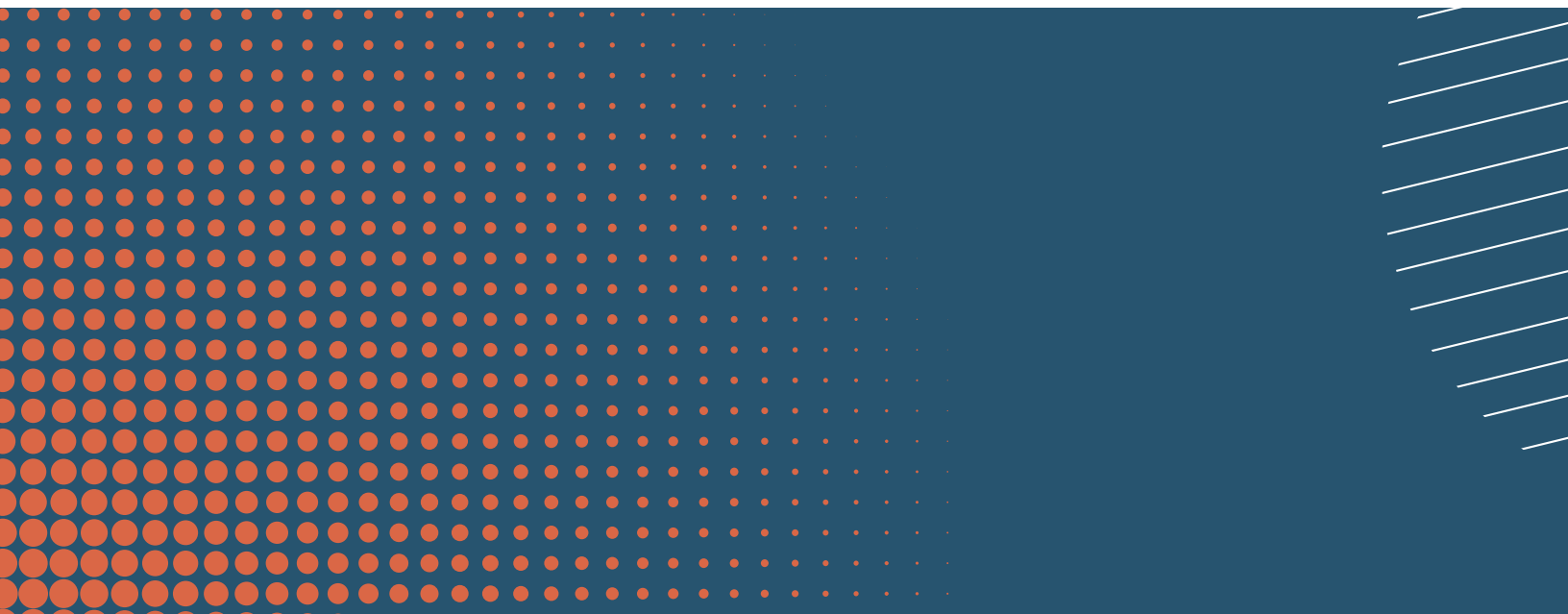




 **engineered1031**

Educate | Facilitate | Transact

**Your 1031 outsourced solution to help  
Educate, Facilitate, and Transact  
in a 1031 compliant manner**





## Our Mission

The mission of Engineered1031 is to educate visitors on the benefits, rules, and processes inherent in IRS Section 1031, efficiently facilitate 1031 exchanges on behalf of clients and their key advisors, and provide a diverse pool of replacement property options increasing the likelihood that the client finds replacement property meeting their specific investment objectives.

## What is a 1031 Exchange?

Since 1921, Section 1031 of the Internal Revenue Code has empowered owners of real estate investment property to defer and potentially eliminate capital gains taxes as they grow their investment portfolios via 1031 exchange transactions. An investor may choose to perform a 1031 exchange when a business or property held for investment purposes is sold. At this point, the investor reinvests the proceeds from the sale of the investment property into another “like-kind” property<sup>1</sup>. This defers the payment of capital gains taxes that would otherwise be owed and enables an investor to increase their purchasing power on their subsequent investment.

