



Investors Educational Webinar Series

Multifamily Tax Benefits- Insider Secrets
that you don't want to miss

The Holtax Group

Business Advisors for Real Estate Entrepreneurs

Achieve Investment Group

Multifamily Investment Firm



- Private equity firm focusing on raising money from busy high net worth individuals to buy, manage and hold multifamily apartment assets to deliver above average return and tax advantages on their investments.
- We own approximately 1000 units (6 properties) for with control of \$65m in assets excluding our passive investments.
- We won the 2017 San Antonio Apartment Association, Property of the Year award.

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Achieve Investment Group

August 24, 2018

The Holtax Group

Business Advisors for Real Estate Entrepreneurs

Contact: Nick Holevas, CPA or Marie Dancu, CPA
(855) 348-5499



Meet the Team



Nick Holevas, CPA is a passionate tax professional, real estate investor and entrepreneur. His expertise includes implementing tax strategies for single and multi-family real estate investors, realtors, and property management companies. His background includes management of five-star luxury hotels and CFO of small family owned restaurants. Nick is a licensed CPA in Illinois. Nick is from the Chicago area but recently relocated to Dallas Texas.



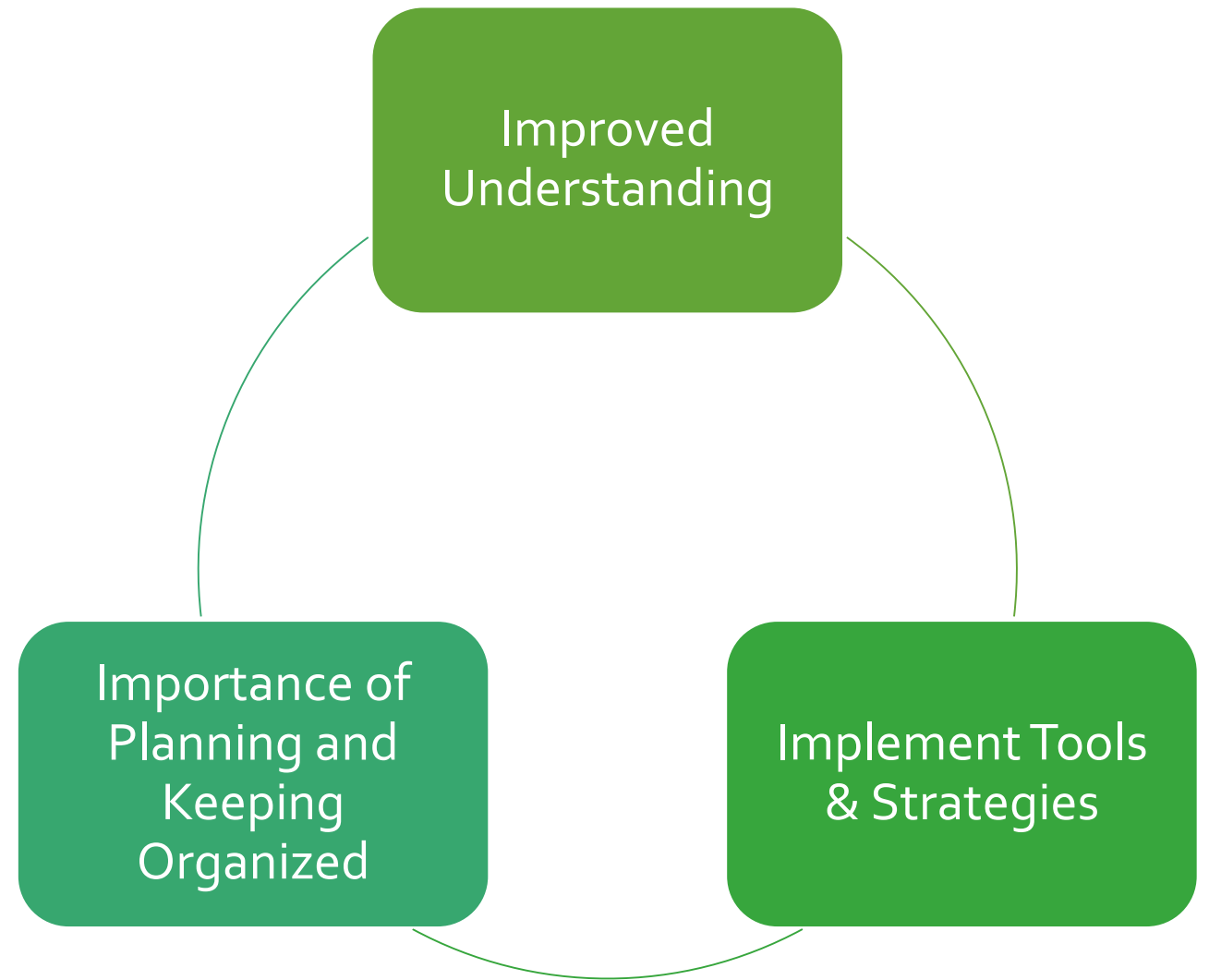
Marie Dancu, CPA is an advisor and consultant to individuals and small businesses. She has been helping clients with tax saving strategies for more than 15 years. She is passionate about entrepreneurship and started, owns and operates a number of businesses. Marie has personal investment experience using Self-Directed IRA's for land development, trust deeds, and short-term business loans. With her background in forensic accounting, corporate accounting & taxation, and CFO for corporations under \$20M, she integrates financial management with individualized tax strategies. She is a CPA licensed in Texas and Illinois. She and her husband have grown up in the Chicago area, have 3 college age children and residents of Flossmoor, IL.



