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

Tax on Capital Gains is 30%

Tax you owe

$$\$400 \times 0.30 = 120$$

$$\text{Capital Gain} = 600 - 200 = \$400$$

CPI = 200

2012



CPI = 210

2014

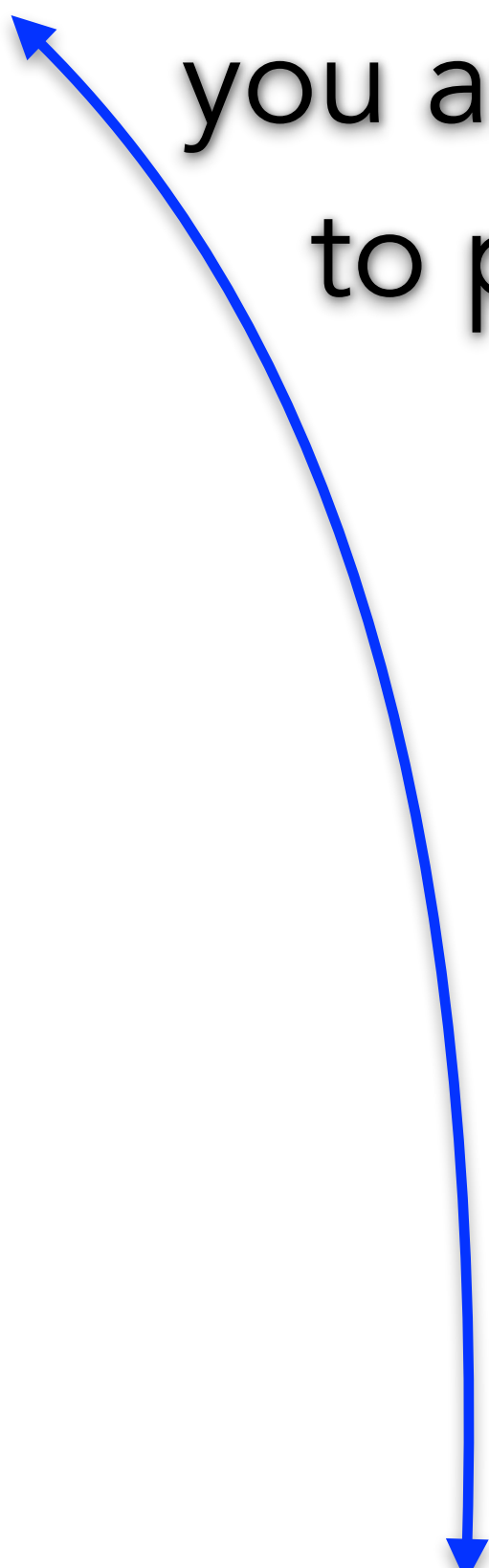
$$\text{Real Value} = \frac{600}{210} \times 100 = 285.7$$

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

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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2012

$$\text{CPI} = 210$$

2014

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

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

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

$$\text{Your Real Capital Gain} = 285.7 - 100 = 185.7$$

Even though your Real Capital Gain was only \$185.7 the government still makes you pay \$120 $\frac{120}{185.7} \times 100 = 64.6\%$ effective tax!

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

$$\text{Interest Income} = 4,000 * 0.1 = \$400$$