



*"For Truth in Taxation  
and Job Creation"*

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## The Michigan Fair Tax Proposal

The Michigan Fair Tax Proposal would completely replace the Michigan Business Tax (MBT), Personal Property Tax (PPT), 6 mill business School Education Tax (SET) tax, and Michigan Income Tax with a single sales tax. As a result, you would only pay tax on the final purchase. All business-to-business transactions would be exempt. Michigan citizens make nearly all their purchases with after-tax dollars. In a FairTax environment, all purchases made by Michigan citizens would be made with pre-tax dollars because there would be no Michigan income tax withholding. Sales tax would go up 3.75 cents, but residents would now keep 4.35 cents more on every dollar they earn, which is currently taken from their check and sent to the state. People will only pay tax on what they purchase. Thus people with higher incomes, who buy more things, will pay more tax and people who don't will pay less. At 9.75 percent, Michigan citizens would actually realize a .60 percent reduction on every dollar used for a purchase; the current rate is 6 percent. The nine states that have no state income tax are able to subtract their sales tax from their federal income tax liability. There are already tables in the 1040 for states that do not have a state income tax.

The Michigan FairTax would export a greater portion of our tax burden to non-residents who travel to and vacation in Michigan; we are a destination state for vacationers. We have a huge underground or cash economy in our state; in addition to the illegal economy, we have an illegal alien problem as well. All economic activity would be taxed in a FairTax economy; if you live here you will get taxed on whatever you buy. In Barron's January 3, 2005 edition, Jim McTague wrote, "The IRS estimated that its tax gap -- the estimated amount of taxes owed minus the amount collected -- to be \$311 billion in any given year. 'The agency will produce a new estimate in 2005, it could be as high as \$400 billion,' says former IRS Commissioner Donald Alexander. The gap number measures only a portion of the underground economy. Because the number is extrapolated from audited returns, it makes no allowances for criminal enterprises that report no income, and it even fails to capture some garden varieties of non-reporting. The unreported wages of illegal immigrants alone could be costing the government another \$50 billion a year." Michigan's uncollected tax liability is \$2.5 billion. This number has not been factored into the Michigan Fair Tax Proposal as of yet. A conservative estimate would be that the FairTax would most likely cut the uncollected liability 75 percent or more.

This would not be a regressive tax nor would it cause the poor to pay any more taxes than they currently pay, because of the prebate (refund). Currently, Michigan citizens have personal exemptions to offset state income tax according to the number of people in their household. In a FairTax environment, Michigan citizens would automatically receive a rebate of their sales tax in a manner similar to the personal exemption from the income tax. All Michigan citizens would receive a monthly rebate to offset additional items such as food and services which would now be taxed. A single Michigan citizen would receive \$1,014 (9.75% of \$10,400), the rebate would increase as it does now with the number adults and children. A family of four spending \$28,000 would pay no tax. Someone who earns minimum wage would pay little or no taxes. On the other hand, people who have or make more money will purchase more items and will pay more taxes. If that same family of four made \$60,000 they would not be spending \$28,000 on necessities. So the pre-bate un-taxes necessities and does not hurt low income earners.

The new tax plan passed in June doesn't change much; it simply reshuffles the same old deck and shifts the burden of who pays more and who pays less. We will still have a gross receipts tax of .8% (which the people rejected when they over-rode the governor's veto of the SBT), a personal property tax (which every state around us has eliminated); and also added a third business tax, an alternative business income tax. The goals which were set three years ago were: broaden the base, simplification, tax equity, create a system which is easy to adhere to, and make it inviting and competitive to attract new businesses to Michigan. So what have we really accomplished? We have simply painted the room, re-arranged the furniture, shuffled the deck on who pays, and called it tax reform.