## What is Like-Kind?

“Like-kind” property includes, but is not limited to:

Commercial properties	Delaware statutory trust (“DST”) interests	Oil and gas interests	Mineral, water or air rights
Single-family or multi-family rental properties	Land	Vacation homes	Tenant-in-common (“TIC”) interests

1. Like-kind property does not include a primary residence or properties located outside of the United States.

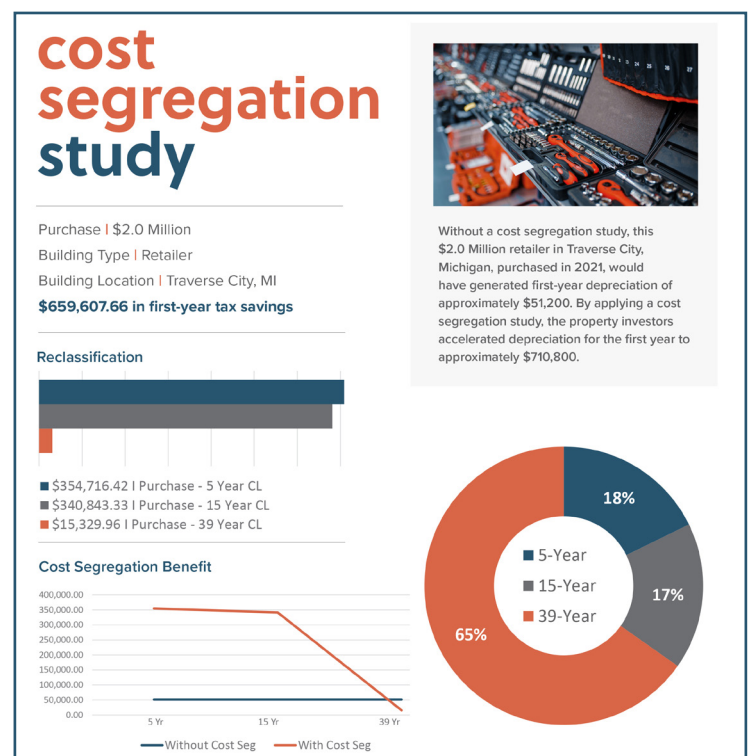
# Why Exchange?

While Tax Deferment is the primary driver of the exchange process, there may be other strategic considerations for facilitating a 1031 Exchange. The outlined considerations below will drive the decision process on whether an exchanger exchanges into a fee simple property or a security like a Delaware Statutory Trust (DST).

- 1. Increase Income:** Exchange from a property with little to no yield, like farmland, into a portfolio of net lease assets where you can achieve rental income.
- 2. Change Property Types:** Perhaps an exchanger owns an office building leased to one tenant and would prefer to own a multifamily property with several tenants.
- 3. Change Investment Location:** Sell a property in a market where economic fundamentals are deteriorating and invest in a market with a better growth profile.
- 4. Portfolio Consolidation/Diversification:** Perhaps an exchanger owns multiple properties and would prefer to own one larger property to simplify management, or an exchanger wants to exchange from a larger property into a diversified pool of assets to reduce portfolio concentration.
- 5. Active or Passive:** Many investors prefer to actively manage their real estate and incorporate other tax saving strategies in conjunction with their exchange, while others prefer to take a more passive ownership role.

