

4-1974

## Personal Management: Selecting a Home

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### Recommended Citation

Krieger, Jean E. (1974) "Personal Management: Selecting a Home," *Woman C.P.A.*: Vol. 36 : Iss. 2 , Article 9.

Available at: <https://egrove.olemiss.edu/wcpa/vol36/iss2/9>

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# Personal Management

## Selecting a Home

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As a new regular column of *The Woman CPA*, this department will discuss various topics as they relate to the professional person. Examples of such topics are selecting a home, life insurance, other types of insurance, investments, estate planning, and planning for retirement. This issue will discuss selecting a home.

The first of two decisions should be whether you want to live in multi-family housing where several residences are included in one building or whether you want to live in a single family residence. The cost to you as the consumer will vary depending on the demand for the quality and neighborhood; however, the hard cost for comparable units will normally favor the multi-family facility because less land is needed per unit and some of the walls are common to two residences. The costs, while important, probably will not be the deciding factor.

Some of the other factors which you should consider in making a choice are: (1) What amenities (including recreational facilities) do you want; (2) Do you want to socialize with your neighbors, and if so, what type of neighbors do you prefer; (3) Where do you want to live and what type living facilities are available there; (4) Do you have a strong emotional tie to a particular type of housing; and (5) What amount of time will you devote to repairs and maintenance. Each of us has preferences which must be considered.

Multi-family housing frequently offers many amenities for a minimal cost because the costs of the amenities are covered by a large number of residents to whom the facilities are available. For the

single family dweller to have access to comparable facilities, at least one club membership would probably be required. Because of the location, the multi-family dweller will probably find the facilities available more convenient than a club's facilities are for the single family dweller. However, a person's job might dictate membership in various clubs which make the desired facilities available.

You must also consider if you want to socialize with your neighbors and what type of neighbors you want. Many multi-family housing projects aim at a specific group such as retired people or young single people and frequently plan activities which would appeal to the specific group. However, some recent single family developments also offer the same type of planned activities. This is a relatively new area for single family developers who are learning from the multi-family developer that amenities attract people.

You should consider the area of a city in which you want to live in making your decision. The distance to your job, shopping areas and entertainment should be considered. There could also be other factors affecting a choice of location. Within most large cities, there are many small communities; most are composed of people from specific economic or ethnic groups. Be sure to consider in which communities you would feel comfortable.

If you have always lived in a house, you may have a strong emotional attachment to the advantages a house offers. If this is the case, and you are considering buying a condominium, you might consider renting an apartment for a period of time to find out if you can make the adjustment to multi-family living. The same certainly would be true if you are accustomed to

multi-family living and are considering a switch to single-family living.

The single-family house should provide the most flexibility for you to be an individual. Generally, the additional green space allows you to landscape as you choose. Also, if you are a single-family owner, you can, within the confines of building regulations, add on to a house whereas a multi-family owner is normally limited by deed restrictions which would not permit expanding the facility. While single-family housing provides an opportunity for individualism, it also requires time or money to hire maintenance and repair work such as mowing the lawn.

There are probably other considerations which apply specifically to you which should be weighed together with those previously discussed. You should consider all the pros and cons of each type of housing as they apply to you. Concurrent with the decision on single-family versus multi-family, you must decide whether you want to buy a home or rent one.

Again, there are several factors which you should consider in deciding whether to buy or rent. Some of the factors are: (1) Your expectations regarding future economic conditions, (2) possible tax savings, (3) potential resale values in light of your future plans, and (4) your right to make improvements versus your responsibility to maintain and repair.

With the recent inflation coupled with rising costs of land and building materials, home ownership has been a good investment and a good hedge against inflation. You must now pull out your crystal ball and find out what will happen to the economy in the future. If you believe rising costs and inflation will continue, then

home ownership is generally a good investment. Buying in the right area is a must. As slum areas are being cleaned up, new ones develop; the values in the newly developing slum areas normally drop or at least increase at a pace much slower than in areas away from slums. Get to know the area before you buy so that you do not get into a deteriorating area.

Interest on home mortgages and real estate taxes is currently deductible as itemized deductions for Federal income tax purposes. (Federal income tax provisions are, of course, subject to change.) Depending on your income tax bracket, other itemized deductions and the standard deduction available to you, you could save substantial amounts of federal income tax by owning a home.