In 2007 Governor Granholm wanted a 1.5 billion dollar tax **increase**. Under threat of government shutdown, she unfortunately got the state legislature to raise income tax 12%, and spread sales tax to many services at a rate of 6% on both the consumer and business-to-business transactions, which were on top of all the other taxes. There was such an out cry that the services tax was repealed and a 22% surcharge for ten years has been added to the MBT. No matter how you structure a state mandated tax or who initially pays it, whether applied to business like the SBT and the PPT, or directly applied to citizens, like sales and income tax, the consumer will ultimately pay it. Businesses don't pay taxes, people do. All taxes, no matter what their form, are incorporated into the price of the products and services people buy.

Raising the sales tax 3.75 cents would require a constitutional amendment. The amendment would repeal any statewide tax enacted after January 1, 2007, and no other statewide tax could be restored, or enacted, or the sales tax amount increased without a vote of the people. The ballot amendment would also add counties along with townships, cities, and villages to the constitution and combine the constitutional and the statutory Revenue Sharing distributions into one, making the entire distribution constitutional, giving municipalities a number they can budget on. We believe the state spends tax dollars better than the Federal government, and that townships, cities, villages, and counties spend tax dollars better than the state.

Elimination of the Personal Property Tax, Gross Receipts Tax, and State Income Tax would make Michigan the least expensive, least cumbersome, easiest to comply with, and most competitive state in the nation. Manufactures will greatly benefit and many will relocate to Michigan in order to take advantage of the lower cost of doing business because of the favorable tax structure.

Michigan Treasury's own projections are saying unemployment and the business environment is going to get worse, not better. There is no other plan or proposal that would lower the cost of doing business, spur capital investment, or create a more inviting environment for job growth. The time for action is now. Missouri, Georgia, and Oklahoma have all introduced FairTax legislation in their legislatures this year and other states are working on their own versions. On May 3, 2007 the Michigan Fair Tax Resolution L was introduced with 36 co-sponsors, which is over a third of the state legislature. The Michigan Fair Tax Proposal is on its way to becoming a state-wide ballot initiative. It would constitutionally restrain government from imposing any new statewide taxes without a vote of the people. It would make government subject to the same economic up turns and down turns as its businesses and its citizens, and allow people to pay tax only on what they purchased. Now what could be fairer than that?

(For more information go to [www.mifairtax.org](http://www.mifairtax.org) )

## Overview of the Michigan FairTax

- **Eliminates all business taxes**
  - These are passed on to consumers now, hidden in the cost of Michigan-made goods and services.
  - Workers would no longer bear the cost of a corporate income tax in lower wages and salaries, as now (study by the American Enterprise Institute).
  - The cost of complying with business taxes, which may sometimes exceed the tax owed, is currently also passed on to consumers.
  - Elimination of these taxes and compliance costs will lower the cost of Michigan-made goods and services through competitive pressures.
  - Michigan-made goods will be more competitive in Michigan, in other states and in other countries.
  - A more favorable tax climate for businesses will attract businesses to Michigan
  - More businesses mean more jobs.
  - More jobs will attract workers, new and returning ones, to Michigan.
- **Eliminates the Michigan income tax**
  - No more withholding of Michigan income tax by employers.
  - No more filing of Michigan income tax returns.
  - No more time and money spent on processing your Michigan income tax forms.
- **Replaces state income and business taxes with a 9.75% sales tax on services and new goods**
  - The 3.75% sales tax increase replaces current business taxes and the 4.35% income tax.
  - A monthly payment “prebate” to each legal Michigan household, simply direct-deposited to bank accounts, of the amount of tax that household would pay if spending at the poverty level completely un-taxes the basic necessities for all households.
  - Because of the prebate, a family of 4 spending \$21,200/yr. would have a 0% effective tax rate, but if that family spent \$48,451 (median Michigan household income) it would have a 5.5% effective tax rate, and so on, up to 9.75%. Other untaxed spending reduces the tax rate even further (see graph on next page).
  - Money saved, invested, or given away is not taxed until it is spent.
  - Tuition, because education is an investment rather than consumption, is exempt.
  - Used goods are generally exempt and business purchases are not taxed, to avoid taxing the same thing more than once.
- **Increases the tax base**
  - As the Michigan workforce increases, the added workers will increase tax revenue
  - Those in the underground economy will pay taxes when they spend
  - Visitors, tourists, and other nonresidents will be part of the tax base
- **Other benefits**
  - No new statewide taxes without a vote of the people to change the constitution.
  - It requires the tax rate be lowered if revenues exceed a set amount.
  - There are strict controls on when and how the tax rate can be increased.
  - It will guarantee revenue sharing for local governments and give them an amount they can count on.
  - The revenue source will be more stable than under the present system.
  - It eliminates the selling of tax favors by government officials, which today corrupts our representative system of government.
  - There are no loopholes.

