

Chairman Brandenburg, Senators, thank you for taking public input on tax reform in Michigan. I am Ron Babin, Vice President, and like everyone in our organization, a volunteer for the Michigan FairTax Association. I'm also a small business owner. Governor Snyder, and frankly, the people of Michigan, have asked for reform of the tax code to include simplification, transparency, greater efficiency and a fairer application.

This committee has already heard testimony on removing certain taxes from our structure. Few, if any, find these taxes to be beneficial to the states growth prospects. The opposition, from those that have it, only relates to 'what then' for revenue if we do so. Unlike all other proposals, the Michigan FairTax Proposal addresses these concerns for all sides.

Even the Center for Michigan's Community conversation group of 10,000 plus participants have said "they wanted a simplified and stable tax code, a wholesale review of the state's \$30 billion patchwork of tax breaks and incentives, and business tax cuts to spur growth." Also "In terms of revenues, Community Conversation participants were most supportive of broadened sales and consumption taxes, such as sales tax on services."

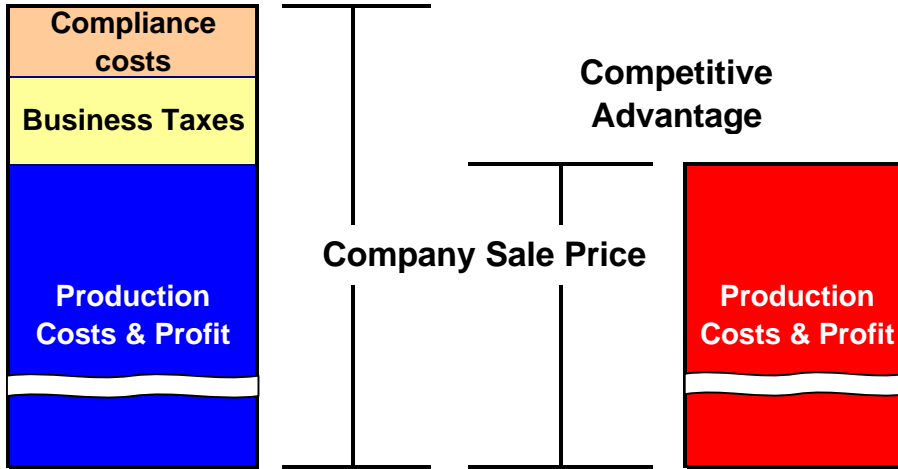
Besides being more supported by the citizens, a major benefit of the consumption tax is that **today** it provides the most stable source of state revenue from large tax generators. Yes, they may go down during a slowing of the economy, but only a fraction of what the Income and business taxes drop by. With a broader and more stable base the Sales & Use Tax is a much preferred source of revenue. In the three fiscal years 2001 to 2003, the adjusted income tax revenue dropped between 2-7% each year. In that same time frame the Sales tax grew each year. In fiscal 2009, as the economic drop really took hold, the income tax drop was almost twice that of the sales tax drop (20% vs. 10%). The business tax is worse yet!

The reason we are discussing change is because the current tax structure is hurting Michigan. Any tax is going to hurt the economy, the question is which has the lesser impact and generates the funds we need. The Michigan FairTax Proposal is a replacement tax! Constitutionally repealing the MI Personal Income Tax, any general business tax (MBT), the business Personal Property Tax, the 6 mil SET only on business real estate and the sales tax on business purchases driving down the wholesale price of goods and services in Michigan ([Show chart of cost comparison](#)).

Competitiveness of Michigan Products

Current tax system

FairTax system



Taxes, Compliance cost and Efficiency costs are hidden in prices

Companies are more competitive as hidden taxes, compliance & efficiency costs are removed from prices

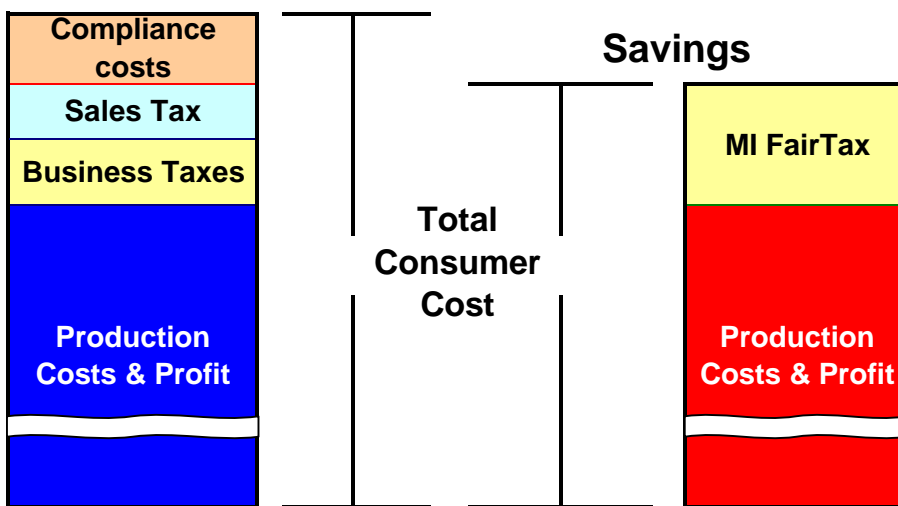
* Compliance Cost: Cost of complying with tax laws (preparing tax forms, maintaining records, etc.)

