The BAUMAN LETTER

— YOUR GUIDE TO ROGUE FREEDOM & BOLD PROSPERITY —

How the Next President Will Impact Your Wallet

YOUR future depends on how a "logjam" in our political system breaks ... and it's going to break soon, one way or another.

Logjams ... and the "pigs" who manage them ... have a long history in the U.S.

In 1837, the U.S. government concluded a treaty with the Ojibwe tribe, who lived in the area to the southwest of Lake Superior in what is now Minnesota and Wisconsin. It was beautiful, forested country, covered in sturdy hardwood. Americans could settle in the area to "farm."

Instead, and much to the dismay of the Ojibwe, Yankee loggers cut those trees as fast as they could. Between 1837 and 1912, the entire region was deforested.

But the logs had to get to sawmills. Loggers used the St. Croix and Namekagon Rivers to float the logs south to Stillwater, just outside Minneapolis. They were dumped into the river by the thousands.

The men who guided the logs along the rivers were known as river pigs. Dressed in red flannel shirts, they were so ubiquitous that one observer said it looked as if the area was "in military possession of Queen Victoria...."

River pigs who fell into the water often drowned or were crushed between logs. But the worst nightmare of the river pig was a logjam. That was when logs became stuck on something and started to back up. It was up to the river pigs to break the logjam, often resorting to dynamite to blast obstacles out of the water.

Unfortunately, the dangerous nature of the work meant that there was a lot of turnover amongst river pigs. Inexperienced or unconscientious men ignored stuck logs. When they did, the entire river pig workforce had to clear up the effects of the laziness and irresponsibility of a few.

Logging, you see, is like any complex human endeavor. Decisions made along the way have consequences. If irresponsible river pigs failed to clear incipient jams, the consequences would accumulate until the only solution was dangerous and threatened everyone. Men died because of things left undone, responsibilities unfulfilled.

INSIDE THIS ISSUE

Today's U.S. political system is like a logjam. The "pigs" in Congress responsible for keeping it flowing have abrogated their responsibility for years.

That's why our tax code is an unwieldy "kludge" of short-term fixes, unstable compromises and perverse incentives. There is wide consensus in both parties that it requires urgent attention — nothing less than a complete overhaul — before it's too late.

But for the last eight years, nothing of substance has happened. The Republicans in Congress and the president in the White House refuse to compromise.

Is now the time for our fiscal logjam to break … and if it does, what are the likely consequences?

Traditionally, at this time of year, I review key tax strategies that you can adopt before the calendar year runs out. But the truth is, nothing has changed since last year. The same temporary fixes are going to be extended again after the election. Inflation adjustments will be made to the various deductions, income limits and other tax-related variables. But honestly, you could just read my December 2015 report and adjust the figures accordingly.

That's why I decided to do something different this year. In this report, I'm going to review the finance-related proposals of the two candidates and assess their likely impact on you.

If they get their way, a broken logjam of longstanding tax issues may be headed your way.

Of course, many of these proposals will probably not be enacted given the dysfunction in Congress. But some of them have widespread bipartisan support and are quite likely to happen in the next four years.

So, get ready … if you want to be prepared for the logjam.

About Ted Bauman

Ted Bauman is the editor of the Plan B Club, a blueprint to help protect your wealth and escape excessive taxation, regulations and wealth confiscation in America. He is also the editor of *The Bauman Letter*, a newsletter that's brimming with up-to-the-minute asset protection strategies, tips on buying and investing in real estate abroad, and retirement and residency secrets in American-friendly countries around the globe. Ted has been published in a variety of international journals, including the *Journal of Microfinance*, *Small Enterprise Development* and *Environment and Urbanization*. Email Ted your thoughts and questions at baumanletter@sovereignsociety.com

What Do They Want to Do to the Deficit?

I'm not going to pretend to know who is going to win the presidential election. I dislike both candidates. Nevertheless, one of them is going to win, and there will be implications for your taxes. Some of those implications could be indirect, such as the impact of increased deficits or changes in spending priorities. Others could zero in on you and your finances like a laser.

Let's start with Donald Trump. He hates taxes.

He hates them so much, in fact, that he hasn't paid any federal income tax for 18 years because of a $916 million net operating loss he claimed on his 1995 tax return. He says that makes him smart, but what he doesn't pay, someone else must. (Never mind the fact that losing almost a billion dollars in one year is hardly a sign of business genius.) It was all perfectly legal, of course.

But there's more. Donald Trump also claims to hate *your* taxes. He wants you to pay less of them. He wants to blow up the tax logjam by "simplifying" the tax code. In that respect, he's aligned with most Republicans.

Unfortunately — and unlike most Republicans — he also plans to spend a great deal more money if he's elected president. And that means a huge increase in national debt. In fact, Trump's proposals are a radical departure from 100 years of Republican pro-business, free-market orthodoxy.

Gordon Gray, director of fiscal policy at American Action Forum, notes that recent independent studies show: "Mr. Trump's proposals would, on net and over a ten-year period (2017-2026), reduce federal revenues by $6.5 trillion and increase federal outlays by $323 billion, for a combined **deficit of nearly $6.8 trillion** over the next decade."

Other estimates have the increased deficit at more than $11 trillion. Either way, that's another logjam someone will need to handle in the future.

Under Trump the federal deficit would increase to 7.6% of gross domestic product (GDP), with federal spending outlays increasing to 23.2% of GDP, compared to revenues of 15.7% of GDP.

