

WITH EUGENE PETTIS

REAL ESTATE Viewpoints



Eugene

Sub Chapter "S"

A corporation that meets certain prescribed requirements can have its income taxed directly to the shareholders, thereby avoiding the double taxation problem that exists in most corporations. These organizations are referred to as Subchapter S corporations.

The Subchapter S corporations are useful during the period of construction before any profits are realized. Operating losses are significant in the early periods and Subchapter S permits the shareholders to claim the operating losses. Unfortunately Subchapter S status terminates if the corporation's rental income exceeds 20 percent of its gross receipts. Most office buildings, shopping centers, and apartment buildings exceed this 20 percent figure. Also the losses claimed cannot exceed the aggregate basis of the property and loans. This is in contrast to the tax treatment given partnerships who can deduct tax losses in excess of their actual investment.

Given the restricted conditions of Subchapter S corporations it is not surprising that most real estate investors use partnerships as the means of ownership.

A general partnership is an association of two or more persons to carry on a business for profit. It has many advantages for the real estate investor. Since it is an agreement among individuals, it is a low cost, easy way to form a business. Partnerships are not taxable entities. This means the income or losses of a partnership business are allocated to the partners' individual income taxes. This allows the business to be used as a tax shelter, the main reason partnerships are so popular in real estate.

However, partnerships have some disadvantages, the most serious being unlimited liability. This means that all the investor's wealth is at risk. Furthermore, a partnership is dissolved any time a member withdraws or dies. This can lead to many complications and interfere with the investment strategy. Finally, all profits and losses are allocated to the partners. Even if profits are reinvested, the partners must still pay income or capital gains tax on the profits. A partner must have other means to pay such taxes.

Corporations have perpetual life, whereas partnerships can provide for termination of the enterprise on the death of the general partner. In this case it is important not to allow the term of the partnership to be extended by a vote. The IRS interprets this as a perpetual life which could result in the business being classified as a corporation.

The most popular types of business organizations in real estate are those that allow a flow-through of tax losses.

Rock Concert, Beauty Pageant To Benefit JCSU

Charlotte bands Southern Transit, the Michael Riley Group and Onyx headline a combination rock concert and beauty pageant to benefit the Johnson C. Smith University-United Negro College Fund Friday night, June 29, at the Park Center.

WGIV personalities Don Coty and the DC Family along with Marsha Burton and D-Force will emcee the event that kicks off at 8 p.m.

Tickets are \$5 with proceeds to benefit the JCSU-UNCF campaign. Beve-

rages for those of age, will be provided by Bealer Wholesale of Charlotte. The concert and pageant are being underwritten by F.A.B. Construction Centers.

"As a business neighbor, we've wanted for some time to become involved with and support Johnson C. Smith University," remarked F.A.B. President Arthur B. Jacoby. "I hope the event will add substantially to the funds available for black education in Charlotte."

The beauty pageant will

select a Ms. F.A.B. - MAN (a seemingly contradiction in terms, but then JCSU women's team coaches have yet to explain a lady Golden Bull). Entrants must be sponsored by a sorority, fraternity or black business. Contestants will be judged on articulation, casual wear, evening wear and poise. Oh, yes, tradition will be observed with a swimwear competition. Judges will be Bea Thompson of WBTV, Clara Williams of WGIV, Carrie Graves of the Charlotte Chapter of the Sou-

thern Leadership Conference and Steve Daniels of Main Attractions, Inc.

"We're really excited about the top flight entertainment provided and are grateful for the substantial help that several Charlotte companies are providing to insure an entertaining and successful evening," added Dr. Gloria Duval of the JCSU Development Office.

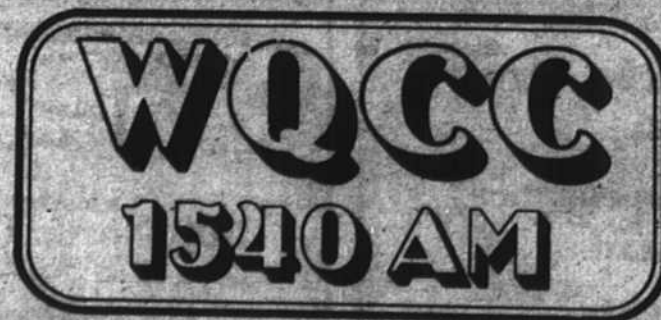
Advance tickets are available at the F.A.B. Construction Center, 2730 Rozzells Ferry Rd.



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