

CALCULATING YOUR ACTUAL TAX RATE UNDER FAIRTAX

23% RATE (inclusive) - 30% (exclusive) Sales Tax Rate

The 23% FairTax rate is used to compare to the inclusive current Income Tax system

While the Fair Tax is calculated on dollars spent rather than dollar earned, you can compare your current rate of tax under the income tax system (inclusive tax system) which would include both withholding and FICA payroll (7.65%) against the Fair Tax 23% inclusive tax rate (every \$1 you spend- \$.23 cents goes to tax and \$.77 goes to the retailer). This allows both tax systems to be calculated in the same terms and is calculated this way....

ON A SEPARATE PAPER...

Using your 2003 Income, for Fair Tax calculations, begin with your GROSS income for 2003 before any tax deductions or negative adjustments (include all taxable income under the current system, wages, earnings, business profits, dividends, interest, taxable income from any other sources. Then add to that any non-taxable income from retirement, social security, gifts, estates, insurance, major withdrawals from savings, etc. In other words CALCULATE the total amount of money you had to spend last year – this is your Gross Spending Amount

TO CALCULATE YOUR PERSONAL FAIR TAX INCLUSIVE ANNUAL RATE FOR LAST YEAR:

1. Start with Your GROSS SPENDING AMOUNT calculated above
(all money you had to spend last year)

SUBTRACT THESE TAX-FREE SPENDING/SAVINGS ITEMS (#2-11):

2. (---) your current entire mortgage payments principal & interest for the year - Mortgages only, not rent
3. (---) your entire payments (principal & interest) made for the year on any CURRENT loans
4. (---) your entire payments made toward Education Tuition only (any level)
5. (---) the entire amount you saved in any savings account through work or on your own
6. (---) any amount you invested in stocks or bonds
7. (---) any amount of cash you gave to non profit charities
8. (---) any amount of cash you simply gave away to relatives or anyone
9. (---) All State and local income taxes & property taxes paid either from payroll withholding or on your own
10. (---) any funds you spent on any large "used" items, such as land or secondary market real estate, used cars, used furniture, any major "used" purchases
11. (---) the HHS poverty level of spending for your dependent & household situation that will determine your tax free spending amount for necessities (see attached chart for 2003 figures)

12. Subtract the sum of Lines # 2-11 from Line 1. This total (line 12) equals the maximum amount of money you would have had left over last year (after non-taxed items) to spend on taxable items at retail on NEW goods and services. This is your NET TAXABLE SPENDING AMOUNT
13. Since we are dealing with "inclusive" rates, to compare to income tax you will figure 23% of line 12 to go toward sales tax and 77% of line 12 will be yours to keep. Multiply Line 12 by .23 (23%) to determine what dollar amount maximum you could have spent in taxes last year through the national sales tax program (FairTax). This total would cover your total Federal and Social Security/Medicare tax levy for the year.
- 14 Finally, simply figure what % percentage of the entire Gross Spending Amount (Line 1) was the maximum tax levy % rate you could pay – Calculate this by Line 13 / Line 1 (line 13 divided by Line 1)

LINE 14 REPRESENTS WHAT YOUR FAIRTAX ANNUAL FEDERAL TAX RATE FOR LAST YEAR WOULD HAVE BEEN IF ALL ELSE STAYED THE SAME – Under FairTax your personal tax % rate could change up or down if you had more money to spend, or if you adjusted your own personal spending choices to included more or less taxable items under lines 2-11, such as including more used goods, tax exempt goods or more savings and investments. The rate you have calculated is the MAXIMUM you could have paid last year. Under FairTax you ultimately will determine your own bottom line annual tax levy rate through personal choices under FairTax, NOT regulations of the Federal Government through the IRS.

YOUR INCOME TAX RATE ON THE SAME TOTAL AMOUNT AVAILABLE TO SPEND LAST YEAR
(Inclusive tax percentage terms equal to FairTax 23%)

15. Simply figure out the annual % rate you did pay last year by using your tax form. Just take your gross income and your Total Tax due figures and divide the Total tax due by your Total Gross income and this is your withholding tax rate as a %percentage of your total income. BUT YOU MUST REMEMBER....at this point you must also add another 7.65% to this figure to represent the Social Security Tax that was also taken out of your check separate from withholding tax. This tax is eliminated by Fair Tax and included in the sales tax rate.

So your final income tax rate for last year would be the combination of these 2 percentages
7.65% + what ever you figured in line 15 is your true "income tax withheld percentage rate".

Compare this to the figure you got in line 14 (FairTax rate) to determine if you would have done better under Fair Tax or income tax last year. After this comparison, keep in mind that prices of all goods and services should drop by 20% or more under the FairTax as well when free markets take hold.

You also need to remember that under the income tax your employer is also paying 7.65% for you, as well as other federal unemployment taxes. These payments reduce the amount they can pay you in salary if they didn't have to pay these costs.

Finally, under any FlatTax proposed you will need to add the 7.65% you pay and 7.65% employer paid Social Security rate to the income tax rate proposed. Most FlatTax proposals are between 17%-19% so most are looking at 25% with little or no deductions. Most who pay taxes will pay more under any FlatTax. In addition, there will still be 20% of Americans and ALL the illegal residents that will pay NO tax under a flat tax. In many instances a FlatTax will be worse for the American taxpayer, and the FlatTax does NOT address the higher costs of Social Security that will no doubt bring the tax burden up in the near future. FlatTaxes are a leveling of rates, not a redistribution of tax liability, therefore unless corporations are tax free (and they are not under a FlatTax), there will not be any expansion of the economy through free markets. As long as U.S. Businesses pay taxes, the American citizen's tax burden will remain hidden from view within IRS tax compliance costs included within the price of all goods and services.