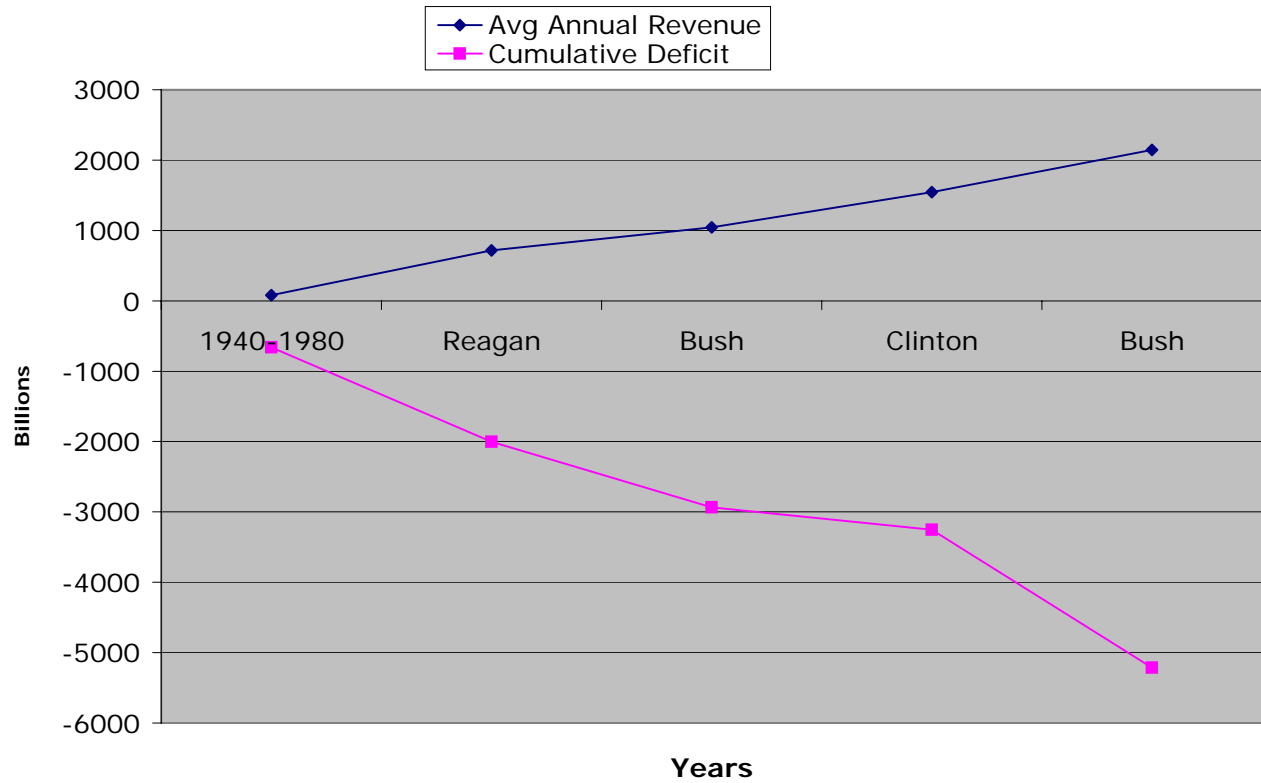


FINANACIAL MRI OF USA

Average Annual Tax Collection and Cumulative Deficit



Compiled by

K KUMAR & CO. CPA. PC.

Consultants & Accountants

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GENERAL

US budget – the way it is presented by OMB, is a very complicated document to comprehend. It is very difficult to put things in perspective and we are still trying to decipher some information that we do not understand.

Our effort is simply to convert the data available at the Office of Management and Budget's web site, in a user-friendly manner so that the reader can comprehend the workings of the congress and sense inherent danger in allowing them to continue on this dangerous and reckless path.

One could be passionately supporting one sports team against other or one could believe passionately in a democratic or a republican notion of the role of the government and various other issues.

However, when it comes to managing financial affairs, it is not wise to build up such a huge deficit that a large chunk of the budget gets used up to make interest payments and renders the country economically vulnerable.

Financial MRI is a rolling evaluation of financial results. This process will continue for future years and as we understand the budgets better, we will post changes and upgrades to this report.

We have analyzed this data in four major segments:

1. Tax Revenue
2. Government Spending
3. Deficit
4. Conclusion

If this can help you have clarity on the way finances are being handled by the congress, and forces you to be more proactive in pushing your representative to make better choices, "we the people" will see better days soon!

