



*"For Truth in Taxation  
and Job Creation"*

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**1. What is taxed?** The MI FairTax is a single-rate, state retail sales tax that is generally collected only once, at the final point of purchase of new goods and [services](#) for personal consumption. Used items are generally not taxed as they were taxed when originally sold and the tax is now already included in the price. Business-to-business purchases for the production of goods and services are not taxed.

**2. What taxes are abolished?** The MI FairTax is a replacement tax, not an additional tax. It *replaces* the current Michigan sales tax, personal income tax, Michigan Business Tax, Personal Property Tax, 6-mill State Education Tax on businesses, and sales tax on all business purchases.

**3. What exactly is the “prebate”?** To protect the poor and to assure that no tax will be paid on necessities, the MI FairTax provides for a monthly electronic payment to every legal household in the amount of what the tax would be for purchases up to the poverty level based upon household size. This untaxes the poor and causes the MI FairTax to be progressive. The [prebate](#) of the MI FairTax is like the personal exemption of the current income tax.

**4. How does the prebate work?** All valid Social Security cardholders who are Michigan residents receive a monthly prebate equivalent to the amount of FairTax paid on essential goods and services, also known as poverty-level-expenditures. The [prebate](#) is paid, in advance, in equal installments each month. The size of the prebate is determined by the US Department of Health & Human Services’ poverty level guideline multiplied by the tax rate. The payment amount is based upon the number of people in the household, not income. This is a well-accepted and long-used calculation of

poverty-level that includes food, clothing, shelter, transportation, medical care, etc. See the following chart.

**2009 Michigan FairTax Prebate based on 9.75% Tax Rate By Household Size**

Family Size	Annual Consumption Allowance	Annual Prebate	Monthly Prebate
1 Adult	\$10,830	\$1,056	\$88
and 1 other person	\$14,570	\$1,421	\$118
and 2 other persons	\$18,310	\$1,785	\$149
and 3 other persons	\$22,050	\$2,150	\$179
and 4 other persons	\$25,790	\$2,515	\$210
and 5 other persons	\$29,530	\$2,879	\$240
and 6 other persons	\$33,270	\$3,244	\$270
and 7 other persons	\$37,010	\$3,608	\$301

**5. Why the Prebate?** Some people are concerned that food and medicine will be taxed, while others are concerned that the prebate will be another welfare check from the government, still others observe that the tax rate could be lower if the prebate was eliminated. Both concerns and the observation are reasonable and understandable.

The [prebate](#) does many things:

1. For all legal households it untaxes expenditures up to the poverty level.
2. It lowers the effective tax rate for all households because some spending is not taxed. Although the sales tax rate is 9.75%, because of the prebate and various untaxed uses of income, the typical Michigan family of four will have an effective tax rate of around 2.5%.
3. It protects lower income families far better than today's tax system does, as it offsets most or all of the taxes they now pay on purchases.
4. It protects seniors as it offsets the taxes on purchases up to the poverty level. In addition, seniors typically do not purchase as many things as they did in their younger years.
5. Like today's exemptions on personal income tax for family members, the prebate causes the FairTax to be progressive. (The effective tax rate increases as spending increases.)
6. It treats everyone equally, as all households of the same size receive the same amount in prebate and everyone pays the same tax rate on purchases.
7. It eliminates all loopholes and the rationale for any exemptions.
8. It preserves the tax rate at the lowest possible level. (If items such as food and medicine were exempted the tax rate would have to be higher. Furthermore, any exemption opens the door for more exemptions, which would require the tax rate to be repeatedly increased).
9. By eliminating exemptions, the prebate strengthens our representative form of government by eliminating the possibility of buying and selling of tax favors. (This trade in tax favors has corrupted our political system to the point that our elected officials often represent special interests rather than their constituents.)
10. It precludes households of illegal residents from receiving prebate payments, although they and anyone earning illegal income will pay taxes like everyone else when they spend their money.

**6. Is it realistic to expect Michigan residents to support the Michigan FairTax when it seems to place a new tax on food and other necessities?** Consumers are already paying taxes on food and medicine, but the taxes are hidden. Even food and medical businesses currently pay income and business taxes which are embedded in today's prices. The MI FairTax eliminates these hidden taxes.

### 7. Why not just exempt food and medicine from the tax? Wouldn't that be fair and simple?

Exempting items by category is neither fair nor simple. Respected economists have shown that the wealthy spend much more on food, clothing, housing, and medical care than do the poor. Exempting these goods, as many state sales taxes do, actually gives the wealthy a disproportionate benefit.

In addition, these purchases are *not* exempted today from state (or federal) taxation. The purchase of food, clothing, and medical services is made with *after*-income tax- and *after*-payroll-tax-dollars, plus their purchase price hides the cost of corporate taxes and private-sector compliance costs.

Finally, exempting one product or service, but not another, opens the door to the army of lobbyists and special interest groups that plague and distort our taxation system now. Those who have the money will send lobbyists to Lansing to obtain special tax breaks in their own self-interest. This process causes unfair and inefficient distortions in our economy and corrupts our political system.

**8. Is the MI FairTax progressive? Do the rich pay more and the poor pay less as a percentage of their spending?** The MI FairTax is progressive – the effective tax rate goes up as spending goes up, for those above the poverty level. The chart below, “Who Pays What under the 9.75% MI FairTax?” shows the annual expenditures for families of four with various incomes, along with corresponding MI FairTax effective tax rates. The poor actually pay less than zero-percent retail sales tax on their spending. Similar to the personal exemption and the earned income tax credit of today, the prebate may give them more money than they actually spend on retail taxes, especially if they are frugal and buy mostly used products.

