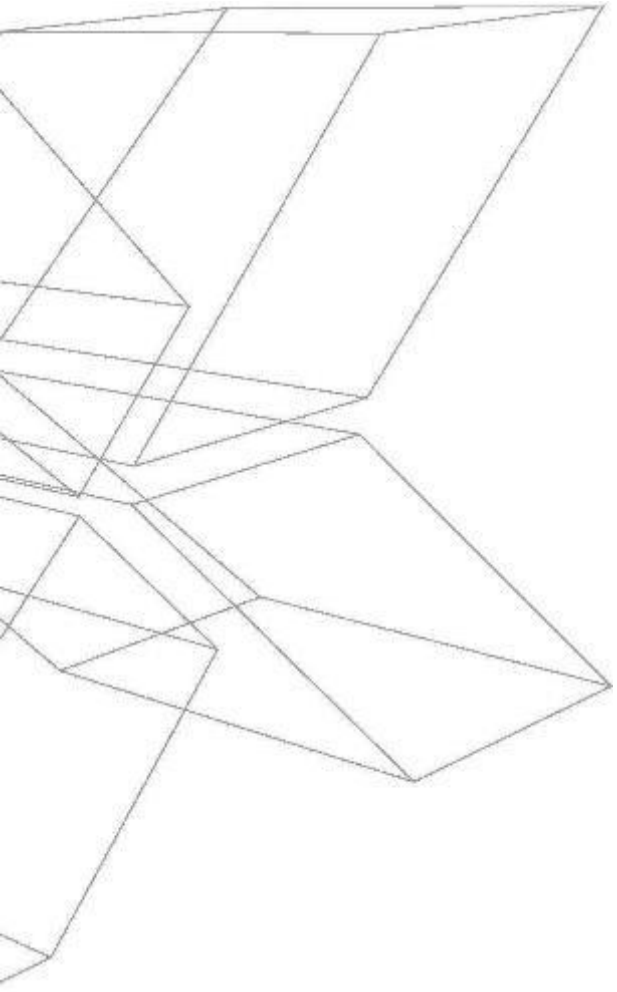

Learn How to Build Wealth Faster with **1031 Exchanges**

Lauren Speidel

- Exeter 1031 Exchange Services, LLC
  - Business Development Officer
- Inland Securities Corporation
  - Assistant Vice President of Internal Sales
- Chicago Bancorp (The Federal Savings Bank)
  - Mortgage Processor

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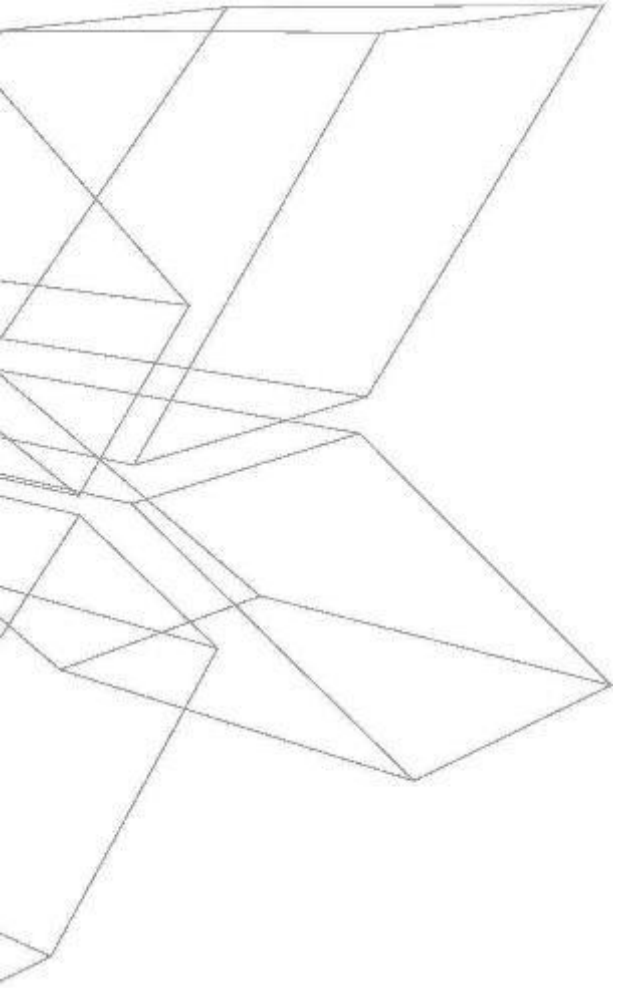

What is a 1031 Exchange?

- Section of the Internal Revenue Code § 1031
- Allows you to exchange real property that was ***held*** for rental or investment purposes, or that was used in your trade or business for other real property that will also be held for rental or investment purposes.

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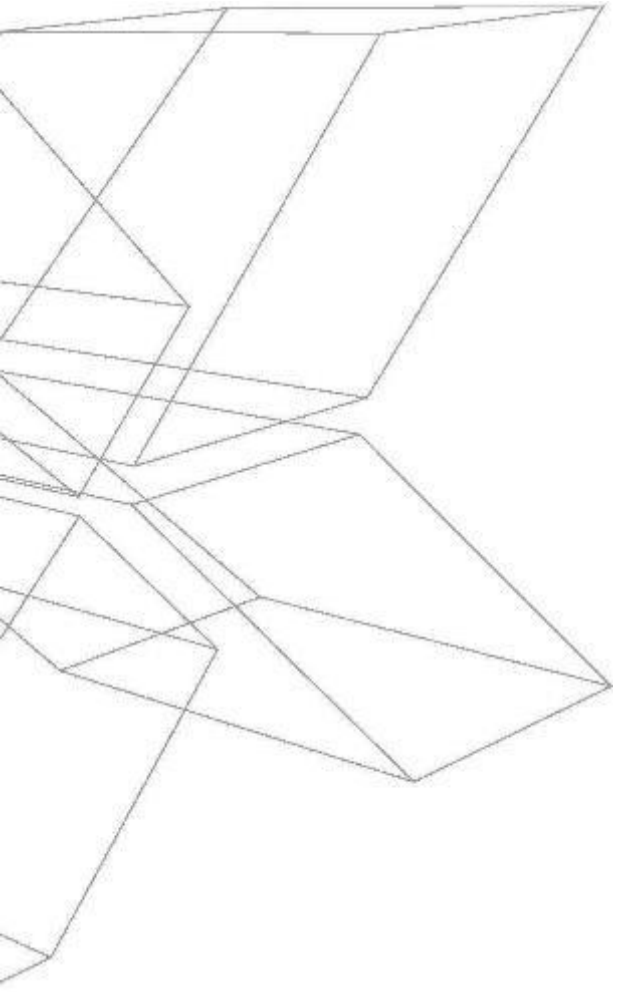

Why Do A 1031 Exchange?

