

# Carr Talks

**TAXLOGIC**



## WEEKLY SUMMARY

As the week starts, it seems déjàvue all over again. Tomahawk missiles launched from sea based platforms onto a middle eastern country. Following a UN resolution authorizing force to protect Libyan citizens, the UK, US Canada and France launched military strikes across the northern coastal cities in Libya.

The escalation of regime change in the middle east, pushed the trifecta of disasters in Japan, (earthquakes, tsunami and now nuclear pollution), off the 24 hour news cycle.

Given oil prices are at \$100 a barrel already, it is hard to see any short term scenarios where prices would come down significantly. Higher oil prices mean larger drags on US domestic consumer spending.

Given Japan is the third largest economy behind the US and China, their weakened economy may still have implications for reduced global growth, but the risk premium for the uncertainty inherent in the area will prevail for some time.

The US economy does not seem to be getting worse. It does seem to have bottomed out and shows some signs of muted improvements. Job creation has started to pick up. But until housing prices stabilize, and access for businesses to credit improve it will be tough going.

## Feeling Lucky?

During fiscal year 2010, the IRS collected \$2.3 trillion in revenue, and processed 230 million returns. More than 116 million returns, including almost 70 percent of individual income tax returns, were filed electronically. More than 119 million individual income tax return filers received a tax refund, totaling \$358 billion. In fiscal year 2010, IRS spent an average of 53 cents to collect each \$100 of tax revenue. The IRS examined more than 1.5 million individual income tax returns and nearly 30,000 returns filed by corporations, excluding S corporations. Only about 1.1% of 142,823,105 personal income tax returns were audited in 2010, up slightly from a year ago. Does high income mean you stick out from the pile? Not necessarily. 30% of returns audited claimed the earned income tax credit. By definition those are lower income returns, not exceeding \$35,535 (\$40,545 married filing jointly) with one qualifying child. But rising income generally means rising risk. If you had non-business income of \$200,000 to \$1 million, you had a 2.5%

chance of audit, increasing to 2.9% if your return showed business activity. But if your income tops \$1 million, the audit rate was 8.4%, way up from 6.4% in 2009. For business returns (except farms) showing total gross receipts of \$100,000 to \$200,000, 4.7% of returns were audited. If you exceeded \$200,000 in gross receipts, audit rates dropped to 3.3%. Only 0.4% of returns with farm income were audited. There are also some interesting points about offsetting adjustments and deductions. If your adjusted gross income (AGI) is between \$100,000 and \$200,000, you had a 0.71% chance of audit. It jumps to a 1.92% audit rate for AGI of \$200,000 to \$500,000. The audit rate jumps to 6.67% for AGI between \$1 million and \$5 million. Only 1.4% of small corporations with total assets of \$250,000 to 1 million were audited and 3% with assets of \$5 to \$10 million. Over \$10 million in assets, the audit rate is 16.6%. For partnership and S corporation returns, the audit rate was 0.4%. The days of field and office audits are waning. 78.3% of individual audits were just correspondence.

## Withholding

As we get further into the tax year, and as 2010 tax returns are filed and tax liabilities are established, it is a good time to look at withholding allowances if predominantly most of your income is derived from W2 wage income.

The issue to remember this year is that for the past 2 years we have had \$400 or \$800 of the Making Work Pay credit on our returns that have boosted refunds. Think stimulus payments. In 2011 this payment has been replaced by a 2% reduction in FICA taxes and your take home pay has

been adjusted upwards by 2%. The surprise will come next year when you file your return and you will be \$400 to \$800 different from 2009 and 2010 tax returns.

Go to [www.irs.gov](http://www.irs.gov) and search for "withholding calculator" – click the first link, IRS withholding calculator. A series of simple basic questions will ask for various boxes to be checked – (filing status e.g. "single", "Married" etc). Then it will ask for income etc. There is still time to make adjustments as needed to correct any shortfall in withholding.

[www.carr.co.nz/stats](http://www.carr.co.nz/stats)

	Last Week	End of Week	Next Week	12/31/2011
Gold	\$1,419.60	\$1,419.30	\$1,400.00	\$1,600.00
Oil	\$100.59	\$101.62	\$102.00	\$120.00
Dow Jones	12,044.40	11,858.52	12,000.00	12,250.00
Prime Rate	3.25 %	3.25 %	3.25 %	4.00 %
Unemployment	8.90 %	8.90 %	8.90 %	9.50 %