

VALLEY

FINANCIAL DIGEST



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ALTERNATIVE FINANCING FOR WINERIES AND VINEYARDS

A major appeal of wineries and vineyards to investors is the tax shelter they generate. But certain investors are less oriented to tax shelter than others, and other investors such as pension, Keogh and IRA plans are tax-free.

An alternative way for winery and vineyard partnerships to appeal to investors who are less tax-oriented is to offer them bonds that carry a low fixed return plus a participation in profits. This allows the equity partners to get all of the tax benefits even though they put up only part of the capital.

Interest payments to the bondholders will be deductible by the partnership, creating larger tax losses. Cash distributions to the equity partners could be larger since the bondholders, in exchange for a guaranteed return, would normally be entitled to a lower share of the total cash flow than the equity partners.

Bondholders can be offered additional protection with partnership assets as collateral. Further, the bonds could have a "due on sale" clause requiring they be paid off if the property is sold.

One investor, wearing two hats,

could participate in both types of investment—individually as a partner and also via a IRA, Keogh or pension plan as a bondholder.

DEDUCTIBLE GIFTS OF AIR

A charitable contribution may be allowed for a gift of air—or more accurately, for air rights adjacent to property.

The tax planning possibilities for air rights are intriguing. For example, most vineyard owners have air rights which they either cannot or do not wish to use but which nevertheless have substantial value.

Example—

Virginia Thayer had a sixty-acre farm. She conveyed a "scenic easement" over the farm to a qualifying foundation. The restrictions imposed by the easement prevented any further development of the property except as a farm. A deduction was allowed for a contribution equal to the "loss in value" on granting the easement. An ensuing Tax Court dispute was resolved by a battle of the experts. Her appraiser argued for a decrease in value of \$147,000, while the IRS said it was only worth \$60,000. The Tax Court allowed \$113,000, clearly in favor of the taxpayer.

Her scenic easement prohibits development, which is probably the last thing she had in mind. So, in effect she got a write-off of \$113,000 for agreeing not to do what she didn't want to do in the first place.

It should be noted that while the charitable deduction provides an immediate tax benefit, it will cause a larger gain to be realized when the property is sold. This is because the basis of the property must be reduced accordingly.

WINERIES MAY DEDUCT HISTORIC FACADES

The concepts in the previous article can be applied to historic buildings to generate a similar tax deduction without a cash expenditure for wineries and others. This tax break is available when easements for the exteriors of restored historic buildings are donated to charitable organizations.

One owner for example, donated the exterior of an 1850's building to a charitable foundation. The owner then wrote off 11% of the total expenditures that were made to substantially renovate the building. The easement requires the donor to maintain the facade, but gives the foundation control over the building's use and appearance.

Establishing the value of a facade can be difficult. Some owners have claimed deductions as high as 25%, but ranges of 5% to 15% seem to be more common.

TAX SAVINGS CAN HELP PAY YOUR CHILD'S COLLEGE EXPENSES

Whether you're paying college expenses today or looking to the day when your children will

need college dollars, why not plan now to minimize the cost of this large investment.

There are several plans which can make your dollars go further depending whether you have:

1) Cash--

Make an interest-free loan to your child. The funds can be invested and the earnings used for payment of college expenses. These earnings escape your high tax bracket and will be included in your child's tax return.

2) No cash, but you've got some high-yield securities or other income producing property--

Establish a Clifford trust for your child. Your securities or other income producing property will go into the trust for a period of at least 10 years and a day -- then you get it back. Meanwhile, the income from the property is included in your child's tax return, not yours, and can be used to pay college expenses. Again, fewer dollars paid in taxes leave more dollars for college expenses.

3) Substantially-appreciated assets--

By transferring this property into a trust, with a definite sum to be paid to your child for a fixed number of years and the remainder to go to a charity:

- you don't pay tax on any of the income earned while the assets are in the trust;

- you receive a charitable contribution deduction for the value of the charity's interest; and

- you escape the capital gain tax liability you would otherwise incur if you liquidated the property to pay for the college expenses.

A little planning can go a long way in getting the government to help pay for your children's education.

MAXIMIZE CORPORATE INVESTMENT YIELD

If your corporation has cash to invest and is in a high tax bracket consider investing in preferred stock.

Preferred stocks are attractive for most corporations because 85% of dividends received can be excluded from taxable income.

Therefore, your net aftertax yield from preferred stocks may be higher than that available from other fixed-income investments.

For example:

For a corporation in the top tax bracket, a taxable bond would have to yield 12% before tax to equal the net aftertax yield on a preferred stock with a 7% pretax yield.

SELF-EMPLOYMENT TAX ON THE RISE

Year	Rate
1983	9.35%
84	11.30
85	11.80
86-87	12.30
88-89	13.02
90	15.30

The self-employment earnings base for 1983 is \$ 35,700 and will be adjusted annually thereafter. This tax should be

considered when contemplating an investment as a general partner in a business that will generate earned income.

TURN YOUR BUSINESS INTO A TAX SHELTER

If you're the owner of a corporation, one of the best tax shelters around might be your own business. It's as simple as this: Property used in the business may be owned by you personally or with partners and rented to your corporation. You could use vineyard land, a warehouse, a winery building, or other business property. It could be property the corporation now owns or intends to acquire.

The potential benefits:

- The rental payments get cash from your corporate pocket into your personal pocket and gets the corporation a deduction at the same time.
- A possible "tax loss" from the rental could result in tax savings on your individual return.
- When the value of the property increases, the property can be refinanced and you can receive the proceeds personally rather than have them tied up in the corporation.
- Also, this may present an opportunity for doing some estate planning . . . by placing the property in your children's name, future appreciation is excluded from your estate.

If handled correctly, a simple business transaction such as the acquisition of real property can provide several opportunities for cash planning and tax savings and help solve the common problem of how to get cash out of a corporation without double taxation.