Income Tax Consequences -

The sale of investment real estate may result in the recognition of ordinary income, capital gain, depreciation recapture and/or Medicare Surcharge income tax liabilities. Payment of these income tax liabilities reduces the amount of cash available for reinvestment. Using a 1031 Exchange, you can defer the payment of your income tax liabilities, keeping 100% of your cash working for you by reinvesting in replacement property.

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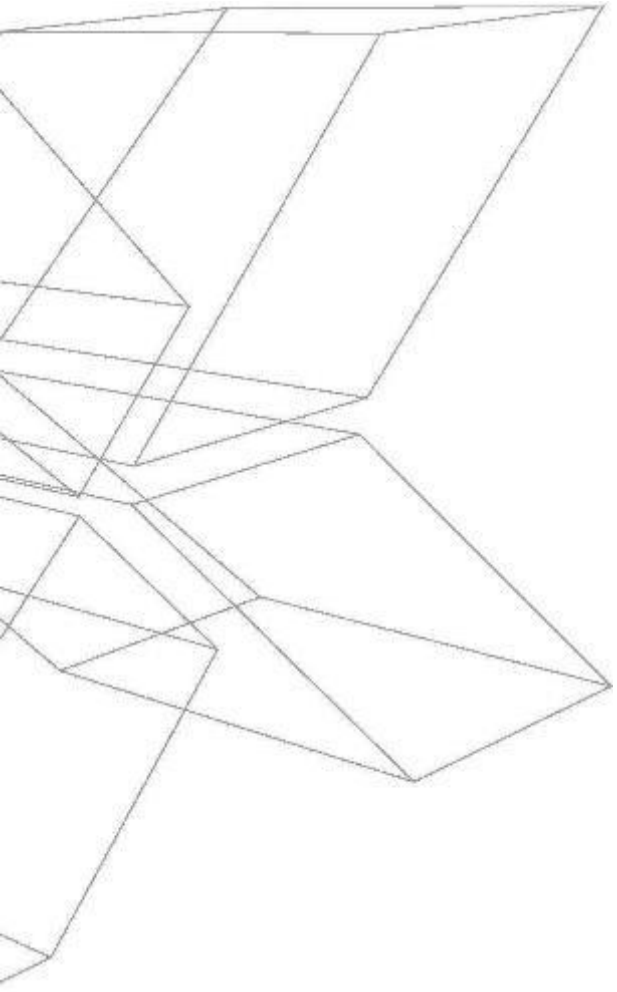

1031 Exchange Strategy

- Tax deferred vs. tax free
- Exchange throughout your life
  - Keep your wealth in your family
  - Step up in basis at date of death
    - Capital gains go away at death
    - Depreciation recapture goes away
  - Integration with Estate Plan
    - Value still included in estate

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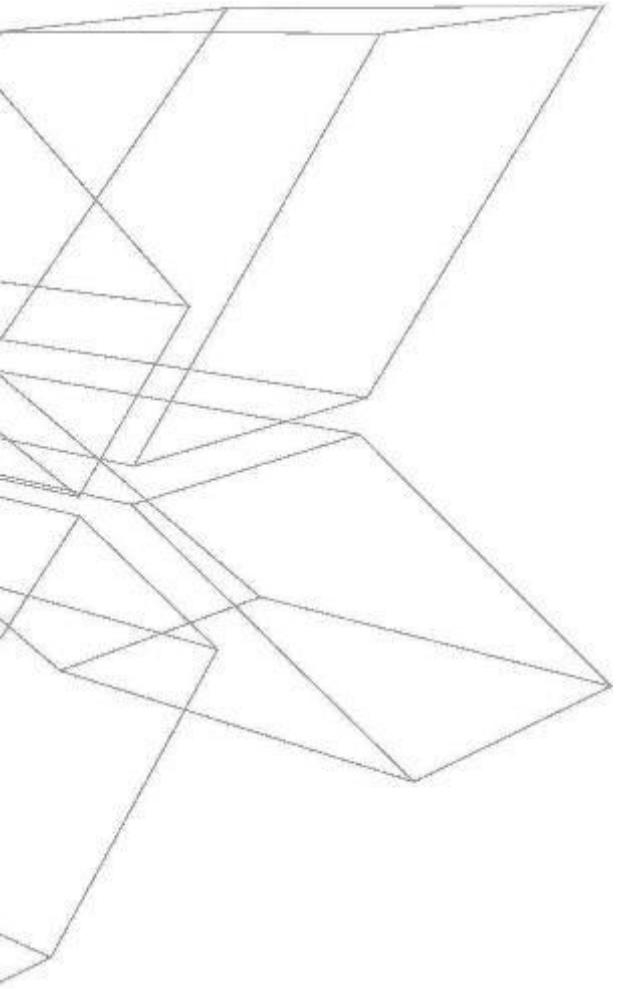

In order to Successfully Complete a 1031 Exchange,

Certain rules MUST be followed:

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There must be at least 2 Qualifying properties involved in the Exchange:

One (or more) that you are selling ("Relinquished Property") and
one (or more) that you are purchasing ("Replacement Property")

Relinquished Property **Replacement Property**

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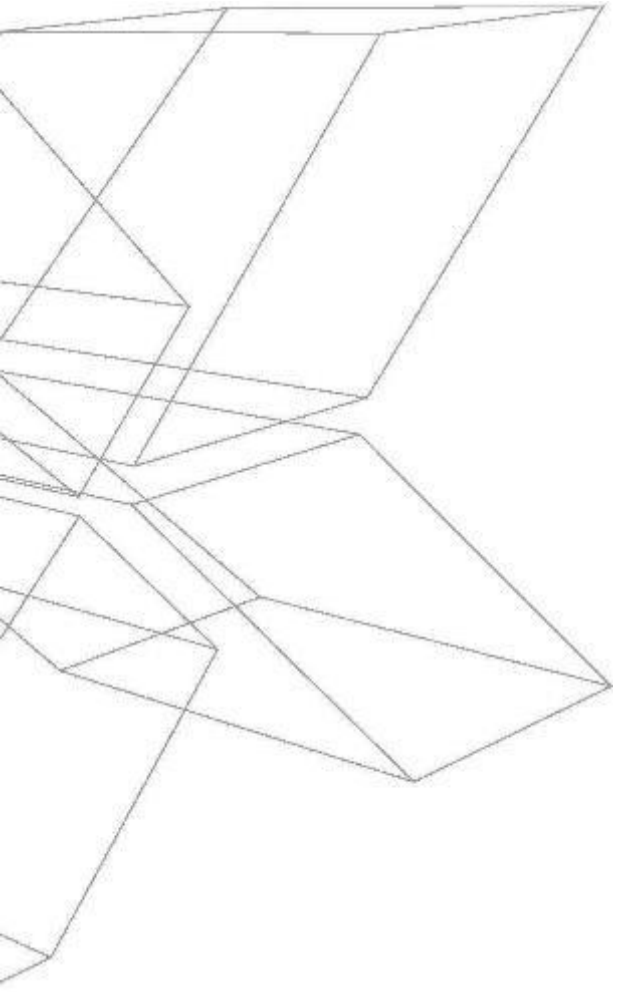

