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"All truth passes through three stages. First it is ridiculed. Second it is violently opposed. Third it is accepted as being self-evident."
--Arthur Schopenhauer

Wealth Creation Strategies

Tax and Financial Strategies

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Year-End and Upcoming Tax Season Tips

The usual suggestions apply, but there are a few new ones resulting from mid-year changes in the law. The sections on capital gains and creating income by withdrawing from IRAs and rolling to Roths may be quite valuable for those affected.

Our By-Mail Package—Please Read It!

There are too many areas of the tax code for us to uncover every unusual tax situation for each and every client. You can help us help you by carefully reading through the package, even if much of it has nothing to do with your situation. I've often said that one new quirk discovered in a two-hour tax class makes the seminar worth the cost in time. The same is true for our By-Mail package. Little things can make a big difference—and sometimes we need your help to make those differences happen!

Make a Note of that Odometer!

Take your odometer reading(s) on your business-use vehicle(s) on December 31st! Bear in mind the higher the per cent of business use claimed, the greater the likelihood of an IRS challenge. In addition, the larger the depreciation deduction for those who deduct actual expenses, the more likely the deduction will be questioned.

Tracking business miles is important—and easier than ever. It's important because whether you deduct miles at the government-allowed rate (36 cents per mile in 2003) or actual expenses, you need to record both business and total miles. Actual expenses are multiplied by a fraction in which business miles comprise the numerator and total miles, the denominator. It's easier than ever because not only have we once again sent a "Pocket-Pal" calendar in our exclusive By-Mail package, but also most vehicles have at least one trip odometer. I now record business mileage while calculating my fuel efficiency!

1099s—Submit the Report, Secure the Deduction and Avoid the Penalties!

Be sure to submit your 1099 information to us by January 10, 2004, if possible. This data includes name, address, Social Security number (or FEIN if operating under a DBA) and amount paid for any individuals or other unincorporated businesses to whom you paid over $600 during 2003. The sooner, the better, but better late than never. We will not deduct expenses on tax returns for which 1099s should have been issued, but weren't. We won't hesitate to submit them late, but the risk and potential penalty increases as time goes on.

Extensions, IRAs and Low-Income Retirement Credits

Extensions of time to file your return do not extend the time to invest in IRAs. Begin figuring now how much you'd like to invest net of tax savings in IRAs and other tax-favored retirement plans. You might be surprised at the savings—or lack thereof. In one case, a client qualified for the "low-income retirement credit" and increased her refund by $1,300 by investing only $2,000, for an after-tax cost of just $700. If she had waited to give us her information until after April 15th, the opportunity would have passed. In more than one case, a client saved nothing by investing in the wrong IRA—because his income disqualified the deduction. Since we didn't get enough information to determine approximate Adjusted Gross Income before April 15th, we couldn't tell him to "un-do" the IRA until it was too late. For proper planning, early birds are more likely to catch the right worm!

Prepay—or Not! —State Income and Property Taxes

Year-end provides a number of tax-planning opportunities. Once gain, taking advantage of tax arbitrage where

possible (in which you pay deductible expenses in higher tax bracket years and take income when in lower tax brackets) should be considered.

Recall that the 15% tax rate instantly jumps to 25% for 2003 once taxable income (income after all deductions) reaches $28,400 for singles, $38,050 for unmarried heads of households and a new and improved $56,800 for married people. It's this dramatic increase in tax rates that makes this sort of planning so valuable. If rates increased gradually, say to 16%, then 18%, and so on, tax arbitrage wouldn't be as profitable. But when we can earn, so to speak, an extra 10% next year by paying 15% this year, we're talking a return on investment that beats most that many of us ever earn. That 10% saved is a 67% rate of return year-over-year.

