

**The Politics of Envy:  
Property Owners Targeted by Over Spenders  
by John V. Kamin**

On May 21<sup>st</sup>, 2009, the Los Angeles Times contained a page one article by a columnist about how to help fill California budget gaps. Obviously, the writer hadn't owned much property, that's my guess, when property tax hikes were boosted for everyone in the neighborhood during the 1970s whenever a house blocks away sold for more money.

I doubt LA Times columnist's diatribe will make him more popular with property owners who buy newspapers. Doesn't he realize that if property taxes are hiked say on apartment buildings and business buildings that renters and consumers will pay more?

And there is the moral issue too. With people cash-strapped during recession and foreclosures rising, it wouldn't help them if taxes are boosted frequently on their existing properties! Cut taxes instead!

A better solution would be for California to auction off Tax Liens as 43 other states do, on properties delinquent on property taxes, so those willing to put the money that California needs, could collect some interest beyond the 1% or so they get from banks and Federal government.

**Disadvantages of Property Ownership**

Because property is fixed in place, owners often become a money-raising tax target. All you have to do is look at Maine, New York, New Jersey, Pennsylvania, Indiana, Wisconsin and other jurisdictions to see that this is true.

"Aha!" suggested the *Times* journalist, a moratorium of several years could be declared on homeowner property tax hikes (so that homeowners wouldn't vote against property tax boosts). That way, he surmises, commercial property hikes could take place first (most likely including rental properties) and then later on, sock it to the homeowners. Sound like fun?

My suggestion? Cut spending instead, at all levels of government. Years ago, I put this into economic law: As soon as taxes are raised to "cure deficits", bloated overspending will resume to create newer and greater deficits. ***Kamin's 21<sup>st</sup> Law.***

During the late 1970s, the Howard Jarvis group created a successful property tax revolt by passing Prop 13, which limits property tax increases. Total property tax collections (\$) have increased 600% since Prop 13 passed!

**Prediction:** If 2009 attacks are continued successfully to overturn Prop 13 Tax Limitations, as the over spenders are in genuine trouble now, it could devastate the California real estate markets and the California economy.

Prediction: You have seen nothing yet! If individuals are forced to live within their budgets, why aren't elected officials forced to do the same? Let's not even talk about those who have been "working the system" for payments for years!

Forecast: Every time California legislators hike taxes and fees, more and more businesses "run away" to Nevada. Nevada politicians over spend too, but gambling revenues pay much of the taxes. Nevada also had a tax limitation measure different than California. For example, even if the value of your property goes up, property taxes can be raised only 8% per year unless you make major improvements or build something on it. This Nevada 8% yearly tax hike limitation measure short-circuits the possibility that property taxes could double, triple, quadruple or quintuple as overturning Prop 13 in California might do.

Prop 13 eliminates the frequent reassessments, used in high tax states to reassess existing properties every two or three years to collect substantially higher property taxes and big boosts.

#### Strategic Moves

1. It appears that it is unwise to have all your property assets located in California due to the mounting battle to overturn Prop 13 tax limitation measures.
2. Diversification to other nearby growth areas such as Clark County, Nevada or presently cheap Phoenix, Arizona or other manageable growth areas would be prudent.
3. Portable Hard Assets. The Forecaster Moneyletter has suggested that you should have 5% to 10% of net worth in precious metal bullion coins for numerous reasons, not the least of which is that owning gold has been profitable, as good rises along with USA silver coins. Precious metal coins, purchased at wholesale, can also help hedge creeping dollar devaluation - long term inflation.
4. It has been suggested by Forecaster many times that you "invest" time and money into highly specialized educational niches and pro-technical skills.

It's harder for the bureaucrats to tax what's in your brain and what can earn you money, though they do keep boosting Fed and State income taxes, especially in California.

**Forecast:** When taxes are boosted on pro-practices such as doctors, dentists, attorneys and CPAs, etc., legislators simply raise income tax rates. Everyone pays them more. Prices rise. That also holds true for plumbers, electricians and others.

**Forecast:** One thing that seems likely to occur is that if California overturns Prop 13 tax limitations, even partially, more and more jobs, businesses and workers will migrate to lower tax states, including risk takers and job creators.

**Forecast:** Stimulus programs can only add to overspending pressures on local and state governments.

## **Risk and Reward Analysis:**

### **Make More Money By Assessing Political Risks?**

Wall St. Commentators on MSNBC brought up the question, “How do you assess political risks? The expert guest admitted that they have no way to assess economic risks. I understand their dilemma. Analysts can measure technical indicators, balance sheets, income statements and even stress tests, but they cannot quantify political moves from Washington, D.C.

**Forecast:** You are living in historic times – an era that will puzzle your grandchildren and great grandchildren when they study economic history in days to come.

