PILLA
TALKS TAXES

DAN PILLA'S MONTHLY TAX AND FINANCIAL BULLETIN

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Did You Receive Unemployment Benefits?

New Law Provides Tax Relief for Jobless Benefits

During 2020, and now into 2021, over 70 million people received both federal and state unemployment benefits into the hundreds of billions of dollars. That means tens of millions of Americans were poised to be blindsided by IRS bills they would never see coming. The reason? Most people don't know—and only find out the hard way—that unemployment benefits are taxed by the IRS as ordinary income. This means you would owe income taxes on the benefits. While some states don't tax unemployment compensation, the federal government most certainly does.

That's the bad news.

The good news is that much of the surprise will be mitigated by a provision of the new COVID relief law. On Thursday March 11, President Biden signed the so-called American Rescue Plan Act into law. The new law represents another massive federal bailout (see Merrill Matthews' article below), not just for individuals impacted by COVID, but for state and local governments, as well as union pension funds.

Among the benefits for individuals is a provision to exempt from taxation a portion of unemployment benefits. The law provides that up to $10,200 of jobless benefits are not taxed if one's modified adjusted gross income is less than $150,000. The $150,000 cap is computed

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without considering unemployment compensation.

Based on this, if your combined federal and state benefits are under $10,200, you will owe no taxes on those benefits. If they exceed $10,200, you will owe tax only on the portion that exceeds $10,200. The amount of tax you ultimately owe is controlled by your tax bracket. I recommend you calculate this as soon as possible to make payment arrangements if necessary.

As of this writing, millions of people who received unemployment compensation in 2020 have already filed their 2020 tax returns. Those people would have claimed the 2020 benefits as income and paid that tax based on that income. And that was the right thing to do, since the law, up to this point, has been that such benefits are taxable.

However, not only did the American Rescue Plan Act change that rule effective for 2021, but it applies retroactively to 2020. That means any jobless benefits you received in 2020 are likewise no longer taxable, up to the cap.

If you already filed your 2020 tax return claiming jobless benefits as income, you paid taxes you don't owe. Now the question is what to do about it. The IRS tells us they will automatically make the required adjustment and send you a refund. Maybe that will happen, and maybe it won't. If it does, fine. You don't need to do anything. If it doesn't, you will need to file an amended return to get your money back. You file an amended return by submitting IRS Form 1040X. You have three years from the date of filing the original return in which to submit the amended return.

An amended return will help you in either of two ways. First, if you already paid the tax in full, you'll get a refund based on the reduction of income. Second, if you currently owe money to the IRS for 2020 because of an underpayment attributable to the jobless benefits, an amended return will reduce (perhaps eliminate) what you owe, including interest and penalties the IRS would otherwise charge.

Don't waste any time taking the appropriate steps because it means putting money in your pocket, where it belongs.

WHAT IF I OWE TAXES ANYWAY?

Because we saw record high numbers of people getting unemployment benefits in 2020, there is no doubt in my mind, even with the tax break on some unemployment benefits, that we will see record high numbers of tax delinquencies come April 15, 2021, as people discover they don't have the money to pay what they owe.

It is therefore imperative that people understand certain fundamental taxpayers' rights to avoid the sword of IRS enforced collection action (levies, seizures, etc.). At a minimum, wrap your arms around the following three ideas.

1. You have the right to seek an extension of time to pay your taxes. Most people understand they have the right to seek an extension of time to file their returns (IRS Form 4868). However (a common misunderstanding), the filing extension *does not* give you more time to pay. And while the IRS denies the existence of a payment extension, the procedure is most definitely available.

You seek a payment extension by filing IRS Form 1127 on or before April 15. The payment extension *is not* automatic. You must show that you experienced "hardship" during 2020 and therefore cannot pay on time. Under our national COVID emergency, that should not be hard for most people. If granted, you can get up to six additional months to pay your taxes, without penalties.

2. You have the right to seek an installment payment agreement if you need more than six months to pay. For many people, six months will not be enough time to pay in full. In that case, an installment agreement allows you to pay over an extended period. If you owe less than $50,000, and can pay within seventy-two months, the installment agreement is generally accepted by the IRS.

