Inside Highlights

- **New Stealth Tax Rates on HENRY's** — **pgs. 1-2**
- **The "Affordable" Health Care Act: Unaffordable New Taxes** — **pgs. 3-5**
- **Doug's Rant on Intrusive Government** — **pgs. 4-5**
- **Marriage Penalty Update** — **pgs. 5-7**
- **Penalties for the Uninsured** — **pg. 8**
- **Other Thoughts on the Role of Government** — **pg. 8**

"To act on the belief that we possess the knowledge and the power which enable us to shape the processes of society entirely to our liking, knowledge which in fact we do not possess, is likely to make us do much harm…The recognition of the insuperable limits to his knowledge ought indeed to teach the student of society a lesson in humility, which should guard him against becoming an accomplice in men's fatal striving to control society—a striving which makes him not only a tyrant over his fellows, but which may well make him the destroyer of a civilization which no brain has designed but which has grown from the free efforts of millions of individuals."

— F.A. Hayek, Nobel Prize lecture, December 11, 1974

Tax and Financial Strategies

Issue #52 Fall 2013

Wealth Creation Strategies

New Stealth Tax Rates on Upwardly Mobile Extraordinary Producers

"There is good news from Washington today. Congress is deadlocked and cannot act."
— Mark Twain

January 2, 2013 was not one of those days, as Congress passed The American Taxpayer Relief Act of 2012 (ATRA). Under the Act, spending was not reduced; in fact it's 25-50% greater than revenue (try running your household like that!), inching us closer to national bankruptcy and/or higher taxes for everyone. As my friend and tax attorney Mel Kreger cleverly puts it, taxes had already been "simplified" beyond all human comprehension and yet Congress managed to make it worse. Taxes on the most productive were increased, which is a sure way to reduce incentives and capital formation. This serves only to slow or reverse increases in living standards for everyone.

The good news, at least for 2013, is that despite Twain's admonition, tax rates and rules for those with incomes under $200,000 were kept pretty much the same as they've been for the last decade. Congress calls the new tax rates "permanent," but can change its mind in a heartbeat. The Act extended a number of tax breaks for only a year or two, including higher education tuition credits and the temporary increase (up to $500,000) in the Section 179 expense deduction for purchases of business equipment (this will revert to $25,000 in 2014 without a change in the law).

However, the bad news is taxes were already increased effective in 2013 for almost everyone, including many with incomes under $200,000 (see tax increases #s 3 through 9 in the next article). Worse, taxes have been further increased by the Act on nearly every taxpayer with income in excess of $200,000 ($250,000 for joint filers). Some might ask, "So what? What's the problem? They can afford it!" Here's the problem: when government increases its take of capital in this manner, it's choosing how to "invest" it. Do you really think they do a better job overall than those with high incomes (with their own skin in the game) do on their own?

Complifications

The Act reinstates a phase-out of personal exemptions and itemized deductions for tax year 2013. (Introduced in 2001 and eliminated just a couple of years ago, like zombies the phase-outs won't die.) These are among the most dishonest of tax increases: stealthy and so complicated that hardly anyone understands the cost. The $3,900 per person personal exemption is phased out at a rate of 2% for each $2,500 of Adjusted Gross Income (AGI)* in excess of $250,000 ($300,000 for joint returns). And, up to 80% of itemized deductions are phased out at a rate of 3% of AGI in excess of those same figures (but not below the standard deduction). The bottom line is that the real tax rate is higher than the advertised one as exemptions and deductions are phased out. For example, those subject to the 28% marginal** tax rate and whose income exceeds these phase-out levels are in reality hit with a nearly 29.4% tax. Those subject to the 35% nominal rate are in a phantom but very real 36.75% bracket. Those in the newly reinstated 39.6% bracket (single persons with $400,000 and joint filers with $450,000 of taxable income) are actually hit with a 41.6% tax rate until the phase-outs are complete (which will rarely occur), after which their tax rate drops back to 39.6%.***

It gets worse: taxpayers are also hit with a new .9% Medicare tax on wages and net Self-Employment income over $200,000 single or $250,000 joint. This is on top of the employer-employee combined 2.9% rate, in effect since 1993. And, moderately high-income earners are subjected to a brand new 3.8% Medicare tax on net investment income (see tax increases #s 1 and 2 in the next article).