1031 Exchanges – Getting Started

- Qualified Intermediary (QI or Accommodator) ***must*** be assigned into your sale and purchase transactions ***before closing***

- Qualified Intermediary
  - Drafts 1031 exchange legal documents
  - Holds net proceeds during 1031 exchange
  - Advises and helps structure 1031 exchange

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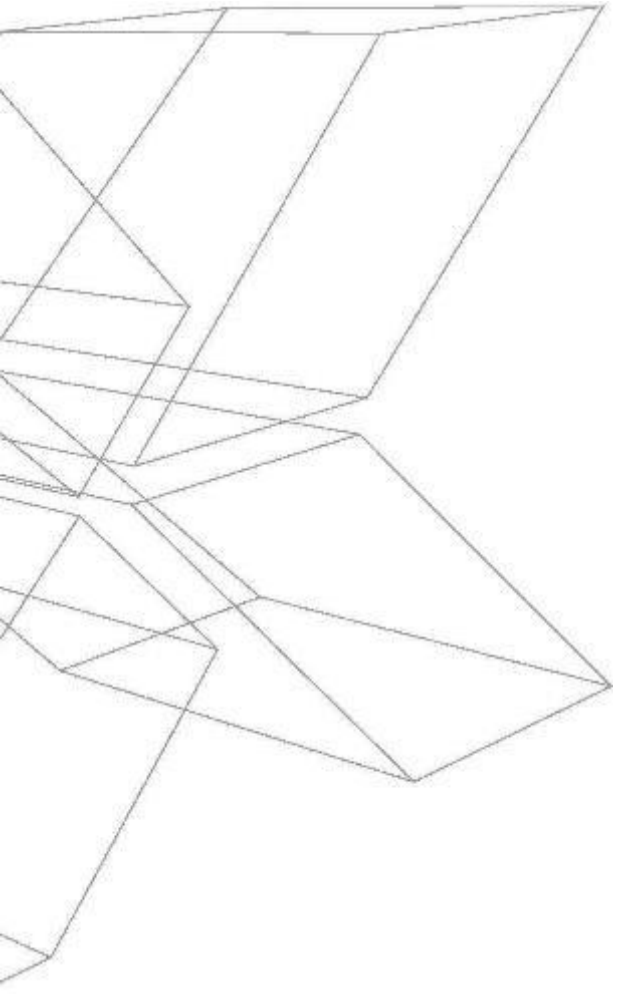

Qualified Use Requirement

- You must have the ***intent*** to ***hold*** both the relinquished and replacement properties for:
  - Rental/Income production; or
  - Investment/appreciation; or
  - Use in a business
- Property held for sale will typically not qualify for 1031 exchange
  - Property acquired to fix-up
  - Condo conversions
  - Property acquired to develop

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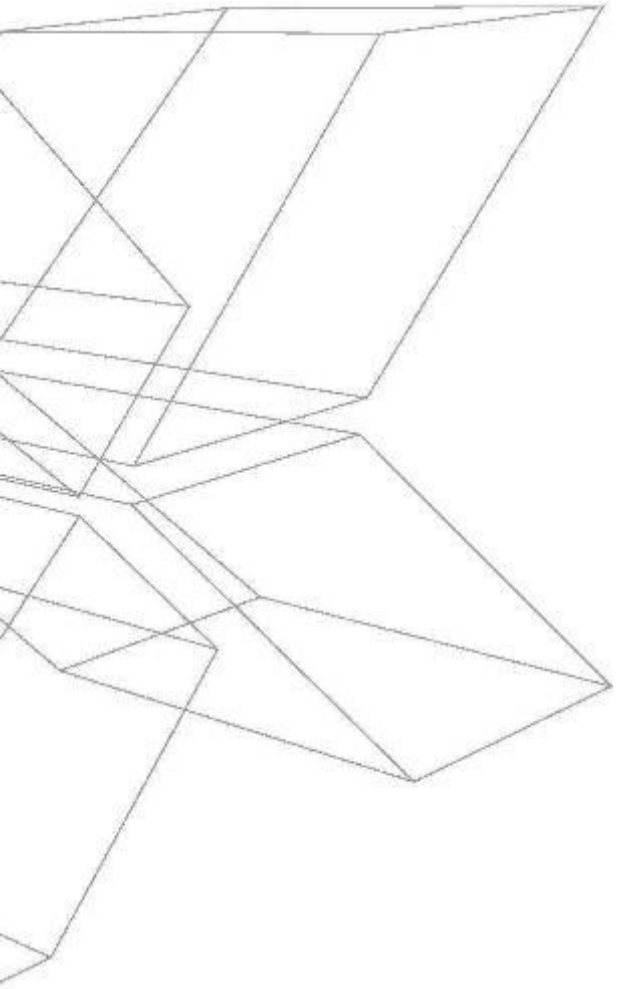

Like Kind Requirement

- ***Any*** type of real estate is like-kind to ***any*** other type of real estate if the qualified use test is met

- So, as long as the properties are **held** for rental, investment or use in a business the property is like-kind

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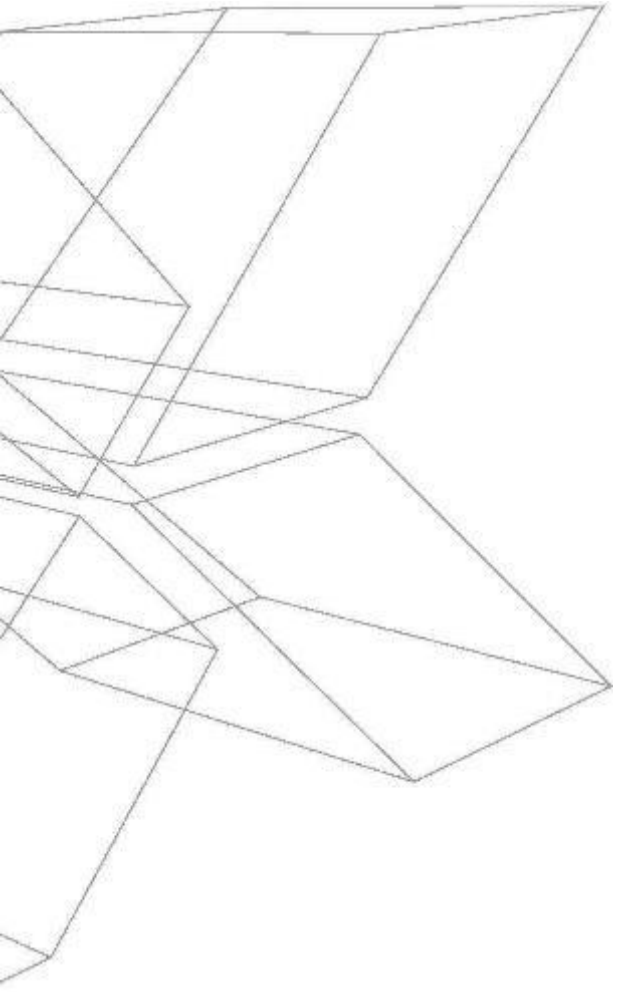

