

**WHY REAL ESTATE IS A GREAT DEAL**

Or

**WHY I LOVE REAL ESTATE (Part 2 - Reasons 26-50)**

by Howard E. Spiva

26) LEVEL FIELD: Billionaires can trade stocks when the market is closed and we can't. Real Estate is fairer.

27) SOMEONE BUYS YOU A HOUSE: With real estate someone else, the tenant, pays your mortgage off for you.

28) LOWER TAXES: With real estate rent you pay lower taxes (its unearned income - even if you manage it yourself) than "earned income" like for a salary or a job.

29) MORE DEDUCTIONS: Income from real estate can deduct more things than income from a job.

30) PHONE PERKS: Real estate as a business can pay for you a cell phone or a pager.

31) TRUCK PERKS: Real estate as a business can pay for you a truck.

32) TOY(S) PERKS: Real estate as a business can pay for a lawn mower, a riding lawn mower, or a tractor.

33) COMPUTER PERKS: Real estate as a business can pay for you a computer.

34) TOOL PERKS: Real Estate can pay for tools, pressure washer, a rake, a shovel.

35) SOLVE HEADACHES: With real estate you can deduct the costs of a maintenance man, a book keeper, and a property manager.

36) LOTS OF OPTIONS: With real estate you can rent out bedrooms, you can rent the land for crops or storage or horses. You can rent large rooms and space for churches, clubs, organizations, weddings, receptions, parties, (Melaleuca, Prepaid Legal, Tupperware, Amway) meetings.

37) CREATIVE WITH DOCK: You can buy a dock near 48 homes. Rent dock to them for \$100 each? Maybe just 10 at \$200.00? \$2000 month? How about \$24,000.00 year as a side income? Water rentals are seasonal and most won't even use it - like a gym membership.

38) TAX-FREE INCOME: You can rent your home for 14 days a year and it is 100% tax-free.

39) TAX-FREE INCOME: A business (including a real estate business) can deduct a reasonable cost of providing social or recreational parties for employees, year-end holiday parties, or a summer employee outing for employees and their families. This is 100% deductible to the company. You, of course, must invite all of the employees (IRC 274 (e)(4)). Let these events be at your home. Your business deducts the

party and rent, and you get the money tax-free (14 days a year). Is \$500 to \$1,000 a day reasonable rental for a location for a party?

40) TAX-FREE INCOME: You can rent your home to relatives who visit on business; they can deduct it and its tax-free income to you.

41) TAX-DEDUCTIBLE TRAVEL: You can deduct the travel to your out-of-town rental property.

42) DEDUCT TRAVEL TO VISIT COLLEGE CHILDREN: Your out-of-town rental property can be in the town where your child is going to college. You can hire your child to manage that property and you can deduct that salary.

Your child can use this tax-free income to pay for college. Your child can rent out rooms for additional income. You can deduct the depreciation interest, taxes, and insurance.

You can sell the property at its appreciated value in 4 years when your child finishes college. Put all this in the "for sale" ad for the next college student's parents.

43) TAX-FREE INCOME TO CHILDREN: In your real estate business, wages from a parent to a child under age 18 are exempt from Social Security, Medicare, and unemployment taxes. This exemption does not apply to incorporated businesses, only sole proprietors.

44) TAX-FREE INCOME TO YOUR CHILDREN PAYS FOR PRIVATE SCHOOL, COLLEGE, WEDDINGS AND THEIR RETIREMENT: Your real estate company can deduct monies to your children. For example, in 2002, \$4,700 earned income is tax-free to a child. You or the child may take the standard \$3,000 exemption. Amounts over the exemption, up to an additional \$6,000 are only taxed at 10%. In addition, your child could put away \$3,000 into an IRA.

If this were a Roth IRA, the interest and appreciation would be tax-free. Your business, by hiring your child, allows your uncle (Sam) to finance your child's education and private schools, college, weddings, etc.

There is a tax court case that has held you may hire a child who is at least 7 years of age. Tax planners have been known to recommend that a business owner use their child's photograph in their marketing and pay the child a modeling fee. This theory has not been tested in the Courts. There is a reasonableness standard (pay history of employee, comparison of salary with business income, duties performed, volume of work, type and amount of responsibility, complexity of work, general cost of living in the area, amount of time required for work, ability and achievements of the employee).

Good example: his son on O.C. Welch commercials! (I bet it pays for his College.)

45) YOUR BUSINESS CAN PAY YOU TAX-FREE: Your business or company can deduct payment to rent your home for a corporate meeting or employee retreat or party and deduct it. It is tax-free income to you.

46) HOME OFFICE: Your company can pay the pro-rata share of taxes, utilities, mortgage (rent), and upkeep for the portion of your home your business uses as an office.

47) ZONING CAN MAKE YOU MONEY: A home subdivision can become a commercial zoned area and sell for multiple times the residential value. Or you can rent the commercial house out for a daycare, or office or beauty shop for a much higher rent than a house.

48) DEFER TAXES WITH PAYMENTS: You can sell a property and if you finance it for the buyer you only pay taxes in the year you receive the payments. Plus you receive interest income. If they fail to pay you, you get the house back and you can keep the down payment.

49) MORE ON HIRE YOUR CHILD: You can hire your child to work on your real estate. You can deduct the child's salary. The child will pay no income. The children can pay for their own food and clothes or school. The child can start a retirement plan. The child can start a Roth IRA with the money and never pay taxes on the growth. The child can mow the lawn, empty the trash, organize checks, do light filing, make copies, clean your office, clean your rentals, help with maintenance (and learn).

a) Keep a written job description. b) Keep track of work hours. c) Pay a reasonable wage. It's a good idea to have an employment contract. Always be honest. How about pay your child to model in an ad? (See also number 44.

AVOID ALLOWANCES: The alternative is paying allowance, tuition, weddings and other expenses with after-tax money (at your higher tax rate).

Note: The Kiddie tax only applies to investment income (over \$1,500) such as capital gains, dividends, royalties and rents, but not earned income.

50) ROTH IRA CAN OWN REAL ESTATE: Real estate can be owned by a Roth IRA, the growth will NEVER be taxed. Or you can do options.

A Roth IRA can own real estate. It is funded with after-tax dollars, so the contributions are after-tax. This contribution could be tax-free...(tax-free for a child or low-income grandparent).

If your income is over \$100K, you can't contribute to a Roth that year. But good news, there is a new 401K Roth!

The growth of a ROTH is also tax-free.

It can own or option real estate and the profits are tax-free.

You must own Roth for 5 years and until age 59 1/2

**More to come in Part 3**

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