When we consider all of these new taxes, California over-achievers will be subjected to combined federal and state 55% real tax rates. Our governments are doing what they can to revive serfdom.

In addition, the extremely productive (those producing so much value for others they are subjected to the nominal 39.6% bracket) will pay a nominal 20% tax on long-term capital gains and qualifying dividends, up from 15%. When we add the effect of the AMT and phase-outs of itemized deductions and personal exemptions, along with the 3.8% Medicare tax and state income tax, high-income taxpayers in most states will pay 31% to 37% on long term gains. Middle-income taxpayers will continue to pay 15-32%, while those with lower incomes generally will continue to pay zero to 15% on moderate gains. The discussion on page 7 of issue # 50 of *WCS* at http://www.dougthorburn.com/cmsAdmin/uploads/50-ThorburnFall12.pdf still applies to these taxpayers. (To give credit where credit is due, thank you Mr. Bush for this tax break!)

When the effect of inflation on those gains is considered, however, the real after-tax gain can drop to a negative figure if there are moderate profits. Say you purchased property qualifying for capital gains treatment (such as securities or real estate) for $100,000 in 1988 and sell it for $200,000 in 2013. Because the consumer price index has nearly doubled in that timeframe (2.8% average inflation for 25 years doubles the price level), in real terms you barely break even. Worse, you suffer a real loss to the extent taxes are paid; these can easily total $35,000. The effective combined income and inflation tax rates can exceed 100%, allowing the government to profit by the very inflation it creates at your expense.

Confabulated calculations

When it was passed, ATRA was expected to raise roughly $80 billion per year. However, this figure used "static" analysis—which assumes that behaviors won't change even though taxes are increased. What garbage—of course behaviors will change! Unfortunately, ATRA will result in lower government revenue than expected and damage economic growth, which will add to downward pressures on such revenue. (At least one client already changed her mind about selling a property with a huge one-time gain because of these additional taxes; there will be many others, as this only a microcosm.)

The federal deficit has been a trillion dollars yearly for several years now. For a proverbial drop in the bucket of something less than $80 billion we suffer under greatly reduced tax incentives to produce (the product of which is increased income and, thereby, taxes), much greater complications to the tax code and a reduction in private capital. When you consider that private capital pays for the private truck used in productive activity while government capital pays for a bridge to nowhere, increased taxation reduces the rate of increase in our aggregate standard of living. Moreover, if median income statistics are accurate, the last six years has seen a reduction in overall living standards; this only adds to downward pressures on incomes that we cannot afford.

Those naïve individuals who think that budget problems can be solved by hosing high-income earners (most of whom are "HENRY's"—High Earners Not Rich Yet) might consider the fact that $80 billion only pays four months of (artificially low) *interest* on government debt (not even a piece of the debt). This is only 8% of a $1 trillion annual deficit. Eliminating the deficit entirely—not paying down the debt, but rather merely keeping us even—would require 100% tax rates on everyone earning more than $250,000 per year—and that assumes everyone would be willing to work for "free." That will happen when pigs fly.

* Adjusted Gross Income is essentially total income after business and rental expenses, less certain adjustments such as IRAs and other retirement plan contributions, alimony paid, self-employed health insurance and several other relatively minor or esoteric items. Itemized deductions and personal exemptions are not subtracted from income to arrive at AGI. Your AGI can be found on line 37 of your 2012 federal income tax return.

** "Marginal rate" is the tax rate paid on the last "chunk" of income. Perversely, the last chunk is often not taxed at the highest tax rate a taxpayer may be subjected to. This is explained in issues 28, 29 and 30 of *WCS* available at: http://www.dougthorburn.com/newsbyedition.php.

