

## Two Observations That May Make Higher Taxes Easier To Bear

For the first time since the administration of President Ronald Reagan, federal government tax policy is changing significantly. Tax cuts were in vogue for nearly four decades, but President Joseph Biden is planning on implementing higher federal taxes on corporations as well as high-income and high net-worth individuals in 2021.

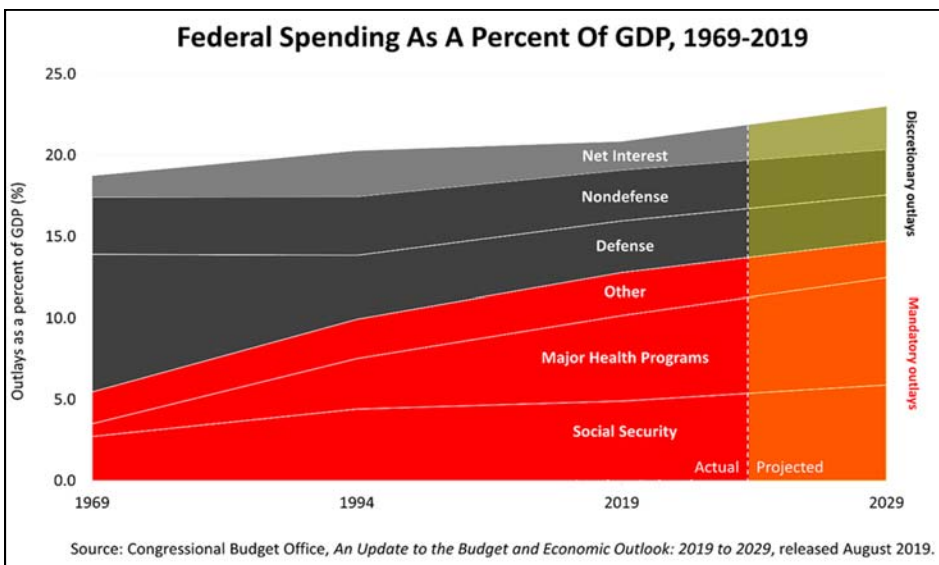
As Congress debates the Biden administration's proposal for a massive increase in federal infrastructure spending, which would require an increase in taxes and government borrowing, here are two key observations made by independent economist, Fritz Meyer.

This chart shows how the United States Government spent its revenue over the half-century ended with the 2019 fiscal year. It's from the non-

partisan Congressional Budget Office. Since then, governmental spending priorities have shifted. Health care spending and Social Security are receiving a greater share of revenue, while defense spending has been judged a lower priority since the fall of the Soviet Union.



In the decade ahead, spending on Medicare, Medicaid, and other federal health programs, along with Social Security and the interest payments on the national debt, are expected to



## Beware Of “Choice Architecture” When Making Decisions

Simply by rearranging the placement of foods, cafeteria managers can increase or decrease their consumption by as much as 25%! To be clear, workers at cafeterias and restaurants wield enormous influence over what people eat.

In the groundbreaking 2008 bestseller, “Nudge,” Richard Thaler, winner of the 2017 Nobel Prize for Economics, and Cass Sunstein, founder of Harvard Law School’s Program on Behavioral Economics and Public Policy, reveal the hidden role choice architecture plays in our decisions about health, wealth, and happiness – how we can be “nudged” to make certain choices.

Choice architecture determines what’s placed at the front of department-store entrances, what’s at the top of fast-food restaurant menus, and whether batteries, hand sanitizer, or *The Enquirer* are showcased on a retail checkout line. In addition, choice architecture tracks every click you make on Amazon and across the Web. To be sure, data science is booming online, powering tech giants like Facebook, Apple, as well as your smartphone.

It’s important for financial consumers to be aware of when they are being nudged in the best direction. There is no law requiring Las Vegas casinos must place games with the best odds for gamblers in front of the entrance, or for brokerage apps to nudge you to choose the best financial solutions.

