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*"[Frederick] Bastiat recognized the greatest single threat to liberty is government.... 'See if the law takes from some persons what belongs to them, and gives it to other persons to whom it does not belong. See if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime.'.... most government activities, including ours, are legalized plunder...."*

—Walter E. Williams, economist

## Tax and Financial Strategies

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Issue # 68 Fall 2020 (Part III)

# Wealth Creation Strategies

## Why You Should Expect Increased Taxes after the Death of a Spouse — Even with One Less Social Security Income But You Can Do Something About It!

I've been writing and counseling on the long-term tax savings opportunities afforded by "income smoothing," or "self-income-averaging," for decades. Many of you have converted retirement assets to Roth IRAs in low-income years and taken other measures to reduce income in higher-income years, but only when I began handholding through the process in 2010. The reluctance to act stems from the fact that this strategy requires an acceleration of income and, therefore, taxes, most commonly by taxing retirement account balances sooner than required or needed. In hindsight, because of the phenomenal growth of retirement assets over the past two decades, far more assets should have been converted to tax-free Roth IRAs than even I counseled.

The opportunity for income smoothing can arise for those *normally* in 22% or higher brackets when they temporarily have low taxable incomes and are subject to zero, 10% and 12% marginal tax rates. The same idea holds for those in 32% and higher brackets when temporarily in 22% or 24% brackets. This commonly occurs when taxpayers are young, experience financial hardships during recessions, when

a spouse stops working, or when large deductible losses occur (most commonly, qualifying casualty, stock or business/rental losses). This concept can also be used to plan in the years leading up to the death of a spouse, after which the filing status changes from "joint" to "single" and tax brackets, deductions and credits mostly get cut in half. Except for the loss of one Social Security "benefit," income generally remains the same, yet both the total tax *and* marginal tax rate (the tax on the last "chunk" of income) increase *substantially*. Taking more income before a spouse dies is a superb method of reducing family tax rates and total taxes over time.

A word of warning: this is not a DIY project, as there are numerous variables to consider before implementing such a strategy—that is what we are here for! For example, these ideas can be taken too far if there is not enough income potential left in pre-tax retirement accounts to offset future deductions for large medical costs (think: qualified assisted living or nursing home residency). Those planning to move should consider relative state income tax rates. If the marginal tax rate at your income level is expected to

be higher in the new state, accelerate income (or defer deductions). If the expected marginal tax rate will be lower, defer income (or accelerate deductions).

The sets of examples that follow show clear cases in which income should be accelerated, up to a point. We will assume the larger age 65 and over 2019 standard deduction and 2019 tax rates. The total tax and relative marginal rates for joint filers is compared with those for single survivors.

Note in the \$25,000 non-Social Security (SS) income example on the next page (example # 1), while total income drops by \$15,000 (the decedent's Social Security), *the federal tax on the survivor more than triples*. In the \$40,000 non-SS income example (example # 2), with the same loss of income, *the tax more than doubles*. Absent other variables, achieving long-term tax savings requires an acceleration of income while both spouses are alive, often by accelerating withdrawals or conversions from pre-tax retirement accounts.

This serves to reduce future Required Minimum Distributions and, therefore, future income—often saving a ton of future taxes!

## Low-to moderate-income retirees

	Example #1: \$25,000 non-Social Security income				Example #2: \$40,000 non-Social Security income			
Filing Status	Joint		Single Survivor		Joint		Single Survivor	
IRA/other ordinary income	\$25,000		\$25,000		\$40,000		\$40,000	
Gross Social Security	\$30,000		\$30,000		\$30,000		\$30,000	
Spouse's Gross SS	\$15,000		\$0		\$15,000		\$0	
Federal tax/real marginal tax rate *	\$700	18.5%	\$2,300	22.2%	\$3,800	22.2%	\$7,900	40.7%
State tax (Colorado)/real marginal tax rate **	\$0	0%	\$0	0%	\$150	4.5%	\$1,100	4.5%
State tax (California)/real marginal tax rate	\$0	0%	\$70	2%	\$0	0%	\$700	6%
<b>Additional fed plus CA state tax/increase in marginal rate</b>			<b>\$1,670</b>	<b>5.7% ***</b>			<b>\$4,800</b>	<b>24.5% ***</b>

\* The “real” marginal rate is the real, not advertised, percent tax on the last dollar of income, including the tax on up to 85% of Social Security “benefits”; these horrifying rates are a result of the way Social Security “benefits” are phased into the taxable base.

