

Carr Talks

TAXLOGIC



WEEKLY SUMMARY

The problems in the middle east were violently shunted aside when an 8.9 earthquake rocked northern Japan. As if an earthquake and Tsunami were not enough the country faces the prospects of a nuclear catastrophe.

In the counter intuitive way markets work, oil prices dropped on the prospect of reduced demand from Japan, one of the world's largest energy users.

As the world attempts to claw its way out of the current recession the enormity of the Japanese earthquake will take its toll during the year, from lower GDP numbers, reduced travel and just the psychology of repeated negative feedback loops. The world faces a lot of headwind ("wall of worry") in the coming months. Qaddafi is pushing the rebels in Iraq putting pressure on oil prices. The Sovereign debt crisis in Europe has not been resolved, and now Japan's rebuilding will put pressure on global growth. China is trying to tamp down rampant inflation with raising interest rates and changes in bank lending criteria. Meanwhile in the US, credit remains tight, unemployment is high, job creation is low, and consumers are under spending constraints with rising prices at the pump. The 2012 Presidential elections will start to ramp up putting congress on posturing footing. Challenging times in deed.

Private Mortgage Insurance

This tax deduction was created as part of the Tax Relief and Health Care Act of 2006 and originally applied to private mortgage insurance policies issued in 2007. But because the housing market was slow to recover, lawmakers have extended this tax break. It now is in effect for premiums paid through 2011.

The private mortgage insurance deduction can be taken for policies issued by private insurers as well as insurance provided by the Federal Housing Administration, the Department of Veterans Affairs and the Department of Agriculture's Rural Housing Service.

What amount of PMI do you claim? You should find the amount in box 4 of the Form 1098 (or the substitute year-end loan information statement) that your lender sent you.

Make sure that you meet the requirements the mortgage had to have been taken out on or AFTER Jan 1, 2007. No PMI premiums are deductible if they were made in connection with a home loan that was made before that date. Any

associated PMI premiums on new mortgages issued through 2011 will qualify for the deduction.

If you refinanced your home since Jan. 1, 2007, you also qualify for the PMI deduction on that loan. Be careful as to how you structure your refi. The mortgage insurance deduction applies to refinances up to the original loan amount, but not to any extra cash you might get with the new home loan.

You also might be able to deduct private mortgage insurance payments on a second home loan. As with your primary residence, the loan on the second home must have been issued in 2007 or later to be deductible. The additional property also must be for your personal use as a second or [vacation home](#). If you rent it out, then you could end up paying the PMI without any help from the Internal Revenue Service, unless you claim tax breaks on the home as rental property.

Finally, while there is no statutory limit on the amount of PMI premiums you can deduct, the amount might be reduced based on your income.

Changing Paradigm

Times are changing. Until recently an investment made sense in the short term even if it was heavily geared (in debt) and suffered negative cash flow. That is because you got a tax benefit while the investment appreciated. That is no longer the case. Ask anyone with real estate, even with equity that is trying to sell in this market.

The new paradigm is rewriting investment rules, and it all comes down to

cash flow. No longer does it make sense to save \$0.25 cents in tax, when it cost you a real \$ 1.00 (cash) not borrowings or draws from HELOC's or LOC. Investment in this case covers not just real estate, but businesses that are consuming cash,, rental buildings, and residential houses.

Basically, does it make sense to save 25 cents when you are spending 100 cents?

So, look at your investments and determine the true cash flow. The tax benefit may no longer be the driving factor.

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	Last Week	End of Week	Next Week	12/31/2011
Gold	\$1,389.40	\$1,419.60	\$1,400.00	\$1,600.00
Oil	\$86.15	\$100.59	\$100.00	\$120.00
Dow Jones	12,391.25	12,044.40	12,100.00	12,250.00
Prime Rate	3.25 %	3.25 %	3.25 %	4.00 %
Unemployment	8.90 %	8.90 %	8.90 %	9.50 %