



*"For Truth in Taxation
And Job Creation"*

The Prebate & Your Effective Tax Rate

What is the Prebate? It is a payment to all Michigan households of legal residents in the amount of what the sales tax would be for expenditures up to the poverty level. It is called a "prebate" rather than a rebate because it is paid at the beginning of the month in advance of expenditures, rather than a rebate which is paid after expenditures are made. The prebate amount is determined by the number of people in a household, not household income. All that is required is for the head of each household to identify those that reside in the household with valid Social Security numbers, similar to what is required on today's income tax form.

What does it do? The prebate completely untaxes the truly poor and generally reduces the effective tax rate of lower and middle income Michigan residents. By eliminating taxes on spending up to the poverty level for all households it lowers the total tax burden of each household so that the household's effective tax rate is less than the sales tax rate paid on purchases. Because the prebate is the same dollar amount for similar sized households the effective tax rate can be very different for different households. The prebate will completely offset the sales taxes of a household that spends at the poverty level, giving that household a zero effective tax rate, but the same dollar prebate for a similar sized household that spends at millionaire levels will have an effective tax rate that approaches the full sales tax rate of 9.75%. In essence, the prebate causes the effective tax rate to increase as household spending increases. This results in a progressive tax system, similar to that which is caused by the personal exemption under today's Michigan income tax system.

The Beauty of the Prebate – It is fair, simple, easy to administer, and causes our representative form of government to function properly.

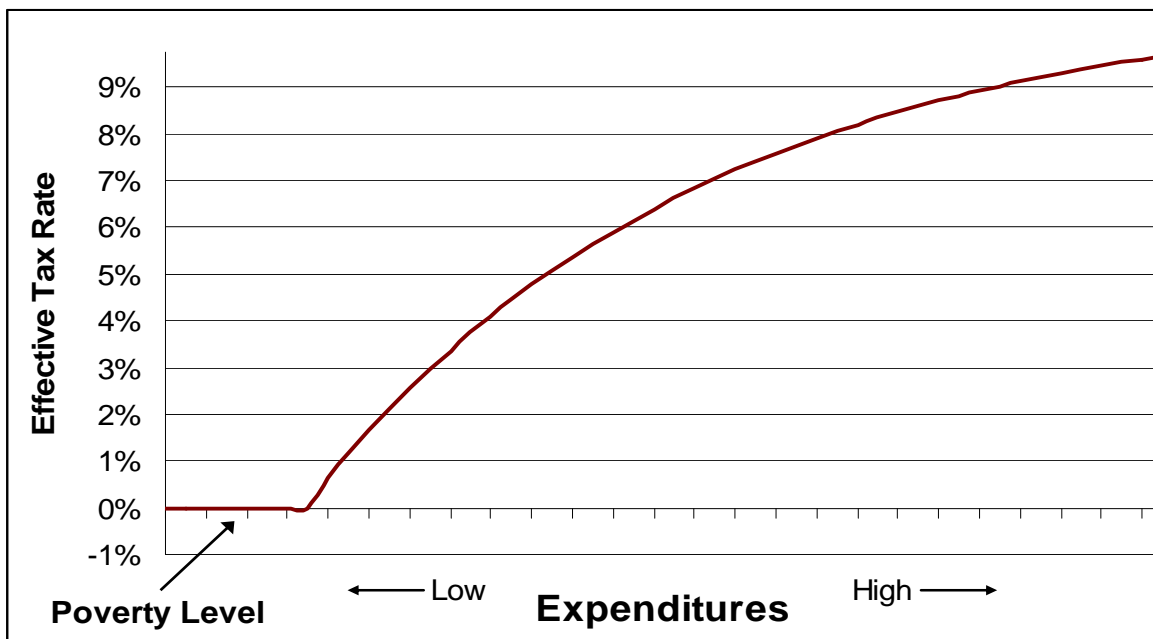
- **Fair:** Everyone is treated the same. Each household of the same size receives the same dollar amount and everyone pays at the same tax rate above the poverty level. Under today's sales tax, caviar and beans are both exempt, but the caviar purchaser receives a much greater dollar benefit.
- **Simple:** The prebate amount is based upon the federal poverty guidelines and the amount is clear for all Michigan residents. Because the prebate untaxes all necessities up to the poverty level there is no need for government to decide that some things are necessities and are to be exempt from the sales tax but other things are not exempt. If exemptions were allowed under the MI FairTax the new tax code would soon be just as complicated and unfair as today's tax system.
- **Easy to Administer:** Compared to the bureaucracy necessary to administer today's Michigan personal income tax and Michigan Business Tax (and all of its components), sending out electronic transfers to residents' bank accounts or bridge cards would be a simple task.
- **Promotes Representative Government:** Today's income and business taxes are riddled with loopholes and special exemptions due to extensive lobbying and granting of tax favors. Not only does the buying and selling of tax favors cause our tax system to be unfair and complicated, it disconnects legislators from their constituents. Rather than meeting with constituents to learn their desires and to ask for campaign contributions, our legislators and governor can more easily just talk with and receive money from lobbyists and special interests. The result is that we, the people, are no longer represented.