Like Kind Properties

- Single family
- Multi-family
- Commercial office
- Retail
- Industrial
- Vacant land
- Oil & gas interest
- Mineral interests
- Air and Water rights
- Delaware Statutory Trusts (DSTs)
- TIC property interest (TICs)

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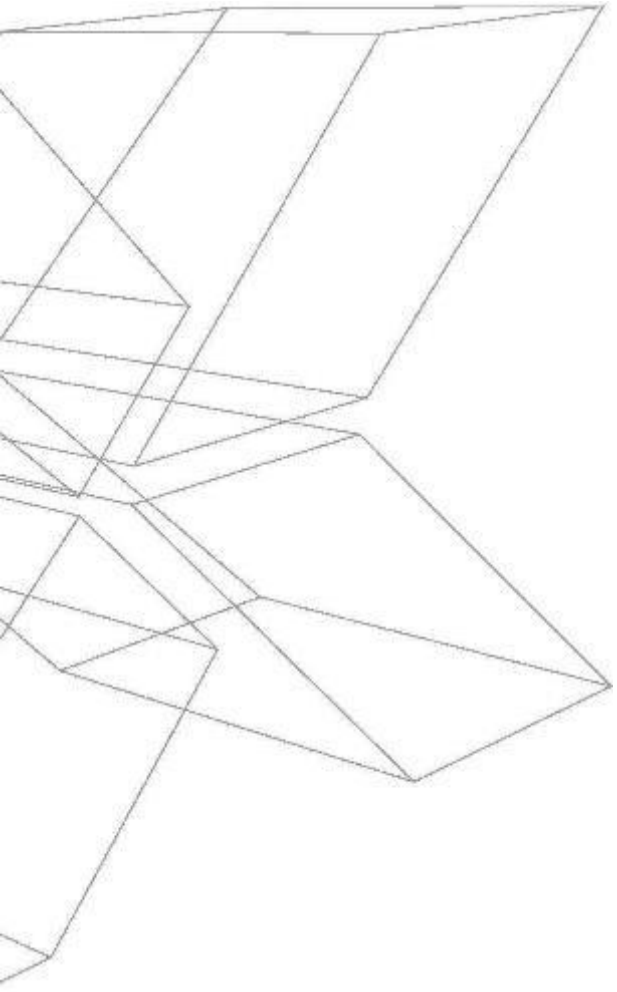

Non Like Kind Property

- Personal Use Assets
  - Primary residence
  - Second homes
  - Vacation Homes
- Property held for sale
  - Conversion, development, fix & flips
- Securities
  - Cash
  - Stocks & Bonds
  - Mutual funds & REITs
- Interest in an Equity
  - Partnership & Membership Interests
  - LLC Interests
- Shares in Corporation

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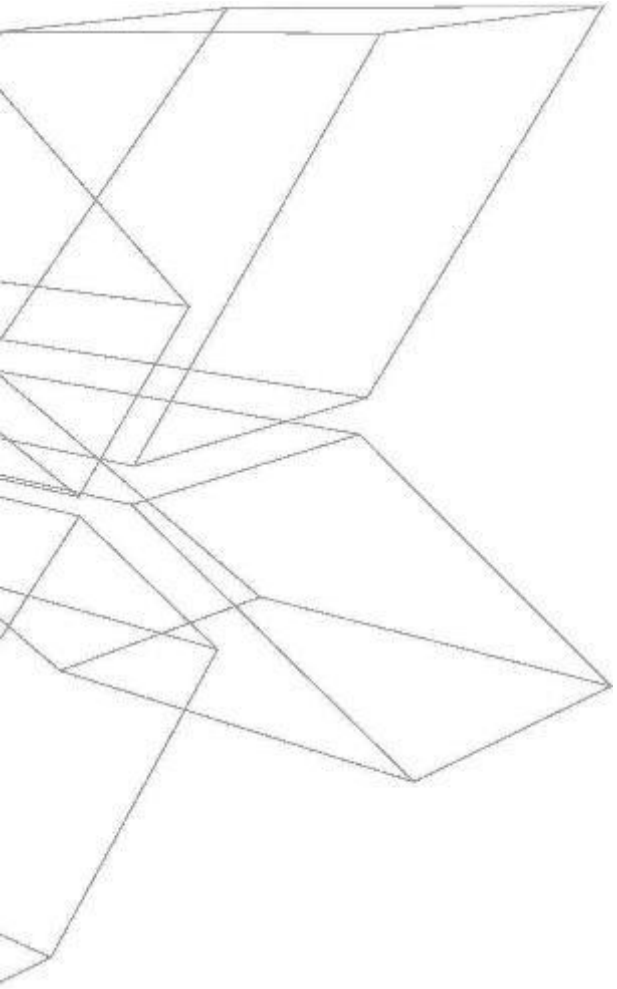

Vacation Property, Second Home

- Revenue Procedure 2008-16
- Vacation property
- Second home

Safe Harbor Guidelines

- Must be held for 24 months
- Must be rented for at least 14 days
- Personal use must be limited to 14 days or 10% of days rented

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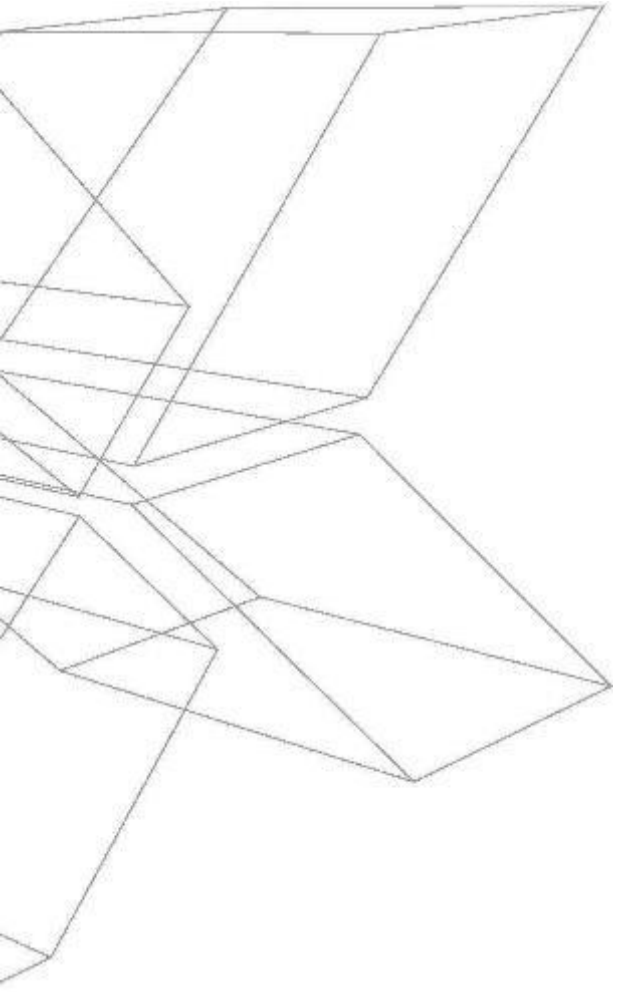

