

# StraightTalk

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## It Really Can Be That Easy

No matter the occupant of the White House, or the political composition of Congress, it seems like we are always talking about the same big problems, the solution to which *should* be easy to solve. The same goes for our long-term investment portfolio and goals – the solution to which also *should* be easy to solve.

On the problem side – let's start with taxes. According to the National Taxpayer Advocate, our current tax code, including regulations, revenue rulings and clarifications is now *over 4 million words*. Worse, this same group reports that there have been over 5,000 changes to the tax code since 2001. And, since I started my career 32 years ago, each incoming administration has altered that tax code, seemingly always adding complexity, with carveouts and loopholes for special interests. The Taxpayer Advocate Service estimates the average American taxpayer spends 13 hours to file a tax return, while the average small business takes 82 hours to do the same. Money.com reports that this adds up to Americans spending *12 billion hours* annually to comply with federal tax paperwork.

It doesn't have to be this way – there is a much easier solution. First, and most obvious, is to eliminate Federal income tax on all earned income. Taxes always curb behavior, whether it is raising taxes on cigarettes, restaurant meals taxes, or the new “congestion tax” in NYC. It adds cost, which results in changed behavior. In the case of earned income, taxing productive output in America is a disincentive to being productive, and results in people working less and requiring larger social safety nets, or using illegal methods to avoid taxes, or lobbying for a morass of exemptions to legally avoid payment of taxes. The result is that the IRS never collects what is projected by the Congressional Budget Office. (In fact, I am not sure if the CBO has *ever* scored a tax bill correctly in its 50 years of existence!) In place of this unwieldy and inefficient tax structure, simply institute a mostly flat, consumption-based tax. This way, you tax economic spending rather than wealth creation. If you don't like the amount of your taxes, spend less!

Of course, to keep the tax from being regressive and disproportionately taxing those at the lower end, we should eliminate real estate or rent taxation below the national poverty line. This level is currently well known by the government, and is indexed upward every year for inflation. Additionally, for all food spending below this poverty level, either a credit or refund would be issued. There are literally hundreds of software programs and apps that can categorize your personal budget spending by category – surely the government can use A.I. to do the same at the point of sale. And we should include one additional demarcation line for those at the top of society, so they pay a higher consumptive tax. Simply put, the bottom third of America pays no tax on housing and food, but say, 10% on everything else they buy. Most of the rest of the country pays a flat 15% consumption tax on everything, and those in the top 5% of America pay a 20% consumption tax. The Tax Foundation has already studied this – and they find a 17.2% national sales tax would *completely replace* all taxes currently collected from taxing incomes.

Passive income could still be taxed – things like Social Security, annuity/pension payments, or dividends and gains from investment – but at the same “flat” rate as the consumption brackets. The result is that everything costs more for the top two-thirds of citizens, but you have a larger paycheck as an offset. In this tax system, consumptive spending would be taxed more, *but earning, saving, and investing would all be taxed less...* in other words, this incentivizes positive economic behavior.

If this simple idea were to be implemented, tax preparation would be almost effortless, and millions of Americans would be freed from the annual burden of tax season. And, by the Internal Revenue Service's own count, the 82,990 full time equivalent positions employed for tax collection could be dramatically reduced, thus freeing up federal budget money for hiring...

...Immigration employees. It is obvious to even the most casual observer that although our southern border is no longer porous, our *legal immigration* system is fundamentally broken. The easy answer there is to hire

thousands of employees to legally process those seeking entry into our country. We have always been a nation of immigrants, and we need immigration to fill the growing list of occupations that most Americans don't want, but they must go through a *legal process* first. If you have not taken the Ellis Island tour – I highly recommend you do so on your next trip to NYC. It is a fascinating, interactive tour that documents the over 12 million immigrants processed through that portal over six decades. In the tour, it is pointed out that there was medical screening built into the process, designed to decline those with disabilities that would keep them from being productive additions to the nation's workforce. In today's politically correct world, this may not seem very nice – but we don't owe people seeking entry here anything, however, we do owe our legal citizens the fundamental promise that those allowed in our country will not be criminals and are willing and able to be added to the productive workforce.

All those newly hired immigration employees could join the already-trained enforcement officers along the border in hundreds of new, small processing buildings to handle the daily flow of those attempting to come here. There are no countries I am aware of that permit entry without proper documents – not even North Korea (which absolutely no one is trying to immigrate into), and we should be no different. Assuming the majority of those seeking legal immigration are legitimate, and are allowed to join our national workforce, this would add millions of employees paying each month into...

...Social Security, which is now expected to become insolvent in 2035. The Social Security trust fund faces a future shortfall for two reasons – one governmental and one demographic. The Social Security "Trust Fund" is required to hold specially issued Treasury bonds that are essentially untradeable. Although these bonds are backed by the full faith and credit of the United States, and therefore cannot lose money – they usually fail to stay ahead of inflation and taxes over time, meaning the trust fund holdings are not only not growing, they are also slowly falling behind.

Add this fact to the second reason, which is simple demographics. When FDR signed Social Security into law 90 years ago, there were 42 workers paying into the program for each retired American, who had a life expectancy of age 65. Today there less than three workers paying in for each retiree, who has an average life

expectancy of over 82. So.... it's a math problem. The easy answer to this problem is threefold. First, increase the Social Security income limit for withholding. This year, FICA taxes stop being collected on any income above \$176,100 – instead, raise that limit to \$400,000. Second, move the full retirement age for everyone born after 2007 to age 70. (They are not yet 18 and can't vote...Congress will love that.) And third, recalibrate the cost-of-living adjustment on Social Security payments to better reflect true inflation costs in our economy. This would add decades of solvency to the most popular government benefit in America, and no current recipient would see any reduction in benefits. Sounds easy enough to me.

The even easier answer would be to allow (at least partial) privatization of Social Security, where taxpayers could invest some of their payroll tax for their own future growth. Of course, this would require faith in...

...Owning the Great Companies of America, which is where it all starts for us. The principles of a free, democratic, open government of the people, by the people, for the people is what made America great and attracted millions to this amazing country. But what keeps America great and is more appealing than free stuff from the government for those born here – and those seeking entry – is a system of capitalism that allows anyone to become anything if they work hard.

Taken to its logical conclusion, if we can filter our investments into those Great Companies that not only are populated by people working hard, but are also more productive, more innovative, and growing more rapidly than the average company – then our retirement dreams become a reality.

The hard part, of course, is to not get attracted to the "siren song" of the media telling you everything is a crisis, and you must act now. "Sell your portfolio, buy gold and hoard cash, boycott that brand, move out of the country!" Do these if you must...however, I prefer to have faith in my fellow man, and the systems that were set up over two centuries ago in this great design of freedom. The American experiment is unique in world history and is often messy – but when viewed through the backward-looking lens of time – has been one of continuous improvement. Which is exactly what the Great Companies have done! Regardless of politics, and despite the daily toxic sludge of bad news that passes for reporting of facts on cable TV....it really can be that easy.