\*\* We want to show the analysis varies tremendously by state. Each has its own tax rates and rules: Colorado, for example, excludes some pension (including Social Security) income, doesn’t differentiate filing statuses, uses the federal standard deduction (California’s is a fraction of that) and phases in Social Security the same way the feds do after the pension income exclusion.

\*\*\* Increase in overall federal and CA marginal tax rates =  $(22.2\% - 18.5\%) + (2\% - 0\%) = 5.7\%$ ;  $(40.7\% - 22.2\%) + (6\% - 0\%) = 24.5\%$ .

In the table below, federal income tax increases by 42% for a surviving single filer with \$60,000 non-SS income (example # 3); actual tax increases by (\$11,600 - \$8,150 =) \$3,450. California tax nearly quadruples, while Colorado tax increases by about a third (Colorado taxes incomes only after a much higher standard deduction than is applicable to California).

Similarly, federal tax increases by 40% (\$15,000 - \$10,700 = \$4,300) for the single filer with \$75,000 non-SS income (example # 4). California tax more than triples (from \$1,125 to \$3,500), while Colorado tax increases by about (\$2,800 - \$2,225 = \$575; \$575/\$2,225 = ) 26%. At this income level (and, in fact, with only a tad more income than for the \$60,000 non-SS

income filer), another hidden tax comes into play: **Income-Related Monthly Adjustment Amount** on Medicare premiums, or **“IRMAA”** (aka **“Medicare Premium Surcharge”**). You can see the \$800 surcharge in the example below.

## Middle-income retirees

	Example #3: \$60,000 non-Social Security income				Example #4: \$75,000 non-Social Security income			
Filing Status	Joint		Single Survivor		Joint		Single Survivor	
IRA/other ordinary income	\$60,000		\$60,000		\$75,000		\$75,000	
Gross Social Security	\$30,000		\$30,000		\$30,000		\$30,000	
Spouse's Gross SS	\$15,000		\$0		\$15,000		\$0	
Federal tax/real marginal tax rate	\$8,150	12%	\$11,600	22%	\$10,700	22%	\$15,000	24%
State tax (Colorado)/real marginal tax rate	\$1,550	4.5%	\$2,100	4.5%	\$2,225	4.5%	\$2,800	4.5%
State tax (California)/real marginal tax rate	\$530	4%	\$2,100	8%	\$1,125	4%	\$3,500	9.3%
<b>“IRMAA” *</b>	\$0		\$0		\$0		\$800 *	
<b>Additional fed plus CA state tax, including IRMAA/marginal rate</b>			<b>\$5,020</b>	<b>14%</b>			<b>\$7,475</b>	<b>7.3%</b>

\* IRMAA is a rough figure and includes both Part B and Part D surcharges. And it is a bit wonky because you pay a tax on this year’s income two years later: income this year (2020, for example) determines the IRMAA two years later (generally subtracted from monthly Social Security payments in 2022). If the survivor dies during 2022, this additional tax is never fully collected; it is never collected for those dying before 2022. IRMAA is a function of Modified Adjusted Gross Income (MAGI) and excludes the non-taxed 15% of SS, while the “Modified” part adds a few other items to AGI, such as supposedly non-taxable (muni-bond) interest income.

Check out the tax increases on the single survivors in examples # 5 and # 6 on the next page.

## Upper-middle-income retirees

	Example #5: \$100,000 non-Social Security income				Example #6: \$150,000 non-Social Security income			
	Joint		Single Survivor		Joint		Single Survivor	
Filing Status	Joint		Single Survivor		Joint		Single Survivor	
IRA/other ordinary income	\$100,000		\$100,000		\$150,000		\$150,000	
Gross Social Security	\$30,000		\$30,000		\$30,000		\$30,000	
Spouse's Gross SS	\$15,000		\$0		\$15,000		\$0	
Federal tax/real marginal tax rate	\$16,200	22%	\$20,950	24%	\$27,200	22%	\$33,000	32%
State tax (Colorado)/real marginal tax rate	\$3,350	4.5%	\$3,900	4.5%	\$5,600	4.5%	\$6,200	4.5%
State tax (California)/real marginal tax rate	\$2,600	6%	\$5,800	9.3%	\$6,950	9.3%	\$10,450	9.3%
"IRMAA"	\$0		\$2,100		\$1,600		\$4,700	
<b>Additional fed plus CA state tax, including IRMAA/marginal rate</b>			<b>\$8,250</b>	<b>5.3%</b>			<b>\$10,080</b>	<b>10%</b>

Now let's take a look at upper-income retirees, where the total tax increases *substantially*.