Here's a simple example. You're in the 10% or 15% bracket now and expect to be in a higher one next year. You can prepay next April's property tax of $2,000 and save $300 at the 15% bracket, or wait and save $500 at the 25% rate. By delaying your payment, you pay an extra $300 this year. However, that extra $200 you save next year provides a no-risk 67% return on your $300 "investment." This sort of calculation can be run for all deductions and income over which you have year-over-year control. Calculations may be more complex for those who qualify for the Earned Income and Low Income Retirement Tax Credits, the self-employed (subject to self-employment tax), as well as those who may be subject to tax on their Social Security income, etc. However, doing some rough "what-if" calculations will more often than not be worth the time and expense.

The Alternative Minimum Tax (AMT) further complicates matters. Expenses that are ordinarily deductible but which cannot be used to calculate the AMT generally go to waste. A reverse of the usual strategy ("pay and deduct now") may be appropriate, even at the price of late-payment penalties. For example, if you delay the payment of state tax, you may become subject to an underpayment of estimated tax penalty (currently 5% per annum). However, the savings by paying next year, assuming no AMT, may be far greater than this penalty. In some cases, this could be true even for the December property tax bill on non-rental income properties (i.e., taxes on your main home, second home and/or vacant land). By missing your payment even by a day, you get hit with a seemingly insurmountable 10% penalty. Your $2,000 bill instantly becomes $2,200 plus interest. However, if you are subject to the AMT, paying the property tax now may save nothing, while waiting until next year could save $500 or more. How often can you make money by paying a penalty?

Tax	Cost	Tax Savings			
		Pay This Year	Pay Next Year		
		15%	25%	Estimated Penalty	Net Savings
State Income	$ 5,000.00	$ 750.00	$ 1,250.00	$ (50.00)	$450 - 60%
Property	$ 2,000.00	$ 300.00	$ 500.00	$ (200.00)	$ -
		0% - AMT year	25%	Estimated Penalty	Net Savings
State Income	$ 5,000.00	$ -	$ 1,250.00	$ (50.00)	$ 1,200.00
Property	$ 2,000.00	$ -	$ 500.00	$ (200.00)	$ 300.00

Year-End Giving—A Good Time to Play Santa!

Here's a way to get a tax deduction that costs you almost nothing: donate used goods to charity. Your cost: the time it takes to box the goods and bring them to a charitable organization, along with the forgone pennies on the dollar for which you could have sold the goods at a garage sale (offset by the time and hassle of holding such a sale). The organization might even pick up the goods—but be careful, since they sometimes forget to leave a receipt. The benefit: you do some good for the charity of your choice and, if itemizing, you reap some tax savings. The question is how much is really saved?

For those in the 25% tax bracket plus, say, 8% in California, we'd think the savings would be $330 for every $1,000 in goods donated. Most of the time, we'd be right. However, in certain situations, the savings might be zero. The problem is that some, even in higher tax brackets, don't itemize.

Recall that the government allows a "standard" deduction, an amount of earnings on which no tax is owed. Taxpayers get the benefit of actual deductions only if such expenses exceed this amount. The standard deduction in 2003 is $4,750 for single people, $7,000 for unmarried heads of household and a new and improved $9,500 for married couples. In California, most who own homes easily beat this, and even those who don't, but earn over $70,000 per year if single or $140,000 if married, pay more than the standard deduction in state income and disability tax (SDI) alone. However, those over age 65 get an extra $950 per person standard deduction. Seniors are less likely to earn this much income, more likely to have paid off their homes and, therefore, less likely to itemize.

Those in 10% or 15% brackets plus, say 4% in California save $140 or $190 for every $1,000 in goods donated. However, these folks are also less likely to itemize deductions, simply because they pay less in state taxes and usually can't afford homes with large mortgages.

There is a way to pass the deduction

to a loved one: give the goods to a person who itemizes. What the person does with the goods is that person's business. He just might donate them. (If you require that he do so, the IRS will disallow the deduction on the basis that it was a purely tax-motivated transaction.) You might think the cost for purposes of making a donation would be zero and if the cost is zero, the deduction is zero—but you'd be wrong. It's the lesser of the donor's cost or the fair market value on the date given to the donee. The donee's deduction is the lesser of this, which is his "cost basis," or fair market value on the date a donation is made. Obviously, if the donation is made soon after, the deduction is likely to be the same as the donor's would have been.