Reinvestment Requirement

- **Trade equal or up** in fair market value based on **net sales price**
- Reinvest **100% of equity/net cash** proceeds into replacement property
  - You can always add cash but cannot withdraw cash without paying tax

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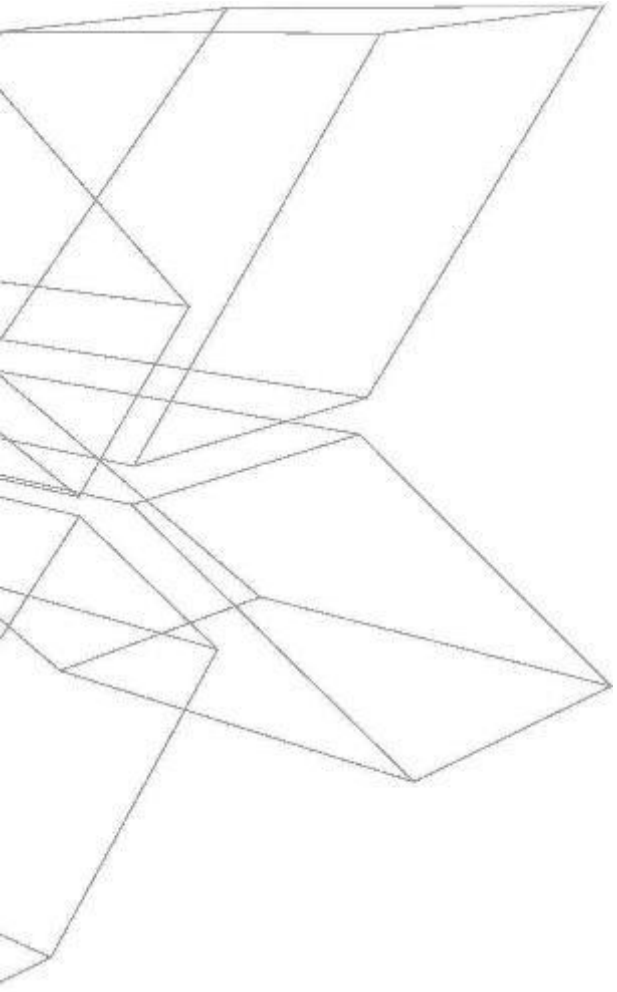

For Example:

- Sell Property A for $500,000 (net)
  - $250,000 Cash/Equity
  - $250,000 Debt/Mortgage

- You must purchase a replacement property(s) totaling $500,000 (or more) and reinvest at least $250,000 cash/equity

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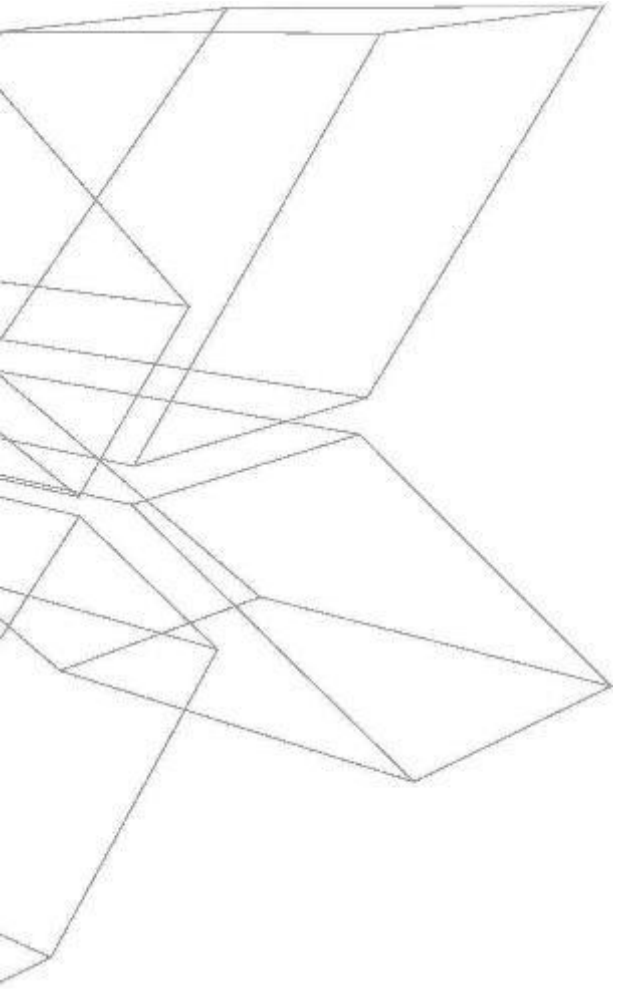

Permissible Selling Expenses

- Owner's title insurance premiums
- Escrow agent's, settlement agent's, or closing attorney's fees
- Real estate broker's commissions
- Finder fees or referral fees
- 1031 Exchange Qualified Intermediary's fees
- Documentary transfer taxes
- Recording or filing fees
- Attorney's fees and costs directly related to the acquisition
- Tax advisor's fees directly related to the acquisition

Non –Permissible Selling Expenses

- Financing or lender costs such as loan fees, loan points, appraisal fees, mortgage insurance premiums, lender's title insurance policy premiums, and other loan processing fees and costs
- Prorated property taxes
- Prorated rents
- Insurance premium payments
- Security deposits
- Payoff of credit card balances
- Repairs and/or maintenance costs

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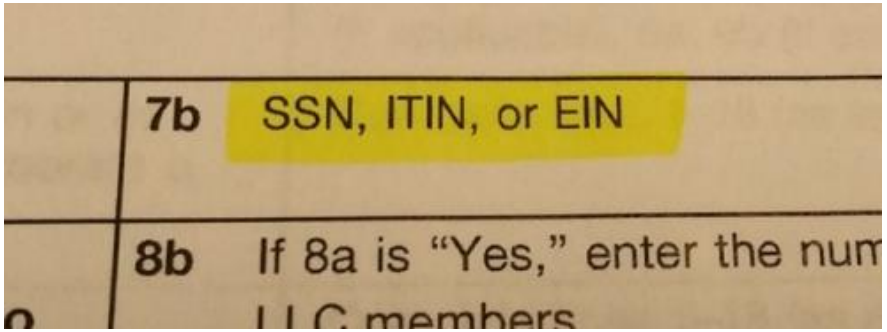
Taxpaying Entity

The taxpaying entity that sells the relinquished property must be the same taxpaying entity that purchases the replacement property

There are certain exceptions to this rule such as single member limited liability companies and fully revocable grantor trusts.