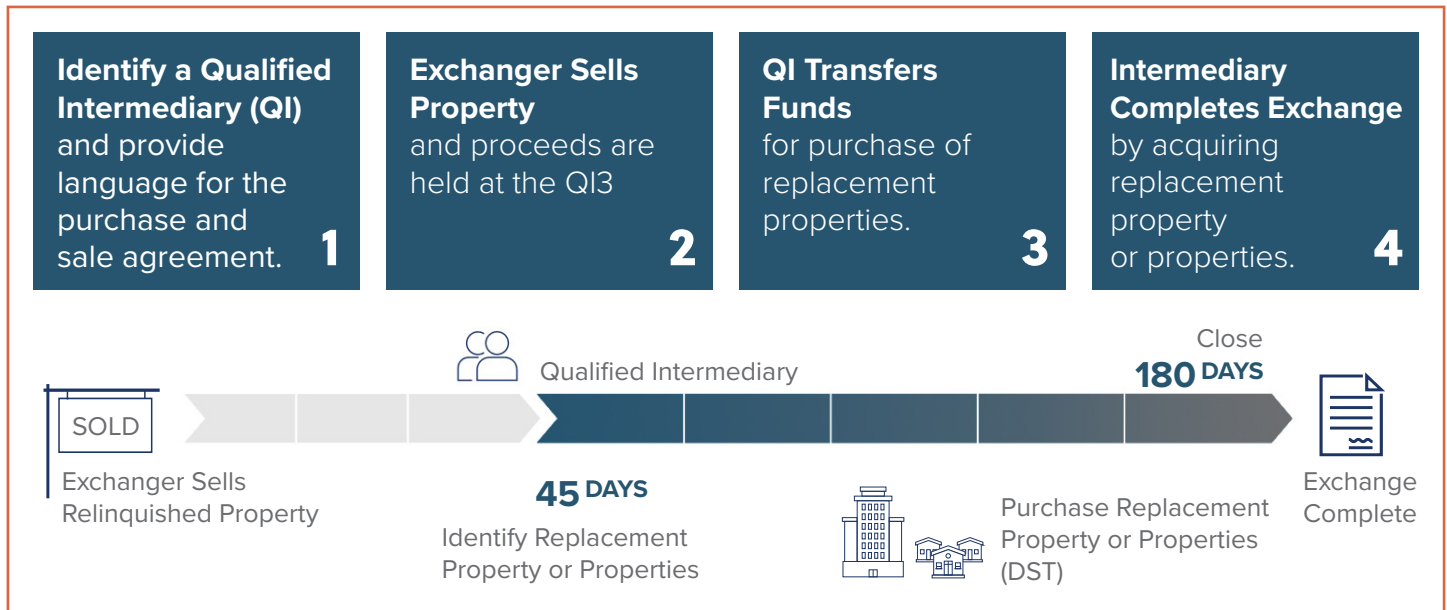
## Being Tax Efficient as a Real Estate Investor

Completing a 1031 exchange is just one tool to help mitigate tax liabilities. In conjunction with planning a 1031 exchange, exchangers should consider their replacement property opportunities with a holistic tax mindset and consider alternative tax strategies. For example, an exchanger might want to identify a property and upon closing utilize a **cost segregation study** (see example on the right) to provide additional tax savings.



# 1031 Exchange Guidelines

There are four primary steps in a typical 1031 exchange:



**45 Day Identification Period:** The taxpayer must identify potential replacement properties with the QI within 45 days of the sale of the original property.

**180 Day Exchange Period:** The taxpayer must acquire identified replacement property or properties within 180 days.

- Replacement properties must be of equal or greater value
- All proceeds must be reinvested
- Must obtain a DST or property of equal or greater value

## Delaware Statutory Trust Benefits

- Passive ownership
- Access to professionally managed assets
- Lower minimum investments
- Avoid taxable gains on “boot”
- Portfolio diversification
- Estate planning
- Limited personal liability
- Back up property identification
- Avoid financing obstacles
- Option for remaining profit from sale of investment property

