Build and Maintain Your Wealth with Tax Deferral/Exclusion Strategies for Real Estate

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The Exeter Edge™ Webinar Etiquette

- Everyone will be in listen only mode
- Please **ask questions** as they come up
  - Use the Q&A function
  - We will unmute phone lines afterward.
  - Use audio pin number
- If we unmute your phone, please DO NOT….
  - use speaker phones
  - place call on hold (on hold music)
  - use mobile phones (use land line)
  - type or shuffle papers (creating noise)

Exeter 1031 Exchange Services

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

Tax Deferral/Exclusion Strategies

- Cost Segregation
- EPAct
- 1031 exchange (investment property)
- 1033 exchange (condemnation)
- 1034 exchange (repealed in 1997)
- 121 exclusions (primary residence)
- 721 exchange (upREIT or 1031/721)
- 453 installment sales
- Other options available, so seek legal, tax and financial counsel

Overview of the 1031 Exchange

- Applies only to property held for rental, investment or business use
- Need Qualified Intermediary
- Qualified use property
- Like kind requirement
- 45 days to ID replacement property
- 180 days to complete 1031 Exchange
- Step-up in cost basis

Recent Changes in 1031 Exchanges

- Revenue Procedure 2008-16
- Vacation property & Second home can now qualify for 1031 exchange treatment if……

- Must be held for 24 months
- Must be rented for at least 14 days/yr
- Personal use must be limited to no more than 14 days/yr or 10% of the number of days rented

1031 Exchanges in Today's Market

- Distressed dispositions:
  - Short Sale
  - Deed in lieu of foreclosure
  - Foreclosure
- These are forced sales
  - You may still have taxable gain if "sale price" exceeds cost basis
- Can structure a Zero Equity 1031 Exchange™

Overview of the 1033 Exchange

- Section 1033 of the IRC
- No third party required to hold funds
- 1033 Exchanges are involuntary conversions either via:
  - Eminent domain (condemnation)
  - Natural disaster (act of God)
- Longer time frames for reinvestment
- May have less flexibility in like kind property

Overview of the 1033 Exchange

- Eminent domain issues:
  - Threat of eminent domain vs. actual eminent domain
  - Three (3) years to reinvest, except primary residences have four (4)
  - Like kind same as 1031 exchange

Overview of the 1033 Exchange

- Natural disaster issues:
  - Actual loss required
  - Timeframes begin with destruction
  - Two (2) years to reinvest, except primary residences have four (4)
  - Like kind is similar or related in service or use (not like 1031 Exchange)

Overview of the 1033 Exchange

- No identification requirement
- Trade equal or up in value
- No requirement to reinvest equity or replace debt
- Can pull cash out without taxes

Overview of the 1034 Exchange

- Repealed in 1997
- Applied to sale of primary residences
- Buy new home within two years
- Trade equal or up in value
- Rolled over gain into new home
- Replaced with Section 121

Overview of the 121 Exclusion

- Section 121 of the IRC
- Tax free exclusion on sale of primary residence (home) ("121 Exclusion")
- Own and live in property as primary residence for 24 out of last 60 months
- Tax free exclusion up to $250,000 per person ($500,000 for married couple)
- Tax free vs. tax deferred

Overview of the 121 Exclusion

- What if gain far exceeds $500,000?
- Combined 1031 Exchange and 121 Exclusion strategies available
- Congress keeps changing the playing field
- Primary residence into rental property
- Rental property into primary residence

Recent Changes – 1031/121

- Primary residence converted into rental property
  - Revenue Procedure 2005-14
  - Move out and convert to rental
  - Rent for at least 12 months or more
  - Hold as rental for up to three years
  - Then sell and use 1031/121 strategy
  - Full 121 exclusion if sold within the three year window
  - 1031 Exchange excess gain

Recent Changes – 1031/121

- Rental property converted into your primary residence
- Tax Act of 2004
  - New purchase (not part of 1031)
    - No change
    - Move in and live in the property for at least 24 months; then sell
  - Property purchase thru 1031 Exchange
    - Hold for five years because acquired as part of a prior 1031 exchange
    - Intent to hold for investment important

Recent Changes – 1031/121

- Housing Act of 2008
- Applies if rental usage is first
- Gain to be allocated between use
  - Qualified use (primary residence)
  - Non-qualified use (non-primary)
- Gain allocated to qualified use is still tax free up to $250,000/$500,000
- Gain allocated to non-qualified use is now taxable

Overview of the 721 Exchange

- Section 721 of the IRC
- 1031/721 or **up**REIT
- Tax deferred conversion into REIT
- Two step process:
  - 1) Sell property thru 1031 Exchange and buy fractional interest in property selected by the REIT and hold
  - 2) Fractional interest contributed into upREIT

Overview of the 721 Exchange

- Benefits:
  - Tax deferred into REIT
  - Better diversified inside of REIT
  - No property management headaches
  - More liquid
  - Easier to give away at death
  - Still receives step up in cost basis
- Negative
  - No longer qualifies for future 1031 Exchange when you sell REIT

Overview of Section 453

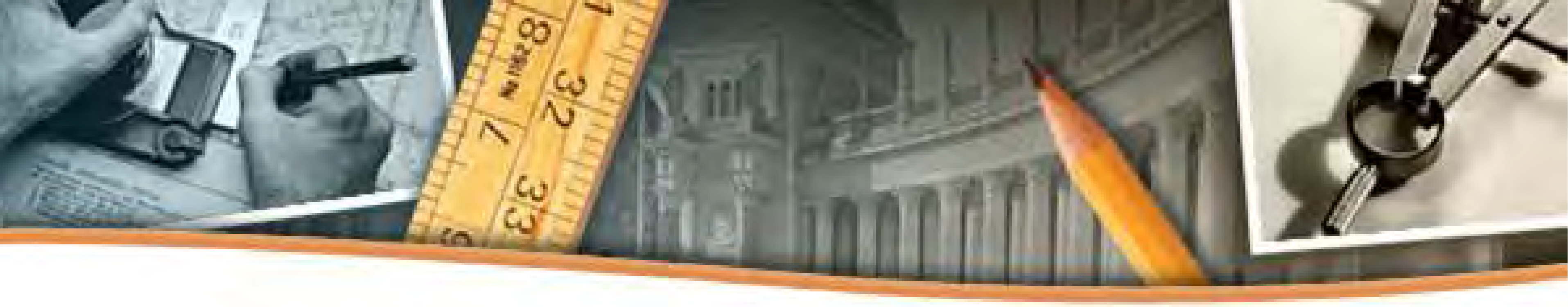
- Section 453 of the IRC
- Seller carry back notes (financing)
- Contract for Deeds; Land Contracts
- Installment sale treatment
  - Depreciation recapture recognized in year of sale
  - Capital gain deferred over term of note and recognized on prorata basis with principal payments

