



The Inflation and Tax Assault on the American People

According to the January report of the Consumer Price Index, price inflation increased by 0.5 percent last month. This follows a 0.1 percent increase in December. The total increase over the last 12 months is 6.4 percent. The official government statistics, which are manipulated to understate the true rate of price inflation, show even greater increases in some costs. Over the last 12 months, food prices increased by 10.1 percent, energy prices increased by 8.7 percent, and shelter costs rose by 7.9 percent.



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The government's figures also record a 0.2 percent decline in real wages in January and a 1.8 percent decline from a year earlier. Keep in mind that actual real wage losses have been larger because the government's real wage numbers are calculated using the government's understated price inflation numbers. The Federal Reserve-caused decline in purchasing power disproportionately harms middle- and lower-income Americans, many of whom were already living paycheck to paycheck before the Federal Reserve's unprecedented money creation caused especially large increases in price inflation.

According to a Morning Consult survey from June of 2022, price inflation has caused over 40 percent of US consumers to eat out less. This obviously reduces the opportunity of wait staff to earn tips that constitute a significant portion of their incomes. This loss is in addition to the lost income from during the coronavirus scare, when many restaurants either closed entirely or only offered takeout or delivery.

The reduction in tip income is not stopping the Internal Revenue Service from trying to squeeze more taxes out of waiters and waitresses. The tax agency has announced this month the creation of the Service Industry Tip Compliance Agreement (SITCA) program. As the name suggests, the program will allow the tax agency to collect data on tips directly from restaurants, instead of relying on employees to report their tips.

SITCA is one of the first initiatives to use some of the 80 billion dollars in additional funding provided to the IRS in last year's Inflation Reduction Act. President Biden and other supporters of the legislation said the funds were to enable the IRS to crack down on millionaire and billionaire "tax cheats." President Biden and the bureaucrats running the IRS must think there are a lot of waiters and waitresses making billions in tips.

At the time of the bill's passage, many opponents of increasing the IRS's enforcement budget predicted the agency would use the additional funds to target middle- and lower-income Americans. After all, unlike wealthier individuals, these Americans cannot afford tax attorneys and accountants to make sure they minimize their tax liability without violating the tax law. Also, wealthy taxpayers are more likely (and able) to fight an IRS audit. In contrast, lower income Americans are more likely to pay whatever the tax agency demands in order to make it go away since they don't have the resources to fight it.

When I was in Congress, I introduced legislation to make tips tax free. Tips are a gift provided by customers to show appreciation to servers. Very rarely is there a contractual obligation for a customer



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to add a tip (much less a pre-determined amount) to his bill. There is no reason to tax tips other than the government's desire to take more money from working people.

The fact that the funding the IRS was given to prevent the wealthy from avoiding taxes is actually being used to target waiters is an example of how the welfare-warfare state harms working Americans. At the same time, lower- and middle-income Americans are harmed the most by the Federal Reserve's inflation tax. The best thing Congress could do to help Americans improve their standard of living and climb the economic ladder is to kill the monsters of 1913 — the Federal Reserve and the IRS.

Ron Paul is a former U.S. congressman from Texas. This [article](#) originally appeared at the Ron Paul Institute for Peace and Prosperity and is reprinted here with permission.



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