### Who Pays What Under the 9.75% MI FairTax

(See [prebate](#) document at [mifairtax.org](http://mifairtax.org) for more complete information)

**Under the MI FairTax individuals do NOT have to calculate their MI FairTax, as it is paid when a purchase is made. There will be NO personal tax returns.** The MI FairTax eliminates today's 4.35% personal income tax, 6% sales tax and most state taxes placed on businesses (that ultimately are passed on to consumers in higher prices) and replaces them with a simple retail sales tax with a prebate.

Examples for a family of four with a gross annual income from \$22,050 (current poverty level) to \$1,000,000 are shown below to provide estimates of what families would pay under the MI FairTax at various income levels.

<b>Gross Income</b>	<b>\$22,050*</b>	<b>\$50,000**</b>	<b>\$100,000</b>	<b>\$300,000</b>	<b>\$1,000,000</b>
Spending not taxed by MI FairTax***	-6,187	15,088	42,513	151,174	492,331
Spending un-taxed by Prebate (Annual Consumption Allowance)	-22,050	22,050	22,050	22,050	22,050
Taxable expenditures after Prebate	= (6,187)	12,862	35,437	126,776	485,619
Net Taxes Paid (Taxable expenditures x tax rate of 0.0975)	(\$603)	\$1,254	\$ 3,455	\$12,361	\$47,348
<b>Effective Tax Rate</b> (Divide Net Taxes Paid by Gross Income)	<b>(2.7%)</b>	<b>2.5%</b>	<b>3.5%</b>	<b>4.1%</b>	<b>4.7%</b>

\* \$22,050 is the 2010 poverty income level for a family of four per the federal government, and is therefore the Household Annual Consumption Allowance.

\*\* A household income of \$50,000 was used in this example calculation because the median household annual income in Michigan is approximately \$50,000. We consider this to be the typical Michigan family income.

\*\*\* Social Security, Medicare & federal income tax (2010), tuition (K-12, college, vocational), savings and investments, mortgage payment, car payment, purchases of exempt used items, charity and house of worship, cash gifts to other households, taxes (property, other local taxes), and insurance payments.

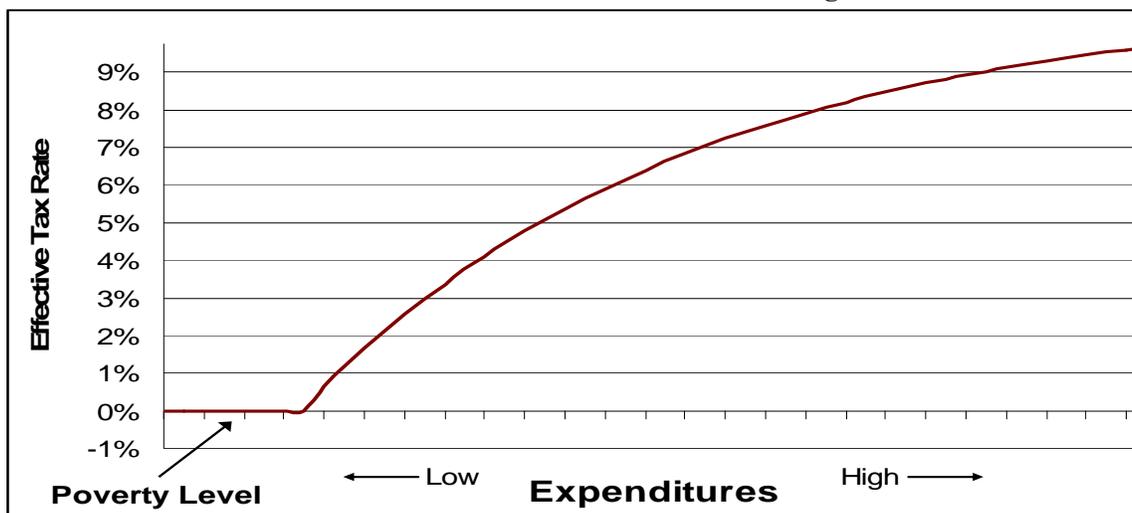
**9. Won't people think that the Michigan FairTax unfairly shifts the burden of taxation from businesses to the individual taxpayers?** Our Founding Fathers had to deal with "Taxation without representation". Today we have to deal with "Taxation with misrepresentation". Businesses don't pay taxes, people do. People realize that businesses pass taxes along to the consumers who purchase their goods and services. The higher business taxes are in Michigan the more difficult it is for businesses trying to operate in this state and be competitive. The MI FairTax removes Michigan taxes and tax compliance costs from prices. The improved competitiveness will attract employers to Michigan and provide *jobs*.

**10. Is the 9.75% MI FairTax revenue-neutral rate higher or lower when compared to the taxes people pay today?** Most people actually pay that much or more today – much of it is just hidden from view. By eliminating the Michigan income tax, people will keep about 4.35 cents in income and pay 3.75 cents more in sales tax. The prebate and the decreased cost of new goods and services (that no longer would have the imbedded business taxes and tax compliance cost hidden in their prices) balances the application of the new tax rate to all such expenditures. Michigan residents also would save time and money, as we no longer would have to maintain income tax records and prepare and file returns. Since the same amount of revenue would be paid to the state under the MI FairTax as the taxes it replaces, and since all taxes are, in the end, paid by consumers, people will be paying about the same under the MI FairTax as they are paying today. The true savings to Michigan residents would be in the savings in compliance costs we pay today for personal and business taxes.