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TAX REVENUE

This analysis begins with 1980 when the budget deficit was around \$ 662 Billion as evident from historical tables available at the www.OMB.GOV site.

Total Tax Revenue collected for 40 years - during 1940 - 1980 was about \$ 5.7 Trillion.

Revenue collected during 8 years of Reagan Administration (1981 – 1988) was over \$ 5.7 Trillion.

Revenue collected during 4 years of Bush's Administration (1989 - 1992) was over \$ 4 Trillion.

Revenue collected during 8 years of Clinton Administration (1993 – 2000) was over \$ 12.3 Trillion.

Revenue collected during 8 years of Bush Administration (2001 – 2008) is over \$ 17.1 Trillion.

Please see Comparative Performance on page 8 for a glimpse at Revenue from various sources under various administrations.

Over 45% of this revenue in every administration has come from Individual Tax Payers.

Revenue collected from Social Security Taxes is about 36% (18% from employees)

Businesses have typically paid around 9% to 11%.

Revenue from other various sources was 6% to 9%

In other words, during the last 8 years over 63% of the Revenue or about \$ 11 Trillion out of \$ 17 Trillion came from individuals – most of them from middle class. It would be only logical for any government to expand this base that further strengthens the economy and the budget revenue!

By allowing businesses to outsource work to other countries and not providing incentives to keep the work force in America, we stand to gain 11% and lose 63%!

Why is the government so ineffective in reversing job losses?

Where are the incentives for businesses to keep workforce in America?

Ever increasing budget deficit would ultimately result in significantly reducing funding for other programs and Social Security and Medicare Entitlements.

In a country where people survive on multiple credit card debts and have tendency to save little, social cost of lowering these benefits will be tremendous.

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GOVERNMENT SPENDING

ENTITLEMENT COSTS

There are certain costs – like Social Security payments and Medicare and Medicaid benefits that are guaranteed to people who have put in their due share in paying Social Security Taxes.

Social Security has a surplus budget of over \$ 5 Trillion on books at present; however, the benefits to retiring baby boomers have been going up steadily reducing this surplus. Secondly, government has borrowed this entire surplus to pay for financing other programs over the years. Government is paying the retirees from its annual budgets and with the entitlements going up, we may soon see the 67% cost going up significantly, further reducing funds available for other programs.

According to estimates available for 2008, these costs account for about **67%** of the total Tax Revenues or about \$1.7 Trillion out of \$ 2.5 Trillion in annual Revenue for the year 2008.

This leaves 33% or about \$ 837 Billion for other obligations.

INTEREST COSTS

Tax revenue has increased from \$ 5.7 Trillion in Reagan years to over \$ 17 Trillion in George W. Bush years and yet we are facing an enormous federal deficit of over \$ 10 Trillion. This does not include monies borrowed for additional funding for war, tax payer rebates or the recent bail out of the financial markets.

According to 2008 Estimates, Interest payment on this debt amounts to \$ 244 Billion - or about 10% of Tax Revenues. Let us put this in perspective!

Interest payment of \$ 244 far exceeds what the government allocates for Education - \$ 93 billion, Transportation - \$ 80 billion, Environment - \$ 36 billion, Science and Space Technology - \$ 28 billion or Energy - \$ 3 Billion! Please see Page 8 for the details.

This leaves 23% or about \$ 593 Billion for other obligations.

VARIOUS PROGRAM COSTS

Funding for various programs from Education and Training to Energy Costs as per 2008 budget estimate add up to about 18% of the budget as follows:

\$ 93 Billion	-	4.00%	Education and Training
\$ 87 Billion	-	3.00%	Veteran's Benefits
\$ 80 Billion	-	3.00%	Transportation
\$ 21 Billion	-	1.00%	Agriculture
\$ 36 Billion	-	1.00%	Environment
\$ 35 Billion	-	1.00%	International Affairs
\$ 46 Billion	-	2.00%	Justice Department
\$ 20 Billion	-	1.00%	General Government
\$ 28 billion	-	1.00%	Community Development
\$ 28 Billion	-	1.00%	Science, Space and Technology
\$ 7 Billion	-	0.20%	Commerce and Housing Credit
\$ 3 Billion	-	0.02%	Energy

\$484 Billion - 18.22% Total

This leaves about 5% or \$ 109 Billion for other programs.

