You purchased Google stock at $200 in 2012 and sold it for $600 in 2014

Tax on Capital Gains is 30%

Tax you owe → $400 x 0.30 = 120

Capital Gain = 600 – 200 = $400

CPI = 200

CPI = 210

2012 → 2014
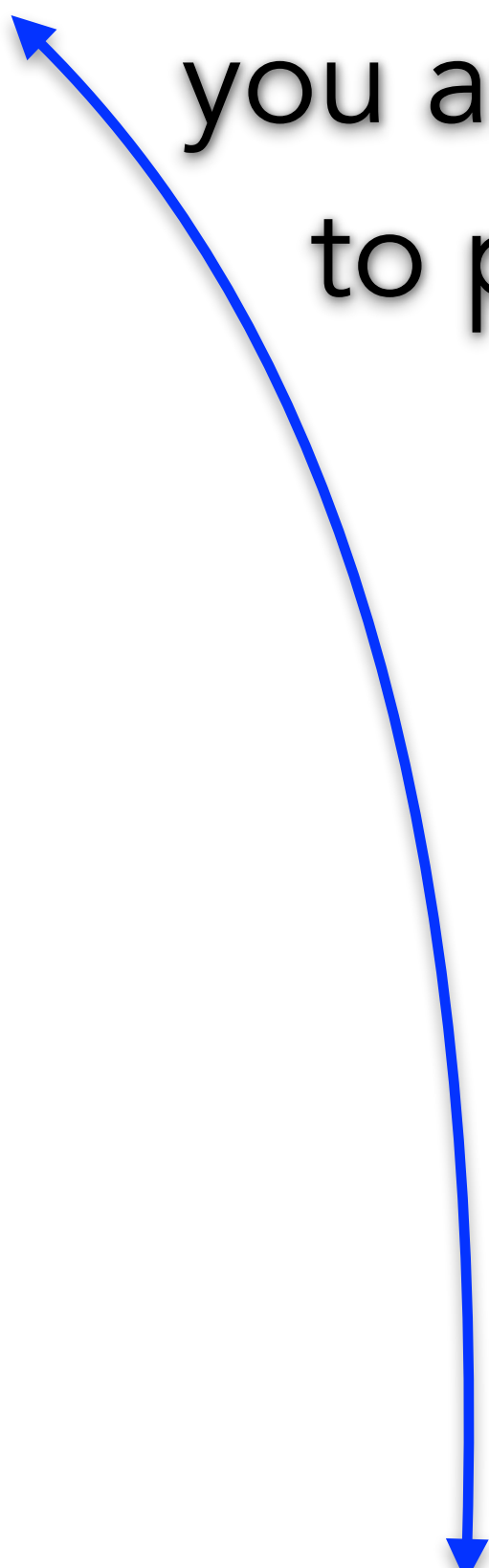
$$\text{Real Value} = \frac{600}{210} \times 100 = 285.7$$

$$\text{Real Value} = \frac{200}{200} \times 100 = 100$$

In real terms, you bought stock valued 100 and sold it for 285.7

Your Real Capital Gain = 285.7 - 100 = 185.7

You pay 64.6% instead of the 30% you are supposed to pay by law

$$\frac{120}{185.7} \times 100 = 64.6\% \text{ effective tax!}$$

Even though your Real Capital Gain was only $185.7 the government still makes you pay $120

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Your Real Capital Gain = 285.7 - 100 = 185.7

Even though your Real Capital Gain was only $185.7 the government still makes you pay $120

$\dfrac{120}{185.7}$ x 100 = 64.6% effective tax!

You lend $4,000 at 10% in 2012 and the loan is paid back in 2014

Interest Income = 4,000*0.1=$400