*Effective Tax Rates vs. Stated Tax Rates:*

Because many expenditures are not subject to the MI FairTax and because the prebate untaxes expenditures up to the poverty level no one will have an effective tax rate equal the 9.75% tax rate. The median family income in Michigan is about \$50,000. A family of four spending \$50,000 would have an effective tax rate of around 2.5%. See the chart in FAQ # 8 above for "Who Pays What under the 9.75% MI FairTax". The chart below shows how the effective tax rate increases as spending increases.

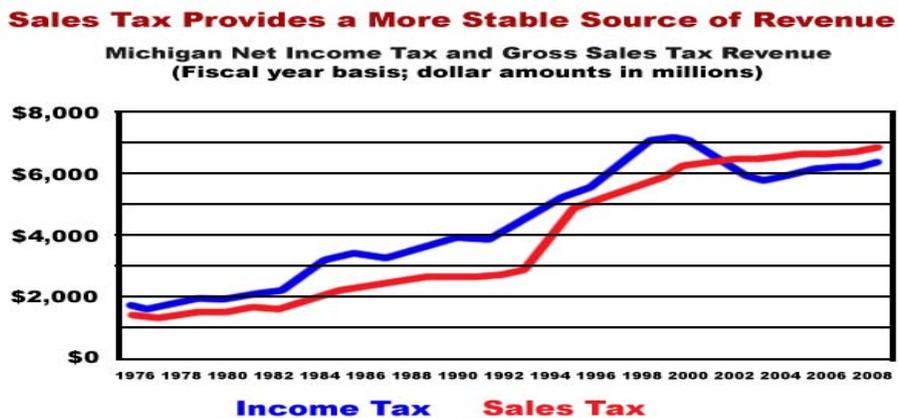
**Effective Tax Rates under the Michigan FairTax**



**11. Doesn't the MI FairTax rate need to be much higher to be revenue neutral?** The proper tax rate has been carefully calculated; 9.75 percent does the job of: (1) raising the same amount of revenue as is raised by the taxes it replaces, (2) paying the universal prebate. In addition, Michigan government will save millions of dollars annually by : a) not having to administer and collect all the business taxes and the individual income tax and b) purchasing Michigan produced goods and services that will cost less because prices will no longer be inflated by embedded taxes. The [economic study](#) to determine the tax rate, done by the Hillsdale Policy Group, can be viewed on our website [www.MIFairTax.org](http://www.MIFairTax.org).

**12. Is consumption a reliable basis for tax revenue?** Yes, in fact, consumption is a more stable basis for tax revenue than income. Many economic studies conclude that revenue raised by sales taxes is less variable than the income tax revenue. During our current economic downturn, sales tax revenues have decreased much less than income and most business tax revenues. Why? Because during difficult times due to loss of a job or an inability to work, people may not have as much income, or may have no income at all. They borrow funds, use savings, collect unemployment or welfare, etc. They may not have normal earnings, but they continue to consume. The [chart](#) below shows the yearly changes during the past thirty-two years in state revenue derived from the Michigan income tax and sales tax. It clearly shows that sales taxes are a relatively more stable revenue source to fund our state government.

**Stability of the tax base from 1976 to 2008**



**13. What about border issues?** It is unlikely that “shopping across the border” in Canada or Ohio or Indiana will result in any cost savings to the consumer. Because the MI FairTax eliminates most state business taxes, Michigan businesses can lower their prices and still maintain the same profit margin. When the new MI FairTax is added to the price of the product, consumers from either side of the border will be paying about the same for their Michigan purchases as they pay today. Visit [www.mifairtax.org](http://www.mifairtax.org) for more information about [border issues](#) and competitiveness.

**14. How is the MI FairTax collected?** Retail businesses collect the tax from the consumer, just as the state sales tax is collected today; the MI FairTax simply replaces the current line on the current sales tax reporting form. Retailers just collect the tax and send it to the state taxing authority. Retailers that choose to do so can likely deposit taxable sales receipts into a special account at banks, and the banks can remit to the state the tax due for them.

**15. Why is the MI FairTax better than our current system?** Our present tax system is one of the reasons the next generation may not have a standard of living as high as this generation. The MI FairTax stops the practice of punishing productive behaviors (work, saving, investing, etc.) which is done today by taxing these desired behaviors. It also removes taxes and tax-compliance costs from

the prices of Michigan produced products, making Michigan labor and business more competitive. Furthermore, it stops the buying and selling of tax favors that currently corrupts our representative form of government.

**16. Is the MI FairTax fair?** Yes, the MI FairTax is fair, and in fact, much fairer than the income tax. Every household of the same size receives the same [prebate](#), and everyone is taxed at the same rate when they buy something. The prebate protects the poor and fixed income households and causes the effective tax rate to be graduated (the more that is spent the greater the effective tax rate). Wealthy people often spend more money than other individuals do. They can buy expensive cars, big houses, and yachts. They can buy filet mignon instead of hamburger, fine wine instead of beer, and designer dresses and expensive jewelry. The FairTax taxes them on these purchases. If, however, they use their money to build job-creating factories, finance research and development to create new products, or fund charitable activities (all of which help improve the standard of living of others), then those activities are not taxed.

**17. How does the MI FairTax protect low-income and lower-middle-income families and individuals?** Under the MI FairTax plan, poor people pay no net MI FairTax at all up to the poverty level! Every household receives a [prebate](#) that is equal to the MI FairTax paid on essential goods and services.