1031 Exchanges in Today’s Market

- Seller carry back notes
  - Included inside 1031 exchange
  - Excluded from 1031 exchange
- Deferred Sales Trusts™
  - When 1031 Exchange fails
  - When 1031 Exchange not suitable
  - Gain is taxable, but deferred

Cost Segregation and EPAct

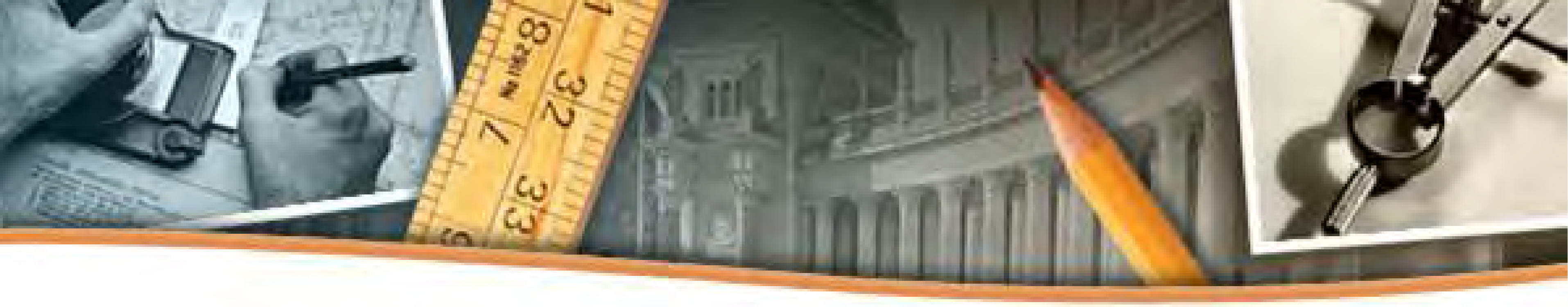
AmiLynne Carroll
RUI Financial



Tax Planning Strategies

For

Investment Property Owners.



AmiLynne Carroll
Director Strategic Marketing & Development

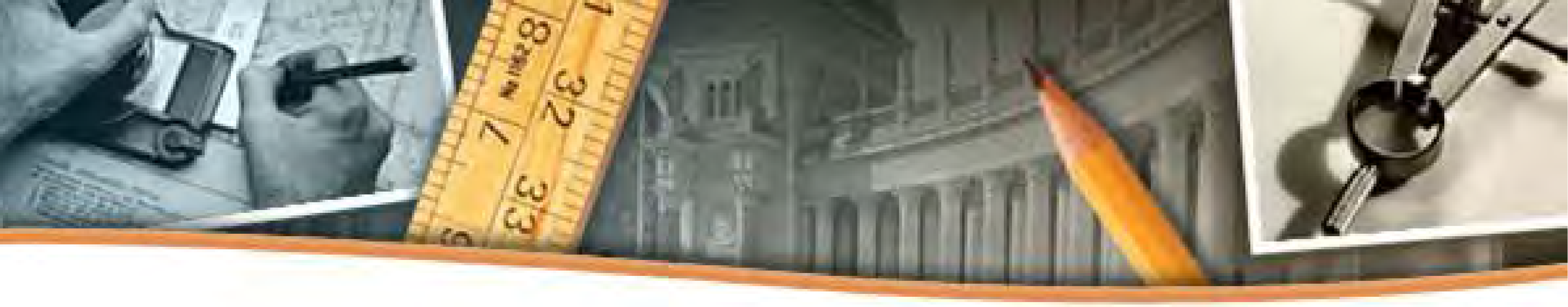
Alumnus with Distinction:
Valparaiso University B.S / Indiana University MPA.

12 years experience Financial Services:
Market development, customer service and support for businesses and commercial building owners nationwide.

10 years experience Building, Training & Mentoring Financial Service professionals.

Continuing Education Instructor
Courses provided both on-site and on-line

Actively involved in community mentoring and development activities



In-Depth Cost Segregation/Chattel Experience

*Starting in 2001 we have successfully completed thousands of studies nationwide.

*Studies range in size from $200,000 - $240,000,000, resulting in the deferral of hundreds of millions in taxes

Highly Qualified Engineering and Tax Professionals

*Our Engineering firm has extensive construction experience in reviewing and reading plans and in utilizing RS Means and Marshall & Swift cost estimation techniques.

Comprehensive Report

*Each report meets the IRS “13 Principle Elements of a Quality Cost Segregation Study” *Completed studies conform to the “engineering approach”. We also perform a complete “take-off” of the property including items that do not qualify as accelerated property.

*Our studies include audit consulting time & support.