Under Trump's plan, total national debt as a share of GDP would double, rising to 105% of GDP over the next 10 years, compared to a projection based on current laws of 85.6%.

Another logjam.

Now, to be fair, Mr. Trump claims that his tax proposals won't lead to deficits because lower taxes will lead to much higher economic growth. In one of the recent debates, he implied that the U.S. economy could grow by 6% or more annually under a Trump administration.

Unfortunately, that's baloney — or, as the British would say, bollocks. (I've always liked that one.)

As an economic historian, I promise you there's not a shred of evidence to support the notion that a large tax cut will lead to increased business investment and more jobs. I know it's an article of faith for some folks that *tax cuts = growth* — and that some of my colleagues disagree with me about this — but the truth is that the sources of economic growth in a single country are determined by a variety of factors, including the availability of other ways to profit. Marginal individual tax rates aren't a very significant one.

In fact, when taxes go down in a weak economy, it tends to lead to asset price inflation, as extra money goes looking for yield in speculative ways.

Trump wants to declare China a currency manipulator and impose huge tariffs on Chinese and Mexican imports "if they don't behave." He promises to tear up existing trade deals and somehow use tariffs to take us back to 1950s-style manufacturing employment.

That's easier said than done. It would take a lot longer than four years to rewrite the rules of international trade, and the impact of a U.S. retreat to protectionism on foreign economies would be devastating … destroying our own export markets.

Moreover, if by some miracle we did get Trump's level of growth, the result wouldn't be prosperity, but out-of-control inflation, as employers battled to hire workers and secure supplies of inputs.

And a lot of that growth would need to be supplied by foreign producers, worsening our already bad current account deficit and causing the dollar to crash.

In other words, be careful what you wish for. It might just involve more logjams for someone to clean up later.

In contrast to Trump, Hillary Clinton wants to nibble away at the national logjam with incremental changes to existing systems — including the tax code.

Clinton's tax and budget proposals would increase federal revenues by $1.3 trillion over 10 years and increase federal outlays by $2.8 trillion, for a **combined deficit of nearly $1.5 trillion** over the next decade.

Clinton would increase deficits to 5.4% of GDP, with outlays increasing to 24.3% of GDP, compared to revenues of 18.9% of GDP. Consequently, Clinton's proposals would increase debt held by the public to 91.0% of GDP, compared to the current projection of 85.6%.

That's a *slightly* smaller deficit logjam than Trump's. But it's still a logjam.

In the recent debates, Clinton said: "I [won't] add a penny to the national debt." Like Trump, her claim relies on the effect of her budget proposal on economic growth, which she hopes will increase revenues by more than the estimates above.

But unlike Trump's plan, which revolves around lower taxes, Clinton's $275 billion plan relies on increased federal spending in areas such as infrastructure, expanding free broadband access, financial aid for education, early childhood education and parental leave to generate increased consumer demand. (For his part, Trump has only made suggestions regarding a "trillion-dollar rebuilding plan.")

In other words, she wants to fix our economic logjam by spending a lot of money.

To be fair, there is historical evidence to support Clinton's claim that government intervention can goose the economy. Government spending on infrastructure is stimulative, labor-intensive and reliant on inputs produced inside the U.S. Programs that reduce the costs of education, child care and similar household costs tend to produce higher workforce participation rates and thus keep overall wage levels — and inflation — down.

Clinton also wants to create tax and economic incentives to entice multinationals to bring jobs back to the U.S. She says trade has been a "net plus for our economy," yet she opposes President Obama's Trans-Pacific Partnership.

She would **increase the federal minimum wage to $15 an hour** from $7.25.

But as with Trump's plan, there's no way to know what Clinton might be able to achieve in a first term. Her plan might add up in theory. But individual pieces of it, enacted piecemeal, would not have the impact she promises. Her proposals would inevitably increase the deficit.

In other words, they'd add more logs to the jam.

What About the Public Debt?

Here's where things get weird and scary. Trump's approach to the national debt is like using a nuclear warhead to clear a river logjam.

That's because Trump has proposed cutting the $19 trillion U.S. debt by **giving bondholders less than the face value of the money owed to them:** "I would borrow, knowing that if the economy crashed, you could make a deal." After all, that worked for him in his disastrous Atlantic City casino ventures, where bankers reckoned "Trump is worth more to us alive than dead."

Unfortunately, the global financial system isn't like the real estate financiers with whom Trump is accustomed. The U.S. dollar is the world's reserve currency, and U.S. Treasury bonds are the safe harbor of last resort for investors everywhere.

Just the hint that Trump would renege on U.S. debt would send the dollar into a nosedive, increase interest rates to double digits and send the entire global financial system into an uproar. U.S. Treasurys would longer be considered a "safe harbor" and thus ineligible as collateral for big loans.

Boom!

And remember that 55% of U.S. debt is held by Americans, who hold U.S. Treasurys in their 401(k)s and pension plans. That might pose a wee problem for Trump once people realize what "renegotiate" would mean to their own finances.

Bam!

In any case, Trump's plan to deal with the rest of the world the way he dealt with his business bankruptcies is plainly unconstitutional under Section 4 of the 14th Amendment to the United States Constitution, which says: "The validity of the public debt of the United States, authorized by law, including debts incurred for payment of pensions and bounties for services in suppressing insurrection or rebellion, shall not be questioned."

And forget about a congressional end run: The Supreme Court ruled in *Perry vs. the United States* (1935) that under Section 4, voiding a United States bond "went beyond the congressional power."

