MONEY MANAGEMENT

THINK TAXES BEFORE PURCHASING A VACATION HOME

Reno—It's that time of year when thoughts turn to summer vacations and dreams of owning a special getaway.

There are distinct benefits to purchasing a vacation home: You have a place available for your recreational use and an asset that may appreciate over the years. However, there's no getting around the fact that vacation homes are expensive to own.

The Nevada Society of CPAs points out that the tax law contains some provisions that can help offset the costs of owning a vacation home. The tax advantages available to you depend on whether you use the vacation home solely for your personal use, or whether you rent it out.

VACATION HOMES USED SOLELY FOR YOUR PLEASURE

If you buy a vacation home solely for your personal use, you may deduct mortgage interest and property taxes, just as you would on your principal residence. Keep in mind that you may take the deduction for mortgage interest on only one property other than your principal residence.

Under the tax law, you can also rent your vacation home for up to 14 days a year without reporting the income to the IRS. However, other than mortgage interest and taxes, your rental expenses are not deductible.

RENTAL PROPERTIES

Different tax rules apply to rental properties. If you purchase a vacation home as a rental investment and don't plan to use it yourself, you may fully deduct costs associated with maintaining and operating the home, including mortgage interest, property taxes, insurance, advertising, broker fees, utilities, repairs and depreciation. Your deduction is subject to passive activity loss limitations which generally limit your deductions to the amount of your passive income.

However, an exception exists that allows you to deduct rental losses of up to $25,000 if you are an "active" owner with adjusted gross income (AGI) of less than $100.000. The $25,000 allowance is phased out as AGI increases from $100.000 to $150,000.

PERSONAL USE OF A RENTAL PROPERTY

If you use the home and rent it, you still may be able to deduct the costs of operating and maintaining your rental property (subject to the passive loss rules). To do so, your personal use must not exceed 14 days during the tax year or 10 percent of the days during the year that the dwelling is rented at fair market rental, whichever is greater. (Fair market rental is the amount you could receive for the home if you rented it on the open market.) However, in determining whether your use falls within this category, it's important to understand the IRS's definition of personal use.

Under the tax law, your vacation home is considered to have been used for personal purposes any day, or part of a day, that it is used by you or anyone who rents it at less than fair market rental. Even if certain family members, including your parents, siblings, or children, pay a fair rent to use the home, the IRS still considers this personal use.

Be aware, too, that even if you donate a week at your vacation home to a charitable cause, such as a church auction, that week counts as personal use days.

If your property is rented for 15 or more days during the tax year and personal use exceeds the greater of 14 days or 10 percent of the days the vacation home is rented, your rental expenses are deductible only to the extent of your rental income. As a result, you cannot claim a rental loss. In addition, tax law specifies that you claim your expenses in a certain order. First you deduct expenses related to obtaining tenants, such as advertising and rental agency fees. Then you deduct interest, property taxes, and casualty losses. Next, you deduct insurance, utilities, repairs and other operating expenses, and lastly, depreciation. The law is structured this way to prevent individuals from taking excessive deductions when there is personal use of a vacation home.

Deductible rental expenses also must be allocated to the days of rental use. Since the formula is complicated, you may want to consult with a CPA to assist you in determining the correct amount of deductible rental expenses.

Finally, don't let the tax law scare you from purchasing the vacation home of your dreams. Just remember that the more you use the home for your own, the less you can count on Uncle Sam to help the bill.

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.

Study: Job Stress Doesn't Equal Heart Attack Risk

SAN FRANCISCO - Contrary to popular belief, stress at work does not seem to be an important factor in increasing the risk of heart attacks, researchers said Tuesday.

A four-year study of 1,489 people found that coronary disease is just as common in patients with low levels of job strain as it is in patients with high levels of job stress.

A group of researchers studied patients tested for heart disease at Duke University Medical Center in Durham, N.C., between March 1986 and June 1990.

Patients who agreed to participate filled out questionnaires that assessed their job duties and work environment, including a measure of job strain, defined as high psychological demands from work but little ability to control the pace or amount of work on the job. The results of the study were published in the latest issue of the American Heart Association's journal "Circulation".

The study found that patients with low job strain were just as likely as patients with high job strain to have heart attacks or die from heart disease over the four years after the test.

The researchers said their study suggested that job strain was not an important risk factor in heart attacks.

"People who are able to keep working may benefit from the social contacts at work, even if they have a high-strain job," said Redford Williams, director of behavioral research at Duke University and a co-author of the study.

Several studies have shown that coronary patients who are socially isolated have a much higher death rate, he said.

Mark Hlatky, an associate professor at Stanford University School of Medicine and principal author of the study, said that stress from a person's job is only a fraction of the overall stress of daily life.

But the researchers also noted the difficulty of measuring stress. "The same job conditions, for instance, may be viewed by one person as challenging and by another person as stressful," they wrote in the article.

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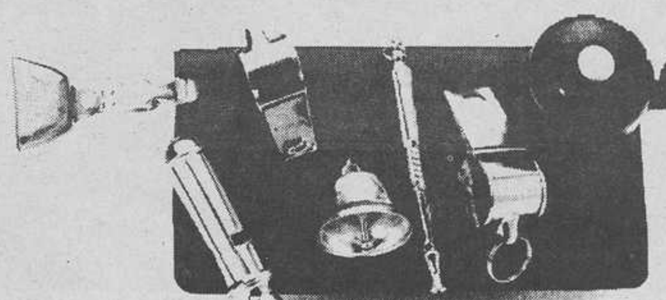

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