A FairTax® Whitepaper

The Fair Tax Benefits Seniors

The FairTax benefits seniors. Let's count the ways:

1) The FairTax repeals the taxation of Social Security benefits and adjusts Social Security cost of living adjustment to preserve the purchasing power of social security benefits.

2) The FairTax ends gift and estate taxes, along with all of the unfairness to heirs and complex tax planning for those who earned the money.

3) The FairTax ends all record keeping and income tax filings of any kind for seniors, totally insulating them from the high costs and abusive tactics of tax preparers.

4) The FairTax ensures Social Security's soundness by funding it with a progressive, broad-based national retail sales tax, rather than the current regressive, narrow payroll tax.

5) The FairTax prebate lets seniors purchase what they deem as living essentials tax-free up to the poverty-level. Used goods are tax-free as well.

6) The FairTax delivers a tax holiday on IRAs and other tax-deferred plans.

7) The FairTax allows seniors to sell their homes and pay no capital gains taxes.

8) The FairTax lowers average remaining lifetime tax rates.

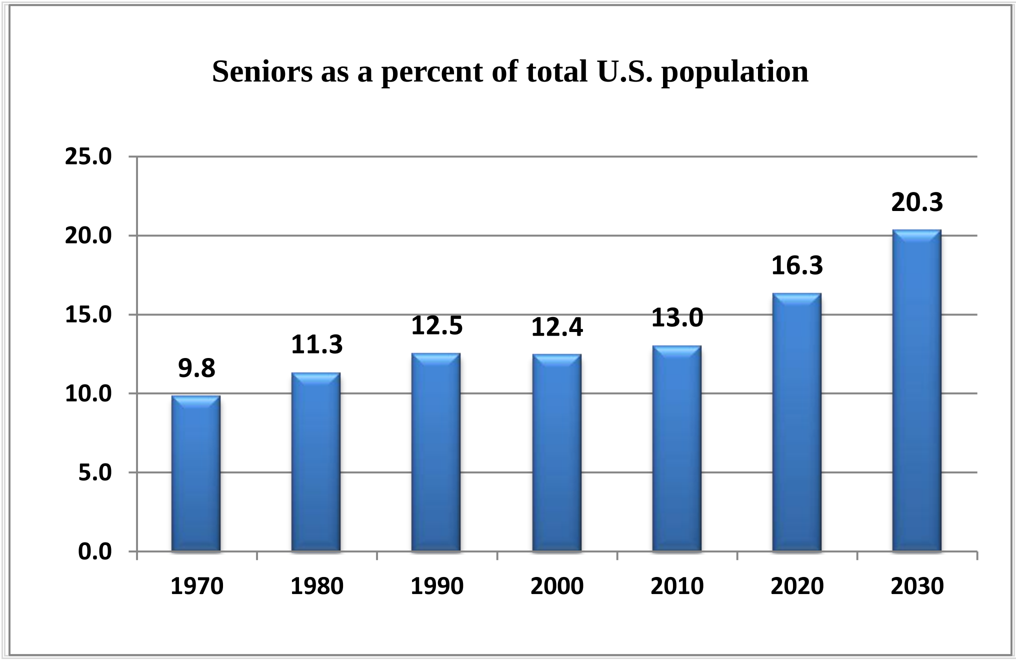
9) The FairTax generates an economic boom, easing future budget pressure on Social Security and Medicare.

10) The FairTax ensures your grandchildren have the same opportunity you did.

Senior citizens are becoming a larger portion of the overall population and the vast majority of them are much better off under the FairTax.

In 1970, those over 65 years of age were 9.8 percent of the population. By 2000, seniors were 12.4 percent of the population. In 2012, seniors made up 13.3% of the population, just shy of 42 million.[1] The number of seniors 2030 is projected to be twice as large as their counterparts in 2000, growing from 35 million to 72 million and representing nearly 20 percent of the total U.S. population. From 2030 onward, the proportion age 65 and over will be relatively stable, at around 20 percent, even though the absolute number of people age 65 and over is projected to continue to grow.

[1] U.S. Census Bureau, Population Division, Table 3. Release date, December 2012.



