Inside Highlights

"If no one ever took risks, Michelangelo would have painted the Sistine floor."
--Neil Simon, playwright

Wealth Creation Strategies

Tax and Financial Strategies

Issue #15, September - October, 2003

Doug's Ideal Flat Tax

Are you 21 years or older?
If no, stop here. You owe nothing.
If yes, please continue.

Do you wish to pay for protection against domestic and foreign thugs?
If no, stop here. Let us know which country we can forward your mail to. You have six months to depart.
If yes, please continue.

Are you a full-time student under age 30?
If no, please remit $5,000.
If yes, do you wish to pay later?
If no, please remit $5,000.
If yes, please sign the promissory note below for $5,000, subject to a ten-year repayment schedule beginning the year after you are no longer a full-time student, the interest on which is the yearly rate of inflation plus 3%.

Thank you for your remittance. In return, we promise that we will use your money wisely and that we will use it for no purpose other than protection. We will not use it to:

- Pay for your retirement.
- Pay farmers not to grow food.
- Pay corporate or individual welfare.
- Regulate you in any way, since the market engages in such regulation more effectively and efficiently than we do.

We will also no longer pay for your medical care, because experience has shown that when you don't pay your own way, you overuse and abuse the privilege. Further, you are more likely to take better care of yourself and will, therefore, live a longer and more fulfilling life than if we pay for such care. In addition, since we will no longer regulate insurers, they will probably figure out that if premiums are lowered for those without active addictions who engage in healthy activities, more will commit to healthier lifestyles. And that will be good for everyone.

Kinder, Gentler Monolith

As a libertarian, it's difficult to admit that occasionally a government does something right, even when it deserves the accolade. After all, there are so many areas in which improvement is needed. The long-term actuarial deficit in the Social Security system still isn't being properly dealt with (the scheme needs to be privatized, which may be more than a few years off). The educational system still can't teach kids (it, too, needs privatization—again, probably decades away). The post office delivers this newsletter to you at, perhaps, double the price a competing service could (private providers have, illegally, made such attempts at about half price before being shut down). However, I will, as they say, suck it up and mention some improvements at the federal level (sorry, but I can't say the same for anything at Joseph—er, Gray Davis' level).

Congress

Congress has, over the last five years, seen fit to lower income tax rates, decrease marriage penalties, increase allowable retirement contributions and create both Roth IRA and Educational Savings Accounts/Section 529 Plans. These are remarkable improvements over prior law, which saw lower tax rates only for a brief period in the late '80s, had marriage penalties built into the law in the 1960s and has allowed dramatic inflation-adjusted decreases in retirement contribution levels since the early-'80s. There has never before been anything like Roth IRAs or educational

Errata

Oops! The July-August lead article suggested that qualifying taxpayers could increase their withholding allowances to account for the additional $400 child tax credit. Since this credit is being issued as an advance refund in 2003, withholding allowances should not be adjusted until 2004.

deductions and credits such as we have today.

The IRS

The IRS, too, has become kinder and gentler. The fact that this may have been, in large part, the handiwork of Congress should not go unnoticed. Congress created a Taxpayer Bill of Rights in 1998, which began to limit the heavy-handed tactics of IRS personnel. They told the IRS to become more realistic in determining the size of mandatory IRA withdrawals, which resulted in a substantial increase over which such withdrawals are required. The IRS went even further in dramatically simplifying the rules relating to dealing with IRAs and other retirement plans when the owner dies.

This is not to suggest that live audits, in which the taxpayer and/or representative meet with an IRS agent, have gotten any easier. There are just fewer of them, because so much income and deduction information is reported on 1099s and similar forms. This has resulted in an increased number of correspondence audits. These, however, are less time consuming and stressful since their scope is usually far more limited. (This is the reason we switched from generally charging for prepaid audit coverage to very often including it at no additional charge.) As with any large organization, the ease or difficulty of the situation is determined in large part by who we are dealing with and how well we "read" the particular agent. Those of you who have had the misfortune to experience our work in this area know that we usually do well in dealing with IRS personnel and resolve problems to everyone's satisfaction.

