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THE “YOU MAY NOT KNOW REPORT”

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Stealth Tax Increases

By Dennis Tubbergen

While obvious, completely transparent tax increases have been seriously discussed over the past year, there is another form of stealth taxation that affects many US taxpayers. This somewhat covert tax increase happens without the need for legislation. It occurs as a direct result of loose money policies.

In past issues of the “You May Not Know Report”, I’ve discussed the inflation tax in the context of the three actions politicians can take to deal with an operating deficit. If you’re a new reader, I’ll briefly review these three actions. Politicians can raise taxes, cut spending or create currency. In each case, citizens get less.

In the case of actually raising taxes, a group of taxpayers targeted by the ruling class pays more and keeps less. In the case of government spending cuts (which have now gone the way of the dinosaur), another group of citizens loses some government benefits. In the case of currency creation that leads to inflation, all citizens pay more although the lower income workers are more adversely affected.

But there is another way that inflation causes tax increases, especially if the officially reported inflation rate lags the actual rate of inflation. Income tax brackets are indexed for inflation; however, they are never indexed for the real, actual inflation rate, instead they are indexed for the heavily manipulated and highly flawed officially reported inflation rate. The end result of this reality is that many taxpayers pay more in tax even though tax law didn't change.

Let me give you some examples to make my point.

If you are a Social Security recipient or hope to be a Social Security recipient in the future, this reality will likely affect you.

Ever since Social Security benefits became taxable, the same formula is used to determine how much of one's Social Security will be taxable. The formula is called the Modified Adjusted Gross Income formula.

Modified Adjusted Gross Income, or MAGI, is[1]:

½ Your Household Social Security + Earned Income + Taxable and Tax Free Interest Income + Dividend Income + Capital Gain Income + Pension Income + Income from Rental Real Estate, Partnerships and Businesses

If your MAGI exceeds $32,000 and you are married taxpayers filing a joint return, 50% of the excess MAGI (over $32,000) is the amount of your Social Security that is taxable. If you are married taxpayers filing a joint return, 85% of the excess MAGI (over $44,000) is the amount of your Social Security that is taxable. In no event will more than 85% of your Social Security benefits be subject to income tax.

If you are a single taxpayer, and your MAGI exceeds $25,000, 50% of the excess MAGI (over $25,000 is the amount of your Social Security that is taxable). If you are a single taxpayer and your MAGI exceeds $34,000, 85% of the excess MAGI (over $34,000) is the amount of your Social Security subject to income taxes. As with married taxpayers filing jointly, in no event will more than 85% of your Social Security be subject to income taxes.

Here's my point.

These Social Security tax thresh holds for married taxpayers and single taxpayers have not changed since 1994[2]. That means as the dollar has been devalued, Social Security recipients have been hit with the inflation tax and this stealth tax increase.

There are many other, more obscure examples of this stealth tax increase.

This[2] from "The Wall Street Journal" (emphasis added):

> *Inflation indexing was enacted in 1981, after years of inflation as high as 14.8%. While taxpayers' income had risen with inflation, tax brackets remained fixed. As a result,* ***people owed higher taxes due to nominal, but not real, increases in income.***
>
> *Responding to pressure, Congress indexed*

the income-tax brackets and some other provisions for inflation. ***<u>But lawmakers didn't index all tax provisions, and since then they have chosen to adjust some new ones for inflation but not others.</u>***

For example, ***<u>two key provisions for home buyers and sellers lack inflation adjustments:</u>*** *the $750,000 cap on total mortgage debt for which interest is tax deductible (enacted 2017), and an exemption of up to $250,000 of profit for single filers and $500,000 for married couples (enacted 1997) on the sale of a home.*

If lawmakers had adjusted the home-sellers' exemption for inflation, it would now be above $411,000 for singles and $822,000 for couples. So ***if a taxpayer has large taxable gains from the sale of a highly appreciated home, that person will owe higher taxes due to inflation than a wage earner whose taxes have been adjusted for inflation annually.***

Other notable provisions not indexed for inflation include the cap on the state and local tax deduction, typically $10,000 per return; the $3,000 deduction of net capital losses against ordinary income such as wages; and the thresholds for the 3.8% surtax on net investment income of $250,000 for married joint filers and $200,000 for singles.

