

In Depth: **PERSONAL FINANCE**

PERSONAL JOURNAL.

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THE WALL STREET JOURNAL.

Wednesday, May 9, 2007 **D1**



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The Cool Factor
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Write Off a Horse
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Tighter limits on popular anemia drugs are
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PERSONAL FINANCE

GM Offers 0% Loans To Boost Truck Sales

By JOHN D. STOLL

General Motors Corp. rolled out a new round of sales incentives for its redesigned lineup of full-size pickups, with the Detroit auto maker saying it needs to keep up with deals being offered by competitors.

GM is offering 0% financing on 36-month loans for certain versions of the 2007 Chevrolet Silverado and GMC Sierra. It is offering reduced-rate financing on 60-month loans for the



2007 Chevrolet Silverado

trucks, which are among the most profitable products in GM's global lineup.

Depending on the model, customers can choose to take between \$1,250 and \$1,500 cash back in lieu of the financing offers. The deals were kicked off Friday and run through July 9. GM, as of April 30, carried 281,480 Silverados and Sierras in its inventory, representing more than 25% of the company's overall stock, according to Autodata Corp.

The supply of the Silverado and Sierra sits at 101 days and 129 days, respectively, far more than top competitors in the large-pickup class, according to Autodata. Ford Motor Co. has a 75-day supply of F-Series trucks, while DaimlerChrysler AG's Chrysler Group carries a 73-day supply of the Dodge Ram.

A year ago, Ford and Dodge carried inventories similar to GM's, but they cut production of the profitable models in recent periods. Still, Ford and Dodge pickups carry generous incentives.

"This enhancement is in response to competitive incentive offerings in the marketplace," GM spokesman John McDonald

said in a prepared statement. "We have always said we would implement strategic and tactical incentive programs to keep our products positioned as offering the best value, including fuel economy, styling and warranty coverage."

The new round of deal making hits as GM looks to stabilize retail sales against the backdrop of tough economic conditions. Rising gasoline prices coupled with persistent weakness in the housing market crimped April auto sales. That led the GM's chief competitor, Ford, to offer 0% financing and free engine upgrades on its flagship F-150 pickups.

Toyota Motor Corp., typically a penny pincher when it comes to incentive spending, has been forced to offer generous incentives on its redesigned Tundra pickup. The Japanese auto maker has been

offering low lease rates in some parts of the country, or low financing and cash-back offers. Its inventory of pickups is relatively low, but the company has had a tough time building the right configuration of Tundras to meet demand.

The U.S. pickup market is under severe pressure as gasoline prices have exceeded \$3 a gallon on a national basis, and



2007 GMC Sierra

there are growing expectations that prices are headed toward \$4 a gallon this summer. GM says it has the best fuel economy in the pickup class.

The overall full-size pickup segment is off 5% through four months, compared with the same period in 2006, according to Autodata. GM's full-size pickup sales are flat during that period, and the company holds 38.8% of the full-size pickup segment, up from 36.7% a year ago.

Supply of Homes Grows As Sales Remain Weak

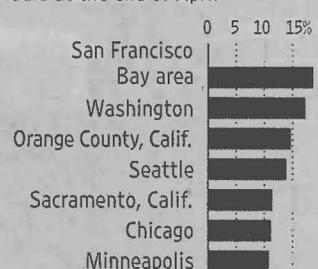
By JAMES R. HAGERTY

The supply of houses and condominiums available for sale continues to grow quickly in much of the U.S., reflecting weak sales.

The number of homes listed for sale in 18 major metropolitan areas at the end of April was up 7% from March, according to data compiled by ZipRealty Inc., a national real-estate brokerage firm in Emeryville, Calif. The data cover listings of single-family homes, condos and town houses

Plenty of Choices

Change from the previous month in the number of homes listed for sale at the end of April



TAX REPORT

A Business or Just a Hobby?