For her part, Clinton doesn't have a specific plan for paying down the national debt. Instead, she contends the U.S. wouldn't be facing a debt crisis if her husband's efforts had been continued by the administration of his successor, George W. Bush. Presumably that means she would ask him for some deficit pixie dust and repeat the trick.

If that doesn't work, our debt logjam stays in place under a President Clinton.

What Do They Want to Do to Your Taxes?

Clinton's plan wouldn't raise taxes at all for 95% of Americans. In fact, the tax code would stay much as it is. But she'd add a new bracket that would **increase taxes on the wealthiest 5% of Americans — those earning over $250,000 a year.** Two-thirds of her proposed increases would hit the top 0.1% of Americans.

The main components of her tax plan are a **minimum 30% tax on those earning at least $1 million a year** — the so-called "Buffett Rule" — and a **4% tax surcharge for those earning more than $5 million** a year.

Clinton would also **cap the value of tax deductions and exclusions for wealthy taxpayers at 28%**, including the write-off for IRAs and moving expenses. And it would hit some currently tax-free items, such as 401(k) pay-ins, tax-exempt interest and the value of employer-provided medical insurance.

Clinton would increase estate taxes up to as much as 65% in some cases.

Clinton would also clamp down on tax shelters for offshore corporate profits and levy higher taxes on multinational corporations.

And she'd eliminate tax subsidies for fossil fuels, including expensing of intangible drilling costs, percentage depletion, and the deduction for domestic manufacturing for production of oil, natural gas and coal.

By contrast, Trump's plan would cut taxes for many Americans. But many of us would actually see our taxes go up. I explored a couple of handy online calculators (such as taxfoundation.org/blog/how-would-trump-and-clinton-tax-plans-affect-your-taxes), which showed that my own taxes would go up under Trump.

Clinton Tax Rates

Ordinary Income	Capital Gains & Dividends	Single Filers	Married Filers
10%	0%	$0 – $9,275	$0 – $18,550
15%	0%	$9,275 – $37,650	$18,550 – $75,300
25%	15%	$37,650 – $91,150	$75,300 – $151,900
28%	15%	$91,150 – $190,150	$151,900 – $231,450
33%	15%	$190,150 – $413,350	$231,450 – $413,350
35%	15%	$413,350 – $415,050	$413,350 – $466,950
39.6%	20%	$415,050 – $5 million	$466,950 – $5 million
43.6%	24%	$5 million & above	$5 million & above

But his tax system would be simpler. Trump's current proposal (modified in early August) is based on **three brackets, maxing out at 33%.** And he wants to **do away with the estate and gift tax.**

Unlike Clinton, Trump gives no details about which tax write-offs will be on the chopping block. He'll probably keep breaks for home mortgage interest and donations to charity. Beyond that, it's anyone's guess.

But I'm willing to bet that the tax loopholes that allowed him to avoid paying federal income tax for nearly 20 years are going precisely nowhere. And if he's going to protect real estate investors like himself that way, you can be sure that every corporate lobbyist in Washington will be making appointments to see him about their own economic sectors.

Trump's August plan is silent on capital gains. His original plan called for rates from 0% to 20%. By contrast, congressional Republicans want 16.5%.

Trump Tax Rates

Ordinary Income	Capital Gains	Single Filers	Joint Filers
12%	0%	$0 – $37,500	$0 – $75,000
25%	15%	$37,500 – $112,500	$75,000 – $225,000
33%	25%	$112,500+	$225,000+

Pass-Through Chaos

The big item in Trump's tax plan is **a flat 15% rate on C corporations and pass-throughs,** such as S corporations, partnerships and LLCs — and would invite sole proprietors to the pass-through party for the first time.

This is a very big deal, and I want to spend some time on it. It has the potential to create one of the biggest logjams we've ever seen in the U.S. economy.

C corporations generally pay taxes at the corporate rate (technically 35%, but hardly ever paid in practice). But their shareholders must also pay taxes on any corporate profits distributed as dividends, which forms part of their personal income.

By contrast, a "pass-through" entity is any privately held business vehicle where the owners elect to treat net business income as personal income. If you operate a business as a partnership or hold rental properties in an LLC, the net income of that business is treated as personal income — it "passes through" to you and/or your partners, and you pay taxes at the individual rate. The business or LLC itself pays no tax.

It's an attractive proposition: In 1985, 49% of U.S. businesses were organized as pass-throughs, accounting for 9% of business receipts. By 2012, 80% of businesses were pass-throughs, accounting for 36% of all business receipts.

Trump plans to extend this arrangement to "sole proprietorships," such as freelancers. What would happen?

Let's say you're currently working as a consultant as a sole proprietorship or via an LLC. You pay personal taxes on the net income of the business, up to 25%, Trump's top proposed rate. But if Trump's plan is adopted, you'd suddenly pay only 15% — 9% less.

Let's further say that you have a friend or neighbor who does the same sort of work you do, but as an employee of a consulting company like Accenture. She would pay taxes at the personal rate — more than you would pay at every income level from $50,400 on up.

Just imagine the shock and chaos that would cause. There would be a frantic rush to convert employment relationships into freelancing — I sure would! Those who couldn't — because they can't meet the IRS' strict rules for who is and isn't really a freelancer, such as working at your employer's premises or on a fixed schedule — would be seething mad. Entire industries would be disrupted as people jockeyed to take advantage of the new rules. Tax-avoidance schemes would multiply like rabbits.

