

Taxes

The Largest Transfer Of Your Wealth

**ELIMINATING
LOSING
FINANCIAL
STRATEGIES**

Taxes

**The Largest Transfer
Of Your Wealth**

Wealth & Wisdom

Major Transfers Of Your Wealth

In your everyday existence, you are confronted with transfers of your wealth. You continuously, unknowingly and unnecessarily, give or transfer money away. Not only do you give this money away but you also lose the ability to earn money on that money once it is transferred. This compounds your loss. To eliminate or reduce these transfers, you must first learn to recognize them and then understand how directly or indirectly they cost you money. You may have to confront conventional financial wisdom. Remember, the ones giving you these financial programs tend to profit from them. Always ask, who would profit from these transfers? Here is a list of the transfers of your wealth we will be discussing:

- Taxes
- Qualified Retirement Plans
- Financial Planning
- Disability
- Credit Cards
- Tax Refunds
- Owning A Home
- Life Insurance
- Purchasing Cars
- Investments

These ten transfers can create financial losses for you. You should study each one and determine how they will affect you. On the surface, the transfers seem pretty basic. It is not until you think a layer deeper that you find that these transfers may cause unintended consequences in the future. The future demographics of the country will affect everyone's financial future.

Taxes The Largest Transfer Of Your Wealth. . . Are You Financing Your Future, Or The Government's

A common definition of the word "tax" might be: "A contribution for the support of a government, required of persons, groups, or businesses within the domain of that government." "A burdensome or excessive demand, a strain." The only power an elected official has is his ability to spend money, our money. The one thing the government does well is collect taxes. The problem is they spend more than they collect. The government now spends a majority of its time trying to raise revenue through taxes in order to continue their increased spending. Forty percent of your income now goes to some form of tax, which is more than the average family spends on food, clothing and housing. According to a study conducted in 1996 by the Family Research Council, since

1948 for a family of four with an average income, Federal tax rates are up 1,250%.¹ Over the past 10 years, state and local government taxes have increased 168% faster than national incomes.² Overall, we are now being taxed at a higher rate than when we threw tea into the harbor, with no end of increases in sight. Now include the understanding of the demographics of our nation, and that light at the end of the tunnel is not a ray of sunshine, but a train coming our way and we're on the tracks.

Income taxes have been the central focus of many debates. Most financial planners mention only a couple of taxes that may affect a client's future. These are usually the income tax and the estate tax. These two taxes are formidable foes of wealth, yet they represent only the tip of the iceberg when it comes to the overall taxation that really exists. Here is a list of taxes that you are confronted with on a daily basis:

FEDERAL INCOME TAX • SOCIAL SECURITY TAX • STATE TAX • CITY TAX • COUNTY TAX • PROPERTY TAX • PERSONAL PROPERTY TAX • SCHOOL TAX • LONG CAPITAL GAINS TAX • SHORT CAPITAL GAINS TAX • SALES TAX • ESTATE TAX • GASOLINE TAX • WATER TAX • SEWER TAX • TAX ON ENERGY – GAS • ELECTRIC • HEATING OIL • BUSINESS TAX • AIRPORT TAX • TELEPHONE TAX • LICENSE PLATE TAX • HOTEL TAX • CABLE TV TAX • USER TAXES • UNEMPLOYMENT TAX • WORKERS COMP. TAX • 100'S OF REGULATORY FEES • CIGARETTE TAX • CORPORATE INCOME TAX • INHERITANCE TAX • ACCOUNTS RECEIVABLE TAX • INVENTORY TAX • MARRIAGE LICENSE TAX • LIQUOR TAX • BUILDING PERMIT TAX • MEDICARE TAX • FISHING LICENSE TAX • REAL ESTATE TAX • FOOD LICENSE TAX • FUEL PERMIT TAX • HUNTING LICENSE TAX • ROAD USAGE TAX (TRUCKERS) • LUXURY TAX • RECREATIONAL VEHICLE TAX • UTILITY TAX • SEPTIC PERMIT TAX • WELL PERMIT TAX • ROAD TOLL BOOTH TAX • VEHICLE SALES TAX • WORKERS COMPENSATION TAX • TRAILER REGISTRATION TAX • WATERCRAFT REGISTRATION TAX • LONG TERM CAPITAL GAINS TAX • SHORT TERM CAPITAL GAINS TAX • TELEPHONE FEDERAL EXCISE TAX • TELEPHONE STATE AND LOCAL TAX • TELEPHONE USAGE CHARGE TAX • TELEPHONE FEDERAL UNIVERSAL SERVICE FEE TAX

¹Michael Hodges, *Tax Report - A chapter of the Grandfather Economic Reports*, April, 2002, at <<http://mwhodges.home.att.net/tax.htm>>.