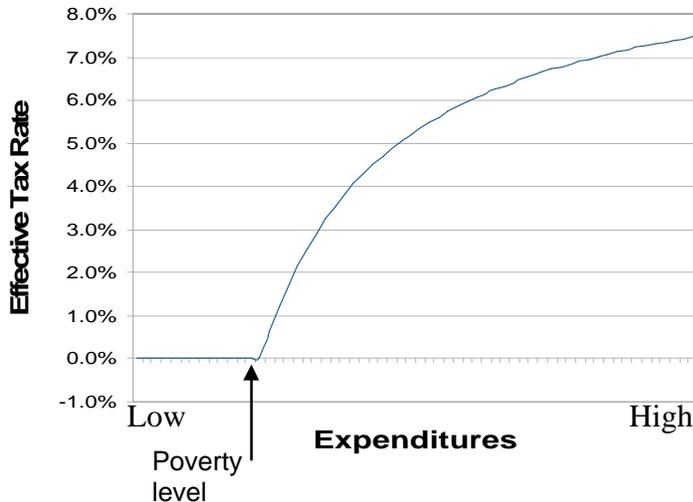
**To estimate your tax and effective rate under the MI FairTax, use the following form:**  
 (An example for a family of 4 with a gross income of \$50,000 is given for reference.)

Take-home pay (after Social Security, Medicare & fed. Income Tax) (\$43,000)		_____
1 Tuition (K-12, college, vocational) (\$0)		_____
2 Savings and investments (\$1,000)		_____
3 Purchases of exempt used items (\$500)		_____
4 Charity and house of worship (\$1,000)		_____
5 Cash gifts to other households (\$500)		_____
6 Taxes (property, other local taxes) (\$2,000)		_____
7 Insurance payments (\$3,000)		_____
TOTAL, lines 1-7 (non-taxable spending)	(\$8,000)	_____
Subtract non-taxable total from take-home pay [43,000 – 8,000]	(\$35,000)	=====
		Taxable expenditures before Prebate
Spending un-taxed by prebate*	(\$21,200)	_____
Taxable expenditures after prebate [35,000 – 21,200]	(\$13,800)	_____
Tax amount you will pay [13,800 x .0975]	(\$1,346)	_____
<b>Your Effective Tax Rate</b> [1,346 / 50,000]	<b>(2.7%)</b>	_____

\*Go to [http://mifairtax.org/resrcs/RebateTable-MI\\_Explanation.pdf](http://mifairtax.org/resrcs/RebateTable-MI_Explanation.pdf) to see what spending your prebate will untax (Annual Consumption Allowance).

Taxable expenditures are always taxed at 9.75%, but the prebate reimburses each legal household for the amount of tax that would be paid on expenditures up to the poverty level as established by the U.S. government for each size household, so those expenditures are tax-free. Because of the prebate and untaxed expenditures above, the effective sales tax rate paid gradually rises from 0% as the expenditures rise. At high levels of spending the average rate will reach a higher percentage approaching 9.75%, as shown in the graph below.

**Tax Rates under the Michigan FairTax**



The effective sales tax rate is 0% at the poverty level, and gradually increases as expenditures increase above that level. The prebate actually makes the tax rate negative (a source of income) for those spending below the poverty level because they are reimbursed more than the tax they would pay.