As would be expected, the average household income of persons over 65 – retirees no longer in the workplace, for the most part – is about 64 percent of the average of all households.[2] However, 6.7 million seniors or 16 percent are in the labor force. A smaller proportion of seniors are poor than in the population in general, 9 percent for seniors compared to 15 percent for the population in general.[3]

Complying with the current tax system is often more burdensome for persons after they retire than when they were working.

Retirees turning to their savings and Social Security for income face new tax calculations and complications. Most withdrawals from individual retirement accounts and 401(k) plans are taxable. People over 70½ years old must take required minimum distributions – and usually pay tax as a result – even if they would have preferred not to. Furthermore, any income received over the course of the year, including those 401(k) and IRA distributions, affects whether taxes will be owed on Social Security benefits. In fact, even tax-free income from municipal bonds gets counted in that calculation. All of this affects the amount of money a retiree gets to keep.

Many retirees find they need to make quarterly estimated tax payments to the Internal Revenue Service, something they may not have done in their working years.[4] And the 16 percent who work will owe Social Security and Medicare taxes as well as income taxes on that income. Up to 85% of Social Security benefits can be taxed depending on how much income a retiree earns. They paid payroll taxes to receive those benefits and must pay taxes on the benefits! The FairTax repeals both income taxes and payroll taxes.

[2] US Census, "Income, Poverty, and Health Insurance Coverage in the United States: 2010", Sept., 2011, Table A-1.
[3] Ibid.
[4] Lauricella, Tom, "When Work is Done, Tax Headaches Begin," *The Wall Street Journal*, August 27, 2006.

1) The FairTax repeals the taxation of Social Security benefits and adjusts Social Security indexing to protect seniors.
The FairTax legislation totally repeals the current income tax on Social Security benefits. The FairTax legislation also adjusts the Social Security benefits indexing formula, commonly known as the cost of living adjustment or COLA, so that benefits increase to the extent, if any, that the federal sales tax results in higher costs to seniors.

2) The FairTax ends gift and estate taxes, along with all of the unfairness to heirs and complex planning for those who earned the money.
Under the FairTax, gift and estate taxes are repealed. The need for small businesses and farmers to engage in expensive estate planning involving attorneys, complex estate freeze transactions, and expensive life insurance plans in anticipation of future estate and gift tax liability disappears.[5] Heirs no longer need to sell the business or farm out of the family or borrow heavily, putting the business at risk, in order to pay the estate tax.

Repeal of the corporate and individual income tax and the estate and gift tax has a substantial positive impact on the stock market.[6] Those seniors who own stocks either directly or through mutual funds, individual retirement accounts, 401(k) plans or otherwise, experience significant gains. In 2009, one-third of seniors owned stock and/or mutual funds.[7] In addition, unrealized capital gains that would have been subject to the income tax when realized are no longer taxed.

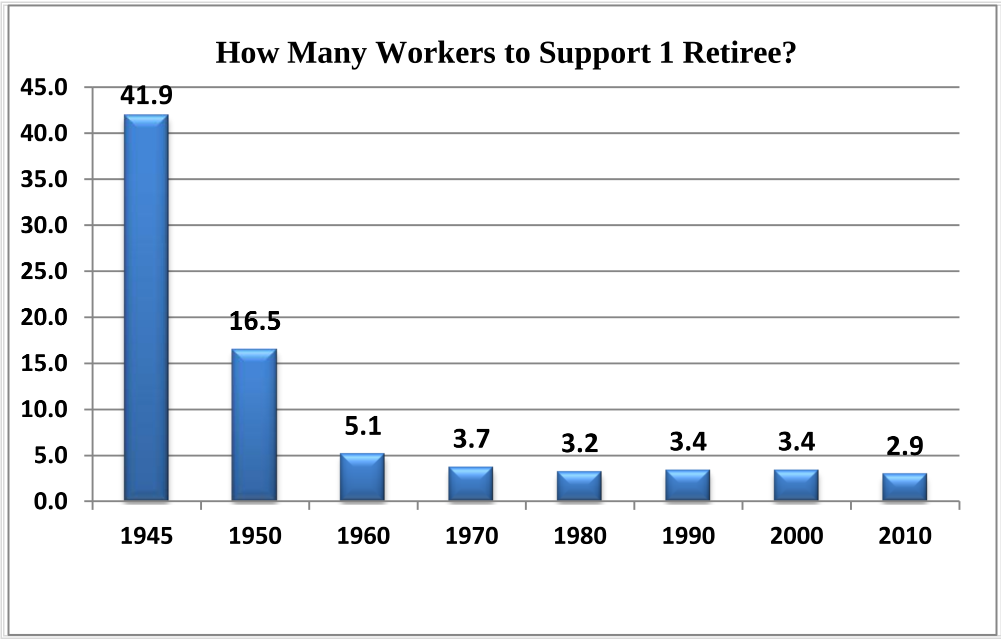
3) The FairTax ends *all* record keeping and income tax filings of *any* kind for seniors, totally insulating them from the high costs and abusive tactics of tax preparers.
Seniors (and their heirs) no longer need to keep tax records of any kind. Planning needs (and costs) are minimal and simple. There are no income tax filings of any kind. With this change, seniors no longer need assistance with complex forms, nor are subject to the devious and unethical tactics and expense of tax preparers. Nor are seniors the deliberate target of IRS audits – there is nothing to audit!