Leading Educators

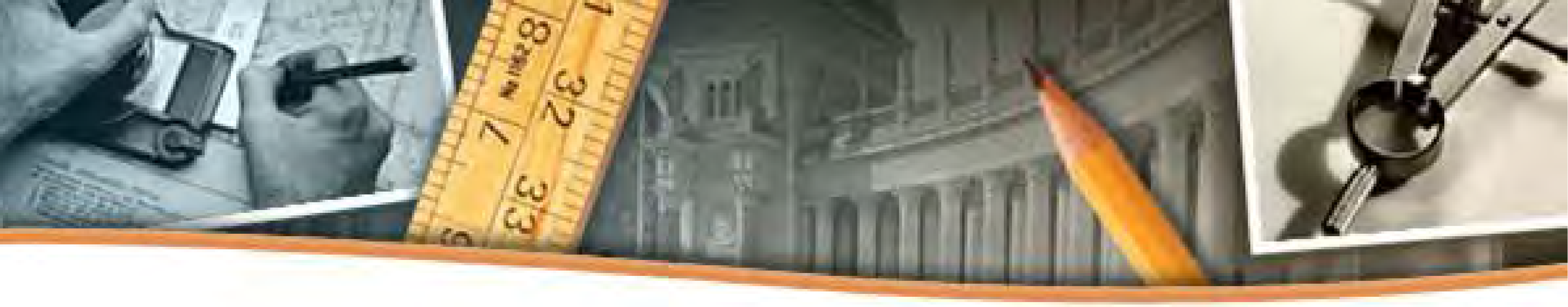
*Founding Engineer Jim Shreve is a well respected engineer / economist specializing in cost segregation studies.

*Among our staff of CPAs, Tax Attorneys, Real Estate Professionals and Engineers, we boast a partnership with Three Year running AICPA Teacher of Year – Steve Lustig

Partnering Opportunities

*We offer a variety of Partnering Opportunities focused on the needs of architects, developers, CPA firms, commercial insurance professionals and other real estate professionals.

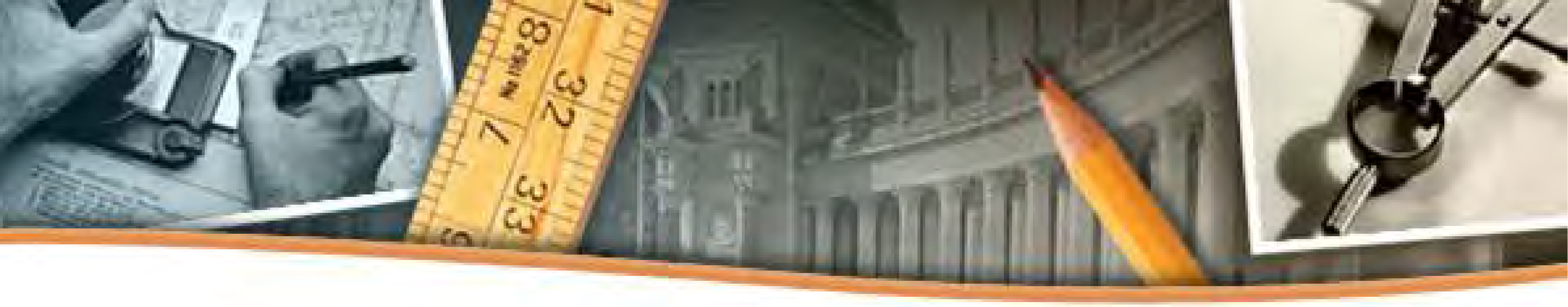
Working together, we can offer competitive pricing and a quick turnaround time while still providing the highest quality product in the industry.



A Basic Introduction to Investment Property Tax Applications

What is Cost Segregation

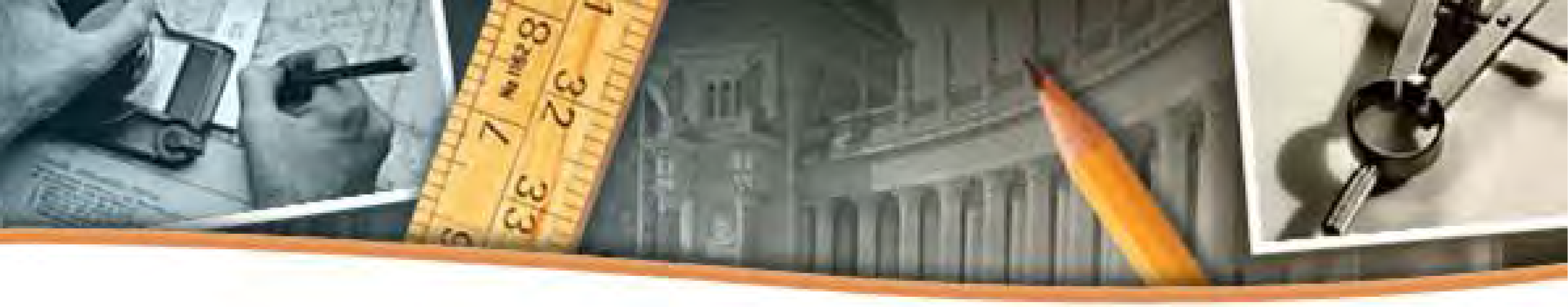
What is a Chattel Study



What is Cost Segregation

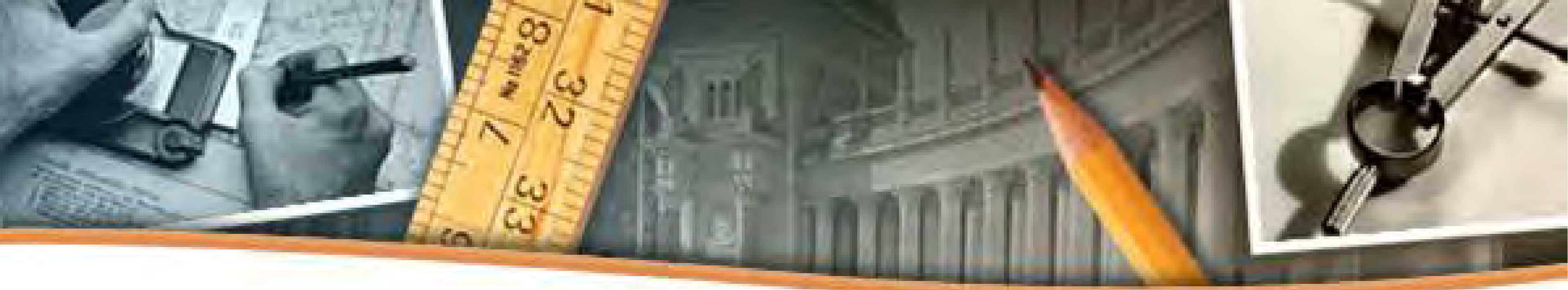
Cost Segregation is :

The IRS – legally allowable alternative to straight 39-yr or 27.5-yr depreciation for commercial / multi-family properties.



