

# Business

Barry Jensen editor/591-2300

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## Special financing can help parents, children

The name of this game is Grannie Mae, which refers to a mortgage plan from a non-governmental enterprise called Golden Retirement Annuity Mortgage Association.

If you have aging parents who don't have much cash income, but who possess considerable equity in the house they own, the plan might help them and provide you with some tax breaks as well.

The Grannie Mae arrangement calls for the parents to sell their house to their child. Assuming that's you, you then lease back the house to your parents for their lifetimes in return for a fair-market rent.

### HOW IT WORKS

Suppose your parents, each 68, live on Social Security and retirement income and own a house worth \$100,000 that was bought 30 years ago for \$15,000.

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

They pay you rent of \$600 a month, leaving a saving of \$450 monthly, or \$5,400 a year, on the deal.

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

And, because the house is now a rental unit, you get to depreciate it.

In the example, your first-year payments for the mortgage, insurance, and property taxes would total about \$12,300. Your parent's rental payments would total about \$12,300.



### finances and you

Sid Mittra

Your parent's rental payments would give you \$6,000 in income, leaving you with net expenses of \$5,700. But your depreciation write-off of \$5,000, along with your deductions for taxes, insurance, and mortgage interest, produced a loss for tax purposes of \$10,480.

If you are in the 55.5-percent tax bracket (federal, state and local taxes combined), you save more than \$5,600 in taxes — which covers the rest of your out-of-pocket expense and leaves an after-tax cash flow of about \$100.

### HOW YOUR PARENTS BENEFIT

Your parents unlock the equity in their house and boost their monthly income, while continuing to live in familiar surroundings. Should one spouse

die, the survivor receives the full annuity.

You benefit from the appreciation of the property until you sell it. Also, your parents avoid estate taxes by transferring the house while they are alive.

It is important to note that the program is economically feasible only if your folks can use the one-time, tax-free capital gains benefit on this sale — meaning they must have lived in the house three out of the last five years and be older than 55.

### THEN THERE IS DADDY MAC

If you are the parent and would like to help your youngsters, you might consider Daddy Mac. This arrangement lets you help your youngster buy a first

house by becoming a joint owner with him or her.

Again, your tax breaks come from turning the place into rental property. And because you put up the bulk of the downpayment — say, 75 percent — you are allocated that percentage of the depreciation write-off and get a corresponding share of the home's appreciation.

Ownership costs are split 50-50 by both purchasers, but the younger owner pays you a fair-market rent for the prorated share of the house.

You get tax deductions, and your youngster gets to live in a home for roughly two-thirds the conventional costs.

Before you get too excited, keep in mind that these kinds of unorthodox arrangements can carry some unusual risks. For example, awkward tenant-landlord disputes can arise. Also, as tax benefits dwindle in later years of the mortgage, you could end up with a negative cash flow.

And, since you will be depreciating the rental property, eventual sale of the house could leave you with a siz-

able capital gain tax because depreciation has reduced your original-cost basis.

Consult your financial planner before you decide on any of the arrangements discussed in this article.

**EDUCATIONAL SEMINAR:** The Observer & Eccentric Newspapers and the Coordinated Financial Planning staff will conduct a seminar 7-10 p.m. Tuesday, April 9, at the Kinsley Inn, 1475 N. Woodward Ave., Bloomfield Hills. This seminar will cover: strategic planning (comprehensive and retirement planning); tactical planning (insurance, taxes, education, wills); and product planning (mutual funds, stocks and bonds, real estate and oil and gas tax shelters). An out-of-town investment specialist will discuss a specific tax shelter. The seminar is free, but registration is required. For more details, call 843-8888.

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

## marketplace

Dennis R. Green & Associates Inc. of Southfield has been named advertising agency for VideoTrax Productions Inc. of Southfield and advertising and public relations agency for DataWay Electronics of Redford. VideoTrax produces commercials, training tapes and films, forensic videos and music videos.

Wolk Advertising of Birmingham has been selected the advertising agency for D-Mark Inc. of Mt. Clemens.

Jacobson Stores Inc. will open a store March 21 in Old Hyde Park Village, Tampa, Florida.

Engineering Society of Detroit announced a name change for the society's monthly publication from Detroit Engineer to DE Technology.

AAA of Michigan will add another member service, offering cars through the Auto Club Leasing Co.

Jack McCarthy Enterprises Inc. have been chosen to handle public relations for Croissant-Croissant Cafe and Bakery of Southfield.

Simons Michelson Zieve Inc. of Troy has been appointed advertising agency for Sentry Mortgage Corp., Bloomfield Hills.

Independence Health Plan, South-

field, has created Independence Dental Systems Inc., a wholly owned subsidiary to coordinate its dental activities in Michigan and elsewhere. The company will function as the parent firm of three separate Independence Dental organizations in Michigan, Missouri and Illinois.

Chadli's, furs-and women's apparel in Birmingham has named Cerrito & Co. advertising and marketing in Troy to handle all aspects of advertising.

Realty World Corp. is pledging a total of \$150,000 to United Cerebral Palsy Telethon. Locally in Michigan, Realty World personnel raised more than \$5,000 in support of UCP National Games held at Michigan State University.

Inacomp Computer Centers, Inc. of Troy has formed Custom Computer Resources Inc., offering computer resources and support to small and medium-size CPA firms. The company combines the expertise of three firms: Inacomp, a retail computer company; Boyes, Wright, Pittman and Moug, accounting firm; and Custom Data Systems, computer services and software package developer.

Information for this column should be sent to the business editor, Observer & Eccentric Newspapers, 36251 Schoolcraft, Livonia 48150.

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