## Upper-income retirees

	Example #7: \$250,000 non-Social Security income				Example #8: \$500,000 non-Social Security income			
	Joint		Single Survivor		Joint		Single Survivor	
Filing Status	Joint		Single Survivor		Joint		Single Survivor	
IRA/other ordinary income	\$250,000		\$250,000		\$500,000		\$500,000	
Gross Social Security	\$30,000		\$30,000		\$30,000		\$30,000	
Spouse's Gross SS	\$15,000		\$0		\$15,000		\$0	
Federal tax/real marginal tax rate	\$51,000	24%	\$66,750	35%	\$129,300	35%	\$154,300	37%
State tax (Colorado)/real marginal tax rate	\$10,100	4.5%	\$10,700	4.5%	\$21,350	4.5%	\$21,900	4.5%
State tax (California)/real marginal tax rate	\$16,250	9.3%	\$20,000	9.3%	\$40,000	9.3%	\$46,650	11.3%
"IRMAA"	\$6,800 *		\$4,700		\$9,400 *		\$5,100	
<b>Additional fed plus CA state tax, including IRMAA/marginal rate</b>			<b>\$17,400</b>	<b>11%</b>			<b>\$27,350</b>	<b>4%</b>

\* That the IRMAA is larger for the couple than for the single survivor is an artifact of the crazy patchwork of cliff-like phase-ins, which are beyond the scope of this article.

Because many are reluctant to deal with the eventual death of a spouse, income smoothing strategies (which hardly anyone else understands—we invented “income smoothing” decades ago!) are rarely considered. Total tax and marginal tax rates increase across the board

for nearly *all* surviving filers. Multiply any of the “additional tax” in the lower right corner of any of the charts above by, say, ten—because this strategy can easily be implemented ten years prior to a spouse's death—and you will see there are frequently tens of thousands

of tax dollars at stake. Considering the fact taxes could increase after 2020, email us now so we can use this “income smoothing strategy” and save you a boatload of tax in the future.

## The War on Small Business is a War on People

**The hysteria surrounding the response to the Virus decimates small businesses and crushes new business formations**

The number of existing small businesses has shrunk by 50% in the last thirty

years. Large businesses succeed partly because they operate more efficiently due to volume savings; consumers get lower prices because larger businesses, compelled by competitive pressures, pass through those savings. Our overall

living standards would be far lower without these once-small businesses that made it big—the Costco's, Verizon's, Home Depot's, Amazon's, Wal-Mart's, Apple's and hundreds of other such businesses. However, much of the

reduction in the numbers of small businesses is due to government intrusion and intervention—government rules favor large businesses and increase hurdles for small ones to make it big. Such artificial rules and regulations that discriminate against small businesses (and tell us how to live our lives) include:

- **Minimum wage laws.** Consider the productivity value of a Costco employee, who rings up more sales in an hour than most small businesses do in a day: his/her value to Costco is much greater than a clerk is to a low-volume rural outpost (or even an urban boutique).
- **Innumerable and complex labor laws.** Required lunches, overtime, sick pay, and other such rules are nearly impossible to track by small business owners, who can easily run afoul of these edicts. One draconian penalty can wipe out a small business owner (arguably, violating the 8th Amendment to the U.S. Constitution, which proscribes “excessive fines”). The *fear* of penalties serves to reduce the number of new business owners. Many would-be business owners/entrepreneurs opt to be employees, resulting in fewer new small businesses.
- Arcane **“Affordable Care” Act rules.** These incentivize the demise of small family medical practices in favor of large, less personal hospital practices. Fifty percent fewer doctors operate on their own than a mere eight years ago.
- Now, **the Virus.** Local and state responses shut down millions of “non-essential” businesses without warning—unless you are a Walmart or a Costco. Because they sell “necessities” such as food, they also got to sell clothing, furnishings, toys and a myriad of other things (in most states). If you sell *only* clothing, furniture or toys, you were forced to shut your doors. Not only will millions of brick and mortar small businesses (and many large ones) fail, new ones won’t take their place. *Fewer will risk their hard-earned savings and 80-hour work*

