



**Infomail**

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## The Selling of Victimization (Time To Get To Work)

*“Taxing the rich to fund poorly managed government programs is simply a self-destructive decision; it does nothing more than move money and investment decisions away from proven moneymakers (read: Job producers) to Washington’s amateurs, and in both cases, Americans lose.”*

T.J. Rogers, Founder & CEO Cypress Semiconductor

As part of President Obama’s most recent State of the Union (SOTU) address, he laid out a plan which is more of the same, which is the intentional redistribution of wealth, along with the usual M.O.: higher taxes with lots more spending. Using hatred and envy towards the rich is always a very popular political move, it has been for thousands of years, but unleashing a torrent of new taxes usually unleashes a tax beast that can turn on the majority more often than not, and create a lot of unintended consequences.

An obvious example took place in 1966, when then US Secretary of the Treasury, Joseph Barr, reported that “155” high income households had paid zero in federal income taxes. Of course, it created a huge uproar in the media and by 1969, members of Congress had received more letters about the “155” high income households paying no taxes than the Vietnam War.

In reaction, a new tax was introduced, and the Alternative Minimum Tax (AMT) was created.

The AMT has been amended in recent years, as it once threatened to hit as many as 33 million people. The number is now about 4.5 million taxpayers, most middle class earners.

The irony is, back in 1966, those wealthy families earned an average of \$200,000 to be on top, but today, that amount would barely get a family by in New York City.

One of Obama's new taxes in the SOTU was to go after Individual Retirement Accounts (IRA's) because three hundred (300) or so super rich wealthy families (like Mitt Romney) who have socked away \$25 million plus in them. The President is proposing to cap them at \$3.4 million (roughly \$200,000 annually to live off).

But the Estate Taxes the President is proposing could have far reaching implications. It will affect the rich and non- rich alike. For example, say your mom leaves you a house, say worth \$250,000, and you sell it later for \$300,000. Assume Mom and Dad paid \$50,000 originally. Under today's rules, it's a \$50,000 capital gain, but under the President's plan it would look like this:

| Estate Tax New Math      | Current Option | SOTU Proposal |
|--------------------------|----------------|---------------|
| Mom and Dad paid         | N/A            | \$50,000      |
| Worth Upon Death         | \$250,000      | \$250,000     |
| Sell                     | \$300,000      | \$300,000     |
| Cap Gain Tax on Property | \$50,000       | \$250,000     |

There were a lot more "tax grabs" in the SOTU, one which bombed so bad it was dropped from the platform within a week (taxing and capping education savings plans).

A week later, the President was on the speech circuit once again, but this time was looking to ditch sequestration, which he is blaming for cuts in after-school programs affecting 1.2 million kids, along with the elimination of 30,000 teaching jobs, meals for 4 million homebound seniors, and less funding for first responders in local communities. (Source: [www.whitehouse.gov/issues/sequester](http://www.whitehouse.gov/issues/sequester))

Of course, the President has been loath to cut any spending programs in any shape or form. In fact, he keeps creating more of them and the SOTU was loaded with them, with things like free community college tuitions, tax credits for education, extended child care, increased sick pay and maternity leave pay, among others.

The President takes a lot of credit for the US spending deficits being cut in half under his watch. The truth is it's back to where it was when he first took office and only happened because of the sequestration, which was forced by the Republicans and which he vehemently opposed.

| Obama Deficit Balloon | Amount         | % GDP |
|-----------------------|----------------|-------|
| 2009                  | \$1.4 trillion | 9.8%  |
| 2010                  | \$1.3 trillion | 8.8%  |
| 2011                  | \$1.3 trillion | 8.4%  |
| 2012                  | \$1.1 trillion | 6.8%  |
| 2013                  | \$679 billion  | 4.1%  |
| 2014                  | \$486 billion  | 2.8%  |

The President's new buzz phrase is "middle-class economics." The truth is, if he cut big government spending and lowered taxes, it would be the biggest boom he could give to middle class families.

Which leads me to the best story I read last week.....

The Detroit Free Press wrote an article about James Robertson, a 56 year old Detroit factory worker whose vehicle broke down ten years ago and was unable to afford another. He had an arduous 23 mile commute to work, so what did he do? Quit? Hardly. He took a bus part of the way there (2 miles), and for 10 years.....has walked the rest of the way. A total of 21 miles a day he walks.....and all for a \$10 per hour job. Everyday. And the best part? Through rain, sun, sleet and snow, he has not missed a single day of work. And the story gets better. A Wayne State University student named Evan Leedy heard about Mr Robertson, and started an on-line campaign to raise \$5,000 to buy a new car for him. The campaign has raised \$310,000 according to the Toronto Star (as of Feb 8<sup>th</sup>).

On the other hand, there are a lot of people a lot younger than Mr Robertson who do not even bother to get up, face the day, and go to work. Mostly because they don't have to.

The selling of victimization goes hand in hand with the creation of a victimizer. That latter is always the 1%, the rich, the successful, but if you drink the President's Kool Aid, the size of the pie is limited, and all you have to do is have the entire nation divvy up all the cash, let the government take care of it, and everyone will be happy ever after.

Another example on how the entitlement has exploded is the Disability Insurance Fund. It's actually going broke and is scheduled to run out of money sometime in 2016. The main reason is the burden of over 5 million people, up almost 500% since 1957. It is up almost 1 million just since Obama first took office. Young, able bodied men who are allowed to say they cannot work and end up on the tax payers dime. Coincidentally, the number on Disability went down from 1977 until 1983, but then spiked in 1984 when, you guess it, the rules to collect got easier, and the explosion in the

number of young men going on disability took place. It has spiked again in the last six years as the entitlement mentality has kicked in under this President.

Part of the President's new campaign of "middle-class economics" is the sales pitch of the "empathy gap." That's right, he's telling the hard done by folks, the other sexes, the other races, the poor and those unable to get a slice of the American pie that the deck is not only stacked against them, but the 1%/rich/wealthy are really mean, and they actually don't give a darn about everyone else.

It makes for great politics, but poor economics and certainly no way to build a society. But alas, for two more years this is what we have. Mr. Robertson never stopped going to work, despite great odds against him. With six years wasted, and two years to go, it's time the President rolled up his sleeves and finally got to work. It's not too late to turn it around. Less time on the golf course would be a good start.

Stay tuned,

Vito Finucci  
Vice President and Director  
Investment Advisor

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