### **Bad Economic Moves Subject To Political Risks**

Example: It became very popular to do 1031 Property Exchanges, especially in California during the 21<sup>st</sup> Century and late 20<sup>th</sup> Century. People who had sold property around the greatest real estate booms in history didn't want to pay the 15% long term capital gains (LTCG) tax on their profits ... so they tried to do Section 1031 exchanges by buying new properties as they sold their old real estate for massive gains, so that sellers could defer taxes on gains.

I told many clients that it was a great mistake to do 1031 exchanges and instead, to “take the money and run” and pay the 15% maximum LTCG tax due. I told them bluntly that 15% tax on gains is a very low tax indeed, probably the lowest tax you will ever pay and not to defer it. You eventually have to pay Uncle Sam.

Now you have serious political risk where people deferred taxes for a few years at 15% and President Obama now wants to raise the Capital Gains Tax. Those 1031 exchangers deferred the smallest LTCG in history and now they will be forced to pay a much higher tax at some future date. It didn't make any sense at all to defer a low tax, only to get stuck with a higher tax later when Uncle Sam finally gets his due! A bad move due to upcoming political risk!

### **Tax Clock TICs!**

Some risk takers went even one step further. They did a 1031 exchange on a profitable sale (to defer taxes) into a Tenant-In-Common (TIC) exchange into a much larger building; a mall, an office building, a warehouse or industrial park. Now, especially on single-tenant and even on multi-tenant buildings, the market is diving.

Sometimes the single tenant moves out and then the 1031 TIC exchangers get stuck for the mortgage payments, after not seeing a dime of their money from their previous sale!

Imagine going into a property, making \$100,000s after holding property for decades and then slipping into a 1031 TIC exchange where you don't get any of the money, and worse yet, get stuck with a mortgage and other upkeep expenses such as insurance and property taxes ... all to defer LTCG taxes for a few years. Ugly, costly strategy!

## **Economic Risks Were Turned Into Political Risks**

Worse yet, the market moved against exchangers and what was resalable easily in the real estate boom, say 2006, is not resalable in 2009 as the credit crunch hit and recession hit at the same time!

Exchangers forgot their first rule of real estate investing which is “Real estate is illiquid most of the time.” They also forgot the second most important rule which is “Real estate moves in cycles, usually seven to 10 years in length.”

## **Other Political Risks Nearly Impossible to Assess**

Unprecedented trillions of dollars are being borrowed and spent, fiat money created; USA, Euro-nations, stimulus programs in China, Japan and other Asian countries, etc.

One Michigan subscriber asks, “How are we going to pay for all this, healthcare, 3.5 million jobs created?” The honest answer is “No one knows.” No one even knows if all these massive stimulus programs will work. What we do know is that the expensive May of 2008 Bush Stimulus Program didn’t work.

There have been massive studies of how fiat money creation works over centuries. In fact, in 1875, Dr. Andrew Dickinson White presented a study to the USA Congress called Fiat Money Inflation in France. Dr. White showed the disastrous unintended consequences that resulted from excessive fiat money creation, unbacked by gold and silver. The little book published by Caxton Publishers and the Foundation for Economic Education is now out of print, but we sold several of those books, though the establishment prefers that you ignore Dr. White’s 19<sup>th</sup> Century study.

Another book that details what happens when too much fiat money is created is titled Extraordinary Popular Delusions and the Madness of Crowds published by Dr. Charles Mackay, with a foreword by Bernard Baruch. Noonday Press published my well-worn copy, but there are other editions of this popular book. My edition is over 30 years old.

## **Summary**

You are living in historic times and you may be subject to certain economic events triggered by political events that are often unpredictable.

One commentator recently counted up some 470 plus promises pre-election, made by the current president. Will small to medium-sized businesses that create most of the jobs, for example, be saddled with expensive higher healthcare costs? That’s one unpredictable political risk. There are many others.

History shows that too much fiat money and too much borrowing can lead to massive inflation, such as the South Sea Bubble that plagued England and France during the 17<sup>th</sup> Century.

However, since bubbles are recurring, unintended consequences are mostly stimulated by eager leaders and their followers who want to “get in on the gravy train,” the inflationary disasters and economic consequences that usually follow later can cause people great economic distress.

Over spending, over taxation, and over-eager buying create booms and the inevitable busts that follow where debts are often inflated away, conditions the opposite of sound money management.

Someone with degrees in accounting might be able to analyze in minute detail what appears hidden in the footnotes of income statements and balance sheets. But the bean counters are frustrated when it comes to assessing the future impacts of political programs, promises and political risks!

**Reminder:** You will be studied by generations to come about this unique economic period during which you are alive, by your grandchildren and their descendants.

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