

Carr Talks

TAXLOGIC



WEEKLY SUMMARY

As we come to the end of the 2nd month of the year, we should take stock as to what the rest of the year portends. The Middle East exploded in uprising and unrest, fueled by pent up repression for the past 40 years. It is unrealistic to expect that there will be a smooth transition with tribal and regional differences and disagreements over money (oil) that are incredibility difficult to resolve.

There is a strong argument that the premium on oil – gasoline – will continue through the summer and that \$5.00 a gallon is not an impossible target. Should regional differences be settled and the region return to normalcy in the next few months, the price of gas may not be much more than \$3.90 a gallon. Painful and enough to slow the recovery even more.

Congress will blink and the government will not shut down next week – they will kick the can down the road and delay the inevitable for 2 more weeks. But until defense, and entitlements are addressed the economy will suffer under crushing deficits.

I would be remiss not to mention the death and destruction caused by the earthquake in Christchurch, NZ last week. It was a double blow following the earthquake 6 months ago. The country was just climbing out of a long recession and this will only delay a painful recovery.

Finance and Taxes

	NYC Janitor	NYC Security Guard	Average Filer in Helmsley Building
Adjusted Gross Income	\$ 33,080	\$ 27,640	\$1,167,708
Income tax	\$ 3,168	\$ 2,350	\$159,515
Employee payroll tax	\$ 2,531	\$ 2,114	\$5,918
Employer payroll tax	\$ 2,531	\$ 2,114	\$5,918
Total tax	\$ 8,229	\$ 6,579	\$171,352
Effective Tax Rate	24.9%	23.8%	14.7%

The late Leona Helmsley seems to be right – “Only the “little people pay taxes”. IRS released tax information data for 2007. Because her building in NY has its own zip code, a statistician (Martin A Sullivan at tax.com), with too much time on his hands, was able to discern the average income of its 130 residents. The above table shows his results. Because of high property taxes, large mortgages and state income taxes, those making over a million a year, while making 42 x more income, only paid 26 x more tax than those making \$27,000 a year. Also the type of income reported (dividends and capital gains) would be taxed at lower rates.

Liens

In a rare move of leniency, IRS has revised the procedures around the filing and removal of liens. Only 10 years ago IRS filed 168,000 liens, last year the agency filed 1,100,000 liens. IRS has signaled a willingness to work with taxpayers facing financial challenges.

Basically, if your income is under \$100,000 a year and you owe less than \$25,000 and are willing to sign up for Direct Debit – automatic withdrawal from a bank account, IRS will automatically agree to a payment arrangement. In addition

once a back tax is paid, the lien will be essentially expunged from the taxpayers credit file, making the damage to credit reports much less.

The Service has indicated that it will look at OIC (Offers in Compromise) more carefully that are less than \$25,000. I would be wary of this until I actually see IRS accept some of the offers. Like modifying a mortgage in this troubled real estate market, it is easier said than done. In general, liens will not be placed on a taxpayer unless the debt exceeds \$10,000.

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	Last Week	End of Week	Next Week	12/31/2011
Gold	\$1,389.40	\$1,410.00	\$1,400.00	\$1,600.00
Oil	\$86.15	\$98.23	\$90.00	\$120.00
Dow Jones	12,391.25	12,130.45	12,100.00	12,250.00
Prime Rate	3.25 %	3.25 %	3.25 %	4.00 %
Unemployment	9.00 %	9.00 %	9.00 %	9.50 %