BUSINESS

Real Estate Perspective

By Loretta A. Hall

REVERSE MORTGAGE PROGRAM

Recently, I was approached by a friend who was interested in learning more about the Home Equity Conversion Mortgage Program, also known as the "Reverse Mortgage Program." He wanted to know why I have not written on the subject. I explained to him that this program is not new, it was created to help older homeowners 62 and older who have no mortgages or a small balance, to keep their homes and to remain independent by converting their home equity into income.

By the way, I told him, I wrote an article on this subject a year ago. Nevertheless, I promised him I would write another article.

Lets say you are 62 years old or older, in pretty good health, but need more income.

You read several articles on the Reverse Mortgages Program, and you decided to call a mortgage lender for additional information.

They agreed to send out a representative who explained how the Reverse Mortgage Program could pay you a lump sum for home repairs and would then pay you a monthly income for the rest of your life.

The representative mentioned, but didn't emphasize, the upfront loan fees, which is usually very expensive.

So you talked it over with your children. They, of course, didn't like it, since it was borrowing against their inheritances, but they couldn't offer any better alternatives as to where the money would come from for the much needed home repairs and to just simply supplement your income to help make ends meet, since Social Security plus a modest pension wasn't nearly enough.

Given this scenario, I personally feel that a Reverse Mortgage would be a good idea.

The way I look at it is ... remember, you don't owe your children any inheritance. Your home equity is sitting there doing you no good...while it could be producing a monthly income for you, helping to pay the bills and put food on the table. There is nothing wrong with putting your home equity to work for you now...when YOU can use it!

Some of the Reverse mortgage transactions are obviously extremely profitable for the lenders and I agree that the upfront fees charged by some Reverse Mortgage lenders are outrageously high.

However, the lenders are taking an unknown risk because nobody knows how long elderly homeowners might live. The lenders have the right to protect themselves against possible loss.

Any readers interested in Reverse Mortgages or Home Equity Conversion Mortgages (HECMs) should study this topic very carefully before taking any action. There is an excellent book "Retirement Income On the House" by Ken Scholen available at most book stores and at your public libraries.

As always, please contact a professional for all your real estate needs or write to me c/o REAL ESTATE PERSPECTIVE, Las Vegas Sentinel Voice Newspaper, 1201 South Eastern Avenue, Las Vegas, Nevada 89104.

MONEY MANAGEMENT

SOME VERY IMPORTANT REASONS FOR REVIEWING YOUR TAX LIABILITY NOW

Don't wait until the end of the year to find ways to limit your tax liability. The Nevada Society of CPAs says a mid year review of your tax situation can take the bite out of your next tax bill. This year's tax planning may be a little trickier than in previous years and could be much more critical. As a result of President Clinton's economic plan, Congress is considering many tax changes that may have an impact on you and your family.

Project Income and Expenses

Before planning any tax strategy, estimate your taxable income for 1993. Taxable income is the amount of income remaining after you claim all adjustments, itemized deductions or standard deductions, and personal exemptions. The amount of your taxable income determines the rate at which you will be taxed.

Under President Clinton's economic plan, higher taxes seem inevitable, especially if you earn a high income. Single individuals with taxable incomes above $115,000 and married couples with taxable incomes over $140,000 may be subject to a new, higher tax rate of 36 percent. What's more, Mr. Clinton is also recommending a 10 percent surtax on taxable income over $250,000, raising the top tax rate to 39.6 percent.

Track Your Deductions

CPAs urge you to keep a comprehensive list of your tax-deductible expenses, updating it monthly. Don't overlook expenses such as charitable contributions, subscriptions to business-related publications, job-hunting costs, and medical expenses like the costs of prescription drugs and insurance premiums. Under the current tax rules, every dollar of deduction you overlook may cost you 28 to 31 cents. What's more, if President Clinton's proposed higher tax rates are adopted this year, overlooked deductions can costs you even more money.

Keep in mind that the value of your deductions tied to your income. For example, miscellaneous expenses, including unreimbursed employee business expenses and costs associated with producing income, are deductible only to the extent that they exceed 2 percent of your adjusted gross income (AGI). Medical expense deductions are also ties to your AGI: They are deductible only to the extent that they exceed 7.5 percent of your AGI.

Estimate the amount of money you have spent on qualified miscellaneous and medical expenses over the past six months and determine how close you are to these thresholds. If you are close to the thresholds, you may want to accelerate as many deductible expenses as you can into 1993. For example, if you plan to look for a new job next year, you may want to prepare and print your resume now so you can take the deduction on tour 1993 tax return.

Be aware, however, that under current tax law, taxpayers whose adjusted gross incomes exceed $108,450 in 1993 will see the value of their itemized deductions reduced by 3 percent of the amount by which their income exceeds this threshold. If your income is approaching this amount, you may want to postpone income, such as bonuses, into 1994 so you can continue to receive the full benefit of your deductions.

Protect Earned Income Through Retirement Savings

One way to minimize your tax bill and maximize your earnings is to invest in company-sponsored 401 (k) plans, or if self-employed, in Keoghs. These plans enable you to save pretax dollars for your retirement. Your contributions reduce your gross income and the interest earned is tax-deferred.

Individual retirement accounts (IRAs) also offer tax-deferred savings. You can contribute as much as $2,000 a year if single or $2,250 a year if you are married to a non-working spouse and file a joint return. If both spouses work, you may be able to contribute up to $2,000 each.

The sooner you make a contribution, the longer your earnings in the account can compound tax-deferred interest. What's more, depending on your income and whether you or your spouse participate for your IRA contribution.

Look Ahead

CPAs emphasize that you shouldn't let proposed tax law changes throw you off course. By understanding your options and carefully reviewing your personal financial situation, you are prepared to take the steps necessary to minimize your 1993 tax liability.

MONEY MANAGEMENT ***is a weekly column on personal finance prepared and distributed by Certified Public Accountants. Contact: Nevada Society of CPAs, 5270 Neil Road, Suite 102, Reno, NV 89502.***

U.S. DEPARTMENT OF COMMERCE ANNOUNCES NATIONAL FRANCHISE INITIATIVE AWARD

The Minority Business Development Agency (MBDA) of the U.S. Department of Commerce announced today an award of $149,000 to LISBOA Associates, Inc., a minority-owned communications, management and consulting firm, to perform promotion and outreach activities relating to the agency's National Franchise Initiative.

The company will promote MBDA's initiative by developing and implementing outreach strategies, including promotional articles for publication in national newspapers and magazines and media manuals for use by MBDA's network of funded business assistance centers.

"MBDA's National Franchise Initiative is designed to promote, increase and maximize minority ownership of franchises. Through our outreach efforts, we are committed to informing the minority business community of all opportunities and options available for franchise ownership," Secretary Ronald H. Brown said.

The minority community composes more than one-fifth of the American population but owns only 6 percent of total businesses and an estimated 3 percent of franchise businesses. MBDA conducts Introductory Franchise Seminars nationwide to increase minority participation in franchising.

"This award will further increase minority individuals' awareness of the benefits, risks, requirements and rewards to be obtained in franchising," said MBDA acting director Gilbert Colon.