

# Business

Marilyn Fitchett editor/591-2300

Thursday, January 21, 1988 O&F

(F1C)

## Shift income to avoid taxes



### Family Finances

a profile

By Alan J. Ferrara  
and Dan Boyce  
special writers

Local financial planning experts reviewed the data of the family profiled here and made general recommendations based on the participants' resources and goals. The information is for educational purposes only; references are not intended as discrimination or endorsements by Observer & Eccentric Newspapers or the advisers interviewed. To receive a free financial planning brochure or to obtain a questionnaire to have your finances reviewed in this column, contact the Center for Financial Planning, Dept. 100, 877 S. Adams, Suite 202, Birmingham 48011 or call 642-4000.

"If you fail to plan, you plan to fail."

This month's family profile centers on Joe and Carol S., Redford residents who are worried about change and interested in how they might shift income to their children in order to avoid income taxes.

Joe, 39, works for the U.S. government and earns \$30,560. Carol, 36, is a full-time student. They have two children, a daughter, 9, and a son, 6, and have made it a long-term goal to save for college for their two children.

The couple is spending a considerable amount of money (\$12,000 over a three-year period) toward educational expenses for themselves. Although current college costs may reduce their cash reserves, the advisers believe it is an excellent use of their savings. Investing in the development of job skills is one of the best investments they could ever make.

THE ADVISERS who reviewed their situation found both positive and negative factors. The positive factors include substantial home equity, relatively little debt, steady employment with good benefits, solid savings and emergency reserve, and potential for additional employment income when Carol finishes her degree.

Some of the weaknesses our advisers note include few assets set aside for children's college costs, inadequate life insurance, low liability limits on auto and homeowners' policies, uncertainty as to retirement income sources and overwithholding on wages.

Even though a substantial portion of income is spent on educational expenses, Joe and Carol's only liability is a home mortgage balance of \$20,000. After Carol graduates, Joe and Carol can expect that their income will increase because Carol will be entering the job market.

Dan Boyce, a certified financial planner, recommends increasing the

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— Alan Ferrara

personal liability limits on both automobile and homeowners insurance coverage to maximize protection against any lawsuits. In addition, Boyce is concerned about the low amount of coverage Joe has on his life.

"THE FAMILY would be devastated financially without his income. Buying at least \$200,000 of term insurance to help replace the potential financial loss at death and protect the family's standard of living is highly advisable.

"At Joe's age, presuming he is in good health, the cost of such insurance probably would not be overly burdensome," Boyce said.

Joe and Carol will need inflation-adjusted income of \$2,000 a month at retirement. They should investigate the pension which Joe will receive under the civil service plan to determine any shortfall for the re-

quired amount, which will have to be made up through personal savings and investments.

Attorney Alan Ferrara is concerned that they have purposely overwithheld income taxes in order to finance a \$2,000 individual retirement account contribution.

"If this is the only way to save this amount to invest in their retirement, they should continue this policy, but they should be aware that there is a cost to this 'forced discipline.' Joe and Carol could be using the dollars to generate interest for themselves rather than that money being held by Uncle Sam and earning no interest," Ferrara said.

HE ALSO analyzed the couple's idea of shifting assets to their children. Accounts under the Michigan Uniform Gift to Minors Act (UGMA) are still alive and well under tax reform, he noted.

A Uniform Gift to Minors Act is an account set up as a gift for the children with a custodian to control the account. The account, and any income earned on such an account, is used for the benefit of the minor.

If the account is used beforehand, the custodian pays the child the balance upon reaching age 18. Because Joe's and Carol's children are under age 14, the new tax law requires that any income earned on this account, to the extent that the unearned income of the children exceeds \$1,000, will be taxed as if earned by the parent in the parent's highest marginal tax bracket.

IF THE UGMA account has tax-exempt income or has appreciation instead of current income, there should be no federal tax problem.

Such a UGMA account could be used for a college fund for the children, but this could possibly wait until Carol finishes college and starts work. Boyce suggests that they not delay any longer than that. With the current age of their children, a target of \$600 to \$800 per month should be invested in a quality growth-oriented mutual fund or bank certificates of deposit as appropriate.

Joe and Carol have well defined financial goals, which if monitored and modified periodically, will serve them well in the future.

