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Resolute Connections

In this opening newsletter of 2021, we review the spending and Covid relief bill that was signed into legislation late last year in *Highlights of the New Relief Package*. In addition to being the longest bill ever written - over 5,500 pages - and spending a couple trillion dollars, it also contained some tax changes that might be of interest to you, in addition to more stimulus checks.

One might have a concern that inflation could spike due to the high rate with which the Government is now printing, and spending money - for more on that topic see the second article, *Money Supply vs. Inflation*. Our final article, *Peaking Scams,* touches on the online scams which have been increasing exponentially during the pandemic. Interestingly over 90% of the scam victims were scammed by criminals using Facebook and Instagram; this is another great example of social media enriching and improving our lives.

Please be safe and we wish you continued health. If you have any questions about anything we have covered in the articles, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

Highlights of the New Relief Package

At the end of last year, the U.S. Congress recently passed, and the President signed, the 5,593 page Consolidated Appropriations Act of 2021—and experts are still mulling over what the impact will be on ordinary citizens. The cost was a paltry $2.3trillion. There are stimulus checks, tax planning relief provisions and a break for people who experience high medical expenses during the pandemic. There's even a new Paycheck Protection Program extension to think about.

Here's what we know so far.

First, new legislation provides for so-called "stimulus" checks, with a "base" credit of $600 per eligible individual plus $600 more for any dependent child (technically, any children for whom a Child Tax Credit may be claimed). But, as with the CARES Act, eligibility starts phasing out for individuals earning more than $75,000 of adjusted gross income, or joint filers with over $150,000 AGI. These phaseouts are based on the 2019 tax return, which seems unfair since the economic hardships the bill was designed to address took place in the final three quarters of 2020. But if the taxpayer's 2020 income calculation indicates a larger check amount, the government will issue an additional check to make up the difference. (If someone receives a stimulus check based on 2019 income, and then reports higher 2020 income that would make that person ineligible to receive the check, there will be no requirement to pay money back to the government.)

The new legislation also extends regular unemployment compensation benefits for an additional 11 weeks and adds $300 a week to the unemployment checks. So-called "pandemic unemployment assistance" for individuals who wouldn't normally qualify for unemployment benefits (such as self-employed persons) was also extended for 11 more weeks. Note that the $300 a week and 11 weeks is lower than the $600 a week and four-month extension passed in the CARES Act.

On the tax front, the hurdle for deducting medical expenses in any given year was reduced from 10% to 7.5%, meaning that anything over that percentage of adjusted gross income would now be deductible on your next tax return. And the bill extends a provision from the CARES Act relating to charitable deductions. People can take a full deduction up to 100% of their AGI for any cash donation to a public or private charity (but not a donor-advised fund).

Congress did not, in the bill, extend the temporary waiver of required minimum distributions, which means that people over age 72 will have to resume taking their RMDs in 2021.

What else is buried in those 5,593 pages? Taxpayers will be able to use their 2019 earned income to determine eligibility for the 2020 earned income tax credit and additional child tax credit. Business lunches and dinners have become 100% deductible for 2021 and 2222. And the bill creates a second round of the Paycheck Protection Program forgivable loans, with $284 billion set aside.

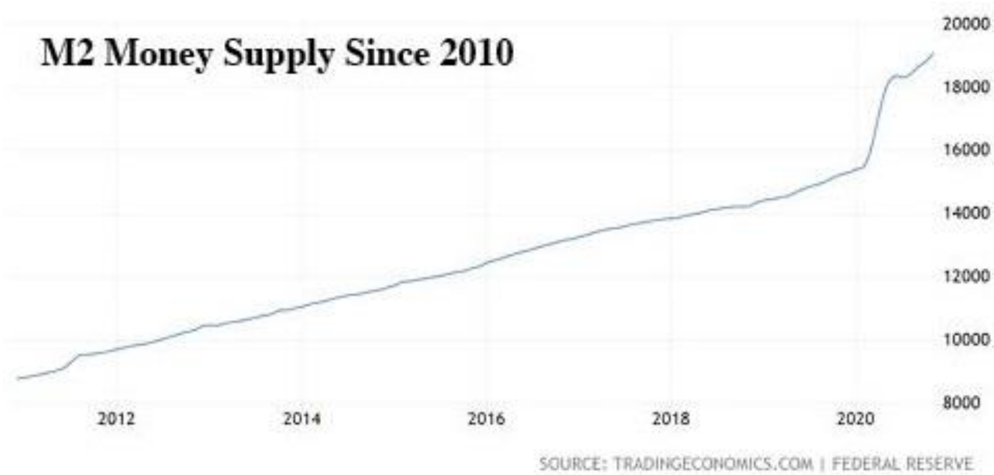
Finally, the bill provides funding for the federal government's operations for another nine months.