4) The FairTax ensures Social Security's soundness by funding the Social Security program with a progressive, broad-based national retail sales tax, rather than the current regressive, narrow payroll tax.
Currently, the Social Security system is funded by a payroll tax from workers, a very regressive tax that will only have to go up as more and more baby boomers retire and fewer and fewer workers fund seniors' retirement. The increased longevity of Americans only further compounds the problem. The chart below shows that when the program was enacted there were 41.9 workers to support one retiree; now there are only 2.9.

The projected Social Security Trust Fund assets increase through 2020, but they begin to decline in 2021, and become exhausted and unable to pay scheduled benefits in full on a timely basis in 2033. The official actuarial analysis projected that *immediately* increasing both the employee and employer payroll tax rates from 6.2 to 7.5 percent, a rate increase of 21 percent would be necessary

[5] Three separate studies found that the compliance costs associated with the estate planning industry exceed the revenue yield of the tax itself. The Estate Tax: Even Worse than Republicans Say, Tax Foundation, Fiscal Fact No. 326, August 29, 2012.
[6] See FairTax whitepaper, "Impact of the FairTax on the Stock and Bond Market."
[7] U.S. Bureau of the Census, 2012 Statistical Abstract of the United States, Table 1211.

to keep the trust fund in balance for 75 years[8]. Without the tax increase, payroll tax revenues would be sufficient to fund only 75 percent Social Security benefits for the next 55 years.



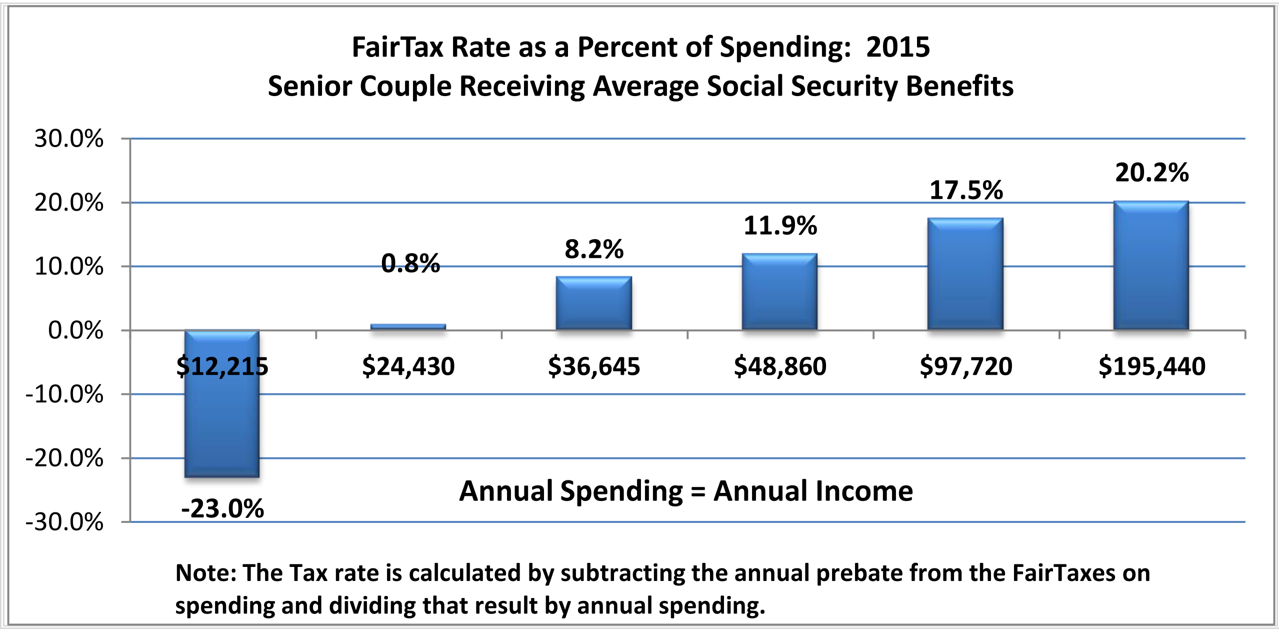
The FairTax funds Social Security with a progressive, national retail sales tax, supported by the spending of every consumer in America, even teenagers, tourists, illegal immigrants, and the army of 18-million people who (illegally) do not file and pay taxes today. FairTax revenues also grow with the economy.

