

The FairTax Act of 2021

H.R. 25

Key Points Summary



Including
2021 Family Consumption Allowance and Rebate Schedule
and
A Bullet Briefing Guide

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Key Points Summary

FairTax Act of 2021

GENERAL

- The FairTax is a proposed national sales tax (hereafter 'sales tax') introduced to the 117th Congress in House of Representatives' (hereafter 'House') bill, H.R. 25, short titled, *FairTax Act of 2021*. If enacted, it would become effective 1 January 2023. (Note: The current bill incorrectly states the year of the effective date as 2021, which should read 2023.)
- The FairTax Act was first legislatively introduced in 1999 to the 106th Congress by Representative John E. Linder (sponsor), District 7, Georgia. Upon its introduction, it had equal bipartisan sponsorship with 2 Republicans and 2 Democrats. In 2003, Senator Saxby Chambliss, Georgia, introduced a companion version of the bill to the Senate, which was identical to the House bill. The FairTax bill has been reintroduced to every new Congress since 1999 where it continues to gain increasingly greater numbers of co-sponsors. Unfortunately, it has remained confined to the House Committee on Ways and Means, which must vote it out of committee before a vote can be executed in the House. From the House, it would go to the Senate for a vote and, if passed, to the President for approval and enactment.
- The sales tax would replace all Federal income, payroll, self-employment, alternative minimum, capital gains, estate, gift, and corporate taxes.
- U.S. Code Title 26 - Internal Revenue Code, Subtitle A (Income Taxes), Subtitle B (Estate and Gift Taxes), Subtitle C (Employment Taxes), and Subtitle H (Financing of Presidential Election Campaigns) would be repealed in their entirety and replaced with "Subtitle A - Sales Tax."
- The legislation does not eliminate other forms of Federal taxation (tariffs, duties, imposts, excises, etc.) or direct changes to Federal expenditures except defunding the IRS within 3 years (after the effective date).
- All taxable properties and services would be assessed the sales tax once and only once.
- A sales tax rate has been selected that will produce, mathematically, a revenue neutral result, meaning it will collect a net revenue amount equal to the combined net result of those taxes it replaces.
- The initial sales tax rate will be 23% inclusive, which yields, approximately, a 30% exclusive rate.
 - Inclusive Rate = Sales Tax Amount / Property or Service Price + Sales Tax Amount.
 - Exclusive Rate = Sales Tax Amount / Property or Service Price.
 - The 'inclusive' term, among other reasons, is used to maintain continuity with the rates applied to the taxes replaced by the sales tax, i.e., a 25% marginal income-tax rate is an inclusive rate that yields a 33.3% exclusive rate.
- The term 'gross amount' means the property or service price, plus the sales tax amount. The gross amount can be accurately calculated as: Product or Service Price x (1 + (.23 / (1-.23))).

- The sales tax will be assessed on the use (consumption) of all new tangible properties, some intangible properties, and all services purchased in or imported to the United States, the District of Columbia, and the commonwealths, territories, and possessions of the United States (hereafter referenced collectively as the 'United States' or 'States'). (See the bill for intangible exclusions.)
- The purchase of properties and services, either domestically produced or imported into the United States, may be exempted from assessment of the sales tax if the purchase is for a trade or business (including research, testing, experimentation, and development), a government enterprise, an investment, educational services, not-for-profit organizations, and purchases by insurers for the insured who paid the sales tax inclusive to their insurance premiums. (Refer to the bill for exemption qualification requisites.)
- The sales tax liability for barter transactions is the same as if a transaction had been made with a monetary instrument. (This would be true as well for any crypto currency such as bitcoin.)
- Generally, only new properties and all services consumed for personal use or, in some cases, government use, are taxed while used properties meeting the definition of 'used' as described below are not taxable.
 - A used property is one for which the sales tax has been paid subsequent to the effective date of the sales tax, or it can be any property purchased before the effective date of the sales tax and that was used for other than a business purpose.
- The sale of a property for personal consumption that was being used in a business before the effective date of the sales tax, or the sale of a property used in a business after the sales tax effective date and for which the sales tax was not paid or a credit taken, will require remittance of the sales tax based on the fair market value (FMV) of the property.
- Properties purchased abroad and imported into the United States for personal consumption (not for a trade or business) are exempt from the assessment of the sales tax where the purchase of the properties do not collectively exceed an annual (calendar year) amount of \$400 (De Minimis Payment).
 - Any properties imported for personal consumption that collectively exceed an annual total of \$400 will have the sales tax assessed on the purchase price or, if unknown, the FMV of the imported property.
- Casual or isolated sales not connected with a trade or business can annually (calendar year) exempt up to \$1,200 in sales (De Minimis Sales).
- The sales tax is a 'destination principle tax,' meaning it will be collected by (or for) the State in which the properties or services are first delivered, located, or consumed.
- The person purchasing a taxable property or service is liable for the sales tax, but that liability ceases when the sales tax is paid to the seller and the purchaser is provided a receipt indicating the payment.
- Government entities not qualifying as a 'government enterprise,' and private employers who are the final consumers of an employee's services, such as employers of domestic servants, are deemed 'taxable employers.' As such, the employer is responsible for remitting the sales tax at the 'exclusive tax rate' for services rendered to them by their respective employees.