Under the Michigan income tax, slow economic growth and recessions have a disproportionately adverse impact on lower income families. Breadwinners in these families are more likely to lose their jobs, are less likely to have the resources to weather bad economic times, and are more in need of the initial employment opportunities that a dynamic, growing economy provides. Retaining the present tax system makes economic progress needlessly slow, thus harming low-income people the most.

In contrast, the MI FairTax dramatically improves economic growth and wage rates for all, but especially for lower-income families and individuals. In addition to receiving the monthly MI FairTax prebate, these taxpayers are freed from the compliance burdens of the Michigan income tax, and no longer pay business taxes hidden in the prices of goods and services, while most used goods are tax-free.

**18. Is it fair for rich people to get exactly the same FairTax prebate payment as the poorest people in the state?** Yes, absolutely. It is fair that every household is treated the same under the MI FairTax. It is difficult to argue that it would be fair to treat different households differently for any reason. Although everyone is treated equally regarding the prebate, and everyone pays the same tax rate on purchases, the result is very different between the low-income household and high-income household.

Because the [prebate](#) offsets the taxes up to the poverty level and because some other expenditures are not taxed, the effective tax rates vary considerably between households of different spending levels. Here are some examples of effective tax rates for different levels of family annual incomes (with typical expenditures): \$22,000 (poverty level) = -2.7%; \$50,000 = 2.5%; \$100,000 = 3.5%; \$300,000 = 4.1%; and \$1,000,000 = 4.7%. (See page 4 of [prebate](#) document at [www.mifairtax.org](http://www.mifairtax.org).)

Let's further examine a low-income household. Under the MI FairTax, *they pay little or no net tax at all*. Under Michigan's current tax system, they not only pay the 4.35% income tax (some of which is likely returned when they file their tax return) and the 6% sales taxes on goods. They also pay hidden taxes arising from corporate taxes and tax compliance costs passed on to consumers in higher prices of all goods and services they buy. Under the MI FairTax, lower income households fare better than they do under Michigan's current tax system.

**19. What about senior citizens, retired people, and anyone on a fixed income?** Seniors generally do very well under the MI FairTax. Low-income seniors are much better off under the MI FairTax than under the current income tax system.

Some erroneously believe that people who live exclusively on Social Security pay no taxes. They may not know it, but they are paying hidden corporate income taxes, employer payroll taxes and tax compliance costs whenever they buy anything. Under the MI FairTax, seniors pay \$0.0975 out of every dollar they *choose to spend* on new goods and services, just like everyone else. However, seniors, like everyone else, receive a monthly prebate, in advance of purchases, to offset taxes paid on the cost of necessities. This more than pays for all of the taxes they would have to pay under the MI FairTax if they received the average Social Security benefit amount and spent it all on new goods and services.

There are other benefits. 1)if seniors choose to work, there will be no regressive payroll taxes or Michigan income tax on wages, nor the associated compliance burdens. 2)Seniors pay no more hidden Michigan taxes on goods or services, and most used goods are tax-free. 3)There is no income tax on their Social Security benefits. 4)The Michigan income tax imposed on investment income and pension benefits is repealed. 4)Michigan income tax deductions were taken for contributions to most pension funds, IRAs, and 401(k) plans. All owners and beneficiaries of these plans have expected to pay income tax on them upon withdrawal, but they are not required to do so under the MI FairTax.

The MI FairTax makes the economy much more dynamic and prosperous. Consequently, company earnings and state tax revenues grow, so they will be better able to fund fully the existing retirement plans and seniors' safety net benefit programs.

**20. How does the MI FairTax help seniors who have paid taxes on their retirement savings or invested in Roth IRAs?** Simply put, the MI FairTax is a revenue-neutral proposal, raising no more money than does the current system. The MI FairTax changes only where the money is raised, not the amount.

Additionally, some erroneously believe that people who have invested in Roth IRAs will never pay taxes on this money again. They may not have thought about it, but they are paying corporate income taxes and employer payroll taxes, as well as the associated tax compliance costs hidden in the price of every retail purchase they make. The MI FairTax drives these hidden taxes out of retail prices, and people will then elect to pay these taxes based on their lifestyle choices.

Furthermore, because most used goods have already been taxed once – when they were new – they are not taxed when resold. Therefore, senior citizens, like all Michiganians, do not lose purchasing power, but gain it, instead. Moreover, because most seniors do not consume as much as they did at earlier stages of life, they are most likely to benefit more from the monthly prebate payment that untaxes purchases up to the poverty level.

Tax-deferred investments get a one-time windfall. Savings invested in any long-term, income-generating asset, such as a stock, real estate, or a long-term bond that cannot be called, increase substantially in value.

**21. How does the MI FairTax affect wages and prices?** Michiganians who produce goods and earn wages must pay significant taxes and compliance costs under the current Michigan income tax. These taxes and compliance costs may reduce after-tax wages and profits, but businesses often simply [pass them on](#) to the consumers of goods and services in the form of price increases. When the MI FairTax removes taxes on personal income and most state business taxes, the prices of these Michigan-produced goods and services will fall. The removal of these hidden taxes may also allow wages to rise. (Exactly how much prices will fall and wages will rise depends on market forces, no differently than today. For example, in a profession with many jobs and too few to fill them, wages will likely increase more than in fields where there are too many employees and not enough jobs.) The MI FairTax will give Michigan the most attractive business tax environment in America, and as companies' demand for labor increases, so, too, will wages and salaries.

