Today: you lend $100

Borrower returns $110

CPI = 100

CPI =105

Charge 10% interest


Basket $100


Basket $105


+ $5

35% Tax on Interest = 0.35 x $10 = $3,50

Interest Income $10

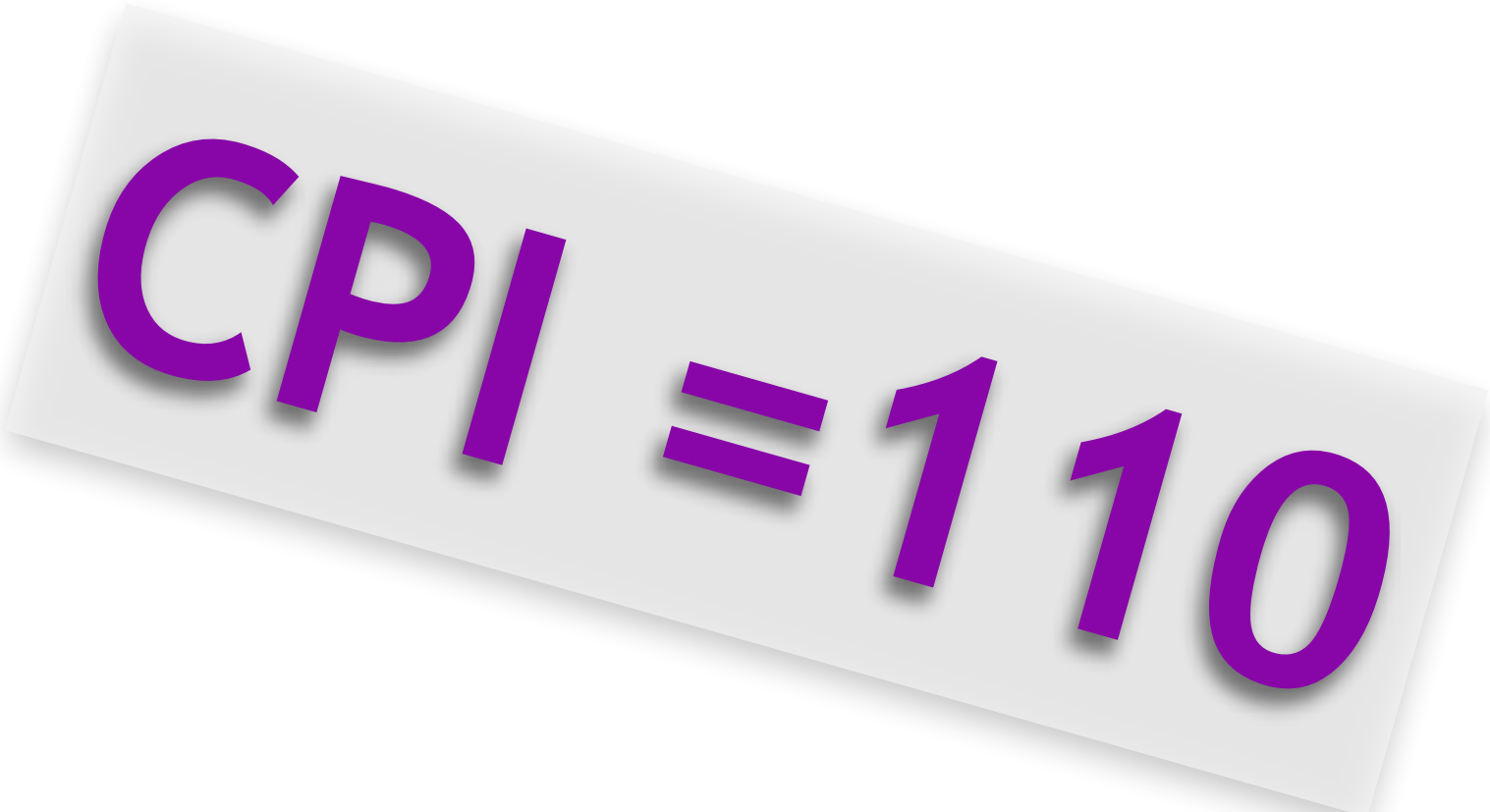
Real Interest income = $5

Real Tax = $3,50/$5 = 0.7

70% tax instead of 35%!

Borrower returns $110

Inflation increases the effective tax you pay

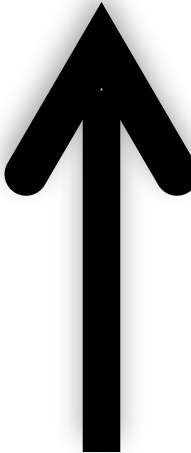

CPI =110

Real Interest income = $0

You still have to payTax = $3,50 even though your (real) income was zero!


+ $0

Basket $110



Borrower returns $110

Tax on Interest Income = 35%


You must pay
the government
$3,50 in taxes


You earned only $5 in (real) interest income

CPI = 100

Today: you lend $100

Charge 10% interest

CPI =110

Interest Income $10

Borrower returns $110

Real Interest income = $0

Inflation increases the effective tax you pay

+ $0

Tax on Interest Income = 35%

35% Tax on Interest = 0.35 x $10 = $3,50

You still have to payTax = $3,50 even though your (real) income was zero!

Inflation Costs