- Government employees of government enterprises and government employees providing ‘direct educational services’ to the public (i.e., teachers, instructors, and professors) are excluded from the taxable employer assessment.
- The ‘Combined Federal Tax Rate Percentage’ will be sum of the general revenue rate (fixed at 14.91%), the Old Age Survivors and Disability Insurance (OASDI) rate (6.31%), and the Hospital Insurance (HI) rate (1.78%). OASDI is the Federal term for Social Security and HI is the Federal term for Medicare.
 - The sum of the General Fund rate, the OASDI Fund rate, and the HI Fund rate equals the sales tax rate, 23% for 2023. The sales tax rate for OASDI and HI are designed to collect the same amount of revenues as currently collected through payroll taxes.
- The sales tax revenues remitted to the U.S. Treasury will be allocated for tax year 2023 as follows: 64.83% General Fund; 27.43% OASDI; and 7.74% HI and Federal Supplementary Medical Insurance.
 - For every \$1 collected in sales tax revenues, approximately \$.65 will go to the General Fund, \$.27 to OASDI, and \$.08 to HI.
- The Internal Revenue Service (IRS) will be replaced and defunded within 3 years after the effective date of the sales tax. Replacing the IRS will be a ‘Sales Tax Bureau’ responsible for Federal administration and oversight of the revenue system. In addition to the Sales Tax Bureau, an ‘Excise Tax Bureau’ will also be added to administer excise taxes not under the authority of the Bureau of Alcohol, Tobacco and Firearms (ATF).
- The sales tax will be administered, principally, by a ‘Sales Tax Administering Authority’ (hereafter ‘administering authority’) within an ‘Administering State,’ which is a State with an existing State sales tax. States without a State sales tax may contract with another Administering State to administer the tax or defer to the Secretary of the U.S. Treasury (hereafter ‘Secretary’) for administration of the tax. Administering States failing in their responsibilities may have their authority temporarily revoked and the Secretary assume the administering responsibilities until the revocation is terminated.
- The bill contains a ‘Sunset Clause’ mandating that all provisions of the FairTax Act, and any subsequent amendments to it, be eliminated if the 16th Amendment to the U.S. Constitution is not repealed by the 7th year after the date of enactment of the FairTax.

FAMILY CONSUMPTION ALLOWANCE (FCA) AND REBATE

- To reduce the regressive effects of a sales tax, a rebate (aka ‘prebate’) is issued on or before the first business day of each month to legally residing individuals or families having annually, and voluntarily, registered for the rebate with their administering authority. (See attached FairTax Rebates Schedules) The rebate is available to all ‘legal residents’ which, in effect, replaces tax deductions, exemptions, and credits that are normally associated with income-based taxes.
 - The rebate is paid in amounts based on family size (or to an individual) and is not affected by the family’s or individual’s actual income or expenditure amounts.