The IRS and Home Offices

The latest surprise from the IRS comes in the area of the office in home deduction. I had just written my first article ever on the subject (see September/October, 2002) in which I explained why we often forego this deduction, when the IRS threw us for a wonderful loop. In December 2002, they announced that taxpayers are not required to report two separate sales when a home, including a home office, is sold, as long as the office is not a separate structure.

To say that this came as a shock to the tax preparation community is an understatement. Every tax professional "knew" that when a homeowner sold a residence in which office space was deducted, the transaction would be, for tax purposes, treated as two sales. One was tax-free to the extent of the $250,000/$500,000 exclusion of gain on the sale of one's main home, while the other was taxable, based on the per cent of one's home used as an office. For example, if 20% of the home was used as an office for any three out of the previous five years, 20% of the profit—calculated from the original purchase price plus improvements—would be taxable. Or so we all thought.

The IRS decided that instead we must ignore the office in home. Except to the extent of depreciation taken since May 6, 1997, which must be "recaptured" (i.e., any depreciation claimed is reported as income in the year of sale), the gain from the office portion of the home is not taxed. However, the rule cuts both ways: we can't deduct a net loss from the sale of a home office. While homeowners in Southern California haven't experienced any losses recently, history suggests their good fortune will not last forever.

Marriage Penalties: 1½ Down, 24½ to Go

Congress has finally decreased, but not eliminated, the marriage penalty. The breadth of the decrease was the biggest surprise to me in reviewing the new law.

As recounted on a number of occasions in this newsletter over the years, unless one person in a couple earns substantially more than the other, two people bear a larger income tax burden when they marry than by remaining single. The cost has often been $1,000 to $5,000, increasing to as much as $18,000 for two very high income single people and $24,000 for two heads of household who marry. There will still be a tax cost for many, but for at least one class of people, the cost has been eliminated or dramatically decreased.

Childless couples not receiving Social Security whose combined taxable (after deductions) income is less than $114,650, both of whom would itemize their deductions if single, will generally no longer suffer the "double-income penalty" syndrome. This is because the 10% and 15% brackets for married people are now exactly twice the bandwidth of those for single people, and the 28% bracket does not begin for married couples until this level of income is reached.

Taxed at:	On taxable incomes up to:		If no penalty, joint would be:	Max. penalty due to brackets:
	Single Filers	Joint Filers	(twice single filers:)	
10%	$7,000	$14,000	$14,000	$0
15%	$28,400	$56,800	$56,800	$0
25%	$68,800	$114,650	$137,600	$689
28%	$143,500	$174,700	$287,000	$5,615
33%	$311,950	$311,950	$623,900	$6,239
35%	Unlimited	Unlimited	N/A	Cumulative $12,543

However, there is still a sizeable marriage penalty for two unmarried heads of household (typically, a single parent having physical custody of one or more children for over half the year), even at moderate incomes.

Taxed at:	On taxable incomes up to:		If no penalty, joint would be:	Max. penalty due to brackets:
	H of H filers	Joint filers	(twice H of H filers:)	
10%	$10,000	$14,000	$20,000	$300
15%	$38,050	$56,800	$76,100	$1,930
25%	$98,250	$114,650	$196,500	$2,455
28%	$159,100	$174,700	$318,200	$7,175
33%	$311,950	$311,950	$623,900	$6,239
35%	Unlimited	Unlimited	N/A	Cumulative $18,099

Low-income individuals who qualify for the Earned Income Tax Credit (EITC) are still subjected to the largest penalties relative to income. For example, at $19,000 AGI the tax is not only zero after the child tax credit, but also there's a $1,500 refund due to the EITC, or $3,000 for two such low-income individuals. If they marry, the tax balloons to $2,150, while the EITC disappears. That's a $5,150 penalty for doing the "right" thing and getting married. (Some might suggest that the solution is to eliminate the credit—which is a sort of reverse welfare based on economist Milton Friedman's "negative income tax" idea, taken far beyond his original intent—but don't count on that happening in our lifetimes.) If a taxpayer with a qualifying child earns $19,000 and marries a single person earning $14,000, the tax increases from an overall net refund of $900 ($1,500 refund less $600 tax) to an overall tax of $400, for a marriage penalty of $1,300.

