

Business

Darryl Jensen editor/591-2300

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(370)

Several types of tax shelters have much to offer

Part III

The Internal Revenue Service now imposes tough new penalties on investors in programs that offer inflated write-offs. Still, for taxpayers in the 40-percent bracket or above, it is worth the effort to seek out the shelters where tax deductions and cash returns combine into a sound investment.

Most shelters are sold through brokers and financial planners or on referrals by accountants. Generally, it's best to stick with publicly registered limited partnerships. The Securities and Exchange Commission requires public shelter sponsors to disclose their records, and your chances of an audit are less than with so-called private placements. Minimum investments on public deals are generally as low as \$5,000.

REAL ESTATE: Shelters in everything from shopping malls to historic buildings have soared in recent years to become the most popular form of

tax shelter. The main reason ERTA (Economic Recovery Tax Act), shortened the period over which commercial real estate could be depreciated from an average of 25 years to 15 years.

That paved the way for large annual depreciation deductions that can be used to offset income, including rent on a given commercial property. That's more, real estate partnerships often use mortgages in addition to investors' cash.

Limited partners get write-offs for depreciation, interest and other expenses, in addition to rental income. Deductions can equal 70 percent of your investment over the first four years or so of the program when expenses run high and rents are just starting to come in.

Rentals from a good shelter could pay you an average of 5 percent or so annually before taxes. At the end of the program — which can range from 5-15 years — these sponsors sell the properties and distribute the proceeds.



finances and you

Sid Mittra

Each investor's after-tax share might equal twice what he originally put into the shelter, assuming respectable long-term gains. For an investor in the 50-percent bracket, the tax savings, income and capital gains could add up to a 25-percent average annualized return.

One especially attractive provision of the 1982 tax law establishes a special tax credit for restoration of buildings on the national historic register or in historic districts of cities. With a \$5,000 minimum investment, for example, a real estate limited partnership engaged in the rehabilitation of a historic building could offer a deduction of 20 percent of an investor's investment the first year, plus a credit of 40 percent.

A credit is much more valuable than a deduction, since it comes right off the tax owed rather than off taxable income.

ones that search for oil and new oil fields, relatively safe developmental ones that drill for known reserves, and partnerships that do both.

These shelters usually last for 15 years. They give you most for your deductions in the first year, or two and income after that.

These shelters thrive on several tax benefits: deductions for so-called "intangible drilling costs," or expenses incurred in developing a well; "depletion" deductions to offset the theoretical exhaustion of capital from a producing well; and tax credits on purchases of equipment.

Although they may also be subject to certain other taxes, profits and write-offs from such partnerships can be handsome. A successful drilling program might pay out a total annualized after-tax return of 20 percent; an especially successful partnership might pay much more.

got a boost from ERTA, which shortened depreciation periods for a range of equipment. This increased the sums that investors could deduct annually. Congress has since reduced the tax incentives for many individual investors, but such shelters can still be attractive.

RESEARCH AND DEVELOPMENT: These offer chiefly large investors handsome returns on their money. The benefits are simple: rapid write-offs of potentially massive costs and potentially huge capital gains if the products succeed in the marketplace.

CAVEAT: In general, it is wise to avoid any program promising first-year deductions of two or more times your investment. Such deductions are often based on depreciation of assets whose value has been exaggerated.

High-multiple shelters practically beg for an audit, and inflated deductions would not only be disallowed, but you would owe penalties of 11 percent compounded daily on your back taxes, plus up to 30 percent of the amount by

which the IRS said your shelter inflated values.

Bloomfield Seminar: The Observer & Eccentric Newspaper and the Coordinated Financial Planning staff will conduct a two-session seminar on Tuesday, June 11 at 100 Kingston Inn, 1475 N. Woodward, Bloomfield Hills, and 8-10 p.m. Wednesday, June 13, at the Bloomfield Township Library, 1629 Lone Pine Road, Bloomfield Hills. This seminar will address the following questions: Taxes — how to defer or eliminate them; Investments — how to invest in stocks for growth, income or stability; Real estate — how to find partnerships with excellent prospects; IRA's — where to invest now; Financial plan — for whom and what it offers. The seminar is free, but registration is required. For more details, call 645-8888.

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

datebook

GMAT PREPARATION

Thursday, May 24 — Six-session program in preparation for Graduate Management Admission Test offered 6-10 p.m. in Southfield. Registration: 540-5988. Sponsor: University Test Preparation Service Inc.