- A qualified rebate recipient must have a valid Social Security number, be a lawful resident of the U.S., not be incarcerated, and meet all other legal dependency qualifications for an individual or lineal family member.
- The monthly rebate amount is calculated from the 'Poverty Guidelines' published annually by the Department of Health and Human Services (DHHS). There are three geographically focused charts, one each for the 48 contiguous States, Alaska, and Hawaii.
 - The monthly rebate calculation for the single adult household begins by, first, identifying the geographically applicable DHHS poverty-guideline chart. Next, identify the number of qualifying individuals in the household and the 'poverty guideline' amount identified with that number. This amount equals the annual FCA for the individual or family. The annual FCA is then divided by 12 to determine the monthly FCA. The monthly amount is then multiplied by 23% (0.23) to determine how much sales tax would be inclusive to purchases if the entire amount were expended on taxable properties and services. The resulting product from the former computation is the amount to be rebated monthly to the individual or family. Families with numbers more than 8 will multiply the extra numbers of family members by the incremental amount listed for additional persons in the chart. This product is added to the poverty guideline for 8 people to reveal the total annual poverty guideline and the equivalent FCA. The monthly FCA and rebate for is then computed as stated above.
 - The FairTax Act removes the marriage penalty inherent to the DHHS Poverty Guidelines, thus increasing the FCA and subsequent rebate amount to married couples.
 - The monthly rebate calculation for a married couple begins by, first, identifying the geographically applicable DHHS poverty-guideline chart, which is the same as used for a single-adult household. Next, multiply the amount identified for one individual in the household by 2, which doubles the poverty guideline amount that was identified for a single adult. This calculation eliminates the marriage penalty. Next, multiply the number of additional household members by the incremental amount listed on the chart for households with numbers greater than 8. Add the product of the foregoing computation to the previously computed amount for 2 adults to arrive at the total annual FCA for the family. The monthly FCA and monthly rebate is then computed as provided in the single adult computation.
- The monthly rebate will eliminate the sales taxes inclusive to the gross amount for purchases that are equal to or less than the monthly FCA (poverty guideline amount). Therefore, every qualifying individual or family, and regardless of income, has a zero percent, or less, annual effective tax rate until the gross amount of their taxable purchases exceeds their respective annual FCA.
- The rebate will be issued by the Social Security Administration via a 'Smart Card' or a direct electronic deposit to the account of the individual or individuals (split distributions) designated for receipt of the rebate within the lineal family. Rebate recipients must be 18 years of age or older.

ADMINISTRATION

- The States will be offered the opportunity to administer and enforce the sales tax as an 'Administering State,' which is a State with a State sales tax and who have a 'Sales Tax Administering Authority.'
- Administering States will be authorized to retain 0.25% of all the sales tax revenues they collect as an 'administration fee' for services rendered.

- States that are not Administering States may contract with another Administering State to act as their administering authority, but only as authorized by the Secretary.
- The Secretary will otherwise administer the sales tax in those States that are not Administering States.
- Administering States will have 5 days from the receipt of remitted sales taxes to remit the same to the U.S. Treasury.
- A State sales tax imposed with the same definition for taxable properties and services as that defined for the national sales tax will be recognized as a 'Conforming State Sales Tax.'
- States with a Conforming State Sales Tax, and that have entered into a conforming agreement with the Secretary, will be able to collect State sales taxes from sellers in any State who sell products and services to consumers in their conforming State. In other words, products and services sold by sellers in one State, as with internet sales, will be required to collect State sales taxes for their sales to consumers in a conforming sales tax State. (Similar to the collection of State sales taxes today that occur consequential to interstate sales.)
- The Secretary is authorized to maintain a program of awards for payment to those individuals assisting the Secretary in the discovery or prosecution of persons committing tax fraud.
- In tax disputes, the burden of document production and records falls upon the person in dispute with the Secretary or the administering authority, but the burden of persuasion rests with the Secretary or the administering authority.
- In tax disputes, the person engaged in the dispute with the Secretary or administering authority shall be entitled to reasonable attorneys' fees, accountancy fees, and other professional fees incurred unless, the Secretary or administering authority establishes that their position was reasonably justified.
- The FairTax bill contains a detailed listing of potential tax reporting and remitting violations and the penalties, both criminal and civil, that may be imposed consequential to violations of the tax laws.