**22. Should the government tax services?** Service providers are not exempt from the income tax and business taxes today, and should not be exempt from the MI FairTax. Service companies currently pay the same employment taxes and other business taxes as do producers of goods, and these taxes are passed on to consumers in higher prices. Even though Michigan residents do not pay a 6% sales tax on [services](#), they do pay all the other taxes that are passed to them hidden in the prices of services. Services now account for well over one-half of the gross domestic product (GDP) of Michigan. Neither consumption of services nor consumption of goods should be tax-preferred. Such tax preferences result in a less-than-optimum allocation of resources and are economically unsound. Competition, not politics, should determine what goods and services cost.

**23. How does the MI FairTax affect income tax preparers, accountants, and many government employees?** There will still be, of course, some people involved in sales tax return preparation and sales tax administration under the MI FairTax, but only a small fraction of the number involved with the state income tax and all the various business taxes today. Those tax preparers, tax lawyers, and Treasury Department employees who are typically well educated and well equipped with transferable skills will find that their skills will be in high demand in a rapidly growing MI FairTax economy.

Today's practice of taxing (punishing) productive behavior (such as work, saving, investing, etc.), and the associated heavy compliance costs imposed by today's Michigan income tax and business taxes, serve as an anchor holding back economic growth. The estimated \$1 billion wasted on compliance with Michigan's tax system comes right out of every citizen's pocket and lowers the standard of living of residents. Surely we can employ these valuable labor and capital resources more productively in producing goods and services that add to our standard of living.

**24. What happens to charitable giving?** Contrary to popular belief, the ability to give, rather than "tax benefits", is the most important factor controlling charitable contributions. The health of the economy provides citizens with the ability to give. A wide range of economists agrees that as the MI FairTax delivers economic growth, charitable organizations will benefit. Under the MI FairTax, residents will receive their paycheck without state deductions, to spend as they see fit. Contributors will be able to donate money that has not been taxed at the state level.

**25. Do corporations get a windfall with the abolition of the corporate tax?** Corporations are legal fictions that have never paid and never will pay any tax. Taxing corporations is nothing more than a deceptive way of taxing the people. Politicians deceitfully say they "are taxing those rich big businesses", but they are well aware that businesses treat taxes like any other cost and pass that cost on in the price of their good or service. Almost any economist will testify "only people pay taxes."

**26. Does the MI FairTax burden the retail industry?** All Michigan retail businesses that sell goods collect the sales tax, currently. The MI FairTax would require that retail service providers also collect the sales tax. A provider of goods or services will likely be able to deposit taxable sales into a bank account, from which the bank would make automatic payments to the state without any effort on the part of the retailer.

Under the MI FairTax virtually all state taxes collected and paid today by all retailers (current Sales Tax, Michigan Business Tax, Personal Property Tax, 6-mill State Education Tax, and business to business taxes) will go away and no longer burden Michigan businesses. Moreover, the burden of withholding state income taxes and remitting same to the state will no longer be an expense and potential liability.

In addition, the economic growth resulting from the aggregate, beneficial effects of dramatically lower business taxes and tax compliance costs, and no withholding or income taxes, will result in consumers having substantially more money – the greatest influence on retail sales. This will all ensure that retailers do quite well.

**27. How does the plan affect economic growth?** Michiganians will be free to keep every dollar they earn (after federal taxes) when the MI FairTax removes the penalty for working harder and producing more, and a new era of economic growth and job creation will be unleashed. Hidden taxes at the state level will be history, and Michiganians will be able to save more and businesses to invest more. Capital formation, the real source of job creation and innovation, will be facilitated. Michigan's gross domestic product (GDP) will increase dramatically, and businesses from other states and countries will expand or move to Michigan's "[tax-free](#)" business environment.

People located in other states and countries will seek to invest and live here to avoid taxes on income, thereby further spurring the growth of our economy. Additionally, as people move back to Michigan to invest and work, the demand for property will increase, resulting in increased property values.

**28. What economic changes come at the retail level with the MI FairTax?** Our baby boom generation has been trained to spend money before inflation eats it up or savings are taxed away. This group, for good or evil, will likely spend their initial pay raise. Others will recognize the advantages of savings and investment. There will be a whole new round of home refinancing. There will likely be a lot of interest in the actual cost of the state government when consumers see their most recent contribution at the bottom of each retail receipt.

Since the MI FairTax plan is revenue neutral, the same amount of resources is extracted from the economy as is extracted under current law. These funds are, however, extracted in a less economically damaging way. Every known economic projection shows the economy doing better, often much better, under the MI FairTax. Because the economy grows, and is more efficient and more productive, that means investment, wages, and consumption are higher than they are under the income tax.

**29. How does the MI FairTax affect interest rates?** First, interest rates decrease. Interest rates include compensation to the lender for the tax the lender must pay on the interest you pay them. That is why taxable bonds bear a higher interest rate than tax-exempt bonds. When the tax on interest is removed, interest rates will drop toward today's tax-exempt rate.

Second, the current system taxes income from savings and investments. The MI FairTax does not tax income from savings and investments at all. As Michiganians save more money, the pool of funds in lending institutions grows. This increased supply of money available for lending places more downward pressure on interest rates.

**30. How does the MI FairTax affect Michigan competitiveness in trade with other states and countries?** Michigan goods exported to other states and countries will have a competitive advantage because they will no longer carry with them the [hidden cost](#) of embedded state tax expenses, as they do now. This means that they can be sold for less, while maintaining the same profit margins. This will benefit Michigan businesses and promote job creation. Today Michigan labor and business are at a competitive disadvantage due to the high level of taxes that they must pass on in higher prices. Under the MI FairTax, Michigan labor and business will have the most competitive tax structure in America.

