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Carr Talks

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WEEKLY SUMMARY

Earning season started (the end of the 1st quarter in the US) with Google growing profits from 1.96 BILLION to $2.3 BILLION, the stock market promptly cut $5 BILLION off the market capitalization of the company, all because they missed their profit target by less than $10 million dollars (Profit was $8.08 per share vs. the market expectation of $8.11 per share.) Such is the life of technology companies. Cisco pulled the plug on the FLIP camera, showing how fast technology is changing, going from new must have technology to sell out for $500 million to dumped in less than 4 years. It reinforces how the mobile phone, camera, appointment diary, HD video recorder, computer, GPS device, Swiss army knife of hand held technology is upending all kinds of businesses. The Smart phone category is a killer application.

Employment numbers seem to be stabilizing, while not growing spectacularly seem to have started upward. What is more uncertain is the impact prolonged high oil prices have on consumer spending and travel. Housing continues in the doldrums with construction showing no sign of pickups. Lending is muted and anecdotally borrowing is next to impossible, except for those with pristine credit, and significant down payment and excellent job prospects,.

The Coming Budget Battle and Tax changes

The time to increase the debt level is fast approaching. What everyone should know as the battle begins is where we are starting from. Basically the country brings in $2.1 TRILLION dollars a year in revenues, and spends $3.5 TRILLION. The US is spending $1.4 TRILLON a year MORE than it earns and the accumulated debt is $14 TRILLION in the past 10 years. Basically if the country was a taxpayer, they would earn say $50,000 and spend $83,333 a year – they would have to borrow $33,333 a year and after 10 years they would owe $333,333 – scary stuff.

Income comes from Individual income taxes (42%) Corporate taxes (9%) and Social Security taxes (40%) and 10% all others. Remember that 1% of tax payers pay 33% of the individual income taxes and 5% pay ½ of all income taxes. Over time the top portion of US taxpayers are paying MORE of their fair share. It is hard to argue that a “soak the rich policy”, isn’t already happening.

Interest accounts for 6% of the national budget, defense is 20%, social security payments the same 20%, Medicare 23% other mandatory programs 12% and all other discretionary spending amounts to 19% of the budget. So even if ALL other government departments were closed down, the country still could not balance its accounts.

It seems that before things totally go off the rails, the time is now to make tough choices to get the country back on an even financial footing. It has to come from a combination of tax increased and reduced spending.

The 2012 elections are the perfect time to see which politician is ready to step up and say that the country cannot keep borrowing and running the country into debt and that it has to balance its books in a reasonable time frame.

Entitlement programs will have to be modified to reflect higher longevity, reduced returns on investments and an aging population.

In the same way that many American families have had to change their life style and spending so will the federal government, before we run out of runway.

Coming Tax changes

There are, in no particular order, a list of tax deductions that are particularly at risk as the budget battle heats up. **Mortgage interest deducti**on is almost certainly on the table. Look to see a maximum say $500,000 deductible limit, or a 12% tax credit. It costs $100 BILLION a year and even with a strong real estate lobby the tax deduction is too big to over look. Look for elimination of Home Equity loans (which are limited already) and second homes as well. **Charitable contributions**. Again another 125 credit limit could be proposed. There is no doubt that charitable contributions have been tightened up over the past couple of years.**Tax deductible retirement plans**. With SIMPLE, IRA, ROTH, SEP, 401(k) and the alphabet soup of complex retirement plans there is a call for a single retirement plan with much less generous deduction limits

Employer provided health insurance. There are proposals to cap the amount of company paid health insurance and what would be able to be deductible. Twenty five years ago (1986) was the last major rewrite of the tax code. Lightning can strike twice in a life time.

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	Last Week	End of Week	Next Week	12/31/2011
Gold	$1,476.40	$1,487.10	$1,485.00	$1,600.00
Oil	$113.05	$109.39	$110.00	$120.00
Dow Jones	12,380.05	12,341.83	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 %

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Comments, suggestions, and feedback welcome at john@carrtalks.com