Money Supply vs. Inflation

People who worry about inflation taking off and devaluing our currency typically point to the idea that the government is frantically printing money. Of course, the money supply doesn't increase due to printing presses working overtime; in these modern times, the U.S. Federal Reserve Board—our nation's central bank—increases the money supply with simple keystrokes. Its policymakers create new money by simply decreeing that lending institutions can lend more money per physical dollar they hold in deposits. The Fed can lower interest rates, which makes it more likely that borrowers will want to take out those loans. And perhaps most directly, the Fed can buy Treasury Bonds on the open market, which immediately puts more cash into the system.

Chances are, you know that the Fed has been doing all three of these things as a way to ease the economic damage caused by the global pandemic. But is this actually raising the money supply in any dramatic way?

It is. The chart shows that since 2010, the total money supply (known as M2 in economic circles, adding together cash, checking deposits, savings deposits and money market securities) had been going up pretty steadily, which in itself is remarkable, since, during that time, inflation has been consistently low. But notice that since February 2020, the money supply has changed course—rising, in less than a year, from less than $16 trillion to something over $19 trillion. Year over year growth exceeded 23%—and Fed records show that one-year growth has ever before been higher than 15%.



Will this lead to more inflation? Classical economics tells us, reasonably, that if the money supply grows faster than the actual economic output, there will be more dollars per things to buy—that is, there will be more money available to buy all the things that are for sale in the economy. That, in turn, suggests that prices will rise, which is the definition of inflation.

But in our real world, the inflation rate has been consistently below 3% over the past decade, and this year it dipped down near 0%. What's stopping inflation from taking off? While the Fed has encouraged banks to lend money, and made rates attractive, the slow economy in 2020 means that companies are not as eager to borrow as they might be in more normal times. Banks are holding a lot of reserves at the moment. If that money ever finds its way into the economy, and a stimulus package creates a new cohort of willing spenders, then we could see inflation rates go up—perhaps dramatically.

Peaking Scams

How safe are your social media habits? The Federal Trade Commission's Consumer Sentinel Network reports that the number of victims of online scams skyrocketed during the pandemic, resulting in nearly $117 million in losses in the first six months of 2020.

How did the scammers operate? The report says that most of the losses involved online shopping, where people saw an advertisement on social media, put in an order, gave their credit card information, but the item never arrived. Other scams relate to bogus romantic pitches, while others were making extravagant claims about amazing income opportunities, or pyramid schemes where you would have to recruit new participants in order to make the income promised in the advertisement. Another cluster of victims answered an offer to receive relief money, which is understandably attractive to people who have been laid off of work.

Interestingly, some 94% of the victims reported that the scammers had caught their attention using just two social media platforms: Facebook or Instagram. It seems that some social media companies are more permissive than others about allowing shady characters to find their victims.

Are there ways to protect yourself? One tip from the FTC is, before you buy based on a post, check out the company online, along with words like "scam" or "complaint." Never send money to a love interest you have not met in person. If you get a message from a friend about an offer to get financial relief, get in touch with your friend. It's possible their account was hacked.

And if you spot a potential scam, report it. The FTC has a website that allows you to tell them about fraudulent messages, claims or products: https://reportfraud.ftc.gov/#/.

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For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.

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