This presentation is for educational purposes only and is not to be construed as legal, tax, or other professional advice. Any tax advice contained in this presentation was not intended or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions. Before using any tax advice contained in this presentation, taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

IRS Circular 230 Disclosure

Goal



Agenda



1. TYPE OF TAXES



2. GOOD RECORD KEEPING



3. GAIN /LOSS ON SALE



4. REAL ESTATE PROFESSIONAL / BROKER DEALER STATUS



5. TAX SAVING STRATEGIES



6. TAX CUTS AND JOBS ACT OF 2017



7. SELF DIRECTED IRAS, UBIT, & UDFI

Why should you care?



Knowledge = Saving \$\$\$



Staying current with your finances = Saving \$\$\$



Good systems = Saving \$\$\$

Getting Started – Choosing a Business Entity

Sole Proprietor

- By default
- Easy to setup
- Simple record keeping
- Liability insurance
- Subject to 15.3% self-employment tax
- Biggest tax bill
- Passive income advantages

LLC

- Limited liability
- Flexible
- Less corporate paperwork
- Elect taxation
 - SM LLC
 - Partnership
 - S-Corp
 - C-Corp

S-Corp / C-Corp

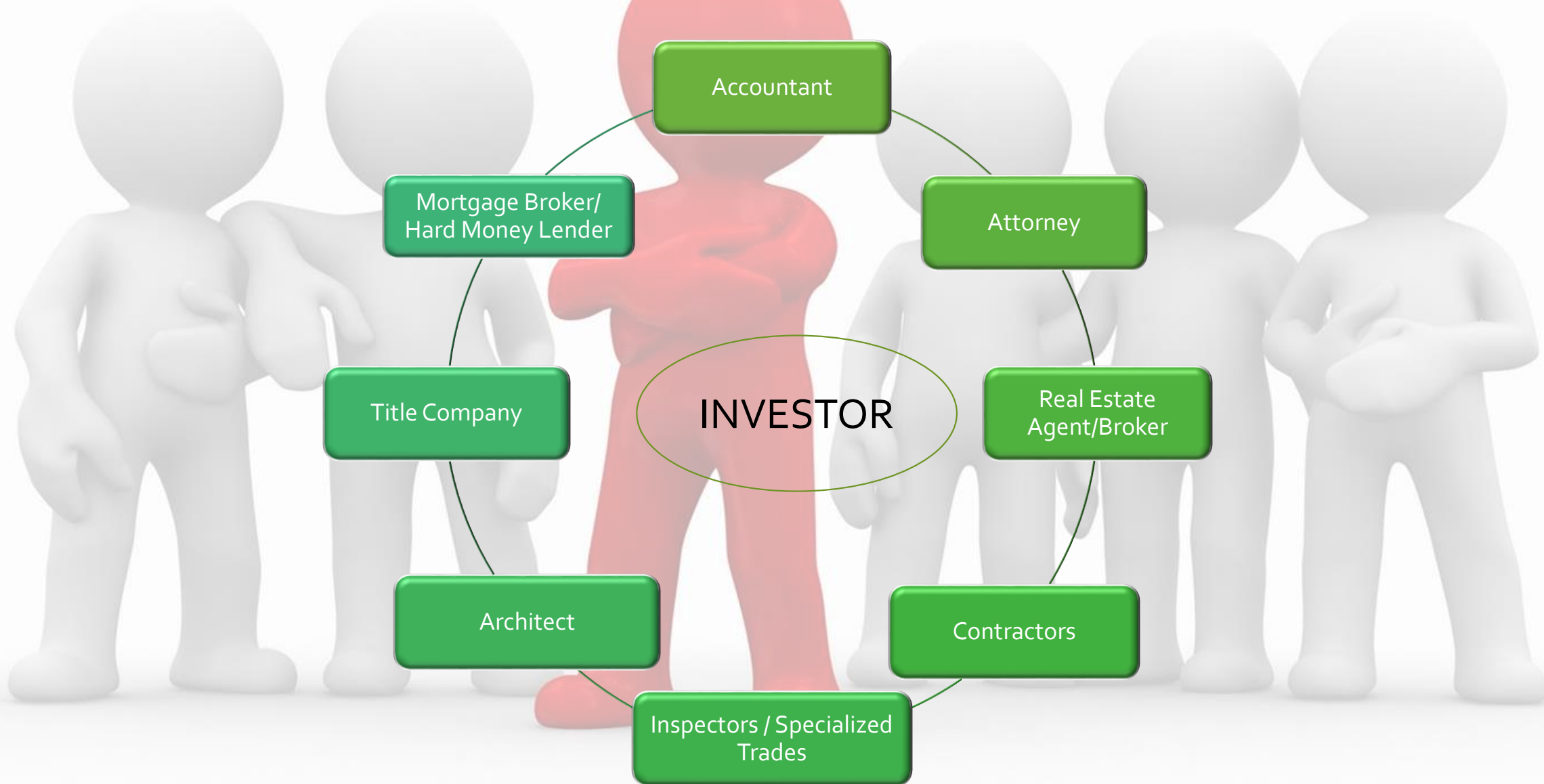
- Liability protection
- Formal corporate record keeping
- Less flexible – based on % ownership
- Active real estate activities
- Reasonable Wages

