

Adventures in McCloudland

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Chapter 12

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During the next two months we waited for escrow to close, we drove to McCloud every other weekend. We'd have appointments with Ron Stevens, or an accountant who had been recommended in Mt. Shasta named Lynn Teuscher. He was the first one to fill us in on the details of the tax credit that would be available to help offset some of the expenses of restoring a nationally registered historic landmark. He believed the credit was 20% of the cost of construction. This was a tax credit but Lee and I were hearing tax rebate. Not quite the same thing but we didn't know that yet. We were confident we would qualify and put that issue aside to deal with two other ugly tax issues: capital gains and the business start up expenses.

Lynn advised us that anything we invested in the hotel would not be deductible as a business expense until after the hotel was open. "You can't have a business expense until you have a business," he advised. "Any fees, construction costs, furnishings and even his fees are not deductible." Just money spent. Let's see, it's September 1993. If we open in spring of '94, we'd have to wait until the end of 1994 to claim any business expenses. Over a year and a half. Ouch!

He also told us that we'd have to pay capital gains tax on our house. Considering we bought it for \$30,000 27 years ago, and would probably sell it for \$550,000, the government treated it like we made over a half-million dollars profit and it would be lumped with our other income and taxed as such. But we all know that the \$550,000 won't buy a dime more than the \$30,000 did 27 years ago. And there is no provision for factoring in any kind of inflation. We'd have a couple of years to buy a \$520,000 house, but eventually we'd have to pay capital gains on the whooping \$500,000.

We countered with the fact we are reinvesting it in a business and home. "No," he corrected us, "Capital gains cannot be reinvested in a business ... only a home of equal or more value."

He went on to explain, "The hotel has over 30,000 square feet. If your residence is planned for 3,000 square feet, it means only 10% of the cost of the hotel can be allocated for new home ...that's \$22,000. The difference, less the purchase price of the house you are selling, is taxed as pure income."

A half mil. Boy, I sure don't feel like I made a half mil. Only big businessmen talked about making a half mil. The concept of making that much money is not real to me.

So what this means is anyone staying in one place for 30 years is treated like they made a fortune. Never mind that our parents told us it was smart to stretch financially to buy that first house, then stay put, be stable, earn as much equity as we can so that when we retire we can sell it and have a nice nest egg. And when retirement comes and we decide to sell the large family home and get something smaller or invest in a small business, we get penalized. Big time.

It may have worked for our parents, but the rules had changed and we weren't looking. There was so much talk on TV about encouraging small business and helping the economy, I believed that selling our house and starting a business would be looked at as a good thing. Entrepreneur was a good word. That's how my grandmother, my uncle, my aunt, my father and my mother all got started. Small business. Making their own way.

One of my uncles retired many years ago and started a neighborhood store. He liked toys ...and kids. That was a good thing. Why wouldn't a government encourage retiring people to start businesses that would provide for a livable wage, create entry level jobs for neighborhood kids, and keep folks active and contributing to our economy?

So the government taxes the perceived profits so deeply that your nest egg and safety net are illusions. Then the government taxes other people to provide for Social Security, Medicare, and programs to feed seniors because they have little or nothing left. This truly makes no sense. I wonder who figured all this out.

My family's advise still rings in my ears. "Work hard, you can do it. It's all up to you," they'd say. "Your fate is always in your own hands."