

FairTax: Source of Embedded Taxes

In an earlier column, we explained what embedded taxes were, how they effect the poor and elderly, and gave an estimate of their magnitude. Now we are going to show you the dirty details of how the government takes billions of dollars from the poor, elderly, and middle class Americans, but shifts the blame to corporations and small businesses.

As we noted earlier, the amount of embedded taxes varies between products and services, but ranges from roughly 15% to 25% or higher. A detailed study of embedded taxes was conducted by Jorgenson in 1997, and has been modified by Walby and others since then, but the essential details remain the same.

Companies pass on the taxes they pay, and the costs associated with tax compliance, to their customers in the form of higher prices. Those taxes include, for everyone, the employer portion of FICA (7.65%), and income taxes on any profits realized during the year. For a large corporation, the tax rate varies, but averages around 15% (GE not withstanding). For a small business, where the owner includes business profits under their personal income tax filing, the rate is closer to 35%. So, if a small business has a 10% profit, they pay 3.5% in income taxes.

And if any raw materials are purchased, they include 15% or more embedded taxes that the company "passes on" as well.

And the costs of compliance, income tax filings preparation, and legal costs associated with tax matters are also included in the prices of goods and services.

While the numbers can get complicated, a simple example shows how embedded taxes work. Lets assume our small business has raw material costs that make up 50% of the cost of their products. Our small business pays 3.5% in income taxes, another 7.65% in the employer portion of FICA, and 7.5% in embedded taxes "passed through" with their raw materials. Totaled up, this equals a little more than 18% of the costs as embedded taxes.

Embedded taxes are a hidden drain on the economy, a regressive penalty imposed on the poor, and an underhanded and duplicitous way in which government takes more money from hard working Americans, while blaming corporations for the high prices government caused.

The FairTax, by eliminating income taxes, payroll taxes, and business taxes, totally eliminates embedded taxes. These onerous and reprehensible taxes are replaced with an open, honest, transparent, and fair retail sales tax that promotes business and job growth, protects the poor, and stimulates the economy.

To learn more about the FairTax, visit our website at www.ohfairtax.org, and help us eliminate embedded taxes by joining our Five for FairTax campaign.

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

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