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TOTAL EXCHANGE PERIOD

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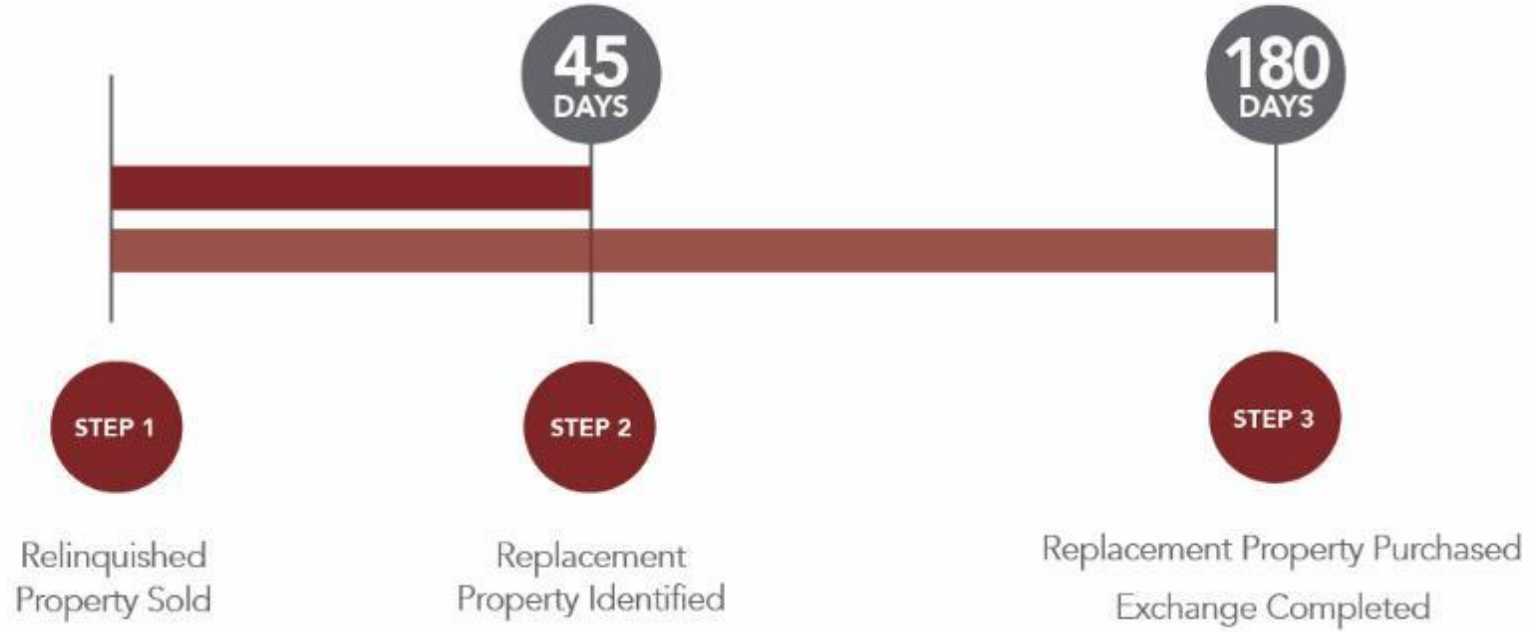

Note: The 45 Days and 180 days run concurrently, and both start at the closing date of the sold/relinquished property

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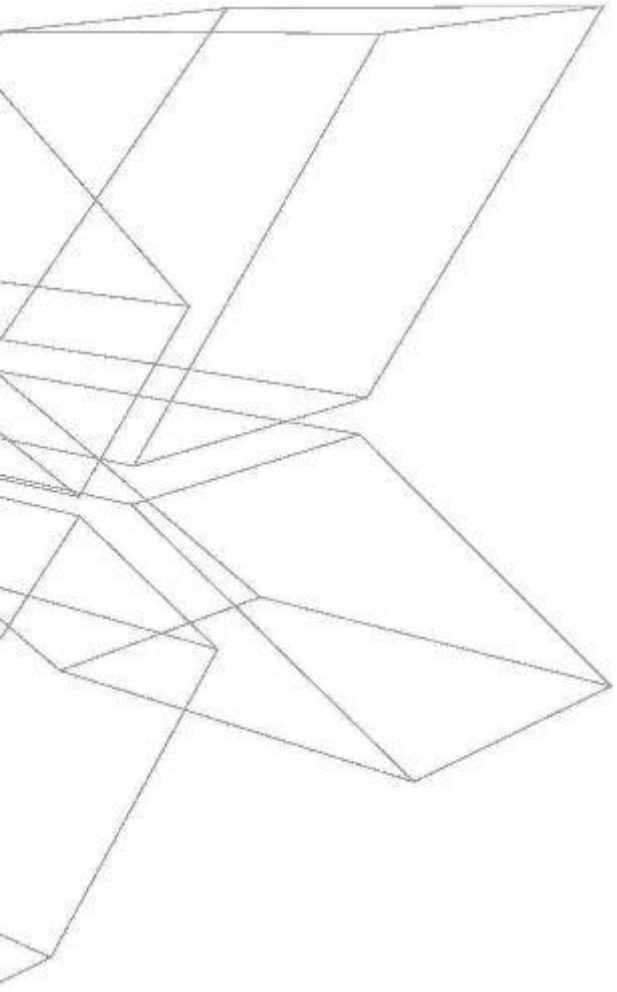

180 Day Exchange Period

- ***Not*** 45 days plus 180 days, but a ***total*** of 180 calendar days
- Calendar days
- Begins at close of sale transaction
- No extensions
- Complete your 1031 exchange by:
  - the earlier of 180 calendar days or the due date of your income tax return, including extensions (only an issue when sale closes between October 17 and December 31 of any given year)