As your tax accountant, you can count on us to present choices that will improve your financial health, and help you achieve your goals.

Warm regards,  
Gerstein’s Tax Service Client Team

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## An Investor Insurrection, The GameStop Incident Could Result In Jailtime For Its Leaders

Like lemmings going over a cliff, small investors have been buying shares of GameStop and a few other stocks that hedge funds had bet against, causing a short squeeze that is captivating media attention.

Don't fall for it!

The financial fight is widely depicted in the media as a battle of small investors against giant Wall Street hedge funds, and everyone loves an underdog – but it's not

that simple.

Although an army of small investors successfully united to sock Wall Street hedge funds with staggering losses estimated at more than \$20 billion, they are alleged to have succeeded only by using illegal tactics and, of course, naive investors ultimately suffered huge losses.

The drama began after a group of individual investors came together on an online forum on Reddit, a social networking site controlled by the

owners of Conde Nast, an ailing publishing giant. A group of users on its "WallStreetBets" forum bid up the stock price of GameStop to irrational valuations, along with some other out-of-favor companies.

Almost immediately, the U.S. Securities and Exchange Commission announced an investigation. Civil, criminal, and financial penalties could follow and some individuals that started the hype could go to jail.

Moreover, once small investors were no longer willing to speculate on the absurdly priced stocks, the game stopped. Some investors were stuck with big losses.

In the real world of financial news that matters to sensible investors, the 60 economists surveyed in mid-February by *The Wall Street Journal* were forecasting a V-shaped recovery over the seven quarters ahead. While the GameStop story captured attention, don't fall for it. ●



## New Identity Fraud Tactic Targets Amazon Prime Users

If you receive an email update on an order from Amazon that you did not place, beware; it's likely an attempt to steal your credit card information.

Unlike emails from Nigerian royalty and other obvious scams, this fraudulent email contains none of the telltale spelling or grammatical mistakes. It's not yet filtered by Microsoft and spam protection software. It is a new and sophisticated financial fraud threat.

The fake Amazon Prime email order is billed to you but shipped to

a strange name and address unfamiliar to you. A toll-free number is provided.

"Thank you for calling Amazon," says the person who answers and gives you his name. "How may I help you today?"



This is where the sophistication  
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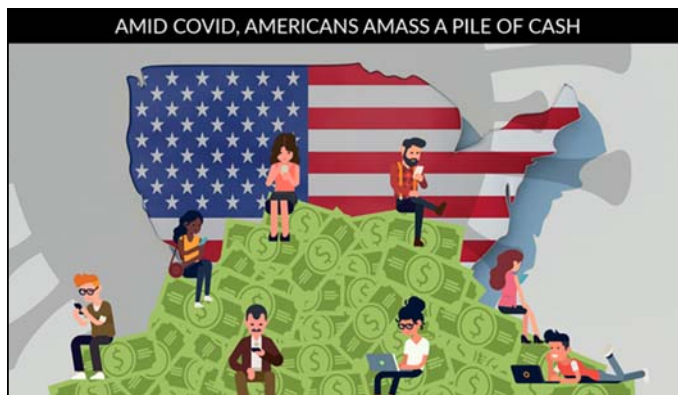
# The Cost Of Not Having A Financial Plan Is Surging

**W**ith the cloud of the Covid pandemic still hanging heavy across the nation, Americans are sitting on an unprecedented mountain of cash while income, estate and gift tax rates are changing. Financial planning in the current environment of accelerated change is suddenly much more important.

If ever there were a silver lining, it's that staying at home has enabled Americans to amass a cash reserve as never before. However, the speed of change has accelerated rapidly, driving up the cost of failing to update a personal financial plan. What's going on?

The pandemic has spawned federal payments to Americans at a level never seen before. Here's the latest snapshot of the unprecedented change in disposable income and savings under way, according to the latest data from the U. S. Bureau of Economic Analysis.