BUSINESSES

- Businesses will register (Registered Seller) with their administering authority and receive an 'Intermediate and Export Sales Certificate' with a 'Vendor Registration Number.' The certificate and registration number will be used to exempt the registered seller from paying the sales tax on products and services purchased to produce their respective products or services (these are intermediate sales also addressed as business-to-business sales).
- All sales, except as identified otherwise herein, shall include a receipt to the customer that reflects the property or service price exclusive of the sales tax, the amount of tax paid, the gross amount paid, the inclusive tax rate, the date of the sale, the vendor's (company) name, and the vendor's registration number.
- Vending machines dispensing individual items priced less than \$10 are not required to provide a receipt to the purchaser. However, the sales tax will be inclusive to the vending price of the product and remitted by the vendor to the administering authority the same as with any other retail sale.

- A registered seller collecting less than \$20,000 in tax revenues in any of the previous 12 months is designated a 'small seller.'
- A registered seller collecting \$100,000 or more in sales tax revenues during any of the previous 12 months is designated a 'large seller.'
- All registered sellers of properties and services must submit a report by the 15th of each month indicating the gross payments received in the previous calendar month, taxes collected, any credits, and all other information that may be required by the administering authority or Secretary.
- All sellers that are not small sellers (collecting annual sales taxes in excess of \$20,000) shall maintain at their expense, if any, a separate segregated account (bank or other financial institution) for the purpose of depositing collected taxes which will subsequently be retrieved from the account by the administering authority.
- All sellers that are not large sellers (annually collecting less than \$100,000 in sales taxes) must remit collected taxes to the administering authority (directly or via the separate segregated account) by the 15th day of the month following the month in which the tax is collected.
- Large sellers shall remit collected taxes to the separate segregated account on the first business day following the previous calendar week in which the revenues were received.
- Large sellers will be required to keep a security for taxes in the form of a cash bond, a bond from a Secretary-approved surety company, a certificate of deposit, or a U.S. Treasury or State Bond. The security will be in an amount that is the greater of \$100,000 or 1.5 x the average monthly tax liability as calculated from the sum of the previous 6 months of collected tax revenues.
- Financial intermediation service providers (banks, mortgage companies, credit card companies, insurance companies, brokerage firms, etc.) will collect and remit taxes for both explicitly and implicitly charged fees.
 - The sales tax on explicit fees (deposit boxes, closing costs, account manager fees, loads, sales commissions, etc.) will be assessed on the amount of the explicit fee.
 - Implicit fees are servicing fees typical to debt obligations (loans) and interest-bearing investment (savings) accounts. The implicit fees for debt obligations are typically included in the periodic loan payment. The fee is inclusive to the percentage rate charged for the debt obligation. Implicit fees for interest-bearing investment accounts typically result in a reduced interest rate paid to the interest-bearing account holder.
 - The sales tax for implicit fees, those inclusive to debt obligations, will be assessed on the difference in the monetary amount resulting from the interest rate charged by the financial intermediation service versus the amount that would have occurred from the application of the 'basic rate,' which is the 'applicable' Federal short-, mid-, or long-term interest rate. (Note: Basic rate and applicable rate as used in the bill are the same.) The tax would, typically, be assessed monthly and calculated as follows: $((\text{Debt Interest Rate \%} - \text{Applicable Fed Rate \%}) \times \text{Principal Balance}) / 12) \times 0.23$. The implicit fees and consequential sales tax would be inclusive to the monthly loan payment which, in effect, parallels implicit fees charged under an income-based tax system inclusive of embedded taxes. (Refer to the bill

for information specific to the methods for determining sales taxes assessed on imputed fees consequential to adjustable rates and other creative financing offered by financial intermediation service providers.)

