

Reformulating gas beats switching to methanol

On a clear day you can barely see Los Angeles, which is why the latest California clean air initiative runs roughshod over political sensibilities and bans barbecues, charcoal lighter fluid and even some house paint, all of which are blamed in some small part for their contribution to the choking clouds of smog that Californians seem to thrive on.

As California goes, so goes the nation, as anyone who has filled in the holes in an abandoned trampoline center can tell you. This is one reason why President Bush is encouraging the use of methanol as an alternate fuel for automobiles.

METHANOL is a type of alcohol that burns with fewer hydrocarbons than gasoline. It's generally accepted that smog is mainly the result of unburned hydrocarbons that float up into the atmosphere and react in the

presence of sunlight to turn into Johnny Carson jokes.

Since gasoline is mainly hydrocarbons, and auto engines burn the stuff, gasoline is a primary culprit in urban air pollution.

But while methanol does burn cleaner than gasoline, it generates fumes that act like peeling onions on your eyes. It also takes twice the amount as gasoline for equivalent mileage, and is so toxic a small amount ingested causes blindness.

Also, there isn't enough produced today to propel more than a handful of cars, and developing a production capacity large enough to supply the stuff would mean building up a whole new industry.

A RECENT copyrighted story in Automotive News suggests that there is a hidden pact between the auto companies and oil refiners to



auto talk
Dan McCosh

kill the use of methanol as an alternative fuel out of vested self-interest — an accusation the powers that be vehemently deny.

Still, the suggestion that alternate fuels might work has shaken the industry out of its doldrums.

By now, we are nearing the end of two decades of federal and engineering work aimed at controlling so-called auto emissions. Early efforts at making cars burn cleaner involved twiddling with the engine tuning and had the side effect of cut-

ting mileage roughly in half just as the Arabs cut off the supplies of crude oil.

THE BREAKTHROUGH was the introduction of the catalytic converter in 1975 by General Motors, an invention that hangs underneath your car and simply burns up the gasoline that isn't burned in your engine. This meant that engines could be retuned and returned to their former mileage, while about 90 percent of the hydrocarbons still were removed

from the exhaust.

Arguably the invention of the catalytic converter accounts for almost all the progress in the effort to clean up air. Catalytic converters have been fine tuned, made more durable and ultimately ended up on all the cars on the road, immensely improving air quality.

BUT LIKE they say, there's no free lunch. Catalytic converters don't work with lead additives used in boost octane. The butane-based additives used in unleaded gasoline tend to evaporate easily — creating pollution on their own.

Also, the life of a catalytic converter originally was planned to be only half of the life of the car, which means the guy buying the transportation special gets stuck with replacing it. Of course, he doesn't anyway — killing the effect of the whole system.

Both are reasons why auto companies are interested in reformulating gasoline so that it doesn't evaporate so easily and helps catalysis to live longer. Changing gasoline isn't as simple as it seems, since we consume such huge quantities of the stuff that altering the refining process is a multi-billion dollar change.

REGARDLESS, THE auto companies and oil refiners are starting to see that as preferable to developing a new system to make and distribute something as alien as methanol.

So now the Big Three and major oil refiners are forming a joint research effort to study major fuel alternatives aimed at improving air quality.

Dan McCosh is the automotive editor of Popular Science.

Micro marketing Splashy ads aren't necessarily best

Micro marketing strategies have been used to promote small businesses for years. But these techniques never seemed to command the level of recognition they have deserved.

For some reason, smaller companies were not perceived as having made it until they began sponsoring full-blown ad campaigns that appealed to the masses.

But the good news is that micro marketing works and will continue to as long as customer markets remain fractured.

RECENT EXAMPLES of micro marketing techniques reflect the creativity and imagination of the companies that have developed them.

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At a Kentucky high school, a giant poster of basketball's Michael Jordan



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JCPenney

Kiddie tax can't prevent deflection

Fourth of five parts
By Sid Mitrta
special writer



finances
and you
Sid Mitrta

The fourth tax reduction strategy is deflection, which involves the shifting of taxable income to someone in the lower tax bracket. There are several ways of accomplishing this objective.

Kiddie tax
The kiddie tax is based on a parent's top rate if (1) the child is under 14, and (2) has net investment income after reducing gross investment income by \$1,000. This tax is not levied on earned income. Investment income may consist of interest, dividends, royalties, rents and profits on the sale of property.

Only net investment income is subject to tax at the parent's top rate. For purposes of this rule, net investment income equals gross investment income minus \$1,000 if the child does not itemize deductions. If itemized deductions are used, net investment income equals gross investment income reduced by the larger of (1) \$1,000, or (2) \$500 plus itemized deductions. These are directly connected with the generation of investment income.

Notwithstanding the new kiddie tax rules, a number of strategies can be used to beat the kiddie tax. For instance, a taxpayer can take advantage of the fact that the first

\$1,000 of an under-age-14 child's unearned income is tax-favored. This is done by transferring assets that produce up to \$1,000 of annual unearned income for the child. Another strategy is to switch the child's savings into investments that pay little or no current taxable income. These investments include U.S. Series EE bonds, municipal bonds and zero coupon bonds. Also, minor's trusts, under which assets and earnings do not have to be turned over to the child until age 21, probably are taxed at a lower trust rate even though the child is under 14 and has income of over \$1,000. However, eventually this strategy does result in double taxation.

Gifts

An attractive way to shift income is to an individual with a high marginal tax bracket to give gift to a child in a low tax bracket. A gift of cash benefits the taxpayer to the extent that the after-tax return received by the child would presumably be higher than the after-

tax return received by the taxpayer. A gift of appreciated property, such as common stock or income-producing property, can bring even higher tax benefits. For instance, the appreciated stock could be liquidated and reinvested to generate a greater after-tax return for the child than it would be for the taxpayer.

An example can demonstrate the use of gifts as a way of reducing the tax liability. Assume John Smith wishes to create a college fund for his son Mike and has \$5,000 in a money market earning 7 percent interest. Assuming a 28 percent tax bracket, John currently pays a tax of \$98 (28 percent of \$350). If he gives the money to Mike who has no other sources of income, Mike immediately gains \$98 because he would not owe this tax to the government.

Child employment

A taxpayer can shelter income by putting a child on the summer payroll. A dependent child can earn as much as \$1,100 from a job in 1989 and not have to pay tax on that income. Also, if the taxpayer's business is a proprietorship or a partnership with the spouse, the earnings of the child younger than 18 escape Social Security taxes as well.

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