**31. Does the MI FairTax improve compliance and reduce tax evasion when compared to the current income tax?** Yes, very much so. We should modify the old aphorism that nothing is certain except death and taxes to include tax evasion. The more complicated a tax system is, the more evasion there is likely to be. Michigan's income and business taxes are very complicated. Evasion in Michigan is considerable under the present system, despite a major enforcement effort and assessment of civil penalties on Michigan taxpayers in an effort to force compliance with the tax

system. Disrespect for the tax system and the law has reached dangerous levels and makes a system based on taxpayer self-assessment less and less viable.

The roughly 90-percent reduction in filers under the MI FairTax enables tax administrators to address noncompliance more narrowly and effectively, and increases the likelihood that they will discover tax evasion. Thus, the MI FairTax reduces rather than increases the problem of tax evasion by those doing business either illegally or legally and not reporting it. The increased simplicity, fairness, transparency, and legitimacy of the system induce more compliance. Businesses need answer only one question to determine the tax due: *How much did you sell to consumers?* Finally, because tax rates are lower, tax evasion is less profitable.

Under an income tax system, one person can understate his income and overstate his expenses to decrease his tax liability. To cheat under a sales tax, it takes two people, the buyer and the seller, to agree to cheat. In addition, about 85% of all sales are by big, major companies, where it is unlikely a person can talk a clerk into not charging the sales tax. A 2006 IRS study determined that only 67.9% of the income tax that is due is collected, whereas another study determined that about 96% of sales taxes are collected. It is important to remember that all business purchases, and purchases of used goods by individuals, will have no tax due, and it is in these transactions where there is traditionally more opportunity for sales tax avoidance. Even those earning income illegally will be paying the MI FairTax when they spend their money.

**32. Can the MI FairTax really be passed into law?** Ordinarily, the people ultimately get what they want in our society. As Michigan residents become increasingly familiar with the MI FairTax they are demanding that their legislators place this plan on the ballot so citizens can vote on it. Most recently, it was said that the Michigan Civil Rights Initiative could not pass...but the people fooled them. If the legislature fails to place this issue on the ballot, the people will do it by circulating petitions.

**33. What other significant economies use such a tax plan?** Two of the largest economies in the world rely almost solely on sales taxes: Florida and Texas. The five states that do not have an income tax have generally experienced healthier economies than states with income taxes, and the states with lower income and business taxes fare better than those with higher tax rates.

Even a cursory study of history shows that nations/states that relied on consumption taxes flourished and prospered, supported democracies/republics, had expanding economies, and high levels of civil rights for their citizens. Exactly the opposite is true for empires that relied on income/poll/head taxes. These governments used such taxes to support despots, and the economies in which they were applied eventually collapsed and destroying civil rights.

**34. How does the current income tax and the MI FairTax compare?** Michigan's current flat income tax and the MI FairTax are both flat-rate taxes and both are made progressive (higher effective tax rate as income/spending increases) by a personal exemption and prebate respectively. The income tax, however, is complicated, costly to administer and comply with and, it is invasive to our privacy.

The MI FairTax is a simple retail sales tax that reduces the tax related bureaucracy by 90 percent or more! In addition, under a flat income tax a large part of the burden of the current income tax system – the business tax – will remain hidden from people in the retail price of goods and services.

In contrast, the MI FairTax is simple, easy to understand, and visible. Let's compare some features:

	<u>Flat Income Tax</u>	<u>MI FairTax</u>
Filing required	Yes	No (except retailers' sales tax)
Record-keeping required	Yes	No
Withholding retained	Yes	No
Business tax retained	Yes	No
Removes MI taxes from prices	Yes	No
Eliminates regressive sales and hidden tax	No	Yes
Increases privacy	No	Yes
Improves business tax environment	No	Yes
Punishes productive behavior	Yes	No
Minimizes tax compliance cost	No	Yes

**35. Could we end up with both the MI FairTax and an income tax?** No. The MI FairTax is based on a constitutional amendment that sets the sales tax limit at 9.75% and eliminates the state income tax, most business taxes, and the sales tax on most used items. Once the people of Michigan adopt the MI FairTax at the ballot box, no new or previous state tax can be instituted, nor can the sales tax rate be increased, without another vote of the people. This is because an amendment to the Michigan Constitution would authorize the MI FairTax, and that protects citizens from new taxes or increases in existing taxes unless the people agree to such changes. The amendment returns the power to the people.

If the Michigan Legislature wants to change the tax rate or any other feature of the MI FairTax they must place the issue on the ballot by a two-thirds vote of both the House and Senate for approval by the voters. The thousands of members of the Michigan FairTax Association are totally dedicated to preserving the MI FairTax constitutional amendment and will continue to monitor it and oppose any attempts to corrupt or eliminate it.

Once the MI FairTax is enacted and Michiganians have experienced the freedom from filing intrusive and laborious income tax returns, enjoyed the economic benefits of eliminating taxes from the prices of Michigan-produced products and services, and experienced increased responsiveness from their elected officials, it would be difficult to imagine them ever voting to go back to the income tax.

The MI FairTax is highly visible, and because there is only one tax rate it will be very hard for the Legislature to adopt the typical divide-and-conquer, hide-and-disguise strategy employed today to ratchet up the burden gradually, by manipulating the income tax code or business taxes. Ultimately, the size of government will determine the tax rate. If government gets larger, higher tax rates will be required. If government shrinks relative to the economy, then the tax rate will fall. *Federalist 21*, by Alexander Hamilton, is a great read on the futility of government raising a consumption tax too high, and thus reducing revenues.