- The sales tax is not assessed on interest bearing (savings) accounts where the interest paid exceeds the applicable Federal short-, mid-, or long-term rate. However, were a financial intermediation service to offer a lower interest rate than the applicable Federal interest rate, then the service provider would have to remit a sales tax on the amount resulting from the difference in the rates. Imputed fees for interest-bearing savings or investment accounts are computed as follows: $((\text{Applicable Fed Rate \%} - \text{Interest Rate Paid}) \times \text{Principal Balance}) / 12) \times 0.23$, likely, resulting in a negative number.
- Statements provided by financial intermediation services to the consumer on a frequency of quarterly or less may, in lieu of a receipt, defer to those statements to reflect the taxes paid by the consumer for the last reporting period.
- Businesses (including the self-employed) shall continue reporting earnings for their employees (up to \$5,000 for tips) to the Social Security Administration for the accumulation of individual benefit credits.
- Price discounts extended to employees or their family members for properties or services that exceed 20% of the amount extended to the general public will be assessed the sales tax on the amount over 20%. This in addition to the remaining balance for the price of the property or service.
- The substance of a transaction will prevail over its form if the transaction has no bona fide economic purpose and is designed to evade the sales tax. In other words, giving something (form) to someone that serves more to a personal consumption than a business purpose (substance), then it is a taxable item and not a bona fide business expense.
- Gross income to foreign entities arising from the sale or lease of properties or services in the United States will be taxed and deducted from the gross amount of payments, excluding any taxes applicable to portfolio debt investments or where such action is contrary to Tax Treaty agreements.

GAMING

- A chance (wager, bet, lottery ticket, etc.) alone is not a taxable property or service.
- Taxable gaming services are defined as the 'gross receipts' from the sale of chances minus the sum of total gaming payoffs and any other gaming specific taxes imposed by the Federal, State, or local governments.
- A 23% tax (inclusive) will be assessed on the gross receipts of gaming services and payable to the administering authority by the 15th day of the month following the month in which the taxable services were provided.

EXCLUSIONS AND EXEMPTIONS

- No tax shall be imposed on any taxable property or service purchased for a business purpose in a trade or business including that which is used for research, experimentation, testing and development.

- No tax will be assessed on the tuition applicable to qualifying primary, secondary and postsecondary educational services, or job-related training services.
- The taxable employer assessment will not be imposed on the payroll amounts for government employees providing 'direct' educational services (to the public).
- No sales tax shall be imposed on taxable properties or services purchased for an investment purpose and held exclusively for appreciation or the production of income and entailing no more than minor personal efforts.
 - Example 1: A developer builds a mall and then leases spaces in the mall to retail sellers. In this case, the mall construction is an investment and produces income to the developer (with minimal continuing effort). The developer is then exempt from taxes on the construction and the income produced from the leasing of mall spaces. This is because the retailers who lease the spaces in the mall and who sell taxable products and services, will, in effect, collect all the applicable taxes from their customers to cover the mall construction and the subsequent leasing costs (developer's income included) to the retailers. This eliminates embedded and cascaded taxes that otherwise would result were the developer and the lessees assessed the tax.
 - Example 2: An individual (lessor) purchases a new or used home for the purpose of investment and the production of income (rent or lease). To purchase a new or used home, and to make future purchases to maintain the home exclusive of the sales tax, will require the lessor to become a registered seller and obtain a vender registration number. (Though the used home has no sales tax assessed upon it, the closing costs and other fees would be taxed if purchased for personal consumption.) The lessor will also be required, monthly, to report and remit 23% of the rental fee (gross amount) from the lessee to the administering authority. The lessor shall also be eligible for the credits and refunds described herein. If the lessor sells to a consumer for personal use what was a new home purchased after the effective date of the sales tax, or a used home purchased before the effective date of the sales tax, then the sales tax shall be assessed on the sale of the home at the FMV of the home on the date of the sale. (The FMV would normally be the sale price unless, the administering authority finds there was some attempt at tax evasion or tax avoidance involved in the sale.)
- No tax shall be imposed on State government functions that do not constitute the final consumption of property or services (Intergovernmental Immunity).
 - This does not exclude the Federal Government from taxing the services provided by an individual to any government. Example - The service provided by an individual to the municipal police department as a police officer is taxable by the Federal Government, but the service of the police department to the public is not taxable by the Federal Government (intergovernmental immunity). Thus, the police department is a taxable employer and the sales tax is assessed on the payroll of the police department.
- No Tax shall be imposed on intangible property (excluding rents or leases of any term and computer software) deemed intangible at common law. Where differences exist among the States, the Secretary shall, by regulation, resolve the differences.
- A 'De Minimis Payment' clause allows for up to \$400 in individual purchases in a calendar year that may be imported and consumed by the same person, but not in connection with a trade or business.