*weeks on a new business enterprise when capricious government edicts could shut them down in an instant.*

- Further, **riots and looting, and lack of police protection** of private property amidst this anarchy. This helped ensure the permanent demise of more small businesses, including many minority-owned ones. They will be hard-pressed not only to raise capital to start over but may find it impossible to find insurance even if reimbursed for their monumental losses. This is a lack of enforcement of the one set of rules government *should* enforce: those prohibiting thugs from harming you and your property. (Marxists and other fascists favor this anarchy because they believe property is theft and, hence, do not believe in protecting property rights.)

In totalitarian systems, government either directly (socialism) or indirectly (economic fascism) owns the means of production; in the latter, nominally privately-owned means of production are regulated and controlled by government. Such economic fascism is easier when there are fewer, larger, and more monolithic businesses—essentially, government-sanctioned monopolies—to control. Home Depot co-founder Bernie Marcus says he could not have started Home Depot with today’s rules and regulations. Yet, Home Depot and other mega-giants thrive.

- **AB5: California’s new labor law attacks independent contractors.** California enacted **AB5 (Assembly Bill 5)**, which Presidential candidate Joseph Biden explicitly supports and would establish across the entire country. Promulgated in California in 2019, effective January 1, 2020, AB5 requires all businesses to turn **independent contractors (ICs)** into employees *unless* they meet all three of these requirements:

A. The person is free from the control and direction of the hiring entity in connection with the performance of the work, both under

the contract for the performance of the work and in fact, AND

B. **The person performs work that is outside the usual course of the hiring entity’s business,** AND

C. The person is customarily engaged in an independently established trade, occupation, or business of the same nature as that involved in the work performed for the hiring entity.

Tests A and C have long been requirements under common law. The California State legislature codified Test B after the state Supreme Court introduced this test in the “Dynamex” case. This upends longstanding employment law—if you are paid as an IC, you must do work that is unrelated to the main business of the employer; otherwise, you become an employee, regardless of how long you intend to work for the payer and however independent you may be. A band leader who hires other musicians to play for a gig must pay them as employees even if they only play one gig! However, musicians, among many industry groups, have received specific exemptions (the latest, including musicians, in a recent amendment to AB5). Because of these numerous exceptions,\* AB5 arguably violates the Equal Protection Clause of the 14th Amendment to the U.S. Constitution, which requires equal application of the law to all people and businesses (and the libertarian Independent Institute, in its *amicus brief* to the court, agrees).

Penalties for misclassifying an independent contractor start at \$5,000. A penalty imposed on a truck dispatcher who hires five truckers with their own trucks as ICs starts, then, at (\$5,000 x 5 =) \$25,000. If the “employer” engages in a “pattern or practice” of violating the law, penalties start at \$10,000 per violation, the 8th Amendment (“excessive fines shall not be imposed”) to the U.S. Constitution notwithstanding.\*\*

Even if exempt from AB5, California and all other states are subject to Borello-like rules, discussed next.

### Common law questions to determine employment status were adopted decades ago by the IRS and the courts

For decades, the IRS used a “20-factor” test to determine whether a payee was an employee or independent contractor. The test was based on long-established employment law. Since 1989, the state of California has used the “Borello” test (from a court decision regarding S. G. Borello and Sons, Inc.), while the IRS uses a test similar to Borello. The IRS and courts examine the evidence, giving some factors, like “control,” greater weight than others. Under *this* test, a trucker who owns his truck, an Uber driver who owns her car or a musician working various gigs with his own instruments are clearly self-employed. There are many who fall into gray areas; in one case (long ago) I argued that actors and musicians who received dozens of W-2s each year were self-employed; I even won an audit on that issue. Relative weighing of different factors is impossible under the AB5 test, as it is absolute.

The “Borello” test questions follow, with our discussion immediately following each bolded question, in which we try to make sense of the seeming incomprehensible.

#### 1. Does the person to whom services are rendered have the right to control the manner and means of accomplishing the result desired?

