

Business

Barry Jensen editor/591-2300

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(S.F.-6C, Ro-TDXO)C

You can buy a house and get a tax shelter, too

Here is a useful family tax shelter many people are not aware of. A parent can buy a house or condominium and rent it to a son or daughter, or a couple can rent similar property to retired parents.

The key tax ingredient is that the owner can write off not only real-estate taxes and mortgage interest, but also insurance, maintenance, repairs and depreciation over 15 years.

Any loss can be used to offset other income. The dwelling must be the principal residence of the renter, who must pay fair rental value. The owner may not make substantial gifts to the renter.

THE FOLLOWING is an example of how the provision can work for parents providing a recently married son and daughter-in-law with their first house:

Home purchase price — \$80,000
Down payment — \$20,000
Mortgage — \$60,000

Monthly carrying costs:

Principal — \$13
Interest at 15 percent — \$746
Real-estate taxes — \$80
Insurance — \$33
Total — \$872
Monthly fair rental — \$600.

In addition to all items except principal in the above cash-flow calculation, the parents could write off the depreciation on the building over 15 years. Using the straight-line method, that would bring a further tax write-off of \$4,667 a year. The parents would have to report the rent as income.

IN THE early years, the deductions would more than offset the income, producing tax losses. When the residence began to show a taxable profit, the parents could consider giving it to the children.

The purchase also could be made with a shared-equity mortgage in which the parents and children become joint tenants with right of survivorship.

For example, the son and daughter-in-law could put up 25 percent of the money, the parents, 75 percent. In that case, the parents alone could take the depreciation as a deduction — but only 75 percent of it.

They would only have to charge a rental equal to 75 percent of fair market rent.



finances and you

Sid Mittra

You buy the house for \$20,000 down and an \$80,000 30-year mortgage at 14 percent. The \$80,000 comes from a bank, and the money buys an annuity that gives your parents about \$1,050 a month.

THEY PAY you rent of \$600 a month, netting \$450 monthly, or \$5,400 a year, on the deal.

Here is what you get from this plan. First, you can deduct the interest payments you make on the mortgage loan. You can also write off the property taxes and insurance costs — sums that your parents have been paying but now retain to increase their annual cash flow by perhaps several thousand dollars.

And, because the house is now a rental unit, you get to depreciate it. Obviously, anyone contemplating use of either of the two types of

shelters mentioned above should check it out with a tax adviser or a financial planner.

FINANCIAL SEMINAR: Sid Mittra and the Observer & Eccentric Newspapers will sponsor an educational financial planning seminar 8-10 p.m. Wednesday, July 11, at the Baldwin Public Library in Birmingham. Topics will include taxes, investment retirement and long-range financial plan. There is no admission charge for the seminar, but registration is required. Please call 643-8888.

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

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