

**MONEY MANAGEMENT**

**TREAT LOANS AS BUSINESS TRANSACTIONS**

Don't let your emotions cloud your thinking when making loans to family members. Family relationships are less likely to be jeopardized if you work out the details of any loan agreements before you hand over the money to a relative.

**HOW MUCH CAN YOU AFFORD TO LEND?**

The Nevada Society of CPAs recommends that before you lend money to anyone, you should assess your current financial situation. Consider the impact a loan will have on your cash flow, outstanding debts and future financial goals. This will guide you in determining how much you can afford to lend and for how long. Don't jeopardize your own financial situation by

borrowing money against credit cards or from other sources in order to make a loan to a relative.

**SETTING INTEREST RATES**

Once you have determined how much money you can afford to lend, the next step is deciding how much interest, if any, you will charge. If you have cash in savings vehicles offering low returns, such as 3 percent, you can offer your relative an interest rate of 6 percent and earn more money. What's more, a 6 percent rate is advantageous to your relative since it is lower than typical rates on personal, consumer and home-equity loans.

In establishing an interest rate on an intrafamily loan, be sure to consider the federal tax

implications. Minimum interest rates are fixed by the federal government according to the type and term of the loan. For a demand loan (a loan payable in full at any time on demand of the lender) if you don't charge the applicable short-term federal rate (recently 3.92 percent), you are considered to have "imputed" or unstated interest and will be taxed on the difference between the federal rate and what you actually charged. There are several important exceptions to these rules.

The imputed interest rule does not apply to loans of up to \$10,000 if the loan is used for certain non-business purposes. For example, if your brother needs to borrow \$5,000 to finish

his college education and you opt to lend him the money interest-free, you will not incur any imputed interest.

On loans of up to \$100,000, interest will be imputed to the lender only to the extent of the borrower's annual net investment income (i.e. interest, dividends, and capital gains). If such income is less than \$1,000, no imputed interest is deemed transferred to the lender. So, if upon your daughter's completion of law school, you lend her \$50,000 to start a law practice and she has no investments that are producing income, you can provide the loan at an interest rate that is below federal minimum rate without any tax repercussions.

Keeping mind, too, that making loans of over \$10,000 at a below-market interest rate may result in the loan being deemed a gift in the IRS's eyes. As a result, you or the recipient may be required to pay a gift tax.

**FINANCING A RELATIVES HOME PURCHASE**

If a family member asks you to help finance a down payment on a new home, you can offer to make a number of different arrangements. For example, you can deposit the money needed to satisfy the down payment in a collateral account with the mortgage lender. With this type of arrangement, your deposit, plus interest, will be returned once the mortgage lender determines that the mortgage holder has built up sufficient equity in the home.

Depending on your financial situation, you can also consider holding the mortgage on the home yourself. Structured properly, you may be able to generate more income this way than by putting your money in other investments. Assuming you charge your relatives an

interest rate that is lower than the current rate of mortgage lenders, your relatives will be able to build equity in their own homes. In addition, they save on points and other bank service fees.

If you prefer to provide your relative with a personal loan to help finance a down payment, your relative may be able to claim the interest paid to you as deductible mortgage interest if the loan is secured by the residence.

**PUT AGREEMENTS IN WRITING**

CPAs recommend that you put all loan agreements in writing, clearly specifying the amount of the loan, interest rate, repayment schedule, and if necessary, collateral. This will help ensure that you are repaid according to your wishes.

*Money management is a public service announcement on personal finance prepared and distributed by certified public accountants. Nevada Society of Certified Public Accountants, 5250 Neil Road, Suite 205, Reno, Nevada 89502.*

**Africa Will Get Richer In 1995, It's Top Bank Says**

ABUJA - Africa will become richer in 1995 as economies grow faster than populations to boost per capita income for the first time since the beginning of the decade, the African Development Bank said on Monday.

But it called for a review of International Monetary Fund structural adjustment programmes followed by most of its African members, saying such programmes should allow more government intervention.

"What is needed is efficient government that is committed to growth and development," its African Development Report said.

The report forecast 1995 growth across its 52 member states at 3.6 percent, up from an estimated 1.9 percent in 1994 and 0.7 percent in 1993 and outstripping population growth of about three percent.

The main source of Africa's economic growth in 1994 was an increase in domestic demand, caused by a significant increase in private consumption and smaller increases in government consumption and gross domestic investment, said the report published ahead of the Bank's annual meeting in the Nigerian capital.

The report said in the longer

term Africa's output growth rate was forecast to rise annually by four percent, with several countries expected to outperform the average.

But it warned this was dependent on a number of factors including continuing global growth bringing an increase in demand for developing-country exports, and greater international activity arising from the GATT world trade deal.

The report said the number of countries with GDP growth higher than average population growth increased from 17 in 1993 to 21 in 1994, while the number of countries whose growth rates were positive, but below three percent, rose from 16 to 20.

It said the number of countries recording negative growth had fallen to 10 in 1994 from 18 in 1993.

"Developments with respect to stock exchange markets continued to be favourable in 1994, as Africa's stock markets posted large gains," it said.

The report said government intervention, which structural adjustment programmes sought to minimise, was often helpful in countries where the private sector was undeveloped, and too-hasty financial liberalisation could destabilise fragile low-income economies.

It said that while too much government intervention might have accounted for poor economic performance in the

past, "it is not clear if the minimal role being assigned to the state will, indeed, lead to rapid growth and the economic transformation of African economies."

Referring to "the phenomenal growth of the Newly Industrialised Countries" outside Africa, it said "the active roles their governments played in accelerating growth suggest caution in any attempt to relegate the state to a minimalist role in the process of economic advancement."

Reviewing 1994, the report said the worst-performing region was the Economic Community of Central African States, where growth fell by 2.6 percent hit by war and ethnic unrest in Rwanda and Burundi.

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**Fighting For Your Neighborhoods**

No other candidate in the North Las Vegas City Council race has done more for his city than William Robinson. He has:

- Fought to put more police officers on the streets and establish substations in problem neighborhoods.
- Worked to establish new fire stations to protect the community.
- Been a strong proponent of new economic development projects that bring in businesses and better-paying jobs.
- Always been available to hear resident's concerns.



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**William ROBINSON**

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Paid for by Committee to Elect William Robinson