

FairTax: What Are Embedded Taxes

Any discussion of the FairTax eventually includes embedded taxes, but what are they? Simply put, embedded taxes are those taxes paid by business that are then included in the prices of the goods or services they sell. Many don't realize it, but companies and corporation don't pay taxes!! Taxes levied on a company, whether by a city, state, or the federal government, are either paid by the owners, in the form of reduced profits, or by customers, in the form of higher prices.

And just to make it clear, since the owners of corporations are the stockholders, when a corporation reduces payments to their "owners" due to increased taxes, they are cutting the dividends to the thousands of mutual funds, pension funds, and 401k's that millions of Americans depend upon for their current and future retirements. In other words, raise the taxes on corporations, and you are stealing money from the elderly and retired!!

And embedded taxes are sneaky. They don't appear on the sales receipt, aren't listed on the label, and don't show up on the instructions. They simply make the product cost more, and the customer never knows government taxes are to blame. Most often, rising prices are blamed on "evil corporations", when, in reality, it was a government tax increase that caused the higher prices.

Embedded taxes are also the most regressive of all taxes. Since they are included in the prices of all goods and services, those with the least amount of money, the poor, end up paying the highest percentage of their income as a result of embedded taxes. And since they are hidden in the cost, the poor don't even have a chance to "shop" for a better deal. Through embedded taxes, the government imposes an onerous burden on the poor, drains what little cash they have, while shunting the blame off on corporations.

To summarize, embedded taxes are the result of imposing taxes on corporations. Embedded taxes are hidden so government can collect more money, but place the blame on corporations. And embedded taxes are highly regressive and place an unfair burden on our poorest citizens.

So how much of the prices we pay are embedded taxes? It depends upon the particular product, but anywhere from 15% to as much as 25%. If the embedded taxes were removed, the wholesale price of goods and services could drop by as much as 25% without effecting corporate profits, or the wholesale price could stay the same, and stockholders, like mutual and pension funds, and 401k's, would see a significant increase in their retirement incomes. It is expected that market competition will favor dropping prices, and wholesale prices will see significant reductions, helping consumers and retirees alike.

As you can guess, the FairTax totally eliminates embedded taxes. All taxes are paid when the retail purchase is made, and all taxes are clearly visible on the receipt. Unlike the current income tax system and embedded taxes, there is no trickery, obfuscation, or shifting of the blame. Open, honest, transparent and fair.

To learn more about the Fairtax, visit our website at www.ohfairtax.org, and you can help by joining our Five for FairTax campaign.

The FairTax: Once you understand it, you'll demand it.

Steve Curtis
State Director, Ohio FairTax