²*Id.*

It is probably safe to say that if something is not taxed it must be illegal. Drugs, prostitution, theft, money laundering, etc. would be at the top of the non-taxed industries. After examining this list of taxes one could come to the conclusion that taxes, now and in the future, represent the largest transfer you will face in your life and possibly after your death. If instead of taking taxes out of our paychecks and taxing us for our purchases, they sent everyone a tax bill at the end of each month for us to pay, there would be a revolution!

No One Told Me

If it came to your attention that you were unknowingly and unnecessarily paying a tax you didn't have to, would you continue to pay it? If you were told to pay a certain amount of tax, would you purposely overpay that amount due? If you could legally recapture or keep some of the money you pay in taxes, would you do it? If no one has taught you techniques of reducing taxation when you can, that is truly unfortunate. The most common belief is that using qualified plans is the best way to reduce taxation. This is what you are told to believe. Don't be surprised to find out that this is not necessarily true. The tax savings we're talking about here is not about loading up your IRA or 401(k) plans. Once again it may be quite the opposite.

It's Only Temporary

In 1913, the 16th Amendment of the U. S. Constitution was passed, allowing the federal government to impose an income tax on the citizens of the United States.¹ Ironically, 20 years prior to that, as part of a trade bill, the government passed into law an income tax that the Supreme Court struck down as unconstitutional. But persistence paid off, and Congress ratified the 16th amendment in October, 1913.² The tax measure was passed as a temporary measure. The original federal marginal tax was around 6%, and initially only about 5% of the population had to file tax statements.³

Clearly, the federal government wasn't shy about raising income taxes. During World War I and World War II, the marginal tax rates were high and remained at a level of over 50% for almost 50 years.

¹*Id.*

²The Century Foundation. Tax Reform. New York: The Century Foundation Press, 1999.

³*Id.*

Understanding The Math

Recently, I happened to come across my father's 1960 tax return. The federal marginal tax rate that year was 87%. I thought, how did my parents ever survive with four kids and a dog? My father worked two jobs and we survived without having to eat the dog. Back then he was told the same story that we sometimes hear today about retirement income: That he would probably retire to two-thirds of his income, thus being in a lower tax bracket. In 1960, although the marginal tax rate was 87%, just about everything my father purchased was deductible on his tax return. After his deductions, his realized tax bracket was around 12%. Twenty-five years later, my father did retire to two-thirds of his income, but retired to a 28% tax bracket. Now, you might say that the difference between a 12% tax bracket and a 28% tax bracket is just 16%. Not quite. It was an increase of almost 140% in his taxation level. Soon after retirement the dog disappeared.

In the tax reform acts of the 1980's, the government professed to give its citizens one of the lowest federal tax brackets in the history of the country. Numerically they did, but they quietly took away most of the deductions. It created one of the largest windfalls in the government's taxation history. It was amazing . . . politicians proclaimed lower taxes while we actually paid more. The next leader came in and said "Read my lips, no new taxes." The next thing you know the federal marginal tax rate went from 31% to 39%. Check your math. Is that an eight percent increase? NO! It's about a 27% increase in taxation. Remember, all those increases were put in place with no tax deductions. A double whammy. Once again, even with the record tax revenues being collected, the country's debt continues to grow. In the near future, the demographics of the country will compound the taxation issues causing major problems. Does anyone really believe taxes will go down in the future? If your income is so small when you retire that your taxes actually go down, I feel sorry for you. Get help.