Bunching Those Deductions Can be Profitable!

Let's say inflation adjustments have increased your standard deduction to $4,850 (which means you are single, under age 65 and it's 2004). You average $1,500 in state income tax, SDI and DMV fees each year, along with $2,000 in charitable donations. Since your medical expenses do not exceed 7.5% of Adjusted Gross Income (AGI) and your employee business expenses are less than 2% of AGI, neither counts toward your deductions. Therefore, you have a choice between $3,500 in actual deductions or the $4,850 standard deduction. Of course, year after year, you take the latter.

But, what if you were to "bunch" the deductions every other year? You may save enough tax to make the extra effort worthwhile. After all, it's simply a matter of storing those goods you want to donate an extra year, or delaying those checks you give to your favorite charities. You can even share some of the tax savings by donating more! For purposes of the table below, we'll assume you are in the 25% marginal federal tax bracket.

	Standard Deductions	Itemized Deductions	Extra Tax Savings
Year 1	$ 4,850.00	$ 1,500.00	$ -
Year 2	$ 4,850.00	$ 5,500.00	$ 162.00
Year 3	$ 4,850.00	$ 1,500.00	$ -
Year 4	$ 4,850.00	$ 5,500.00	$ 162.00

Now let's bunch the extra $2,000 in deductions every third year instead of every second.

	Standard Deductions	Itemized Deductions	Extra Tax Savings
Year 1	$ 4,850.00	$ 1,500.00	$ -
Year 2	$ 4,850.00	$ 1,500.00	$ -
Year 3	$ 4,850.00	$ 7,500.00	$ 662.00

You more than doubled the savings by bunching deductions every three years rather than two!

Obviously, the same idea applies to the bunching of medical expenses and employee business or investment expenses. Of course, larger numbers yield greater savings. We've had at least one client with a need to spend $20,000 on medical procedures (for example, major dentistry) who didn't normally itemize deductions. If paid in $5,000 chunks each year, a person earning $40,000, after subtracting 7.5% of income, is left with only a $2,000 net deduction which, when added to anything less than $2,850 in other itemized deductions, saves nothing. On the other hand, if the expense can be paid in one year, an extra $2,550 to $2,900 in federal income tax is saved.

Capital Gains and Losses

Pre-May 6th Sales Must be Segregated From Post-May 5th Sales

Those with large numbers of securities sales have an especially challenging job this year. We hope that the major securities firms will oblige, but there are several that consistently fail to provide information in a tax-friendly format. In other cases, the broker has no information on costs and purchase dates, because the client has brought the portfolio over from another firm.

This year, we need sales segregated not only between long-term and short-term (over one year vs. one year and less), but also between long-term gains and losses occurring prior to May 6th and those taking place on or after May 6th. Net long-term gains occurring before May 6th are taxed at 20% for higher bracket earners, but only 8% for stocks held over 5 years (therefore, we may need those separated as well) and 10% for those owned one to five years for taxpayers in the 10-15% bracket. Net gains on securities held over one year and sold May 6th or after are taxed at only 5% for taxpayers in the 15% bracket and 15% for those in higher brackets. If you send us gains and losses without this detail, we may have to hit you with homework. Sorry.

Thank goodness, Congress didn't subject dividends to the May 6th cut-off rule. Almost all dividends paid on traded securities (which do not include Real Estate Investment Trusts or money market funds) in 2003 are taxed at 5% or 15%. However, Congress made up for the relative lack of complexity by potentially subjecting dividends paid on securities held in margin accounts to ordinary taxes, as well as creating a minimum holding period (essentially, 60 days) for the underlying stock in order to qualify for the lower rate. Thankfully, since brokers are not set up to properly report dividends subject to different tax rates, they appear to have a reprieve for 2003. Next year, look for two kinds of dividends reported on brokerage firm statements and for margin accounts to shrink and margin debt to collapse on dividend paying stocks. The deflation in stock values this portends is ominous, but then, so is the current over-valuation.