Tricky Issue Spurs Tax Court Ruling And IRS Warning

The Internal Revenue Service is stepping up efforts to prevent taxpayers from deducting losses on activities that aren't genuine businesses run to make a profit. The problem: It's not so easy to tell a budding business from a hobby.

Officials say new research shows taxpayer errors in this area are costing the government billions of dollars a year in unpaid taxes. Thus, auditors are "on the lookout" for people trying to deduct losses from hobbies, an IRS spokesman says. To underscore the agency's concern, the IRS recently issued a fact sheet the spokesman says is aimed at "making sure that taxpayers know and abide by the rules."

The fact sheet summarizes the law, which allows taxpayers to deduct "ordinary and necessary" expenses involved in a trade or business. Generally, an activity qualifies as a business if it is carried on "with the reasonable expectation of earning a profit," the IRS says. What makes this rule so important is that if an activity isn't truly designed to make a profit, you can't use losses from it to offset other income. (This rule applies to individuals, partnerships, estates, trusts and S corporations.)

However, the IRS's interpretation doesn't always prevail, as a recent court case illustrates. In a decision that is attracting close attention among lawyers and accountants, the U.S. Tax Court recently ruled in favor of Tracey L. Topping, a Florida woman who deducted net losses from her equestrian activities, which she said were part of her plan to develop a profitable interior-design business.

The decision is especially important because many people run more than one business, and there can be important connections between each of those businesses—as in Ms. Topping's case. Moreover, the case underscores the importance of keeping good records and putting together "a compelling business strategy," says David Aughtry, an Atlanta lawyer at Chamberlain, Hrdlicka, White, Williams & Martin, who represented Ms. Topping.

But how are you supposed to figure out whether your activity qualifies as a genuine for-profit business? That can be exceptionally tricky. The IRS says you should consider several factors, such as: Does the time and effort put into the activity indicate you intend to make a profit? Do you and your advisers have the knowledge needed to carry on the activity as a successful business?

wer unit that publishes tax and other business information.

The Topping case is especially interesting because Ms. Topping's lawyers persuaded the Tax Court that her equestrian and related activities were part of her strategy to build a design business—and that the combination was conducted for profit.

Judge Joseph Goeke agreed with Ms. Topping's assertion that her plan was to use her prominence in the equestrian world to build an interior-design business involving homes and high-end horse barns. He also concluded that the expenses associated with her equestrian activities were "ordinary, necessary and reasonable in amount."

The judge sided with Ms. Topping even though the IRS cited a few other cases in which the Tax Court had ruled that a taxpayer's multiple activities

couldn't be lumped together. For example, the court refused to combine a taxpayer's farming/polo activity and his real-estate law practice, despite the taxpayer's argument that one reason he began playing polo was to meet clients for his law firm.

Judge Goeke said those cases weren't analogous to the Topping situation. The judge agreed there was a "close organizational and economic relationship" between the equestrian and design ventures.

The IRS declined to comment on whether it plans to appeal the decision. The IRS fact sheet can be found on the IRS Web site (www.irs.gov). Type "FS-2007-18" in the search box.

Whatever the case, pay close attention to record keeping. "The taxpayer should not commit a foot-fault by failing to engage in the dull and time-consuming task of keeping business books and records," warns Donald Alexander, a former IRS

commissioner and now a Washington lawyer at Akin Gump. "Many fail this basic and elementary requirement."

* * *
KEVIN BROWN is named acting IRS commissioner.

Mr. Brown, 45 years old, remains deputy commissioner for services and enforcement, a spokesman says. Mark Everson, commissioner since 2003, recently was named president and chief executive of the American Red Cross.

Mr. Everson's term was scheduled to expire in May 2008.

* * *
THE IRS SEEKS volunteers for an advisory panel.

You can nominate yourself, or someone else, for a three-year term, starting in January, on the IRS Advisory Council. The council provides a public forum for IRS officials and members of the public to discuss tax-administration issues. Applications will be accepted through June 15.

