

# FairTax: Better for America?

**-Opinion-**

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Chairman

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In this new age of terrorism, it is sometimes hard to know who exactly is the enemy. For our economy though, the enemy is obvious; for those struggling to make ends meet on their Texas farm or ranch, the enemy is obvious. It's called the Federal Income Tax, and its arch henchman, Social Security/self-employment taxes. And the first place you see their

handiwork is the hole blown in your operation's bottom line.

No other single law or regulation is more harmful to our producers, our consumers, and our job-creators than the income tax. It punishes work, savings, investment, and productivity. It stifles economic growth by double and even triple taxing income. Its enormous cost to the private sector for simple compliance is estimated at \$250 billion per year or nearly 3 percent of our gross domestic product. This pushes the cost of compliance out into

**A couple living solely on \$1,081/month each in Social Security**

	<u>Current System</u>	<u>FairTax System</u>
Gross income	\$25,944	\$25,944
Less payroll taxes	0.00	0.00
Less federal income taxes	<u>0.00</u>	<u>0.00</u>
Cost of hidden taxes & compliance (22%)	-5,708	0.00
Add the prebate family allowance	0.00	+4,283
Spendable income	20,236	30,227
Federal sales tax	<u>0.00</u>	<u>-6,952</u>
		(23%)
True after-tax purchasing power	\$20,236	\$23,275

*Under the FairTax, a 15% increase in spendable income*

## How one family earning \$100,000 would fare under the current and FairTax system

Chart 1

	<u>Current System</u>	<u>FairTax System<sup>1</sup></u>	
Gross income	\$100,000	\$100,000	
Less payroll taxes	-12,863	0.00	
Less federal income taxes	<u>-7,905</u>	<u>0.00</u>	
Total taxes	<u>-20,768</u>	<u>0.00</u>	
Add the sales tax rebate	0.00	+5,575	
Spendable income	79,232	105,575	
Mortgage payment	<u>-19,960</u>	<u>-16,566</u>	
After mortgage spendable income	59,272	89,009	
Cost of hidden taxes & compliance	-13,040	0.00	
Federal sales tax	<u>0.00</u>	<u>-20,561</u>	
True after-tax purchasing power <sup>2</sup>	\$46,232	\$68,448	A 48.05% increase

*Under the FairTax, a 48.05% increase in spendable income*

Chart 2

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

	<u>Current System</u>	<u>FairTax System<sup>1</sup></u>	
Spendable income	79,232	105,575	
Mortgage payment	<u>-19,960</u>	<u>-19,167</u>	
After mortgage spendable income	59,272	86,408	
Cost of hidden taxes & compliance	-6,520	0.00	
Federal sales tax	<u>0.00</u>	<u>-19,960</u>	
True after-tax purchasing power	\$52,752	\$66,448	A 25.96% increase

*Under the FairTax, a 25.96% increase in spendable income*

**(Footnotes)**

<sup>1</sup> With prices falling 22 percent on average

<sup>2</sup> In both cases, assume that all *purchasing power* amounts are completely consumed. If some amount were 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.

the private sector, dwarfing the cost of the agency charged with administering the tax (\$10 billion budget for the IRS) while producing absolutely nothing of value to our citizens or international trading partners.

The income tax is filled with loopholes—loopholes that benefit those who are politically connected while reciprocally punishing hard-working taxpayers with no influence. It is the worst possible system—easy for dishonest people to cheat, but hard for honest people to comply.

There is a much better system. It's called the FairTax—a federal retail sales tax. The FairTax has been a fixture in the AFBF policy book for several years now; the Texas Farm Bureau is leading the nation with its full legislative initiative to get Texas congressmen and senators on the legislation (HR 25/S 1493). The bill's basic premise is that we should be taxed for what we take *out* of the economy (consumption), not what we put in (production). It repeals the entire federal income tax system, including all personal income taxes, gift, estate, capital gains, alternative minimum, Social Security/Medicare, self-employment, and corporate taxes. No one would be taxed on necessities, using a prebate, which is especially important to low- and fixed-income Americans. Because it removes disincentives to save, invest and work, it would create huge benefits in economic growth, savings, productivity, and capital formation.

**Is replacing the income tax any harder than getting women the right to vote?**

In a word, no. There are many grassroots movements that have changed this country for the better. The American Revolution—a bit of a tax revolt—is only the first. The farmers of Western Pennsylvania stood up next in the Whiskey Rebellion. Women's suffrage is another. Passing Prohibition was the grassroots with good intentions; repealing Prohibition was the grassroots sobered with practicality. The union movement of the 1930s and the civil rights movement of the 1960s were both grassroots movements where the people united and forced changes through legislatures long before it could have been predicted otherwise. And who expected to see the Berlin Wall come down so quickly? Yes, a united grassroots has delivered startling improvements to our country and the world before, and with the FairTax (and your Farm Bureau), it will happen again. And soon.

