

THE FAIR FLAT TAX ACT OF 2005

A NEW TAX CODE – SIMPLER, FLATTER, FAIRER.

The Fair Flat Tax Act of 2005 combines the simplicity of a flat tax with principles of fairness to provide real tax relief for America's middle class. It will simplify the nearly 10,000 sections of U.S. tax law into a system Americans can understand and with which they can easily comply. It will flatten tax rates for individuals and businesses, collapsing six individual brackets to three and setting a single, flat corporate rate. Ultimately, it will make the tax code fairer by providing a major tax cut for middle class families who are struggling financially, while calling on the most affluent Americans and the nation's corporations to pay their fair share. Additionally, as it increases compliance and uncovers savings, the Fair Flat Tax Act of 2005 will reduce the deficit by approximately \$100 billion during the next five years.

KEY PRINCIPLES OF THE FAIR FLAT TAX ACT

- **PROVIDE REAL RELIEF TO MIDDLE-CLASS TAXPAYERS** – Under the new simplified rates, taxes on the middle class will decrease, while the wealthiest individuals currently receiving the largest tax breaks in the country will be asked to pay their fair share. America's middle-class and low-income taxpayers will pay lower taxes and for the first time, every individual taxpayer will get a refundable credit for 10 percent of state and local taxes paid.
- **SIMPLIFY THE TAX SYSTEM** – All taxpayers will be able to use a straightforward, one-page 1040 to file their taxes. The new 1040 will shrink in length to 30 lines. For individuals, the number of brackets is reduced from six to three: 15%, 25% and 35%. The individual Alternative Minimum Tax (AMT) is eliminated, saving millions of filers an average of 63 hours on tax preparation. A single, flat corporate rate of 35 percent will eliminate the illogical roller coaster of the corporate code.
- **ELIMINATE BREAKS AND CLOSE TAX LOOPHOLES** – Eliminating certain credits, deductions, exclusions and preferences – especially in the corporate code – makes it possible to provide real tax relief to the middle class. The Fair Flat Tax Act does retain many of the individual credits, deductions, exclusions and preferences most commonly claimed, including: deductions for mortgage interest and charitable contributions, credits for children, and earned income. Additional preferences retained help our men and women in uniform, our veterans and the elderly and disabled, and help people pay for health care and higher education and build up pensions and retirement savings. On the corporate side, the bill ends a number of tax loopholes and specialized tax breaks that favor business in one sector over another, while working to root out provisions that perpetuate inefficiencies in the health care system and to end the use of pass-through entities as tax shelters.
- **TREAT WORK AND WEALTH EQUALLY IN THE TAX CODE** – Currently, the tax code allows much unearned income to be taxed at a lower rate than American workers' wages. The Fair Flat Tax Act seeks to treat all income equally, injecting fairness into the code for the middle class.
- **PROVIDE RELIEF EVEN ON STATE AND LOCAL TAXES** - Low and middle income taxpayers pay a larger percentage of their income in state and local taxes than higher income taxpayers, but 70 percent get no credit on their Federal taxes because they do not itemize. This bill treats all state and local taxpayers equally by creating a new refundable credit for 10 percent of state and local income, sales and property taxes paid. However, nothing in the bill in any way limits or affects state and local government control over their tax systems.
- **ENCOURAGE SAVINGS AND INVESTMENT** - The bill responsibly promotes savings and investment for retirement by retaining current treatment of contributions to the kinds of investments most Americans make – for education and health, and the retirement investments many Americans have come to rely on, like defined benefit and defined contribution plans, traditional and Roth IRAs and 401(k)s.