- A 'De Minimis Sale' clause allows for the receipt of up to \$1,200 in a calendar year that is not received in connection with a trade or business, but for casual or isolated sales.
- A 'De Minimis Sale of Financial Intermediation Services' clause provides a \$10,000 gross payment exemption (\$2,300 sales tax exemption) on the sale of financial intermediation services, but only to those sellers not deemed to be a 'large seller.'

CREDITS AND REFUNDS

- The 'Business Use Conversion Credit' provides a means to recoup a portion of the taxes paid for a property or service formerly used for personal consumption that is subsequently transitioned for use in a trade or business.
 - The reverse applies, too, for any property or service converted from a business use to a personal consumption, which will require the sales tax to be assessed on the product or service, likely at the FMV.
- The 'Mixed Use Property or Services Credit' can be claimed for that portion of a property or service used for both personal consumption and business use.
- The 'Intermediate and Export Sales Credit' is used to exclude remitting taxes on items sold for business use (business-to-business sales) or for items exported for consumption outside the United States.
- The 'Administration Credit,' like that rendered to Administering States, rewards (retail) businesses that promptly report and remit taxes with a credit amounting to the greater of \$200 or 0.25% of the taxes to be remitted, but no more than 20% of the amount of taxes due before the application of any credit.
- The 'Bad Debt Credit' provides a means to recoup that portion of taxes remitted by a business for a purchase upon which the buyer fails to remit the balance of payments (generally in arrears more than 180 days).
- The 'Insurance Proceeds Credit' is available to either the insurer (insurance company) or the insured for the amount of tax that would be inclusive to the amount of the benefit paid to, or on behalf of, the insured. This credit is for policies in which the sales tax was paid inclusive to the insurance premiums.
 - In other words, the insurer can pay the insured a reduced benefit amounting to 77% of the total benefit and the insured report a credit for the tax amount, or the insurer can pay the insured the full benefit and the insurer claim the credit. In both cases, the premiums paid for the benefit must have included the sales tax.
 - If properties or services are purchased by the insurer for the insured, and the sales tax is not paid for those purchases (for example, a windshield replacement by the insurer using an intermediate sales tax exemption), then neither the insured nor the insurer may claim the credit.
- The 'Transitional Inventory Credit' is applicable for the first year after the effective date of the sales tax. It may be used by the retail seller for all properties in 'inventory' or 'work-in-progress' and until such inventory or work-in-progress is either sold or the year has expired.

- This credit allows the retailer, and immediately after the effective date of the sales tax, to continue selling properties that are a work-in-progress or in inventory at the same price before the effective date of the sales tax. In other words, the seller, in their monthly report, will state the sales tax on the sale of affected properties and then, take a credit for the same sale which results in a zero monetary transaction and at no additional cost to the consumer or seller.
- Registered sellers and other persons making an overpayment of the sales tax may apply for a refund in a form to be provided by the administering authority.

GOVERNMENTS (Federal, State and Local)

- All governments, excluding those entities designated a government enterprise, will pay the sales tax on the purchases of taxable properties and services.
- A government enterprise is an agency of any government that provides properties and or services for which the consumer (public or other government agency) renders a payment. The U.S. Post Office, local government utility services, and parks operating on a pay-as-you-go fee are examples of government enterprises.
- Government enterprises will collect the sales tax on the sale of properties and services and enjoy the same exemptions, credits, and refunds extended to a commercial trade or business.
- To maintain government enterprise status and enjoy trade and business benefits, the enterprise must receive, in any quarter, more than \$2,500 in sales taxes (\$10,870 gross amount with a 23% tax rate).
- Government enterprises will be required to keep separate books of account and maintain them in accordance with Generally Accepted Accounting Principles (GAAP).
- Subsidies transferred to any government enterprise shall be assessed the sales tax, less the FMV of any consideration (consideration is an item given in exchange).
- Purchases from a government enterprise by a government entity that is not a government enterprise shall include the sales tax. Examples: The State Department will pay the sales tax on the purchase of stamps from the U.S. Post Office and local governments would pay sales taxes for using public utilities.
- Transfers of properties and services from a government enterprise to a non-enterprise government agency, and upon which the sales tax was not previously paid by the enterprise, will require the tax to be assessed on the property or service at the FMV and the revenues remitted to the U.S. Treasury.
- The sales-tax (exclusive rate) will be assessed on the payroll of all government employees for services rendered to the government (taxable employer), excluding those payroll amounts for government enterprise employees and educators providing 'direct' educational services (to the public).

