

Perspectives - On Business

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With the economy and interest rates being as they are, the subject of Home Equity Loans came up recently in a meeting of business owners. Everyone knew that the interest on Home Equity Loans was deductible, however there were some different opinions regarding how much of it was deductible, and under what circumstances. As with all taxes, there is no completely simple answer.

Could business owners borrow against their homes and deduct the interest, even if the money was used for business purposes? The simple answer is - yes. The right answer is - it depends. The correct answer is specific to the circumstances of the taxpayer.

The simple answer is that home equity loan interest is still fully deductible regardless of the purpose for which the money is used. The points, however, are proportionately deductible according to the use of the money:

For example: a home improvement loan is taken for \$20,000, of which \$10,000 is used for home improvements, the remainder used for purchasing a car. Of the \$200 loan origination fee, \$100 is currently deductible and \$100 gets amortized over the life of the loan.

The limit for deducting interest is \$100,000 for joint filers and \$50,000 for single filers. For cases in excess of this amount, or in excess of the \$1 million limit, it may be advantageous to treat them as unsecured loans. Some special provisions apply if the loan is for necessary medical adaptations of the home or for home business (office) use.

Now, for the *other* side of the story:

In cases where the Alternative Minimum Tax applies, the deduction IS limited to uses in building, buying or improving your home.

So, if you haven't surpassed your limit on tax-preference items, you may be able to use a Home Equity Loan for purposes other than home improvement and still be able to deduct the interest.

Time for the requisite disclaimer: this information is not intended to be tax advice. The rules beyond these summary points are complex and should be referred to someone who knows the whole context of your situation. Additional information can be obtained through IRS Publication # 936.

Have a great week! And, remember to encourage your employees to fund their IRA's.

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Future Finances' Market Update

By Max Larsen

Monday, March 31, 2003

From personal experience and watching a little of the Players' Championship golf tournament this weekend, I couldn't help but be amazed at how emotions can screw up someone's game. Isn't the same also true with investing? If you are too tight emotionally it affects your muscles and you can't even walk efficiently, not to mention swing a club or shoot a basket. And right now I (and my fellow bulls) am tight. So I wake up in the morning, and if I allow my emotions to rule, I believe the half-truths commentators are telling me.

Isn't listening to the constant bombardment of fragmentary reporting on the war in Iraq making everyone emotional distraught? The world is tuning in 24 hours a day via thousands of Web sites and dozens of TV channels, including three around-the-clock news networks. There are more than 500 reporters embedded with troops, but what are we learning? Nothing! Reporter want to make their mark so every little plume of smoke gets reported on. No one would guess from the reporting the war is actually going very well. Yet, everyone seems distraught.

Needless to say, the market drifted lower last week as investors postponed stock-purchase programs until they can more accurately gauge how long the war in Iraq will last. As far as the economy is concerned, the data are continuing to weaken, but it's impossible to tell how much of the weakness is war related. That's why the Iraq situation needs to be removed from the economic equation before we read too deeply into the data. Obviously, if the war in Iraq ends up taking months rather than weeks, we will not have a choice but to take the weak economic data very seriously.

First quarter earnings season is right around the corner, and everyone is expecting earnings to be weaker than what was expected at the beginning of the year. As a result, the potential for a market rally during earnings season will be closely tied to corporate earnings guidance, which has been nearly extinct for three years running. In order for corporate earnings guidance to come back to the fore, the war in Iraq has to be over. Otherwise, there's no way that companies will be willing to offer any meaningful guidance in April, hence everything is riding on Baghdad.

So, is there a solution to our emotions taking over? Yes, turn off the television! Stop watching the ultimate reality TV show and look at investing, and your life, using tried and true strategies, i.e., asset allocation programs and don't rely on emotions doing the bidding.

I'll be back next Monday.

Thanks to friends like you who refer new business to us, our practice continues to grow.

As always, your comments and reactions are welcome. Please feel free to share this newsletter with others you think may find it interesting or useful. We respect your privacy and will not share your address with others. Click [here](#) to send a comment, to subscribe, or unsubscribe.

Sandra Heusinkveld, President
Financial Planning Perspectives, LLC
1333 Clubview Blvd. North
Columbus, OH 43235
614-785-0156 tele
614-485-0176 fax
sandra@fpperspectives.com
www.fpperspectives.com

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