*** I'm not yet certain how large of a mitigating effect the Alternative Minimum Tax (AMT) will have on final tax bills, but it will, in a perverse way, reduce the damage. Bear in mind we have a dual-tax system in which we calculate the tax two ways—the regular way and the AMT way—and the larger of the two taxes is paid. Some of the tax increases will be ineffectual due to the fact that many, especially those in the $250,000 to $600,000 income range, are already paying an AMT that is larger than the "regular" tax. Until the regular tax increases up to an amount equal to the AMT, many taxpayers in that income range won't feel the effects of income tax rate increases. For example, someone whose regular 2012 income tax was $45,000 and AMT was $50,000 may see an increase to $50,000 in the income tax in 2013 while the AMT remains the same—which means there is no change to the final tax bill.

2013 Tax Increases under the "Affordable" Health Care Act

I've previously refrained from discussing tax increases under the grotesquely mis-named 2010 "Affordable" Care Act for several reasons. First, few taxes imposed by this Act went into effect until 2013. Second, I hoped the Supreme Court would rule this exercise in omnipotence by government planners unconstitutional, which would have rendered any discussion a waste of time. That the Supreme Court ruled a penalty is really a "tax" shocked this lifelong libertarian.* The Act, rammed down our collective throats on the most partisan vote ever recorded in the U.S., is "command and control" Soviet-style central planning at its finest. In the hope of avoiding large out-of-pocket health care expenses (forget about "freedom"), it could easily destroy health care as we know it. Just imagine a government takeover of the Internet or manufacturing of computers, growing and distributing food, operating restaurants—or, perhaps, operating a web site—it would double prices and decimate the quality of products supplied. The short essay, "I, Pencil" (available at: http://www.fee.org/library/detail/i-pencil-audio-pdf-and-html#axzz2klPLEVP9), points out that not one person on the planet can make a pencil—it requires 80 different types of expertise and manufacturing processes. Think of the 2,800 page bill filled with rules and regulations on everything under the sun in supplying and creating health "care." A bill written by bureaucrats, lobbyists and attorneys who have no such expertise is supposed to bring down costs and increase quality. Are you kidding?

Regardless of the fallout from the rollout, we have to live with the massive tax increases associated with the law until the Act self-destructs or kills us, whichever comes first. There are by unofficial counts some 22 tax hikes associated with the law, despite numerous promises that "Your taxes won't go up" and, "If you like your existing insurance, you can keep it." Several of the tax hikes will directly affect many of you; others will indirectly affect all of you. Let's focus on five direct taxes and four indirect ones, three of which are not commonly thought of as taxes but which are, by any rational definition of the word, "taxes."

