TIMBER TAX SHELTER—WHILE YOU'RE WAITING

One way to make sure your raw land actually grows in value is to cut the timber on it. Make sure your land is easily accessible so you'll be spared any trouble when it's time to cut. There won't be any tax problem till then. All the time that stand of timber is growing, you'll not be taxed on the substantial growth it will mean in land value. You'll allocate costs between the land itself, and the timber.

If you want to combine tax-favored timberland income with future development, be sure you get an accurate estimate of how much the timber itself is worth. One good way: Hire an expert and take a timber cruise. Revenue Service Form T (for timber) will give you a good idea what to look for; it asks for the same kind of information you should be seeking.

Tax breaks.—You can get tax-favored capital gains no matter which of the three ways you choose: (1) You can sell the timber outright; (2) You can grant cutting rights on a royalty basis (retaining an economic interest); or (3) You can cut the timber yourself. You can even do all three!

What to do.—See your tax man for the many details. And look into the profit potential of raw-land timber. It can cover some or all the cost of holding on to raw land until it's ready to be developed.

HOW TO FINANCE THE PURCHASE AND DEVELOPMENT OF LAND

The big roadblock to many would-be real estate investors today is financing.

> *Big helping hand.*—Because of its awareness of the need to develop raw land economically and efficiently to meet the future needs of our expanding population, Congress has enacted far-reaching FHA land development programs. In addition, the Home Loan Bank Board has liberalized the terms of land development loans by Federal Savings and Loan Associations. Here's a quick rundown.

FHA's Land Development Program

Top interest rate is 6%. Mortgage insurance premium is 2% of the original face amount of the mortgage for three years or less; thereafter, it's 1/12 of 1% each month. The premium on mortgages for water or sewerage systems running more than seven years is (1) 1/12 of 1% of the original mortgage amount per month *before* amortization begins and (2) ¾ of 1% per year of the outstanding amount *after* amortization begins.

Mortgage terms.—The top mortgage amount is $25,000,000 for each land development project. However, your individual mortgage can't be more than (1) 75% of FHA's estimated value of the property upon completion of the land development, or (2) 50% of FHA's estimate of land value before development plus 90% of the estimated cost of the development, whichever is *less. Top payoff time* is seven years. However, major water and sewer facilities may run for a longer term and may be separately financed.

Mortgage payoff.—As lots are released, payments are made on the mortgage (mortgages include provisions for release). The amount of your payment is 110% of the mortgage amount attributable to the released lot (the mortgage will be completely paid off when 91% of the lots have been released). You can get a release of the required amount. *FHA does not control the sale price of the lots.*

> *Big break.*—FHA will let the lender give you a reasonable time to start paying off the principal, so that you can develop the land and start making sales. Your mortgage, of course, will spell out the exact time. You'll also have to pay off the complete mortgage amount in the remaining term of the mortgage (payments will have to be made at least quarterly). After amortization begins, any payments made for lot releases are applied to the amounts next due under the mortgage provisions.

Eligible developments.—Your project can be either a new one or an extension of an existing development. However, the project can't include any portion of a development on which improvements (except minor ones, such as general grading or site clearance) have been installed.

Eligible improvements which can be financed with funds from the loan include: roads, streets, curbs, gutters, sidewalks, water lines and water supply installations, sewer lines and sewage disposal installations, and other related facilities to prepare land for residential and public or common use.