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Purpose: Initiate a Discussion and Exploration of a Proposal to Replace Indiana's Income Taxes and Retail Sales Tax with a State FairTax Model

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Overview

Bill HR-25, The FairTax Act of 2013 was first introduced to the United States Congress in 1999 and continues to be sponsored by a growing number of dedicated Representatives and Senators that believe FairTax is the only way to return liberty, personal freedom and the American Dream back to the American people. Currently, Congressman Marlin Stutsman IN-3 is the only Hoosier among the 84 co-sponsors in Congress. Also, during his terms in Congress Governor Pence was a FairTax co-sponsor.

FairTax at the federal government level is an uphill battle worth fighting for many reasons, but none more important than the abolishment of the Internal Revenue Service and all the corruption and intimidation associated with it. FairTax passage requires a simple majority in both House and Senate, and a President's signature. Although the present political climate in Washington D.C. provides little promise of success, FairTax is gaining strength and citizen support every time the IRS scandal is mentioned in the media.

If (when) FairTax becomes federal law it will have an immediate impact on the 42 States that administer a State income tax, especially the 36 States that depend on individual and business tax calculations found in Federal income tax returns for transferring data to the State income tax return. But the inconvenience is deeper than filling out a tax form; it is the sicological impact on citizens who become liberated from filing Federal income taxes but are still required to file State income taxes. Citizens will no doubt force State government officials to quickly rethink their State tax revenue systems in favor of consumption taxes.

Objectives of a FairTax Model implemented at the State level

1. Repeal all State taxes on income; State Income Taxes, Estate and Gift Taxes, Corporate Income Taxes, Capital Gains Tax, ATM, Investment and Dividend taxes. (Note: State Property Taxes assessed on personal and business property are not included in the FairTax Model).
2. Enact a Flat Rate Sales (consumption) Tax on all new products and services sold at the Retail level only.
3. No tax on used items that have already been taxed, and no tax on investments.
4. No tax on federal government consumption of goods and services in the State.
5. No Tax Deductions or Tax Exemptions except those mentioned above.
6. Pay Retailers to collect the tax, and provide legitimate business credits when required.
7. Provide a Monthly Tax Rebate based on family size and National Poverty Level (per HHS).

8 All family members must be legal residents of the State and have valid Social Security #s
9 Simplify the tax law; reduce the administrative costs and the cost of compliance.
10 Administer the tax law in a manner that respects privacy, due process, individual rights when interacting with the government, the presumption of innocence in criminal proceedings, and the presumption of lawful behavior in civil proceedings.

Academic Research of FairTax regarding the States

The FairTax Act HR-25 is the most researched piece of federal legislation in the history of our country. Among the many White Papers and independent studies is a 2007 report by Beacon Hill Institute in Boston, MA entitled "Fiscal Federalism: The National FairTax and the States" Economist David G. Tuerck, Ph.D. investigated the effects of FairTax on the States assuming the federal FairTax would become law first. Here are two important discoveries of the report as it relates to Indiana:

1 The States would retain ¼ of 1% of the taxes collected each month as payment for administering federal sales tax collection. In the year 2007 this would have totaled $106 million to Indiana. In that same year Indiana expensed $78 million to collect the State Sales Tax from the same Retailers that would collect the federal sales tax. Indiana and 24 other States would experience a surplus. The other 25 States would experience significantly lower tax collection costs.
2 The States with an existing Sales Tax that adopted the FairTax Model would experience little or no change in the current Sales Tax Rate. Example: In 2007 Indiana Sales Tax Rate was 6%. Based on 2007 tax conditions the FairTax Model Rate would have been 5.59%.

Much has changed over the last 7 years regarding Indiana taxes; the State Sales Tax Rate is now 7%, but the Property Tax rates are lower and the Estate Tax has been eliminated. 2007 tax revenues were $9.895 billion, 2013 were $17.0 billion. A review and update of the Beacon Hill report would be worth the investment to confirm a single rate State Sales Tax can fund the State Budget, plus provide Tax Rebates to its citizens, without administering any State Income Tax.