To demonstrate the complete subjectivity with which these inflation adjustments occur, consider this from the same article:

Many wage-earners will see take-home pay bump up in 2022, according to Curtis Tatum, an executive with the American Payroll Associ-

ation. That's because the inflation factor used to adjust federal tax withholding tables has risen about 3% for 2022 due to inflation indexing, far more than last year's factor of about 1%. The adjustment lowers the amount of taxes deducted from paychecks, raising take-home pay.

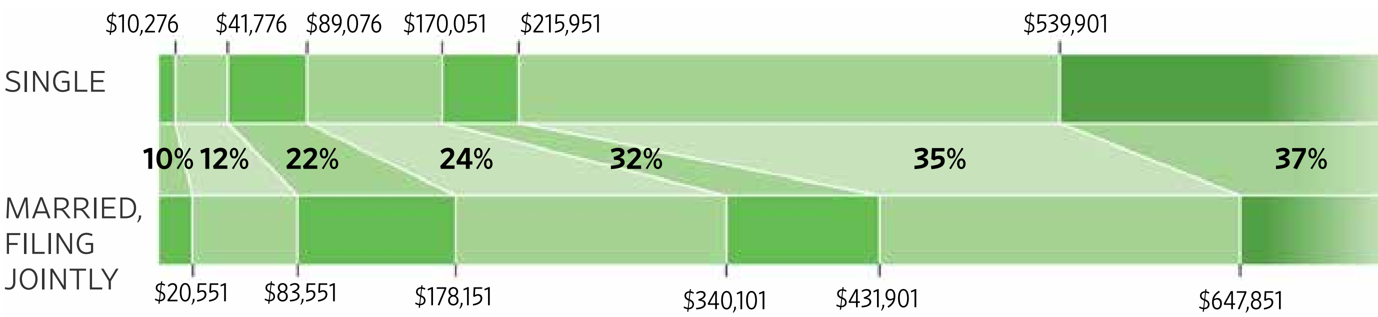
Contemplate this.

The inflation factor used to adjust federal tax withholding tables rose approximately 3% from calendar year 2021 to calendar year 2022. Social Security benefits were indexed for inflation at a rate of 5.9% and the Social Security tax thresh holds were not indexed for inflation.

The table from "The Wall Street Journal" article reprinted in this piece illustrates adjusted thresh holds for 2022.

Key Inflation-Adjusted Tax Numbers for 2022

Individual income-tax rates on taxable income



Tax rates on capital-gain and dividend taxable income*

	SINGLE	MARRIED, FILING JOINTLY
0%	Up to $41,675	Up to $83,350
15%	$41,676 to $459,750	$83,351 to $517,200
20%	$459,751 or more	$517,201 or more
Standard deduction	$12,950	$25,900

Social-Security tax wage cap	$147,000

Estate and gift tax

Lifetime exemption	$12,060,000 per individual
Annual exclusion	$16,000

Retirement-plan contribution limits†

TRADITIONAL OR ROTH IRA
$6,000, plus $1,000 for age 50 and older

401(K) OR ROTH 401(K)
$20,500, plus $6,500 for age 50 and older

SEP IRA OR SOLO 401(K)
$61,000, plus $6,500 for age 50 and older, for Solo 401(k)

*Applies to gains on assets held longer than a year and qualified dividends. †Income limits may also affect allowable contribution.
Source: Internal Revenue Service

Two Kinds of Inflation

A recent article[3] published by MN Gordon in "Economic Prism" made some very salient points about inflation. Essentially, Gordon argues that there are two kinds of inflation: financial asset price inflation and consumer price inflation. Here is a bit from his piece which speaks for itself (emphasis added):

Ben Bernanke, then Fed Chair, first commenced the great quantitative easing (QE) experiment in late November 2008. At the time, the Fed's balance sheet was approximately $800 billion. Now, just over 13 years later, the Fed's balance sheet is over $8.7 trillion – more than 10 times higher.

This mad undertaking has shown that once the QE genie's let out of the bottle it's impossible to put back without triggering disaster. *The economy and financial markets have adjusted to the abundance of cheap credit. Businesses, governments – federal state, and local – and individuals depend on it. Take it away and the whole debt edifice implodes.*

This mad undertaking has also shown the impacts of QE are dependent on where the fake money ultimately flows. This important distinction is why the Fed's efforts to control consumer price inflation are doomed. *Let's explore…*

When the Fed first began creating credit out of thin air to buy Treasury notes and mortgage backed securities, hard money aficionados were revolted. Many prophesized that a Weimar Germany type hyperinflation was just around the corner.