1. All wages and net self-employment income have been subject to a (1.45% employer-paid + 1.45% employee-paid =) 2.9% Medicare tax since 1993; before this the imposition of tax was limited to the Social Security wage base ($113,700 in 2013). This Act increases the Medicare tax to (1.45% employer-paid + 2.35% employee-paid =) 3.8% for all wages and net self-employment income above $200,000 for single taxpayers and $250,000 for joint filers. ** These income thresholds are not indexed for inflation, so when we go into hyperinflationary mode (after a likely imminent deflationary crash) and $250,000 is the new $25,000, this tax will hit nearly everyone not on the dole.
2. The Act creates a new 3.8% Medicare tax on any net investment income for taxpayers with Adjusted Gross Income (AGI) in excess of $200,000 ($250,000 for joint filers). As mentioned in issue # 41 of *WCS*, this tax creates a terrifying precedent in terms of new and innovative ways to tax. In addition, for the first time ever, investment income is defined not only as interest, dividends and net capital gains, but also net rental income. Capital gains include profits from the sale of a main residence in excess of any allowable exclusion (up to $250,000 per person), as well as the sale of any other property including second homes and rental properties.
3. The Act institutes an increase in the threshold for taxpayers who itemize deductions *and* claim medical expenses, from 7.5% to 10% of Adjusted Gross Income (AGI). In a paean to the AARP lobby, the threshold continues at 7.5% until 2017 for taxpayers age 65 and over (for joint filers, if *either* is 65).
4. The Act caps contributions to flexible spending accounts (FSAs) at $2,500 per employee, down from $5,000 per employee.
5. The Act eliminates the use of FSA funds for nonprescription drugs (except insulin). It's now cheaper for many to get a prescription for the anti-inflammatory drug naproxen (Alleve) and let others via "insurers" and taxpayers pay $40 for the same amount of the drug you can pick up at Costco for $15.
6. The Act imposes three new taxes on insurance products. One is a $2 tax per insured or self-insured individual. The second is a reinsurance tax, designed to pay insurers if they under-charge and lose money via adverse selection (too many unhealthy people signing up and not enough young individuals doing so). No wonder insurance companies, went along with this travesty; their profits are protected. This is estimated to run about $70 per policy per year. The third is a health insurance provider fee, which by one estimate will run as much as $400 per policy per year. Of course all of these taxes will be passed on to policy-holders.
7. There's a tax that's not considered a tax, but which is a "hidden" tax. The Act decreed that insurers may not charge older, sicker people more than three times the lowest rate for young people. To the extent that "real" market prices for insurance premiums are greater for the more mature, 20- and 30-somethings effectively subsidize this older group.*** Already there

are reports of younger, healthier people suffering rate increases in excess of 100%. The government has simply hired an insurer to collect what is essentially an indirect tax from younger people and redistribute it to older people. Of course, it won't really work: healthy young people have (rationally) decided en masse not to sign up (and it's not only because they can't log on to the failed website).

8. A related issue is that those covered by employer plans won't see the tax directly. There are two aspects to this. One, the employer will pay an increased premium. Not only did the cost of insurance not drop by $2,500 per person as promised, but it's probably increasing by that amount for many insureds. As any rational employer treats the insurance as a "cost of employment," wages will be reduced/not increased accordingly. Two, many employees' hours will be cut to below 30 per week, allowing the employer to avoid the health insurance requirements under the Act. Health insurance must be provided by all employers with 50 or more over-30-hours-per week employees (beginning in 2015) or pay a $3,000 per employee non-deductible penalty. (This part of the Act was going into effect in 2014, but in a cynical bid to get us past the mid-term elections it's been postponed to 2015 by an administration that seems to think the Law can be changed by executive order even though already passed by an act of Congress.) On a recent call to the (black libertarian) Larry Elder radio show, a restaurant worker told Larry he had his hours cut from 35 to 28, costing him $10,000 in lost wages yearly—the worst sort of covert tax I can think of. Just wait until the employer mandate actually hits—tens of millions could lose employer coverage and get dumped into the exchanges by late next year.

9. Other areas in the Act for which a tax isn't a tax but is a tax include mandatory coverage for immunizations, routine mammograms, pregnancy, rehab, birth control and colorectal cancer screening without co-pays. All of this adds to the cost of your "insurance" premiums. No wonder: it's really a type of prepaid medical coverage, which encourages consumers to use and overuse (true insurance covers catastrophic costs; immunizations and the like do not constitute such costs). I have no problem with such medical care, but you should have to pay only for what you want, not what I want. If you force me to pay for your birth control pills, I'll want to force you to pay for my vitamins and supplements. This is the sort of battle I was referring to in the 2008 article entitled, "Medical Socialism: a Thousand Little Battles," in issue # 33 of *WCS*. A system in which I force you to do what I want and you force me to do what you want is un-civil. Besides, in a truly free market these medical costs would plummet; for example, birth control pills could likely be purchased over-the-counter for $4 per month rather than $40.