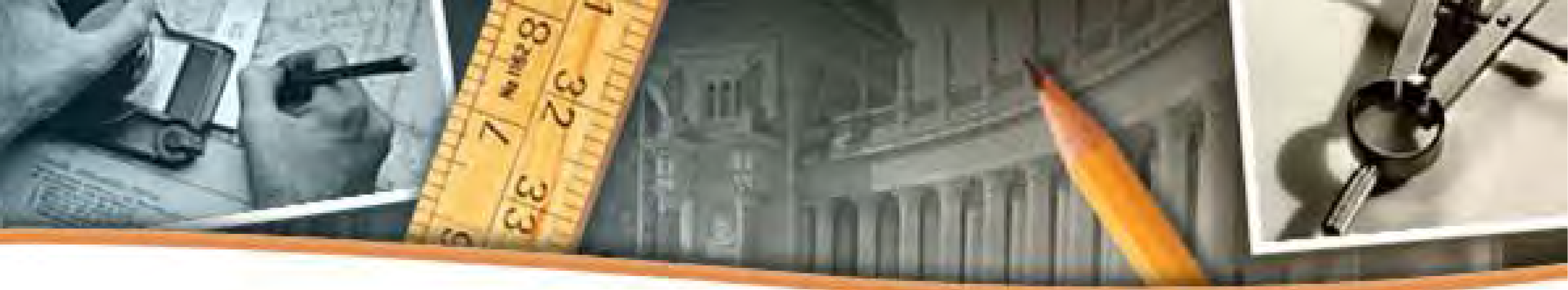
The IRS has set forth a standard for specially trained engineers, who utilizing blueprints, costing documents and other architectural programs, will reallocate building components / assets – that would normally be depreciated over 39 / 27.5 yr into their *proper useful life* classification of 5, 7, 10 or 15 year.

This, *IRS guided and regulated,* reallocation accelerates the depreciation on the investment property, immediately reducing taxable income and tax payments made to the IRS, and therefore *creates urgently needed cash flow;* based on cost basis of the building and year(s) of ownership.



Why should I have a cost segregation study done on my building?

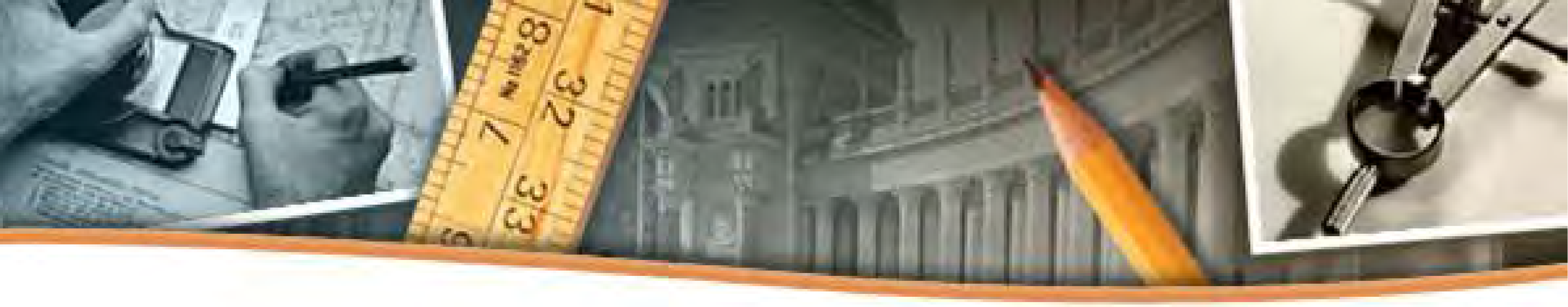
- **Increase cash flow** (resulting in increased cash available for new projects) through accelerated federal tax depreciation.
- Help investors and corporations **manage their investments in capitalized assets**
- Allow an investor or corporation to **claim "catch-up" depreciation** on assets that have been previously misclassified as real property.
- Help investors **maximize the tax credits** they can claim. Provide investors with additional cash flow to reinvest in new projects.
- **Substantially reduce corporate** and possible **individual income taxes**
- **Net present value savings** on federal tax depreciation
- **Reduce real estate taxes** by shifting value from real property to personal property



What does that mean in dollars and cents?

- Reclassifying a building or leasehold improvement from the traditional 39-year / 27.5-year depreciation period to a five –year classification results in a net present value benefit of 21 cents on the dollar.

  - A switch to a seven or fifteen-year classification would represent a 19 cents and 11 cents net present value benefit, respectively.

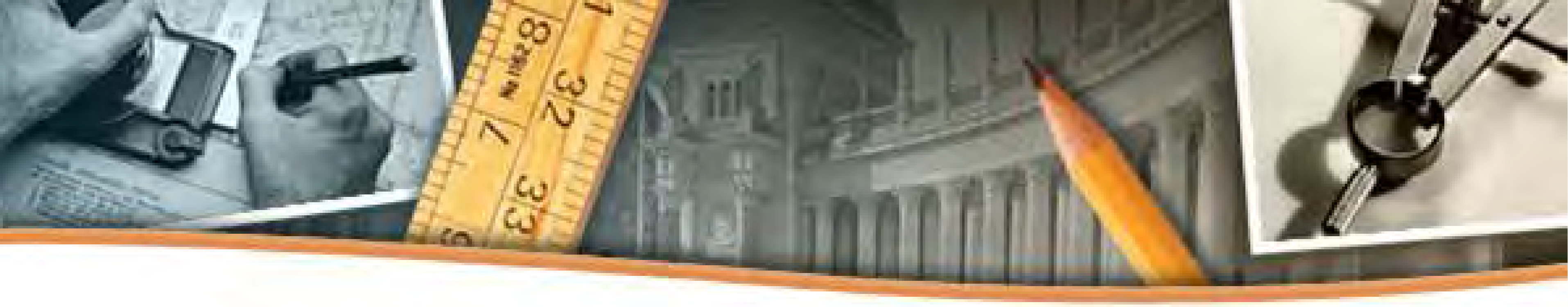


A typical ONE MILLION DOLLAR PROPERTY generates between *$70K - $100K* in after tax increased cash flow for as little as a $6,000 one-time investment.