Type of Deduction or Credit	Maximum Deduction, Credit or AGI phase-out		Maximum Marriage Penalty *
	Married	Two Singles	
Capital loss deduction **	$3,000	$6,000	$1,050
Alternative Minimum Tax deduction **	$58,000	$80,500	$6,300
AMTI subject to 26% vs. 28% rate	$175,000	$350,000	$3,500
AMT deduction phase-out	$150,000	$225,000	$5,250
Dependent Care Credit, two each	$1,200	$2,400	$1,200
Child tax credit phase-out begins at	$110,000	$150,000	$2,000
Earned Income Tax Credit (EITC), each with one child	$2,506	$5,012	$2,506
EITC, each with 2 children	$4,140	$8,280	$4,140
Income threshold for 50% phase-in of Social Security begins at	$32,000	$50,000	$2,700
Income threshold for 85% phase-in of Social Security begins at	$44,000	$64,000	$3,000
Section 179 expense election **	$100,000	$200,000	$15,750 ***
Phase-out of 179 election begins at **	$400,000	$800,000	$15,750 ***
Section 179, used equipment **	$100,000	$200,000	$28,000 ***
IRA phase-out begins at AGI of	$60,000	$80,000	$1,750
Roth IRA phase-out begins at AGI of	$150,000	$190,000	intangible
Phase-out of IRA deduction w/spouse covered by a retirement plan begins	$150,000	N/A	$980
Rental loss deduction when AGI is 75k each **	$0	$50,000	$14,000
Home mortgage interest deduction	$1.1 mil.	$2.2 mil.	$385,000
Small business stock deduction **	$50,000	$100,000	$17,500
Income threshold for phase-out of personal exemptions	$206,000	$274,600	$1,630
Income threshold for phase-out of itemized deductions	$139,500	$279,000	$1,464
Standard deduction for two Head of Household filers	$9,500	$14,000	$1,575
Lifetime Learning Credit	$1,500	$3,000	$1,500
Child adoption credit	$10,000	$20,000	$10,000

*State tax is often an additional cost.
** Generally deferred. While the tax will often be recouped, it could take many years. If death intervenes, the deferral becomes permanent in all instances except IRAs, which retain their basis with the beneficiary. AMT is recouped only where the AMT Credit is available.
*** The calculation accounts for the fact that the amounts that cannot be currently expensed are depreciable.

A Mess for Divorcing Couples: Who Gets the Tax Benefits for Children?

Divorces are emotionally draining enough without having to consider taxes, especially when children are involved. The tragic fact is that children make the tax situation even messier.

There are numerous tax advantages to having children, which are meant to partially offset the costs inherent in raising a family. These include, with their maximum possible tax savings:

Tax Advantage of Children	Maximum tax savings
Custodial parent advantages:	
Head of household filing status	$2,779
Head of household standard deduction	$787
Dependent care credit, 2 children	$1,200
Earned income credit	$4,140
Dependency deduction advantages:	
Dependency exemption	$1,007 per exemption
Child tax credit/add'l child tax credit	$1,000 per child
Hope educational credit	$1,000 per child
Lifetime Learning Credit	$1,500
Educational deduction	$840

The custodial parent with whom at least one child lives for over six months during a calendar year is eligible for "head of household" filing status. Obviously, only one parent can claim this special status, which often saves even those with moderate incomes $1,500-2,000 per year.

Only the custodial parent may claim the dependent care credit. It matters not that the "non-custodial" parent, with whom a child lived for five months and 30 days, paid several thousand dollars to a dependent care provider while working. This parent can neither take advantage of excluding income via a dependent care program through his employer nor claim the dependent care credit on his tax return.

Likewise, a child must live in the taxpayer's home in the U.S. for more than six months to qualify for the Earned Income Credit. Obviously, only one parent will meet this criterion.

Many of these rules also apply to grandchildren, foster children and step children. The head of household filing status is also allowed for certain non-child relatives.