You can apply for an installment agreement using IRS Form 9465. The bad news is that penalties continue to apply even if the agreement is accepted. However, you may seek cancellation of the penalties based on reasonable cause and "hardship" regardless. The good news is that once the installment agreement request is either pending or accepted, the IRS cannot pursue any collection action whatsoever. This keeps them off your back as long as you make your payments. For details on how to seek cancellation of IRS penalties, see ***The IRS Problem Solver***, chapter 4.

3. You have the right to have your delinquent account frozen as "uncollectible" in certain cases. If you are either unemployed or under-employed and your income is down considerably for any reason (COVID or otherwise), you can get your case closed as "uncollectible due to hardship." This right arises out of Code §6343

This law prohibits the IRS from engaging in any collection action if such action will make it impossible for a citizen to pay basic, necessary living expenses. This is the legal definition of "hardship." When you demonstrate the inability to pay because income and expenses are such that there's nothing left at the end of the month for back taxes, the IRS will put your tax debt on the back burner. And while the debt is not extinguished, the collection freeze keeps the IRS out of your face while you get back on your feet.

Do not hide your head in sand if you will owe taxes you can't pay this April. The above three steps, and many other taxpayers' rights (discussed in my book ***How to Get Tax Amnesty***), will keep you from getting run over by the IRS because of circumstances beyond your control.

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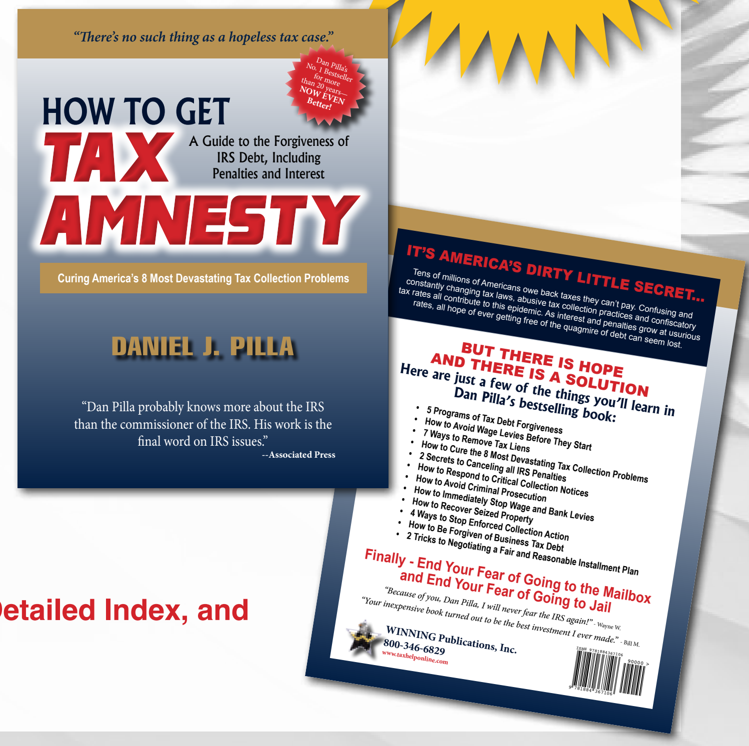

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Restaurant Revitalization Grants

Free Money for More Businesses Under the American Rescue Plan Act

If you operated a restaurant in the U.S. over the past year, your business was pounded in the worst possible way by state and local COVID shutdown orders. Paycheck Protection Program (PPP) loans and the PPP Second Draw Loan (SDL) program offer forgivable federal loans to businesses. However, if your restaurant isn't (or wasn't operating), PPP loans might not be helpful since 60% of the loan proceeds must be used for payroll. Moreover, the grant for Shuttered Venue Operators (SVO) is limited to very particular businesses, and restaurants are not among them. See the February 2021 issue of *PTT* for a detailed discussion of the SVO grant program.

If you're a restaurant owner, you might feel cut out of the federal government gravy train even though your business was probably hit the hardest. Don't despair. Now there's a program just for you. It's called the Restaurant Revitalization Fund (RRF) Grant. It is authorized by the American Rescue Plan Act of 2021, signed by President Biden on March 11, 2021.

This article addresses that program in detail.