Cost of the study is also 100% immediately tax deductible

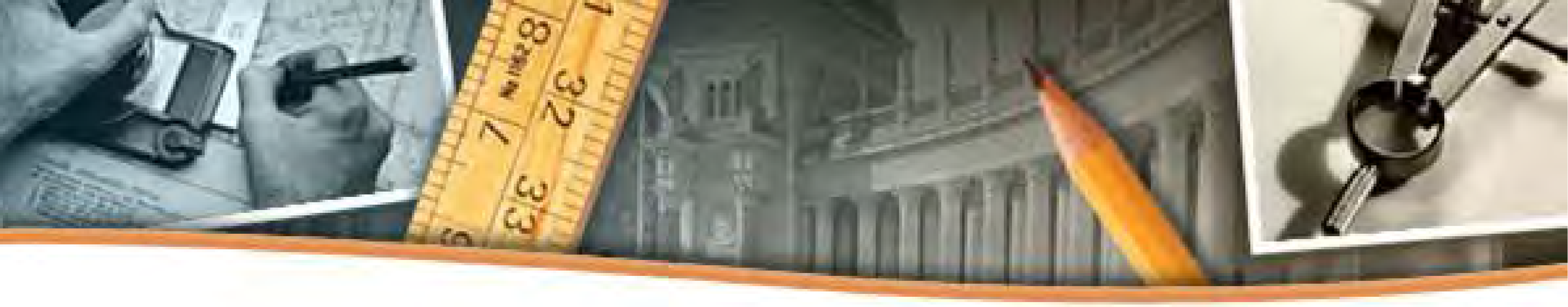
That is a return on investment ratio of

11 / 16 to 1



Property Analysis Summary

Company Name	Total Analysis		
	1 Building		
Building Cost	$ 1,319,000		
Date Acquired	1996		
Tax Year:	**2008**	**2009**	**2012**
Current Method			
Accumulated Depreciation Reported			
39 year straight line method	$ 438,291	$ 472,110	$ 573,567
Alternative Method			
Cost Segregation Study			
Accumulated Depreciation			
5 Year	$ 250,610	$ 250,610	$ 250,610
15 Year	$ 89,944	$ 96,175	$ 105,520
39 Year	$ 319,952	$ 344,640	$ 418,704
Total	$ 660,506	$ 691,425	$ 774,834
Results for Tax Year:	**2008**	**2009**	**2012**
Increased Accumulated Depreciation Expense	$ 222,216	$ 219,316	$ 201,267
Tax Rate (Estimated)	36%	36%	36%
Estimated Accumulated Tax Savings Benefit	$ 79,998	$ 78,954	$ 72,456

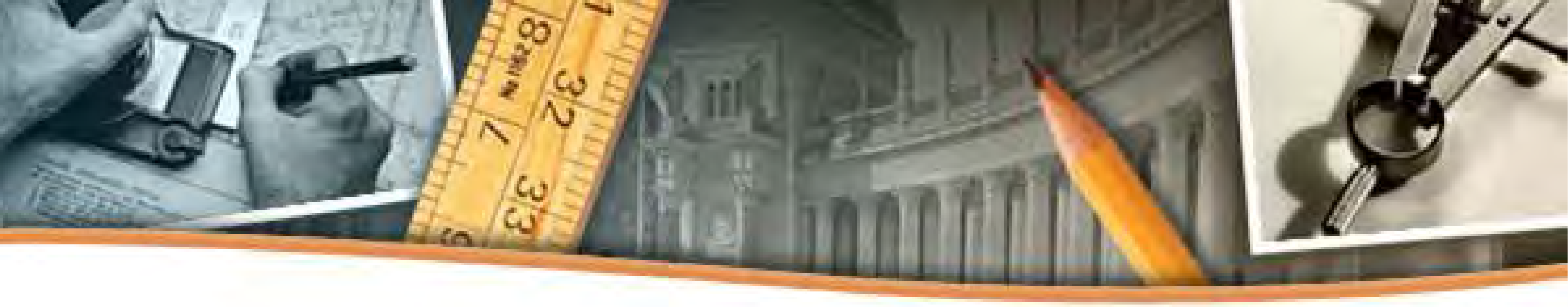


Net Benefits to After Tax Cost Ratio (First full Year of Implementation) 16 to 1

Net Present Value to After Tax Cost Ratio 10 to 1

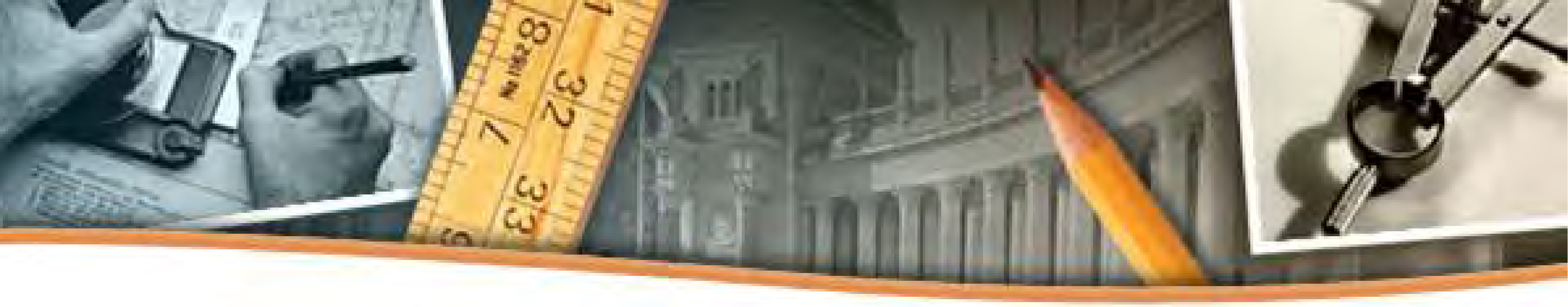
Which clients on your portfolio could use an IMMEDIATE cash flow increase of $79,989

