SpongeBob, Dr. Seuss, and Critical Tax Theory

OR

What Republican Leaders Are REALLY AFRAID You'll Learn

	Income	Stated Rate (Married Joint Return)	Deductions (standard, 2 adults, 2 children, plus child care credit)	Adjusted Income	Actual Taxes	Actual Rate	Notes
Earned income	$50,000 $5,000,000	22% 37%	$24,800 deduct $4,000 credit	$25,200 $4,975,000	-$1000 $1,836,824	-2% 36.7%	For high income households, effective tax rate is typically reduced by using itemized deductions, including mortgage interest, medical, education, thus reducing tax liabilities by about 20%, so the actual rate is closer to 30%.
Retirement plans	$50,000 $5,000,000	Retired Personal Rate	$27,400 std deduct	$22,600 $4,972,600	$2,712 $1,869,698	5% 37.4%	Postpone taxes on some portion of income or capital gains until post-retirement distribution.
Qualified Dividends	$50,000 $5,000,000	15% 15%	$0 $0		$7,500 $750,000	15% 15%	Reduces tax liability on dividends 20% to 45% from ordinary income rates by holding assets for more than one year.
Stock incentive plans	$50,000 $5,000,000	15% 20%	$0 $0 Or original cost.		$7,500 $1,000,000	15% 20%	Receiving income in this form reduces tax liability by 40% to 50% as compared to receipt as income.
Bonus depreciation	$50,000 $5,000,000	-100% -100%	-50,000 -5,000,000	Dollar for dollar income reduction			Typically, 100% of the cost can be deducted from taxable income

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Carried interest	$50,000 $5,000,000	15% 20%	Original cost		$7,500 $1,000,000	15% 20%	Receiving income in this form reduces tax liability by 40% to 50% as compared to receipt as income.
Cashflow from loans	$50,000 $5,000,000	0% 0%		Interest deduction			No income effect, interest may be deductible depending upon entity structure.
Unsold appreciated assets	$50,000 $5,000,000	0% 0%				0% 0%	Loans against unsold assets as collateral provide tax free cashflow and a tax deduction for interest paid.
Sold appreciated assets	$50,000 $5,000,000	15% 20%	Original cost			15% 20%	Taxed at lower capital gains rates if held for one year or more, saving 20% to 45% of potential tax liability.
Partnerships	$50,000 $5,000,000	Personal rate					Facilitates pools of capital to co-invest.
Corporations	$50,000 $5,000,000	21%					100% bonus depreciation can eliminate tax liability and provide assets to financially able corporations and ADD to net cash flow in the year taken, allowing further pyramided asset investments.
Corporations	$50,000 $5,000,000	21%					Reduced corporate tax rates provide additional cash flow for stock buybacks. Stock buybacks reduce the number of shares. Value per share increases with the same earnings is spread over fewer shares AND allows

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							corporate executives income to be taxed at lower individual capital gains rates when sold.
Sub S corporations	$50,000 $5,000,000	Personal income rate					Shields proprietors from individual liability for corporate liability, minimal material tax benefit compared to individual tax liability.
Transfer pricing and offshore income	$50,000 $5,000,000	Most advantaged rate, 0%					Direct and indirect cost allocation can reduce profitability in high tax jurisdictions, reducing effective tax rate.
Generational transfers	$50,000 $5,000,000	Estates are untaxed below $11.6 million, up to 40% thereafter, with transfer at stepped up basis					The first $11.6 million your family has will not be taxed. Median American families have about $120,000 in net assets, though Black families have only $14,000 while White families have $187,000, the legacy of redlining and housing discrimination practices which have persisted into modern times.
Generational transfers through perpetual trusts	$50,000 $5,000,000	Small trusts are impractical to establish and administer. Large scale					No worries, no taxes now, no taxes later, accumulate whatever assets you choose tax free, use those accumulated tax free assets to borrow and buy more assets, deduct the interest on your borrowings from the taxes of

