Fair Tax Bill

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The Fair Tax Bill was first introduced in July 1999 and was re-introduced earlier this year by Representative John Linder. The Fair Tax Bill repeals all federal personal income taxes, corporate income taxes, payroll taxes, self-employment taxes, capital-gains taxes, gift taxes, and estate taxes. In place of the repealed taxes would simply be a 23% national retail sales tax on all retail sales of new goods and services. Let us explore some of the issues surrounding the Fair Tax Bill.

The Fair Tax Bill suggests a single rate of 23% that would be applied to all new consumer goods and services at the final point of consumption, regardless of the taxpayer's income. The more goods and services that the taxpayer purchases, the more taxes paid. Used items and business-to-business purchases for the production of goods and services would not be taxed. Money saved, invested, spent on education, given to charity, financing research, and developing jobs would be tax-free. Consumption would be taxed not income.

The Fair Tax Bill accounts for low-income households as well. There are no tax consequences for the amount of spending up to the poverty level under the Fair Tax Bill. At the beginning of each month, each household would receive a rebate in tax consequences of spending up to the poverty line. Therefore, someone spending at or below the poverty level would not have a national retail sales tax burden.

If the Fair Tax Bill passes, prices are projected to drop 20 - 30% because taxes currently embedded in the prices would — in theory — be removed, with savings passed on to the consumer.

Capital gains and income from stocks, bonds, and other investments would be tax-free under the Fair Tax Bill. IRA withdrawals would not be taxed which would be very beneficial to those who made deductible IRA contributions or who made pre-tax contributions to retirement plans. However, after-tax contributions to Roth IRAs and Traditional IRAs converted to Roth IRAs would not experience any benefit nor any harm from the Fair Tax Bill. Taxes will have already been paid and regardless of whether the Fair Tax Bill passes or not, Roth IRA withdrawals are tax-free.

Although the Fair Tax Bill calls for eliminating the payroll taxes that fund Social Security and Medicare, the benefits would not change in any way. Under the Bill, the benefits would be funded by the 23% national retail sales tax applied to retail sales. Another bonus is that Social Security would no longer be subject to income taxes.

The Fair Tax Bill would reduce tax evasion. For example, a drug dealer who avoids taxes with the current system could not avoid taxes under the Fair Tax Bill if he or she were to purchase any goods or services.

The 23% Fair Tax would apply to new homes, but not to homes currently owned. Currently owned homes are considered used items and therefore are not taxed. Since new homes are subject to the 23% sales tax, the market value of homes currently owned would increase in order to measure up to the pricing and taxation of new homes.

Education becomes more affordable under the Fair Tax Bill. Saving for school expenses can be done tax-free and tuition expenses are paid for with pre-tax dollars. Also, government schools are fully tax-exempt.

Lastly, under the current tax system, if you work hard and earn more income you end up in higher tax brackets. Our income taxes do not encourage our hardest workers and brightest minds to work longer. The Fair Tax Bill encourages working and saving by taxing consumption rather than income.

The Fair Tax Bill would replace our current Federal tax system with a 23% national retail sales tax on all retail sales of new goods and services. The Henssler Financial Group encourages you to learn more about the Fair Tax Bill and to contact your representatives with your thoughts. For more information visit www.fairtax.org <http://www.fairtax.org> .