PROGRAM OVERVIEW

Section 5003 of the American Rescue Plan (ARP) is titled "Support for Restaurants." The law earmarks $28.6 billion for grants to restaurants (with 20 or fewer locations) that suffered lost revenue in 2020 because of government COVID-19 shutdown orders.

A total of $5 billion is expressly set aside for qualifying businesses with gross receipts during 2019 of no more than $500,000. See: ARP §5003(b)(2). The precise amount of grant money available to a particular business is discussed further below.

The RRF grant is administered through the Small Business Administration (SBA), just like the PPP program. The grants are supposed to be available within 60 days of March 11, 2021.

WHO CAN GET AN RRF GRANT?

RRF grants are available to "eligible entities" that serve food or drink. The list of qualifying organizations includes:

> A restaurant, food stand, food truck, food cart, caterer, saloon, inn, tavern, bar, lounge, brewpub, tasting room, taproom, licensed facility or premise of a beverage alcohol producer where the public may taste, sample, or purchase products, or other similar place of business in which the public or patrons assemble for the primary purpose of being served food or drink. See: §5003(a)(4)(A) & (B).

This definition includes entities located "in an airport terminal or that is a Tribally-owed concern." Ibid. The amount of the grant is discussed below.

Restaurants that suffered a "pandemic-related revenue loss" in 2020 compared to 2019 qualify for an RRF grant (assuming they meet all other criteria). However, your business must submit a certification as part of the grant application. The certification is discussed in detail below.

As of this writing, the SBA has not yet started to accept grant applications. Once it does, applications will be submitted to the SBA through a portal on its website.

"REVENUE LOSS" DEFINED

Note that the potential for receiving a grant is tied to "revenue loss," not lost profit. "Revenue loss" speaks only to a drop in gross receipts. See: §5003(a)(7)(A), (B) and (C); and §5003(c)(4)(B)(i). There is a remarkable difference between "revenue," that is, "gross receipts," and profit. Gross receipts are defined by the regulations under code §448(c) as total sales (net of returns and allowances) and all amounts received for services. In addition, gross receipts include any income from investments, and from incidental or outside sources.

Think of gross receipts as all the money flowing into your business from sales, before a nickel's worth of operating expenses are paid. On the other hand, "profit" is the money left over, available for the business owners to live on or use at their discretion, after the payment of necessary business expenses (but before taxes). For businesses, income tax is paid on profits not gross receipts.

You can obtain an RRF grant even if your business was profitable in 2020, but suffered a loss in revenue compared to 2019.

THE GRANT AMOUNT

The grant amount is equal to the revenue loss attributable to economic factors in 2020. This is known as a "pandemic-related revenue loss." There are four different scenarios under which one's revenue loss (drop in gross receipts) is figured. See: §5003(a)(7)(A)-(D).The four scenarios are based on the point in time the restaurant was in operation. I address each of them in turn.

1. In business all of 2019. For businesses in operation during the entirety of 2019, the revenue loss is determined by comparing total 2019 gross receipts with total 2020 gross receipts. If 2020 gross receipts are less than 2019 gross receipts, the difference is considered the "pandemic-related revenue loss" for which the grant compensates. As an example, if your 2019 gross receipts were $400,000, and your 2020 gross receipts were $250,000, the difference ($150,000) is the grant amount.

2. In business for part of 2019. If you were in business for only part of 2019, the loss is determined by comparing your average monthly 2019 gross receipts (multiplied by 12) with the average monthly gross receipts for 2020 (multiplied by 12). For example, suppose you were in business for six months in 2019, and your total gross receipts were $150,000. In that case, your average 2019 monthly gross receipts were $25,000 (150,000 / 6). When multiplied by 12, the controlling amount for 2019 is $300,000 (25,000 x 12). Suppose your total gross receipts throughout all of 2020 were $250,000, putting your average 2020 monthly gross monthly gross receipts at about $20,800. The difference between the 2019 controlling amount ($300,000) and the 2020 controlling amount ($250,000) is $50,000. That becomes the grant amount.

3. Not in business at all in 2019. If you started business operations any time between January 1, 2020, and March 10, 2021 (the day before the ARP took affect), the grant is not based on gross revenue. Rather, in that case, the grant is based on the expenses you incurred during that time which are eligible to be paid with grant money. I explain in detail below what those expenses can are. The total amount of the expenses you paid becomes the grant amount.