SOCIAL SECURITY

- All employers and the self-employed are required to report employee wages and self-employment income to the Social Security Administration for the accumulation of benefit credits.
- Tips in an annual amount not to exceed \$5,000 may be reported for the accumulation of benefit credits.

- If, after the effective date of the sales tax, the computation of the Consumer Price Index (CPI) does not include the sales tax in either the base or cost-of-living quarter, then the quarter omitting the tax will have the computed CPI multiplied by, $1 + (.23/(1-.23))$, which represents the 'CPI increase percentage'. This will also provide, in the first cost-of-living quarter after the effective date of the sales tax, a sales tax inclusive CPI to be compared with a non-sales tax inclusive CPI from the base quarter prior to the effective date of the sales tax.

NOT-FOR-PROFIT ORGANIZATIONS

- Qualified not-for-profit organizations will enjoy tax exempt benefits similar to those allowed under the current tax system and typical to State sales taxes today.
- Not-for-profit organizations meeting applicable qualifications will be issued a 'qualification certificate,' which may be used to make sales-tax-exempt purchases to operate, maintain, and provide the not-for-profit qualifying services of the organization.
- Taxable properties or services provided by a qualified not-for-profit in connection with contributions, dues, or other similar payments will be treated as the provision of a taxable property or service. In such cases, the sales tax will be imposed on the property or service at the sale price or FMV of the product or service. Example: A not-for-profit organization whose tax-exempt purpose is to feed children gives a hat to those who donate to the organization. When the organization buys the hats for its contributors, the organization will pay the sales tax on the purchase of the hats, which is a taxable item that is provided outside the organization's qualifying tax-exempt function.

HOBBIES

- Hobbies become a taxable business when sales from the hobby exceed the sum of taxable purchases, wages or salaries paid, and the addition of any taxes paid for the hobby in any 2 or more of the 3 most recent calendar years.

CONCLUSION

- To gain a more thorough understanding of the FairTax and the details not addressed in this overview, please refer to the 132-page bill available in multiple formats at www.congress.gov. On the website homepage type into the search bar, H.R. 25.

2021 FAMILY CONSUMPTION ALLOWANCE AND REBATE SCHEDULES

48 States	1 Adult FCA	Annual Rebate	Monthly Rebate		2 Adult FCA	Annual Rebate	Monthly Rebate
1 Adult	\$12,880	\$2,962	\$247	2 Adult	\$25,760	\$5,925	\$494
+1	\$17,420	\$4,007	\$334	+1	\$30,300	\$6,969	\$581
+2	\$21,960	\$5,051	\$421	+2	\$34,840	\$8,013	\$668
+3	\$26,500	\$6,095	\$508	+3	\$39,380	\$9,057	\$755
+4	\$31,040	\$7,139	\$595	+4	\$43,920	\$10,102	\$842
+5	\$35,580	\$8,183	\$682	+5	\$48,460	\$11,146	\$929
+6	\$40,120	\$9,228	\$769	+6	\$53,000	\$12,190	\$1,016
+7	\$44,660	\$10,272	\$856	+7	\$57,540	\$13,234	\$1,103
>7 add	\$4,540	\$1,044	\$87	>7 add	\$4,540	\$1,044	\$87
Alaska							
1 Adult	\$16,090	\$3,701	\$308	2 Adult	\$32,180	\$7,401	\$617
+1	\$21,770	\$5,007	\$417	+1	\$37,860	\$8,708	\$726
+2	\$27,450	\$6,314	\$526	+2	\$43,540	\$10,014	\$835
+3	\$33,130	\$7,620	\$635	+3	\$49,220	\$11,321	\$943
+4	\$38,810	\$8,926	\$744	+4	\$54,900	\$12,627	\$1,052
+5	\$44,490	\$10,233	\$853	+5	\$60,580	\$13,933	\$1,161
+6	\$50,170	\$11,539	\$962	+6	\$66,260	\$15,240	\$1,270
+7	\$55,850	\$12,846	\$1,070	+7	\$71,940	\$16,546	\$1,379
>7 add	\$5,680	\$1,306	\$109	>7 add	\$5,680	\$1,306	\$109
Hawaii							
1 Adult	\$14,820	\$3,409	\$284	2 Adult	\$29,640	\$6,817	\$568
+1	\$20,040	\$4,609	\$384	+1	\$34,860	\$8,018	\$668
+2	\$25,260	\$5,810	\$484	+2	\$40,080	\$9,218	\$768
+3	\$30,480	\$7,010	\$584	+3	\$45,300	\$10,419	\$868
+4	\$35,700	\$8,211	\$684	+4	\$50,520	\$11,620	\$968
+5	\$40,920	\$9,412	\$784	+5	\$55,740	\$12,820	\$1,068
+6	\$46,140	\$10,612	\$884	+6	\$60,960	\$14,021	\$1,168
+7	\$51,360	\$11,813	\$984	+7	\$66,180	\$15,221	\$1,268
>7 add	\$5,220	\$1,201	\$100	>7 add	\$5,220	\$1,201	\$100