Doug's rant

As I discussed in issue # 41 of *WCS*, the free market does a fantastic job providing supermarkets, restaurants, computers, cars and practically everything else we use and enjoy every day. It works because your dollars—which is a derivative of your work effort—determine which companies stay in business and which do not. While I would trust Costco or Wal-Mart—or even Abe's Deli—for medical care, I won't trust a government to supply quality medical care at a reasonable price—they have no skin in the game. Private, for profit works with food and shelter, which are even more basic than health care. It will work with health care, but only when we eliminate the idiotic system of third party payers for basic, affordable expenses and let insurance do what it's supposed to do: pay for unexpected catastrophic expenses.

In a more rational system, all out-of-pocket medical expenses would be fully deductible via Health Savings Accounts. HSAs would put medical care decisions into the hands of consumers, who would spend less and more carefully, i.e. shop and balance costs and quality just like we do for everything else. Instead, limiting FSAs and increasing the medical deduction threshold to 10% of AGI will increase the incentive to reduce out-of-pocket costs to zero by having so-called "insurance" cover all expenses (hello, "single-payer," i.e., 100% government system). These sorts of limits are destructive of consumer-driven health care. If you could buy "insurance" for car washes, some people (especially the non-productive) would have their car(s) washed every day. As I wrote in 1987 when the medical expense AGI threshold was increased from 2.5% to 7.5%, this will further add to cost pressures on the medical system by reducing incentives to conserve scarce medical resources.

Because it's now a requirement, government compels you to spend money on a product you may not want and with a company that didn't earn the sale. The private/for-profit medical providers and insurers would figure out ways in an unregulated market to dramatically reduce costs, which would better serve all of us in the long run. Why, then, wasn't this done before?**** Long before the Act, health care was the most heavily-regulated industry in the United States after banking, and we see how well that went. The incentives to spend more on medical care, using other people's money, are matched only by the socialization of losses in banking, which incentivizes bankers to take risks they would never take with their own funds. We don't need more government involvement in health care and banking; we need more free markets. (Those interested in more analysis of the problems and solutions might wish to review issues # 33 and # 41 of *WCS*, as well as a still-timely piece written in

1992 for the *Townsend Letter for Doctors and Patients*, which we'd be delighted to send to you.)

It amazes me that those who disagree readily see the military is run inefficiently. It is. What they don't get is, so is the rest of government. It's naïve to think government will get anything right, whether military ventures overseas or telling its citizens how to live their lives and spend their money, for any extended period. The magnificence of the marketplace is providers *must* do a good job or, in the long run, they go out of business. When government does a lousy job they blame it on not having enough money (it's *never* enough) and either print money or increase taxes to remain in "business." Any private company providing goods and services in the manner government does—with failed promises, blaming others for those failures, outright lies and grotesque incompetence—would go bust and its executives would be convicted of crimes and carted off to prison.

Government drums up innovative ways to destroy wealth, but rarely helps create it, unless you believe the tired dogma, "You didn't build that." The attitude seems to be: "Sorry, but since you didn't build it, the rest of us can take it." This is not only a monumentally effective way to destroy incentives, but also to shift capital from productive private hands to less productive government ones. Politicians in turn bestow contracts and jobs upon their political friends and waste money on bridges and trains to nowhere.

My needs and desires, however great or intense, don't give me a right to take what is yours to pay for those needs and desires. Our country is the greatest on the planet and its people have produced more per capita than any other, ever, because it recognized that you have a natural right to keep what you produce; this seems to be coming to a fitful end and we must deal with the system as it is. If we really want to help the poor (and uninsurable), give vouchers that can be spent on the insurance of their choice and/or Health Savings Accounts. Limit such taxpayer "gifts" to the poor to five years, so as to not destroy dignity and decimate incentives to improve one's lot.

Because of both direct and hidden taxes, the "Affordable" Care Act is, in real life, unaffordable. When the rationing begins, as occurs in every country with government-run health care, we will see how much "care" is left. As the Soviets used to say, at least we will all be equally miserable.