It's Not Always a Good Idea to Sell Losers to Match Gains

Our natural inclination is to take deductions now rather than later. I've written numerous articles over the years describing why this can be foolhardy. Taking deductions when in the zero, 10% or 15% brackets is generally not the best idea if you will have the opportunity to take them when in a higher bracket anytime within the next several years. The same is true for recognizing capital losses by selling losing stocks.

Although a bit complicated, try to follow this even if you don't currently trade stocks in non-retirement accounts or own rental property, land or other capital assets that you could later sell. Some day, you might and the tax dollars at stake may be large, yielding potentially terrific rates of return if done at the right time. In addition, this doesn't affect only low-to-middle income taxpayers: high-income earners can be in the 15% bracket for purposes of taking losses, if offsetting them against long-term gains.

The problem stems from the dramatically different treatment of long-term vs. short-term gains, along with the unique handling of losses regardless of ownership period. Long-term gains (assets held over one year) are taxed at 5% for those in the regular 10% or 15% brackets and 15% for those in the regular 25% to 35% brackets. Short-term gains (assets held one year or less) are taxed at regular rates. Losses are netted against gains, long-term against long-term and short-term against short-term first, then long-term against short-term and short-term against long-term. Any excess is taken against ordinary income, but only at a rate of $3,000 per year.

I know it's complicated. But here's the rub: you have long-term gains that are due to be taxed at 5% or 15% and you're thinking, "it's December. I should take my losses now so I don't have to pay tax on my gains." Is this really a good idea?

Let's say you've got $10,000 in long-term gains (yes, you may have such gains while we're in Bubble #2) and you have $10,000 in losses that you could recognize for tax purposes by selling before year-end. Here are the results of selling now vs. selling next year for taxpayers with three different scenarios: #1, a taxpayer in the 25% bracket; #2, one in the 15% bracket; #3, a taxpayer in the 15% bracket this year, but 25% in future years.

	25% bracket		15% bracket		15% Yr 1; 25% After	
	Sell Losses	Delay Losses	Sell Losses	Delay Losses	Sell Losses	Delay Losses
Year 1:						
Gain	$ 10,000.00	$ 10,000.00	$ 10,000.00	$ 10,000.00	$ 10,000.00	$ 10,000.00
Loss	$ 10,000.00	$ -	$ 10,000.00	$ -	$ 10,000.00	$ -
Tax	$ -	$ 1,500.00	$ -	$ 500.00	$ -	$ 500.00
Year 2:						
Loss		$ 3,000.00		$ 3,000.00		$ 3,000.00
Tax Savings		$ (750.00)		$ (450.00)		$ (750.00)
Year 3:						
Loss		$ 3,000.00		$ 3,000.00		$ 3,000.00
Tax		$ (750.00)		$ (450.00)		$ (750.00)
Year 4:						
Loss		$ 3,000.00		$ 3,000.00		$ 3,000.00
Tax		$ (750.00)		$ (450.00)		$ 750.00
Year 5:						
Loss		$ 1,000.00		$ 1,000.00		$ 1,000.00
Tax		$ (250.00)		$ (150.00)		$ (250.00)
Net Tax Saved:		$ (1,000.00)		$ (1,000.00)		$ 2,000.00

If we think of the cost of paying the tax now as an "investment," all three investors earn a rate of return the best stock pickers would be proud of. The return earned by paying the tax on the long-term gain in year one and taking losses in subsequent years for the taxpayer whose rate is stable, is over 25% per annum. For the taxpayer who "jumps" brackets, the return is over 100% per year.

Those in lower brackets should consider selling assets on which there are long-term gains in any year during which they are subject to the special 5% rate. However, there are several mitigating factors that should be considered before taking advantage of this form of tax arbitrage:

1. State income tax
2. Alternative Minimum Tax
3. The problem of an increasing Adjusted Gross Income resulting in subjecting a larger portion of Social Security to be taxed, causing a reduction in the Earned Income Tax Credit and deductibility of IRAs, as well as other income, deductions or credits that increase or decrease as a function of total income.

