MONEY MANAGEMENT

DANS 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

BOSTON - Once you have

chosen a portfolio of mutual

funds to meet your future goals,

it would be nice to flip a cruise-

control switch and let the fund

managers take over. But even

the most passive investors

adjustments to their fund

should not be dictated by

fluctuations in the financial

markets, however, Instead, they

should be linked to the rhythms of your life. As time passes, your

financial goals will change and

so will your ability to tolerate

certain types of investment risk.

you take on new financial burdens, and your portfolio

should reflect them.

There will also be times when

For example, you might

become responsible for an

elderly parent in financial trouble at a time when you are saving for

other long-term goals. Or you might decide that you want to

change your career and accept

a salary cut that will disrupt some

fund strategy should be flexible

enough to adapt to such changes

as they happen, and to meet

sometimes conflicting financial

career, for example, you may be

hard-pressed simply to meet the

in Black Skin

and Hair Care

Products"

When you are starting your

goals over time.

In short, things change. Your

of your investment plans.

As a rule, such changes

periodic

should make

When To Revamp Your Fund Portfolio downpayment on your first home, or the expenses of starting

order to make a loan to a relative.

SETTING INTEREST RATES

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

Once you have determined

a family. That money can go into money market funds that hold stable, cash investments, such as Fidelity Cash Reserves (no load; 800-544-8888; \$2,500 minimum investment). Or you could choose funds that buy short-term bonds, such as Vanguard F/I Short-Term Corporate (no load; 800-662-7447; \$3,000 minimum

Still, financial planners and other experts insist that if you can get a headstart on saving for (See Fund Portfolio, Page 24)

guide you in determining how rate is advantageous to your much you can afford to lend and relative since it is lower than for how long. Don't jeopardize typical rates on personal, your own financial situation by consumer and home-equity borrowing money against credit loans. cards or from other sources in

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 transfered to the lender. So, if upon your daughter's completion of law schol, 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 demed 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

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.

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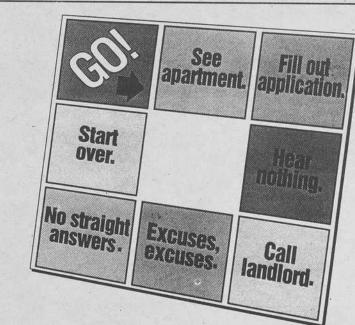
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