For an after tax cost of just: $4,848



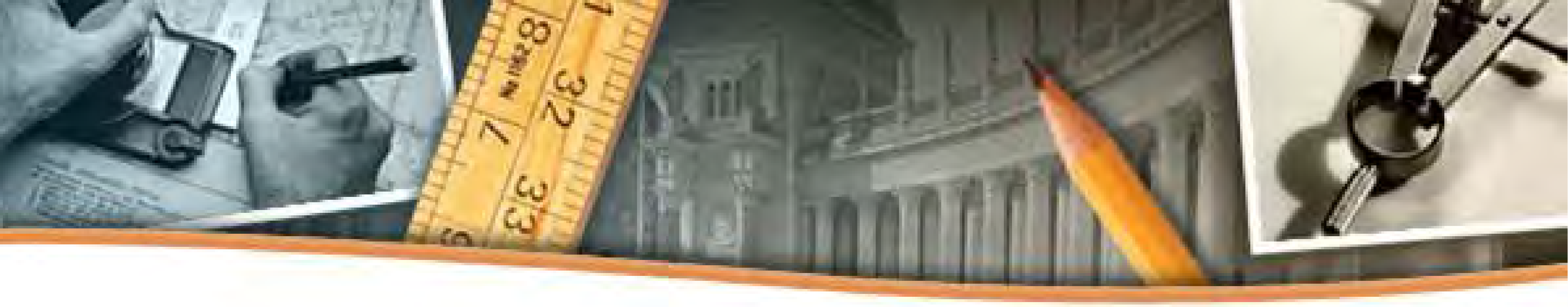
Another typical example

Most building owners own more than one building. . .



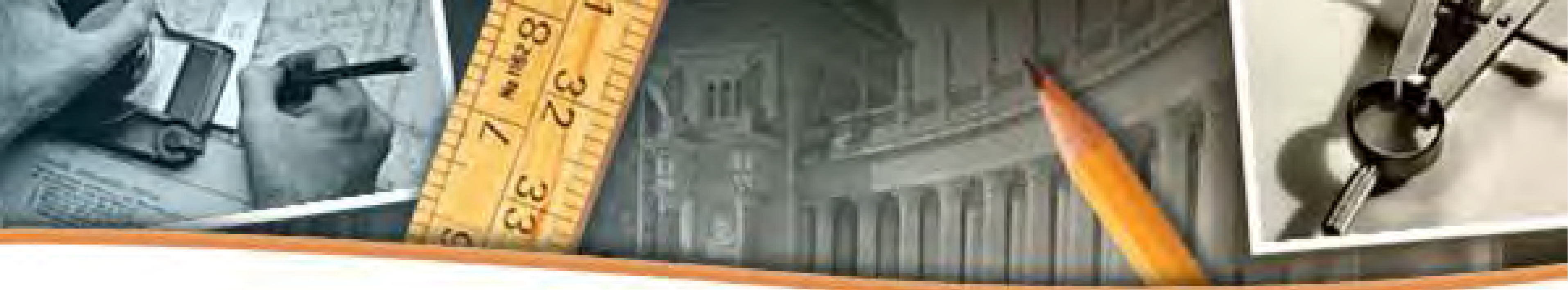
Property Analysis Summary

Company Name	Total Analysis		
	3 Total Buildings		
Building Cost	$ 11,730,818		
Date Acquired			
Tax Year:	**2008**	**2009**	**2011**
Current Method			
Accumulated Depreciation Reported			
39 year straight line method	$ 1,166,077	$ 1,466,855	$ 2,369,189
Alternative Method			
Cost Segregation Study			
Accumulated Depreciation			
5 Year	$ 1,221,473	$ 1,334,615	$ 1,427,390
15 Year	$ 185,274	$ 225,401	$ 332,599
39 Year	$ 962,375	$ 1,211,515	$ 1,958,939
Total	$ 2,369,122	$ 2,771,531	$ 3,718,928
Results for Tax Year:	**2008**	**2009**	**2011**
Increased Accumulated Depreciation Expense	$ 1,203,045	$ 1,304,678	$ 1,349,739
Tax Rate (Estimated)	36%	36%	36%
Estimated Accumulated Tax Savings Benefit	$ 769,948	$ 834,993	$ 863,832



Property Economic Summar

Brownstone Commercial Real Estate							
			Estimated Cost Savings Benefit		Cumulative Benefit at End of Ownership		Fees
Property Name	Purchase Date	Cost Basis	2008	2011	NPV	FV	
1325 E Flamingo Stores	2/2004	$ 6,850,000	$ 293,065	$ 295,534	$ 219,644	$ 3,248,038	$ 16,520
200 Spectrum Blvd	6/2006	$ 880,818	$ 25,182	$ 34,267	$ 22,352	$ 385,470	$ 6,972
3201 Technology court	7/2006	$ 4,000,000	$ 114,850	$ 156,106	$ 113,261	$ 1,953,263	$ 11,900
Totals		**$ 11,730,818**	**$ 433,097**	**$ 485,907**	**$ 355,257**	**$ 5,586,771**	**$ 35,392**