# 1031 Exchange Example

	SCENARIO A	SCENARIO B
Purchase Price	Sell Property Taxes	Defer Taxes Though 1031 Exchange
Depreciation <sup>1</sup>	\$250,000	\$250,000
Adjusted Cost Basis	\$150,000	\$150,000
Sales Price	\$1,000,000	\$1,000,000
Total Taxable Gain	\$0	\$0
Federal Long-Term Capital Gains Tax (up to 20% of \$600,000) <sup>2</sup>	\$850,000 \$120,000	\$850,000 \$0
State Tax (up to 13.3 of \$850,000) <sup>3</sup>	\$113,050	\$0
Net Investment Income Tax (3.8% of \$850,000) <sup>2</sup>	\$32,300	\$0
Depreciation Recapture Tax (25% of \$250,000) <sup>2</sup>	\$62,500	\$0
<b>Total Taxes Due</b>	<b>\$327,850</b>	<b>\$0</b>
<b>NET PROCEEDS FOR REINVESTMENT</b>	<b>\$672,150</b>	<b>\$1,000,000</b>

This illustration assumes the property owner is in the highest tax bracket. Investments in real estate are often long-term investments and investors should consider their investment time horizon and income tax bracket when evaluating their options. Investors should consult with their tax advisor to determine their individual tax liability.

1. Assumes straight-line depreciation.

2. Assumes the investor is in the highest applicable federal income tax bracket. Consult with your tax advisor to determine your actual tax situation.

3. State tax rates vary by state.

Engineered1031, LLC & Arno Wealth, LLC do not provide tax, legal, or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for tax, legal, or accounting advice. You should consult your own tax, legal, and accounting professionals before engaging in any transaction.

## Our Approach

Our approach utilizes technology and aligns expertise at key points in the 1031 exchange time-line which enables the delivery of an end-to-end 1031 solution through one key point of contact, the relationship coordinator.

There are many inherent challenges in the 1031 process including:

- Highly fragmented industry where services are being rendered at various points of the exchange life-cycle
- Paperwork heavy
- Complex rules and stringent timelines
- Competing economic interests to the detriment of the client exchanger
- Lack of transparency throughout the exchange process
- Inability to track exchange progress and documentation can lead to missed deadlines

We aim to reduce friction and pain points in the 1031 process. Fluency in our aggregated technologies allows our relationship coordinator to manage the entire process, engage specialists as needed, source replacement property options in a sponsor agnostic solution agnostic manner, transact efficiently and online where possible in an effort to reduce errors and drive efficiencies, and monitor replacement properties after closing. By incorporating collaborative features, we bring transparency into the process, align interests, and enhance the value proposition for firms that leverage our solution.

**Relationship coordinator:** The relationship coordinator helps the client navigate the entire exchange process. Our relationship coordinator brings order to chaos. Online features strive to drive transactional efficiencies in the process, reduce paperwork errors, and deliver transparency.



E d u c a t e | F a c i l i t a t e | T r a n s a c t

GETTING STARTED

TRUST ACCOUNT SET UP

ID REPLACEMENT

CLOSE YOUR EXCHANGE

## Discovery Phase

In the discovery phase the client is introduced to the Relationship Coordinator and Qualified Intermediary via a team call. At this point in the exchange “timeline”, ... During the call, exchanger can obtain advice regarding listing their property, the Engineered1031 team can learn about the exchanger’s goals and objectives, answer exchange specific questions, and begin to outline the necessary steps to complete the exchange.

**Key Expertise:** Our qualified intermediary point person has completed over 30K exchanges and has been a 1031 specialist for over 30 years.

## Setting up Exchange

Exchange documents are aggregated and uploaded with the help of qualified intermediary and relationship specialist. Escrow funds and documents are available to key parties providing exceptional transparency.

## Finding the Right Replacement Properties

The Relationship Coordinator will help the client build a replacement property based on client feedback. Through our broker relationship we have a broad replacement property pool to choose from. We initiate our search via two distinct marketplace platforms, leveraging an additional layer of expertise in the space, in an effort to help the client ID the properties that best align with their investment objectives. Key Expertise: Our relationship coordinator can accommodate clients in both fee simple replacement property options through OGH Real Estate and 1031 replacement properties that qualify as securities through Registered Investment Advisors delivered through Arno Wealth, LLC.