* I have no idea why a Supreme Court challenge hasn't been made arguing that if it's a tax, the entire Act is unconstitutional because the bill originated in the Senate. According to the Constitution, tax bills must originate in the House. But who says we should follow the Constitution?

** Single wage-earners whose single-job income exceeds $200,000 and married wage-earners whose income exceeds $250,000 will pay the additional tax via withholding. However, taxpayers whose income exceeds these thresholds and who have more than one employer, neither of whom paid the taxpayer more than these thresholds, will owe the additional tax when filing their income tax return.

*** This really no different from the "cross-subsidization" we already have in the case of privately-insured patients paying more for many (most?) medical costs than government pays for Medicare and Medicaid patients' costs. Private insurers and patients essentially make up for inordinately low payments paid to providers by Medicare and Medicaid, which is the reason so many doctors refuse to take new Medicare patients or take anyone on Medicaid. But this change enormously expands the size and scope of this hidden tax. It will also put pressure on government to coerce doctors in a way unheard of in a (formerly) free country: doctors could be forced to treat everyone as a condition of keeping their license.

**** Actually, it has been in small ways. For example, take a look at http://www.surgerycenterok.com/, which has transparent and inexpensive pricing for several dozen surgical procedures, running anywhere from half to one-tenth what hospitals typically charge (from what we can tell, because hospitals do not post their prices) for the same procedures; many Canadians come to this center to avoid the two-year wait they suffer for many surgeries under their system of government health "care."

Marriage Tax Penalties Increase and Worsen

"We are a nation that values the sanctity of marriage. It [seems] that those who govern have lost touch with this most basic value [since governments at all levels] do much to discourage marriage on a financial level."

Since I wrote these words more than two decades ago, little has changed in regards to marriage penalties built into the structure of tax law.

What is a marriage penalty? It's a reduction in benefits, resulting in an increase in tax, for getting married and being required to file either as joint or "married but filing separate," rather than as two single people. In many cases, the penalties are substantially larger if children are involved and especially if both have children and qualify for "head of household" tax rates and rules.

In 2003, there was a small improvement for childless two-income couples earning similar incomes of less than roughly $165,000 (current dollars) and who didn't partake of deductions or activities that might trigger other penalties. However, the recent tax law changes described above have increased the overall number and cost of marriage penalties. Furthermore, with the recent demise of DOMA (the Defense of Marriage Act) the number of couples hit by such penalties will increase. With the goal of educating and not intending to put a damper on one of life's greatest joys, a list of (nearly) every marriage penalty built into tax law follows.

Marriage Penalties Embedded in Tax Rate Break-Points: Two Single vs. Joint Filers

Tax Rate	On taxable incomes up to:	On taxable joint incomes up to:	If no penalty, rate wouldn't apply until taxable income is:	Max. penalty due to tax bracket break-points:	Cumulative max. penalty due to tax brackets:
	Single filers	Joint filers	Two single filers		
10%	$8,925	$17,850	$17,850	$0	$0
15%	$36,250	$72,500	$72,500	$0	$0
25%	$87,850	$146,400	$175,700	$879*	$879
28%	$183,250	$223,050	$366,500	$7,173	$8052**
33%	$398,350	$398,350	$796,700	$7,967	$16,019
35%***	$400,000	$450,000	$800,000	$16,100	$32,118

* For example, this is (28% - 25% =) 3% of the additional amount of taxable income two single filers could have earned before succumbing to the 28% bracket, specifically: ($175,700 - $146,400) x (28% - 25%) = $879.
** For example, $879 plus $7,173 = $8,052.
*** The tax rate in excess of this column's numbers is nominally 39.6%, which accounts for the penalty calculated in this row: specifically, ($800,000 - $450,000) x (39.6% - 35%) = $350,000 x 4.6% = $16,100.

