

The FairTax Prebate Explained

Under the FairTax, all Americans consume what they see as their necessities of life free of tax. While permitting no exemptions, the FairTax (HR 25) provides a monthly universal prebate to ensure that each family unit can consume tax free at or beyond the poverty level, with the overall effect of making the FairTax progressive in application. There is no marriage penalty as the couple gets twice the amount that a single adult receives.

While everyone pays the same tax rate at the cash register, the prebate results in effective tax rates (annual taxes paid divided by annual spending) that increase as the level of spending increases – a progressive tax rate structure. For example, a person spending at the poverty level has a 0 percent effective tax rate, whereas someone spending at twice the poverty level has an effective tax rate of 11.5 percent, and so on. The table below shows the prebate calculations for 2009 by household type and family size.

The monthly prebate check is calculated by multiplying the annual consumption allowance (a measure of poverty level spending) times the FairTax rate and dividing by twelve. Poverty level spending represents what it costs families of varying household size and composition to buy their necessities.

2010 FairTax Prebate Schedule

One-adult household				Two-adult household			
Family Size	Annual Consumption Allowance ¹	Annual Prebate	Monthly Prebate	Family Size	Annual Consumption Allowance ¹	Annual Prebate	Monthly Prebate
1 person	\$10,830	\$2,491	\$208	couple	\$21,660	\$4,982	\$415
and 1 child	\$14,570	\$3,351	\$279	and 1 child	\$25,400	\$5,842	\$487
and 2 children	\$18,310	\$4,211	\$351	and 2 children	\$29,140	\$6,702	\$559
and 3 children	\$22,050	\$5,072	\$423	and 3 children	\$32,880	\$7,562	\$630
and 4 children	\$25,790	\$5,932	\$494	and 4 children	\$36,620	\$8,423	\$702
and 5 children	\$29,530	\$6,792	\$566	and 5 children	\$40,360	\$9,283	\$774
and 6 children	\$32,270	\$7,422	\$619	and 6 children	\$44,100	\$10,143	\$845
and 7 children	\$37,010	\$8,512	\$709	and 7 children	\$47,840	\$11,003	\$917

¹The annual consumption allowance is based on the 2009 DHHS Poverty Guidelines which were extended for 2010 as published in the *Federal Register*, January 22, 2010, pp. 3734-3735. To eliminate the marriage penalty, the couple amount is double the individual amount. To this amount is added \$3,740 for each child.