4. Not yet in business. The final scenario involves a business which has not yet begun operations as of the date of application for the grant. In this case, the grant is likewise not based on gross receipts, since there would be none. As in the preceding case, the grant is based on the expenses you incurred during that time which are eligible to be paid with grant money.

Take notice that in each of the above four scenarios, there is no requirement that the business experience a specific percentage of drop in gross receipts to qualify for the grant. That is to say, your receipts need not have fallen in 2020 compared to 2019 by any specific percentage threshold. In either scenario 1 or 2 above, any drop in revenue qualifies you for the grant.

Each of these calculations is based on a specific statutory formula. However, the law gives the SBA the authority to, in essence, do anything it wants. The law includes language stating the grant amount may be otherwise based upon "a formula determined by the Administrator [of the SBA]." In substance, this gives the SBA the power to override the statutory calculation with some other agency-determined grant amount. Who knows how that might work?

In all cases, the grant amount is capped at $10 million.

THE REQUIRED CERTIFICATION

Section 5003(c)(2)(A) requires the grant applicant to make a "good-faith certification" as to two facts. First, as is the case with PPP loans, you must certify that "the uncertainty of current economic conditions makes necessary the grant request to support the ongoing operations" of the business.

This requirement seems to go beyond establishing a mere drop in revenue. However, there are no clear definitions or explanations in the statute to provide guidance. It seems to me that you must consider the totality of all your circumstances in determining whether the statement is accurate in your case. Certainly, ongoing state or local restrictions on your business, including hours of operation, building occupancy restrictions, social distancing rules, the manner of permissible food delivery, etc., are all factors that bear on this issue.

Second, the applicant must certify that he has not applied for or received an SVO grant. There is no double-dip permitted when it comes to the various grant programs.

Additionally, §5003(a)(7)(A) requires the applicant to provide "such verification documentation" as the SBA may require to prove the drop in gross receipts. Because there is no statutory language as to exactly what is required, this matter will be determined by regulations issued by the SBA.

I discuss the PPP certification in great detail in the August 2020 issue of *PTT*. See the article entitled, "Defending Potential PPP Audits." This is "must read" information for any business getting a PPP loan, SVO grant, or a RRF grant.

HOW THE MONEY MAY BE USED

RRF grant money may be used in generally the same manner as PPP loan proceeds and SVO grants. In fact, definitions applicable to PPP loan expenses apply generally to RRF grants. I hit all the PPP definitions in the January 2021 issue of this newsletter.

There is at least one very important difference in how PPP money must be spent and how RRF money must be spent. Under PPP rules, at least 60% of the loan proceeds must be used for payroll costs. RRF rules carry no such requirement. Grant proceeds may be used for payroll, but there is no mandatory percentage threshold that applies.

Moreover, RRF money may be used for a much broader spectrum of expenses. The list of allowable expenses which can be paid with RRF money, per §5003(c)(5), is as follows:

1. Payroll costs,
2. Payments of interest or principal on mortgage obligations, but not the prepayment of principal (note that for PPP purposes, you could pay interest but not principal on a mortgage),
3. Payments on any rent or lease obligation,
4. Utility payments,
5. Maintenance expenses including construction costs to accommodate outdoor seating and walls, floors, deck surfaces, fixtures and equipment,
6. Supplies, including protective equipment and cleaning materials (for a discussion of "protective equipment," see my discussion of this in the January 2021 issue of PTT),
7. Food and beverage expenses within the scope of normal business practice,

8. Supplier costs (as defined in the January 2021 issue of *PTT*),

9. Business "operational expenses," which I take to mean (as is applicable to PPP loans) ordinary and necessary business expenses, including,

- Maintenance expenses,
- Administrative costs, including fees and licenses,
- State and local taxes and fees,
- Operating leases in effect as of February 15, 2020,
- Payments required for any business insurance policy, and
- Advertising, production, transportation, and capital expenditures related to business operations,

10. Paid sick leave for employees, and

11. "Any other expenses that the Administrator determines to be essential" to keeping the business in question in operation. Presumably (though not expressly stated in the law) this will be determined on a case-by-case basis.