Marriage Penalties Embedded in Tax Rate Break-Points: Two Heads of Household vs. Joint Filers

Tax Rate	On taxable incomes up to:	On taxable joint incomes up to:	If no penalty, rate wouldn't apply until taxable income is:	Max. penalty due to tax bracket break-points:	Cumulative max. penalty due to tax brackets:
	H o H filers	Joint filers	Two H o H filers		
10%	$12,750	$17,850	$25,500	$765	$0
15%	$48,600	$72,500	$97,200	$2,470	$3,235
25%	$125,450	$146,400	$250,900	$3,135	$6,370
28%	$203,150	$223,050	$406,300	$9,163	$15,533
33%	$398,350	$398,350	$796,700	$7,967	$23,500
35%*	$425,000	$450,000	$850,000	$18,400	$41,900

* The tax rate in excess of this column's numbers is nominally 39.6%, which accounts for the penalty calculated in this row; specifically, ($850,000 - $450,000) x (39.6% - 36%) = $400,000 x 4.6% = $18,400.

Taxes on Single vs. Joint Filers with Capital Gains/Qualifying Dividends

Capital gains/ qualifying tax rate	On taxable incomes up to:	On taxable joint incomes up to:	If no penalty, rate wouldn't apply until taxable income is:	Max. penalty due to tax bracket break-points:
	Single filers	Joint filers	Two single filers	
0%	$36,250	$72,500	$72,500	$0
15%	$400,000	$450,000	$800,000	$17,500

* The tax rate in excess of this column's numbers is nominally 20%, which accounts for the penalty calculated in this row; however, the negative alchemy of the Alternative Minimum Tax frequently turns 15% tax rates into 22.5% rates for many taxpayers in the $200,000 to $600,000 income range.

Marriage Penalties Embedded in Deductions, Allowable Losses and Tax Credits

Type of Tax Benefit	Married	Two Single or, if applica-ble, Two HoH	Maximum marriage penalty*	Average marriage penalty*
Deduction	**Maximum Deduction**	**Maximum Deduction**		
Standard deduction	$12,200	$17,900	$2,257	$1,425
Standard deduction for those age 65 and over	$1,500	$2,400	$356	$135 - $225
Health Savings Account deduction, over age 54	$7,450	$8,450	$396	$250
AMT standard deduction	$80,800	$103,800	$6,440	$2,000
Net allowable capital loss	$3,000	$6,000	$1,188	$750
Section 1244 small bus. stock loss deduction	$100,000	$200,000	$39,600	Rare
Mortgage interest deduction	$1,100,000	$2,200,000	$435,600	Rare
Section 179 expense election	$500,000	$1,000,000	$198,000	Rare
Maximum qual. student loan interest deduction	$2,500	$5,000	$625	Rare
Credit	**Max credit**	**Max credit**		
Dependent care credit	$1,500	$3,000	$1,500	$750
Earned Income Tax Credit (EITC)	$6,044	$12,088	$6,044	$3,000
Adoption credit	$194,580	$389,160	$12,970	Rare
Tax, Credit or Deduction	**AGI Phase-Out or Phase-In**	**AGI Phase-Out or Phase-In**		
Income threshold for itemized deduct phase-out	$300,000	$550,000	$7,500	$1,980
Income threshold for exemptions phase-out	$300,000	$550,000	$2,500	$1,320
Income threshold where 50% Social Security is phased in to the taxable base	$34,000	$50,000	$4,800	$2,000
Medicare tax wage income surcharge	$250,000	$400,000	$1,350	$500
Medicare tax investment income surcharge	$250,000	$400,000	$1,350	$500
Child tax credit	$110,000	$150,000	$2,000	$1,000
IRA phase-out begins—active participants in employer plans	$95,000	$118,000	$1,625	$1,625
Spousal IRA phase-out begins	$178,000	N/A	$1,625	$1,625
Retire. savings contribut. 50% credit phase-out	$35,500	$53,250	$600	$600
Roth IRA phase-out	$173,000	$220,000	Incalculable	Huge over time
Qualified Mortgage Insurance Prem. deduction	$100,000	$200,000	$2,500	$750
Rental loss phase-out	$150,000	$300,000	$6,250	$3,750

* State tax is frequently an additional tax cost. "Average" is a very rough estimate.