What is the poverty level and how much is the monthly "check"? The poverty level is determined annually by the federal government and the dollar amount depends solely on the size of the household. Table "A" below shows the poverty expenditure levels as the Family Consumption Allowance to be untaxed for various sized households and the dollar amount of the prebate each household would receive based on family size. Table "B" shows how the prebate causes the effective tax rate to increase as household spending increases.

Table A: **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

Table B: **Effective Tax Rates under the Michigan FairTax**



Because of the Annual Consumption Allowance in Table A and other untaxed expenditures, the effective sales tax rate paid gradually rises from 0% as expenditures rise as shown in table B. At high levels of spending the effective tax rate will increase and can approach the sales tax rate of 9.75%.

Taxable expenditures are always taxed at 9.75% when purchased, but the prebate reimburses each legal household for the amount of tax that would be paid on expenditures up to the poverty level (Annual Consumption Allowance). In addition to the prebate, many other expenditures from household income are not taxed under the Michigan FairTax.

Most used goods are not taxed because goods are to be taxed only once and that is at the initial sale to the end user. Tuition is not taxed under the MI FairTax because education is considered an investment rather than consumption. Insurance premiums are not taxed because the insurance industry pays a premiums tax. Savings, investments, gifts to charity and others, and taxes to federal and local government units are not taxed because they are not for personal consumption of the household. Transfers such as loan, car or mortgage payments are also not taxed as those would be taxed at the point of purchase and part of your average annual consumption.

Determine the MI FairTax and effective tax rate you will actually pay by completing the next page.

To estimate your tax and effective tax 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.*)

Gross Income	(\$50,000)	
Spending not taxed by MI FairTax:		
1 Social Security, Medicare &		
Federal Income Tax	(\$7,000)	
2 Tuition (K-12, college, vocational)	(\$0)	
3 Savings and investments	(\$1,000)	
4 Purchases of exempt used items	(\$500)	
5 Charity and house of worship	(\$1,000)	
6 Cash gifts to other households	(\$500)	
7 Taxes (property, other local taxes)	(\$2,000)	
8 Insurance payments	(\$3,000)	
TOTAL, lines 1-8 (non-taxed spending)	(\$15,000)	
Subtract non-taxed total from gross income [\$50,000 – \$15,000]	(\$35,000)	
		Taxable expenditures before Prebate
Spending un-taxed by prebate (Annual Consumption Allowance)*	(\$22,050)	
*Find your household size in Table A above to see what your Annual Consumption Allowance is and enter that amount on this line.		
Taxable expenditures after prebate [\$35,000 – \$22,050]	(\$12,950)	
Tax amount you will pay [\$12,950 x tax rate of 0.0975]	(\$1,263)	
Your Effective Tax Rate [\$1,263 / \$50,000]	(2.5%)	

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

The MI FairTax is more difficult to enact as it requires a constitutional amendment to raise the sales tax rate, but it will then constitutionally provide better representation and protection to the people. The current buying and selling of tax favors between special interests and elected officials, that today corrupts our representative form of government, will cease and our elected representatives will once again be responsible to citizens rather than tax lobbyists and special interests. The MI FairTax will also constitutionally prohibit the reintroduction of the income tax and the Michigan Business Tax and the introduction of any new state tax or increase of the FairTax rate without a vote of the people.

Occasionally folks make erroneous comments about the MI FairTax. It's likely not that they are ignorant; it's just that what they know isn't so. Actual facts on the MI FairTax are available at: www.mifairtax.org.

On the following page are examples for a family of four with gross annual income from \$22,050 (current poverty level) to \$1,000,000 to provide an estimate of what families would pay under the MI FairTax at various income levels.

Who Pays What Under the 9.75% MI FairTax

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 or business state tax returns, except for retailers' sales tax returns. The calculations below are only provided so Michigan residents can see what they will pay for comparison with what they are currently paying.

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.

Gross Income	\$22,050*	\$50,000**	\$100,000	\$300,000	\$1,000,000
Spending not taxed by MI FairTax***	-6,187	15,088	42,513	151,174	492,331
Spending un-taxed by Prebate (Annual Consumption Allowance)	<u>-22,050</u>	<u>22,050</u>	<u>22,050</u>	<u>22,050</u>	<u>22,050</u>
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
Effective Tax Rate (Divide Net Taxes Paid by Gross Income)	(2.7%)	2.5%	3.5%	4.1%	4.7%

* \$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, purchases of exempt used items, charity and house of worship, cash gifts to other households, taxes (property, excise, other taxes), and insurance payments. These un-taxed items are likely understated in the examples above so the effective tax rates are likely overstated for most households. [To view the amounts assumed for these items in the calculations above click here.](#)