

# WHAT ABOUT LOW INCOME FAMILIES?

**THE SCENARIO:** A Scottsbluff family of four making \$26,200 per year wonders if they will have to pay any taxes to the State of Nebraska under the consumption tax?

## WHAT GETS TAXED BY THE STATE?

Under the consumption tax, the following taxes would be repealed:

- The State income tax.
- The real estate tax.
- The personal property tax.
- All State and local sales taxes.
- The State inheritance tax.
- The consumption tax would apply to all new goods and services, including groceries.
- Used goods would not be taxed.

The consumption tax rate is 9.8%.

## HOW THE MONTHLY ALLOWANCE WORKS

This Scottsbluff family of four lives at the maximum federal poverty level, which is \$26,200 per year.

At the beginning of each month the State of Nebraska deposits \$213.96 in into the family's bank account through direct deposit.

This is their monthly allowance or pre-bate.

This monthly allowance is 9.8% of their monthly income and covers 100% of their consumption taxes for the month.

The math:  $\$26,200 \times .098 / 12 = \$213.96$ . This Scottsbluff family has an effective tax rate of zero. So, this Scottsbluff family of four will make no net contributions in taxes to the State of Nebraska.

# WHAT ABOUT BUSINESS-TO-BUSINESS TRANSACTIONS?

## THE CONSUMPTION TAX NEVER TAXES BUSINESS-TO-BUSINESS TRANSACTIONS.

### THIS MEANS NO TAX ON BUSINESS INPUTS:

#### A FARMERS NEVER PAYS THE CONSUMPTION TAX ON INPUTS:

- Such as seed corn.
- Such as fertilizer.
- Such as a tractor.

#### A RANCHER NEVER PAYS THE CONSUMPTION TAX ON INPUTS:

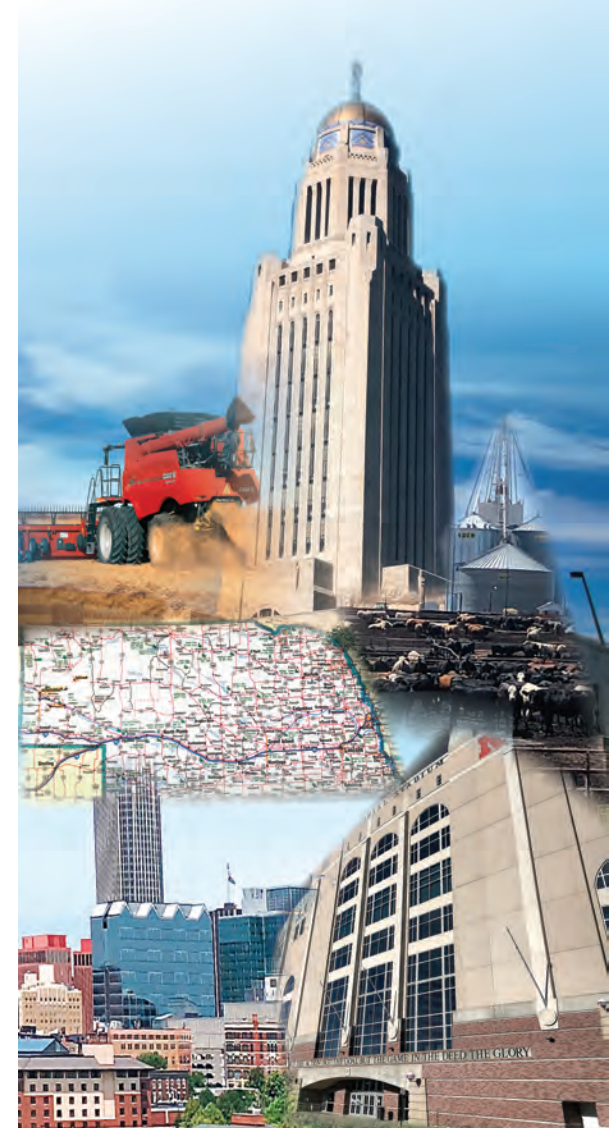
- Such as hay.
- Such as a bale feeder.
- Such as a horse.

