Newsletter Volume XI No.8 Week of Feb 20th 2011

Carr Talks

TAXLOGIC

WEEKLY SUMMARY

The revolts at the end of this week were not just limited to the Middle East – the Mid West erupted in demonstrations and marches on the capitol when the new Republican Governor, (horror of horrors) actually carried through on what his election platform had been. With 45 of the 50 states running Red Ink for as far as the eye can see, Wisconsin went after the largest area of the budget – State Employee Retirement plans. Unfunded liabilities of $2T (trillion) dollars separate the promises timid politicians have agreed to with State Employee Unions over pension and health benefits.

A number of cities, have already filed bankruptcy attempting to abrogate the promises they have made to County and City employees. The issue is with an aging population, (baby boomers), meeting head on with the fact that cities never set aside the appropriate funding to meet these promises and obligations.

While it will take time to play out – the compromise seems obvious already; taxes will rise, and retirees over generous benefits, relative to the private sector, will have to be adjusted, and budget cuts in all areas are inevitable.

There is a lot of pain still to go. The country is not out of the woods yet, and a brittle, tentative recovery can still be derailed.

Finance and Taxes

Adoption tax credit. The health care reform act increased the maximum adoption tax credit to $13,170. The tax credit is refundable, so if the amount of the credit exceeds your tax bill, you'll receive a check for the balance.

The amount of the credit is limited to the cost of adopting a child, up to the maximum credit. Eligible expenses include adoption fees, court costs, attorney fees and travel expenses, including meals and lodging.

Taxpayers who claim this credit are required to attach documents certifying the adoption, such as a court order or decree, to IRS Form 8839. Because of that requirement, taxpayers who claim the adoption credit must file a paper return.

Hybrid Plug In. Hybrid plug-in vehicles cost more than conventional vehicles, but a federal tax credit could help offset those costs. Some vehicles are eligible for a $7,500 tax credit.

Deduction for corrosive drywall damage. Thousands of homeowners have filed complaints with regulators because their homes were built with Chinese-made drywall that emits corrosive sulfur gases. Last year, the IRS issued a special ruling that allows taxpayers to deduct the cost of repairing the damage to their homes or appliances as a casualty loss. You can't claim the loss if your insurance company has reimbursed you for the cost of repairs. If you have a pending claim, you're eligible to deduct 75% of the amount you spent on repairs last year. The ruling is limited to defective drywall installed between 2001 and 2008.

Energy-efficient windows or doors, or bought a new furnace or air conditioner. If you made your home more energy efficient last year, you may be eligible for a tax credit for up to 30% of the cost, up to a maximum of $1,500. A tax credit is a dollar-for-dollar reduction in your tax bill, making a credit more valuable than a deduction.

Keep in mind, though, that $1,500 is a lifetime maximum. If you claimed the full credit on your 2009 tax return, you can't claim it in 2010, even if you made more home improvements. Most manufacturers certify their products as to eligibility for the credit.

Stock Gains / Losses

New reporting rules for stock sales kick in this year. Starting this year, brokerages are required to track the cost basis on common stocks. Some exchange traded funds, or ETFs, are included, but a majority are not. Your cost basis on many ETFs, as well as mutual funds, doesn't have to be tracked by brokers until 2012. Stock options are tracked next, starting in 2013.

The first time you'll notice changes will be when you sell stock. Most of the online brokerages will have a place for you to enter which "tax lot" you want to sell. Under the new rules, you have only three days after selling the stock to make the choice, rather than until the end of the year. The rule pertains only to shares bought this year and beyond.

Most brokerages will not prompt you to enter the information when you sell, you'll be expected to know to enter it. Otherwise, most brokerages will assume that the first lot you bought is the one you sold, a first-in, first-out basis, which isn't necessarily the best option for all taxpayers. Starting in 2012, investors will get a 1099 tax form from their brokerages that contain the cost basis for all the covered securities.

www.carr.co.nz/stats

	Last Week	End of Week	Next Week	12/31/2011
Gold	$1,356.70	$1,389.40	$1,400.00	$1,600.00
Oil	$85.28	$86.15	$90.00	$120.00
Dow Jones	12,273.26	12,391.25	12,400.00	12,250.00
Prime Rate	3.25 %	3.25 %	3.25 %	4.00 %
Unemployment	9.00 %	9.00 %	9.00 %	9.50 %

John M Carr CPA PA

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