** Efficiency Cost: Economic cost of less than optimal business decisions made to minimize taxes

Cost to Michigan Consumers

Current tax system

FairTax system



Total cost to consumers will generally not increase under the MI FairTax

Residents will save the business & individual compliance costs they are currently paying

These current tax costs ALL go through the business process which makes our companies and employer's less competitive. Why should we get less tax revenue from a product made in China, India or Ohio than the same product made in Michigan if it's sold here? This is what we do today! It is the current structure that contributes to businesses losing along the border counties, it is the current structure that generates less revenue to local communities, it is the current structure that generates less jobs and less educational opportunity!

The replacement is approximately a 9% retail only consumption tax on NEW purchases of goods and services across the board. No business to business transactions are taxed while workers earn their money free of state taxation, no deductions, and no returns.

Although the MFTP eliminates the Personal Property Tax, it does not remove the base and these allocations are dedicated and paid by the state to the local municipality directly from sales tax collections. No change to local governments.

Senator Warren mentioned wanting revenue certainty, the MI Chamber supports a transition of knowing what the replacement is first, the MML and my local Mayor don't want to lose more revenue, and Chairman Brandenburg wants no replacement of the business tax!

Senators, the MI FairTax gives all of that and more. It puts a limit on state government growth controlled by a vote of the people. It constitutionally forces down the sales tax rate in excessive growth years after the Budget Stabilization Fund is filled.

The MFT is considered a voluntary, progressive tax because it has an allowance for each legal household to cover 100% of the tax on their poverty level purchases. Through an automatic, electronic, simple Prebate, that tax cost is removed. Purchases beyond the necessities are optional and each household can choose their tax consequence based on their decisions to consume and when. It is not fair that today a poor family has to pay sales tax on their children's clothes to go to school yet I can go to the store and buy caviar without tax! The poor effectively pay nothing under the FairTax until their abilities grow.

As I mentioned, the MFT is a replacement tax! It is revenue neutral, in that the tax applied is equal to the tax cost we pay today. Whether a business is in Senator Proos district in Niles along the border or Senator Bieda's district in Warren, the current tax costs apply to and disadvantage them the same. The MFT also applies the same, but at zero!

Who actually pays the tax costs today, especially when considering service providers such as myself? Individuals in every case! Only

people pay taxes! People confuse businesses with business owners. Business owners are individuals too and will pay their full share when they benefit like everyone else. Don't let the demagoguery get you as the citizens of Michigan lose if you do. Businesses have to pass their tax burden on to an individual somewhere or they close shop or move elsewhere to stay afloat. Neither is good for Michigan or its citizens.

The Snyder proposals, according to the Tax Foundation's corporate index, could move us from 48th to 22nd in five years. Which of you, will be satisfied by moving to only 22nd after five full years? Michigan has some job losses to make up for and we need to be #1 sooner than later. The Michigan FairTax is not in opposition to whatever the legislature is going to agree upon with the Governor. That's a short term fix that will help. But we need a long term fix, a game changer if you will, that gives the business community constitutional certainty, communities' stability, and the public a voice.

Neither the legislature, nor the Governor can enact the MFTP, it must be passed by the people as a constitutional ballot Amendment. We ask you to give your constituents the choice! Put the Michigan FairTax on the ballot and let's get jobs rolling again!

Thank you Senator's for the opportunity for the people to be heard.

Figure 16

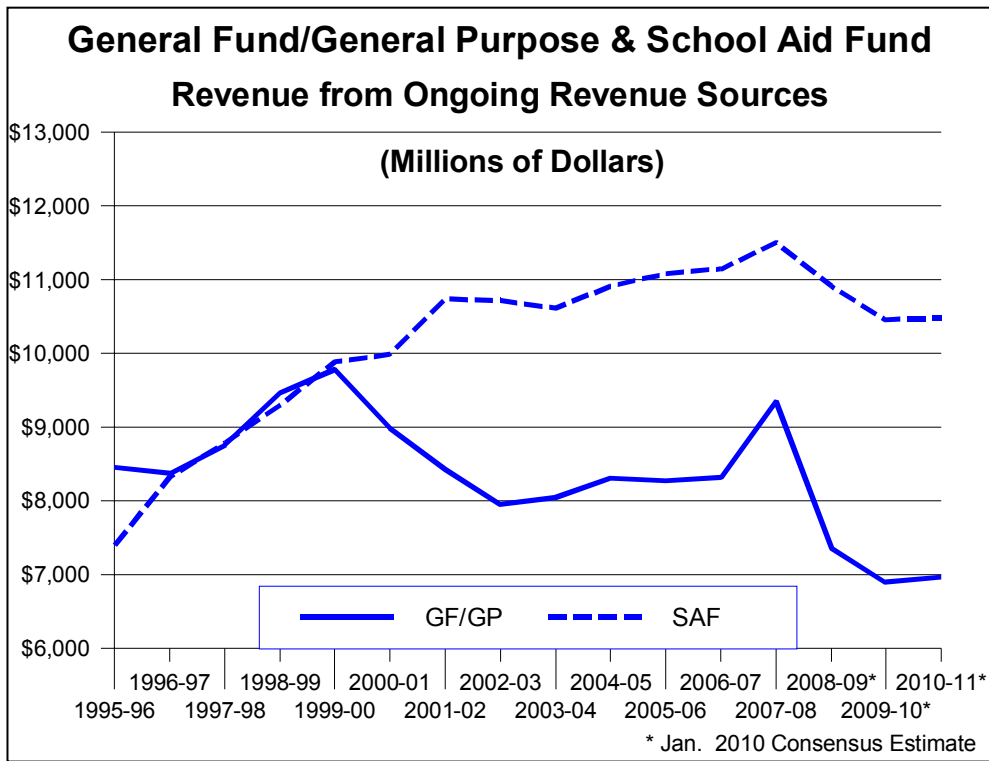


Figure 17

