

## **Why should Individuals and Organizations Join the MI FairTax Effort**

What is the MI FairTax? It is a simple 9 ¾ % retail sales tax that replaces the current 6% sales tax, 4.35% income tax and most state business taxes. It is partially offset by a monthly payment, called a “prebate,” to all legal households in the amount that the tax would be, based upon household size, if the household spent at the poverty level. This prebate untaxes spending up to the poverty level for all Michigan households.

How can the tax be called a “fair tax” when it eliminates business taxes? Our country’s founders had to deal with “Taxation without representation.” Today, we must deal with “Taxation *with* misrepresentation.”

We are told by our elected leaders that they are taxing those big corporations and rich business-owners, rather than taxing us individuals. This deception was best exposed by the former Chairman of the President’s Council of Economic Advisors and Federal Reserve Board Chairman, Dr. Alan Greenspan, when he lectured the U. S. Congress, “Businesses do not pay taxes; *only people* pay taxes.” He was pointing out that businesses treat taxes just like any other cost, passing them along to you and me, consumers, in the prices we pay for goods and services. The bottom line is that we consumers pay all business taxes.

This deceptive practice of hiding our taxes in the prices of the things we buy has created a situation in which an average of 22% of the retail price of all goods and services produced in America is taxes imbedded in the price. Is it any wonder that we are exporting our jobs and companies, rather than our products, when American labor and business are forced to compete with the rest of the world at a 20% competitive disadvantage?... just because of our tax system. We are the only major country in the world that leaves these imbedded taxes in our export prices, and does not add a similar tax to imports to level the playing field. The FairTax eliminates taxes from our exports and taxes imports when sold in the U.S in the same manner as it taxes U.S. made products, and thereby, levels the playing field.

Michigan is a leader in high business tax rates which gives our state a less desirable business tax environment than other states. With its heavily manufacturing-oriented economy, Michigan is leading the nation in company and job exportation. Just how serious is this? The Michigan Senate Fiscal Agency predicts that Michigan’s unemployment rate will be near 20% by December, 2009. The Upjohn Institute for Employment Research estimates the true unemployment rate is already near 50% when all people that want to work are considered.

The charade of “taxing business” is not only costing us our jobs, it threatens our ability to *defend* our country. As we export our companies, we export our technology and the productive capacity to arm and support our military. A second rate economy can only support a second rate military.

When pressed about these tax policy problems, many politicians and their consultants are prone to “squinch” their eyebrows, and lament how “complicated” and “difficult” these problems are. In reality, we need to simply replace Michigan’s income and “business” taxes with a simple and visible retail sales tax, and Michigan will become a magnet for companies and individuals, almost overnight!

It does not take a rocket scientist to solve this simple problem. Just tax us directly rather than hiding the taxes in our prices so we can be competitive; and eliminate the income tax so we are not penalized when we work, save and invest. In a nutshell, that's what the MI FairTax does. It is a visible, fair (because it is loop-hole free) and simple retail sales tax, that will save ~\$5 billion in annual tax compliance costs for Michigan companies and citizens.

The MI FairTax eliminates the Michigan income tax, which is the source from which the buying and selling of "tax favors" occurs that, today, corrupts our representative form of government. This trade in tax favors is why some elected officials are resistant to the adoption of the MI FairTax. Follow the money, and you will see through the veil of "problems" decried by some legislators, lobbyists and tax professionals.

What are some of the ways the MI FairTax will affect Michigan? As mentioned above, it will:

- *Eliminate hidden state taxes.* This will permit Michigan residents to see their true tax burden for the first time in generations, and open the door for citizens to better control the size and reach of government. (How can you fight a tax that you don't realize exists?)
- *Eliminate state taxes from prices.* This will allow Michigan labor and business to better compete in the world economy. The significantly lower cost of doing business in Michigan will give Michigan businesses room to lower prices to remain competitive with businesses in other states and countries, as well as surrounding states that may have lower sales tax rates. Under the MI FairTax Michigan located businesses can maintain their profit margins at lower prices. Michigan residents are not likely to go out of state to make their purchases because: things will generally cost more at out of state businesses; travel expense will usually offset any ~3 cent/dollar sales tax savings; most major purchases (cars, boats, snowmobiles, motorcycles, etc.) must be licensed in Michigan and the tax would be collected at that time; and currently, Michigan exchanges sales information with other most other states and tax avoiders are likely to get a letter from the MI Department of Treasury if the Michigan sales tax was not paid.
- *Eliminate the buying and selling of tax favors.* Our elected officials will have to seek support from constituents and be responsive to constituents rather than being supported by lobbyists and being responsive to lobbyists.
- *Stop punishing productive behavior.* Work, saving, and business and investment risk taking will no longer be taxed.

In addition, the MI FairTax will:

- Constitutionally protect Michigan residents from new state taxes or the reintroduction of the income tax, business taxes and increases in the FairTax rate without a vote of the people.
- Constitutionally guarantee revenue sharing with local units of government to permit better budgeting. A broad consumption tax base provides the state and local governments with a more stable revenue source than the current income and other tax bases.
- Enable Michigan to become the first state to adopt a broad consumption tax which will prove the concept for adoption of the national FairTax (bill H.R. 25). The first state to adopt a state FairTax will attract the most new businesses. Because Michigan has the deepest economic hole to dig out from, it is most in need of attracting new business.

- Eliminate tax returns for all individuals and most businesses.
- Assure equal treatment of all legal residents by eliminating all tax loopholes. All legal residents will be treated the *same*, as their purchases will be taxed at the *same* rate and households of the same size will receive the *same* prebate. The monthly prebate payment is in the amount of what the tax would be on expenditures up to the poverty level. The resulting effective tax rate will be 0% for households spending at or below the federal poverty level and will approach 9.75% for households spending hundreds of thousands per year. The projected effective tax rate for a household of 4 persons earning the Michigan median family income of \$50,000 per year is under 2.7%. This would result in low and fixed income households generally faring considerably better under the MI FairTax than under the current tax code.

The MI FairTax is all about “Truth in Taxation and Job Creation.” The adoption of the MI FairTax will impact our state’s economy more than any other legislation contemplated or possible; while at the same time, positively affecting most other issues relating to the size and reach of government. When Michigan and other states cause the federal government to adopt the national FairTax (and eliminate the current income tax code) we will again enjoy the potential for the full liberty our Founding Fathers intended when they twice prohibited income-type taxes in the U. S. Constitution.

Until the income tax is eliminated citizens will continue to serve our government rather than it serving us. There are many very desirable causes worth our time and treasure, however, the MI FairTax will advance most all of these causes and preserve our state and country until we can address all these causes.

Our current tax system is nothing less than a *root cause* of most of Michigan’s economic and social problems; and it will require nothing less than all of us joining forces to accomplish adoption of the MI FairTax.

Yours in the cause,

Roger Buchholtz  
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