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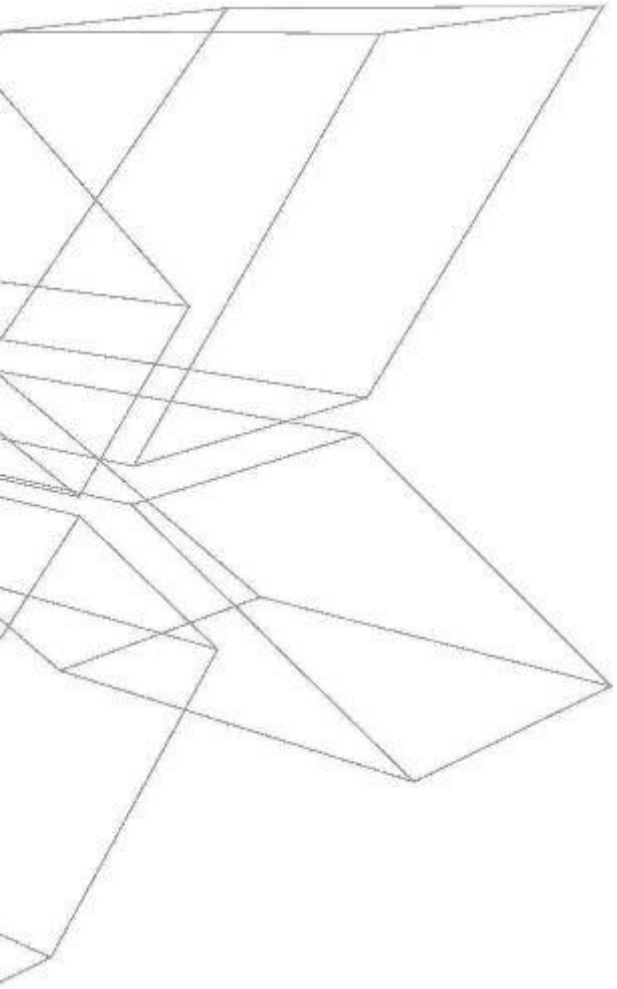

Identification Rules

You must comply with at least one of the following identification rules when identifying your replacement properties.

- Three (3) property rule; OR
- 200% of fair market value rule; OR
- 95% exception

- Must be clearly and unambiguously identified to your QI using:
  - Street address
  - Legal description
  - Assessor's Parcel Number (APN)
- Do not need to be under contract or in escrow.

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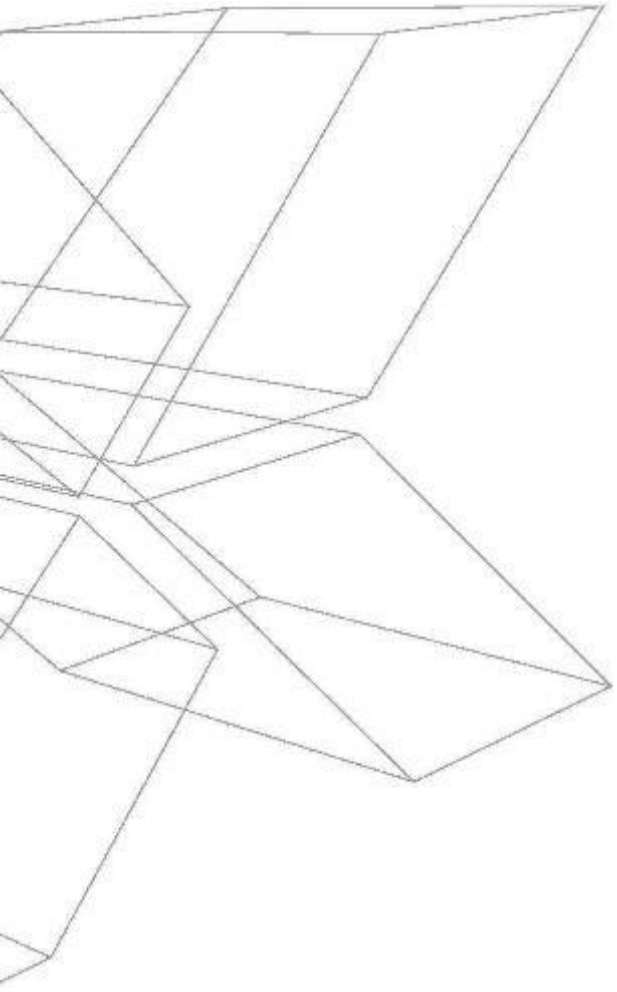

1031 Exchange Structures

- Forward 1031 Exchanges
- Reverse 1031 Exchanges
- Build-To-Suit (Improvement or Construction) 1031 Exchanges

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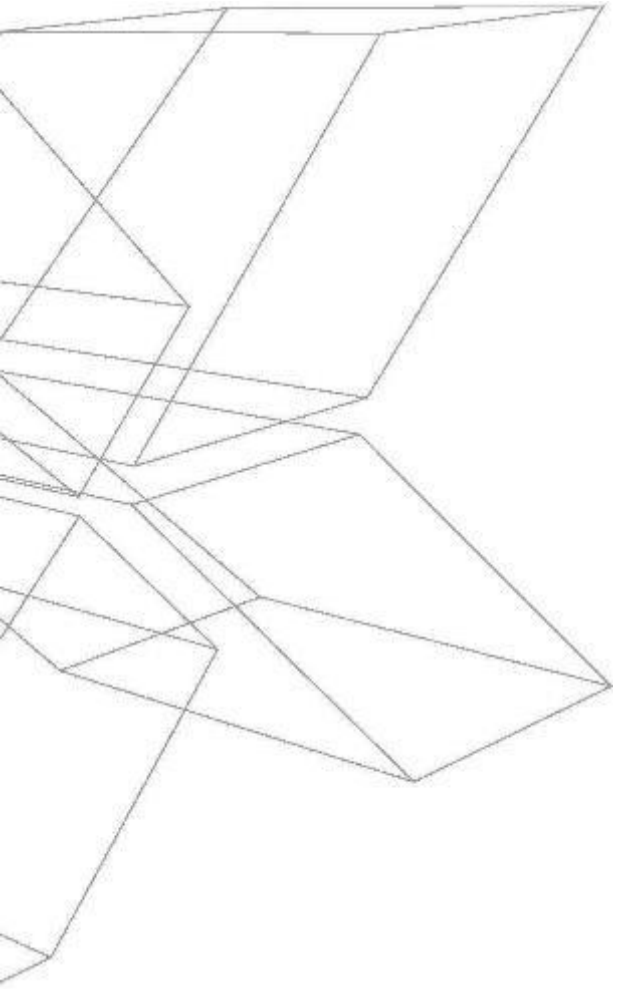

Intent to Hold

- You **must be able** to **demonstrate that you had the intent to hold** your relinquished and your replacement properties for rental, investment, or business use in the event you are audited.
- IRS Treasury Regulations do not require investment property to be held for any specific period of time
- Hold your properties for a sufficient period of time so that you can easily prove your intent to hold for investment.

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Strategic Tax Planning

- **Housing and Economic Recovery Act of 2008**:
  - Rental property converted to primary residence
  - Renters move out, live there for at least 24 months, pro-rated exclusion
  - Pro-ration based on number of years the property was used as a rental vs. number of years as primary
  - If Prior Exchange: Must hold or own property for at least five years before qualifying for the 121 Exclusion.

- **Revenue Procedure 2005-14**
  - Primary residence converted to rental property.
  - Capital gain significantly exceeds 250k/500k.
  - Rent/hold for 24 months, sell within one year, pro-rated exclusion.
  - Must be completed no later than three years from the date that you moved out of your primary and converted to rental to qualify for 121 Exclusion.