If gains and losses are a consideration, call us to run the numbers for you. Don't try this on your own. In many cases, we'll be able to give you a quick answer, but we'll know when more complex calculations are needed.

Did You Have a Major Increase or Decrease in Income in 2003?

If so, send us the details now—not next year—and be sure to read the articles below!

Did You Have a Major Increase or Decrease in Deductions in 2003?

If so, send us the details now—not next year—and be sure to read the articles below! (Have I made my point? By the way, e-mails and faxes are terrific ways to get us this information.)

Purchase Depreciable Assets or Make Rental Property Improvements before Year End

If you own a business or rental property, now may be the time to purchase the assets and/or make the improvements you've been considering.

Business owners can currently deduct ("expense") up to $100,000 in assets that ordinarily must be depreciated. These include furnishings, equipment, tools and vehicles weighing over 6,000 pounds. Most structures cannot be expensed. However, owners need to be careful when taking advantage of such allowances, since deducting anywhere near this much could put many taxpayers in a lower bracket, where there may be little or no tax savings.

This may be true for many purchasing vehicles weighing over 6,000 pounds. Lighter cars and trucks are subject to much slower depreciation rules. On the other hand, an immediate deduction is allowed for heavier vehicles to the extent of business use, with an overall limit of $100,000. (Caution! Congress is considering a bill that would reduce this to $25,000!) A business owner who expenses $80,000 in tools along with a $50,000 "heavy" truck is limited to a $20,000 "expense" deduction for the truck. However, the tax savings can range from zero to 35% of the cost (not counting self-employment and state income taxes), depending upon tax bracket.

While rental property owners cannot take advantage of this immediate expense allowance, they can benefit from the new "bonus" depreciation, which is a first year depreciation deduction of 50% of the cost (30% before May 6, 2003), plus regular depreciation. This applies not only to 5-year "class life" property such as appliances and carpeting, but also to 15-year property (which normally must be depreciated over a seemingly interminable 15-year period) such as land improvements (including major landscaping, fences, parking lots and driveways). Taxpayers must take this bonus depreciation for all or none of the property having the same "class life" purchased and put into use during the same year. This is an important consideration for those "straddling" higher and lower tax brackets. Note that we will need to know the exact purchase dates for assets placed in service during 2003.

This "bonus" depreciation is allowed only until the end of 2004 under current law (subject to change, as usual, at the whims of Congress). On the other hand, the $100,000 expense allowance expires in 2008. Small businesses will be relatively unaffected by the expiration of the "bonus" depreciation, since they will be able to continue to expense the full cost of eligible assets up to the $100,000 maximum. On the other hand, larger businesses are limited in the amount of expense deduction they can take once $400,000 of eligible assets has been purchased in a year. Rental property owners cannot use the expense provisions at all. Therefore, the impending expiration of the bonus depreciation may result in increased spending by large businesses and rental owners during 2004. Note that many states (including California) have not conformed to either of these rules and, therefore, retain the old, slower depreciation rules.

Create Income: Withdraw from Your Pension—or Roll to a Roth

Rolling traditional IRA assets to a Roth IRA has been my favorite method of creating income for those in low to zero tax brackets since Roths were invented. While now overshadowed by those in the 10% and 15% brackets capable of

realizing long-term capital gains at a 5% tax rate, this is still the preferred strategy for those in the zero or low brackets who have no gains.