And why not?

As night follows day should not price inflation follow money supply inflation?

Well, yes. Of course. ***But what type of price inflation? That's the real distinction…***

From 2008 to 2015, the Fed's balance sheet inflated from $800 billion to about $4.5 trillion. Over this time, college tuition and health insurance costs went through the roof. But to *the delight of Paul Krugman and other statist economists, price increases for most consumer goods and services were moderate.*

Perhaps cheap labor out of Asia helped prevent consumer prices from dramatically inflating. ***Still, we posit that moderate consumer price inflation between 2008 and 2015, even with QE, was mainly a function of where the fake money flowed.***

You see, QE and the TARP bailouts started in late 2008 were a bailout of Wall Street and big businesses like General Motors via AIG. Working stiffs got squat. They lost their houses. They lost their jobs. Stimmy checks didn't show up in the mail.

Specifically, the money supply inflation from 2008 to 2015 flowed to financial assets. Stocks, bonds, and real estate prices boomed. Speculative fever boomed too, along with financial engineering schemes like companies using low-cost debt for corporate share repurchases.

All the while, average consumers were tight on cash. Those who didn't lose their house found some relief through refinancing at lower rates. But this merely afforded them Sunday lunches at Applebee's. The abundance of cheap imports at Costco and Walmart were no match for these piddly cash flow increases to family balance sheets.

From 2015 to late 2019, the Fed attempted to draw down its balance sheet. But after dropping about $700 billion, to roughly $3.8 trillion, all hell broke loose. In September 2019, overnight money market rates spiked and the Fed had to backstop the repo market.

This breakdown in the repo market was soon overshadowed by the mass money printing instituted to bailout the consequences of government mandated lockdowns. ***Upwards of $5 trillion was created out of thin air to buy Treasury notes and mortgage backed securities. Only this time it was different…***

The 2008-09 bailout of Wall Street opened people's eyes and minds to what's possible. Thus, as the Fed went into full big business bailout mode in 2020, the plebs started asking…where's the people's bailout? Where's QE for the people?

What's more, the people had a moral case to make. Through no fault of their own, state sponsored destruction, as a mad response to coronavirus, had eradicated their jobs. So it was only fair for the people to get a bailout too, right?

The CARES Act, which included a $1,200 stimulus check and an additional $600 weekly payment for the unemployed, offered many people their first taste of free money succor. They liked its sweet taste. And they wanted more.

A $1,200 stimulus check was nice, and all. But a $2,000 monthly payment is way better. So why stop there?

When money's free, the supply's infinite…ain't it?

Thus, more stimmy checks were delivered like manna from heaven. And many working stiffs discovered it was more prosperous not to work.

But if everyone's home watching Netflix – or getting rich trading cryptos in the metaverse – who's left to make pizzas or milk cows? And at *what price?*

The federal government's fiscal deficits for fiscal years 2020 and 2021 were $3.13 trillion and $2.77 trillion, respectively. That's nearly $6 trillion of fake money – money supplied via Fed purchases of Treasury notes with credit created out of thin air – that was spent directly into the economy over 24 months.

At the start of 2021, consumer prices, as measured by the consumer price index (CPI) were increasing at an annual rate of 1.4 percent. As of November 2021, the CPI is rising at an annualized rate of 6.8 percent…marking the greatest increase to consumer prices in over 40 years. And if the CPI was still calculated the way it was in the 1980s, it would be over 15 percent.

What to make of it…

This week, minutes from the Fed's December meeting were released. Finally, the minutes show, committee members are concerned about inflation. The Fed may even begin reducing its balance sheet and raising the federal funds rate this year. Stocks sold off and Treasury yields spiked upward on this revelation.

Should the Fed go forward with these credit tightening plans you can expect asset prices to deflate. But what about consumer prices?

Not likely. And that's why this time it's different…

Unlike the QE from 2008 to 2015, the QE from 2019 to the present included massive social spending. This was more than a Wall Street bailout.

