

## **Obama Myths and Talking Points**

### **Part I: “The Rich; Millionaires, Billionaires, and Corporate Jet Owners”:**

#### **1.- Obama Myth Number One: People earning \$250,000 a year are “millionaires, billionaires, and corporate jet owners”.**

Few things can be as fallacious as describing individuals, families, and small businesses making \$250,000 as “the super rich” or, as Obama tries to paint them: “millionaires and billionaires”, “corporate jet owners”, “fat cats”.

#### **Facts Explained:**

Suppose that you fall in this category. You and your spouse earn a combined income of \$250,000 a year and you file jointly. This level of income puts you in the 33% income tax bracket (this goes up to 35% for those making \$379,150 and above) meaning that you will be paying \$59,955 in income taxes, or an effective rate of 23.98%. If you are single, then your tax bill will amount to \$67,397 and your effective tax rate will be 26.96%

But that is only income tax. On top of this, you have to pay FICA (Federal Insurance Contributions Act) taxes, also known as payroll taxes or self-employment taxes. These are calculated as 10.4% of the first \$106,800 of wages plus 2.9% on all salaries earned or a combined maximum of 13.3% on wages. When employed, half of these taxes are paid for by the employer and the balance by the employee. In this example, a person making \$250,000 will be paying \$8,111 a year in FICA taxes while a self-employed taxpayer's bill will amount to \$9,969.

In other words, just looking at federal taxes, a single, self-employed person making \$250,000 a year will be paying \$77,366 (or 30.9% of total income) and a married couple filing jointly will be paying \$68,066 (or 27.2%). In the first case, the original pre-tax dollars become \$172,634 after federal taxes while in the case of the married couple the \$250,000 pre-tax becomes \$181,934.

Now, your salary is also subject to state income taxes that vary depending on where you live and where you generate your income. In some cases (like a commuter that lives in Connecticut but works in New York City) both states will demand state income taxes with some allowance given by the “resident” state in partial compensation of the taxes paid to the “wages state”.

State income taxes range widely, from 0% in states like Alaska, Texas, Wyoming, South Dakota, Washington, Nevada, and Florida, to the 7.4% of Vermont, 7.6% of Rhode Island, or the onerous 8.6% of Oregon. My home state of New York has a state income tax of 5.83%.

In the above example, a married couple making \$250,000 a year and living in New York, will pay, on top of the federal taxes, an additional \$14,575 in state taxes.

This is not all. On top of all of the above, you will typically have to pay county, city, and if you are a home owner, property taxes.

These do not include other fees and services that your local, state or federal governments charge for, such as sales taxes, DMV fees, gasoline taxes, and many others that you may not even know about (hint: just take a look at your mobile phone bill to get an idea of the many fees and taxes you pay, sometimes taxing taxes themselves!)

In my case, the county tax is taken off my property tax bill which in my particular situation is around 3.0%. If the married couple filing jointly happen to own, for example, a \$150,000 condo, that adds yet another \$4,500 a year in property taxes.

So for the sake of argument, from the married couple living in New York's combined annual income of \$250,000, the government will take:

- 1.- \$59,995 in federal income tax
- 2.- \$8,111 in FICA taxes
- 3.- \$15,575 in state income taxes, and
- 4.- \$4,500 in property taxes

These taxes total \$88,181 or 35.3% of the original pre-tax \$250,000 leaving \$161,819 to pay for their cost of living (God forbid they have a kid or two in college, because then you would have to shave \$50,000 to \$100,000 off that amount).

And of course, this "after tax" figure still does not include the aforementioned sales taxes, fees, school taxes, city taxes, and other expenditures associated with government charges. Neither does it consider either any expenditures for cost of living (you know: luxuries like groceries, utilities, gasoline) or health insurance (that for a married couple with no children can amount to a good \$15,000 a year).

So, is Obama really trying to tell me that with an overly optimistic \$161,819 "after tax" (but before school, sales, fees, cost of living, insurance, etc) annual income this married couple living in New York will be able to buy a corporate jet? And while we are at it, aren't corporations (and not individuals, families, or small businesses) the actual owners of "corporate jets"?

Does he realize that if this married couple had NO EXPENDITURES WHATSOEVER it would take them 13 years to become millionaires and thirteen THOUSAND years-plus to become billionaires)? I mean, Obama... REALLY?

**2.- Obama (or in this case his crony Cristina Romer) Myth Number Two:** The “wealthy” don’t really spend, so increasing their taxes doesn’t really have a negative effect on the economy. (Cristina Romer, former Senior Economic Advisor to Obama, on an interview this past Sunday).

**Facts Explained:**

Well, excuse me for being skeptical but.... if the “wealthy” don’t really spend, then how come they have *so* many things? (According to Obama, they even have corporate jets!). Is there a “wealth fairy” that gives stuff to the “super rich”? Or are they all just corrupt politicians working with the Obama administration and avoiding taxes?

How did they get so many things if it wasn’t through spending? Did their houses build themselves with materials that appeared out of thin air? Are their cars just figments of our collective imaginations? How about their clothes? Their vacations? (Certain mega-luxury trip to Spain last summer paid with MY tax dollars comes to mind).

No. I think Ms. Romer is wrong. My hunch is that the wealthy actually *do* spend. And my estimated guess is that they actually spend A LOT.

BUT... lets give this lady the benefit of the doubt and pretend that yes, in Obama-la-la-land the rich don’t spend. Then this begs the question:

What do they do with all the money they make? Do they put it under their not-bought mattresses? Do they save it in that security strong box they did not buy? Do they bury it in the backyard of the house they didn’t purchase?

Obviously not!

The money that the “rich” don’t spend is either saved or invested! And BOTH of these things are good for the economy!

Let me start by explaining the “less good” (mind you, still positive) economic stimulus that savings represent.

For starters, saved capital is *deposited* and kept in financial institutions. These banks are in the business of lending and to do so, they actually use the moneys that their depositors keep in their institution to extend their loans. In other words, moneys that “the rich” save in a bank are *used* by such bank to extend credit, give loans, and inject liquidity into the economy.

And if this was not a good enough thing, the more money that banks have on their balance sheets from depositors, the less they need to enter into non-traditional banking practices like investing in risky securities to make a profit.

The higher the level of deposits, the higher the availability of funds for the bank to lend! And that is a big positive!

Now look at the “more positive” effect of “the rich” not spending nor saving. The only other alternative is to *invest*. They can invest in their own businesses, or in other businesses (directly or through the purchase of stocks and/or corporate bonds). They can invest in alternative options like real estate, futures, options, currencies or metals.

At the end of the day the fact is that *these investments are also put to work* in many different segments of the economy, providing it with funds to keep it going; to create new jobs; to be re-invested in new technologies, business expansions; *to make those investments productive!*

Now compare that with the Obama alternative: “Tax the rich”.

In that case, the money that would flow into the system through spending (I hope it is clear now that “the rich” actually do spend), that would be deposited in a financial institution providing funds to banks for further lending, or that would be invested in productive enterprises (it goes without saying that any investor will seek productive ways to manage his or her money) *would instead* go to the Treasury coffers, usually to pay for the salaries of bureaucrats, interest on debt, unfunded liabilities, waste, duplicities, “nanny state” give-aways, ... you name it.

With this information and now knowing the facts..... Would you still think that “taxing the rich” is really a viable solution? A solution at all?

**Coming Next...**

**Obama Myths and Talking Points**

**Part II: “Republican candidates are Trying to ‘out rightwing’ (whatever that means) each other”:**