People all over the country would move rental properties into LLCs. Corporate recruiters would struggle to find people willing to pay more taxes as an employee. Young people would do everything

Ted's Tax Tips for Retirees

If you take the standard deduction instead of itemizing, you get a bonus of up to $1,500 if you or your spouse is 65 or older.

Filing Status	Standard Deduction	Standard Deduction, 65+
Single	$6,300	$7,850
Married, filing jointly	$12,600	$13,850
Married, filing separately	$6,300	$7,550
Head of household	$9,300	$10,800

You may be able to contribute an extra $1,000 a year to a traditional IRA or a Roth IRA, if you qualify for one. That's thanks to the IRS' catch-up provision for people 50 and older. And remember, you can put money into a traditional IRA until the year you reach age 70½; there's no age limit on Roth IRA contributions. If you or your spouse is 65 or older, you can deduct unreimbursed medical expenses that exceed 7.5%, of your adjusted gross income rather than the normal 10%. And if you've recently purchased long-term care insurance, you may be able to add in $380 to $4,750 of the premiums, depending on your age (the older you are, the more you can deduct).

they could to find a career that would allow them to operate as a pass-through. Analysts have noted that "the clear majority of activity spurred by the Kansas pass-through carve-out is creative accounting" — not new job-creating business. For instance, when Kansas exempted all pass-through income from taxes, the number of pass-through entities skyrocketed.

Pass-through entities, however, aren't limited in size, and they aren't synonymous with "small businesses." Most pass-through income is earned by a very small share of businesses with quite large profits. In 2012, the 0.4% of S corporations with total receipts of more than $50 million (and average receipts of $161 million) earned 40% of all S corporation income. The 0.3% of partnerships with receipts of over $50 million (averaging $375 million apiece) earned *more than 70%* of partnership income. All in all, 69% of pass-through income flows to the top 1% of Americans.

In fact, Donald Trump's own businesses operate through a network of some 200 LLCs. Many of the biggest financial firms on Wall Street have converted themselves to LLC form. So have big law firms. That means Donald Trump and the wealthiest Americans would receive a massive tax cut … whilst most of us continued to pay more than our fair share.

Oh, and the Tax Foundation says Trump's pass-through plan would cost about $1 trillion over 10 years.

The only way to avoid this? Stick to the status quo, or cut personal income tax rates to 15%.

Social Security and Medicare

Social Security is at a critical point. By 2034, without reforms, payments will be cut by 21%. But both candidates have pledged to preserve — even expand — Social Security and Medicare.

That's a huge logjam.

Clinton would **expand Social Security benefits for women who are widows and caregivers, and let individuals over age 50 or 55 buy into Medicare.** Clinton's main Medicare proposal is a new program called "Medicare for More." **Individuals over 50 or 55 would be able to buy into Medicare**. It would cover an additional 13 million Americans, including 7 million uninsured. She also wants Medicare to be able to negotiate drug prices with pharmaceutical companies.

To pay for all this, Clinton would **increase FICA taxes on high earners,** adding $11 trillion to the Social Security benefits account and keeping the program in the black for another 75 years.

Trump says he won't cut Social Security or Medicare, relying instead on new jobs that generate more payroll taxes. Some of his advisers, however, have said: "After the administration has been in place, then we will start to take a look at all of the programs, including entitlement programs like Social Security and Medicare [...] to start seeing what we can do in a bipartisan way."

But I'm betting that both candidates make the national entitlement logjam worse.

What About Those "Pigs" in Congress?

In my introduction, I argued that we are at a point where the logjams created by years of legislative inaction must pop soon.

No matter who is elected on November 8, I predict that some of them are going to break, with enormous consequences for those of us downriver. But a lot depends on Congress.

Let's start with Trump. Honestly, I have no idea what a Trump White House would be able to achieve, legislatively speaking. He seems to plan to rely on his personal and executive authority (as Republicans have accused Obama of doing to excess, by the way).

That might work for some policy areas, but for the tricky stuff, he must work with Congress. Much more likely, should Trump win, is that a Republican Congress will send legislation to the White House based on their own agenda, and

Trump will either sign it — or not. My prediction is that if he is president, he will be much too preoccupied with his ego to care very much.

In that case, the tax-reducing, entitlement-cutting, defense-centric Republican platform will probably be enacted. The logjam will break, and the logs that come rushing toward you will be those things that Paul Ryan and company have been erratically proposing over the last eight years. But none of them will do the deficit, the dollar or the economy any good.

On the other hand, there will be little substantive change under a Clinton presidency. Forget campaign promises designed to appease Bernie supporters. She's not an economic radical at heart, and even if she were, she won't get anything out of a Republican House … except, perhaps, for things Republicans also want.

Those "things" depend on which Republicans we're talking about. I predict that the Trump-aligned right wing will be humbled in congressional elections and the GOP establishment will reassert its authority in Congress, at least for now. And they will recognize the need for some legislative progress — voters demand it — even if it means compromising with Clinton.

What will that legislation be? Like Clinton, the GOP establishment wants a much more aggressive foreign policy, infrastructure spending and, above all, *corporate tax reform.*

Indeed, there's been quite a bit of recent insider chatter about the possibility that congressional Republicans would work with a President Clinton to overhaul the corporate tax code. I think they will, and that it will have two components: a lower corporate tax rate in exchange for closure of many current loopholes; and an extension of that tax rate to repatriated profits, making it unnecessary to keep them abroad to avoid paying tax, as they currently do.

This will involve a one-time tax holiday for foreign profits, as happened in 2004 under George W. Bush. That's the only way congressional Republicans will support it over Democratic objections. And that involves *a lot* of money.

