Deal Syndication

Video 5

Syndication Tax Issues

What’s covered in this training?

Video 5: What’s covered?

- Syndication Tax Issues
  - Pass-through of tax benefits to investors
  - Section 1031 like-kind exchanges
  - “Real Estate Professionals”
  - Carried interests

Disclaimer

- I’m not an accountant or CPA, so you should not rely on this information
- Tax laws may also change
- Be sure to consult with your tax professional before engaging in any real estate transactions

Pass-Through Tax Benefits

What passes through to investors?

- If you use LLC, everything passes through in proportion to ownership
- LLC is a "disregarded entity" for tax purposes
- Partners only pay tax at personal level
- Tax benefits such as depreciation pass through to investors to offset income from property
- Tax losses pass through to offset other investment income, subject to applicable law

Section 1031 Like-Kind Exchange

- Section 1031 like-kind exchange allows investor to defer capital gains tax by using sale proceeds to purchase larger property
- Syndications have limited ability to use Section 1031
- Property LLC must be the entity to buy next property
- If any investor takes cash distribution on sale, he/she cannot use proceeds for 1031

Real Estate Professionals

By syndicating, you may be classified as a “real estate professional” for tax purposes

- Bad news: your real estate derived income is taxed at personal income rates
- Good news: losses are deductible against personal income
- Test is: are you spending majority of your work time in real estate
    - One deal in your spare time, probably not
    - 500 hours on real estate is generally the trigger

Carried Interests

- Your sponsor participation on sale is a carried interest
- Even though you did not invest money to earn your promote, it is treated just like an equity investment, and the gain is like a capital gain
- It's taxed at passive income rates
- One of the biggest benefits of sponsorship
- You want to make sure that you structure it properly to strengthen your argument that this is a carried interest and not regular income
  - This is why you should take your carry as a B share and have it held in a different entity than your management fee income

What's Up Next?

Video 6: Walk through upgraded underwriting model for syndication deals