Self-Directed IRA

- For investment purposes only
- Tax free or tax deferred growth
- Strict rules to stay compliant
- Not for everyone
- Consult professional familiar with SD-IRA's

Active Income vs Passive Income
Flipping & Wholesaling vs Long-term Rentals
S-Corp vs LLC / Individually

Team of Professionals



Good Record Keeping



(1) Stay organized. Keep receipts/invoices. Have a system.

(2) Missed transactions = missed deductions

(3) Save money in a potential audit

(4) Know your cash balance. Perform bank reconciliations

(5) Balance Sheet (needed for business tax returns & loans)

(6) Accounting software options ([QBO/Xero](#)) and payroll software ([Gusto – Square Payroll](#))

(7) Property management software – rentals (multi family)

[Appfolio](#) – [Buildium](#) - [Resman](#)

Business Tax Deductions

Business Expenses

- Normal & Ordinary
- Good Records are critical
- Maximize tax deductions

Tracking mileage

- 100% Auto Use = Audit Flag
- Keep Log = Business purpose & mileage
- Use Apps = trackmydrive, mileIQ, milebug

Capital Expenses vs Repairs

- Generally > \$2500 must be capitalized
- Rehab projects all capitalized
- Repair costs = routine maintenance
- Closing Costs – mostly capitalized and/or amortized over life of loan.

Types of Taxes

Property
Tax

Income Tax
(Federal /
State)

Self-Employment Tax
(Sch C & Guaranteed
Payments)

Excise Taxes

- State Corporate
- Sales/Use Tax

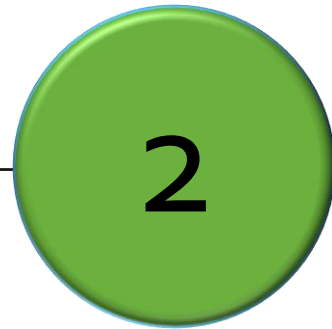
Forms-File/Retain

- 1099 & W-9
- W-2 , W-4 , I-9

Payroll Taxes

- Owners & Employees
 - FED WH & ST WH
 - SS & Med (15.3%)
 - SUTA & FUTA
- Outsource Payroll (Gusto or Square PR)

Gain/Loss on Sale



How Gain/Loss is Calculated

Sales Price
- Selling Expenses
- Cost Basis
- Depreciation
= Gain or Loss on Sale

DOES NOT = CASH RECEIVED AT CLOSING

How Gain/Loss Treated

- Capital Gains vs Ordinary Income
 - LTCG vs STCG
- Recapture Depreciation at 25%
- Advantages of RE Investing
 - (LTCG Treatment)
- Capital Gain Rates remain Unchanged

Passive Loss Rules (PAL)

General Rule

- Passive losses can be taken to extent of passive income
- A special rule: \$25,000 losses from rental real estate in which you actively participate

