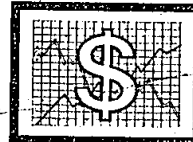


Business

Barry Jensen editor/591-2300

Thursday, November 10, 1983 O&E



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Try to offset profits

With next April's tax-filing deadline still several months away, it is all too easy to neglect some tax-cutting moves that you would have to make in the next few weeks — before 1983 ends.

Thanks to the likelihood of profits from the advancing stock market — and a new wrinkle that widens the reach of the "alternative minimum tax" — you may have to do some more sophisticated maneuvering.

In the TEFRA, Congress made certain changes in the tax laws that require you to figure your taxes two ways and pay according to whichever one shows you owe the most. It is known as the alternative minimum tax.

HERE IS HOW the tax law might affect you. Until this year, if you exercised an option to buy 5,000 shares of your company's stock at \$10.00 each, when the market price was \$110.00, you paid no tax on the immediate bargain element of \$500.00.

And what if you were also lucky enough to have big depreciation deductions on a real estate investment, enough to reduce your 1983 tax liability to near zero?

Unfortunately, the picture has changed, and you must also figure your tax bite under the expanded alternative minimum tax.

Because your stock option's bargain element is a preference item, you end up owing \$92,000 to Uncle Sam.

AND IF YOUR stock happens next year, you can wind up paying tax on a paper profit you will never real-



finances and you

Sid Mittra

ize. Obviously, if you are in a position to exercise a stock option in 1983, you should gather your records and compute your tax bite before deciding whether to acquire the stock now — or if you would save by waiting until 1984.

It is possible that not every stock you bought in 1983 rose in value. There may be some real tax benefits if you sell the losers before the end of the year.

The reason is that short-term capital losses that result from assets that have been held less than one year are fully deductible first, against short-term capital gains, then against long-term capital gains, and then against a maximum of \$3,000 worth of regular income.

YOU SHOULD ALSO carefully examine the stock you bought only a few months ago that may have increased substantially in value, but that you suspect is reaching a plateau.

Selling will produce a health gain — and heavy taxes, too. So check your portfolio for a bond that you have held for 10 or 15 years, one that is paying a low rate of interest and has a depressed value in today's market.

You can sell it for a long-term capital loss.

Ordinarily, if you are trying to offset regular income, a long-term loss is not as good as a short-term loss. The tax laws require you to have two dollars worth of long-term loss to offset every one dollar of your salary.

But it can offset the short-term stock game, dollar for dollar. Selling both the bond and the stock can put you in a position of profit without a big tax liability.

SEMINAR: The Observer & Eccentric Newspapers and I will conduct our next financial planning seminar Wednesday, Dec. 7, 1983, from 8-9:30 p.m. at the Michigan State University Management Education Center, Troy. Topics will include year-end tax planning, tax shelters, retirement and comprehensive planning. The seminar is free, but registration is required. For more details, call 643-8888.

Sid Mittra is president of Coordinated Financial Planning Inc. in Troy and a professor of management at Oakland University in Rochester.

Big debts, low savings threaten the recovery

By Tim Richard
staff writer

America's economy will rebound in the next year, but long-term recovery is seriously endangered by the mounting federal debt, according to W. Michael Blumenthal, board chairman of Burroughs Corp.

"If we want to get the budget in shape, you can't do it by cutting waste. You can't do it by cutting defense. It must be a package deal. Every element must make a contribution," said the former treasury secretary under Jimmy Carter.

HE AND OTHER former treasury chiefs — Democrats and Republicans — are urging national leaders not only to cut spending but to raise consumption taxes and encourage savings.

"Our savings are not growing. We have the most consumption-oriented economy and the least savings-oriented economy in the free world," Blumenthal said.

The former college economics instructor Monday addressed the Detroit Economic Club and guests from Lawrence Institute of Technology, the University of Michigan and Southfield Public schools.

"THE SAVINGS pool is too small to continue the recovery," said Blumenthal, blaming a projected series of \$200 billion-a-year deficits for soaking up 51 percent of available savings this year, 57 percent in 1984 and 55 percent in 1985.

In normal recoveries, he said, government debt absorbs 30 and 21 percent of savings in the second and third years of recovery.

Besides eating up savings, how are federal deficits hurting the economy? Blumenthal said deficits keep interest rates high, luring in foreign currency.



W. Michael Blumenthal
"politics, politics, politics"

cy. This generates a demand for U.S. dollars, keeping the dollar's price high.

A COSTLY DOLLAR raises the price of American exports and lowers the prices of imports — particularly Japanese autos.

"The dollar is over-valued by 20 to 25 percent," Blumenthal said. "Cut demand for the dollar, and the yen will go up. You won't need to worry about quotas and (domestic) content legislation."

He said the trade deficit of \$70 billion this year, rising to an expected \$100 billion next year, would cost American labor 2 1/2 to 3 million jobs. Moreover, if developing countries default on their debts — \$750 billion and rising — some American banks, which hold much of it, could go out of business, he added.

"WHY CAN'T political leaders act?" asked Blumenthal. He answered his own question: "Politics, politics, politics."

"To get the budget in shape requires difficult decisions that will not be pleasing to voters. Everyone is dug in. Everyone is engaged in codified double-talk."

"The president says taxes must go down and defense must go up."

"Liberals say their kind of spending should not be reduced and certain taxes should go up. Privately, all know action must be taken."

BLUMENTHAL advocated:

- Holding the line on civil service and military pensions. A federal employee with 30 years seniority can retire on 80 percent of his last pay while a similar employee in private industry draws 50 percent.

- Putting a lid on Medicare, whose increases he described as "astronomical."

- Holding down on social security because "we cannot afford 100 percent indexing" (tying benefits to the consumer price index).

- Placing a value-added tax on consumption, raising revenue and relieving the income tax's pressure on savings and capital gains. To those who raise a liberal eyebrow at consumption taxes, Blumenthal replied "it's possible to have progressiveness by exempting food."

- Closing unspecified "loopholes" in the income tax.

- Taxing energy in an unspecified way.

IN REPLY to audience questions, Blumenthal said he has "absolutely no interest or intention" of seeking elective or appointive federal office. "I've been there twice." He plans to stay at Burroughs until his retirement in seven years.

Besides serving as treasury secretary, he was once in economic affairs in the State Department and in the mid-1970s was being pushed for a Democratic Senate run.

Far from regretting his company's commitment to Detroit, Blumenthal said, "Detroit and Michigan have been very good to our company. Our employment is rising. As far as we can see, that growth will continue. I am optimistic about the state." Burroughs has plants in Detroit and Plymouth Township.

Asked if he has any plans to merge with RCA or General Electric, he quipped: "We have no plans to acquire RCA or GE."



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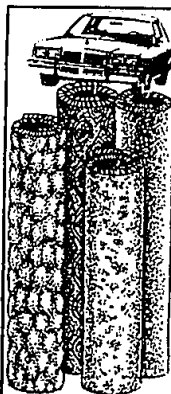
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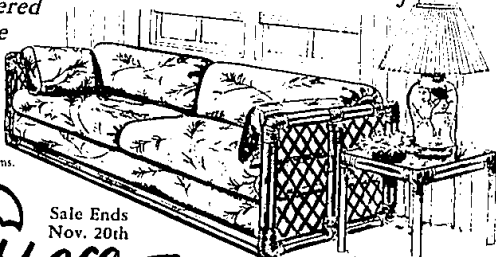
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