5) The FairTax prebate lets seniors purchase what they deem as living essentials tax-free up to the poverty level. Used goods are tax-free as well.
Under the FairTax, senior citizens, like others, receive a monthly cash rebate that exempts consumption of necessities (up to the poverty level as determined by the Department of Health and Human Services) from federal taxation.[9] *Thus, seniors living at or below the poverty level pay no sales tax at all under the FairTax.*

While everyone pays the same tax rate at the cash register, the prebate results in effective tax rates (annual taxes paid divided by annual spending) that increase as the level of spending increases – a progressive tax rate structure. For example, a two adult household spending at the poverty level ($23,540) receives a cash rebate of $5,414 resulting in a 0 percent effective tax rate, i.e., whereas someone spending at twice the poverty level has an effective tax rate of 11.5 percent, and so on.

[8] The actuarial study uses a 75 year planning period to determine long term fund solvency. Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance [OASDI] Trust Funds. 2012. "2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds." Washington, DC.
[9] or a more detailed discussion of the rebate and fairness issues generally, see FairTax white paper, "The FairTax: Good for Taxpayers, Good for Businesses, Good for the Economy."

A couple living solely on Social Security and receiving the average annual benefits for a retiree and spouse of $24,430[10] would owe taxes of $5,619. However, this couple receives a cash rebate of $5,414 per year reducing their taxes to $205 per year or less than one percent (0.8%). As shown in the chart below, they would have a FairTax rate of less than one percent (0.8%). They can spend their entire income almost tax-free while their after-tax purchasing power increases compared to what they have today.



In addition, the FairTax taxes only new goods and services. So seniors can make choices in their spending to reduce the taxes they pay. Previously owned homes, automobiles, appliances, and clothing for example are not taxed.

6) The FairTax delivers a tax holiday on IRAs and other tax-deferred plans.
Forty percent of seniors have IRAs. The income tax imposed on investment income and pension benefits or IRA withdrawals is repealed. No form of savings or investment is taxed. Pension funds, IRAs, and 401(k) plans had assets of $13 trillion in 2010.[11] An income tax deduction was taken for contributions to most of these plans. All beneficiaries and owners of these plans expected to pay income tax on them upon withdrawal, but are not required to do so once the income tax is repealed. Roth IRA owners and post-tax retirement savers break even.

7) The FairTax allows seniors to sell their homes and pay no capital gains taxes.
The FairTax plan imposes a sales tax on newly constructed homes but exempts existing homes and other used property from any sales tax. Currently, equity payments on homes must be paid from after-income tax earnings (i.e., principal payments are not deductible). The purchase of existing

[10] The average monthly combined Social Security benefits check for retired workers and their spouses is $2,001.84 per month. Source: Social Security Administration, Table 2.Social Security Benefits, December 2014. http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/#table2.
[11] U.S. Bureau of the Census, 2012 Statistical Abstract of the United States, Tables 1217 and 1189. In 2010, private pensions had assets of $8.552 trillion, and government pension funds had assets of $4.343 trillion. In 2005, Individual Retirement Accounts had assets of $3.667 billion.

housing is thus subject to the income tax. The value of existing homes will appreciate due to the repeal of the income tax and implementation of the FairTax. An important benefit as seniors have dramatically higher home ownership rates than other age groups (89.7 percent for seniors compared to 68.4 percent on average in 2011).[12] Homes are often a family's largest asset.

