

Coming to Los Angeles next month...

**The BIG “Million Dollar” Trade Show and Educational Conference
And Biggest Tax Increase Ever (Part II)**

Don't forget to mark your calendar for the “Million Dollar” Trade Show & Educational Conference next month. The big show will held on **Tuesday, October 30th at the Los Angeles Convention Center**. Vendors galore with new products and services, **FREE** educational seminars and **chances to win prizes at every seminar!** You may even go home with a brand new *flat screen TV or a cruise to Mexico!* All this and more for **FREE!** (We just ask that you please bring a donation one new unwrapped child's toy for the Union Rescue Mission's “Christmas in October” program.) .

FREE Educational Seminars

At our free educational seminars, you'll be discovering:

- **“How to Stop Rent Control Now!”** by The Howard Jarvis Taxpayers Association
- **“Insider Secrets to Asset Protection That Will Make Your Money Stay Your Money** by Lou Brown
- **“How to Properly Screen Your Tenants”** by Marvin Fleschman, CAPS
- **“How to Get Three Times the Market Rent Guaranteed by the Government Without Section 8”,** by Nick Sidoti, “The Cash Flow King”
- **“How to Beat Rent Control and New Laws You Must Know”** by Attorney Dennis P. Block
- **“How to Add Thousands to Your Monthly Cash Flow and the 9 Most Costly Landlord Mistakes** by Jeffrey Taylor (“Mr. Landlord”)
- **“Money-Making Strategies for 2007-2057”** by Economist John Kamin; and
- **“How to Make Your Fortune in California When Foreclosures Go Up by 1500%!”** by Bruce Norris of the Norris Group.

Be sure to check out the times of each of our **FREE EDUCATIONAL SEMINARS** listed in next month's issue. It is going to be AOA “Show Time” and you'll need and want to be there. See you at the big show!

The below article was written by Gary D. Halbert, president and chairman of Profutures, Inc. Subscription rates for Forecasts & Trends is \$197 for 12 issues and may be obtained by visiting his website at www.profutures.com.

Biggest Tax Increase Ever? Part II

Predictably, Republicans have seized upon the Democrats' budget resolution and are playing the tax increase card. Republican Representative Paul Ryan of Wisconsin was quick to take the Democrats to task. He criticized their plan as one that would raise taxes ***“on every federal income taxpayer,”*** and called the House budget resolution the largest tax increase in American history.

The Heritage Foundation, a conservative think tank, estimates that the Senate budget resolution will result in a **\$2,641 tax increase per American household per year over the next decade**. The report also notes that the Senate budget contains 22 "reserve funds" that would give Congress almost unlimited authority to raise taxes, resulting in as much as a projected \$4 trillion in tax increases over the next 10 years.

The attack continued as the Republicans' House campaign committee announced plans to go after 50 of the House Democrats who voted for this tax increase. Many of these Representatives are freshmen who had unseated Republicans in the mid-term elections. Thus, they are seen as vulnerable targets when they are up for re-election.

While the jury is still out as to whether the Republicans will be successful in their attempts to unseat Democrats who voted for this budget resolution, it remains a fact that the entire situation is one of the Republicans' own making. Upon hearing the Republican attacks, some Democrats commented that, if the tax cuts were so important, why didn't the Republicans make them permanent when they controlled both houses of Congress and the White House?

That's a very good question, especially as we continue to see the positive effects of the tax cuts spread across the economy. I have made no secret of the fact that I am very disappointed in the Bush administration and the Republican-controlled Congress for not moving forward with more items from the conservative agenda, including making the tax cuts permanent.

As the Democrats have recently shown, they are much more aggressive in pursuing their liberal agendas than the Republicans ever were in pursuing their agendas when they controlled Congress.

The 800 Pound Gorilla

While both Republican and Democrat rhetoric should be taken with a grain of salt, [AOA calls them Socialist Party A and Socialist Party B].the fact remains that neither party has addressed the 800-pound gorilla in the room, and that's the upcoming retirement of 78 million Baby Boomers and the resulting budgetary strain from a massive increase in entitlement spending. The Senate and House budget resolutions, as well as the Republican response, have all completely ignored the significance of January 1, 2008.

That's the date when the oldest of the Baby Boomer generation reach early retirement age under Social Security. Only three years later, this first wave will reach normal Social Security retirement age, as well as the age for Medicare eligibility. After that, each year will see more and more Baby Boomers become eligible for benefits, and the "entitlement strain" will begin. And as I noted in my February 13 E-Letter, there's no Social Security "trust fund" to draw upon. It's all smoke and mirrors. The so-called Trust Funds now own government IOU's. Thus, the federal government will have to start borrowing even more money to pay promised benefits as soon as benefits exceed incoming payroll tax revenues. For Social Security, that date is estimated to be in 2018, just 11 years from now. For Medicare, it's even sooner. **The total cost of Medicare, Medicaid and Social Security is projected to increase from 8.7% of GDP in 2006 to 19.0% of GDP by 2050, an increase of 10.3% of GDP.**

Without reform, the Heritage Foundation estimates that the money needed to pay for these programs will require a **tax hike of \$11,651 per household** to fund the benefits, or the elimination of every other government program. Wow!

