

Assessing The Damage From The Misapplication Of The Income Tax

Americans end up as dependents when nearly every one should retire a millionaire.

I HAVE AN ABIDING CONCERN that the average American is completely unaware of the "opportunity cost" of the exploitive misapplication of the income tax to earnings which don't actually qualify that has been widespread since the 1940s. (If this subject is new to you, see [this](#) to get a quick handle on the scam and [this](#) to quickly see the truth of that little story. Or, click [here](#) for a much more in-depth presentation.)

Laid out for viewing, that opportunity cost is startling and appalling, to say the least. Let's have a look (working with available 2015 figures).

ACCORDING TO THE U.S. CENSUS BUREAU, [median individual earnings in 2015](#) for all workers over 15 totaled \$30,240. We'll use that low-weighted figure so as to be exceedingly conservative (the higher the earnings-figure with which we begin, the more dramatic are all the lost opportunities we're going to examine).

Treating that \$30,240 as subject to the income tax and applying the 2015 \$6,300 "standard deduction" for a single filer and a \$4,000 single personal exemption, we end up with a "taxable income" for 2015 of \$19,700. (Some folks would apply a few additional specialized deductions, which would reduce this figure somewhat in those cases. But since many would not, and we're using a low-weighted starting point anyway, I'm going to treat those variables as evening out for purposes of this discussion.)

The nominal federal income tax on a single filer reporting \$19,700 of "income" in 2015 was \$2,498. The FICA income tax bite on that filer's \$30,240 of earnings was \$4,626.72. (Those working for others may be surprised at that figure, since they only see half of the FICA tax bite being diverted from their pay. But the worker actually pays the whole thing. The other half, which is nominally "paid" by the company, is financed by a reduction in what would otherwise be the worker's total pay.)

So, we have a tax extraction of \$7,124.72 from our model young worker during 2015. Even under a 401(k), only a small fraction of just the non-FICA third of that total can be deferred until taken later at an unknown and possibly higher rate, and even that modest reduction can only happen by a much larger reduction in available current "take home" pay. All in all, a pretty hefty chunk gets taken, and especially from an earnings total of only \$30K. But we're just getting started.

Over our model's working life, his or her earnings will rise, and dramatically more will be extracted each year in taxes. Upon reaching just the [average \(mean\) earning level](#) of \$44,510, our worker will be tapped for \$10,703.03 (while still using 2015 tax figures, which skew low against reasonable projections into the future, and even while throwing in an extra \$5,210 mortgage interest deduction at this point).

SO, THAT'S THE CURRENT SITUATION for most American workers, broadly sketched: a whole lot of money being extracted under the auspices of the "income tax". Even allowing for no rise over average earnings throughout, and figuring that 23 of his or her 45 working years remain at the median number before rising overnight to the mean figure and then never increasing further, our model will have had taken away between ages 20 and 65 a total of \$399,335.22-- just in "income" taxes.

What's more, that already very large figure is just the *federally*-collected portion of the income tax. Residents in 43 of the fifty union states face additional applications of the same tax, making the actual total extracted considerably higher.

In return, our deeply-mulcted worker can expect to get back a lifetime total in Social security and Medicare benefits of \$484,000. (This is based on current (2015) benefit levels, to be fair to our current earnings- and tax-rates model, as [calculated by the Urban Institute](#).)

OK, SO FAR, SO SUCKY. We're supposed to be living the American Dream, and the reality is not so "dreamy".

But wait, there's more! Now let's look at the opportunity cost of that income tax extraction from our young worker. Best sit down...

That same worker, if keeping the otherwise extracted amounts of his or her own money over that period and investing it-- even at an unreasonably-modest long-term rate of return of only 5%-- would end up with \$1,403,398.28 in the bank at age 65!

Here's how we get there: 5% interest on \$7,124.72, with the same amount added to the principle each year (in a single increment, which is a calculating factor that skews the results downward as compared to the constant increases which would really take place), yields \$331,823.31 after 23 years ([see the calculator here](#)). Bumping the rate of annual principle increase to \$10,703.03 over the next 22 years winds up at that whopping \$1,400K+.

BUT LET'S STOP BEING SO GENTLE with the tax-scam status quo! Bump the rate of interest to a much more normal 7% (see, for instance, [this](#) and [this](#)) and our worker ends up with a staggering **\$2,515,665.66** at age 65!

Think about it. At 65, our non-victimized worker could afford to charitably contribute twice as much as would have been taken from him over his entire working career in "income" taxes, and still have in hand-- for retirement, care of family and legacy-- well over three times what SS and Medicare would dole out to him! And all while having had the full use of every penny of what would have been called his "take home" pay throughout those working years.

Further, this is without factoring-in the somewhat smaller but otherwise identical advantages and added increments of wealth from retaining and investing income tax amounts collected by the states. Those collections are committed under precisely the same income tax scam deployed by the feds to improperly apply the tax (again, explained [here](#) + [here](#) in simple terms; [here](#) more comprehensively, and [here](#) in complete detail).

SO THAT'S HOW TO PROPERLY ASSESS THE INCOME TAX SCAM-- a deep, grinding, ruinous rip-off, which steals away the wealth and well-being to which every hard-working American is truly entitled. Think about how much more in charge of his or her destiny everyone would be if unhindered by the scam. Think how much more powerful every individual American would be.

Think how much more powerful and in command of your own destiny YOU would be. Maybe thwarting that is part of the reason for the scam...

It's amazing to me that everyone responsible for perpetrating, perpetuating and concealing the truth about this nasty scheme isn't facing an angry mob.

P. S. Do you fear that everything will grind to a halt if the misapplication of the income tax ends and only the 30 million or so Americans who really owe it are left paying it? Not so. See [this](#).

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