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There is a heading in the OMB budget for Offsetting Receipts in the amount of \$ 88 Billion that reduces the budget expenditure, or increases the \$ 109 available to \$ 197 billion for other obligations. We have not been able to identify as to what these offsetting receipts consist of.

DEFENSE COSTS

For 2008, government allocated \$ 607 Billion to Defense, which was further increased by additional war funding request which is not included here. We only had \$ 197 billion available and therefore, we ended up borrowing over \$400 billion to meet the budgeted expenditure!

Let us put this in perspective.

Over the last 8 years, the defense spending has increased significantly as follows:

\$ 235 Billion under Reagan Administration – Average Annual Costs – (Page 9)

\$ 294 Billion under Bush Sr, Administration – Average Annual Costs – (Page 10)

\$ 277 Billion under Clinton Administration – Average Annual Costs – (page 11)

\$ 305 Billion under Bush Jr. Admin – 2001

\$ 349 Billion under Bush Jr. Admin – 2002

\$ 405 Billion under Bush Jr. Admin – 2003

\$ 456 Billion under Bush Jr. Admin – 2004

\$ 495 Billion under Bush Jr. Admin – 2005

\$ 522 Billion under Bush Jr. Admin – 2006

\$ 553 Billion under Bush Jr. Admin – 2007

\$ 607 Billion under Bush Jr. Admin – 2008 – Estimate + additional funding requested in 2008

Roughly an increase of \$ 50 Billion a year! Now let us look at the Defense budgets of some other countries:

\$ 74 Billion - United Kingdom (37 Billion pounds – increased by 2 Billion for 2009)

\$ 24 Billion – France (17 Billion euros...increased marginally for 2009)

\$ 57 Billion – China (418 Billion Yuans)

\$ 50 Billion – Russia (1,277 Billion Rubles)

So our annual increases in defense costs match or exceed some of these countries' annual budgets!

It costs hardly \$1 a day to maintain a Taliban fighter and by simply continuing this fight, they will ruin USA financially as we have already witnessed in the last 8 years. It is time we get significantly more imaginative and efficient at using diplomacy and other options available to us at a fraction of the current cost and keep the pressure on the terrorists and hostile nations.

We have installed a civilian government in Iraq and let that be our victory! Not only it is time to put an end to this war...we need to acknowledge that we can not afford this war any more – economically or emotionally. Congress must think 10 times before ever granting such an authority to a president in the future.

After spending so much on defense over the years, we are running thin fighting two small nations! While we must have a strong defense, it is time we acknowledge that more dollars do not mean better security and a weak economy will not be able to support strong defense either!

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UNACCOUNTED COSTS

Over the years, revenue from Social Security was over \$ 15 Trillion. Government has borrowed some \$5 Trillion from Social security to pay for expenses in enclosed budgets.

We do not know if interest has been accrued and funded on these borrowings from Social Security Fund. Similarly, there are several pension benefits that are unfunded. We do not have this information handy at this time but we won't be surprised if the unaccounted costs run in to additional few trillion dollars.

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DEFICIT

Budget process has changed over the years.

Social Security Receipts and payments are now an integral part of the annual budget. This allows government to fund the budget from annual Social Security surpluses as inter-agency funding and the budget reflects only net third party borrowing as deficit.

In spite of that, since 1980, we only had 4 years when the government spent LESS than what they collected in taxes. Please see Deficit Disorder Chart on Page 13.

While there was an increased economic activity due to technological boom in those four or six years when we had surpluses, we give full credit to forces that aggressively went after controlling the costs in those four surplus years and resisting temptations to spend more!

The fact remains that Tax Revenue has continued to go up in the past 28 years from \$ 5.7 Trillion to \$17 Trillion and yet, we are not able to foot the bills and are borrowing more and more! In 24 out of 28 years, congress approved budgets that have resulted in to \$5 Trillion in net deficit and over \$ 9 Trillion without adding annual Social Security surpluses.

The country is in economic down turn and tax revenues are expected to fall. In view of that, it may be more difficult to balance the budget for some time.

However, unless we start generating surplus budgets, the debt will keep on mounting and taking ever bigger bites of interest payments out of the budget. Social Security and Medicare benefits would be severely threatened and the funding for Education, energy, infrastructure maintenance and many other areas may see steep cuts that we can not afford.