There are a number of variations of this strategy. Here are just a few:

1. Taxpayer has negative taxable income of $20,000 and, due to business reversals (or uninsured casualty loss from fire, or a serious medical condition causing a temporary disability, etc.) resulting in this negative income can use some extra funds. Although under age 59 1/2, she chooses to take a $20,000 withdrawal from her retirement plan and pay the federal penalty of 10% (plus California State penalty of 2.5%). Since there is no regular income tax and she never again expects to be in anything less than the 15% bracket (she usually pays tax at the 25% marginal rate), she considers this a one-time opportunity before retirement. Since she has had to borrow funds to survive, she uses this money to pay off loans and reduce future borrowings, saving 8% or more per annum. This quickly compensates her for the 12.5% penalty.

2. Same taxpayer, except she's in dire financial straits, abhors the idea of bankruptcy and wishes to withdraw an extra $30,000 to pay off 15% credit card loans. The marginal tax on this $30,000 (assuming the first $20,000 withdrawn brought her taxable income to zero), is 10% on the first $7,000 and 15% on the next $23,000, along with state income tax varying from zero to 6%, plus the 12.5% penalty. Since the maximum tax rate is 33.5% and she's using the funds to survive and pay off 15% loans, she has my blessing. Between the tax cost and the savings on interest, she breaks even after a little over two years.

3. Taxpayer has negative taxable income of $20,000, just got laid off from his job and has $400,000 in a 401-K. He also has plenty of liquid funds to tide him over for a year or two until he finds work. He normally earns $100,000 per year, subjecting him to 28% federal and 5% Colorado tax rates. He should roll the 401-K over to a traditional IRA and then roll $20,000 from the IRA to a Roth IRA. The tax cost is zero and he converts income that would someday become taxable into income that will never be taxable so long as he keeps the funds in the Roth until age 59 1/2 (or five years, if longer). He considers rolling another $28,600 into the Roth, since the tax will be 15% to 20%, far less than the tax he expects to pay on future earnings, including those coming from retirement. I cannot disagree and give him my blessing.

Equity Enhancement Programs

Lenders occasionally make enticing offers to existing homeowners. "Wouldn't it be great to own your own home free and clear, sooner rather than later?" "Of course!" you respond, with the answer they expect. All you have to do is pay a one-time fee of $295—less $95 if you join today!—and a $5.00 monthly participation fee. The equity enhancement is a result of simply changing your mortgage payments from monthly to biweekly. Since there are 13 biweekly periods per year, the number of payments is increased, resulting in quicker equity buildup.

However, there's a cheaper and more effective way of reaching the same goal. Make an extra payment directed to principle at the end of the first year and every year thereafter. It won't cost you a dime in fees and you'll come out ahead of the lender's plan.

I ran some numbers on a biweekly offer I received in 1999 on an old 7.5% loan. The idea is the same today, even if interest rates are lower. Column 2 in the chart below, "Your current monthly nut" shows that the loan is paid off in 352 months if you make only the required minimum payments. Column 3, "biweekly transfers" (with 13 months of payments each year), shows biweekly payments ultimately shaving an amazing 63 months off the loan term. I also ran the numbers (4thcolumn) assuming that you simply add an extra payment every 12th month to the minimum required. I found the loan duration was shortened by an additional 12 months. Then I added the $200 up-front fee to the first payment, along with the $5 monthly fee to 13 months of payments every year and cut another six months in outlays, or almost $2,600 interest (column 5).

Your loan - $58,443	Your current monthly nut	Biweekly transfers	Extra payment every 12th month	Add their fee to payment
Payment:	$411.14/mo	$208.06 every two weeks	$411.14/month plus $822.28 every 12th month	$416.00/month plus $827 every 12th month
Total interest:	$89,753.18	$71,609.95	$65,656.29	$63,053.74
Loan paid off:	352 months	289 months	277 months	271 months

The message is that adding even a little to each monthly payment can save thousands of dollars in interest. Another way by which to do this is to round your payment "up" to the nearest $10, $50 or $100. You can get some real mileage out of this and, of course, with today's ultra-low returns on savings, it might not be a bad investment relative to the alternatives.

On the other hand, the best way to clip thousands off the interest is to shorten the loan when you obtain it. A 15-year mortgage costs at least a quarter point (and often a half point) less than a comparable 30-year loan. If you're secure in the idea of affording the monthly payments, this is the way to go.