No matter how you look at it, taxes will continue to be the largest transfer of your wealth now and in the future. If you believe what the government tells you about its retirement plans and deferring taxation to a later date, I would encourage you once again to study the demographics of the country. I believe the government's main objective is to thrive and survive. Meanwhile, on the streets of America, we the public struggle to do the same thing. Remember, you and I the taxpayers, are the only ones paying for this. There is no such thing as a free lunch. Every time you earn a dollar, spend a dollar, and save a dollar, you face possible taxation. Any attempt by you to thrive or survive will be taxed. The real unfortunate fact is, they can change the tax rules anytime it suits or profits them. Trying to plan your financial future without understanding the inevitable changes the government must make, is like building a home on quicksand. Is the government's goal to finance their future or yours? Their plans may also create unintended consequences for you.

Sit Doggy Sit

Around and around he went as fast as he could with the never ending quest of catching his tail. At first, watching a dog chase his tail is sort of funny. As the dog persists and starts panting it becomes less humorous. Pretty soon you feel sorry for the animal and try to stop him. "Sit doggy sit." He stops for a second then starts all over again, chasing his tail. You think to yourself what would he do if he caught it? What's the point? First of all, this dog needs help, but to him it's a normal way of life. To me, the dog catching his tail is like someone trying to get a tax refund. You go round and round, get dizzy, work really hard pursuing it, spend a lot of time and effort to get it, only to find out it was yours in the first place.

Tax Refunds Avoiding Tax Exuberance

The concept of overpaying for something really makes my blood boil. Have you ever been on an airplane and overheard the couple next to you say they spent \$200 less than you did for your ticket on CheapTickets.com? First you're mad, then you feel stupid. You would have to be tortured to admit you overpaid.

I can never understand the exuberance people feel when they get a tax refund. They worked all year and paid taxes then went round and round, got dizzy, worked hard to get it back, spent a lot of time doing it, only to find out it was theirs all along. They act as if they won something when in all actuality, they lost.

What is the rate of return the government gives you on overpayment of taxes, otherwise known as a refund? Zero percent. In some cases, you have to hire an accountant to help you get this overpayment back. After they used your money all year long, did you even get a thank you letter? Let me get this straight. You gave them too much money. They gave you a zero percent rate of return. You had to pay an accountant to help you get it back and they didn't say thanks. You will have to torture me to admit that I received a tax refund.

The average refund is almost enough to make a car payment every month for the whole year. A \$3,000 refund would create \$250 a month to improve your standard of living. You would also have the opportunity to invest it and earn even more money. The most important result of adjusting your withholding on your paycheck is that you would have liquidity, use, and control of your money that you normally would have overpaid to the government. I would rather owe the government \$100 on April 15th than have them owe me something.

Say you go to a clothing store and find a jacket that you like. You walk to the cashier to pay for the \$110.00 garment, hand her \$200.00 and she rings it up. She comes back and says, "Thank you. Your change will be mailed to you in about a year." You in turn say, "That will be fine." Yeah right! But isn't that the way the government deals with us? Make sure your withholdings are adjusted properly so you won't suffer from tax exuberance.

The Problem Is The Solution And The Solution Is The Problem

The government SEEMS to have gone out of its way to help you save money and taxes. The important word there is “seems.” They have created savings programs with the idea you will save taxes by participating in them. Why? Possibly out of guilt for having overtaxed you in the first place. Possibly because high current taxation has forced us, as a country, to save at a negative rate. Possibly the government’s own fear that social security and other social programs will be forced to change dramatically. Possibly because the government understands the demographics of the changing population and the effects it will have on social programs. Possibly to shift the blame for less retirement income from them to you. Possibly because introducing these programs may help them get re-elected. Maybe, just maybe, they are interested in financing their future not yours. Everyone will agree that tax deferred savings is a good idea. But the government will decide what rate of taxation will be assessed when you take withdrawals. Wouldn’t it be a coincidence if the government were able to collect more tax revenues from you by using these programs? If they were truly that concerned about our savings, wouldn’t they simply lower taxes? If they were that concerned, why do they even tax what little we are able to save?

Who Pays?