PRIORITY OF GRANT AWARDS

The statute provides that, within the first twenty-one days during which the SBA awards these grants, priority for such grants must be given to:

- Woman-owned small businesses,
- Veteran-owned small businesses, and
- "Socially and economically disadvantaged" small businesses.

To constitute a "socially and economically disadvantaged small business," the business must be at least 51% owned by a woman, Black American, Hispanic American, Native American, Asian-Pacific American, or Asian-Indian American, or any other minorities or individuals found to be disadvantaged by the Small Business Administration. Information on such a determination can be found on the SBA's website. See also: 15 U.S.C. §637(a)(4).

BUSINESSES THAT DO NOT QUALIFY

Apart from the rule stating that businesses with more than twenty locations do not qualify, the statute provides for additional disqualifications. They are:

1. A state or local government-operated business,
2. Businesses that made an application for an SVO grant, and
3. A publicly-traded company.

PROHIBITIONS ON THE USE OF RRF MONEY

Unlike an SVO grant, there is no express list of things the money *cannot* be used for. On the other hand, there is odd language in subsection (c)(5), titled "Use of Funds." The odd language I speak of reads as follows:

> During the covered period, an eligible entity that receives a grant under this subsection may use the grant funds for the following expenses incurred as a direct result of, or during, the COVID-19 pandemic: … [the statute goes on to list the eleven items outlined above]; (emphasis mine).

Note the statute uses the word "may" in explaining how the money is to be used. In the context of statutory construction, the word "may" generally does not impose an absolute burden, restriction or command. Rather, the term connotes an element of discretion to do, or not do, the action to which the statute speaks. Contrast these two ideas:

> Under X circumstances, the *taxpayer shall* do the following …

> Under X circumstances, the *taxpayer may* do the following …

The word "shall" is an express command, requiring the taxpayer to act a certain way under certain circumstances. The presence of the word "shall" removes discretion in carrying out the statute's command. The word "may" carries no such force. Rather, it is intended to, and in fact does, impart discretion to act or not act, based on the totality of the facts and circumstances of the case. In practice, we find this throughout the tax code, where a taxpayer "shall" file a tax return (he *must*), but a taxpayer "may" make an election on the return (he has the *option* but not the requirement, at his discretion).

In the case of the RRF grant, the statute controlling the use of the money uses the word "may," not "shall." That is, the grant recipient "*may* use the grant funds" as set forth. That necessarily also means that the grant applicant "*does not have to*" use the grant money in that manner. It seems that he would have the discretion to use the money in some other manner. And since there are no express restrictions in the law as to how the money might otherwise be used, I have to conclude that it can be used for anything. Time will tell if I'm correct.

Moreover, §5003 contains no language whatsoever imposing a requirement to prove how the money was spent. I find this quite odd given that both the SVO grant statute and the PPP loan statute carry a "required records" clause. Under both of those programs, records must be kept to prove *exactly* how the money was used. But if my reading of the "may" clause is correct, it would naturally follow that there's no requirement to prove how the money was spent, since it (apparently) may be used however the recipient deems necessary.

Likewise, there is no specific audit or enforcement authority whatsoever imparted to the SBA under §5003—none. Unlike the clear and, frankly, threatening, language in the PPP and SVO statutes, §5003 is entirely silent on these points. Does this mean the SBA has no audit authority to enforce §5003? I find that impossible to believe. Yet, there is no independent enforcement provision in the law.

DEADLINE FOR USE OF THE FUNDS

The law provides that the grant money is to be used for expenses incurred during the period beginning on February 15, 2020, and ending on December 31, 2021. See: §5003(a)(3). The law gives the SBA the discretion to extend the period for up to two years from the date of enactment. That would push the deadline to March 11, 2023.

WHAT IF ALL THE MONEY IS NOT USED?

If all RRF grant money is not used, you must return the unspent portion to the SBA. Likewise, if the business "permanently ceases operations" on or before the spending deadline, the unused portion must be returned. However, there is no stated deadline by which the money must be returned. See: §5003(c)(6).