8) The FairTax lowers average remaining lifetime tax rates.

Average remaining lifetime tax rates measure what percentage of remaining lifetime resources the taxpayer will pay to the government. The calculation of the average remaining lifetime tax rates takes into account all future federal tax payments net of Social Security benefits and the FairTax prebate.

According to a recent study of average and marginal tax rates under the FairTax by Laurence Kotlikoff, noted public finance economist and co-author of *The Coming Generational Storm: What You Need to Know about America's Economic Future*, "Since the FairTax would preserve the purchasing power of Social Security benefits and also provide a tax rebate, older low-income workers who will live primarily or exclusively on Social Security would be better off."[13] As an example, the average remaining lifetime tax rate for an age 60 married couple with $20,000 of earnings falls from its current value of 10.1 percent to -10.5 percent under the FairTax.

The table below presents average remaining lifetime tax rates for seniors,[14] both those now prevailing (current system) and those that would prevail under the FairTax.

Average remaining federal lifetime tax rates for seniors: The current system vs. the FairTax

Single			Couple		
Household income	Tax rate		Household income	Tax rate	
	Current system	FairTax		Current system	FairTax
$10,000	6.5%	**-27.1%**	$20,000	7.2%	**-11.0%**
$15,000	9.8%	**-28.0%**	$30,000	10.1%	**-10.5%**
$25,000	14.1%	**-6.2%**	$50,000	14.2%	**1.4%**
$35,000	16.7%	**-5.9%**	$70,000	17.0%	**2.2%**
$50,000	21.5%	**3.9%**	$100,000	22.4%	**7.9%**
$100,000	32.1%	**9.2%**	$200,000	32.2%	**12.3%**
$250,000	40.8%	**18.2%**	$500,000	41.5%	**19.3%**

[12] Table 23. Housing Tenure by Family Type and Age of Householder 55 Years and Over: 2011.

[13] Kotlikoff, Laurence and David Rapson, "Comparing Average and Marginal Tax Rates under the FairTax and the Current System of Federal Taxation," October, 2006.

[14] Average remaining lifetime tax rates take into account the remaining lifetime Social Security benefits received plus the FairTax prebate divided by remaining lifetime income.

A striking feature of this table is the negative average tax rates under the FairTax of low-income seniors.[15] These negative tax rates reflect the fact that, net of Social Security benefits and the FairTax prebate, seniors receive more under the FairTax than they pay in. In contrast, under the current system, low-income seniors would have positive average lifetime tax rates ranging from 6.5 percent to 14.2 percent of their annual income. Another key feature is how much lower average lifetime tax rates under the FairTax are for middle- and upper-income seniors compared to the current tax system. For example, high-income seniors experience significant positive average remaining lifetime tax rates of 18.2 percent for singles and 19.3 percent for couples. However, these rates are significantly lower than what they would experience under the current system – 40.8 percent for singles and 41.5 percent for couples.

9) The FairTax generates an economic boom, which eases future budget pressure on seniors' entitlements.

Replacing the income tax with a consumption tax, such as the FairTax, makes the economy much more dynamic and prosperous. Consequently, federal tax revenues grow, spending is under less upwards pressure, and the deficit declines. Budget pressure on Social Security and Medicare spending, already significant, becomes more pronounced as the post baby boomers enter their retirement years. There are 42 million people in the population age 65 and older today. By 2030, this number is estimated to rise to 72 million, a 71 percent increase. In contrast, by 2025 the number of workers is estimated to rise by only 13 percent. The economic growth caused by the sales tax replacement of the current tax system makes it substantially less likely that federal budget pressures will result in Medicare or Social Security benefits cuts.

10) The FairTax ensures your grandchildren have the same opportunity you did.

Seniors are able to take comfort in the fact that their children and grandchildren are no longer laboring under the yoke of the income tax, and are once again able to see their own standard of living improve, one generation to the next.

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 16th Amendment. This nonpartisan legislation (HR 25 / S 155) 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 or call 1-800-FAIRTAX.

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[15] The results in the table are based on the assumption that all heads of household and spouses are age 60, retire at age 65, and start collecting Social Security benefits at age 66. Earnings between the household's current (2005) age and retirement are assumed to remain fixed in real terms.