*This Publication Brought To You Courtesy Of:*

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# CLIENT BULLETIN

***October, 2011***

## ➢ *The "Buffett Rule" Part I*

Much has been made of President Obama's proposal of an additional tax on millionaires dubbed the "Buffett Rule". It has been called this because of billionaire investor Warren Buffet's statement that he pays a lower percentage of his income in taxes than his secretary. While this is an easy talking point on the campaign trail, there are two major inaccuracies to be noted – the first being that it is not correct that those making $1 million or more pay less in tax than those making less. According to IRS figures, millionaires on average pay a 25%-30% effective tax rate versus about 7% for households earning $40,000-$50,000. While it is true that Warren Buffett himself pays a lower effective tax rate than his secretary that is because he avails himself of existing tax laws to take his earnings in tax-advantaged forms, not because the tax code favors people who earn more money. Much of his income comes from two sources – dividends and capital gains - which are taxed at a relatively low 15% tax rate.

## ➢ *The "Buffett Rule" Part II*

The second major flaw in the argument is that the dividends and capital gains Mr. Buffett receives are "double taxed" in that corporations pay a 35% tax on profits before they can be distributed to shareholders like Mr. Buffett. This pushes the effective tax rate on the dividends and capital gains that he receives into the 50% territory – far above his secretary's effective tax rate. The Buffett rule is good politics but bad economics.

## ➢ *Tax The Rich – Then What?*

The entire issue of taxing the rich is off-topic in any case. Raising the current top marginal tax bracket of 35% on millionaires to **100%** (i.e. taking all of their income in that top bracket) would yield approximately $365 billion in new tax revenues. That's not chump change, but guess how long that amount would run the federal government? (* see answer at the end of the newsletter). There just aren't enough people earning more than $1 million (236,833 of them in 2009 to be exact according to the IRS) to generate the kind of revenue needed to substantially reduce the deficit. What's needed is the political courage to address entitlement promises that cannot be honored based on their current structure.

## ➢ *Why all the Concern for Greece?*

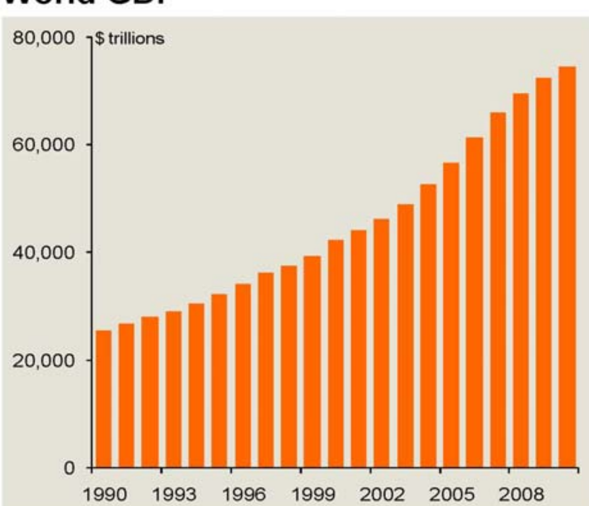
Why do we hear so much about the financial problems of Greece, a country with a tiny economy representing only 1.9% of the European Union total? The answer requires some backtracking. It is fairly clear that matters would never have gone as far as they have had the Europeans shown more resolve earlier. When the extent of the Greek government's fiscal crisis first became apparent in the spring of 2010, European Union (EU) members were hesitant to help out. Additionally, no mechanism existed for the EU to put in place to deal with the situation. Many powerful European nations, particularly Germany, moved to protect their own finances rather than show a commitment to European unity. These failings prompted investors to search for risks elsewhere in the union. They found it in other peripheral countries where governments were carrying dangerous amounts of debt, well above EU guidelines. Had the members of the EU managed the Greek matter forcefully, investors no doubt would have fretted less about losses in these other countries.

## ➢ *Europe's Confidence Game*

What previously appeared to be a small problem in the tiny country of Greece has quickly become the European Economic Crisis. The contagion of fear initially centered on Ireland and Portugal, but because their economies were only 1.3% and 1.4% respectively of the EU total, again no forceful action was taken. By 2011 however, the crisis moved beyond the easily manageable as the debt levels of Spain (8.7% of EU GDP) and Italy (12.6%) came under scrutiny. Now that the damage is done, the nations of Europe and the institutions of the European Union will have to work twice as hard to correct it. Germany and the rest of the stronger EU nations have finally realized that they will either bail out the Greeks and the rest of Europe's weaker periphery or they will have to bail out their own banks, which hold much of the debt of these nations.

## ➢ *Global GDP & How the World is Changing*

**World GDP**




Despite the great recession, world GDP continued to rise due to growth in emerging markets.

Despite the economic turmoil over the past few years, the aggregate amount of business done worldwide (World GDP) has continued to grow steadily. For the first time ever, more than half of the world's inhabitants are considered middle class, meaning that more people are buying. Over one third of S&P 500 companies generate more than half of their income from outside the United States. A great deal of global opportunity still exists and the world has not slowed down in seeking it.

Source: The World Bank Group, ING

*$365 billion dollars of additional tax revenue would cover the costs of running the federal government for about five weeks.

*The information contained in this newsletter is of a general nature and should not be acted upon in your specific situation without further details and/or professional assistance.*