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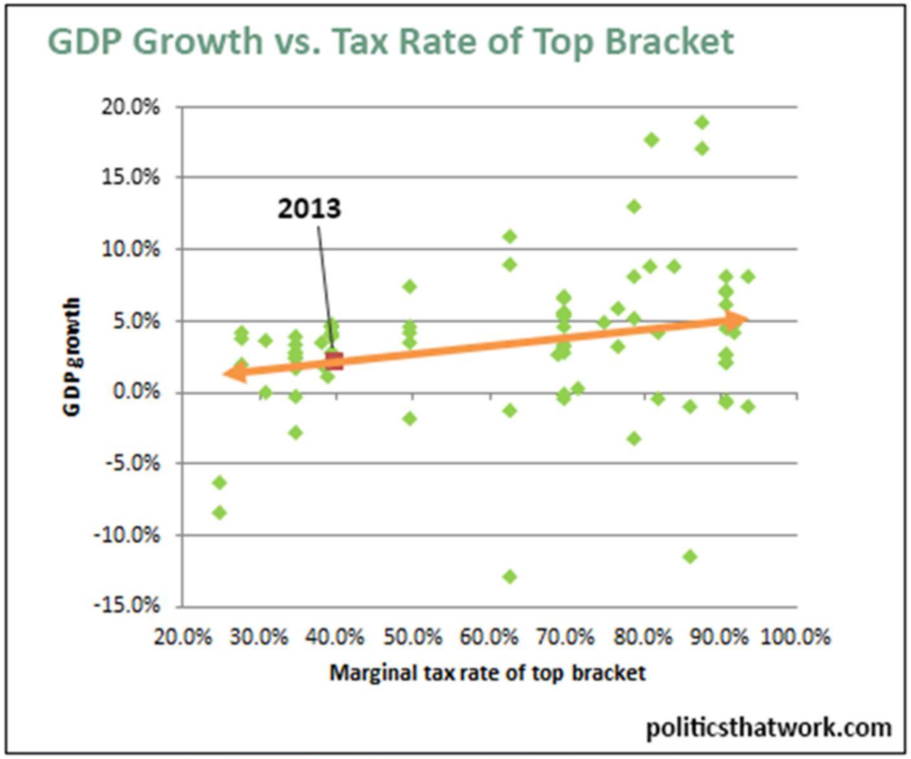
		perpetual trusts pass assets to next generation without taxation as there is never a taxable event.					the corporations you buy, and pass it all on in a perpetual trust.

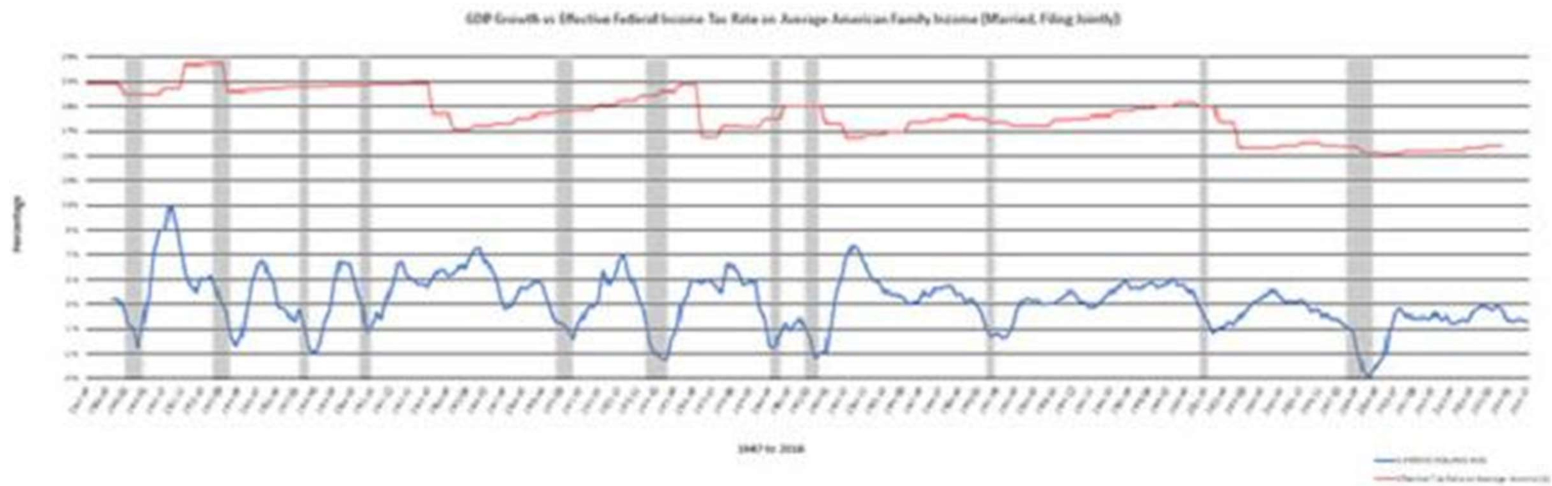
Put Another Way

Find the Trendline Which Shows the Relationship Between Tax Rates And Economic Growth Since 1947:



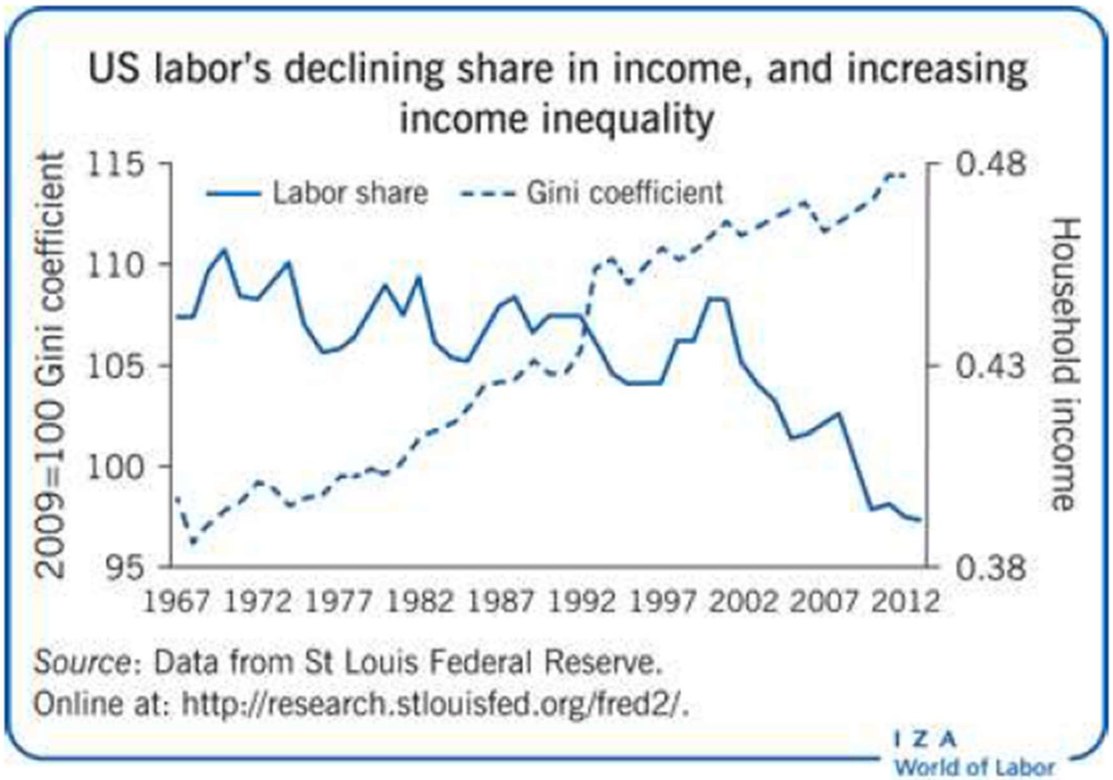
Can't see it? Really? You're sure about that? Well, you're right, there isn't one.

The correlation coefficient between the highest marginal tax rate and economic growth is .25, aka there's very little evidence that high tax rates for wealthy people slow economic growth, or that low rates accelerate economic growth. (A correlation coefficient of 1 is perfect correlation, drink too much alcohol, get drunk.)



Source: Forbes, October 17, 2017

The GINI coefficient has steadily increased over the past few decades as supply-side tax policy has been implemented, aka the rich are getting richer compared to the rest.



Bottom Line on US Tax Policy:

Fiddling with tax rates has very little to do with current economic growth, but a great deal to do with the future discretionary ability for the government to borrow in extreme emergencies. So, lifetime personal tax advice goes something like this:

- Top 1% or so: If you have sufficient assets, you can completely avoid taxes as can your heirs. Just set up a perpetual trust, borrow against your assets, and arrange for just enough earned income to take the interest, education, and medical expense tax deductions, virtually eliminating taxes of all kinds. This permits tax free compounding of assets by borrowing against currently held assets to buy more earning assets. As Elon Musk says sourly, "when they run out of other people's money, they'll come after yours." Tax liens on private orbiting space capsules and labs, anyone?
- Top 5% to 10% or so: If you need to live well on your income, make it from passive sources, such as stocks, bonds, real estate depreciation, and row crop farm subsidies. You'll save half or more of your tax liability so you can accumulate and pass on assets with a perpetual trust. You can be gratified with the lifetime low-tax increase in your net worth, and your kids will live extremely well.
- The rest: If you need to work for income to survive, your employer will make sure you pay your taxes. Good luck to you and your children. Over the last 40 years, real housing costs have increased by about 100%, real incomes have increased by about 15%, and the real minimum wage (what you can buy with it) has decreased by about 30%.

The Reality of the Republican View of Tax Equity and Upward Mobility:

- If your parents have minimal assets, it's likely you and your children will too. America needs hard working people.
- Wages and wage growth are suppressed so everyone can get a job (hold down wages overall), are to be taxed immediately (and, yes, are the worst possible way to accumulate assets).
- Tax policy must favor tangible and intangible assets (real estate, stocks, bonds, and intellectual property), which should never be taxed.
- If you have enough assets now, you can borrow on your perpetual trust, fund your lifestyle, acquire more assets, and pass it all to your children tax-free.
- Tax policy and historic patterns of discrimination are not to blame for unequal asset accumulation by certain groups.
- Immigrants are to blame for stealing low wage jobs from hard working Americans and keeping wages low.
- Finally - Look, they tell you, the real problems with America are SpongeBob, Dr. Suess, Critical Race Theory, and progressive ideas which will keep Americans from working hard, will steal the American Dream of hard work and getting ahead, and will move us away from our social programs peer group – Papua New Guinea, Suriname, and Pakistan. Pay no attention to labor's declining share of national income and growing income inequality which directly coincides with 40 years of supply-side tax policy. Regulate tax-free generational transfer of wealth through trusts? Nah, nothing to see there either.

So, here we are. It's been 50 years of Republican supply-side tax policy and growing inequality. Had enough?