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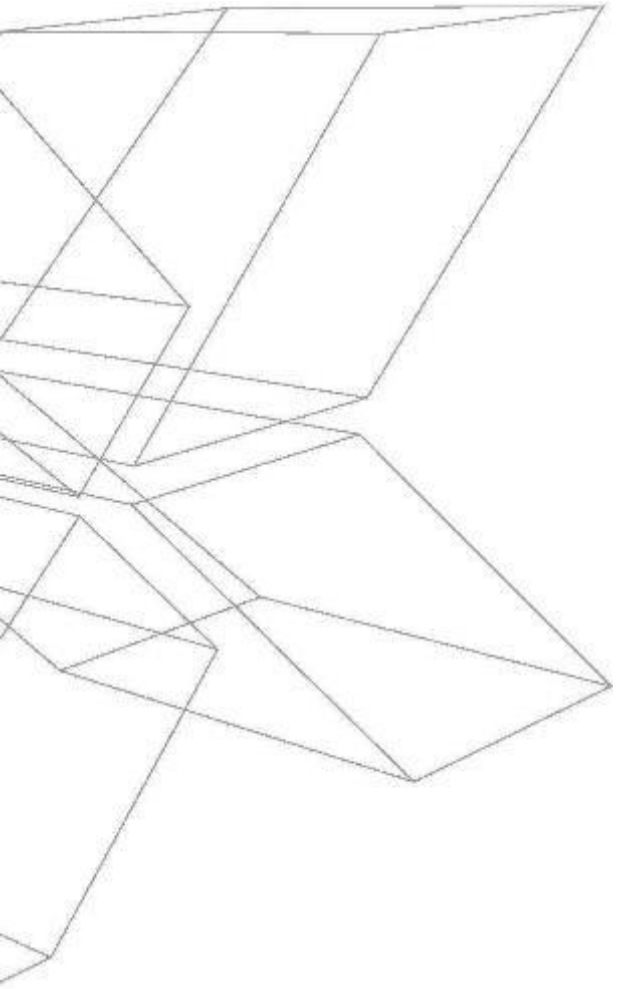

Protecting Your 1031 Exchange Funds

- Extensive Experience and Expertise
  - Should be able to review all documents to catch problems before they create a loss for you.
- Errors & omissions insurance (E&O)
- Fidelity bond protection
- Wyoming Division of Banking
- Obtain copy of insurance binders and call insurance agent to verify coverage

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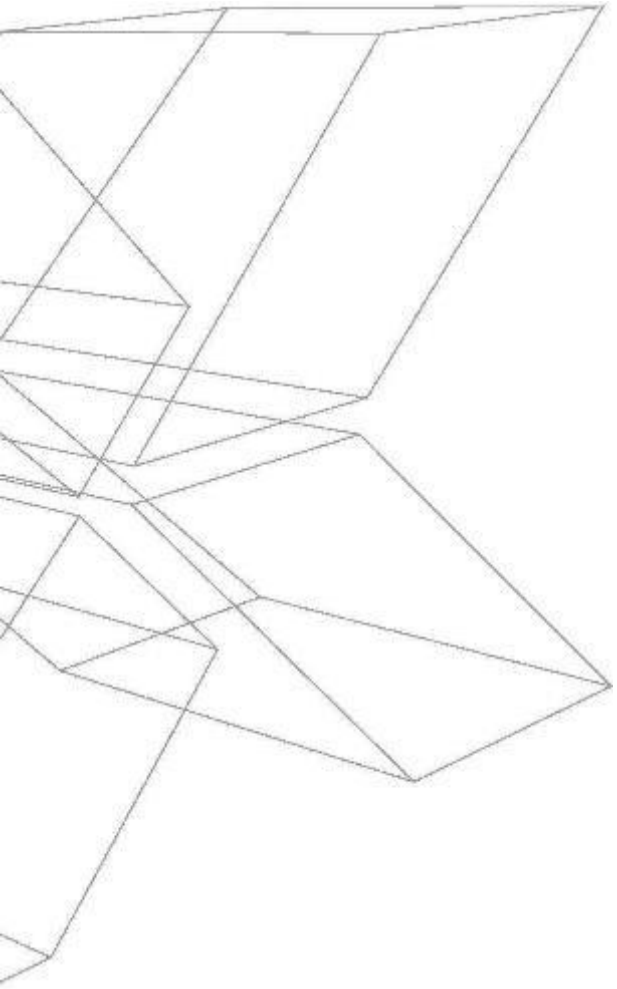

Exeter 1031 Exchange Services

- Qualified Intermediary (Accommodator)
- Exchange Accommodation Titleholder
- All types of 1031 exchanges, including:
  - Forward 1031 Exchange
  - Reverse 1031 Exchange
  - Improvement 1031 Exchange
- All 50 states and foreign property
- Call Exeter 24/7 via web site

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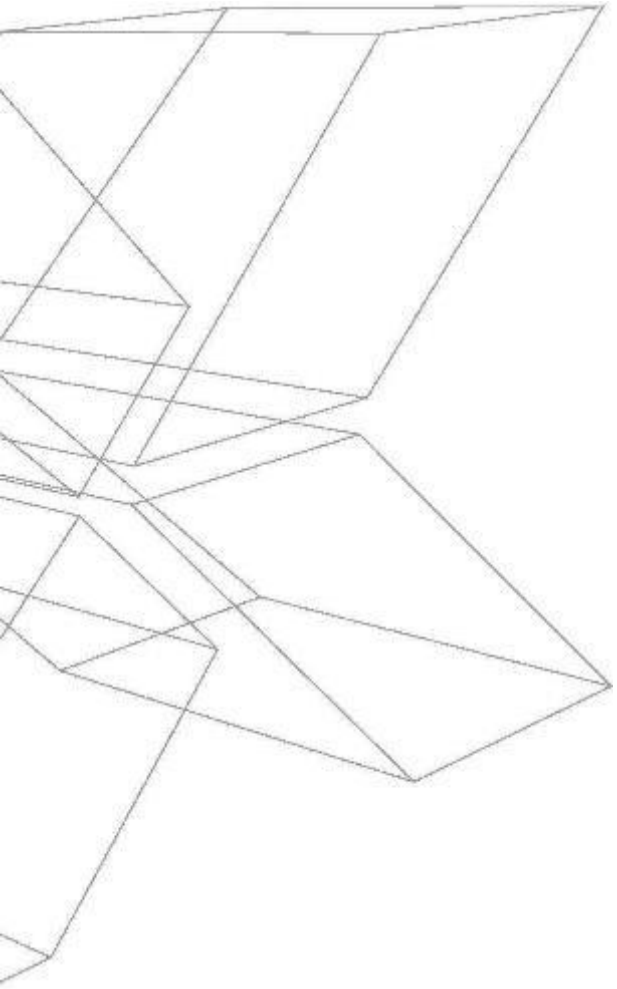

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