The dependency deduction generally goes to the parent who has physical custody of the child for more than half the year, regardless of who gave more financial support. However, this deduction may be "given" to the non-custodial parent. This is often done through the divorce decree, along with a required statement attached to the tax return of the non-custodial parent in which the custodial parent signs away the right to claim the deduction. Unfortunately, many custodial parents have given away more than they bargained, especially if the agreement was drafted before 1998.

The first year for the child tax credit was 1998. Only the parent claiming the dependency deduction is eligible for this credit. The maximum credit started out at $400, increased to $500 in 1999, $600 in 2002 and $1,000 for 2003. If the credit is made fully refundable (law pending), the parent claiming the dependency deduction will benefit even if his tax liability is zero, which is already the case in some instances due to the (new in 2001) "additional child tax credit."

The first year for which educational credits applied was also 1998. These credits can be taken only by the parent claiming the dependency deduction. The maximum Hope Credit (which applies to the tuition and fees for the first two years of post-secondary school) is $1,000 per child, while the maximum Lifetime Learning Credit (applying to any post-secondary education tuition and fees) is $1,500 per tax return.

In the emotional heat of the moment, many of those involved in divorces do not take into account tax aspects of child custody and child dependency. This is aggravated by tax law changes that no one can predict, leading to results that nobody expects and inequities that cannot be resolved. However, the tax dollars at stake can be substantial. Consideration should be given to prospective tax law changes via formulas incorporated into the decree.

IRA Arbitrage: Earn 25% on Your "Investment"

There are a number of ways by which to save taxes risk-free if business or investment conditions warrant. Deductions can be shifted to higher bracket years and income to lower ones by selecting the year in which to invest in new equipment or sell business assets. Funds can be plowed into retirement plans at high marginal tax rates when working and withdrawn at lower rates during retirement. Because such funds can be invested in short-term money markets, investment conditions are irrelevant to such decisions. Occasionally, this strategy can yield a high return in taxes saved from one year to the next, even with funds intended for immediate use.

This was the case for at least a couple of our clients over age 59 1/2 this year. Neither would have considered making IRA contributions without our suggesting it. They were probably going to need the funds within months. However, they decided to take our advice, when we noted that the tax saved on the contribution for 2002 was far greater than the tax would be in 2003 on the withdrawal.

In one instance, our clients moved from California to income tax-free Florida at the end of 2002. By making one $3,500 IRA contribution for 2002 before April 15, 2003, they saved federal tax of 27% and state tax of 8%, for a combined $1,225 in savings. However, they needed those funds to live on, so withdrew $3,500 from an old IRA on April 30. Since their expected tax bracket for 2003 is 10% (and might even be zero), the tax on the 2003 withdrawal will be at most $350, for a very cool ($1,225-$350=) $875 savings. Their rate of return on "investment" is 25% ($875/$3,500) calculated as if they left the funds in the IRA for a year; as it was, their return was 650% annualized. Who cares that it was invested at 1% per annum in money market funds; it was very profitable arbitrage.

Another client hit hard times beginning in 2003, so again I suggested investing $3,500 in a traditional IRA. She thought I was crazy until I explained that she would save 27% federal and 6% state income tax in 2002 and likely pay no more than 15% federal and 4% state tax on the withdrawal. The savings for 2002 was $1,155, of which she'll pay back as much as $665, for a minimum return of ($1,155-$665=) $490. She thinks she'll keep it in the IRA for about six months before she becomes desperate and cashes out. The return could easily be 28% on a per annum basis.

This strategy works best for those not subject to the premature distribution penalties, which are a steep 10% federal and 2.5% California. However with care, there are instances in which such arbitrage can be profitable for younger taxpayers whose income is expected to drop substantially, especially if moving from a high-tax to a lower-tax state, or to one with no income tax.

California in the Charts

Almost every state has a serious budget problem. As a result, many states are attempting to increase taxes on a variety of fronts, as well as impose new taxes on everything else. Two such areas include electronic commerce and services. California has tripled the motor vehicle fee and most of its politicians want to increase the maximum income tax and retail sales tax. Will such increases solve the state's woes?