The $6 trillion in deficit spending represents fake money that's been released directly into the economy. Raising rates and selling off bonds won't mop this money up; at least not with the same efficiency it does for financial asset inflation.

So as asset prices deflate in 2022, something unexpected will happen: Consumer prices will continue to inflate.

Moreover, the Fed will be completely flummoxed by this magnificent folly. But then what?

Will Congress reduce deficit spending? Will the Fed push rates high enough to trigger a depression? Will Weimar inflation finally come to America?

We may soon find out.

As this issue of the "You May Not Know Report" is being written, it seems that the asset price deflation discussed in this article may now be underway. Many major stock indices are now trading below their 200-day moving average, which is a technically significant level.

While home inventories are still low, increasing interest rates may be beginning to slow down that market.

And, rising interest rates mean that bond prices are also declining.

At the same time, inflation in consumer prices continues to rise.

At this point in time, it seems that Mr. Gordon is on point.

Watch What They Do, Ignore What They Say

While that headline is universally sage advice, it's particularly good advice when it come to central banks around the world. Central banks, as long-time readers of this publication know, control monetary policy.

Almost without exception, central bankers around the world have been engaging in massive amounts of currency creation which has created the current inflationary environment.

While these same centra bankers are now talking about taking action to tame inflation, I'm less interested in what they are saying than what they are doing.

There has been some movement toward tighter money policies by many world central banks, but as I've stated in the past, these moves to this point have been more form over substance. And, the reality of world finances dictates that tightening monetary policy to combat inflation will likely result in near-immediate recession and a reset in asset prices as we discussed above.

Despite all the taper talk, the truth is that monetary policy remains extremely loose by historical standards while inflation remains extremely high by historical standards.

While this taper talk is the official narrative, behind the scenes, world central bankers are adding to their gold reserves. This[4] from Claudio Grass (emphasis added):

> *According to recently released data by the World Gold Council (WGC)**, as of September 2021, the total amount of gold held in reserves by central banks globally exceeded 36,000 tons for the first time since 1990**. **This 31-year record was the result of the world's central banks adding more that 4,500 tons of the precious metal to their holdings over the last decade and it provides ample support for the investment case for gold,** in both directly performance-related terms, but also from a big picture perspective.*
>
> *This new record went largely underreported in the mainstream financial press and almost entirely unmentioned in official central bank statements and their guidance or policy commentary. Quite to the contrary,* ***policymakers***

in the US, the Eurozone and in most other major economies, have for over two years now insisted on repeating the exact same talking points and all kinds of arguments and convictions that would in fact nullify the case for holding gold at all.

For example, up until very recently, inflation was largely and decisively dismissed as "transitory", with leading figures from the Fed and the ECB repeatedly assuring investors and the public at large that consumer prices were under control and that the early hikes we saw last year in official data were nothing but a glitch. Of course, as the pressures continued to build and as it became clear that the CPI figures (that are already a very poorly constructed and misleading gauge of inflation) were not aligned with the version of reality that central bankers publicly espoused, they were forced to perform a policy U-turn, at least in theory if not in practice. However, the most important element to note here, is that ***<u>if their public statements were actually consistent with their policymaking and strategic outlook, there would be no conceivable reason to ratchet up their gold stockpiling</u>****.*

Naturally, this is far from the first time we see this kind of dissonance between words and actions by officials and institutional figures of all sorts, not just central bankers. This is why investors need to pay attention to the practical steps that are actually taken, and largely ignore the rhetoric that surrounds, or often even conceals, those steps. As the old saying goes, "do as I do, not as I say".

And while inflationary risks are very much on top of most conservative investor's minds, there is also a much larger, long-term shift that the gold buying spree highlights: The reign of the dollar as the world's reserve currency is slowly but surely coming to an end. The greenback's value has seen a remarkable decline against gold over the last decade and it's not just precious metals investors that are keeping a close eye on this trend. Reinforced by solid geopolitical reasons, central bankers in Russia, China and other aligned nations have been pushing for years already to dethrone the USD.