There are many types of government-sponsored savings plans. They allow you to save money, if you qualify, in tax-deferred programs. Some of these plans such as defined benefit, defined contribution, and profit sharing plans to name a few, require the employer to make contributions to these plans on your behalf. The plans are disappearing more and more because it is becoming very costly for companies to maintain them. This first group of plans, although laden with regulation, is a great benefit to the employee. None of the workers’ money goes directly into these plans. These plans are funded by the employer.

The second type of plan enables the employer and the employee both to contribute to the plan, with restrictions of course. The employer will match a certain dollar amount or percentage of the employee contribution. Matching contributions by the employer is an option. It is not uncommon for the employer not to contribute anything. One of the most familiar plans that fall into this category is the 401(k). The 401(k) made it easier and less expensive than the old traditional retirement plans for the employer. Why? For the cost of administering the plan, a company can proclaim that it offers benefits for its employees. Even though the employee is funding most, if not all, of the plan.

The third type of plan that was created is one where the participant funds the entire program. IRAs, 401(k)s, and others are the most widely used plans by most individuals. Since these are the most commonly used I am going to focus on these plans.

When it comes to transfers of your wealth I want to simplistically separate these plans by one factor: Who pays for these programs. If you can get someone to help fund

your retirement with money, terrific, do it! But as for the money you contribute into these plans without company matches, I want you to start thinking a layer deeper. If you're funding the full amount for these plans, there are things you need to know in considering whether or not to participate in them. My intent here is not to explain and describe how these plans work and all their complexities, but simply to examine where the funding is coming from, and to discover who is encouraging the use of these plans and why.

Magician's Assistant

Step right up, come one come all, to the greatest disappearing act ever performed. Watch in amazement as the master of deception makes things disappear with the help of his assistants. Watch as entire fortunes vanish into thin air. Your participation is mandatory and our assistants will prepare you for the show. Welcome to the greatest show on earth.

The government creates the plans, and financial professionals deliver them. With little or no questioning, it is believed that life can not exist without government savings plans. They are marketed by banks, accountants, brokers, insurance and investment companies. All of these companies promote these savings programs because they profit from their existence. It would also be logical that the ones who created them would also profit. The popularity of these plans is based on blind faith. It is assumed, if the government and all these professionals support these programs, they must be good. Even companies offer these programs as a benefit to their employees. All of these seem to be tremendous tools for saving for retirement. When you get to retirement, HOCUS POCUS, POOF! A whole lot of your money disappears, along with the magician and the assistants.

**WHOSE FUTURE
ARE YOU
FINANCING . . .**

**YOURS,
OR THE
GOVERNMENT'S?**

The Government Your Partner In Life And Death

God created morons, he also created politicians. I'm sorry, I've repeated myself. The passion of politicians, and the harm that they cause, leads me to wonder why more of them don't commit suicide. We have invented the government of compromise. For the past 100 years or so, the government has passed on compromised solutions to our problems. Years later even the compromises are compromised. This, over a period of time, waters down the original solution, thus creating loopholes in the law that now need new compromises to close up the loopholes. If the Ten Commandments had been compromised over the years in this fashion, you would end up with the rules for big time wrestling.

In my opinion, there is greater disdain for the government and its failures by the public in general than ever before. Two monolithic political parties bent on destroying each other and willing to use the public as pawns, fight for ultimate control and power. Their goal is to fulfill their agenda, not the public's. I am tempted to run for president in the next election, independently of course, under the name of Mr. Neither. Mr. I. M. Neither. I bet the votes would flow in. I believe that NONE OF THE ABOVE should also be a choice for voters. This would give politicians time to reflect just how disconnected from reality politicians can get.

Other than what I stated above, I believe our form of government is almost perfect. Remember, our country's decisions are being made by a small minority of the population. Only 50% of eligible voters vote, and the winners of the election average 53% of the votes by 50% of the voters, thus about 26% of the public voted for the winner. When you take into account the people who never registered to vote, the winning politicians move to Washington with only about 15% of the people believing in them. Soon, all that may be left are compromised fragments of a once promising, powerful society.

