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## CLIENT BULLETIN

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### ➤ *Filer Beware*

People who like to be, well, "creative" when filing their tax returns may take cheer from the following statistic. The IRS, struggling under budget cuts the last six years, is auditing far fewer returns. Last year they audited only 7/10 of 1% of the returns they received, marking the fifth consecutive annual decline. Although audit numbers are down, certain groups of taxpayers receive closer attention than most including:

- **Upper-Income Taxpayers** – the audit rate was 1.7% for those with incomes of \$200,000 or higher and 5.83% for those with incomes of \$1 million or higher.
- **Small Business Owners** – auditors often zero in on filers of Schedule C businesses where IRS research shows there is the largest amount of noncompliance.
- **Hobby Losses** – if you try to turn an activity that you love to do into a business the IRS gets a little cranky if you don't start showing a profit in a fairly short amount of time.
- **Frivolity** – If you really want to make your life miserable try claiming that your income isn't subject to tax because the tax system is somehow unconstitutional or that paying taxes is "voluntary."

### ➤ *Next Up – A Budget*

Now that the attempt to reform healthcare has gone down in flames, Washington will take a stab at agreeing on a budget. The process could be a long one. President Trump issued a proposed government budget for fiscal year 2018 in early March. Congress will now write its own budget, often with little regard for what the administration proposes, and then enter into a long period of appropriations bills and negotiations.

### ➤ *Early Hurdle*

Although the entire budgeting process addresses government spending for the upcoming fiscal year beginning October 1, Congress faces a nearer-term deadline of April 28<sup>th</sup>, 2017. The federal government is currently funded through this date, at which time Congress must appropriate money to keep the government running from May through September. If nothing is agreed upon by April 28 then on April 29<sup>th</sup> the dreaded federal government "shut down" will occur. We should start seeing the headlines any day now.

### ➤ ***Lookout Below?***

193,009 single family homes and condos were “flipped” (bought and sold within a 12-month period) in the U.S. in 2016, up 3.1% from the number flipped in 2015. The 193,009 figure was the most since 2006 when 276,067 homes/condos were flipped. An increase in the number of homes being flipped is seen by some as an indicator that the last investors have jumped on board a trend and it is time for a correction. “What the wise man does in the beginning, the fool does in the end”. (Source: ATTOM Data Solutions and RealtyTrac).

### ➤ ***Changing Their Tune***

Technology continues to roil just about every industry in the world, especially the music business. The transition from albums to CDs to digital downloads to streaming audio services has changed the way music artists earn income. Just 10 years ago, sales of albums and CDs accounted for the bulk of the global music industry’s revenue. Millennials, who are now the nation’s largest generational cohort, have re-written the books for the music industry. Millennials prefer listening to music for free on ad-supported sites like YouTube. The news isn’t all bad for musicians, however, as millennials have shown they are interested in attending live music events. In 2016, 59% of millennials attended a live music event and allocated 64% of what they spend on music for live events. The implication for today’s recording artists is that they won’t be able to afford to do what the Beatles did in 1966, and that is to stop touring.

(Source: Nielsen Music, Billboard & Pollstar, IFPI).

### ➤ ***Is This Smart?***

On the eve of the financial crisis in 2007, nearly 2/3rds of American adults had holdings in the U.S. stock market. Today, more Americans buy lottery tickets than invest in the stock market. The chance of winning the lottery is 1 in 292 million. The chance of “winning” when investing in the S & P 500 index (defined as the percentage of time you would have had a positive return over a 10-year period) is 94.5%. If every household since 1964 – when lotteries became legal in the U.S. – invested the annual \$300 they spend per household on lottery tickets, in the equity markets instead, they would now have \$116,943. (Source: Real Returns; Morningstar Direct, the North American Association of State and Provincial Lotteries)

### ➤ ***Still Innovative***

Based on number of patents, the U.S. is by far the most innovative country according to data from HowMuch.net. A patent, in short, is government protection of intellectual property. As of 2015, the U.S. held 3,030,080 patents. Japan, Germany, South Korea and Taiwan rounded out the top five with 1,069,394 patents, 365,627 patents, 166,353 patents and 162,732 patents, respectively. California alone has 638,358 patents and would have ranked as the third largest country. New York, Texas, Illinois and New Jersey rounded out the top five states in the U.S. with 222,328 patents, 193,631 patents, 142,416 patents and 140,358 patents, respectively.

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