It has certainly been an uphill battle, and the US currency still undoubtedly dominates all others in International trade and in reserves, however, this campaign against it appears to be relentless. ***<u>In fact, it might have reached an important milestone a few weeks ago: according to a report by the Central Bank of Russia that was analyzed by Bloomberg, last year, the nation's central bank gold holdings surpassed its dollar reserves for the first time in its history, with gold making up 23% of total reserves as of the end of June and dollar assets dropping to 22%.</u>***

If central bankers around the world are buying gold and if the Russian central bank now holds more gold than US Dollars, it makes the case that every-day, ordinary investors and aspiring retirees should have at least some of their nest egg invested in gold.

If you'd like to learn more about how to add gold to your portfolio, give our office a call at 1-866-921-3613. We'd be glad to arrange a phone interview to discuss all the current options with you.

Two Choices – Both Bad

I have often had this discussion with readers including in last month's issue with a piece titled "Inflation Followed by Deflation".

The Federal Reserve and other central banks around the world are painted into the proverbial corner. They have two choices, and both are bad.

Choice one is to continue currency creation and risk a hyperinflationary outcome. Choice two is to cease currency creation and raise interest rates to subdue inflation with the side effect of a severe economic downturn or depression.

There are many analysts who agree with this assessment. This[5] from an article titled "Rock, Meet Place":

> *Unfortunately, things will get worse before they get better. After 50 years of policy blunders exacerbated by a clown-show in Washington today, there are only two choices.*
>
> ***Inflation or depression, the authorities are trapped.***
>
> *They should know this, but are drunk on hubris, blinded by money-printing, schmoozed by lobbyists, and too busy insider-trading to care. If they understood this predicament, they'd have retired years ago.*
>
> *The real problem? In the DC halls of power and its feeder universities, they don't understand economics. Instead, they parrot dogma dressed up in complex math to justify central planning and fiat money.*
>
> *Models that actually work (from the Austrian school) are ignored or obfuscated because they don't consolidate power into a crony, captured system.*
>
> *It's like the Roman Catholic Church digging in their heels and developing wildly complex models to explain the observations of Galileo without conceding that the Earth orbits the sun and not vice versa (then having the audacity to persecute for heresy, sentencing him to house arrest until his death).*
>
> ***The predicament***
>
> *Inflation or depression, how did we get here? Ludwig von Mises explained (in 1949)-*
>
> *"There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as the result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved."*
>
> *We warned of it five years ago. With consumer prices now roaring at 7% even by their own manipulated metrics (so, double that), we now sit on the razor's edge.*
>
> *US stock and bond markets are in an epic bubble and can only be propped up with more money-printing. But that will cause the prices of beef, milk, eggs, rent, and energy to soar.*
>
> ***The inflation-genie is out of the bottle.***
>
> *To put her back in, they need to stop the easy-money policies, but that will crash the markets, a cascade of debt-deflation (like 2008) that also torpedoes the real economy.*
>
> *So, which will it be, inflation or depression?*
>
> *It'll be an epic tug-of-war as they try to thread the needle. They'll tighten this year until things start to break, then panic and turn the money spigots back on.*

February 2022 Special Report – Stock Update and Analysis, Is the Crash Here?

