

From The Desk of Meredith Callahan

Practical Tips to Enhance Your Financial Freedom

Credit scoring system more detailed than one would think. Many consumers don't realize that credit scores are impacted by a wide variety of factors. In fact, only 35% of the credit scoring model is influenced by delinquencies and/or late payments. The other 65% is comprised of various other factors, about which people are less informed. The second largest category is that of available credit balance, which comprises 30% of the score. As an example, if an individual had \$25,000 in credit card debt spread out over 2 credit cards with maximum available limits of \$15,000 each, this particular consumer would be severely penalized because they are using \$25,000 of their \$30,000 of available debt. If that same person opened up 3 more credit cards with credit highs of \$10,000 each and then spread those balances over the 5 cards they now own, with a total available credit high of \$60,000, that same \$25,000 in debt would significantly reduce the penalty on their credit score. This is why consumers are often advised not to close credit cards, because this could negatively impact their score. By closing credit cards, the consumer effectively reduces the amount of available credit and increases the ratio of used credit versus available credit, which is a big no-no.

Mobile phones with moxie. Get ready for what will be an explosion of mobile phone functionality over the next 36 months. One need not look any further than the Far East, specifically, Japan, to know where the wave of the future is. When it comes to technology, Japan is always ahead of the curve, just as Italy and France are always ahead of the curve in fashion. The latest mobile phones in Japan sell for approximately \$300, but these phones are greatly different than what we are used to here in the United States. They function as wallets, letting people pay their utility bills or buy movie tickets by putting a handset near a reader. The phones use a Sony circuit card that communicates wirelessly with the reader and deducts the right amount from the stored value card inside the phone. These phones also play music, take pictures and record video. Oh and, of course, they let you talk to someone!

IRS finally spells out tax break rules for early sellers. It has long been understood that if an owner of residential real estate sells the property too soon, they will miss out on the tax exemption offered by the IRS. But there are exceptions to the rule and the IRS has now spelled them out very clearly. These new exceptions deal with the \$500,000 and \$250,000 tax-free exclusion provisions of 1997 and 1998. If the owner sells the home before they are able to meet the 2-year minimum holding standard, it must be for one of the following three reasons:

- 1) Reasons of health. An incapacitating illness might qualify for half of the standard \$250,000 maximum.
- 2) Employment change. For example, a couple purchased a house and had to sell it after just 18 months because of an unexpected cross-country employment transfer. These particular individuals might be able to file an exemption.
- 3) Unforeseen circumstances. The IRS is taking a no-nonsense approach to this final category. As an example, homeowners cannot claim they experienced an unforeseen overwhelming desire to own a different house in a different neighborhood. Likewise, they cannot say they are entitled to the exemption as a result of the unforeseen circumstance of winning the lottery.

Tax season may be coming next spring, but in the event you are thinking about switching retirement plans, you will need to decide quickly. Certain plans such as a Simple IRA must be opened as of the 30th of September for 2004 contributions to be tax-deductible. December 31 is the deadline for tax-advantage contributions to traditional or solo 401K plans and SEP IRAs. So in this particular case, you still have a few months but not more than that.

Minimum wage movement. It has been since 1998 that there has been any change in the minimum wage paid to employees. Long drawn-out battles in 2000 and 2001 resulted in a virtual stand-still in Congress as both sides of the House fought to determine whether or not to increase the minimum wage from \$5.15 per hour. It is widely accepted, however, that Congress will start to raise the minimum wage very soon. In fact, it is expected that over the next 2 years, the minimum wage will go up at least \$1.00 per hour. An agreement on this issue expected by early October.