U.S. corporations have $2.5 trillion stashed overseas. Nearly two-thirds of that is held by pharmaceutical and tech firms, who are adept at making it look like most of their profits are earned abroad.

So, the deal I anticipate will look like this: In exchange for a lower permanent corporate tax rate on global profits — not just domestic, as at present — U.S. corporations will repatriate the $2.5 trillion. The government will use the tax thus raised to fund Clinton's infrastructure plan. The corporate sector will say that this deal will result in a massive injection of capital into the U.S. economy.

Unfortunately, studies have found that the Bush holiday in 2004 did nothing to spur investment or job creation; in fact, the top 15 companies benefiting from the deal cut 20,000 U.S. jobs.

Will Clinton be able to break the foreign earnings logjam? Probably.

Avoiding Broken Logjams

It's impossible to predict the future — only to prepare for it. And in uncertain times like these, that means constantly revising and updating one's preparations based on the changing likelihood of one outcome or another.

So, what should you be doing right now?

If Trump wins, expect massive deficits, economic chaos and a collapse of the dollar as fears of a unilateral U.S. debt default and the collapse of foreign-export economies ripple through the system. In that event, you want to be out of the dollar and into tangible assets — above all, gold. (For a great and easy way to diversify your portfolio with physical gold, read my August 2016 issue for more information on accumulating and storing your gold.)

Given how little we can predict about Trump's actual agenda if he gets into the Oval Office, it's hard to say what will happen beyond that. Investing in fencing companies and private security firms will probably be a good idea.

If Clinton wins — as the betting markets predict as I write — you can expect relative stability in global markets, at least at first. Taxes will go up, and you'll want to start preparing to shield your income with the help of a good tax attorney who stays on top of changing rules — like my friend Josh Bennett.

Spending will increase, and the deficit will rise. The federal government will rapidly increase its capacity to surveil our activities and strengthen its tax-enforcement capacity significantly to impose all those new rules.

But the biggest threat of a Clinton presidency is that the things that most need to change won't. Our national logjams will remain in place … and accumulate more danger behind them.

The root causes of our ongoing economic malaise — the combination of a Fed-led, finance-oriented approach to economic policy, an over-strong dollar and an unwillingness to harm the short-term interests of Wall Street — will remain unaddressed.

Extremely low interest rates will continue, encouraging more borrowing by everyone from the federal government to ordinary households.

The urgently needed rebalancing of the U.S. and global financial sectors — reducing debt loads, discouraging asset speculation and redirecting capital into productive, job-creating investment — won't happen.

Instead, private-sector debt will continue to accumulate, whilst the real economy stagnates. Prices in crony-capitalist sectors like health care will continue to rise. That will squeeze people living on fixed incomes even harder.

The real economy — production and consumption of goods and services that people want and can afford to buy with their current incomes, not debt — will remain weak. Real incomes won't grow much, and U.S. consumers won't be able to sustain the global economy as they have for years.

The threat of asset bubbles will remain strong, since there won't be other sources of yield. That will reinforce the ongoing long-term accumulation of debt overhang in the U.S. and global economy.

Opportunities for investment yield will remain limited and restricted to short-term bull markets, specific growth stocks and dependable long-term holdings. Overall, though, those yields won't be spectacular. Ordinary 401(k)s and IRAs will muddle along without much growth, and people will be tempted to take capital distributions earlier than they should to survive retirement.

So how do you avoid the "logs" coming downriver at you? Here are three things you can do right now:

1. Pursue a balanced investment strategy like the one I recommend in the March 2016 and October 2016 issue of *The Bauman Letter*. This involves diversifying into rare tangible assets, as well as acquiring an appropriate stock of bullion — 10% long term, 3% to 5% speculative holdings — as well as offshoring part of your portfolio.

2. Set up a self-directed IRA, as I explain in the May 2015 issue of *The Bauman Letter*, and use it to diversify your holdings away from U.S. equities. A self-directed IRA allows you to invest offshore and in foreign currencies.

3. Acquire an offshore financial account either in your own name or through an offshore asset-protection vehicle such as a trust or an LLC. Note that this isn't just a way to hedge against wealth confiscation … it's also a way to move assets out of the dollar, which is critical.

Those recommendations are the same as those I've made over the last few years … because nothing substantive is going to change under a Clinton administration.

Except, of course, the risk level … after all, the longer things carry on as they are, the worse our national logjam will get. ■

Changing IRS Rules on Succession Planning

By Josh Bennett

IN August this year, the Treasury Department released proposed revisions to the Internal Revenue Code (IRC) relating to how family-owned businesses are valued for estate-planning purposes.

For years, estate planners have adjusted the valuation of minority shares in such a business. It works like this:

Let's say you own such a business. You transfer a minority interest in that business to your heirs during your lifetime — maybe 10% each to four of your kids. It could be an operating company or a holding company that owns other businesses.

Under current regulations, you can argue that the value of the minority interest for gift tax purposes is much less than the overall value of your business would suggest. That's because it would be very hard to sell that minority interest to someone else. Using this argument, estate planners routinely get gift tax discounts of 35% to 40% or more for closely held private businesses.

The proposed IRS regulations significantly limit this practice. Instead, they require that the value be established under "generally accepted valuation principles, including any appropriate discounts or premiums." But there's no explanation as to just how a minimum value might be accurately calculated.

Let's look closer at some ways these proposed regulations might affect you and your heirs.