## Financial Position

### INVESTED ASSETS

Fixed Interest Assets	
Savings	\$33,500
Savings Bonds	\$500
IRAs - banks	\$18,100
Life Insurance cash value	\$1,300
Company retirement plan	\$15,600

### Growth Assets

Stock	\$9,800
Gold and Silver	\$1,000
<b>Total</b>	<b>\$79,800</b>

### NON-INVESTMENT ASSETS

Residence	\$50,000
Automobiles	\$2,000
Other personal assets	\$5,000
<b>Total</b>	<b>\$57,000</b>
<b>Total Assets</b>	<b>\$136,800</b>

### LIABILITIES

Home mortgage	\$20,100
<b>Net Worth</b>	<b>\$116,700</b>

## The Bottom Line

### Financial strengths

- Own own home with \$30,000 equity.
- Relatively little debt.
- Steady employment with good benefits.
- Solid savings and emergency reserve.
- Wills and trusts in place.
- Potential additional income when wife finishes degree.

### Financial weaknesses

- Few assets set aside for college costs.
- Inadequate life insurance.
- Liability limits too low on auto and homeowners policies.
- Retirement income source unknown.
- Wages are subject to overwithholding.

## Office workers ante up for small-stakes fun

By Mary Rodrigue  
staff writer

An office worker plunking \$1 down for the weekly football pool probably doesn't consider his or her action criminal.

But in the literal sense, it is. Although law enforcement agencies don't place a high priority on squelching white-collar gambling, they "have made arrests."

"If we receive a complaint, we take action," said Detective First Lt. Paul Gahde, commander of investigative task forces for the Michigan State Police, Livonia Post.

One task force probes vice crimes, which includes gambling. Although conspiracy to violate state gambling laws is a felony punishable by up to five years imprisonment, someone convicted of operating an office gambling pool probably would be slapped with a disorderly conduct charge, which carries a maximum \$100 fine and/or 90 days in jail upon conviction, Gahde said.

The most popular forms of office betting take the form of check pools (in which check serial numbers simulate poker hands), professional football, college bowl games, the World Series and the Kentucky Derby. Baby pools in which bettors gamble on the delivery date and sex of a baby are another derivation, as are weight loss pools.

VETERAN OFFICERS in both the Southfield and Troy police departments could not recall pursuing even one office betting pool complaint. One, with 18 years on the force, was not sure such betting is illegal.

Which might explain why participants consider it a mere diversion, not akin to real gambling. "Gambling can be an addiction for some people, but a \$1 bet each week is more of a hobby," said a hospital publicist who devised a football betting pool in his former place of employment in Birmingham. It still thrives today — a year and a half after his departure.

"Some pick their favorite teams, some choose on the basis of team colors, others might look to see who has the best record," he said of the bettors' techniques.

ONE PLAYER called his office football pool "my lottery."

"It seems that whenever I have an extra buck, I'm never near a (lottery) terminal. Whenever I'm near a terminal, I don't have an extra buck," he said.

"I know I'm not going to get rich playing in the office pool. But I like the odds a lot better than the lottery."

Another who helps compile results for his office pool sees office betting as a form of competition that "gives them (betters) an 'out' from their work schedules."

"I get calls the first thing Monday morning with people asking me, 'Hey, how'd I do?'"

"It's only a buck, and it gives people the chance to say to somebody else, 'Hey, I beat you.'"

He notes the seriousness of the betting by recalling the time someone left him \$4 cents instead of the dollar bill that normally accompanies betting slips.

WHILE WORKERS fret over injuries, home field advantages and other factors they think will influence scores, are employers worried? Not very, according to a random sampling of area businesses.

"I don't know of anything like that going on here on a regular basis, maybe just for a super game," said Miranda Lockhart, office manager for Miller Canfield Padlock & Stone, a law firm that employs 90 workers in Bloomfield Hills.

"If they were spending a lot of time on an office pool, they'd still have to get out their regular work load. But I really don't know of anything like that going on here."

Jim Dorrell, assistant vice president of corporate facilities for Alexander Hamilton Life Insurance Co. in Farmington Hills, was unaware of any office pools operating there.

"I think we're sort of a conservative company," he said. "We don't condone it. I suppose if it was among three or four workers in their own little office, we wouldn't say anything. But if it got bigger than that, we'd be concerned about it."

Ditto Bob Saks, whose auto dealership is headquartered in Farmington Hills.

"I know there's an office check pool that goes on weekly," he said. "The only reason I know that is that you overhear the conversation. They put in \$1 a week. The winner walks away with \$20 or \$30. They're having fun with it. It's not counterproductive. If it was \$50 a person a week, I'd definitely put a stop to it."

WHETHER EMPLOYERS are cognizant, employees don't appear eager to stop the bets. Sometimes, supervisors are the ones running the pool.

A creative director for a Detroit-based advertising agency who presides over an office football pool considers it "another motivational tool to get employees pumped up. It's something to talk about over lunch or coffee on Monday morning."

The time it takes to fill out a game sheet is "about two minutes," he said.



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