Suspended Losses

Sufficient passive income or gains to offset
Sell property

Sample K-1

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2017

For calendar year 2017, or tax year

beginning / / 2017 ending / /

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
XX-XXXXXXX

B Partnership's name, address, city, state, and ZIP code
GREAT PROPERTY LLC
789 ANY ROAD
ANY CITY, TX 99999

C IRS Center where partnership filed return
E-FILE

D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number
XXX-XX-XXXX

F Partner's name, address, city, state, and ZIP code
JOHN DOE
123 ANY ROAD
ANY CITY, TX, 99999

G General partner or LLC member-manager Limited partner or other LLC member

H Domestic partner Foreign partner

I1 What type of entity is this partner? INDIVIDUAL

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here

J Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
Profit	0.02 %	0.02 %
Loss	0.02 %	0.02 %
Capital	0.03 %	0.03 %

K Partner's share of liabilities at year end:

Nonrecourse	\$	1,000
Qualified nonrecourse financing	\$	20,000
Recourse	\$	

L Partner's capital account analysis:

Beginning capital account	\$	
Capital contributed during the year	\$	50,000
Current year increase (decrease)	\$	-6,000
Withdrawals & distributions	\$ (4,000)
Ending capital account	\$	40,000

Tax basis GAAP Section 704(b) book
 Other (explain)

M Did the partner contribute property with a built-in gain or loss?
 Yes No
If "Yes," attach statement (see instructions)

651117
OMB No. 1545-0123

Final K-1 Amended K-1

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)	15	Credits
2	Net rental real estate income (loss) -6,332		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income 2		
6a	Ordinary dividends		
6b	Qualified dividends		
7	Royalties		
8	Net short-term capital gain (loss) 20		
9a	Net long-term capital gain (loss) 312	17	Alternative minimum tax (AMT) items
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses
11	Other income (loss)		
12	Section 179 deduction		19 Distributions 4,000
13	Other deductions		
14	Self-employment earnings (loss)	20	Other information Z SEE STMT

*See attached statement for additional information.