Gift transfers made within three years of the death of a parent who owns a business must be included in the parent's gross estate, making the heir liable for full estate tax. That's intended to prevent last-minute transfers that can be discounted.

When an interest in a family business is transferred to an heir, the heir will now *immediately* acquire management and voting rights in the business. Under current law, you can assume ownership of shares with those rights, making them far less marketable and therefore subject to a bigger valuation discount.

Similarly, the legal definition of "restrictions" that a grantor can impose on shares gifted to heirs will be tightened for the same reason.

An heir's ability to liquidate any gifted interest will be limited. So too will the option to defer the payment of the liquidation proceeds beyond six months and receive liquidation payment in anything aside from cash, property or certain types of notes. That means tax liability for the heir will arise sooner.

If you have a family business, you should consider expediting any such gifts to your heirs before the new regulations take effect. The impact on your estate could be quite substantial. In the best-case scenario, these proposed regulations could take one to two years to finalize — but it could be less than that.

Another option is a grantor-retained annuity trust — the GRAT. GRATs transfer all the assets that remain when the trust expires to the trust's beneficiaries in such a way that some of the appreciation of those assets is exempt from gift tax.

Of course, it remains to be seen how the next White House will treat these and other tax strategies. That's why it's important to use a professional estate planner who stays current on all changes and tax implications and understands the best possible options for your individual situation.

To understand just how these proposals might affect you, feel contact to contact me. We can help you formulate strategies to offset any negative effects. ■

Josh N. Bennett has more than 23 years experience in law with extensive, in-depth involvement in all aspects of international tax, estate and gift tax planning.

Perth Mint Certificates — Too Good to Be True?

By Rich Checkan

REGULAR readers of *The Bauman Letter* will know that there are basically two ways to own gold and other precious metals: allocated or unallocated.

"Allocated" simply means that you own specific pieces of bullion in your own name, with the serial numbers recorded.

"Unallocated" means that you own the right to a specific quantity of bullion in a common pool, not to specific pieces of it.

Allocated storage is great for asset-protection purposes, where what matters is the long term. But if you want to acquire metals at good prices with low storage costs, unallocated is the way to go.

Gold With No Storage Costs

Consider one of our key products, Perth Mint Certificates. The Perth Mint is located in Western Australia and is backed by the local government. It trades in and fabricates gold, including Australian Kangaroo coins. Let's look at some of their premiums and storage costs:

- Unallocated Gold: 2.25% over spot, zero storage charges.
- Unallocated Platinum: 2.25% over spot, zero storage charges.
- Pooled Allocated Silver: 2.25% over spot, plus a 10-cent-per-ounce fabrication cost (at current market levels, less than 3% to own silver) and 0.95% storage fee per annum.

In addition, with each purchase of any metal, there is a $50 certificate fee and a $10 charge to ship certificates to the client.

When I speak with clients, they all agree this is fantastic pricing. But they immediately think, "This is too good to be true."

It's not. Here's why — and how — you can be part of the best-kept secret in the precious-metals industry.

I described Perth Mint Certificate pricing for silver above. Compare it to the pricing a client was recently quoted for a mint box of 500 1-ounce silver Eagles — at *25%* over spot silver.

This client could buy the same amount of silver at Perth, and, if the spot remains the same, it would take *over 22 years of storage* before they paid the same fees for silver Eagles.

It's an absolute no-brainer. The story for gold and platinum is even better … especially since all forms of precious metals purchased on Perth Mint Certificates are 100% backed by physical metal; held at Perth Mint; unique to the client; never used as backing for derivatives; never leased to third parties; and always 100% insured at full market value at all times at Perth Mint's expense.

Holding Gold in the Land Down Under

We became involved with the Perth Mint on this project 19 years ago when they approached us asking for help to solve two problems.

First, they wanted to compete against the Eagle in America, but they would lose because Americans buy American products.

Second, they were looking for a way to eliminate high commercial leasing costs for their inventory.

Fixing problem one was easy. We suggested they develop a unique product — the world's only government-guaranteed precious-metals storage program, backed by the highly rated and profitable state government of Western Australia and stored at the world's oldest continuously operating mint … the Perth Mint. Only allow Australian products in the program, such as the Australian Kangaroo.

On the second problem, we could not eliminate the leasing costs, but we were able to significantly reduce them. To understand how, you need to know how a mint operates.

When a distributor wishes to buy 10,000 gold Kangaroos from the Perth Mint, they agree to a price and the distributor sends money to Perth Mint. They want their coins sent out immediately so they can sell to dealers.

But, to send them out immediately, Perth Mint would need to have 10,000 gold Kangaroos already minted and waiting for someone to buy them. They can't just start making 10,000 coins once they receive the order.

So, to get this metal, the Perth Mint leases (or borrows or rents) gold from bullion banks. While they hold it, they pay high commercial leasing rates. That way, when a distributor comes calling, they have the coins already made.

To decrease this cost, we suggested offering free storage on unallocated gold, silver and platinum. The Perth Mint gives up the industry's standard 0.5% storage fee, thereby changing the rentor from the bullion banks to the individual unallocated investors. The 0.5% charge that Perth Mint waives for those investors is far lower than the commercial leasing rates they would have paid under the old model.

So, as long as the client is willing to be flexible in terms of what form his unique ounces of precious metals are in from day to day, the client receives free storage and insurance, and the Perth Mint saves money.

Originally, free unallocated storage was available for silver too. However, in 2010, Perth Mint had taken in enough unallocated silver to meet their anticipated inventory needs. So this new model no longer represented a cost savings.