Essentially, who controls whom? Because the Borello test is not specific, we suggest using several of the original 20-factor test questions. (“Yes” = employee, because an employer wields control over aspects of when, how and the way work is done; however, we have no idea how many of these count as an overall “yes”.)

- A. Is the worker required to comply with the payer’s instructions about when, where, and how to do the work?
- B. Is the worker *personally required to render services*? An employee is personally required to complete the task, while an IC must only ensure the job is done.
- C. Is the worker prohibited from *hiring, supervising, and paying assistants*?

An IC can usually hire others to help do the job.

- D. Are hours specified during which a worker must work? Employees usually work set hours while ICs need only complete the job.
- E. Is a worker *required to work substantially full time for the payer*? An IC is more likely to work for multiple payers.
- F. Is the *order or sequence of work set by the payer*? For ICs, the focus is on the result.
- G. Must the worker submit oral or written reports of ongoing activities to the payer? ICs generally submit final reports only.

**2. Can the payer discharge at will, without cause?** This is an oddball. It seems, in most states, someone can fire an IC more easily than they can fire an employee. An IC may suffer severe consequences for failure to complete a given task, while an employee cannot be held responsible. (Yes = employee.)

**3. Is the person performing services engaged in a distinct occupation or business?** This is a terrible choice of words; we *think* it’s asking whether the worker works for only one or multiple related payers at a time vs. multiple unrelated payers. We *think* it also asks, can or does the worker offer the same services to the public. (One or related payers = employee.)

**4. What is the occupation of the payee, with reference to whether the work is usually done under the direction of the payer or by a “specialist [the payee] without supervision?”** This is the worst of many poorly worded questions. Simply, must the payee work with more experienced co-workers? The 20-factor test also asked whether training and/or attendance at payer’s meetings was required. (Supervision generally = employee.)

**5. Are specialized skills required of the particular occupation?** How specialized are the skills? (Less specialized = employee.)

**6. Does the worker supply the “instrumentalities,” tools, and place**

**of work for the person doing the work?** This combines four questions under the 20-factor test:

- A. Does the work have to be performed on the payer’s premises or place of payer’s choosing?
- B. Does the worker supply his own tools and materials?
- C. Are expenses paid for or reimbursed by the payer?
- D. Does the employer provide facilities? Non-employees generally do not work under the payer’s roof.

“Employees” who move from job to job are generally not reimbursed for work tools and equipment: think construction workers and TV/studio workers. Incredibly, AB5 not only requires many if not all of these to be employees; independent truck drivers, who own their own big rigs, must also be treated as employees. (Payer-provided tools, materials and place of work = employee.)

**7. The length of time for which the services are to be performed.** The 20 factors test asks, does a continuing relationship exist between the worker and payer? (Continuing relationship generally = employee.)

**8. Method of payment, whether by time or by the job.** Is *pay by the hour, or otherwise regular* amounts at set intervals? (Regular pay = employee.)

**9. Is the work part of the regular business of the payer?** The 20-factor question is, “are the worker’s services an *integral* part of business operations?” This closely reflects California’s AB5 Test “B,” which elevates this to one of three essential tests for California workers. I never even considered this among the most important factors, and still don’t for workers in other states—the fact it is number nine under “Borello” suggests no one else thought it crucial, either! Under AB5, taxi drivers with their own cars can no longer be treated as non-employee ICs for taking a fare for another taxi company; same with truckers, including those owning their own trucks. (Part of the regular business of payer = employee.)

10. **Do the parties believe they are creating an employer-employee relationship?** That the *intent* of the parties is relevant is surprising, even if it is number 10. (This belief = employee.)

11. **Is a worker essentially precluded from suffering a loss from the provision of services?** If the worker pays few or no expenses, this is almost a given. (Loss precluded = employee.)

A “safe harbor” exists for “close” situations if the employer has always treated the worker as an IC and the employer had a reasonable basis for treating the worker as a non-employee, if all required 1099s have always been filed reporting payments to the worker. AB5 revokes this safe harbor for California employees.

Why is independent contractor status so important? Countless success-

ful entrepreneurs get their initial training from their experience as small business owners and independent contractors. As employees, they will be less likely to get the requisite experience and learn what it takes to run successful businesses. Fewer businesses will be started and, perhaps, fewer too will succeed. There will be fewer future Apple’s, Home Depot’s, Wal-Mart’s and Costco’s. If any variation of AB5 stands, or is passed nationally, we will see fewer business innovations. Society will be vastly poorer for it.

