

WHAT THEY'RE BUYING

Vanguard Short-Term Bond Index, Intel, Sealed Air

Gary Daniels

Personal Financial Advisors, Payson



Vanguard 500 Index (VFINX).

Sees the stock market in neutral territory and has his clients in bonds, though a rally above 1350 or so for the Standard & Poor's 500 would generate a buy signal for stocks.

Daniels has clients in Vanguard Total Bond Market Index Fund (VBMFX), Vanguard Short-Term Bond Index (VBISX) and Vanguard Inflation Protected Securities (VIPSX). With a stock buy signal, he would suggest moving some money into Vanguard Total Stock Market (VTSMX) or

Cynthia Fick

Financial Life Planners, Ahwatukee



Winds (SWI) and GNC Acquisition Holdings (GNC).

Continues to believe we may be in a range-bound stock market. Fick thinks investors can make money in this climate by trading index options. She also advises investors to keep more cash, take gains more often and cut losses.

If the market breaks out of its trading range with a rally, she would buy more Intel (INTC), Buffalo Wild Wings (BWLD), Apple (AAPL), Solar-

C. Angus Schaal

Tandem Wealth Advisors, Phoenix



Sees the fundamentals slowly improving and expects economic growth to surpass 2 percent this year. Compared to other assets, Schaal views U.S. stocks as "by far the most inexpensive."

One stock he likes is Sealed Air (SEE), a firm that makes Bubble Wrap and other packaging products. He also likes Ford (F), which now can be profitable at lower sales levels thanks to downsizing.

— Compiled by Russ Wiles

Wiles

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District of Columbia, that have made use-tax obligations more visible lately by inserting a line on their tax forms, reports researcher CCH Inc.

Failure to pay the tax could trigger penalties and interest.

The use tax basically applies if you didn't pay sales tax — either at all or at Arizona's 6.6 percent rate. But there are enough wrinkles and exceptions to make it confusing. Use taxes also apply to businesses, but here are the basic rules for individuals:

» The tax applies on most items used, consumed or stored in Arizona on which sales tax hasn't been collected, in full or in part. If sales tax was paid elsewhere, at a rate below Arizona's 6.6 percent levy, buyers owe the difference. The obligation generally arises on purchases made outside Arizona's borders and from Internet or catalog orders.

» Use taxes don't apply on products on which sales tax isn't normally collected, such as prescription drugs and food for personal consumption. Nor does it apply on "casual" transactions between individuals. The Arizona Department of Revenue cites the example of golf clubs bought over the Internet from a private party in Connecticut; in this case, no tax would be due. Nor would it apply on a refrigerator bought for your cabin in Colorado.

» The use tax is explained in greater detail on the department's website, azdor.gov, and in state Publication 610.

The new reporting require-

ment leaves some unanswered questions. For example, it doesn't address use-tax obligations to Arizona cities, which also apply, noted Mike Hirte, a certified public accountant at Hirte Consulting Group in Phoenix. It's unclear how and if cities might try to step up their collections.

Among general tips, Hirte suggests taxpayers retain documentation showing purchase prices and whether taxes were paid. "Ideally, taxpayers should track their purchases subject to use tax as they make them throughout the year," he said. "However, since most of us have not done that, we will need to review our credit-card and bank statements to look for applicable purchases."

Some websites, such as Amazon.com, allow customers to download a list of purchases they made showing whether sales tax was paid, said Hirte, who suggests taxpayers review these records.

Bob Lind, an enrolled-agent tax preparer at Camelwest Tax Service in Phoenix, said he's finding it time-consuming to explain the new reporting rules to clients. While the tax has been around in Arizona since 1955, relatively few people have a good grasp of it.

"The usual reaction is annoyance that Arizona allows Amazon to not charge sales tax on orders sent from Arizona warehouses to Arizona customers but then wants us to ante up the tax at the end of the year," Lind wrote in a note.

Enforcement raises another question mark, with several tax-return professionals doubting Arizona will pursue violators aggressively. It's one thing for someone to bring in a car

and then try to register it with the Motor Vehicle Division.

"They always catch the use tax for that," said Ed Zollars, a CPA at Thomas, Zollars & Lynch in Phoenix.

But for general purchases, enforcement could be much more spotty.

"I don't see the department spending a lot of resources enforcing this," Zollars said.

Others agree. "I'd seriously doubt the state would initiate random checks for compliance, since the state has no access to this information, nor does a taxpayer have any duty to keep records of personal online purchases," Lind wrote. "And even if the state does find some (tax obligation), it is unlikely to collect enough to justify the cost involved."

Unlike some states, Arizona isn't including a standardized table to help people estimate their use-tax liability, so taxpayers will need to make their own calculations.

California, for instance, has a table. Based on the state's 7 percent use-tax rate, CCH reports, the California table includes suggested taxes ranging from \$7 for people earning less than \$20,000 to \$123 for those making just below \$2 million.

In short, Arizonans should become familiar with this longstanding yet obscure tax. Could it lead to more enforcement, especially if someone puts down zero on the line?

The Department of Revenue posed that very question on its website but dodged an answer, explaining that it is "prohibited by law from discussing ... audit-select criteria."

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Investment money is taxed less than wages

By Stephen Ohlemacher

Associated Press

WASHINGTON — Why do Mitt Romney and other wealthy U.S. investors pay lower taxes on the income they make from investments than they would if they earned their millions from wages? Because Congress, through the tax code, has long treated investment more favorably than labor, seeing it as an engine for economic growth that benefits everyone.

President Barack Obama and the Occupy Wall Street movement are challenging that value system, raising volatile election-year issues of equity, fairness — and Romney's tax returns.

Romney, who released his 2010 tax return and 2011 tax estimate this week, has been forced to defend the fact that he paid a tax rate of about 15 percent on an annual income of \$21 million. His tax rate is comparable to the one paid by most middle-income families. His income, however, is 420 times higher than the typical U.S. household.

The Republican presidential candidate's taxes were so low because the vast majority of his income came from investments. The U.S. has long had a progressive income tax, in which people who make more money pay taxes at a higher rate than those who make less. But for almost as long, the U.S. has taxed capital

gains — the profit from selling an investment — at a lower rate than wages.

"There are two ways to look at: There is a moral argument and an economic-growth argument, and they both point to lower taxes on capital gains," said William McBride, an economist at the conservative Tax Foundation.

McBride says it is unfair to tax income more than once, and capital gains are taxed multiple times. If you got the original investment from wages, that money was taxed. If the stock you own gains value because the company you invested in makes a profit, those profits are taxed through the corporate tax. And if that company issues dividends, those are taxed as well.

Lots of people are double taxed, says Chuck Marr, director of federal tax policy for the liberal Center on Budget and Policy Priorities. "Check out your last pay stub: There's income tax and payroll tax, so you're double taxed, too," Marr said.

Under current law, the top tax rate is 15 percent on qualified dividend and long-term capital gains. The top income-tax rate on wages is 35 percent, though that applies only to taxable income above \$388,350.

Congress started taxing capital gains at a lower rate than wages following World War I.

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