With proper notice, they closed down unallocated free silver storage on April 30, 2011, and began to offer pooled allocated silver (with the terms mentioned above) instead. All those holding free unallocated silver at that time were grandfathered until they either sold or took delivery.

Long story short … you now know why I believe Perth Mint Certificates are the best-kept secret in the precious-metals market. They are exactly as good as advertised and are particularly attractive given this high-premium precious-metals environment we are experiencing today. ■

Rich Checkan joined Asset Strategies International (ASI) in February 1996. In 1997, Rich, Michael Checkan and Glen O. Kirsch created a precious-metals certificate program for the Perth Mint. As the president and COO, Rich has knowledge of every facet of ASI's operations. He is also the company's compliance officer. Rich is a regular contributor to ASI's own monthly newsletter and a regular writer for ASI's news alert twice a week.

Hold Your Nose and Vote

By Bob Bauman JD

PICTURE two nimble-fingered teenage Americans texting each other on their iPhone 7s: **She:** *"Hey, are you free tonight?"* **He:** *"Of course I'm free. I'm American."*

We are told that a possible 84 million people tuned in to see Hillary Clinton and Donald Trump in their first debate — a record in the 60-year history of televised presidential debates.

But how many of those millions of viewers understand the profound implications of that teenage boy's flip but sage response; that, at least in theory, U.S. citizenship guarantees freedom.

The sad answer is: not many, according to current studies.

In 2016, less than one-third of 75 leading American colleges required history majors to take even one course in U.S. history.

In January 2016, less than 20% of students could accurately identify what the Emancipation Proclamation was, and one-third of college graduates were unaware that FDR introduced the New Deal. The survey concluded: "Those who do not know the history of the nation, are, of course, much more likely to view its constitutional freedoms with nonchalance."

I doubt that many of the millions of debate viewers had ever heard of George Santayana, the Spanish philosopher, essayist, poet and novelist. He gave us the famously pregnant warning: "Those who cannot remember the past are condemned to repeat it." That phrase should serve as the basis on which to judge not only the debates, but the character of the candidates as well.

Character

The late James D. Barber, a Duke University political scientist and authority on the American presidential character, predicted the downfall of Richard M. Nixon several years before the fact.

His classic 1972 book, *The Presidential Character*, argued that a president's psychological makeup, established early in life, could predict performance in office. Dr. Barber wrote: "Character is the force, the motive power, around which the person gathers his view of the world, and from which his style receives its impetus. The issues will change; the character of the president will not."

The most dangerous type, Barber said, was the "active-negative" president. Though energetic, such men were also joyless, inflexible, compulsive and domineering, with "a strong bent for digging their own graves." In this category he listed Lyndon B. Johnson and Richard Nixon.

Dr. Barber was often asked by reporters to advise the voting public. "I would advise the citizen choosing a president not to count on major changes in basic personality, basic beliefs or basic political skills as that creature of habit moves into the White House," he said in 1994.

We know from history what common leadership qualities good U.S. presidents have displayed. You might consider how these apply when casting your vote on November 8:

- A strong and reasoned vision for America's future
- An ability to understand their own times in the perspective of history
- Effective communication skills
- The courage to make unpopular decisions
- Stable and calm crisis-management skills
- Consistent character and integrity
- Adherence to the rule of law and the Constitution
- Wise appointments

An ability to cooperate and work with Congress

I would say in 2016, one candidate scores one out of nine, and the other, perhaps, two out of nine.

Hold your nose and vote. ■

Bob Bauman is a former U.S. Congressman from Maryland. He is an author and lecturer on wealth protection, offshore residence and second citizenship. Email Bob at baumanletter@sovereignsociety.com

7 Smart Retirement Choices

BY TED BAUMAN

STARTING this month, I've decided to devote one of my columns to practical ways to protect your privacy, save money or otherwise protect those "other assets" that are so important to life, liberty and the pursuit of happiness.

This month I want to address something that straddles both onshore and offshore issues: the choice of where to live when you retire.

The onshore issues are pretty straightforward: You want to live someplace that is not only congenial to your lifestyle, but also won't try to soak you for money in your golden years.

Let's start with states that levy no income tax: Alaska, Texas, Florida, Tennessee, New Hampshire, Nevada, Wyoming, South Dakota and Washington. None of them tax Social Security benefits. (However, Tennessee and New Hampshire tax some forms of dividends and interest.)

But **income tax** isn't the only consideration.

There's also **sales tax** and **inheritance tax** to consider. When considering state-level tax burdens, it's important to recognize that many counties and municipalities also levy sales and property taxes. Here are the top seven states from the perspective of all these variables:

1. Alaska
No income tax, no estate/inheritance tax and an average sales tax of 1.78%. And every permanent resident of the state gets an annual dividend check from the state's oil wealth savings account. For 2016, the dividend is $1,022, down from $2,072 in 2015. Property taxes come in at about the U.S. average, but homeowners 65 and older (or surviving spouses 60 and older) are exempt from municipal property taxes on the first $150,000 of assessed value of their property. Social Security income is exempt from tax.

2. Wyoming
No income tax, no estate/inheritance tax and an average sales tax of 5.42%. It also has a low state gas tax … and the lowest U.S. tax on beer. Property taxes are the ninth lowest in the U.S., and seniors are eligible for refunds of up to $900 on property taxes, utilities and sales/use taxes. Social Security income is exempt from tax.