**Take a look at your paycheck stub or tax return. Now imagine working with your gross income.**

Yes, that is the first difference you will notice after the passage of the FairTax. Your gross pay is your net pay; your operation's gross is all yours to implement *your* plans. You take home everything you earn. Decisions on your farm will no longer be driven by tax consequences, but simply on what is best for you, your family, and your land. You'll deal with no federal taxes unless you have retail operations; no tax is on or hidden in your inputs. Your family will receive a

*(See FairTax, Page 28)*

# FairTax...

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monthly prebate covering any tax you would otherwise pay on spending up to the poverty level. Take a look at Chart 1 for the average family making \$100,000 a year spending about \$1,700 a month on their house payment. The first assumes that retail prices, no longer hiding the cost of corporate taxes, might drop by 22 percent. Chart 2 is more conservative, assuming retail prices drop by only 11 percent.

### What about those living solely on Social Security?

Chart 3 shows the living standard improvement a couple living solely on Social Security experiences under the FairTax. The assumptions for this chart are very conservative, including an assumption that they will consume 100 percent of their income and that they do not take advantage of purchasing untaxed, used goods. Ad-

ditionally, the chart does not attempt to include the benefits of automatic cost of living adjustments.

### Comparing tax returns for a Texas Farm Bureau member/rancher.

To bring this a little closer to home, a volunteer from the Texas Farm Bureau membership provided us with his tax return. While he shall remain nameless, he is a rancher—who has suffered three years of drought along with the rest of you—married to a working schoolteacher (that helps!) with three children. Table 4 uses the numbers from his actual tax return, compared with a possible outcome under the FairTax.

We say possible for two reasons. As with the other comparisons in the article, the FairTax calculations assume this family will spend every dime, incurring the maximum federal tax. If they chose to save, invest, or put some money toward their children's education, this would reduce their taxes. Second, it is important to note that the strategy of the FairTax is revenue neutrality: Nei-

A Texas Farm Bureau member rancher's tax return		
	Current system	FairTaxsystem
Gross income	\$72,900	\$72,900
Less self-employment & employee withholding	-7,555	0.00
Less federal income taxes	-5,600	0.00
Total taxes	-13,155	0.00
Add the prebate family allowance	0.00	+6,477
Spendable income	59,745	79,377
Cost of hidden taxes & compliance	-13,144	0.00
Federal sales tax	0.00	-18,257
True after-tax purchasing power	\$46,601	\$61,120

**Under the FairTax, a 31.1% increase in spendable income**

ther raising nor lowering taxes. This means most Americans will end up paying about the same in taxes under the FairTax that they do today. But while this is a zero-sum strategy in tax dollars, the benefit of having the federal government out of your life, off your farm or ranch, out of your churches, and out of non-retail businesses altogether is incalculably valuable in the civil liberty benefits, while significantly reducing the burden of government on American enterprise.

### How do we do this? How do you help?

The only obstacle to passing the Fair Tax is the United States Congress. The farmers and ranchers of Texas have in their hands (and phones, and faxes, and e-mails) the power to rescue the economy and establish a fair, efficient tax system. Go to <http://www.fairtaxvolunteer.org/scorecards/index.html> and see where your congressman stands. Many Texas congressmen are on the bill already; neither Texas senator is. Review the frequently asked ques-

tions on our website: <http://www.fairtaxvolunteer.org/smart/faq.html>. If you have any questions, call the FairTax office (1-800-FairTax) and we'll get you the help you need. Then call your congressman's and senators' offices. Ask for the legislative aide who handles taxes. Visit them. Initiate a relationship. Be persistent. Get them to get their boss on as a cosponsor of the FairTax legislation (HR 25/S 1493). Report on all of your conversations to the FairTax office. The sooner you start, the better.

Leo E. Linbeck, Jr. is Sr. Chairman of Linbeck Corporation. Linbeck is also the chairman of Americans For Fair Taxation, a national organization advocating the abolishment of the federal income tax system and replacement thereof with a federal retail consumption tax, the FairTax. Americans for Fair Taxation is a 501(c)4 non-profit, non-partisan organization. Established in 1995, Americans For Fair Taxation is headquartered in Houston and is supported by volunteers across the country.

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