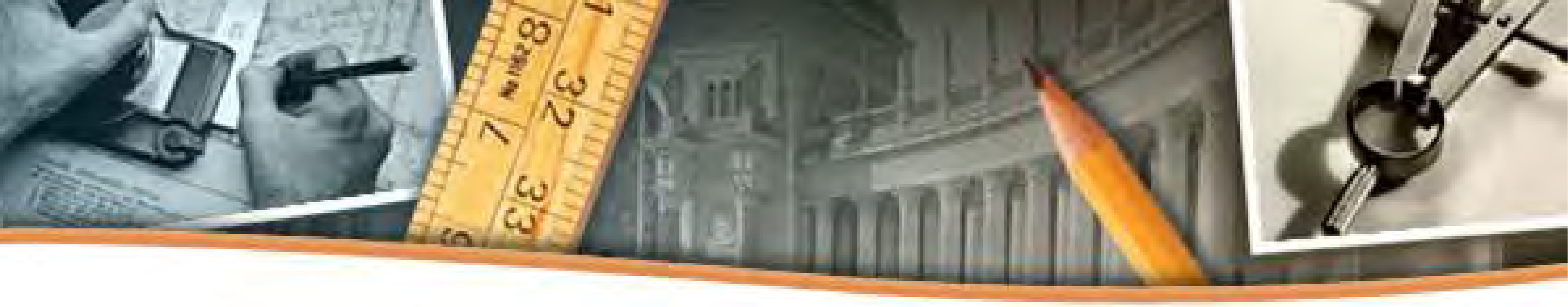
Net Benefits to After Tax Cost Ratio (First full Year of Implementation) 21 to 1

Net Present Value to After Tax Cost Ratio 17 to 1

Again I ask. . .

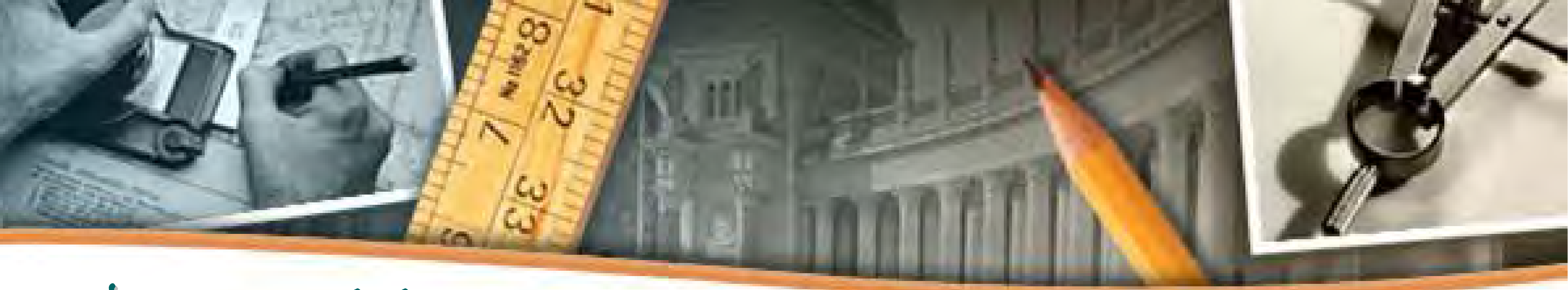
Which clients on your portfolio could use an IMMEDIATE cash flow increase of $433,097

For an after tax cost of just: $20,224



There is NO investment that offers a GREATER– or more IMMEDIATE– return than the proper application of

COST SEGREGATION



Client Candidates / Prospects. . .

Cost Segregation:

Commercial Bldg owners who have bldgs purchased or placed in service after 1986

Prime Candidates:

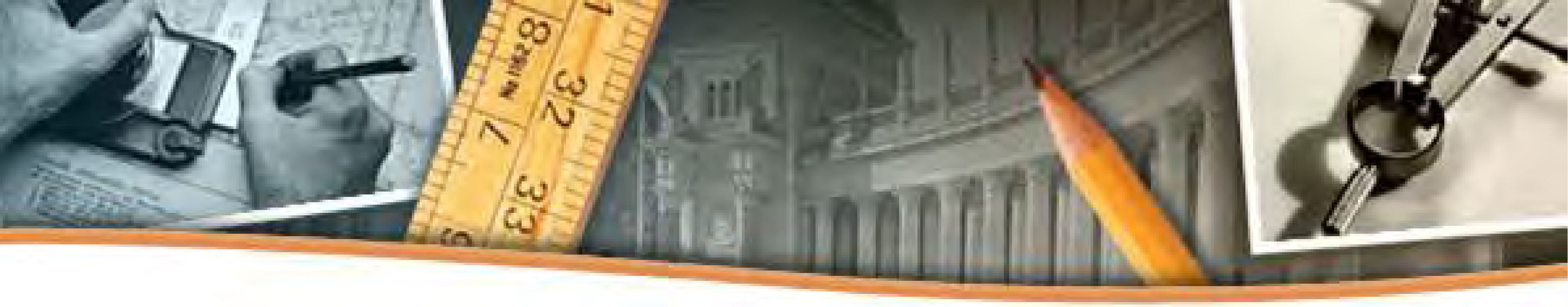
1: Currently purchasing – considering purchasing
2: Purchased bldg within last 7 – 10 years
3: Tenants who have incurred lease hold improvements

Building Cost Basis Threshold:

1: Minimum: $500,000
2: Maximum $240,000,000 ($240 Million)

Why hasn't your client's accountant told him / her about this?

Cost segregation is a highly specialized tax planning discipline that requires a combination of skills and expertise that most accounting firms don't have. For example, most accounting firms do not have the in-house engineering expertise required to read construction drawings, estimate costs, understand construction systems and apply IRS asset classifications to existing use.



What happens if the IRS challenges the asset classifications resulting from the study?