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The California Election

The recent election held an extra fascination to those who have an interest not only in politics, but also in addiction. Numerous politicians and many of their staunchest allies show signs of having an insatiable need to wield power over others. Such a need indicates (even if it is not proof of) alcoholism, amphetamine, or in some cases marijuana, addiction.

Before you think, "there goes Doug again," consider the case of Rush Limbaugh. Prior to his being "outed" by the National Enquirer, I am probably the only person in the country to have said, "A big fat inflated ego is indicative of addiction. Rush Limbaugh has such an ego; therefore, while he could be an exception, it wouldn't surprise me if he is an addict." He was reported to be using pain-relieving opioids (synthetic opiates, of which heroin is part of the class) far in excess of pharmaceutically prescribed amounts. Newsweek said, "it's extremely rare for a person with no history of substance abuse to become addicted to Oxy-Contin after using it correctly." Newsweek is right, which suggests the likelihood of alcoholism, since that is almost always the first addiction.

Consider some whose behaviors seem inexplicable. Making false accusations (which a stuntwoman, repeatedly arrested for drug-related misbehaviors, may have made against Arnold Schwarzenegger) and vindictiveness are indicative of addiction. Someone who says, "I can give you six million reasons for voting against the recall," after Arnold was, incredibly, accused of being a Nazi sympathizer, should be suspect. We might think that a person who adds that Schwarzenegger "should describe what he did [to the women he allegedly groped long before he was in office], apologize and get specific, then seek counseling," though she would have protected Bill Clinton's privacy while in office, is a nut case. On the other hand, I'd rather give her the benefit of the doubt and assume addiction to pharmaceutical (or other) drugs, since this better explains idiotic comments and distorted thinking.

Suspicious behaviors also include shaking an employee so violently that the victim will never again work in the same room, attacking other female staffers, throwing objects at employees and having red-faced fits while screaming obscenities. Some 85% of domestic violence, of which these are variations, can be traced to alcohol and other drug addiction. Such behaviors also include gross dishonesty and hypocrisy. Forms of this might include accusing large California corporations of not paying their "fair share" of taxes (which, in a regime of an almost 9% flat tax on all net income, is a grotesque lie). Hypocrisy becomes a possibility when the accuser, who is said to live in a multi-million dollar home, is reported to have grossed hundreds of thousands of dollars (if not millions) over a several year period, while paying as little as $760 of income tax in at least one of those years.

What about Arnold's immature acts of groping women? Considering the fact that the Los Angeles Times no doubt looked everywhere for dirt and this was the best they could do, we can surmise that the immature act of groping is as bad a behavior as Arnold commits. No adultery or corrupt, illegal or unethical business practices in his multitude of enterprises were uncovered. That groping occurred can be explained by the fact that Arnold is a child of an alcoholic. Alcoholics stop growing emotionally the day they trigger their addiction (usually age 12-14). Children of addicts grow emotionally at probably half the rate of children of non-addicts. Arnold has a bit of growing to do, but don't we all. At least he not only admitted to his indiscretions, but also quickly apologized to the gropees (even if it was without specificity). This sort of contrition cannot be ascribed to a certain past President, who was impeached not for "groping" or (not) having sex in the Oval Office, but rather for lying under oath (felonious behavior). Rather than apologizing, he snubbed his nose at the nation in his last act as President by pardoning over 150 hardened criminals, as if to say, "Watch what I can do. No one can stop me. I am invincible."

For those who may think, "How could Doug even think that Bill Clinton might have alcoholism?" think again. Clinton is too smart to have engaged in the idiotic behavior of which he has been accused, unless he has alcoholism. Put it another way: he's either an alcoholic, or he's an idiot. I prefer to give him the benefit of the doubt, as I do in the case of others in the public eye who say stupid things, act incredibly nasty, or engage in corrupt, unethical or criminal misbehaviors. Only in sobriety will the behav-

iors dramatically improve. As shown by millions in recovery, improve they will. My purpose is not to accuse or excuse, but rather to explain with the hope of getting addicts clean and sober. However, the rest of us need to identify the possibility of addiction before "tough love" becomes easy to offer.