Finally, the reality is that today we have an income tax, a sales tax, and a hidden sales tax. All of us are well aware of income tax and sales tax, but we usually don't think about our hidden sales tax. All of our Michigan-produced goods and services are burdened with an "embedded" tax created by the cascading of income and payroll taxes paid by Michigan employers to the Michigan Treasury at every step of production. Of course, businesses pass these costs on to the ultimate payer, the customer. It's fair to call these embedded taxes a "sales tax" because we pay it every time we buy any goods or services – we just don't see it. The MI FairTax eliminates these embedded/hidden taxes, resulting in a single-rate state sales tax that is visible to all.

**36. Is the MI FairTax just another conservative tax scheme? Is it just another liberal tax scheme?** The MI FairTax is non-partisan, and has support from people in all walks of life, from both major parties and several other parties. Its supporters share one common belief – that the MI FairTax is a fairer, simpler, more efficient way to raise state revenue that minimizes taxation's harm to the economy. The MI FairTax delivers these benefits and more to all Michigan residents. It provides more government accountability for taxpayer dollars, a tax system that is less susceptible

to manipulation by special interests, a tax system that will make it easier – not harder – for the average person to get ahead, and perhaps most importantly, a tax system that provides real, honest, and transparent tax relief for those who need it most.

**37. What assumptions does the MI FairTax make about government spending?** The MI FairTax plan is devised to be revenue-neutral. It raises the same amount of revenue as is raised by the taxes it replaces. By eliminating hidden taxes, it makes residents' true tax burden visible to them for the first time in generations. It returns to the people the power to increase or decrease government revenues by increasing or decreasing the sales tax rate.

**38. How does the MI FairTax affect government spending?** The MI FairTax determines how revenue is raised, not how revenue is spent. The public must remain vigilant to ensure that the economic gains derived from the MI FairTax benefit the people and the causes they deem worthy. However, because the MI FairTax replaces most other state taxes, it will be much harder for the Legislature to hide tax increases from citizens (such as passing a new business tax). Under the MI FairTax you can more easily hold legislators accountable for their decisions. For the first time in decades, it is simple to see whether a politician is advocating an increase in taxes or a restraint on government. This is not the case today.

**39. What about the provisions for an income tax and business tax in the Michigan Constitution?** The MI FairTax is authorized by an amendment to the Michigan Constitution that eliminates the income tax and most business taxes. The objective of the amendment is to increase the revenue raised by the sales tax, and to eliminate most other state level taxes. It is not the intention of this plan, or the desire of the people of Michigan, to end up with both a state income tax and an expanded state sales tax. The constitutional amendment ensures that one replaces the other, not added on top of the other.

**40. How does the income tax affect our economy?** Income is the reward from our productive behavior, such as work, investment risk taking, saving, etc. Since taxing the reward decreases the net benefit we receive from our productive behavior, we have less incentive to do the work, take the risk, etc. Taxing productive behavior is like being the mole in Whac-a-Mole™. The government beats you down when you raise your head.

Numerous economic studies show that states that do not tax income are growing their economies much faster than states with income taxes. Similarly, states that have low business taxes are outpacing states, such as Michigan, that have high business taxes. If we want businesses to expand and locate in Michigan, we must allow them to make more income here than they can make elsewhere. Income is the reward for business risk-taking and work, just as it is for individuals. Business and investment capital will go where more income is possible.

Taxing consumption makes a lot more sense. It is logical to tax someone who is taking from society (consuming), rather than giving to society (producing). Numerous economic studies prove the common sense that we all will have more and will enjoy a higher standard of living if we stop punishing economically productive behavior.

**41. How does this plan affect compliance costs?** Economists estimate that Americans spend about \$500 to \$700 billion a year to comply with the federal internal revenue code. The amount Michigan citizens and businesses spend on complying with the Michigan tax code has not been studied. However, it is very substantial, and directly reduces the standard of living per household by hundreds of dollars per year, on average.

In addition to paying tax preparers, accountants, or lawyers for tax preparation advice or assistance, and buying computer software for preparation, Michigan residents also pay for similar expenditures by businesses, because businesses pass these costs on to the consumers, just as they pass their business tax costs on to consumers, by adding them to the price of their goods and services. This makes goods and services produced by Michigan labor and capital less competitive.

We will pay the MI FairTax only when we buy something at the retail counter, so there are no records to keep and no tax forms to file or tax preparers to pay. This will save individuals time and money. Furthermore, businesses no longer have to waste resources complying with the many tax laws encumbering them today. Estimates indicate that the costs to comply with and enforce the MI FairTax will be around 10% of the costs under the present system.

**42. What about value-added taxes (VATs), as they have in Europe and Canada? Are they an alternative for Michigan?** VATs are also consumption taxes and are economically less damaging to the economy than income taxes, but the MI FairTax is not a VAT. A VAT works very differently. It taxes the value added at every stage of production. It is much more complex, requires considerable paperwork by companies and the government, and is usually at least partially hidden from the retail consumer/public. It is widely used in European countries, and, because it is often hidden in prices, has proved to be an easy way to increase citizens' tax burden. The result has been bigger and more intrusive government that often co-exists with a high-rate income tax, payroll tax, and many other taxes that, in some instances, have led to marginal tax rates as high as 70 percent.

A VAT is a dream for politicians and lobbyist. It allows them to buy and sell tax favors to install their loopholes unbeknownst to the purchaser/public. A retail sales tax, in contrast, is a lobbyist's nightmare, applied, as it is, under the bright lights of the retail counter, with no opportunity for the buying and selling of tax favors.