While the chart only goes back to 1997, the dual surges in these two important factors driving growth of the economy

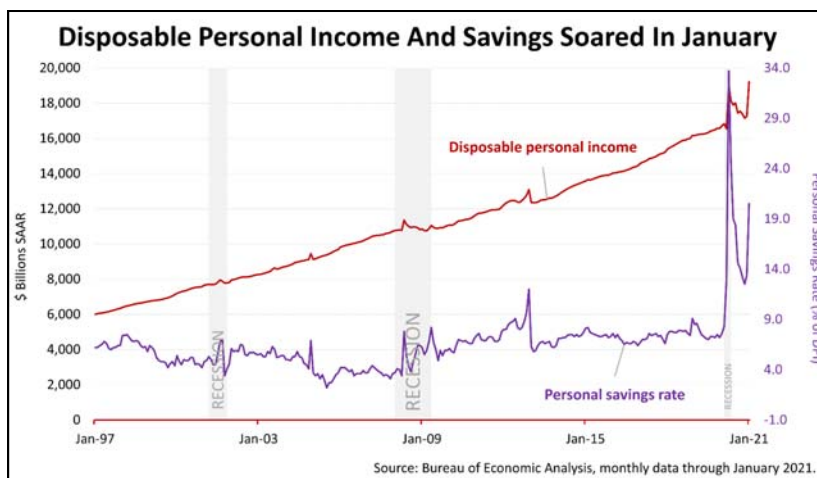


are without precedent in modern U.S. history. The surges resulted from COVID relief payments made by the government in April/May of 2020, January 2021 and again in March 2021. Cash from the 2020 payments

ever, stock prices repeatedly broke new all-time record-highs! The proximate cause of the stock price gains amid a pandemic was an explosion in savings held by Americans, financed by a series of cash payments from the

Government.

With interest rates low and the Fed reiterating in March that it does not plan to raise rates for the foreseeable future, bonds are not an attractive investment. So, consumers sitting on this mountain of cash that has been mounting for many months now may spend it or invest it for the long run. Both



outcomes would be good for asset prices on stocks and housing.

Central bankers and economists will be debating the long-term effects of the growing influence of government in the U.S. economy and the risk it poses, but the financial outlook for now is unexpectedly bright, even as the dark cloud of the pandemic casts a long shadow over the nation. Financial assets are being revalued, as the relative value of stocks versus bonds has changed.

Meanwhile, taxes may be hiked by the current administration – as discussed in the article above.

When the pace of change in the world was slower, the cost of not having a strategic financial plan was not so dear. This is not the time to sit on your hands. This is the time to act. ●

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of the fraudsters is most frightening. With the din of a call center in the background, the fake Amazon representative never asks you for your account password after you explain why you are calling.

Adding credibility, the fake rep tells you to check your email because he is sending you a one-time password. Even a skeptic now is likely to believe this is a real Amazon representative!

The fake Amazon rep is careful to never ask for your full credit card numbers but eventually connects you to another department to cancel the fake order. To be clear, the fake email

and fake representative was all a setup. The final stage of the fraud is still yet to come.

To generate the one-time password, the fake Amazon rep simply used your email address to request a new password for your Amazon account. That generates an email to you, but makes it seem legitimately sent by the fake Amazon rep you are talking to.

In this case, the bad guys hung up the phone after questions about their location and verifying their identity, but it's easy to see how many consumers could fall victim to this scam. ●



# Reminder: Review Your Beneficiary Choices

**Q**uick: Who are the beneficiaries of your retirement plan, life insurance policies, and investment accounts? Many people don't remember whom they named as a beneficiary or are uncertain. But it's important to know, especially if your circumstances have changed since you completed the original paperwork.

You probably carefully considered whom to designate as beneficiaries of your financial accounts and life policies when you initially established them. But you may have shoved the documents into a drawer and forgotten all about them.