3. Nevada
No income tax, no estate/inheritance tax and an average sales tax of 7.98%. The median property tax is the 12th-lowest rate in the U.S., but there aren't any exemptions for seniors. Social Security income is exempt from tax.

4. Mississippi
Income tax is 3% on up to $5,000 of taxable income, and 5% on more than $10,000 of taxable income. There is no estate/inheritance tax, while the average sales tax is 7.07%. Property taxes are low, but many counties levy personal property taxes on cars. Social Security income is exempt from tax.

5. South Dakota
No income tax, no estate/inheritance tax and an average sales tax of 5.48%. Property taxes are on the high side, but there are many breaks for seniors. Social Security income is exempt from tax.

6. Florida
No income tax, no estate/inheritance tax and an average sales tax of 6.66%. Property taxes are slightly below the U.S. average, but there are homestead exemptions at the state level ($50,000) and in many counties (up to $50,000). Some county sales taxes bring the total up to 7.5%, though, which is as high as California.

7. Georgia

Income tax is 1% on the first $1,000 of joint taxable net income, rising to a maximum of 6% on taxable income greater than $10,000 for joint filers. There is no estate/inheritance tax, and an average sales tax of 7.01%. Social Security income is exempt from tax, as is the first $35,000 in retirement income for those over 62, and $65,000 for those over 65. Property taxes are low by U.S. standards, but some counties and municipalities can levy quite high taxes. Plus, if you retired in Georgia, you'd be my neighbor.

But there's an important issue to consider for folks planning to live abroad in retirement … the state of your last U.S. residence will determine whether you pay state taxes from abroad.

That's right. Many states will continue to expect you to pay tax to them even after you've left.

Depending on which state you most recently lived in before your move, you may need to file a "nonresident state income tax return" even if you are living abroad. Getting them to stop means going through a tedious process of proving that you're no longer resident there.

The worst offenders are California, South Carolina, Virginia and New Mexico. All of them require you to jump through a lot of hoops to become free. In each of these states, you must prove that you will not return to the state. They look at several factors, including mortgages, leases, voter registration, a driver's license, utility bills, library cards, a mailing address, local association memberships, in-state dependents, and investments or bank accounts in the state.

One thing is clear: If you keep a property in one of those states — say, a former home that you rent out — you will definitely not be left off the state-tax hook. The good news is that most states allow the federal foreign earned income exclusion in determining taxable income.

That's why one of the most important but overlooked aspects of moving abroad is to sell your property in a high-tax state, cut up those driver's licenses and library cards, close your local bank accounts and move to a no-tax state like Florida or Nevada at least a year before you move abroad. ■

I'm interested in hearing more from you. What is your No.1 concern when it comes to your assets and your freedom? Send your comments to me at baumanletter@sovereignsociety.com

The Last Word

INITIALLY, I thought I might write this month's *Bauman Letter* about the impact of the presidential election on your investment strategy. After all, there are plenty of articles with titles like "Top Stocks for a Clinton Presidency" or "Stocks to Dump if Trump Wins."

The problem is that there is no historical basis to believe that presidential elections have any impact on the short- to medium-term performance of the stock market or of individual stocks.

From 1853 to 2015, the average four-year stock market returns under both Democrats and Republicans have tied at 11%. The S&P 500 has finished up in more than two-thirds of all calendar years since 1926, a period with eight Republican and seven Democratic presidents. In fact, the *only* presidents to preside over a net decline of the stock market during their tenure were Richard Nixon and George W. Bush.

Of course, there are short-term bargains to be had around election time. Stock market volatility tends to increase in the 100 days before an election. But it drops to normal levels immediately afterward.

That's because the U.S. system of checks and balances forces any new president to go through the congressional meat grinder. The president can't rule by decree, and Congress is hardly known for moving quickly on major issues.

But let's say we end up with a blank check to one party, in control of Congress and the White House. Even that doesn't mean stocks will go down. Since 1926, in the two years following an election, Standard & Poor's 500 Index gains 16.9%, on average, when one party controls the White House and both houses of Congress; 15.6% when one party controls both houses of Congress and the other party has the White House; and just 5.5% when the House and Senate are divided.

The truth is that most investors should steer a steady course through the next few months, adhering to the basics of investing: Set clear goals. Diversify your portfolio across asset classes and regions. Keep your investment costs as low as possible. Take a long-term view. Above all, don't get emotional.

None of this means, however, that the election result won't matter. It *will* matter, immensely — in the longer term. That has far more to do with structural shifts in the economy than the performance of specific stocks or sectors.

Consider my theory on the Reagan Revolution. Starting in 1980, the share of income going to U.S. owners of capital started to rise compared to wage earners. The financial sector's share of GDP rose dramatically, doubling from 1980 to 2000 and more than doubling again since then. It's now over 20% of GDP and 40% of U.S. corporate profits.

The result has been a dramatic increase in inequality, stagnant middle-class incomes and skyrocketing private debt as households have sought to maintain their living standards by borrowing against their homes. We all know how that ended.

In my view, all of this happened because of three things attributable to the Reagan Revolution. First, the demise of industrial unions, allowing firms to take more of the national income share. Second, the rapid deregulation of the economy, leading to monopoly conditions and ever-greater risk-taking on Wall Street. Third, the demise of the Soviet Union, allowing U.S. capitalists to relax and stop worrying about a worker revolution … leading them to forget that there are other things that can go wrong — like insufficient demand for their products because nobody has any money.

All of that has taken nearly 35 years to unfold. Who knows what the next 35 years might bring?

Kind regards,

Ted Bauman, Editor