For IRS Use Only

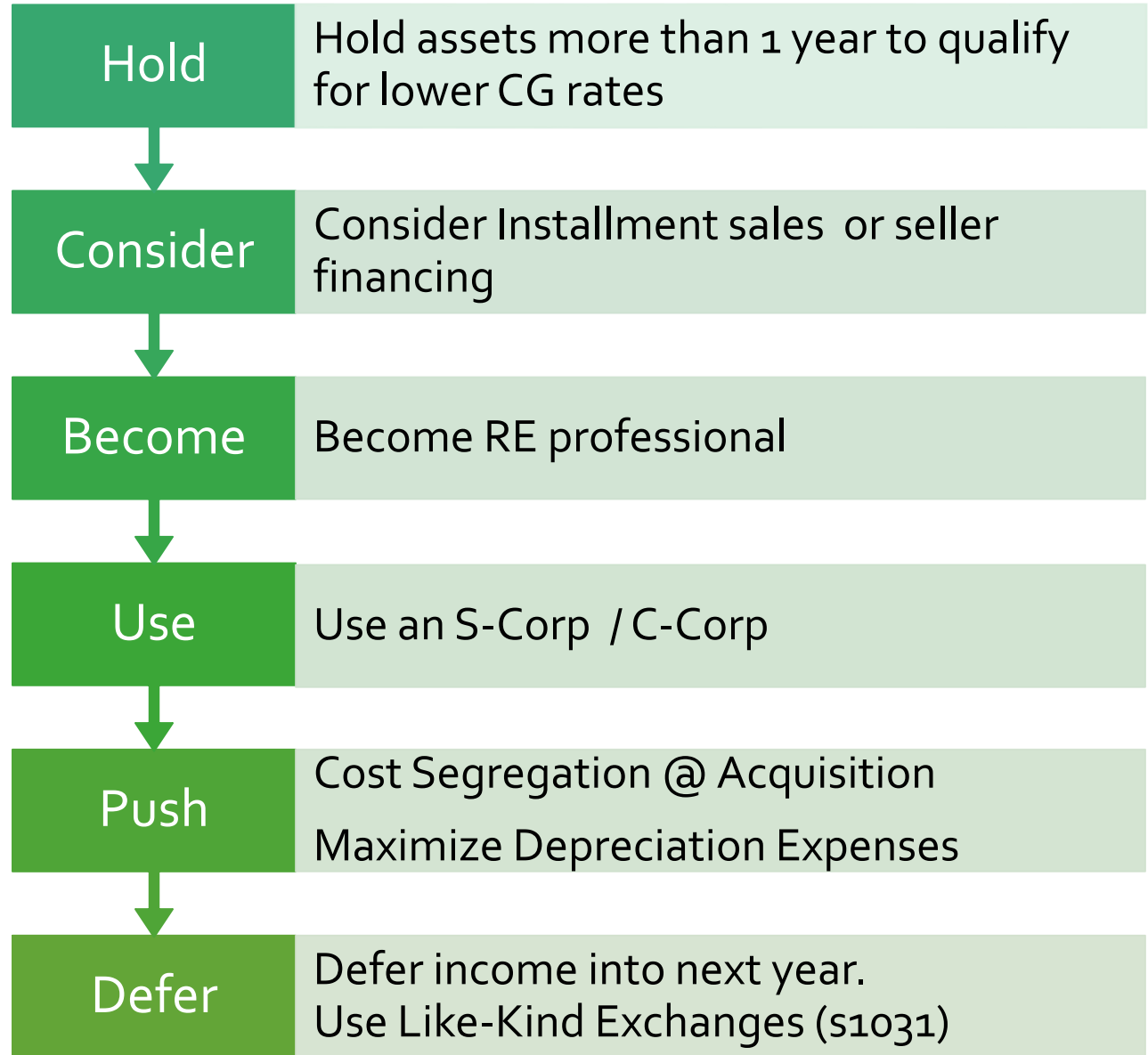
Real Estate Professional

- All rental RE losses deductible
- Not subject to \$25K limitation or AGI phase-out
- To Qualify: Min 750+ hours AND more than 1/2 hours must be in real estate activities
 - per property unless you elect to aggregate on taxes.
- example: if you spend 2,080 hour in your job = must have 2,081 in RE
 - Either husband or wife can qualify

Broker/ Dealer

- Based on # of houses flipped
 - Ordinary income tax treatment
 - Consider S-Corp / C-Corp

Tax Saving Strategies



Tax Cuts and Jobs Act of 2017

7 Tax Brackets (MFJ)

- 12% to \$77,400
- 22% to \$165,000
- 24% \$315,000
- 32% to \$400,000
 - 37% max.

21%

Corporate tax
rate

C Corp

Qualified
Business Income
(QBI)

20% Deduction
Pass-thru Entity

Fewer Itemized
deductions / Double
Std Deduction

- Mortgage Interest for principal of up to \$750,000 (reduced from \$1M)
- Principal residence only
- SALT deductions limited to \$10,000

No Personal
Exemptions

Increase in child
tax credit

Estate tax phase
out by 2025



Tax Plan – Individuals

Most will see smaller tax bill

- Income Tax Rates Reduced
- Doubled Standard Deduction
- Eliminates Personal Exemptions
- Limits Mortgage Interest to first \$750,000 debt
- Eliminates Home Equity LOC interest (Not HELOC RE)
- < \$10,000 State & Local Taxes (includes RET)
- Expands Medical Expenses >7.5%
- No more Misc Deductions
- Repeals Individual Mandate 2019
- Keeps Student Loan Interest
- Increases Child Tax Credit to \$2000
- Elderly Care Tax Credit \$500 (non-child dependent)



Tax Plan – Pass through Entities

Tax Rates Reduction:

Ordinary Income Tax Rates

Qualified Business Income (QBI):

Deduct 20% Qualified Business Income

Income Threshold Phase-out

Taxable Income \$157,500 SF or \$315,000 MFJ

Limited to 50% of W-2 wages if income is > than threshold



Rethink C-Corporations

Tax Rates Reduction:

Tax Rate Reduced to 21%

Reduced from Old Rate 35%

Rethink C-Corp Status:

Property & Asset Management Business

Flip & Fix Renovation Business

Real Estate Professionals / Broker Dealer Business



Tax Plan – Rental income

Rental income may be subject to self-employment taxes if :

- Real estate professional
- Materially participate in your rental activities
- Short-term rentals (Airbnb/VRBO)

Passive rentals will not subject your rental income to self-employment tax.

- Long-term tenants
- Keep your day job (or business)



Depreciation – s179 / Bonus

SECTION 179

- From \$520k to \$1.0m
- New & used property
- 1st year placed in service
- Non-residential property <20 year life (interior imp, roofs, HVAC, fire systems, security)
- Personal property used in rental units (furniture, appliances)
- De minimis Safe Harbor \$2500

BONUS

- 100% qualified property (<15 yr S/L property)
- New & used property
- 1st year placed in service 9/28/17 to 12/31/22
- Includes leasehold improvements, rental improvement property
- PAL Rules apply
- New Business Loss Deduction Rules