INFORMATION MANAGEMENT PROGRAMS

Saturday, May 26 — Information management on IBM personal computer offered in a four-session non-credit course 9 a.m. to 1 p.m. Saturdays in Rochester. Some microcomputer background is required. Tuition: \$115. Information: 377-3120. Sponsor: Oakland University.

SMALL BUSINESSES

Tuesday, May 29 — "How to Run a Successful Small Business" workshop begins at 7 p.m. in Southfield. Workshop meets six times. Information: 377-4655. Sponsor: Wayne State University.

GOVERNMENT ACCOUNTANTS

Tuesday, May 29 — Awards dinner for Association of Government Accountants. Information: Yonna Ware, 225-2919.

SMALL BUSINESS EXPORT-ER

Thursday, May 31 — Workshop for first-time exporter and small business person interested in world markets offered 9:30-11:30 a.m. in Detroit. Fee: \$20. Information: Sharon O'Brien, 577-4851. Sponsor: Wayne State University.

GMAT PREPARATION

Friday, June 1 — Six-session program in preparation for Graduate Management Admission Test offered 6-10 p.m. in Troy. Registration: 540-5988. Sponsor: University Test Preparation Service.

TAX WORKSHOP

Friday, June 1 — Day-long Michigan tax workshop begins at 9 a.m. in Bloomfield Hills. Seventeen workshops.

Information: Susan R. Gallan, 353-0404. Sponsor: Michigan Association of Certified Public Accountants.

WORKING WOMEN

Sunday-Thursday, June 3-7 — Annual Michigan Spring School for Women Workers. "Working Women Moving Forward — Closing the Gender Gap," offered in Rochester. Registration deadline: June 1. Fee: \$66, including meals. Information: Jim Jewell, 377-3132. Sponsor: Oakland University.

ROBOTS EXPO

Monday-Thursday, June 4-7 — "ROBOTS '84" conference and exhibition in Detroit. Information: 271-078. Hours: noon to 6 p.m. Monday; 10 a.m. to 6 p.m. Tuesday-Thursday; 10 a.m. to 4 p.m. Thursday. Sponsor: Robot Institute of America.

MARKETING

Tuesday, June 5 — "Marketing: an Overview" seminar offered from 8:45 a.m. to 12:15 p.m. in Troy. Fee: \$50, including breakfast. Information: 689-2882, Ext. 258. Sponsor: Wah College.

LSAT PREPARATION

Friday, June 8 — Six-session program in preparation for Law School Admission Test offered 6-10 p.m. in Troy. Registration: 540-5988. Sponsor: University Test Preparation Service.

DEVELOPING A TEAM

Tuesday-Thursday, June 12-14 — Forming a team and developing its potential and problem-solving capacity offered 8:30 a.m. to 4:00 p.m. in Birmingham. Fee: \$395. Information: 551-4300. Sponsor: Executive Consulting Services of Farmington Hills.

SMALL BUSINESS EXPORT-ER

Thursday, June 14 — Workshop for first-time exporter and small business person interested in world markets offered 9:30-11:30 a.m. in Detroit. Fee: \$20. Information: Sharon O'Brien, 577-4851. Sponsor: Wayne State University.

OIL AND GAS: Oil and gas deals use investors' money to lease drilling equipment and land. There are three kinds of oil and gas drilling partnerships: Highly speculative exploratory

shelters allow investors to buy and lease equipment to businesses, taking depreciation and interest deductions and investment tax credits. They also

FREE "HOW TO HOLD ON TO MORE OF THE MONEY YOU MAKE" **FREE**
will be the topic of a seminar on Thursday, May 31, 1984. The meeting will be held at the Southfield Public Library in the Marcotte Room from 7:30 to 9:00 p.m.

The speakers for the evening will be David N. Manheimer, RHU and Milos S. Saravolatz, CLU, LIC. These two gentlemen have combined over 25 years experience in the business and financial planning industry. Mr. Manheimer and Mr. Saravolatz will touch on the legal tax-free bridges that exist in the Internal Revenue code system. The discussion will emphasize how YOU may use these bridges to YOUR ADVANTAGE!

FREE "HOW TO HOLD ON TO MORE OF THE MONEY YOU MAKE" **FREE**
Thursday, May 31, 1984
7:30 to 9:00 PM
Southfield Public Library
Marcotte Room

Seating will be limited; therefore, please call our office for reservations. The phone number to call is 649-1371. There will be no charge for this seminar.



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