

Carr Talks

TAXLOGIC



WEEKLY SUMMARY

Well, Mubarak exited stage right last week, and the Middle East is in for a new era in Social Media, the power of Twitter and Facebook cannot be denied, with the toppling of two rulers in as many months.

Three main issues led to the ouster of the 30 year dictator, rampant corruption, rising food prices and unemployment. It was the lack of opportunities among the 40% of those under 25, unemployed who are college educated, but with no jobs and little prospect that precipitated the uprising.

Where does the revolt move to next? Jordan, Yemen, and even Iran are on the list. The world has to be prepared for the law of unintended consequences, and the expression, be careful what you wish for – you may get it.

But, with the military taking control and promising fair and open elections soon (have we heard that before) – some semblance of order at least prevails in the mean time and the world financial markets breathed a sign of relief and oil prices retreated.

However, with other global events and extraordinary weather conditions, pressure on food prices and commodities continues unabated. Cotton reached historic highs and inflation, long dormant, would appear to be on the rise as the world economy crawls out of the worst global recession in 70 years.

Finance and Taxes

As IRS opens up their system for the backlog of returns to be filed electronically it is a good time to review what options are available to affect 2010 returns.

Basically tax deductible IRA's that can be funded to April 18th 2011 are one of the few deductions available after December 31st 2010. If you are not covered by a retirement plan at work (check the box on your W2 from your employers to see if there is an "X" in the retirement box).

If your employer offers a matching 401(k) or SIMPLE plan you are leaving money on the table. There is no other investment that will guarantee to double your money with no risk, it is one of the few things in life where the old adage, "seems too good to be true" is in fact not true. All plans will have a cash, or fixed income option if you are nervous about the stock market or investing in securities.

Having opened an IRA, you should look at what you are funding it with. As every savvy Wall Street player knows, stocks held over a year are taxed at long term

capital rates and interest (CD's and bonds) are taxed as ordinary income, with rates as high as 37.5% and increasing. What does this meant to you?

In a Roth IRA where contributions are made after tax, and withdrawals are not subject to tax, you would want assets that would be expected to grow over time, and so the tax consideration is not relevant.

For your taxable IRA you would want assets that generate income, bonds, CDs and money market funds. For investments such as stocks, Exchange Traded Funds, and mutual funds, you should hold them in your personal accounts, outside your qualified retirement accounts.

If you are under 50 your limit for deductible contributions is \$5,000. If over 50 there is a catch up provision that allows an additional \$1,000 for a total of \$6,000. The same limits apply for Roth IRA's.

But as with all things tax, there are fine points and exceptions, and as they say in the car business, "your miles per gallon will vary" from the next person, and all personal situations vary, so check with your tax person.

Credit Scores

For several years, people have been entitled to an annual free credit report from each of the three credit bureaus. You can request it at AnnualCreditReport.com. But you almost never get a free credit score unless you were applying for a mortgage.

Consumers typically have to pay up to \$20 a pop for a FICO score, the industry standard developed by [Fair Isaac](http://FairIsaac.com). The score—which is intended to predict your ability to pay—is calculated based on the data in your credit report, which contains

payment records, balances, account information, bankruptcies, and other details. Under a provision of the Dodd-Frank financial-overhaul law that takes effect in July, all consumers who are turned down or don't get the best terms because of a credit score will get a copy of the credit score used, as well as information about where their scores fall among all consumers. The credit bureaus and Fair Isaac (through its MyFico.com site) may offer "free" score updates, but only under trial offers for monitoring services that cost \$14.95 or more a month.

www.carr.co.nz/stats

	Last Week	End of Week	Next Week	12/31/2011
Gold	\$1,348.60	\$1,356.70	\$1,300.00	\$1,600.00
Oil	\$89.12	\$85.28	\$82.00	\$120.00
Dow Jones	12,092.15	12,273.26	12,300.00	12,250.00
Prime Rate	3.25 %	3.25 %	3.25 %	4.00 %
Unemployment	9.00 %	9.00 %	9.00 %	9.50 %