CONCLUSION

As we all know, there's nothing free about "free" government money. The vagueness of the spending provisions of §5003 are such that we do not understand clearly what we're getting into with these grants. There may be booby traps ahead.

If in doubt, get qualified counsel!

The Ultra-Millionaire Tax Act of 2021

It's Not Just for Millionaires

On March 1, Elizabeth Warren and company introduced in the Senate the so-called "Ultra-Millionaire Tax Act of 2021." The bill would impose an annual "wealth tax" starting at 3% and rising to 6% on the richest 0.5% of all Americans.

The *merits* of the tax itself have been discussed at length. What has not been discussed is the new IRS enforcement scheme that Warren's bill would create. Under the bill, the confiscatory wealth tax is accompanied by staggering growth in the size of IRS, substantial expansion of the already oppressive information reporting requirements, and ubiquitous audits and collection action.

Let's examine these elements more carefully.

IRS FUNDING

The bill proposes to increase the IRS's funding by $100 billion over the next ten years. To put this in perspective, the IRS's FY 2021 budget (funding through September 2021) is $11.92 billion, per the Consolidated Appropriations Act, 2021. This is up by $409 million from 2020. Thus, the appropriation to the agency under Warren's vision would nearly double the agency's funding effective for FY 2022, and it adds the same increase for the next ten years.

What could be worse than doubling the IRS budget? How about the fact that, according to Warren's bill, 70% of the new money must be used for tax law enforcement? Compare that with just 10% allocated for "taxpayer services," which includes pre-filing assistance and education, filing and account services, and taxpayer advocacy services.

Again, for perspective, under the 2021 Appropriations Act, the IRS gets $2.556 billion for taxpayer services, compared to $5.213 billion for enforcement—just about twice as much. Enforcement activities include audit and collections, litigation, and criminal investigations. Warren's bill would give the IRS *seven times* more money for enforcement than for education.

This huge imbalance betrays the Leftist mantra that the "government is here to help you." If that were true, more money would be spent on helping and teaching people to comply with the massive four-million word tax code than on after-the-fact enforcement. And yet, for decades spending on enforcement outran spending on education—and Warren would make it much worse.

While it's admittedly naïve to believe that enforcement is unnecessary, the fact is that 98% of every dollar paid to the IRS is paid without the need of any agency intervention. The truth is people screw themselves into the ground working to comply with our massive tax code. The proof is that in 2019, over 67 million people sought compliance help from the IRS in some capacity. Contrast that with the number of people charged with a tax crime: that would be just 1,800 (one thousand, eight hundred).

Clearly, the IRS has much more to gain by teaching people to comply than it does by grinding them into powder if they don't.

EXPANSION OF INFORMATION REPORTING

Speaking of being ground into powder, one of the chief compliance tools the IRS uses is "information reporting." That is the systemic process of citizens and businesses spying on one another and reporting to the government their financial activities. This reporting occurs in the form of "information returns."

An information return reports data to the IRS. Think of Form W-2, which reports wages paid by an employer to an employee; or Forms 1099, which report interest, dividends, independent contractor payments, etc. There are literally dozens of various information returns the IRS uses to verify income reported on one's tax return.

In case you think it hyperbolic of me to say that the use of information returns constitutes "systemic spying," consider this. According to IRS data, in 2019 alone, a total of 3,503,499,195 information returns were filed with the IRS. For perspective, the U.S. population in 2019 was 328,239,523. Thus, more than 10 information returns were filed with the federal government for every man, woman and child in America in 2019—and that doesn't even include income tax returns.

So, yes, this constitutes "systemic spying," and according to Warren, it's not enough.

Under her bill, within twelve months of enactment, the IRS must create a palette of new regulations designed to force the reporting of "any information concerning the net value of assets" as the agency deems necessary. The reporting burden may be based on "ownership, control, management, claim to income from, or other relationship to assets" subject to taxation under the law. This would include "financial institutions, business entities or other persons" with any connection whatsoever to persons liable for the tax. Moreover, business entities owned by persons subject to the tax must "provide estimates of value of the [business] entity itself."

How many millions more information returns will flood into the IRS's databases once these new regulations are inked? And don't think you'll just avoid the reporting requirements. The bill further provides that the IRS is empowered to write new regulations specifically deemed "necessary to prevent taxpayers from avoiding the purpose of information reporting."

