BUSINESS

FINANCIAL REPORT

Limited Partnerships: Pros & Cons

By Fred Snyder

The Tax Reform Act of 1986 eliminated the use of excessive Tax-Shelter Partnerships. These Limited Partnerships, usually Private Placements and not registered with the Securities and Exchange Commission (SEC), were designed to produce high tax write-offs, to shelter income from other sources. The Passive Activity Rules will reduce the use of losses to shelter income from other sources. A Passive Activity is one that involves the conduct of any trade or business in which the taxpayer does not materially participate.

Any rental activity is a Passive Activity regardless if the taxpayer participates. However, there are special rules concerning real estate rental activities and requirements to determine if the taxpayer is considered as materially participating in the trade or business.

For the most part, losses from Passive Activities are deductible against income from a similar activity. This is the general rule to observe for Limited partnership participants.

Public Limited Partnerships can be sound investments, there is a risk-reward relationship and many facts to consider before investing.

How risky are Limited Partnerships? The most conservative offerings will purchase assets without borrowing or leverage; the management will seek investment property with high occupancy rates or prearranged short-term equipment lease agreements. More speculative offerings will acquire unproven properties, look for turnaround potential, or Oil & Gas exploratory programs, which may interest a high risk speculator. Aside from the risk associated with the type of program being considered, there is a loss of liquidity to the investor.

The secondary market for small investors is virtually nonexistant. There is not an easy method to sell your partnership units, if you need cash. You should never place more than 20% of your investable assets in a Limited Partnership.

Then, what makes Limited Partnerships an attractive investment? First, it allows diversification of your investment portfolio, by removing some assets out of the stocks-and bonds marketplace. Also, tax benefits (from depreciation of partnership assets) are passed through to the Limited Partners. This feature can provide a tax-sheltered cash flow.

There are additional points to consider, in evaluating Limited Partnerships. All of your questions can be answered by reading the prospectus for the offering. This document can contain over 100 pages of facts and figures. There are some key areas that can tell you rather quickly, if that program/offering is what you're looking for; check the management experience and history of success in other offerings. Read the summary of offering and estimated use of proceeds to determine the objective of the program. Consider

FRED T. SNYDER

the diversification and size of the offering. Evaluate the risk factors and sharing arrangement; this will tell you the method, as well as the expected return to the investors; also, make sure you meet the qualifications and suitability standards, stated for the offering.

Ninety percent of your questions, regarding a Limited Partnership Offering, will be answered in these various areas.

Fred Snyder is an investment advisor for UNION EQUITY PARTNERS.

MICRO BUSINESS TRAINING PROGRAM SCHEDULED TO HAVE INTRODUCTORY SEMINAR OCTOBER 24, 1992

The Economic Opportunity Board of Clark County will conduct an introductory Micro Business Training Seminar Saturday, October 24, 1992 from 1:00 p.m. until 4:00 p.m. at the Moulin Rouge Hotel and Casino located at 900 W. Bonanza Rd. This MIND YOU OWN BUSINESS introductory MICRO BUSINESS TRAINING PROGRAM will introduce key Las Vegas Nevada focus group Micro Business' players.

Also, more detailed information will be dispersed about this three month MICRO BUSINESS TRAINING PROGRAM. All are encouraged to attend and meet and greet the MICRO BUSINESS TRAINING' PLAYERS. Remember, MIND YOUR OWN BUSINESS and attend this very informative Micro Business Seminar Saturday, Oct. 24, 1992.

For more information contact KIMBERLY BAILEY AT 647-7735.

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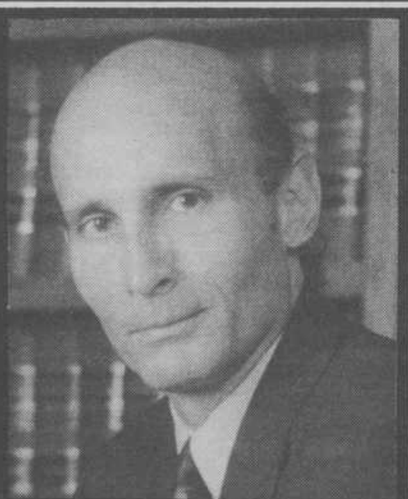

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Real Estate Perspective

By Loretta A. Hall

BENEFITS OF BACKUP CONTRACT CAN PROVIDE PEACE OF MIND

A friend signed a contract to sell his house about 30 days ago. The contract gives the purchasers 45 days in which to get financing or he can withdraw from the deal and get his deposit money back. He was extremely nervous that the purchasers would not be able to qualify for a loan, despite the assurances of his real state agent. He is primarily concerned that his house may not appraise for the selling price. He had heard that sellers can take additional contracts just in case the original contract fails. He asked me if I would explain how this works. I told him he was referring to a backup contract, which has become common in the buying and selling of real estate. To have a binding contract for the sale of real estate, the law requires a written document that spells out all of the terms of the sale.

Included are the sales price, the date of settlement and any contingencies that may defeat the validity of the contract. This written document has many names, ranging from "real estate sales agreement" to "purchase contract." The legal requirements to have a binding contract are that there be an offer, an acceptance and "valuable consideration." These are the principal elements required for any contract. Generally speaking, a buyer who likes a house presents a written offer to the seller. The seller has three options to accept the offer in its entirety, to reject the offer or to make a counter offer. When the offer is finally accepted, and there is consideration for the transaction, a valid binding contract exists. Consideration need not be money. Although the deposit that the purchaser puts down with the contract is sufficient consideration for legal purposes, the court has also held that when the seller takes the house off the market for a period of time in reliance on the contract, this too is "valuable consideration." Once a contract has been signed, the seller must adhere to its terms. Unfortunately, not all buyers are able to come up with all cash to purchase their house. They must seek financing and have a financing contingency giving them a reasonable period of time, usually from five to 60 days to find the money. If the buyer cannot get financing within the time specified, the transaction (contract) is null and void, and the deposit should be returned to the buyer. In today's economic climate, there is one additional problem that buyers are discovering, namely, that the house they want to buy is appraised at less than the sales price. Often, this can also be a barrier to a buyer obtaining the necessary mortgage financing. Obviously, none of this helps you as the seller. As my friend indicated, he was getting nervous as the end of the 45 days draws near. If the buyers is unable to get financing, the deal is off and he is without a buyer. I explained the he has the right to take backup contracts. I have recommended that sellers continue to market their house even after finding a buyer who has signed a contract, until all financing and other contingencies are removed.

There always remains the possibility the buyer can legally back away from the contract. However, if you find a second purchaser who is prepared to sign a contract, you must qualify that written document to reflect that the second purchaser is in a backup status. It is recommended that you place the following language in any back-up contract: "This contract will not become binding on the

(See Real Estate, Page 7)

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