TAX REFORM PUTS A CAP ON DEDUCTING BUSINESS LOSSES



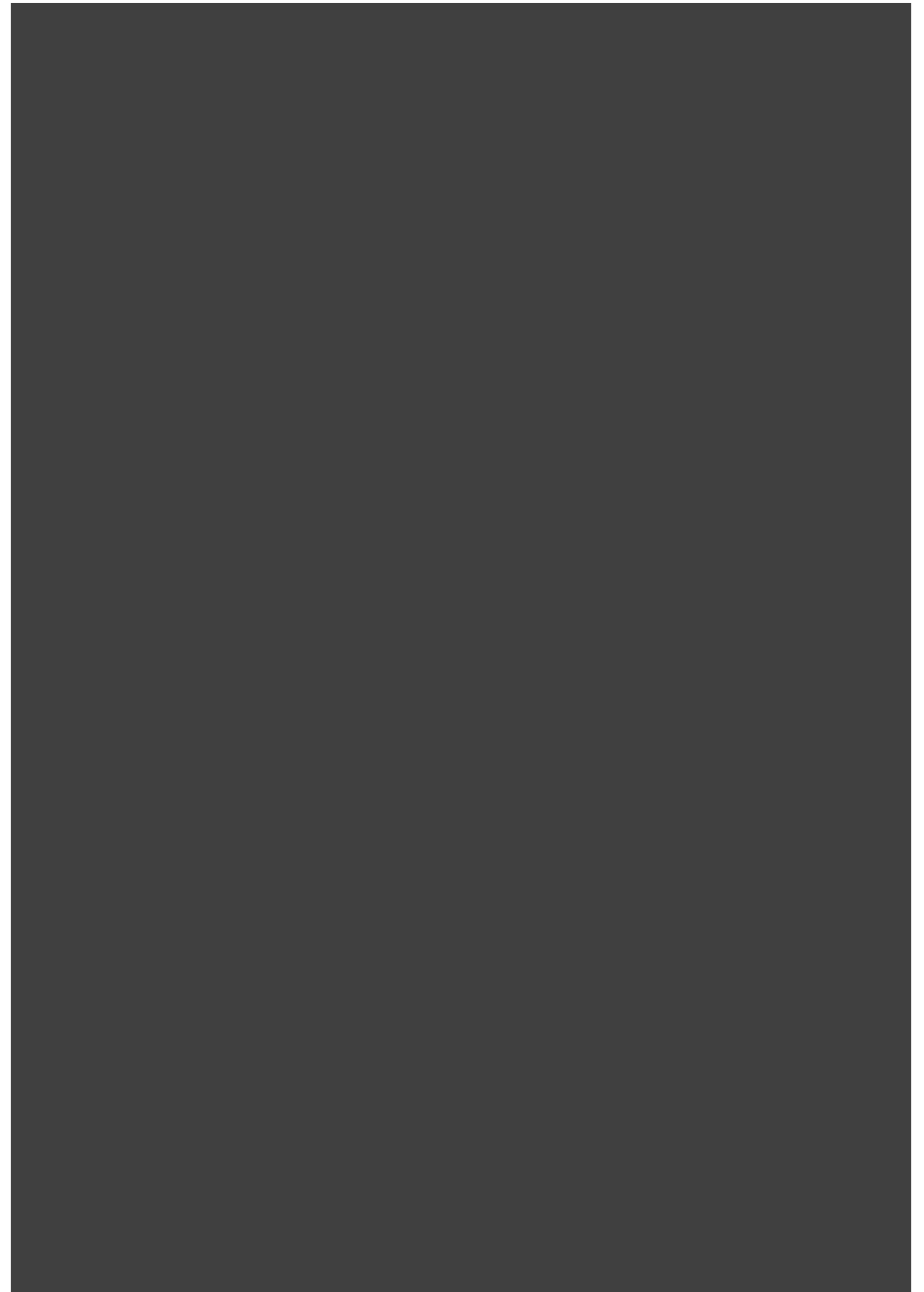
Business Loss Deduction Rules

Idea is to restrict individual taxpayer from using current year business losses (includes rental real estate) to offset income from salaries, self-employment, interest and dividends.

- For tax years beginning in 2018-2025
- Cannot deduct an excess business loss in the current year
- Loss that exceeds \$250,000 or \$500,000 (MFJ)
- Excess business loss carried over to your next tax year
- Can be deducted under the rules for net operating loss (NOL) carryovers
- Rule applies after applying the PAL rules
- If PAL rules disallow your rental loss, you don't get to the new loss limitation rule.
- Real Estate Tax Professionals



Self – Directed IRA's



What is a Self-Directed IRA?

Self-Directed IRAs

- It is an IRA account whereby the owner directs and manages the investments using an IRA Custodian whom allows for investments in a broader class of assets – called Alternative Assets.

