really pay from 22 percent down to only 11 percent. We previously determined they have $56,599 in spendable income after their house payment. If our family spends 100 percent of its remaining money on new goods and services, and those products have only 11 percent in "hidden tax costs" built into their pricing, then our family's true after-tax purchasing power will be $50,373 ($56,599 minus 11 percent of "hidden tax cost" or $6,226 = $50,373).

Let's see how our family will survive under the FairTax if the skeptic is right and prices only fall by 11 percent. Our family cannot buy that house they just bought before the FairTax came along for $250,000 any longer. The builder will be able to sell them the home for $222,500 ($250,000 minus only 11 percent in "hidden tax costs" eliminated). And now, our family is going to have to pay a 30 percent sales tax on top of that $222,500, or $66,750 in taxes, thus making the price our family will pay for that home including the tax $289,250. Our skeptic will think this is terrible. Let's see if our family is better off or not.

With the FairTax, our family can now finance their home at a 5.25 percent interest rate instead of 7 percent (Remember, our skeptic cannot dispute the lowering of interest rates, because it happens now and is a proven fact). We will assume for purposes of comparability that our family obtains a 100-percent mortgage on their home purchase price of $289,250. At the new lower FairTax borrowing interest rate of 5.25 percent, their mortgage payment will be $19,167. Our family has $105,902 as spendable income. Therefore, their spendable income after their mortgage payment is now $86,735. If they spend 100 percent of the $86,735 on new goods and services, our family will pay 23 percent or $19,949 in federal retail sales taxes. Our math shows us this will leave our family with a true after-tax *purchasing power* of $66,786 ($86,735 - $19,949).

Even under our skeptic's assumptions, our family realizes an increase in after-tax purchasing power of $16,413 ($66,786 - $50,373) under the FairTax. This is a real 32.26-percent increase in their financial standard of living even if our skeptic is right. But if all the experts that designed the FairTax system are right, and "hidden tax costs" really do amount to 22 percent, then the increase will be over 55.80 percent, as shown previously.

We have done the math and so can you. You can do it for your personal situation also. It matters not what your income is – you will be better off with the FairTax.

The above analysis has been a hard-core economic explanation about the vast benefits that will come to all Americans from all walks of life from the passage of the FairTax Act of 2005.

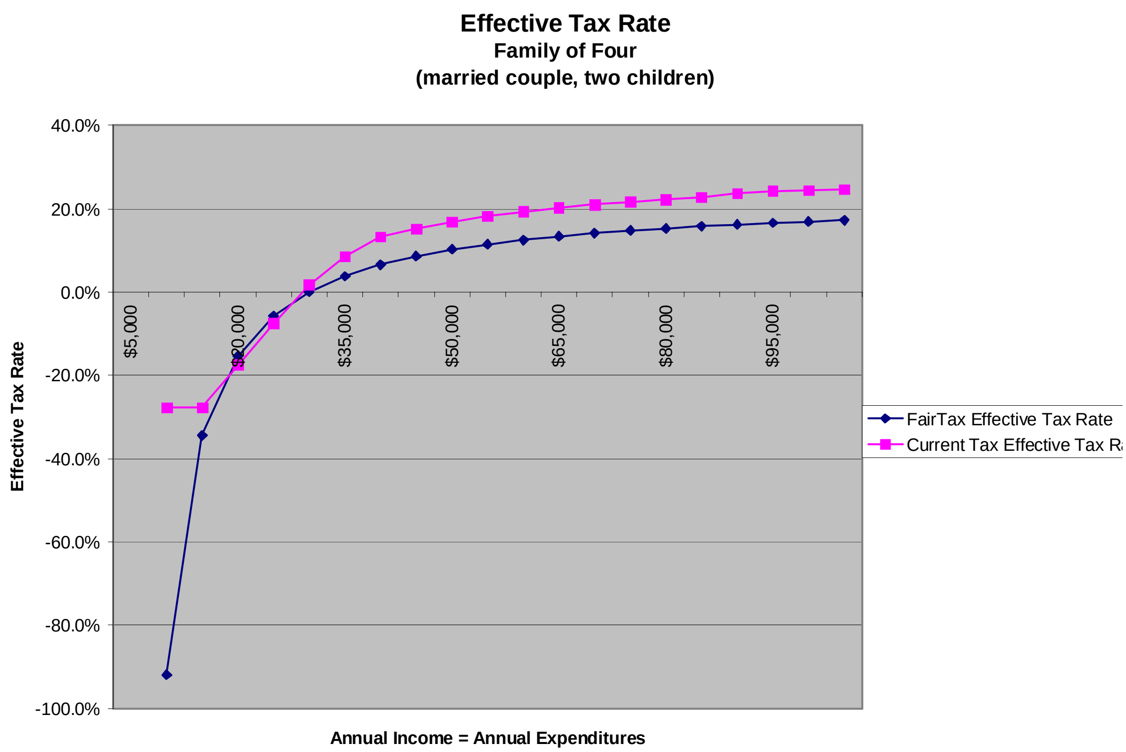
The economic effects of the FairTax are even better for everyone making less than $100,000 per year.

The chart below shows the enforced progressivity of the current income tax system (squares in pink) vs. the elected progressivity of the FairTax (diamonds in blue). By enforced, we mean a progressive income tax system that attempts, but often fails, to extract a higher percentage of taxes from higher earning workers. Alternatively, elected progressivity occurs when consumers choose to spend more than their neighbors, thus paying more taxes.

Note that the current system of earned income tax credits (EITC) bottoms out at less than -30 percent, which means the working poor who file an EITC return can actually realize a net gain of 30 percent *more* than they actually earned. Alternatively, the FairTax actually takes this to greater than -90 percent. Additionally, this chart is actually conservative, as it does not take into account the compliance costs under the current system, which go away under the FairTax.

