



Why retailers should support the FairTax

Retailers are more profitable under the FairTax.

- Like other firms, retailers enjoy a zero corporate tax rate and their shareholders are not taxed on dividends or capital gains on their investments.
- Administering the FairTax is less costly than what retailers must be today. It provides a net reduction in paperwork and overhead by the elimination of federal income tax withholding and payroll tax deductions for employees, corporate taxes and associated corporate tax planning, record keeping, compliance, and litigation; though such burdens for their ongoing collection of sales taxes may increase slightly. Only four states do not currently require sales tax collection.¹
- Administering the FairTax is less costly than what retailers must do today. The record keeping and reporting requirements for retail businesses are simpler for a sales tax, compared to the current federal income/payroll tax system.
- The FairTax provides that retailers receive ¼ of one percent of gross collections as compensation for administrative expenses, including point-of-purchase software upgrades (Total payments to retailers are estimated to be in excess of \$5 billion based on 2007 consumption).²
- Business compliance costs estimated to be \$161.7 billion³ are lowered by a 95 percent.⁴

The economy grows, more people have jobs, incomes increase more rapidly.

- Those taxpayers receiving a payroll check benefit from higher disposable income from the first day under the FairTax, due to the repeal of the payroll tax in its entirety. Studies estimate the increase in wages to be at least ten percent.
- All known economic projections predict a much healthier economy.⁵ People are willing and able to purchase more goods and services in a healthy economy. Typical estimates are that the economy is 7 to 14 percent larger within 10 years and consumption grows

¹ New Hampshire, Oregon, Delaware and New Mexico. Alaska has 89 municipalities that impose a sales tax; whereas, Delaware and New Mexico impose gross receipts taxes on businesses which resemble sales taxes since the tax is generally passed on to consumers.

² Bachman, Paul, Jonathan Haughton, Laurence J. Kotlikoff, Alfonso Sanchez-Penalver, and David G. Tuerck, "Taxing Sales under the FairTax: What Rate Works?" published in *Tax Notes*, November 13, 2006.
<http://www.beaconhill.org/FairTax2006/TaxingSalesundertheFairTaxWhatRateWorks061005.pdf>

³ Laffer, Winegarden, and Childs, "The Economic Burden Caused by Tax Code Complexity, April, 2011.

⁴ Hall, Arthur P., "Compliance Costs of Alternative Tax Systems II," The Tax Foundation, Special Brief, House Ways & Means Committee Testimony, March 20, 1996. He estimated that under a national retail sales tax compliance costs would decline by 95 percent.

⁵ For a brief summary of findings, see Research Summary, the Impact of the FairTax on the Economy.
<http://www.fairtax.org/PDF/SummaryOfTheFairTaxOnTheEconomy.pdf>

substantially. Some studies show the potential gains to be much higher.⁶ Real wages increase. Retailers make more money in a prosperous, growing economy.

- Research predicts consumption increases by 2.4 percent more in the first year than it would if the current system were to remain in place. By the 10th year, consumption increases by 11.7 percent over what it would be if the current tax system remained in place, and disposable income is 11.8 percent higher.⁷
- This increase in consumption is fueled by a 1.7 percent increase in disposable (after-tax) personal income once the FairTax is enacted which grows to an 11.8 percent increase by the tenth year.
- Consumer interest rates fall dramatically, between 25 to 30 percent thereby increasing consumer's ability to finance consumption.⁸ Since consumer interest is not deductible under present law; the effect of lower interest rates strongly and positively impacts credit card or consumer loan-financed purchases.
- The FairTax plan provides a prepaid monthly rebate of taxes (prebate) to every registered household to cover the consumption tax charged on their spending up to the federal poverty level (\$31,020 for a family of four). Likewise, Social Security benefits are adjusted to preserve their purchasing power.
- Corporate income and employer payroll taxes are embedded in the price of everything we buy. Once these taxes are repealed, marketplace competition and the lower cost of doing business should drive down pre sales-tax prices..

Uniform tax treatment of all retailers.