Alternative Assets

- An investment in something other than the traditional stocks, bonds, mutual funds, and treasury bills.
 - Gold & Silver
 - Real Estate
 - Private Placements

Establishing a Self-Directed IRA – 3 Basic Steps

Work with Professionals who Specialize in Alternative Asset Investing and Self-Directed IRAs

Open a Self-Directed Account

- Find a Custodian
- Holtax works with 2 reputable Custodians.
- Entrust & Pensco Trust
- Download New Account Kit or by speaking to a representative

Fund the Account

- Make a contribution
- Rolling over funds from another IRA/401(k) or other retirement vehicle

Choose Investment

- If you have an investment in mind you can get started on the paperwork
- Choose whether to invest directly or invest using an LLC

What Can My IRA Invest In?

- Permitted Investments

- The sky is the limit
- Must be for investment purposes only!!

- Prohibited Investments – IRS says “NO”

- Specifically Excluded Investments
- Prohibited Transactions
 - Disqualified Persons
 - Self-Dealing

Permitted Investments – Types of Alternative Assets

Invest in what you know...

REAL ESTATE



**Residential
Rental
Property**



**Apartment
Buildings**



**Condominium
Units**



Raw Land



**Commercial
& Industrial
Property**



**Office
Buildings**



Strip Malls



**Development
Projects**



**Foreclosures
& REO's**



Duplexes



**Resort
Property**



Farms



Storage Units



**Mobile
Home Parks**



Golf Courses



**International
Property**

Prohibited Investments – IRS says “NO” your tax deferred account CANNOT invest in the following:



Collectibles

Artwork, antiques, stamps, classic cars, wine collections, and anything else the IRS deems as collectible.



Insurance

IRAs cannot purchase life insurance

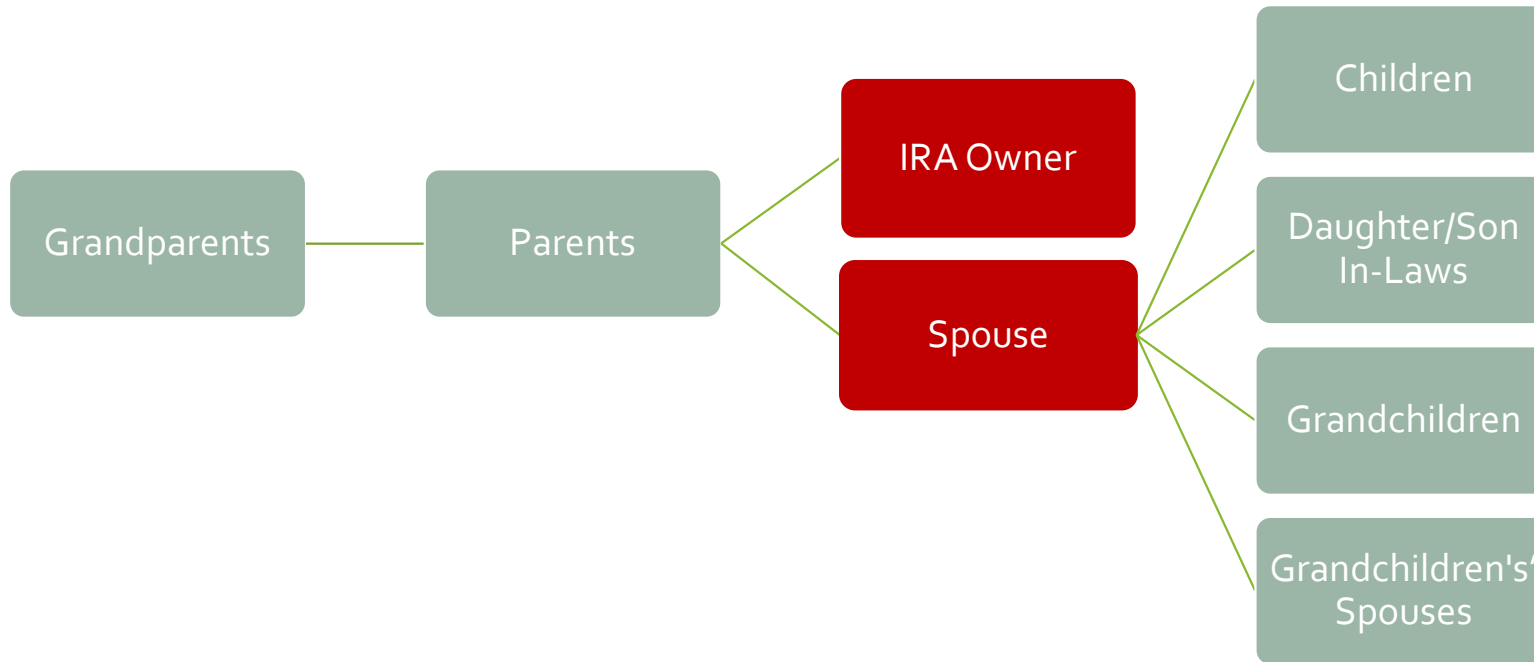


S-Corporations

Most trusts, which is what your IRA is, are prohibited from being shareholders in S-Corporations