The "Individual Mandate" Penalty

Penalties for not purchasing the newly-required "health insurance" product are the greater of the two listed below for each year. The maximum penalty is the national average yearly premium for a "bronze" level plan.

Many individuals, particularly young people without assets, may find it less expensive to pay the penalty and not purchase health insurance and let bankruptcy laws let them off the hook if they suffer a serious illness. As in so many areas of life, government has created immoral rules that make it difficult to live a moral life. Although I have huge qualms with bankruptcy, even I would be tempted to go this route.

Tax Year			
	2014	**2015**	**2016**
Penalty is Greater Of:	1% of annual household income	2% of annual household income	2.5% of annual household income
	$95/adult and $47.50/child under age 18*	$325/adult and $162.50/child under age 18	$695/adult and $347.50/child under age 18

* For tax year 2014, the maximum penalty using the per person method is $285 per family.

If you're uninsured for just part of the year, 1/12 of the annual penalty would apply to each uninsured month. If you're uninsured for less than three months total, you don't have to pay the penalty.

The IRS has signaled in Senate testimony it will use a light hand in enforcing penalties in 2014. Peter Gosselin, a senior health-care policy analyst at Bloomberg Government who worked on the early implementation of the law, interpreted the testimony to indicate "there isn't a soul in this country that is going to pay an individual mandate penalty [for 2014]."

The Henry H. Kaiser organization has a subsidy calculator available here: http://kff.org/interactive/subsidy-calculator/

Other Rants on the Role of Government

"I am for doing good to the poor, but I differ in opinion of the means. I think the best way of doing good to the poor, is not making them easy in poverty, but leading or driving them out of it. In my youth I travelled much, and I observed in different countries, that the more public provisions were made for the poor, the less they provided for themselves, and of course became poorer. And, on the contrary, the less was done for them, the more they did for themselves, and became richer."
— Benjamin Franklin

"Americans are also troubled by an administration that has a predilection for overlooking the rule of law in favor of executive fiat….Following its passage, the administration unilaterally exempted many of its political allies (after Congress had already exempted itself) from the rigors of ObamaCare (sic), and most recently, the administration decided again to gainsay the explicit provisions of its own signature legislation by delaying the date of its effective implementation until after the midterm elections. Does [anyone] consider such real and potential disregard for the rule of law to characterize a safe, "secure" and "stable" political system? Not I…."
— Richard W. Lieberman, Boca Raton, FL (*WSJ* letters, July 11, 2013)

"During the period of royal absolutism, English monarchs asserted a right to dispense with parliamentary statutes they disliked. King James II's use of the prerogative was a key grievance that led to the Glorious Revolution of 1688. The very first provision of the English Bill of Rights of 1689—the most important precursor to the U.S. Constitution—declared that 'the pretended power of suspending of laws, or the execution of laws, by regal authority, without consent of parliament, is illegal.'"
— Michael W. McConnell, "Obama Suspends the Law," *WSJ*, July 9, 2013

"I have a health savings account, not a prescription card, which makes me one of an excruciatingly small minority who know the true cost of medicine. I am currently pregnant. It was my decision to get pregnant. It is my responsibility to plan financially for whatever medical needs come with that choice, whether top of the line or generic. I would never presume to seek out a portion of Ms. Fluke's hard-earned money to support my choice to become pregnant. Just as she has no right to presume I should fund her desire not to be.
"This isn't about protecting access to anything. It is about a subset of people insisting on free everything to be paid for by anyone but themselves."
— Meeghan H. Seone, San Diego, FL (*WSJ* letters, March 13, 2012)

"Our Founders never intended for Americans to trust their government. Our entire Constitution was predicated on the notion that government was a necessary evil, to be restrained and minimized as much as possible."
— Senator Rand Paul (R-KY)

"The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design."
— F. A. Hayek, *The Fatal Conceit: The Errors of Socialism*, 1991