KAWASAKI NEVER PAYS CONSUMPTION TAX ON CHROMITE, USED TO MAKE CHROME ON SUBWAY CARS,  
HORNADAY NEVER PAYS CONSUMPTION TAX ON COPPER, USED TO MAKE AMMUNITION,  
THE POTTER SUNDRY NEVER PAYS CONSUMPTION TAX ON ICE CREAM, USED TO MAKE THEIR FAMOUS TIN ROOF SUNDAE,  
VALENTINO'S NEVER PAYS CONSUMPTION TAX ON PEPPERONI, USED TO MAKE THEIR AWARD WINNING PIZZA,  
BORSHEIM'S NEVER PAYS CONSUMPTION TAX ON DIAMONDS, USED TO MAKE FINE JEWELRY.

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EPICCONSUMPTIONTAX.ORG  
EPICCONSUMPTIONTAX@GMAIL.COM

# NEBRASKA COMPARISON OF LIFE UNDER CONSUMPTION TAX



## BUYING A NEW HOUSE

**THE SCENARIO:** A family of four who makes \$64,000 per year is in the market to buy a new house in Lincoln, Nebraska for \$200,000.

### UNDER THE CURRENT TAX SYSTEM:

The new property is subjected to the real estate tax at 2.01% which amounts to \$4,000 per year. This is an annual tax that they will continue to pay for as long as they own the home.

Sales tax on new materials is 60% of the house value or  $120K \times 7.5\% = \$9,000$ .

The family's monthly payment is calculated as follows:

A mortgage loan at a 4% interest rate results in a monthly payment of \$954. Add \$333 for real estate taxes. Their total monthly payment is \$1,287.

### UNDER THE CONSUMPTION TAX:

After hidden taxes are removed, the new house now sells for \$191,000. The consumption tax collected on the purchase of the new home is 9.8%, which amounts to a one-time payment of \$18,718. This family would receive \$2,560 annually in the form of monthly allowances from the State, giving them an effective consumption tax rate of 8.6%.

So, the total tax burden under the Consumption Tax on the purchase of the new home would be calculated as follows:

$\$191,000 \times 8.6\% = \$16,426$ .

A mortgage loan for \$207,426 at a 4% interest rate results in a monthly payment of \$990.

Under the consumption tax and for the same monthly payment this family of four would be able to purchase a much bigger new home for \$270,000.

## BUYING A NEW CAR

**THE SCENARIO:** A Lincoln family of four who makes \$64,000 per year is in the market to buy a new car for \$50,000.



### UNDER THE CURRENT TAX SYSTEM:

7.5% sales tax on a \$50,000 car is \$3,750 + \$1,000 personal property tax = \$4,750

Personal property taxes on the car for nine years:

Year 2 = \$900  
Year 3 = \$800  
Year 4 = \$700  
Year 5 = \$600  
Year 6 = \$500  
Year 7 = \$400  
Year 8 = \$300  
Year 9 = \$200  
Year 10 = \$100

9 year total personal property taxes paid: \$4,500.

The total tax burden adds up to \$9,250.

### UNDER THE CONSUMPTION TAX:

After factoring in the pre-bate this family of four has an effective consumption tax rate of 7.55%.

The consumption tax this family of four will pay on the new vehicle is \$3,775.

So, under the consumption tax the family would save \$4,475.

## WHAT ABOUT BORDER BLEED

**THE SCENARIO:** A family of four making \$64,000 in Omaha wonders if buying a generic can of motor oil in Council Bluffs is cheaper than buying it in Omaha? They want to spend \$1.00 per can.

### IOWA

Buried within the retail price of every can of motor oil sold for \$1.00 in Council Bluffs are hidden taxes, such as real estate taxes and income taxes. These hidden taxes add up to 5 cents per can of motor oil.

The actual retail cost of the motor oil without these hidden taxes is 95 cents.

After the 7% sales tax is added to the price of the can of motor oil, the final cost to the consumer is \$1.07.

The math:  $.95 + .05 + .07 = \$1.07$

### NEBRASKA

In Omaha, the same can of motor oil retails for 95 cents. This is because there are no hidden taxes within the price.

When the 9.8% consumption tax is added to the price of the can of motor oil, the cost to the consumer at the cash register becomes \$1.05.

However, this family of four receives a monthly allowance or pre-bate. After the monthly allowance or pre-bate, this family's effective consumption tax rate is only 5.8%.

So, the final cost of the motor oil to this family of four living in Omaha is \$1.01. So, why would anyone purchase motor oil in Iowa?

The math:  $.95 + .058 = \$1.01$ .