Members meet in Washington about five times a year for two days each session. Members aren't paid for serving, but travel expenses generally are reimbursed within federal limits. Applicants must have "a strong tax or business background, excellent communications skills" and "practical tax administration experience and knowledge," the IRS says.

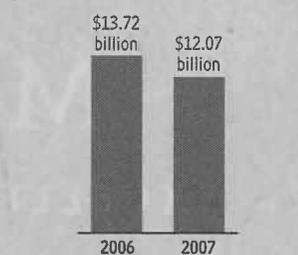
More details are at www.irs.gov under "Tax Professionals."

* * *
BRIEFS: Honors: Sidney Kess, a New York City tax lawyer and accountant, was honored by the accountancy and tax department at Baruch College's Zicklin School of Business for his "outstanding contributions" to the field of taxation.

Email: taxreport@wsj.com.

TAX FACTS

Estate- and gift-tax revenues fell 12% in the first half* of the fiscal year, compared with a year earlier.



*Six-month period through March 2007 compared with six-month period through March 2006
Source: U.S. Treasury Department

Ask Personal Journal.

Q: Suppose an American abroad has income generated only from non-U.S. companies. Is he or she required to file a U.S. tax return, and subject to U.S. income taxes?

—P.G., JUPITER, FLA.

A: If you're an American citizen, your world-wide income generally is subject to U.S. taxes, no matter where you live or work. You're also subject to the same filing rules as Americans in the U.S. Many Americans abroad, however, wind up owing little or no

U.S. income tax because a certain amount of pay may be excluded.

A law enacted last year raised taxes on many Americans abroad by an estimated \$2.1 billion. Under the old law, Americans abroad could exclude as much as \$80,000 of their foreign-earned pay from taxation for 2006. Under the new law, this so-called foreign-earned income exclusion for 2006 rose to \$82,400—but income above that level typically is taxed at higher rates than under the old law.

The exclusion typically applies to wages, bonuses, commissions, tips and other "earned" income. It generally doesn't apply to "unearned income," such as interest, dividends, Social Security benefits or pensions, according to the Internal Revenue Service. But you can exclude or deduct certain foreign-housing costs.

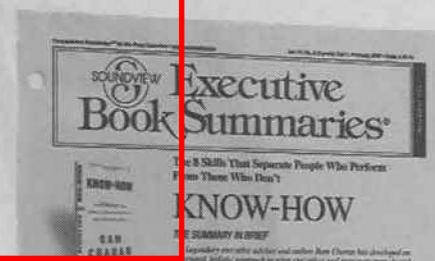
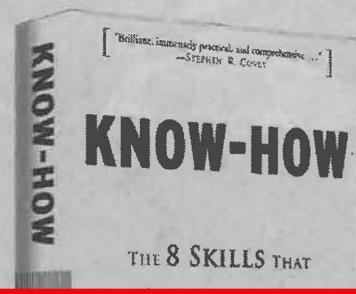
The IRS says that even if you wind up owing nothing in U.S. tax, you're still supposed to file a U.S. income-tax return. See IRS Publication 54, available on the IRS Web site (irs.gov).
—Tom Herman

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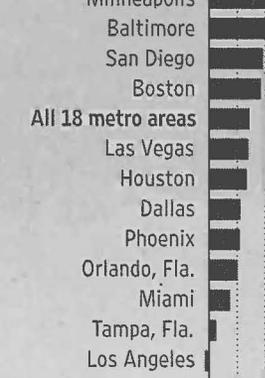
homes, condos and town houses on local multiple-listing services. The increase was above the seasonal norm. Over the past 22 years, home inventories nationwide have increased an average of 4.5% in April from March, according to Credit Suisse Group. Spring is the busiest time of year for home shopping, as families with children try to get settled ahead of the next school year.

Some of the biggest increases last month were in the metro areas of San Francisco, up about 19%; Washington, 17%; Orange County, Calif., 15%; and Seattle, 14%. Inventories declined nearly 1% in the Los Angeles area, according to Zip.