Democratic Senator Kent Conrad actually acknowledged this crisis in a recent "60 Minutes" interview on CBS. He said, "*They know in large measure here, Republicans and Democrats, that we are on a course that doesn't add up*" but that Congress does not address the issue

"[b]ecause it's always easier not to. [I]t's always easier to defer, to kick the can down the road to avoid making choices. You know, you get in trouble in politics when you make choices."

Well, Senator Conrad, you get in deeper trouble when you stick your head in the sand and refuse to deal with a problem. On the same "60 Minutes" program, David Walker, comptroller general of the United States, made the following chilling comment:

"I would argue that the most serious threat to the United States is not someone hiding in a cave in Afghanistan or Pakistan, but our own fiscal irresponsibility."

These comments were made in regard to the upcoming "tsunami of spending" related to Baby Boomers entering the Social Security and Medicare programs. This is pretty tough talk, but it echoes comments made by Alan Greenspan and Ben Bernanke. The problem is that no one on Capitol Hill is listening, so Walker is taking his message directly to the people.

Walker speaks to civic groups, university forums, the news media and anyone else who will listen that the US has dug itself into a hole that it may find it difficult to climb out of unless it acts now. He notes, however, that since there is no immediate crisis, the public and their representatives in Congress feel little need to take drastic action.

During his "60 Minutes" interview, Walker made the following additional comments and points, all of which should spur Congress into action, but they won't:

* **"...we suffer from a fiscal cancer. It is growing within us. And if we do not treat it, it could have catastrophic consequences for our country."**

* Walker has a power point presentation that shows the effect of unbridled spending over the next 30 years. He states, *"If nothing changes, the federal government's not gonna be able to do much more than pay interest on the mounting debt and some entitlement benefits. It won't have money left for anything else - national defense, homeland security, education, you name it."*

* Walker tells the interviewer that the real problem *"is health care costs. Our health care problem is much more significant than Social Security. By that I mean that the Medicare problem is five times greater than the Social Security problem."*

* *"The prescription drug bill was probably the most fiscally irresponsible piece of legislation since the 1960s."*

* *"Any politician who tells you that we can solve our problem without reforming Social Security, Medicare and Medicaid is not telling you the truth."*

David Walker hopes that by taking his message to the American people, they will, in turn, empower their elected officials to stop "kicking the can" and make the tough choices necessary to fix the problems. I wish him luck, but I'm afraid Congress isn't listening, and the recent Senate and House budget resolutions appear to be proof of that.

Conclusions

Let's cut to the chase. Whether you are a conservative or a liberal, there are a few basic points that really aren't debatable; they're just facts.

- 1. The top 50% of taxpayers paid almost 97% of all income taxes in the 2004 tax year (latest official data available from the IRS).**
- 2. Another fact is that many lower-income Americans not only pay no income taxes, but may actually qualify for tax credits that mean they get a refund over and above their tax savings.**

3. Considering that the bottom 50% paid only 3.3% of all income taxes, and of that group, many paid no taxes at all, it is virtually impossible for the Democrats to engineer any kind of tax reform that will not result in a significant tax increase across the board.

It's politics as usual in Washington, but it's your and my pocketbooks at stake. Allowing all of the Bush tax cuts to expire will affect virtually every American taxpayer, many of whom had been relieved of paying taxes altogether. Look for the Republicans to intensify their "tax and spend" attacks on Democrats as we near the 2008 elections.

I wouldn't, however, look for any monumental solutions for the entitlement crisis to come out of Washington anytime soon - from either party. The Democrats may just be laying low, waiting to see if Hillary, Obama, or a yet-to-be-named candidate is elected to the presidency. If that happens, the Dems may suddenly recognize the severity of the problems created by runaway entitlement programs, and increase taxes accordingly. The Republicans had their chance to make the tax cuts permanent and address the entitlement programs and blew it.

Whatever happens in the next few years (tax cuts or tax increases), the retirement of the Baby Boomer is upon us, beginning next year and increasing significantly each year thereafter. Entitlement spending will increase exponentially in the years ahead, yet virtually no one in Congress or the White House is willing to take any meaningful actions to address this looming crisis.

We should enjoy this great economy we have, save as much as we can and make the most of our investments. We're all going to need it a few years down the road when the Baby Boomers start retiring en masses, and taxes will almost certainly be raised substantially, thereby hobbling the great US economy. Barring a surprise, a democrat will be in the White House when this process begins to occur, so it would be wishful thinking to believe that taxes won't be raised significantly in the coming years

WHO PAYS INCOME TAXES?

For Tax Year 2004

Percentiles Ranked by AGI	AGI Threshold on Percentiles	Percentage of Federal Personal Income Tax Paid
Top 1%	\$328,049	36.89
Top 5%	\$137,056	57.13
Top 10%	\$99,112	68.19
Top 25%	\$60,041	84.86
Top 50%	\$30,122	96.70
Bottom 50%	<\$30,122	3.30
Note: AGI is Adjusted Gross Income Source: Internal Revenue Service		