## The ID Process

(45 days)

The Relationship Coordinator will model allocation scenarios for client and advisor review. The allocation could be comprised of fee simple properties, a portfolio of DSTs, or a combination of the two “insurance”.

## Transact and Monitor

(180 days from sale of relinquished properties)

Once the allocation is approved we complete the ID process and move to complete the purchase of the replacement property. While our preference is to facilitate transactions online, we have the capabilities to execute offline as well.

Once the transaction is complete, we monitor the replacement property and aggregate key tax documentation for access by all parties.

## A Focus on Collaboration

Exchange documents are aggregated and uploaded with the help of qualified intermediary and relationship specialist. Escrow funds and documents are available to key parties providing exceptional transparency.





## We Value Relationships

The 1031 Ecosystem is vast and we welcome the opportunity engage firms in a variety of ways. Like a typical exchange, though a 30 minute discovery call, we can learn about you, ascertain needs, and share our capabilities. At Engineered1031, we know our growth is dependent on our ability to grow our relationships to continue to be at the forefront of the 1031 industry, and offer exceptional solutions to clients and firms that trust us with their exchange needs.

Engineered1031 works with partner firms from the following disciplines. Our focus on tax advantaged alternatives, specifically 1031 exchanges and opportunity zone qualifying investments, creates synergistic opportunities and points of collaboration with a large variety of firms.



## We work with the following firms:

**ACCOUNTING FIRMS** - We work in a collaborative role with accounting firms across the country. Accountants are often the first point of contact in a contemplated exchange and drive the exchange from a tax perspective. By utilizing Engineered1031 as an outsourced partner they can provide critical direction to their clients. Our focus on collaboration creates an environment where 3rd party advisors are not disintermediated but rather build on their value proposition. Engineered1031 also provides marketing strategies to help enable accounting firms to reach their clients early in the process to facilitate more exchanges through their network.

**REGISTERED INVESTMENT ADVISORS AND ATTORNEYS** - Registered Investment Advisors and Attorneys are key ecosystem constituents. We take a holistic approach to the 1031 process and search for ways to see how our solution can complement existing offerings.

**REAL ESTATE SPONSORS** - If you are a real estate sponsor looking to potentially provide 1031 eligible product or solutions and are interested in exploring the structuring or syndication of currently held properties, please contact us so that we can facilitate a capital market conversation with our broker-dealer partner.

**REAL ESTATE BROKERS** - We work with real estate brokers nationwide to ensure clients have access to a diverse range of replacement property alternatives. What qualifies as "like-kind" in the search for replacement property is broad and building a trusted network of brokers is critical to our future growth plans.

**OTHER** - Doing something in the 1031 space? At Engineered1031, we are entrepreneurial spirits, striving to find ways to continue to drive efficiencies, build a pool of available options for clients and firms, and ultimately help our clients make the best real estate decision. How can you help? Let us know.



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## Contact us

**Bethany Williams**

Platform Director and Relationship Coordinator

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[www.Engineeredtax1031.com](http://www.Engineeredtax1031.com)





## Disclaimer

Some of the risks related to investing in commercial real estate include, but are not limited to: market risks such as local property supply and demand conditions; tenants' inability to pay rent; tenant turnover; inflation and other increases in operating costs; adverse changes in laws and regulations; relative illiquidity of real estate investments; changing market demographics; acts of God such as earthquakes, floods or other uninsured losses; interest rate fluctuations; and availability of financing.

This is a brief and general description of certain 1031 guidelines. There are various risks related to purchasing securities as part of a 1031 exchange, including tax complexity, illiquidity and restrictions on ownership and transfer. Because each prospective investor's tax implications are different, all prospective investors should consult with their tax advisors.

**The information contained within is not an offer to buy or sell securities or a solicitation to offer to buy or sell securities. Securities offered through Arno Wealth, LLC.**

**Note:** Variations to the timeline exist based on the type of exchange facilitated (forward vs reverse). Each exchanger's experience will vary dependent on their specific circumstances and how early in the process are they engaged.