\* The California legislature, in an amendment to AB5 passed in August 2020, partly eviscerated the law by exempting a host of additional occupations from its draconian edicts. However, the fact they passed AB5 at all, and that many are still affected by it, should be cause for great concern to those who value fairness and freedom, opportunity and equality under the law.

\*\* I suspect (Democrat) California state legislators did not want so much to stick it to the Ubers of the world as to hand their union supporters a gift. If countless ICs are deemed employees, there are many more potential union members than without such a requirement, even if many of those jobs disappear due to a decrease in demand (which will happen if Uber’s estimate of a 100% increase in their prices is anywhere close to reality). The libertarian view is that no majority, even 99.9%, has the right to force anyone to join or contribute their own resources to any group, including unions. Voluntary associations are, of course, perfectly consistent with freedom. Anyone who shudders at this is welcome to email and ask me to explain the differences between government, private sector and a sub-category of private sector, movie and TV studio unions, which are far less crippling to productivity and less enabling of unproductive and substance-addicted employees than, notably, government mandated teacher and police unions. That is not to say I am not a huge supporter of good teachers and good law enforcers—I am. I am simply opposed to compulsion, which includes compulsory unions.

## Catastrophic Long-Term Economic, Financial and Other Effects of Lockdowns

### And How This May Affect Your Tax and Investment Strategies

The lockdown resulting from the Virus has created many unintended consequences—the repercussions of which we may not fully appreciate, understand or be cognizant of for many years or even decades.

1. **Fewer would-be entrepreneurs will open businesses**, at enormous long-run societal costs due to fewer innovations, less capital and a much less efficient allocation of resources. Entrepreneurs allocate capital and resources far more efficiently than any government ever has, can, or will. The big businesses a prior era knew and loved—Sears, Westinghouse, J.C. Penney—all began as small businesses. The current era’s big businesses, Costco, Home Depot, Apple, Google all started as small businesses. What businesses will take their place?

2. With 20-40 million people unemployed or underemployed, **far fewer goods and services are being produced**. What is not produced cannot be consumed; there must be production for consumption, without which

lower aggregate living standards result. “Production” assumes goods and services are produced by competitive market forces, without which there is often little or no value. For example, the East German car, the Trabant, had no tachometer, turn signal, seat belts, or fuel gauge, when it stopped production in 1989—the year East Germany threw off its shackles.

3. “Stimulus” checks, paid from borrowed funds (increasing the already gargantuan federal government debt) and money creation (a response to the lockdowns by the Federal Reserve) means **more money is chasing assets (accounting for the otherwise inexplicable stock market bubble) and fewer goods (since less are produced), which has resulted in short-run asset inflation and long-run consumer-price inflation**. Such money creation does not equate to higher aggregate living standards.

4. The collapse in tax revenues at federal, state and local levels may result in **higher taxes in the long run** which,

by definition, reduces your freedom.

5. If and when markets reflect the economic collapse, **retirement accounts will be crushed**. Markets that were already overvalued at peak prices in January 2020 have become insanely more overvalued relative to current economic conditions.

6. Constitutional limits on government excesses have utterly failed to restrain draconian edicts. Politicians have gotten away with limiting freedom in the name of health and safety to a degree unimaginable a few short months ago. **Civil rights, especially the right to earn a living, have been capriciously violated**. This is especially egregious when statistics marking this the new Spanish flu have been thoroughly debunked—the 1918-1920 pandemic killed 675,000 Americans on a population base one-third of today’s, with 100,000 dying in October 1918 alone, killing young and old alike (“slaughtering” those in their 20s and 30s; see <https://time.com/79209/solving-the-mystery-flu-that-killed-50->

million-people/ for an excellent explanation). With exceptions numbering less than those dying by drowning every year, this Virus kills only the old, immunocompromised or those with serious comorbidities.

7. Government borrowing has reached manic proportions, enabled by near-zero interest rates, largely for consumption. Compare this bad, unsustainable debt with good debt, used for productive assets, to produce goods and services that create income, from which debt can be repaid. **Without massive tax increases, governments will struggle to pay bills**, especially when interest rates rise.