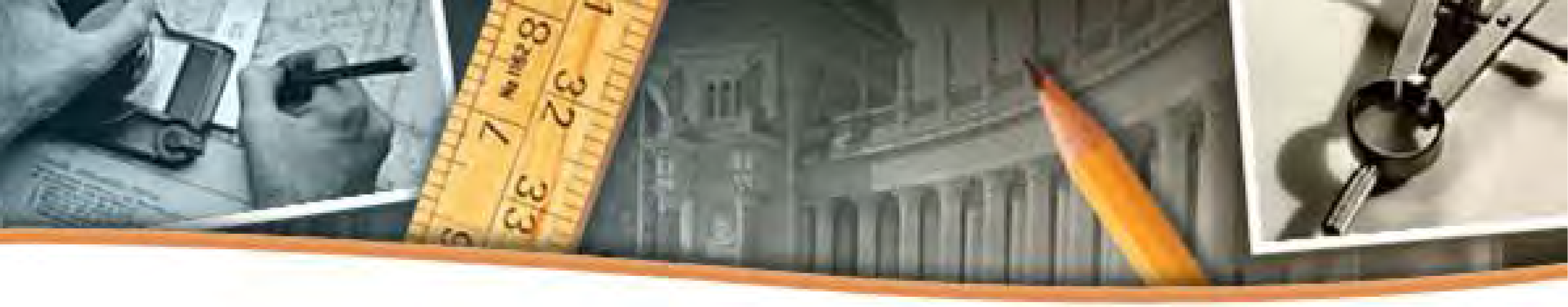
In the event of an IRS review or audit, we will defend our results. We will be present at any review / hearing to answer questions. This is done at no additional cost to the building owner and/or his/her CPA.

We have a proven track record with the IRS results because we:

*Follow the most recent depreciation guidance provided by the IRS (for example, IRS Audit Technique Guide, 2005),

and

*Provide the building owner and his / her CPA with extensive supporting documentation



Depreciation News you Can Use :

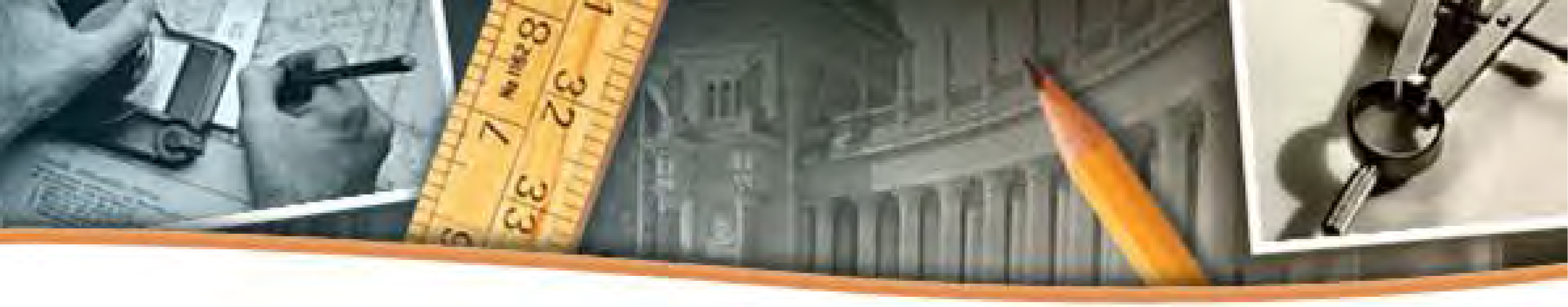
Cost Segregation creates opportunities to more fully utilize the tax incentives created by the American Recovery and Reinvestment Act (ARRA) of 2009.

Cost Segregation will result in immediate tax refunds by:

$ -Identifying shorter lived assets that are eligible for 50% Bonus Depreciation

$ - §179Expense Election

$ - Creating additional losses that can now be carried back up to 5 years



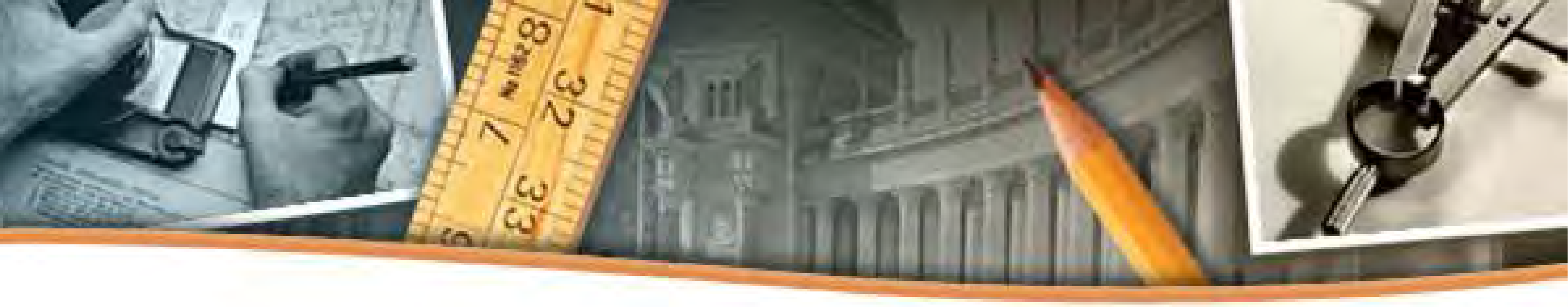
5-Year Carryback for 2008 Net Operating Losses of Small Businesses

The ARRA of 2009 benefits small businesses that are having financial difficulties by allowing them to use their 2008 net operating losses (NOL) back to a maximum of five years. Prior to this they could only be carried back for two years.

An eligible small business is defined as a partnership, corporation or sole proprietorship that had average annual gross receipts of less than $15 million for 2008 and the previous two years. The taxpayer must make an affirmative election to use the longer carryback period prior to the due date, including extensions, of the 2008 tax return.

5-Year Carryback for 2008 Net Operating Losses of Small Businesses (cont)

Cost segregation creates additional depreciation deductions and in some cases will put the taxpayer in a NOL position or create a larger NOL. The stimulus plan will give small businesses more opportunity to use the entire NOL and create a tax refund.



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