

Carr Talks

TAXLOGIC



WEEKLY SUMMARY

Further signs that the economy is improving came this week with better employment numbers. The unemployment rate edged down 0.1% to 8.8%. Still historically high and with housing showing signs of further price pressure the recovery is still on uncertain ground. There are a lot of bank owned properties that still have to be cleared before prices will come back.

Financing is still difficult for all but a select few. The Middle East still appears in turmoil with oil prices reflecting the uncertainty. Prices at the pump at over \$3.50 a gallon are putting a great deal of strain on the nascent recovery. The high prices are a drag on consumer spending.

The federal budget comes under more scrutiny in the coming weeks as two sides square off with the backdrop of the 2012 elections looming with many of the potential candidates making announcements in the coming months.

State and local budgets are still not healed from the fractured economy, and so look for more tax increases, reduced services in coming sessions. A study this week showed that Government workers now outnumber manufacturing workers almost 2:1, the exact reverse from 50 years ago. Wonder why the US has lost its edge?

State 529 Plans Prepaid College Funds

If you thought that the state budget crisis' weren't going to affect you, and you have thought of or are enrolled in a State Prepaid College fund, time to think again and get out the old contracts. And make some phone calls.

Even if your state tells you that your fund is guaranteed, read the fine print. In a number of states, if the 529 Fund as they are called, cannot meet its obligations, the states have not necessarily agreed to step up and fund the difference.

Florida, Massachusetts, Mississippi and Washington do guarantee that the state will step in and make good on the promises to keep up with tuition inflation if the fund cannot meet its obligations.

Illinois, Kentucky, Maryland, Michigan, Nevada, Pennsylvania, South Carolina, Virginia and West Virginia do not offer the same specific assurance. Illinois has increased tuition 10% annually for the past decade, making prepaid plans an investment nightmare. Illinois opened their 529 Plan in the late 1990's. In 2006 parents of a new born could buy an 8 semester

contract for tuition (excluding room and board) to its flag ship university system for \$41,493. Today, just 5 years later that same plan is \$95,521 a whopping 130% increase in 5 years. If you are running a business, wouldn't you like that pricing power.

Alabama's plan has run into problems and required a state bailout. It was able to avoid a worst case scenario.

529 State plans and Pre-paid options are good investment choices, but like everything diversify, and read the fine print. I would be skeptical of a plan that did not have a specific state assurance of backing up any plans that were not able to meet their obligations.

Good information about the various state Prepaid plans is available at www.savingforcollege.com. This is a comprehensive site with information on all state plans and various calculators to determine costs and investment goals.

Unfortunately, every taxpayer in a state could be in for additional taxes to fill any shortfall, if these plans do not fulfill their promises.

What if I can't pay my taxes in full?

You should, at the MINIMUM file an extension. Even if you cannot pay and are not ready to file – file an extension. It eliminates the worst penalty - the Failure to File Penalty, which is 5% per month to 25%. It is an expensive addition to any tax bill.

If you have your return ready, but can't pay – still file the return. Again there is no extension to pay, there is an extension to file and gives you an additional 6 months to file your return. OK – so you filed the return and can't pay. You have a number of options. 1) You can sign up for EFTPS

and pay the balance from your checking account at no fee and you can set up future estimated payments. 2) Put the balance on a credit card. IRS will charge a 2.3 to 3.9% "convenience" fee. The convenience fee is tax deductible for those that itemize and whose certain itemized "miscellaneous deductions exceed 2% of your AGI. 3) If you can pay your balance in full by October, pay 1/3 of the balance each time IRS sends you a bill. You will pay penalties and interest. 4) If the balance is under \$25,000 an installment plan is your last option, at a \$42 to \$105 cost.

www.carr.co.nz/stats

	Last Week	End of Week	Next Week	12/31/2011
Gold	\$1,431.50	\$1,429.20	\$1,440.00	\$1,600.00
Oil	\$105.52	\$108.31	\$110.00	\$120.00
Dow Jones	12,220.59	12,376.72	12,400.00	12,250.00
Prime Rate	3.25 %	3.25 %	3.25 %	4.00 %
Unemployment	8.80 %	8.80 %	8.80 %	9.50 %