History suggests they will not. States have continuously invented new taxes and raised old ones, while budget problems only worsen. Many states adopted sales taxes in the 1950s and 1960s. They nationalized the "numbers" rackets (lotteries) two decades ago and began to license Indian casino gaming a bit later. They won a huge tobacco settlement little more than five years ago and are already dipping into those revenues to fund programs completely unrelated to the health care programs for which they were intended. The revenue problems continue unabated because politicians have an insatiable appetite to spend other people's money and will always spend whatever is sent their way. Doing this is a way to buy the votes of those who pay little or no taxes, thereby enhancing their power.

Worse, increasing spending often fails to improve public services. For example, in the area of "public education" the situation has remained the same despite an alarming increase in expenditures per pupil. Here are a few of the incredible statistics for California.

	1998	2002
State surplus (deficit)	$12 billion*	($34 billion)
K-12 educational expenditures/pupil	$5,756	$9,072
Rank in achievement tests	37th	37th
% students in 7th grade passing math/language proficiency exams	30%	30%

* The California Public Employees Retirement System (PERS) convinced the Legislature and Governor to take $9 billion of this surplus and use it to boost pensions for retirees and those still working for the state. The new benefits allowed regular employees to retire at age 55 with the same benefits previously available at age 60. Highway Patrol officers were given a 50% increase in their pensions. Too bad private employers can't afford to act so extravagantly. It's also a shame that money doesn't grow on trees. State employees should be provided only what was originally bargained for.

Those who believe the ads extolling taxpayers to support California's education establishment by not cutting expenditures may wish to purchase a bridge I own. While good teachers are probably paid less than they deserve, the bad ones, along with many administrators, need a pay-cut or, better yet, loss of tenure.

Following are a few other statistics voters may find of interest:

Florida decrease in state employees over four years '98 to '02	-18%
California increase in state employees over four years '98 to '02	10%
Cal. state spending increase '98-'99 to '02-'03	45%
Inflation '98 to '02	10%
Inflation + Cal. population growth '98 to '02	21%
Cal. state revenue increase '98-'99 to '02-'03	26%

A victim of the bull market ** :

California's:	**'95-'96**	**'98-'99**	**'00-'01**	**'02-'03**
Revenues from stock options + capital gains		$7.5 billion	$17.6 billion	$5.6 billion
Options + cap gains as % of revenues	5%	13%	25%	7%

	'98-'99 to '99 to '00	**'99-'00 to '00-'01**	**Two year increase**
Spending increase year over year	15%	17.40%	35%

** A victim of the bull because without the mania, the state government couldn't have spent with wild abandon.

The Decade of Governmental Greed: California is not alone			
	'90-'95	'95-'01	'90-'01
Increase in spending, all 50 states	28%	43.50%	84%
Inflation	16.60%	16.20%	35.50%
Inflation + population growth	25%	24.50%	55.60%

There are two solutions. First, every state needs a constitutional limit on government spending as a fixed maximum per cent of gross domestic product. Colorado has taken the lead by limiting spending increases to population growth plus inflation. Second, we need to privatize the most inefficient state enterprise: education. We can start by introducing competition into the system through a voucher system, in which every child is provided funds to spend at the institution of his choice, private or government. Where present, competition has increased choice and quality while reducing prices in every segment of the economy. If the government produced, distributed and sold food, we'd all be eating high-priced beans. Relative to the potential, children are fed analogous brain food in many schools. Freeing up education will dramatically improve the diet.

Total Recall

I don't really have much to say on the pending recall, since I find so many politicians despicable. However, I think Gray Davis can be summarized by one statement he made in regards to the power crisis in 2001:

"If I wanted to raise rates, I could have solved this problem in twenty minutes."

In other words, he could have solved the problem by letting prices rise. Well, duh. Higher prices always lead to greater supplies and lower consumption. But, this was not the politically expedient thing to do. Instead, Gray Davis single-handedly subjected California taxpayers to $12 billion in higher costs on power contracts (that he willingly signed—please do not blame the power providers) than they would otherwise be burdened with.

It's time not only to get the government out of our business, but also for statesmen to return to the business of running the government. With this in mind, I felt it appropriate to look up "statesmanship" and "politics" in my books of quotations.