As for the state of California, it will survive. With the "feel-good" leadership of the Governator, the speculative bubble in real estate could temporarily move into rocket ship trajectory. However, when the money that has been borrowed is no longer forthcoming, the bursting of the bubble could occur. From what level, no one can know. However, we have lived like kings charging up our homes and the down payments used to purchase them. That can only continue for so long before the piper must be paid.

Hopefully, after the bubble has burst, Arnold will act more like the leader he is capable of being than the politician he could become. He says he has "annoyed" his Hollywood friends by giving them copies of libertarian economist Milton Friedman's classic economic primer, Free to Choose, for Christmas. He understands that free people operating under a free enterprise system can create unlimited wealth. He knows that businesses and entrepreneurs who dare make a profit should be treated as friends of the state, rather than its enemies. He just might become a true citizen statesman rather than a politician, which would be good for us all.

The Los Angeles Times and the Election

For me, it began with an op-ed piece in the June 22nd issue, which lambasted "the denial of a child tax credit to 6.5 million low-income working families with 11.9 million children." Knowing something about tax law trumped the report. The Times was not editorializing about a credit designed to reduce taxes. Congress had already approved of an increased credit to those who pay taxes; the denial was of a credit for those who pay no tax. The (doomed) proposal amounted to an enormous expansion of the Earned Income Tax Credit which, due to effective marginal tax rates as high as 50%, already carries enormous disincentives to better one's lot. The Times ripped at the House of Representatives for not being interested in "restoring" the tax credit. There was nothing to restore. I was so disgusted with the Times for publishing grossly misleading information that I almost canceled my subscription

I again considered this when the L.A. Times election poll made headlines on August 24th. I figured the Times must have somehow fiddled with the statistics. While all the other polls showed Cruz Bustamante and Schwarzenegger in a dead heat, theirs reported, "Bustamante has big lead," 35% to Schwarzenegger's 22%. They were later "outed" by talk radio and shown to have doubled the number of Black voters for purposes of predicting the outcome. Since Blacks make up a major Democratic-voting bloc, this greatly skewed the poll in favor of Bustamante.

I continued to ponder the idea, as article after article extolled the virtues of Gray Davis and Bustamante, while none favored Schwarzenegger or, for that matter, anyone else. The final count was something on the order of 80% of op-ed pieces and columns favoring or "greatly" favoring Davis or Bustamante. These included three articles on September 7th alone reporting on Bustamante growing "along with his responsibilities," as a "fighter for Indian causes" and using his own campaign chest to defeat Proposition 54, along with four almost statuesque photographs of him. This is not the sort of even-handed reporting that one might expect of a major newspaper, especially one with a virtual monopoly in its geographic locale.

When Schwarzenegger's "groping" incidents were reported five days before the election in tabloid fashion, leaving no time for the accused to respond by separating fact from fiction, I made the phone call. The very sweet girl at the other end politely asked me why I was canceling my subscription. I responded with the fact that her employer engaged in sleazy reporting of one candidate while steadfastly refusing to run such reports on the opposition (a number of rumored misbehaviors by Davis, reportedly occurring in the late '90s, went unmentioned) was merely the icing on the cake. When I explained that what appeared to have been false polling numbers was a serious breach of the common trust and, in my opinion, constituted journalistic malpractice, she told me I was not the only person to have voiced such feelings that day.

There were numerous other such incidents of flawed reporting during the campaign. One was Arnold's "Terminator 4" remark to Arianna Huffington, in which the Times highlighted her interpretation on the front page--"he wanted to shove my head into a toilet," while ignoring a more likely interpretation pointed out by columnist Glenn Sacks -- "she's like the female robot, which relentlessly attacks." Well, at least she made it interesting, even leaving me disgusted.