

MI FairTax Questioned

As the State of Michigan debates which tax proposal will meet the State's budget needs while simultaneously providing an attractive business tax environment to stimulate our economy back to health, some reservations have been expressed about the MI FairTax proposal. This proposal is by far the most extensive reform package being offered and it addresses the budget needs and the economic stimulus needed by Michigan. Most parties agree that we are losing more jobs than any other state, more families are moving out of Michigan than any other state and that our business tax environment is one of, if not the, worst in the country. The debate is not whether we need tax reform, but about how to reform our tax structure. The MI FairTax is a sales tax that replaces the personal income tax, Michigan Business tax (MBT), Personal Property Tax (PPT), 6 mill State Education Tax on business (SET) and sales tax on business purchases. The reservations are listed below along with brief answers provided by the MI FairTax Association. Additional information on the MI FairTax proposal is available at www.mifairtax.org.

- Unique is not always best. One of the major problems with the current MBT is that it is a unique, one-of-a-kind tax, that few people understand and that no other state has implemented. The Fair Tax would again leave Michigan with a unique, one-of-a-kind tax that would likely result in uncertainty and litigation.

FairTax Response:

On the contrary, the MI FairTax eliminates the uncertainty and litigation caused by the very complicated and loophole riddled taxes it is replacing (Personal Income Tax, Michigan Business Tax, Personal Property Tax, 6 mill State Education Tax on business real estate, and Sales Tax on business purchases). The SBT had drastic differences that other states chose not to emulate for good reason. On the other hand, the MI FairTax is a retail sales tax that Michigan and most other states already have today. Because the MI FairTax will make Michigan such an attractive place in which to do business other states will soon emulate Michigan. So it may only be a question of whether MI is the first, rather than the only state to let its citizens know what they are paying in taxes on every sales receipt, rather than hiding taxes in the prices businesses must charge to cover their tax expenses.

- Shift to individual taxpayers. Regardless of the reality of the final incidence of tax, the perception that businesses would be fully relieved of tax burden at the expense of individuals renders this plan unrealistic.

FairTax Response:

Citizens of MI are capable of understanding the truth about who actually pays business taxes and that MI business taxes, like any other cost, are passed on to consumers in the price of goods and services produced by MI companies. They can understand that the practice of hiding taxes in our prices causes MI products to be uncompetitive and that we are now losing our jobs because of these hidden taxes. MI citizens can understand that taxes on business are actually a way of hiding taxes on citizens and they will welcome truth in taxation. Continued deception regarding who pays business taxes will further harm our economy as we lose companies and jobs. The Michigan Chamber of Commerce and all other business, political and social organizations have a civic duty to advocate the truth that, "Businesses don't pay taxes, people do!" rather than perpetuate the admitted falsehood of business taxes.

- This plan would shift out-state tax burden to in-state, individual taxpayers. Despite the ability to levy a higher sales tax through tourism, Michigan would lose its ability to tax out-state taxpayers through the MBT, and the Use tax. States are currently prohibited from mandatory collection of sales tax across state borders. The potential for tax avoidance is high.

FairTax Response:

Our current economic situation shows Michigan has already lost its ability to tax out-state consumers through the Use tax, and the MBT and other business taxes that are passed on in the prices of Michigan produced products. The question is, how much higher would our statewide exports be and how many jobs

would be created if we removed the taxes hidden in the prices of Michigan made product? Tax avoidance will be considerably reduced under the MI FairTax. The MI income tax is based upon our federal tax returns and the IRS says they achieve only an 84% compliance rate (i.e., Only 84% of what is owed is paid).* Studies on compliance of state sales taxes show a 95% compliance rate on taxes that would be collected under the MI FairTax. It stands to reason that a sales tax is hard to avoid when 85.7% of today's sales tax is collected by 3.6% of retailers.** These big companies are unlikely to be interested in helping customers avoid paying the sales tax.

* "IRS Estimates of Unpaid Taxes Appear to Be Low, Report Says", April 26, 2006 Wall Street Journal

** The US Department of Commerce, reported in its last 2006 Economic Census

- **Winners and Losers.** It is unrealistic to expect support for taxing critical services such as medical, dental etc...while still providing a sole exemption for "education expenses" based on the idea that education is considered an "investment."

FairTax Response:

We currently pay inflated prices for those critical services due to the personal and business taxes that are embedded in the prices for these goods and services. For example, all of those medical providers pay, and pass along, their income tax cost and the cost of other taxes or fees to the consumer in higher prices. The FairTax removes that tax cost which reduces the end price to the consumer. The MI FairTax Prebate indirectly eliminates the FairTax tax cost on those critical services to all households without the special exemptions. Special exemptions are what make some winners and others losers. Under the MI FairTax everyone is treated the same. Education is rarely pursued other than as an investment for employment.

- **Questionable revenue estimates.** Proponents of the "Fair Tax" claim that an 9.75% sales tax rate could generate enough revenue to account for the MBT, Personal Property Taxes, the personal Income Tax, and 6 mill State Education Tax. Yet there is strong disagreement regarding the validity of estimates. If full replacement is their goal, it would likely require a significantly higher tax rate.

FairTax Response:

The MI FairTax Association published its calculations over one and a half years ago to determine the tax rate necessary to replace the revenue generated by taxes being replaced. Recently calculations have been released by the MI Department of Treasury. They arrived at a somewhat higher rate but they used criteria that were not entirely accurate for the MI FairTax. The relatively small discrepancy of ~2% is currently being addressed by the appropriate economists.

- **Complicated and difficult to administer.** For example, it calls for providing "pre-bates" to be sent to lower-income individuals to offset the regressive nature of sales taxes. The practicality of this idea, and potential for fraud, makes this idea questionable at best.

FairTax Response:

The MI FairTax is the most simple and easy to administer tax plan of all those being proposed. It is so simple our kids will be paying the family taxes when they shop. The MI FairTax 'pre-bate' is to be sent to ALL Michigan households to offset and remove the tax burden on poverty level taxable expenditures, not just on 'lower-income' households. This keeps the pre-bate system simple and un-taxes the poverty level purchases for all Michigan households. There is little fraud possible as the prebates are based on the number people in each household with VALID Social Security numbers. One simple sales tax (MI FairTax) that is paid only when making retail purchases for personal use has considerably fewer points of collection, little to no confusion, and far fewer opportunities for fraud or other non-compliance than the many complicated taxes it replaces.