- The FairTax base is final consumption, i.e. retail sales to the end users of all new goods and services. It levels the playing field between service-providing businesses and goods-producing businesses, and treats all retailers the same regardless of their mode of distribution – in-store, catalog, or online.
- All sales to end user consumers residing in the United States, by Main Street retailers and online vendors, are taxable; thereby eliminating the economic distortion caused by differential treatment under current law.

⁶ Arduin, Laffer, and Moore Econometrics LLC, A Macroeconomic Analysis of the FairTax Proposal, July, 2006 at <http://www.fairtax.org/PDF/MacroeconomicAnalysisofFairTax> . To the extent that higher productivity growth is linked to higher capital accumulation (a likely scenario), the growth effects will be even greater. For instance, if the larger accumulation of capital induces a one-quarter percent increase in productivity growth, total economic output in year ten would be 19.4 percent greater than the baseline scenario as opposed to 11.3 percent.

In addition, the GAO has cited estimates that efficiency costs associated with our current tax system are 2 percent to 5 percent of GDP. To the extent the FairTax reduces these efficiency costs, a likely supposition, economic growth can be further enhanced by up to 16.3 percent above the baseline scenario. Combining these two impacts, the FairTax increases economic growth by up to 24.4 percent greater than the baseline scenario by year ten.

⁷ Arduin, Laffer & Moore Econometrics, *ibid*.

⁸ Golob, John E., "How Would Tax Reform Affect Financial Markets?" *Economic Review*, Federal Reserve Bank of Kansas City, Fourth Quarter, 1995. He estimates a 25 to 35 percent drop (p. 27). See also Hall, Robert E. and Alvin Rabushka, *The Flat Tax*, Second Edition, Stanford, California: Hoover Institution Press, 1995.



- Direct mail and e-commerce sales from out-of-state sources are, in practice, rendered tax-free because state *use taxes* are poorly enforced. Under the FairTax, all retailers must collect the tax on all sales to persons residing within the United States.⁹
- States that choose to conform to the FairTax federal tax base have the added advantage of information sharing and clear interstate revenue allocation rules. The ability for the states to collect these heretofore uncollected taxes is a major incentive for states to conform their sales tax to the FairTax base. Retailers suffering from tax-free direct mail competition or internet sales by out-of-state retailers see a major competitive disadvantage eliminated.

Complying with the federal tax system becomes much simpler.

- Instead of having to comply with the complexities of the income tax and payroll tax, there is one national retail sales tax on all goods and services. The retailer simply calculates its total gross payments (retail sales plus federal sales taxes) on a monthly basis.
- No more uniform inventory capitalization requirements.
- No more complex rules governing employee benefits and retirement plans.
- No more tax depreciation schedules.
- No more tax rules governing mergers and acquisitions.
- No more international tax provisions.
- Over time, most states will conform their sales taxes to the FairTax, reducing the costs of complying with multiple rules in each state and its political subdivisions.
- The retailer's accounting, tax, and personnel (human resources) departments shrink dramatically.

The bottom line:

BottomThe FairTax is a win for wage earners. For business. For retail.

The FairTax is a win-win for both businesses and wage earners. People will *choose* to work more, earn more and spend more because marginal tax rates are so much lower. The economic pie will be bigger so even though people will save a higher proportion of their income, the amount of income that is spent will increase. Second, we do not live in a closed economy. Because the FairTax eliminates taxes on capital, foreign capital will flow into the United States to finance increased investment, creating businesses and jobs.

⁹ Although state sales and use taxes are owed on all online transactions, states are prohibited from requiring remote sellers to collect and remit those levies. A 1992 U.S. Supreme Court decision (*Quill Corporation v. North Dakota, 112 S.Ct. 1904*) said states can only require sellers that have a physical presence or nexus in the same state as the consumer to collect so-called use taxes. When a seller does not have nexus, consumers are required to calculate and remit the taxes owed to their home states at the end of the year; however, most people are unaware of this and states lack an effective enforcement mechanism. Online and catalog sellers, thereby, have a significant price advantage over Main Street (tax-paying, community-based) businesses and other traditional retailers that must collect a sales tax on all transactions.



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.