FairTax Briefing Bullets

The FairTax, a proposed national retail sales tax, was introduced to the 117th Congress in House Bill H.R. 25.

The bill, first submitted in 1999 and now titled *FairTax Act of 2021*, was reintroduced by Rep Earl Carter, Dist. 1, GA.

The bill has more congressional sponsorship than any other proposed tax replacement measure; 18 as of 1 Mar 2021.

The FairTax is the result of a \$20 million research project by Americans For Fair Taxation to identify a better tax system.

The FairTax is endorsed by distinguished university and business economists including Nobel Laureate Vernon Smith.

The tax replaces income, payroll, self-employment, alternative minimum, capital gains, estate, gift, and corporate taxes.

The sales tax is imposed on purchases of new properties, previously tax exempt or credited properties, and all services.

The tax is not imposed on previously taxed (used) properties, including non-business purchases before tax enactment.

The tax is not imposed on qualifying purchases of properties and services made by qualifying non-profit organizations.

The tax is not imposed on business-to-business sales, exports, or qualified educational and job-related training services.

The sales tax is imposed on government purchases, excluding those intermediate purchases for government enterprises.

The tax is imposed on government payrolls excluding government enterprises and direct educational service providers.

To achieve revenue neutrality with the taxes it replaces, the tax rate has been set at 23% inclusive, 30% exclusive.

The sales tax revenue allocation in 2023 would be \$.65 general fund, \$.27 OASDI, and \$.08 HI and Fed Sup Med Ins.

To reduce the regressive effect of consumption taxes, a monthly tax rebate is available to legally residing residents.

The rebate produces a 0% (or less) effective tax rate for taxable purchases in amounts up to the respective poverty level.

The tax is intended to be administered, enforced, and collected from businesses by State administering authorities.

States electing to be administering authorities are authorized to retain 0.25% of collected revenues for services rendered.

The IRS is replaced by a small sales tax bureau and an excise tax bureau to administer excises not under ATF authority.

Tax filings are reduced from 180+ million individuals and businesses to approximately 30 million businesses alone.

Individual tax compliance costs, both time and money, are eliminated; business compliance costs significantly reduced.

Businesses timely reporting and remitting taxes are authorized to retain up to 0.25% of revenues before applying credits.

Social Security purchasing power is protected with a 'CPI Increase Percentage' to identify impacts from the sales tax.

Repeal of the estate tax eliminates costly estate-tax planning and insurances and saves family farms and businesses.

Repeal of gift tax allows the people to give, tax free, a gift of any instrument to anyone, at any time, and in any amount.

The bill sunset clause requires repeal of 16th Amendment within 7 years else, the sales tax and provisions are repealed.

Achieves all 7 tax-effectiveness features: simple, fair, visible, neutral, efficient, stable, least obstructs economic growth.

Only tax that can achieve all objectives identified for the best tax system in 115th Congress' *A Better Way* tax blueprint.

Everyone pays same sales-tax rate, all legal residents can receive rebate, and all enjoy benefits of no embedded taxes.