The Future of State Tax Systems

However, there is a greater possibility that one of the 50 States will adopt a FairTax Model before FairTax becomes Federal law. If (when) this happens it will undoubtedly spark a Tax Reform frenzy throughout the States. Why? Because the first State in each region of America to replace all State Income Taxes on personal and business with a State Sales Tax modeled after FairTax will attract the bulk of businesses in nearby States willing to move to gain low or no State tax liabilities. Even the so called "No Income Tax States" like Texas and Florida will need to adjust their State Sales Tax to the FairTax Model to compete.

What would happen to Indiana's economic growth if Michigan adopted the FairTax Model first?

South Carolina is the first State to seriously consider the FairTax Model. South Carolina House Bill H3116 "The South Carolina FairTax Act" was introduced in 2009-2010. It currently rests in the House Ways and Means Committee awaiting deliberation. It has 55 House co-sponsors. Point of reference: South Carolina's Sales Tax Rate in 2007 was 5%. Bill H3116 has a proposed Sales Tax Rate of 6%.

Summary

The principles of a consumption tax are found in our Federal and State Constitutions. For the first 125 years there were no permanent income taxes in America because the Constitution did not allow them. Alexander Hamilton wrote;

> "There is no method of steering clear of this inconvenience [taxes], but by authorizing the national government to raise its own revenues in its own way. Imposts, excises and, in general, all duties upon articles of consumption, may be compared to a fluid, which will, in time, find its level with the means of paying them. The amount to be contributed by each citizen will, in a degree be at his own option, and can be regulated by an attention to his resources."

With a consumption tax, everyone plays by the same simple rules, everyone is treated equally, everyone is included, and everyone knows. Collection efficiencies are greater and more predictable. Reporting is at a minimum, cheating is limited, and consumer tax evasion is extremely difficult.

The one undesirable aspect of a sales tax (regressiveness) is eliminated by the monthly tax rebate. (See Table 1) Studies at the federal level prove citizens in the lower end of the economy gain the most while those at the top of the scale gain less, but everyone including government gains something. The citizen is in control of the amount of tax they pay by the purchase choices they make.

Thank you for this opportunity to expose the possibilities of a FairTax Model in Indiana.

References

American for Fair Taxation (AFFT) www.fairtax.org Contains numerous studies, reports and white papers on the benefits and consequences of enacting FairTax in America.

"Fiscal Federalism: The National FairTax and the States" David G. Tuerck, Ph.D.
http://www.fairtax.org/site/DocServer/Fiscal_Federalism_-_The_National_FairTax_and_the_States.pdf?docID=801

South Carolina House Bill H3116 "The South Carolina FairTax Act"
http://legiscan.com/SC/bill/H3116/2013

Table 1

2014 Indiana FairTax Prebate Schedule (estimate)

One Adult Household

Family Size	Annual Consumption Allowance	Annual Prebate Amount	Monthly Prebate
one person	$ 11,670	$ 817	$ 68
and 1 child	$ 15,730	$ 1,101	$ 92
and 2 children	$ 19,790	$ 1,385	$ 115
and 3 children	$ 23,850	$ 1,670	$ 139
and 4 children	$ 27,910	$ 1,954	$ 163
and 5 children	$ 31,970	$ 2,238	$ 186
and 6 children	$ 35,790	$ 2,505	$ 209
and 7 children	$ 40,090	$ 2,806	$ 234

Two Adult Household

Family Size	Annual Consumption Allowance	Annual Prebate Amount	Monthly Prebate
one couple	$ 23,340	$ 1,634	$ 136
and 1 child	$ 27,400	$ 1,918	$ 160
and 2 children	$ 31,460	$ 2,202	$ 184
and 3 children	$ 35,520	$ 2,486	$ 207
and 4 children	$ 39,580	$ 2,771	$ 231
and 5 children	$ 43,640	$ 3,055	$ 255
and 6 children	$ 47,700	$ 3,339	$ 278
and 7 children	$ 51,760	$ 3,623	$ 302

For Families/households with more than 7 dependents (children and/or dependent adult members of the immediate family), add $4,060 to the Annual Comsumption Allowance for each additional person. The Annual Consumption Allowance is based on the DHHS 2014 HHS Poverty Guidelines as published in the Federal Register, January 17, 2014. The Annual Prebate Amount equals 7% of the Annual Consumption Allowance. Note: The 7% Indiana FairTax Rate is an assumption that requires confirmation by the State Legislature.