In a report issued yesterday, Ivy Zelman, a Cleveland-based housing analyst for Credit Suisse, said her building-industry contacts have been surprised by the weakness of sales recently, "given the typical seasonal bounce that occurs at this time of year." She added, "Our contacts have officially declared the spring selling season a bust." Many people who had expected a recovery by year end "now believe the market rebound will be pushed out until 2008 at the earliest," Ms. Zelman wrote.

After booming in the first half of this decade, the housing market began cooling in much of the country in 2005. Since then, prices have been flat to declining in many areas. In recent months, an abrupt tightening of lending standards has further sapped the market by preventing some potential buyers from getting loans.

The National Association of Realtors yesterday again lowered its forecast, predicting that sales of previously occupied homes will total 6.29 million this year, down 2.9% from 2006. A month ago, the trade



Source: ZipRealty

group projected that sales this year would slip 2.2%. Lawrence Yun, a senior economist for the Realtors, said many speculators have fled the market.

"It's good that we're getting beyond the tendency of some buyers to view housing as a temporary asset to accumulate short-term wealth, which is not to be expected in a normal market," he wrote.

New Look at Real-Estate Laws

Federal authorities urged state lawmakers to consider repealing laws that harm competition among real-estate brokers.

The call came as part of a series of recommendations aimed at providing property buyers with greater information about the industry.

In a report released by the Justice Department's antitrust division and the Federal Trade Commission, the agencies said efforts are needed to ensure brokers act in a manner fair to consumers. They pledged to continue monitoring the conduct of real-estate-broker associations, especially when they act

Another factor is whether you have made a profit in the past. The IRS says it "presumes" an activity is indeed carried on for profit if you have made a profit during at least three of the past five tax years, including the current year. (The rule is different—at least two of the past seven years—for activities that consist primarily of breeding, showing, training or racing horses.)

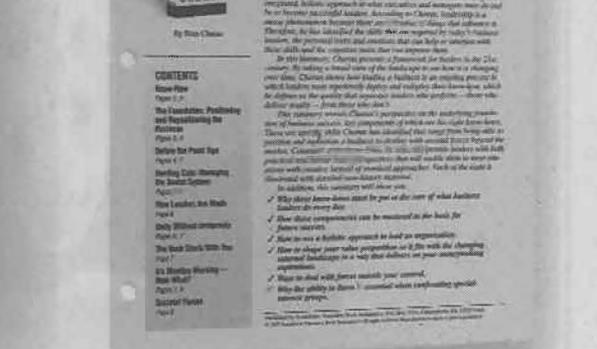
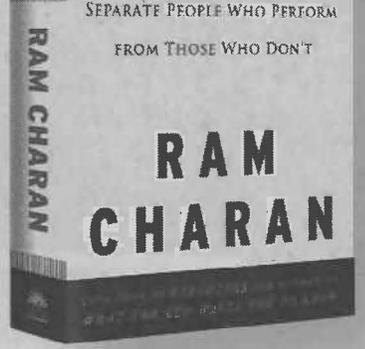
It is easy to misunderstand this profit test, says Frank Degen, an enrolled agent in Setauket, N.Y. Some activities that have lost money for many years still have qualified as a business intended to make a profit, Mr. Degen says.

To be sure, if an activity doesn't qualify as a for-profit business, you still may be able to deduct certain items. But you can deduct them only if you itemize and then only in "a certain sequence," and up to certain limits, says George Jones of CCH, a Wolters Klu-

in concert, and to bring enforcement action when necessary.

The report said the federal government will try to inform state lawmakers and industry regulators about the effects of state and local laws or regulations on competition. And it urged state legislatures to consider repealing laws that limit choice and reduce the ability of new entrants in the real-estate industry to compete.

The report concluded that consumers don't have enough understanding of the fee structures in the industry and don't realize that they have negotiating power over fees.



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