"True statesmanship is the art of changing a nation from what it is into what it ought to be." --W.R. Alger

"When the issues involved are of no great weight the adults in control of a nation's policy are permitted…to behave like adults. But as soon as important economic interests or national prestige is involved, this grown-up Jekyll retires and his place is taken by an adolescent Hyde whose ethical standards are those of a boy gangster." --Aldous Huxley

"Probably the most distinctive characteristic of the successful politician is selective cowardice." --Richard Harris

and finally…

"A politician thinks of the next election; a statesman, of the next generation." --J.F. Clarke

Wealth Creation Strategies Special Supplement

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Privatize Iraq's Oil

A few in the media, including "The Economist" magazine, have recently noted that despite their great wealth, countries with large amounts of oil have mostly turned into semi-dictatorships in which standards of living have suffered steep declines. I point out in my book, *Drunks, Drugs & Debits*, that this occurs not despite such wealth, but rather because of it.

The great free market economist Friedrich Hayek pointed out that the worst people tend get to the top of bureaucratic organizations. James Graham, in *The Secret History of Alcoholism,* explains that alcoholics have a need to inflate their ego. The most effective way by which to boost this inordinately large sense of self-importance is to wield power over others, especially capriciously. We might predict, then, that alcoholics are more likely to seize power than are non-alcoholics. This has been confirmed throughout history: every tyrannical dictator seems to have been an alcohol or other-drug addict. Since money is known to be the addict's biggest enabler, wealth, especially in the form of natural resources, is the despot's greatest enabler.

To insure that alcoholic dictators cannot use such resources to build weapons of mass destruction, wealth must be put into private hands. The trouble is, tyrants can seize private resources, as has been proven all-too many times. However, there is a method by which to reduce the odds of such expropriation: grass-roots capitalism combined with democracy, which work synergistically.

All adults living in a country could be given ownership certificates over the resources being privatized. Whether or not the owners are immediately allowed to trade shares is not as crucial as that they are allowed to freely trade them soon after (a few years maximum). Having many owners not only decreases the odds that nationalization could ever take place, but also increases the chances that wealth is put to its highest and best use. Using profits to build weapons of mass destruction is an extremely unlikely outcome under such a system. As disdainful as some are toward Exxon and British Petroleum, these companies have never gassed their customers. This cannot be said for certain governments. Nor have private companies ever created a successful cartel without the assistance of government meddling, while government-owned companies have.

Some would argue that taxation could be used to siphon funds for use in building such weapons. Indeed, this has been done in the United States. However, with the exception of Hiroshima and Nagasaki, its leaders have never used such weapons. These weapons have even been developed by other countries and have not been used. The reason for this may be an accident of history: Joseph Stalin, who ruled the former Soviet empire from the late '20s through the early '50s, died before he could foment WW-3. Today, with the exception of Pakistan (which has come perilously close to triggering a nuclear war with India), all other governments having such access are democracies.

The reason democracies are unlikely to use weapons of mass destruction is due to their various systems of checks and balances. We have had alcoholic Presidents with their fingers on the button. However, our system, in which the legislatures, courts and executive branches check each others' power, greatly reduces the odds that such weapons will be used in horrifying ways for purposes of inflating one's ego.

Democracies do not typically murder their citizens or wage wars of aggression. Dictatorships are far more likely to do so, especially with an addict at he helm. Therefore, Africa, Latin America and the Middle East—especially Iran and Iraq—need to be democratized before they, too, develop such weapons.

North Korea

I'm normally a non-interventionist libertarian. I don't think we have any business sticking our noses into anyone else's foreign affairs; when we have done so, we've usually mucked it up. However, in the case of Saddam Hussein and Kim Jong Il of North Korea, I know too much about alcoholism to be a non-interventionist.

In Hussein's recent biography, Con Coughlin, at the top of page three, begins with the phrase, "The whiskey-drinking Saddam…" You don't say "the whiskey-drinking" anyone, especially in print, unless whiskey is a very important part of the man's life. And if whiskey is that important, the man has alcoholism.

Kim Jong Il, who runs the most Orwellian, totalitarian, medieval and Stalinist regime ever, purchases three-quarters of a million dollars of Hennessey Cognac per year for himself and his cronies while his countrymen, including children, starve. If I am correct in my analysis, he also has alcoholism.