Once again, in a country where people survive on multiple credit card debts and have tendency to save little, social cost of lowering these benefits will be tremendous. When people can not afford, they may resort to rioting and looting and it may even threaten internal law and order!

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CONCLUSION

When your company makes money, there is room for decent pay increases and bonuses, and employee morale is high. When your company loses money, there are layoffs, cut back and negativity in the air.

If you look at the Deficit Disorder Chart on page 13, you will observe that budgets presented between 1993 through 2001 show a very deliberate attempt to control spending year after year. Each year the deficit went down and surplus was generated!

On the other hand, significant deficit was generated in 24 out of last 28 years adding more than \$ 9 Trillion to the deficit! Republicans and Democrats – both voted on creating this deficit and it really does not matter who voted which way!

This BORROW AND SPEND mentality needs to be curtailed.

We need to come up with a notion that we are sending a team of President, Vice President and the Congress to manage our affairs and the entire team should be held responsible for managing finances better. They need to work together and come up with ideas to reduce debt and reduce interest payments and free up monies for other programs.

Can we challenge the next administration to match or surpass the performance during the Clinton Administration in reducing debt?

Is it possible to establish financial goals that can be easily measured, like reducing deficit by a certain percentage in every administration or set an incentive plan for the entire team to work together rather than the two parties working against each other to achieve their political goals?

We believe we need to fund projects that would generate employment in America, put more purchasing power in the hands of the working class and expand the Tax Base that generates most Tax Revenue. Economize on all program costs and start generating surplus budgets and pay down the debt. Instead of borrowing, if government could offer equity stakes to private sector and work together to fund future programs, that would be a real winner!

For instance, build an efficient commuter system or install solar panels on public schools and government buildings by offering equity in those projects to investors. Let the savings from reduction in oil imports and revenue generated from these projects reward the investors!

There are many people out there who have better understanding of this entire process and can come up with many solutions to make America economically strong again and we are counting on that. You can send your ideas to MRIUSA@cpakumar.com and we may include some of those ideas in our future reports.

Whether you are a Republican or a Democrat or an Independent, it makes no difference! We are all in this together. In an economic meltdown “we the people” will suffer the same consequences no matter what philosophy you believe in!

Once again, I hope that this Financial MRI has helped you better understand how our finances are being handled by congress and recognize the danger in allowing them to continue on this path.

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Ronald Reagan

1981 - 1988 BUDGET HEADINGS	TOTAL			Annual Performance							
	TOTAL	%	AVG	1981	1982	1983	1984	1985	1986	1987	1988
01 · Individual Taxes	2,648	46%	331	286	298	289	298	335	349	393	401
02 · Social Security	2,019	35%	252	183	202	209	239	265	284	303	334
03 · Corporate Taxes	507	9%	63	61	49	37	57	61	63	84	95
04 · Estate & Gift Taxes	55	1%	7	7	8	6	6	6	7	8	8
05 · Federal Reserve Deposits	128	2%	16	13	15	15	16	17	18	17	17
06 · Excise Taxes	286	5%	36	41	36	35	37	36	33	33	35
07 · Customs Duty	94	2%	12	8	9	9	11	12	13	15	16
08 · Other Receipts	13	0%	2	1	1	1	1	2	2	3	3
TOTAL RECEIPTS / INCOME	5,751	100%	719	599	618	601	667	734	769	854	909
11 · Social Security Payments	1,459	25%	182	140	156	171	178	189	199	207	219
12 · Income Security	949	17%	119	100	108	123	113	129	121	124	130
13 · Medicare	486	8%	61	39	47	53	58	66	70	75	79
14 · Health	267	5%	33	27	27	29	30	34	36	40	45
TOTAL ENTITLEMENT COSTS	3,161	55%	395	306	338	375	380	417	426	447	473
15 · Interest Payment on Debt	911	16%	114	69	85	90	111	130	136	139	152
22 · Education / Training / Employme	231	4%	29	33	27	26	27	29	30	29	31
23 · Veterans' Benefits	206	4%	26	23	24	25	26	26	26	27	29
24 · Transportation	196	3%	25	23	21	21	24	26	28	26	27
25 · Agriculture	164	3%	20	11	16	23	14	26	31	27	17
26 · Environment	107	2%	13	14	13	13	13	13	14	13	15
27 · International Affairs	106	2%	13	13	12	12	16	16	14	12	11
28 · Justice Department	51	1%	6	5	5	5	6	6	7	8	9
29 · General Government	86	1%	11	11	11	11	12	12	13	8	9
30 · Community Developement	60	1%	7	11	8	8	8	8	7	5	5
31 · Commerce and Housing Credits	63	1%	8	8	6	7	7	4	5	6	19
32 · Science / Space and Technology	68	1%	8	7	7	8	8	9	9	9	11
33 · Energy	62	1%	8	15	14	9	7	6	5	4	2
TOTAL OTHER PROGRAMS COSTS	1,399	24%	175	52	46	43	42	38	39	32	47
41 - Offsetting Receipts	(259)	-5%	(32)	(28)	(26)	(34)	(32)	(33)	(33)	(37)	(37)
51 · National Defense	1,879	33%	235	158	185	210	227	253	273	282	290
TOTAL BUDGET SPENDING	7,090	123%	886	556	629	683	728	804	840	863	925
SURPLUS / (DEFICIT)	(1,339)	-23%	(167)	43	(11)	(83)	(61)	(70)	(71)	(9)	(16)