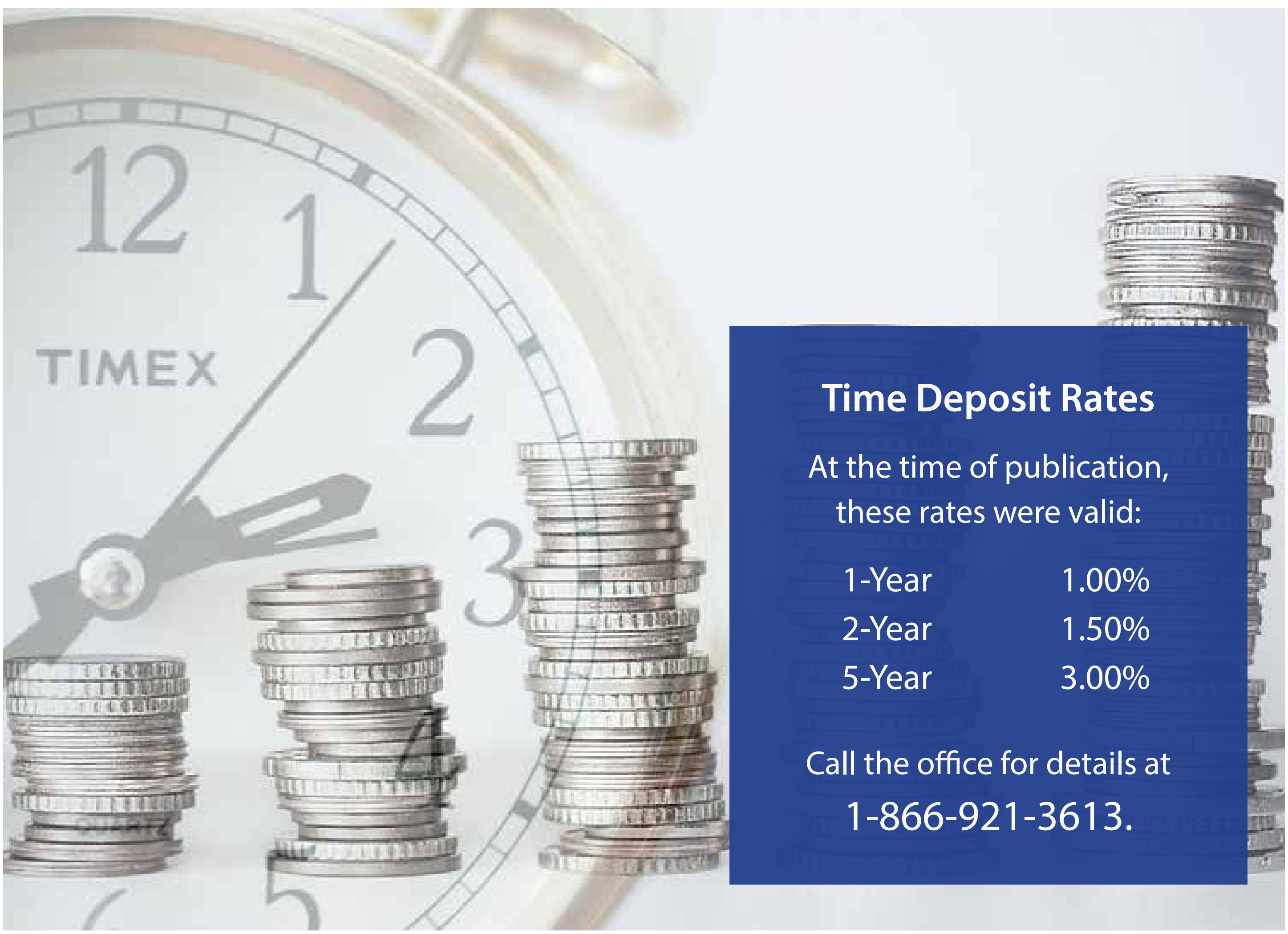
This month only, we are making available a free report titled, “Stock Update and Analysis, Is the Crash Here?”

To request your complimentary copy this month only, return one of the postage-paid reply cards included with this month’s newsletter. You’ll notice that we’ve included three reply cards with this month’s newsletter; we’ve done that so you can request a copy of this report for anyone you know that might find this information helpful.

In this month’s special report, you will discover:

- How current stock valuations compare to historical valuations
- How currency creation affects stock prices
- Why we believe the NASDAQ is already in a bear market
- What to do with your stock and stock fund holdings presently

This report is being offered this month only.



Time Deposit Rates

At the time of publication, these rates were valid:

1-Year	1.00%
2-Year	1.50%
5-Year	3.00%

Call the office for details at
1-866-921-3613.

Resources to Help You Stay Informed

All these resources are available at the Retirement Lifestyle Advocates website: **www.RetirementLifestyleAdvocates.com.**

The weekly "Portfolio Watch" newsletter. Each week, I give you an update as to where we are economically speaking and in the financial markets and where we are going based on my analysis.

The weekly "Headline Roundup" webinar. Replays are available on the website. "Headline Roundup" happens every Monday live at Noon Eastern Time. To get an invite to the live event, give the office a call at **1-866-921-3613**.

The weekly "RLA Radio" show and podcast.

We also have the RLA app available. All these resources are also available on the app.

You can download the YOURRLA app for free by visiting the app store (either Google or Apple) and searching under YOURRLA.

If you have questions when downloading the app or would like assistance, feel free to call the office. Our office phone is answered 8 to 5 Monday through Thursday and 8 to Noon on Friday.

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