Something For Nothing

Every time the government concedes to do something, it costs you money. No matter how impractical or how generous government programs sound, they are expensive. With the proper amount of media exposure and a loud special interest group, a politician would promote a hog-calling contest in Alaska at your expense. This is a government that believes it can produce medical benefit coverage for elderly people for about \$50.00 per month. The going rate for that coverage in the private sector is about \$500.00 per month. They continue to foolishly and recklessly spend money and create more debt. Here are just a few of the bargains we're getting for our money, from Martin L. Gross' book, The Government Racket 2000 and Beyond:

- *A \$1,000,000 study on how to cross the street in Utah*
- *\$90,000 to study the social life of vegetarians*

- *Millions to fund over 150 government owned golf courses*
- *Hundreds of thousands of dollars to fund the National First Ladies Library*
- *Over \$200,000 to study horseflies' sex lives*
- *Over \$20 million to study mail delivery*
- *Over \$25 million for political conventions*
- *Over \$20,000 for 3 elevator floors in congress*
- *Over \$300,000 for a barber shop and beauty salon in congress*
- *Over \$200,000 on a study why women smile more than men*
- *Over \$100,000 for the plans to design an outhouse in Delaware. (Over \$300,000 to build it.)*
- *\$4 million for a parking lot in Illinois*
- *\$40 million for the National Animal Disease Center in Ames, Iowa*
- *\$400,000 for manure management research at the National Swine Research Center*
- *\$800,000 for a project on red imported fire ants*
- *\$880,000 for cotton research in Texas*
- *\$5,670,000 for wood utilization research*
- *\$484,000 to the University of Connecticut for Food Marketing Policy Center*
- *\$260,000 for asparagus technology in Washington*
- *\$239,000 for fruit practices in Michigan*
- *\$1 million for University of Alaska Stellar Sea Lion recovery*
- *\$750,000 to prevent Atlantic salmon from escaping state stream in Alaska*
- *\$250,000 to prepare discussions regarding Columbia River's hydro system in Alaska*
- *\$3,350,000 for Institute of Politics in New Hampshire*
- *\$3 million for Hawaiian Sea Turtles*
- *\$300,000 to develop a virtual business incubator at Lewis and Clark College*
- *\$50,000 for a tattoo removal program in California*
- *\$15 million for financial aid at the Citadel in South Carolina*
- *\$1 million for math teacher leadership*
- *\$750,000 for minority aviation training at William Lehman Aviation Center (this money goes to only 12 students, making Florida Memorial College more expensive than Harvard or Yale)*
- *\$2 million for the House of Food and Friends (This program is being run by a convicted criminal who had previously stolen money from another charity)*
- *\$5 million for computer equipment and internet access for schools in Armenia*
- *\$1 million for the Conflict Transformation Across Cultures program at the school of International Training. Problem is only 40 students per year participate making this a \$25,000 per student subsidy.¹*

¹Gross, Martin L., The Government Racket 2000 and Beyond. New York: Harper-Collins Publishers, Inc., 2000.

Thousands of these government giveaways happen every year. These drive up the country's debt, which you and I are responsible for paying. Ironically, the politicians want to tell us what we should be doing financially. The real problem is every time you try to financially help yourself and your family, you're taxed. If we followed their model of fiscal responsibility, the country would collapse economically. Historically, we saw the fall of the U.S.S.R. due in part to the cost of the "Cold War." Their debt buried them. I fear our country's debt, compounded by personal debt, leaves very little wiggle room for the government to do the things they are promising to do. The problem is compounded by the future demographics of our country. With individuals carrying record amounts of debt, politicians feel they may be committing political suicide by adding more debt to the public in the form of tax increases.

Financially Speaking

The reason I have brought all this up is this: The largest financial transfers of your wealth are created by the government in the form of taxes. Their actions will affect your money more than anything else in your entire life. The real bad news is they can make up the rules as they go along. There is an interesting debate simmering. Is the money we earn ours, or does it belong to the government and we are just using it? Think about it. The uncertainty of taxation rates in the future continues to be a problem. The growing aging population problem, over-spending, growing debt, increased costs of health care, the never ending war on terror, increased spending on security, will all affect the amount of money that you will be able to keep and spend in the future.

Qualified retirement savings plans could become a bigger tax revenue target in the future. Just understanding that this could happen and searching out alternative savings for retirement could save you thousands of tax dollars in the future. The government has a vested interest in all the money you are saving. They are taking it seriously. You should too.

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