Note also that once a taxpayer actually enters the realm of *paying* taxes, the current system has them paying more tax, faster than the FairTax system. If the chart were taken out to higher spending levels of $500,000 or more, such wealthy taxpayers will be progressing to the maximum effective tax rate of 23 percent of consumption.

Exhibit 6: How progressive is the FairTax?



Do your part to see the FairTax act passed.
The FairTax, as described in this article, may be a dream come true, but it is not an impossible dream. It is not any more impossible than any other grassroots movement that changed this world: Women's suffrage, Prohibition, the repeal of Prohibition, civil rights, the fall of the Berlin Wall, and free-market economies in Eastern Europe. The legislation to make this happen in America has been introduced in both the United States House and Senate. It will be up to each American – the grassroots – to get their congressman and senators to cosponsor and work for the passage of the FairTax Act of 2005, HR 25 and S 25. Washington cannot and will not ignore the wishes of voters, but *your* voice must be heard to make it happen.

So, what do you do?

For Realtors
As a Realtor, you are a member of one of the most powerful, best-respected grassroots organizations in our nation. It will be up to you, the member, to see that your local Realtor organization's leadership endorses the passage of the FairTax. It will then be up to each local organization to see that their state organization endorses the passage of the FairTax. When the National Association of Realtors (NAR) hears from enough state organizations, it will endorse passage of the FairTax. The NAR will be joining a growing coalition of organizations like the five-million-member American Farm Bureau Federation that supports this legislation.

For all American citizens
You have an obligation to yourself, to your children, and to other future generations to voice *your* opinion, and here is how it's done:

- Give this article and other information about the FairTax to all your colleagues, friends, and family.
- Go to Americans For Fair Taxation's (FairTax.org) web site – www.FairTax.org. FairTax.org is the lead non-profit, non-partisan organization that coordinates support for passage of the FairTax. When you are there, do the following:
    - Learn more!
    - Sign the petition that supports the FairTax!
    - Make a financial contribution! Regularly! No campaign has ever been won without the financial support of those that believe in it.
    - Volunteer to spread the word! FairTax.org will see that you receive all the help and guidance you need from more than 250 regional, state, and district volunteers that daily take time from their jobs and families actively to support the passage of the FairTax.

- Send a fax to the legislative aide for taxes in the respective D.C. offices of your U.S. Representative and both of your U.S. Senators. Call and visit their district and D.C. offices. Ask them to sign on as cosponsors of the legislation, and find out their position on the FairTax. If they are reluctant or have some excuse about some effect this legislation might have, 99 percent of the time it is because they do not understand the legislation. Some will be against it because of obligations to special interests. But when enough of their constituents demand they pass this legislation, they will be forced to forget those special interests – otherwise, their opposition to the FairTax will cost them their re-election. FairTax.org is just a phone call away at 1-800-FairTax, and they will answer your questions and those excuses of your elected leaders.

Confessions of a voting-only constituent

In conclusion, it was the spring of 2003 when I first heard about the FairTax quite by accident while listening to the radio. I visited the FairTax.org web site and studied everything I could read about it to see how it affected my profession and all other aspects of the American economy. I knew it could not be just good for me and not for the rest of America in order to have any chance of passage. I wrote questions and called FairTax.org, and I received answers to my questions. I was educated and I was convinced that this was right for America. Yet I sat on my hands, not doing one darn thing to help make it a reality for over four months. I am not sure what made me get my hands free and make the decision to write, fax, and call my congressman and senators. I guess it was because for 54 years of my life I had voted, but I had never once written to any of my elected leaders. I was a voting-only constituent. All I can tell you is that once I made that decision to get off my duff, it changed my whole outlook.

I know that just by myself, I had nothing to do with my congressman signing on as a cosponsor and supporter of the FairTax Act in the fall of 2003. But I am certain there were numerous other supporters just like me who finally freed their hands, and through the efforts of all of us, he got the message – "The voters that put me in office want me to support this legislation."

Neither of my senators here in Tennessee has signed on as a cosponsor – yet. They will continue to receive polite, but persistent persuasion from me until they do sign on. That will occur when enough of my fellow Tennesseans help educate them, and they begin to realize fully what my congressman came to realize.

The hardest thing for all of us is to make a decision to do something bold, and then to live or die by that decision. It is true in business and in our personal lives. But once the decision is made, it always amazes me the amount of energy that can be cut loose to accomplish that which one has set out to do.

Join me at the bonfire.

Historically, people forced the king to bring the tax records to the town square and burn them so there would be no going back on his word, by him or his successors. The next, most likely window for the passage of this legislation is the 2005 to 2007 timeframe. Join me then at the income tax code bonfire as we celebrate the removal of America's Economic Albatross!

Be sure to bring your children and/or grandchildren, for you will be able to tell them proudly about how you were one of those many millions pulling in the same direction to make that day happen. And be sure to tell them you did it for *them*!

With great appreciation to you, the reader,
Harvey Abernethy, a Realtor for 30 years and a hand sitter no more.

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 taxes with an integrated approach including a progressive national retail sales tax, a rebate to ensure no American pays federal taxes up to the poverty level, dollar-for-dollar revenue neutrality, and the repeal of the 16th Amendment. This non-partisan legislation (HR 25/S 25) abolishes all federal personal, gift, estate, capital gains, alternative minimum, Social Security, Medicare, self-employment, and corporate taxes and replaces them all with one simple, visible, federal retail sales tax – collected by existing state sales tax authorities. The FairTax taxes us only on what we choose to spend, not on what we earn. It does not raise any more or less revenue; it is designed to be revenue neutral. So it is also cost neutral – the final cost for goods and services changes little under the FairTax. 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 non-profit, non-partisan, grassroots organization 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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