Now, a reasonable person might ask whether all this data might not simply overwhelm the IRS, making enforcement of reporting requirements untenable. Well, the "We're Here to Help" crowd thought of that also. The law would direct the IRS to "develop a comprehensive plan for managing efforts to leverage data collected" to enhance compliance efforts, with the stated goal being to address "noncompliance with such requirements."

INCREASED OVERALL ENFORCEMENT

In 2019, there were 154.1 million individual tax returns filed. Warren's wealth tax is directed at only the richest 0.5% of those returns. Do you think the IRS needs a doubling of its budget to handle just 0.5% of America's taxpayers? No, friends, the enforcement component of the Ultra-Millionaire Tax Act of 2021 is not just for ultra millionaires. It's for you.

I expect the IRS to hire legions of new auditors and tax collectors who'll be turned loose on American taxpayers over the next ten years. As the tax code becomes more voluminous and complex, more people make honest mistakes in calculating their taxes. This reality leads to tens of millions of penalty assessments. In 2019, the IRS assessed over 40 million civil penalties. Nearly 33 million were assessed against individuals, the vast majority of whom are honest taxpayers caught in tax code booby traps and pot holes they didn't even know existed.

These same people then become the targets of a blizzard of IRS notices and payment demands, and eventually, tax liens and levies. Notice that ultra millionaires just pay their taxes because, well, they're millionaires. But when middle-income Americans fall into tax debt, they become enforcement victims precisely because they don't have the money to just pay.

Given all this, who do you think will suffer more as a result of a doubling of the IRS's budget?

Biden's $1.9 Trillion Blowout Could Undermine Job Growth and the Economy

DR. MERRILL MATTHEWS

President Joe Biden and Democrats claim they had to "go big" to get the pandemically challenged economy growing once again. But rather than boost economic growth, the $1.9 trillion "American Rescue Plan Act" more likely will give the economy a short-lived sugar-high, followed by years of tepid economic growth, just like what followed then-President Barack Obama's "go big" $800 billion spending bill, the American Recovery and Reinvestment Act, that passed in February of 2009.

One reason for the likely muted long-term economic impact is government handouts will discourage many unemployed workers from reentering the workplace—at least for a while. An economy needs workers to grow, and Biden just gave many unemployed workers "thousands" of economic reasons not to return to the workforce any time soon.

The St. Louis Federal Reserve Bank tracks the "labor force participation rate," which identifies the potential pool of workers. As the graph shows, the labor force

participation rate gradually increased from about 58% in the mid-1960s to 67% in 2001. It then began a gradual decline during and after the 2001 recession.

However, that decline accelerated rapidly with the Great Recession beginning in 2008, and continued much longer than one would have anticipated, only beginning a gradual increase in 2017—under President Trump's pro-growth economic policies.

There are several reasons for the declining labor force during the Obama years, including the fact that the leading edge of the baby boomers turned 65.

But a primary reason was Obama's economic policies. He did his best to undermine the welfare reform policies of the 1990s that encouraged so many people to enter or reenter the workforce. Biden's spending blowout will likely have a similar negative labor force impact.

Increased unemployment benefits, $1,400 handouts, increased child tax credits (leading potentially to "universal basic income"), and Obamacare and Medicaid expansion, just to name some of the benefits, will certainly help many of the people hardest hit by the government-imposed lockdowns. However, they will also dissuade many, perhaps millions, of able-bodied people from seeking work.

In fact, we saw a preview of that scenario last year when many laid-off workers discovered they could make more money on the government dole than on the employment roll —and so were reluctant to return to work.

And here's the sad irony: If millions of potential workers don't return to work, thereby muting economic growth, look for Democrats to demand that government extend temporary benefits and even increase them, and make them permanent.

And they will justify that move by saying they didn't go big enough, when in fact, they went way too big.

Dr. Merrill Matthews *is a resident scholar with the Institute for Policy Innovation and a regular contributor to* PTT. *See his work at* www.ipi.org.

How You Can Ask Dan Pilla a Question

If you have questions or problems you'd
like Dan Pilla to address, please write to Dan at:

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Write the word "newsletter" in the subject line.