Now, here's the rub. Ask a recovering alcoholic—not with just a few years' sobriety, but rather fifteen years sober—what he might have been capable of if, while a practicing alcoholic, he had been in a position of power. The response will often be "anything."

If he has alcoholism, when Kim Jong Il has enough nukes, he could either use some of them himself or make them available for use by terrorists. Recall what a few hijackers did with large jet airplanes. In comparison, that is nothing. To those who agree that he may be alcoholic but think he would never do such a thing, I will be blunt: such people do not understand alcoholism.

Considering he claims to already have two nukes and Seoul, South Korea, is only 38 short miles south of the demilitarized zone separating North and South, the risks that war poses are enormous. However, the risks will only increase, I believe logarithmically, as Kim Jong Il's slave laborers build more weapons of mass destruction. There is one measure, however, that should be attempted before taking him out: force South Korea to open its arms to North Korean refugees.

Thousands of North Korean refugees are hiding in China near Korea's northern border. If caught, they are shipped back to North Korea to certain liquidation (Stalin's term for "death"). Tell the North Koreans that if they escape, until their country is free, the South will welcome them. This could cause the collapse of the North Korean regime without a shot being fired. If that doesn't work, things could get messy in the short run. However, over the long term, with Kim Jong Il out of power the world will be a far better and safer place. If he remains in power, it may get really ugly later.

Notes From Doug

My third book, *Alcoholism Uncovered: How to Spot the Alcoholic in Your Life…Before Tragedy Happens*, will be available through Galt Publishing by early winter and, hopefully, in bookstores by April. We just signed up with a major bookstore distributor (Independent Publishers Group), so we are guardedly optimistic. The pre-book "galley" is already receiving rave reviews. In addition, I've begun writing my fourth book, *Myths and Realities of Alcoholism*.

* * * * *

The idea of early identification of alcoholism was the main topic in several recent presentations made before chemical dependency experts. Not only was I welcomed, but my talks also qualified for continuing education. This suggests these are very open-minded counselors, since not only is my training in the field informal, but also my main premise is that they are using a fatally-flawed definition of alcoholism. This description, which requires loss of control over use, is worthless in identifying the disease in the early-stages. The trouble is, the early stage can last decades (which may be the case of Sadam Hussein and Kim Jong Il), as relationships are ruined and lives destroyed, with few ever having a clue as to what hit them.

* * * * *

For those who wonder, I am not giving up the tax business. I consider my studies in alcoholism to be adjunct and crucial in helping people fend off financial (and emotional) parasites, as well as helping what are usually fundamentally good people with bad behaviors get sober. Conduct inevitably improves in sobriety.

* * * * *

Although also pondering writing a book on taxation and financial planning, I'm struggling over the issue of constantly changing tax laws. At least with addiction, the principles remain the same even if the principals vary. I continue to average 50-60 hours of formal continuing education per year for my Enrolled Agent and Certified Financial Planner licensee designations, not to mention preparation for the articles written for you and others, one of which was recently published in International Bowling Industry magazine.

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Now, a special request in lieu of a separate appeal: I ask that those with an interest in donating to a tax-exempt charitable organization such as MADD consider re-allocating funds to the PrevenTragedy Foundation, of which I am President. Its purpose is to educate the public on ways to identify alcohol and other drug addicts and intervene *before* tragedy happens. There are countless signs in almost every addict's life for which close persons and/or the law could have intervened before the divorce, DUI, loss of job or home, or criminal act. The Foundation is asking a simple question: what are we waiting for? You can ask your trusted tax adviser for more information on the Foundation, how to donate and how much you'll save in taxes.

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A postscript on the "California in the Charts" article in the main newsletter: In 2000, just 44,000 Californians, consisting of 0.3% of the state's taxpayers, paid $15 billion in taxes, comprising 24% of the general fund revenues. The top 10% of taxpayers paid 80% of income taxes. This is not a system designed to get us through fluctuations in the economic cycle, nor one that will keep upper income earners in California.

Maybe the Governator will help make some of the changes we desperately need, even if I prefer a more libertarian Tom McClintock.