Your IRA + Disqualified Person = Prohibited Transaction

Someone or entity with whom the IRS states your IRA CANNOT do business



Your Self-Directed IRAs cannot buy, sell, lease or lend to these family members.

- IRA Owner and his/her spouse
- Direct lineal descent Spouse of direct lineal descent
- An Entity controlled by one of these individuals. Own or have 50% or more control
- A Fiduciary (Advisor)

Prohibited Investments – Disqualified Persons

Who is Left?

Immediate & Extended Family

- Brothers
- Sisters
- Aunts
- Uncles
- Cousins

Step Family

- Step Grandparents
- Step Parents
- Step Siblings

In-Laws

- Mother/Father In-Law
- Your Children's In-Laws

Others

- Friends
- Neighbors
- Business Associates
- Strangers

Who can my IRA do business with?

Anyone who is not a Disqualified Person

- A stranger
- A business associate
- Sister or Brother
- Aunt/Uncle
- Cousins
- Step Parents
- Step Siblings
- Mother/Father In-Law

Other Things to Consider



Leveraging your IRA: Non-Recourse Loans within your IRA

Tax on income or capital gains derived from leverage.

IRA is subject to UBIT/UDFI

Paying some tax from an IRA usually results in less tax than paying tax from your 1040.

Run the numbers. Make informed and rational decisions.



Investing with Disqualified Persons: Partnering with friends and family in an LLC.



Lending Money: Can my IRA be a lender?



Tax Implications: When does my IRA have to file a tax return?

Some transactions require your IRA to file 990-T.

Consult an Accountant familiar with Self-Directed IRAs

Unrelated Business Income Tax UBIT

- Income is derived from "trade or business" activity (i.e., sale of goods and services).
- Business activity is not substantially related to exempt status.
- Business is regularly carried on by organization.
 - Does not apply to interest, dividends, rental income

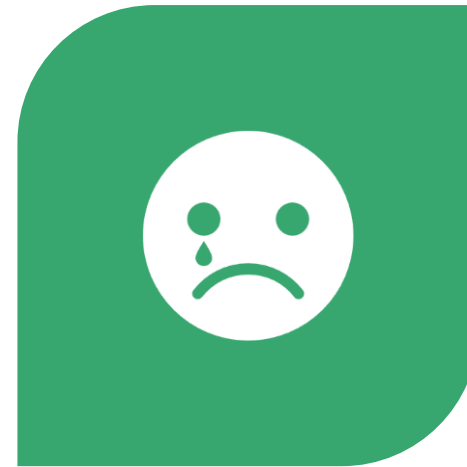
Unrelated Debt Financed Income UDFI

- When IRA owns property that is debt financed
 - Tax on profit and sale
 - \$1000 deductible
 - Losses = No UDFI
 - Solo 401(k) = No UDFI
 - Formula to calculate
 - % = average acquisition Indebtness/ average adjusted basis
 - % x share of profit (Gross revenues – deductions-depreciation)

UBIT & UDFI Form 990-T



TAXED AT TRUST RATES, WHICH MEANS
ANYTHING OVER \$12,000 PROFIT GETS
TAXED AT HIGHEST TAX RATE.



FILE RETURNS EVEN IF YOU INCUR
LOSSES (THEY CARRY OVER)

Prohibited Transactions: PENALTIES

How does your plan lose its IRA status?

By engaging in a prohibited transaction, either on purpose or on accident. The rules and regulations are not always black and white, however the penalties are.

Review Key Element to a Prohibited Transaction

1. Disqualified Person
2. An IRA Plan Asset
3. A Transaction between the Two

What are the penalties for losing tax deferred status?

The IRA loses its tax exempt status

Results in a deemed distribution of IRA funds

Subject to 10% early withdrawal rules

Distribution is considered income and taxed at personal income tax rates

The prohibited transaction amount is subject to 6% excise tax

Penalties and Interest are applied retroactively to the first day of the year the prohibited transaction occurred

Connecting your business to the accounting resources you need

Monthly Accounting Services
Year Round Tax Planning
Financial Consulting
Self-Directed IRA Investments



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