8. **Supply chains were and continue to be disrupted.** Where's the toilet paper? The shift in demand from office and restaurant-use toilet paper to home-use toilet paper (much softer) confounded the paper industry. Suppliers had no idea how long this radically different demand would continue and didn't have a clue as to how much production and distribution to shift from office-type to home-type toilet paper. Leonard Reed, in this classic essay, "I, Pencil," explained that not one person on the planet can or even knows how to make a "simple" pencil because it requires knowledge, expertise and resources from some 80 different specialized professions, occupations, trades and industries (POTIs) which, in turn, rely on tens of thousands of other POTIs to supply and build what they need so they can produce essential ingredients for pencils. When an all-knowing government czar shuts down "non-essential" industries, they may shut down one or more of those 80 required to make a pencil, and no pencils can be produced. Government ownership or control is never efficient because of something the great economist Friedrich Hayek called the "knowledge" problem—no central authority can know what is needed to produce anything. This is true even for pencils.

9. **Half of all hotels, theme parks, casinos, cruise lines, airlines and**

**dine-in restaurants may not survive**, and it remains to be seen how professional sports adapt—will cardboard fans and piped-in crowd noise keep our attention?

10. Many if not most **malls may not survive in their current forms.** While demand for malls has been decreasing since the growth of internet sales began to explode a decade or so ago, hastening the closures creates far greater economic disruption than would occur with a natural, extended decline in demand. Numerous smaller niche stores in malls will fail along with the larger "anchor" stores.

11. **Values of commercial real estate** used for the businesses listed in items 9 and 10 have already begun and will likely continue to collapse. Pension funds are big investors in commercial property; this may threaten the solvency of many such funds, both public and private, which may seriously compromise retirements.

12. **Restaurants, retail stores and other businesses are less able to pay rent, translating to building owners less able to pay mortgages and a consequential collapse in the value of those loans.** While commercial real estate bargains may be forthcoming, real estate prices are "sticky" in a downward direction, meaning owners drop their prices only when forced. In the mid-2000s real estate housing bubble, prices peaked in 2005 and sales slowly came to a standstill. The visible price damage occurred years later, in 2008-2012, when sellers had either lost patience, were forced to sell or dumped overpriced property in foreclosure sales. An expected reduction in the value of underlying properties will likely result in a quicker collapse in the value of commercial loans owned by banks and large pension funds.

13. **The psychological damage, especially on Extroverts, is profound.** Fear has caused all manner of reduced social interaction and a human "touch," even within families. "Social distancing" is anything but social (I call

it "anti-social distancing"). Statistics report an increase in depression, suicides, and alcohol/other drug "use," with both human and furry family members suffering increased domestic violence.

14. **Many Americans are likely getting less sunshine and Vitamin D.** I believe that nearly half of Virus deaths occurred in nursing homes for two reasons. First, they contracted the Virus via fecal-oral transmission from under-skilled and under-equipped staff, not all of whom always vigorously scrub their hands after cleaning up the results of incontinence. Second, their frail bodies could not fight back with near-zero Vitamin D levels. The lack of Vitamin D may increase the odds of more severe colds and flus and, hence, death.

15. **Shutting down gyms will do incalculable long-term damage to people's physical and mental health.** Being fit increases both mental and physical health, increasing overall lifespans; obesity (BMI greater than 30) contributes to far more early deaths than the Virus. The obese and, especially, those with diabetes (Type 2 usually exacerbated by obesity), are much less likely to survive the Virus than those without. (And many gyms will likely not survive.)

16. We have already **seen massive civil unrest**—which may be partly a function of unemployment, due to a small minority having more time on their hands than sense and gratitude for living in a country that offers greater opportunity than any other, ever. This could get worse if many of the currently 20-40 million temporarily under- and unemployed become permanently unemployed.

17. Because of completely unconfirmed estimates of deaths and hospital utilization rates, "non-essential" surgeries and medical procedures were discouraged by the CDC and were effectively cancelled for months in many areas. Preventive screenings, including mammograms, colonoscopies and melanoma

checks were canceled—I personally know more people negatively affected by such delays than by the Virus. **The delayed diagnoses of and treatments for cancer, heart disease and other ailments**, because they were not caught and appropriately treated early, **will lead to increasing numbers of premature deaths.** One statistic alone tells the story, from which related figures can likely be extrapolated: new cancer diagnoses decreased by nearly 30% and cancer screenings dropped by an average of 90% for various cancers during the first weeks of the lockdown

18. Due to shutting down large areas of hospitals and medical practices in anticipation of a wave of Virus patients that failed to materialize, many such entities are suffering financially and will shut down, **decreasing the availability of future medical services.** An estimated 1.5 million “non-essential” health care workers lost their jobs in April alone. Many medical providers furloughed workers who were not treating Virus patients. Emergency room cases diminished, meaning reduced revenue and possibly fewer ER rooms in the future, detrimental to the health and survival of future ER patients.