**43. What do we experience in the transition from the income tax to the MI FairTax?**

Everyone will have to think about taxes in a different way. Income – what we earn – no longer has to be documented, measured, and kept-track-of for tax purposes. The only relevant measure of our tax liability is the amount we choose to spend on final, discretionary consumption. Tax-related issues are suddenly a lot simpler and more straightforward than they used to be. The aggravation and anxiety associated with “April 15<sup>th</sup>” disappears forever after passage of the MI FairTax.

The MI FairTax is not new – most Michigianians come into contact with such taxes daily, since we currently use them to collect state revenues. It is easier to switch from an income tax to the MI FairTax system than it is to switch from gallons to liters or from feet to meters! Of course, those who depend on the structure and complexity of our current system (e.g., tax lobbyists, tax preparers, and tax shelter promoters) have to find more productive economic pursuits. However, everyone will have enough advance notice to adjust to the new system.

Under the MI FairTax job creation booms. Real estate booms. Financial services boom. Exports boom. Retail prospers. Farming and ranching prosper. Churches and charities prosper. Civil liberties are enhanced, and our elected representatives will become more responsive to the citizens they are supposed to represent, once the lobby money for tax favors ceases. In short, it is difficult to imagine the far-reaching, positive effects of this change. However, this tax policy is exactly what our Founding Fathers counseled us, in the *Federalist Papers* and the Constitution, to enact.

**44. Will the Michigan FairTax tax business-to-business transactions?** No! There will be no tax on any business purchases, because any tax on a business must be added to the price of the product being produced and this causes the product to be less competitive in the market place.

**45. Since business purchases are not taxable, how does the MI FairTax keep individuals from pretending to have a business so they can buy things tax-free?** All the laws in place today to prevent such tax evasion will still be in place after the MI FairTax is enacted. In addition, the MI FairTax has several features that make it difficult and very risky for persons to have a scam business in order to purchase items tax free. First, in order for any person to purchase items tax free for business purposes, the business has to be a registered seller and possess a registered seller certificate issued by the Michigan Treasury Department. Registered sellers are expected to file monthly or quarterly sales tax returns with the state (depending on sales volume). The certificate enables the business to purchase tax-free from wholesale vendors, but the vendor must retain a copy of the registration certificate to justify not having collected tax on the sale. When a business purchases items for business use from a retail vendor, the business has to pay the tax on the

purchase and take a credit against the tax due on their monthly sales tax return. They must keep invoices/receipts to document items and amounts of purchases. They might also make note of the purpose of the purchase on the invoice.

Also, as registered sellers, they are subject to the possibility of being audited by the state. During such an audit they will have to produce the invoices for all the "business purchases" that they did not pay sales tax on, and will have to be able to show that they were bona fide business expenses. If they cannot prove this, then they will have to pay the taxes that should have been paid when the items were purchased, plus interest and penalties. The probability of being audited will be much greater than it is under the current system, with its many times greater number of tax filers. Under the MI FairTax, most of the other business taxes are eliminated and only businesses doing retail sales will have to file returns for only their retail sales. With only about 10 percent the number of tax returns as today, the Department of Treasury will be able to more closely monitor the tax returns. Thus, the probability of tax cheats getting caught will be much greater than it is today, making tax evasion riskier than it is now

Another potential scam would be to have a "fake" family business in order to buy tax-free merchandise for family members. The MI FairTax has a specific provision to prevent this. Although it does not prohibit businesses from providing taxable property or services as gifts, prizes, or rewards, or as remuneration for employment, the act of giving the gift, reward, etc., is considered to be the conversion of property or services from business use to personal use, and is therefore taxable. We have had provisions like these in Michigan for many years, and they have worked easily and effectively. These provisions will continue to assure that the tax due will be paid by all citizens.

**46. Should we wait until we have our state spending under control before we address tax reform?** Why? Is it that we can't chew gum and walk at the same time? Waiting to address tax reform until we have state spending under control is like not looking for a job until we had a family budget. One issue does not depend on the other. While the issue of how state revenues are being spent needs to be addressed, so does how state revenue is raised. The MI FairTax raises revenue by a means that is the least harmful to the economy relative to all other methods of taxation. The visibility of citizens' true tax burden on every sales receipt will focus the attention of the public on state spending and facilitate spending reforms. The constitutionally limited spending under the MI FairTax will help to assure spending reforms stay in place, whereas only the "spending restraints" of the legislature "control" spending today... and just how is that working out for us?

Michigan residents need jobs NOW and the removal of state taxes and tax compliance costs from the price of Michigan goods and services via the MI FairTax will make Michigan labor and business more competitive. There is no reason Michiganders must endure needless unemployment while work on budget controls continues.

Michigan's current woes are precisely the reasons why Michigan *should* lead the nation by adopting the MI FairTax. Many other states including Florida, Texas, North Carolina, Tennessee, Wyoming, and Nevada all use sales tax as their primary source of revenue to pay for state services. *All* of their economies are doing substantially better than Michigan. In fact, some of those states are the most competitive and economically strongest in the nation.

**47. How will this affect state government?** It will simplify tax collection, provide a more stable revenue and prevent the government from picking winners and losers. Politicians, bureaucrats and lobbyists will no longer be able to manipulate the state tax code.

**48. How will this affect local government?** It will make more revenue sharing constitutional giving cities, townships, villages, and counties a number on which they can reliably plan their budget.