Source: www.OMB.Gov

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Bill Clinton

1993 - 2000	TOTAL			Annual Performance							
BUDGET HEADINGS	TOTAL	%	AVG	1993	1994	1995	1996	1997	1998	1999	2000
01 · Individual Taxes	5,750	46%	719	510	543	590	656	738	829	880	1,005
02 · Social Security	4,260	34%	532	428	462	485	509	539	572	612	653
03 · Corporate Taxes	1,350	11%	169	118	140	157	172	182	189	185	207
04 · Estate & Gift Taxes	161	1%	20	13	15	15	17	20	24	28	29
05 · Federal Reserve Deposits	179	1%	22	15	18	23	21	20	25	26	32
06 · Excise Taxes	469	4%	59	48	55	58	54	57	58	70	69
07 · Customs Duty	151	1%	19	19	20	19	19	18	18	18	20
08 · Other Receipts	55	0%	7	5	5	5	5	6	8	9	11
TOTAL RECEIPTS / INCOME	12,373	100%	1,547	1,155	1,259	1,352	1,453	1,579	1,722	1,828	2,026
11 · Social Security Payments	2,854	23%	357	305	320	336	350	365	379	390	409
12 · Income Security	1,850	15%	231	210	217	224	230	235	238	243	254
13 · Medicare	1,380	11%	172	131	145	160	174	190	193	190	197
14 · Health	992	8%	124	99	107	115	119	124	131	141	155
TOTAL ENTITLEMENT COSTS	7,075	57%	884	745	789	835	873	914	941	964	1,015
15 · Interest Payment on Debt	1,813	15%	227	199	203	232	241	244	241	230	223
22 · Education / Training / Employme	394	3%	49	47	43	51	48	49	51	51	54
23 · Veterans' Benefits	320	3%	40	36	38	38	37	39	42	43	47
24 · Transportation	323	3%	40	35	38	39	40	41	40	43	47
25 · Agriculture	134	1%	17	20	15	10	9	9	12	23	37
26 · Environment	177	1%	22	20	21	22	22	21	22	24	25
27 · International Affairs	125	1%	16	17	17	16	14	15	13	15	17
28 · Justice Department	164	1%	21	15	16	17	18	21	23	27	29
29 · General Government	106	1%	13	13	11	14	12	13	16	15	13
30 · Community Developement	84	1%	11	9	11	11	11	11	10	12	11
31 · Commerce and Housing Credits	(62)	-1%	(8)	(22)	(4)	(18)	(11)	(15)	1	3	3
32 · Science / Space and Technology	139	1%	17	17	16	17	17	17	18	18	19
33 · Energy	20	0%	3	4	5	5	3	2	1	1	(1)
TOTAL DISCRETIONARY PAYMENTS	1,924	16%	240	212	227	221	218	223	249	274	300
41 - Offsetting Receipts	(338)	-3%	(42)	(37)	(38)	(45)	(38)	(50)	(47)	(40)	(43)
51 · National Defense	2,219	18%	277	291	282	272	266	271	268	275	294
TOTAL BUDGET SPENDING	12,692	103%	1,587	1,409	1,462	1,516	1,561	1,601	1,653	1,702	1,789
SURPLUS / (DEFICIT)	(319)	-3%	(40)	(255)	(203)	(164)	(107)	(22)	69	126	237

Source: www.OMB.Gov