19. Dental practices were closed for non-emergencies for a couple months in most states. Because many diseases begin in the mouth, **the failure to timely treat dental disease could have serious adverse consequences to long-term health and well-being.**

20. **Paying unemployment greater than net after-tax take home pay risks creating a new class of permanently dependent Americans who may choose not to return to work,** reducing production of goods and services for others and creating less wealth in the aggregate.

21. The head of the World Food Program, the U.N.’s food-assistance branch, told the U.N. Security Council that the “Virus,” by which he really means **“lockdowns”**, and **consequential supply chain disruptions, threaten to cause famines of “biblical proportions,” pushing “an**

**additional 130 million people...to the brink of starvation by the end of 2020.”**

The great French economist Frederic Bastiat posited there are always two consequences to any economic event or government intervention: one, immediately felt and easily seen; the other, hidden and often distant. The easily seen is recognized as an immediate effect by nearly everyone, while future consequences are predicted and understood by few. In fact, the distant consequences often contradict or exceed the immediate ones. The example of a broken window, where the glazer profits when a merchant’s windows are broken by a hooligan, is classic. “Look at the income the glazer will make! What a flourishing economy!” cry the unknowing masses. But unseen are the purchases the merchant would have made had his windows not been broken: more inventory, new indoor fixtures, equipment, or food for his family. The merchant’s spending simply shifted from more productive or satisfying purchases to otherwise unnecessary repairs.

Similarly, we see how the lockdown saves lives from the Virus. What is unseen are the negative effects the lockdown is taking on physical, emotional, mental, economic, spiritual, financial and social health. Fewer were screened for cancer and heart disease, with fewer diagnoses, because patients feared a doctor visit, or their doctor was not seeing patients. Alcohol and other-drug addicts with more time to drink and use addictively have led to far greater levels of domestic violence, animal abuse, suicides, and riots—because substance addicts, with confabulated thinking, blame everyone else for their problems and sometimes lash out violently. Less exercise for those with no access to gyms have likely led to greater obesity with concomitant shorter lifespans. Children not playing with each other will likely lead to greater immunodeficiencies and behavioral/emotional disorders. *The number of life-years lost from any one of these will likely exceed the totality of those resulting from the*

*Virus.*

We also do not see the millions of annihilated dreams, because we are not in the heads of those who started businesses that were forced to shut down. People’s mindsets and habits have changed, even without future government-mandated lockdowns. Fear has been fomented and cemented by governments using statistical lies and fake science. Many will not return to mass gatherings soon, if ever, whether in restaurants or sports stadiums or concert halls or weddings or funerals. What is also not seen are the tens of thousands of musicians who will no longer get their start by playing for small audiences, earning the opportunity to play for larger ones, or the tens of thousands of performers who will no longer entertain millions at the Cirque du Soleil’s who were, until a mere few months ago, performing in majestic fashion on nearly every continent. What is not seen are the millions of fans who will no longer enjoy the excitement of seeing their extraordinary artistic feats.

The most crucial argument against the lockdown is that it’s not necessary anyway—most Virus deaths are people dying *with* the Virus and not *from* the Virus. Governments are incentivizing the overreporting of Virus deaths by paying more for Virus deaths than for non-Virus deaths. Had we let the Virus run its course without lockdowns, overall herd immunity would have capped loss of life—as is the case in Sweden, which never shut down. Critics point to a higher death rate than in other Scandinavian countries, but 70% of Sweden’s deaths occurred in nursing homes—which are, by definition, locked down!

I believe the lockdowns will create more long-term economic damage, including lost life-years, than the Virus itself by an order—if not orders—of magnitude. The resulting economic fallout will likely have an enormous effect on your long-term tax rates, finances and investments. It’s important for you to be aware so you can take measures to protect you and your family.