Suppose your family situation has changed. Maybe you have remarried and you have children from an earlier union. Do you still want your former spouse to inherit anything? Should your new spouse be named as a beneficiary? Aging, death, divorce, and other life-events, including the birth of a child or a job-switch, make it wise to periodically review beneficiary choices and ensure your assets go to the people you want to benefit most.

One reason it's so important to get

beneficiary designations right is that when you name a beneficiary on your retirement accounts and life insurance policies, those assets will be transferred without going through probate or facing other complications. Moreover, the designations for financial accounts and insurance policies trump whatever it may say in your will. So, even if you change your will to cut out an estranged relative, that person still could benefit unless the beneficiary designations also are changed. And if there are discrepancies, the matter could end up in court—probably the last thing you would want.

Furthermore, getting the beneficiaries right may affect estate taxes. For instance, if you name your spouse as the beneficiary of your 401(k) and IRAs, those accounts won't be included in your taxable estate (although the assets eventually could be subject to estate tax when your spouse dies).



Another money-saving idea that might surface from reviewing your beneficiaries: If you have more than one child and intend to divide your IRA proceeds evenly, you may be able to reduce taxes owed by splitting your account. For example, if you have three children, you can split an IRA into three individual IRAs, naming one child as beneficiary of each new IRA.

Finally, if you name a charity as an account beneficiary, the asset will pass to the charity tax-free. In addition, your estate will be entitled to a charitable deduction, which may reduce or eliminate a tax liability.

For these and other reasons, it's crucial to get beneficiary designations right, and to revise them when necessary as your circumstances change. Going to the trouble of regularly reviewing your designations could be time well spent. ●

## Two Observations That...

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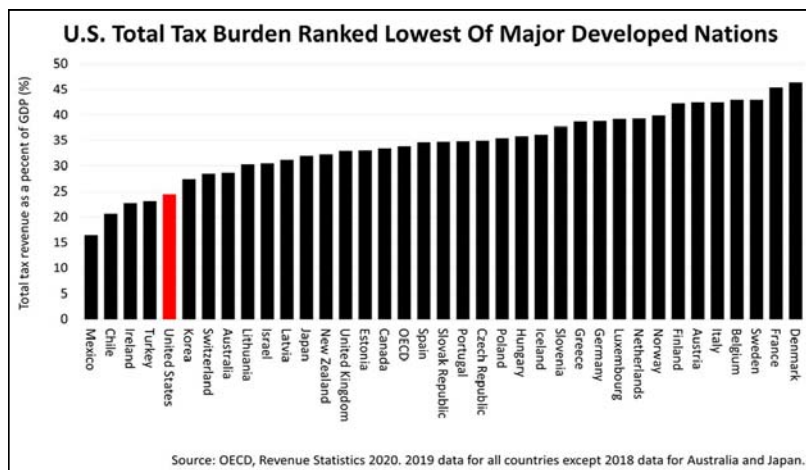
continue to steadily increase as a percentage of the total economy.

**Observation:** The nondefense spending category, outlays for maintaining the nation's infrastructure – roads, mass transit, communication, buildings, and basic functions of American society, has been allocated a shrinking share of gross domestic product as the population grew. Federal highway, mass transit, and communication systems make America the envy of most of the world, but it

has taken a backseat to other priorities.

Including all forms of taxes – federal, state, and local; income, sales, value-added, estate, and property taxes – the U.S. has one of the lowest total tax burdens among the 37 developed

nations that are members of the Organization of Economic Cooperation and Development (OECD). Countries, such as China, Brazil, India, and Russia, are not OECD members and excluded here.



**Observation:** The comparatively low tax burden of the U.S. allows some flexibility in solving the country's long-term spending problems.

Nobody wants to pay more taxes, but these two observations might make the series of tax hikes expected to be enacted in the weeks ahead easier to bear. ●