The resale market for any home you might consider purchasing should be very important to you. For example, if you buy a house or condominium in a new development which will take several additional years to complete, you should plan on staying for awhile. The resale value will probably rise at a much slower pace while new units are available than after the development is completed. Therefore, if your plans include future moves, consider the timing of those moves in regard to resale of any residence you may purchase. Also, in many areas,

condominiums are rather new and a good resale market has not yet been established.

Since an owner is normally responsible for maintenance and repairs, this should be a consideration in your choice. As a tenant, the costs of maintenance and repairs are covered by rent. However, the owner of a number of properties may employ people to do this type of work on a full time or part time basis which should decrease the cost per repair below the cost to a homeowner of a single unit. As an owner, you have the right to improve your home which may be important to you. A tenant normally would not have that privilege.

Like the choice between multi-family or single-family, whether to own or rent requires consideration of your specific situation.

The previous discussion has centered completely on multi-family versus single-family housing and home ownership versus renting; another possibility would be to buy a duplex or small apartment building which combines home ownership with investment. This alternative limits the choice of selection relating to the type of housing and location. If you wish to explore this possibility further, you should be analyzing the investment potential as well as selecting a residence.

An investment property may offer a tax advantage due to accelerated depreciation, it may allow payment of the mortgage for the rental unit or units and at least part of your residence from rental income, and it would allow you to keep a close watch on your investment. It could also be a headache to you since the management would be your responsibility. For a fee, probably five to seven percent of rental income, you can hire someone else to manage the property. If you are interested in long range investing and home ownership, this possibility deserves consideration.

In light of the current "energy crisis", there is one other alternative for a living facility which should be discussed. This alternative, with your employer's consent, would be a cot or a sofa in your office. This would be the ultimate in job convenience, and could save a considerable amount of commuting fuel and time. However, it would require some inconveniences when relaxing, entertaining, or sleeping. Your employer may even like the idea as you would be available more hours.

In conclusion, there are several life styles to choose from. Each of us is a unique individual and should consider one's own resources and desires in selecting a home best suited to oneself.

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## Electronic Data Processing

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successful information system. They can facilitate communication among the various divisions of an organization (especially communication between the computer staff and non-computer staff) by providing a common "vocabulary" and method of description, thereby speeding the communication process and eliminating time-consuming and expensive misunderstanding. In addition, adherence to carefully established standards can help simplify personnel training and evaluation.

The amount of documentation and the number of installation standards developed will vary from installation to installation. The size of the installation and the complexity of the processing it does will influence the degree of formality in the documentation and standardization processes. However, every information system should establish those criteria by which its performance will be evaluated, by which it will set its objectives, and by which it will document or record its procedures and accomplishments. Even the

smallest installation must have some means by which it can guide its operation and communicate with its users as well as provide a means for modification of its activities and expansion of its applications.

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## Tax Forum

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could result in a forced sale to outsiders thereby causing not only a possible loss of family control, but also a potential financial loss to the estate if the redemption is at less than fair market value.

Code Section 303, enacted specifically to avoid the above result, provides generally that a corporate redemption of stock from the estate of a decedent will be treated as a distribution in exchange for such stock if the value of the shares held by the decedent is either: (1) more than 35 percent of the gross value of the estate or (2) more than 50 percent of the taxable estate. Prior to the 1969 Tax Reform Act, the accumulation of corporate funds to finance such a redemption as a reasonable

business need had been both successful (*Mountain Steel Foundries vs. Comr.*, 284 F. 2d 757) and unsuccessful (*Dickman Lumber Co. vs. U.S.*, 355 F. 2d 670) in defending against a 531 assessment. In 1969 Code Section 537 was amended to provide that the "reasonable needs of the business" would include Section 303 redemptions (Code Section 537(b)(1)). At the time the Act was written the Senate Finance Committee Report clearly stated that accumulations in the year of the death and later years to redeem stock in a redemption to pay death taxes should not be considered unreasonable. (S. Rept. No. 91-552.)

Although there are several defenses available for the accumulation of earnings over and above the allowable \$100,000 credit, corporate officers and directors would be well advised to document support for such accumulations prior to a proposed Section 531 assessment by the Service. A schedule indicating the present and future requirements for business operations and specific plans for expansion should help avoid the expense and time involved in what might otherwise be a lengthy litigation of the facts.