

Greensboro Landlords Association

Meeting Minutes
February 8th, 2022

Opening:

The monthly meeting of the Greensboro Landlords Association was called to order at 6:30 on February 8th, 2022 at our PTAA meeting space and virtually lead by our President, Steve Tyree.

Attendance:

26 Members were recorded by 3rd Party Vendor, Jennifer Dille with TESS, LLC.

Announcements:

- **Welcome to our 2nd Virtual and In-Person meeting for 2022.** Zoom attendees, please keep yourself on Mute until Q&A. We can easily pick up background noise.
- **Starting this month, we are now Members if the PTAA.** As a member of the GLA, you may attend PTAA classes at Member pricing. Visit their website for meeting information, www.piedmonttaa.org.
- **Our Coffee Chat is next Tuesday, February 15th at Amoroso's Bakery again.** It is from 4:15 – 5:00 PM.
- **Reminder:** First, for those who have paid, thanks! If you have not paid your dues, please do so as soon as possible. Our room rate has doubled on us this year and we need all the support possible.
- **The Asks:**
 - **Do we have any members that would like to create and join a “City Council Advisory Team”?** Email Jenn at info@greensborolandlord.com if you are interested.
 - **We have a Round Table Discussion for May – What Topic do you want to Discuss?**
- **Do we have any guests or new members that would like to introduce themselves?** Yes, Scott Moore, Real Estate agent.
- **Do we have any GLA sponsors or Corporate Members that would like to stand and introduce themselves to the group?** Yes, Community Chests Junk Removal, Nik and Mason.

This evening our own Vice President, Sandy Shelton, will be discussing “1031 Like Exchanges and other Tax Tips. I will turn it over to Sandy now.

As A Reminder: Jennifer does record these meetings so please do not use people's names or businesses unless it is a positive remark.

Here is a link to the fully recorded meeting, <https://youtu.be/9E8R8wqFh0M>

(See next page for complete presentation.)

BY SANDY SHELTON

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CODE SECTION 1031 LIKE KIND EXCHANGES

DISCLOSURE

- This presentation provides information, rather than advice or opinion, and is intended solely for your personal reference. Such information is subject to change without notice, its accuracy is not guaranteed and it may not contain all material information necessary to formulate any plan of action. It is accurate to the best of the author's knowledge, as of today's date.
- Examples are for illustrative purposes only and will not be applicable in many situations. Please contact your professional adviser for your situation and those situations of your clients. Sandy Shelton PLLC makes no representation regarding, and assumes no responsibility or liability for, the accuracy or completeness of, or any errors or omissions in, any information contained herein.

JOKES TO
REMEMBER
(WELL
MAYBE)

**A man walks into a
pet store and asks
for a dozen bees.
The clerk carefully
counts 13 bees out
onto the counter.**

“That’s one too many!”
says the customer.
The clerk replies,
“It’s a freebie.”



Overview

- 1031 LIKE KIND EXCHANGES
- QUALIFIED OPPORTUNITY ZONES
- SHORT TERM RENTALS
- GIFTING REAL ESTATE
- NORTH CAROLINA TAX RATES
- BACK DOOR ROTHS



LIKE KIND EXCHANGES CODE SECTION 1031

- RULES: EFFECTIVE 2018
- REAL ESTATE FOR REAL ESTATE
- CAN BE LAND FOR A BUILDING
- COMMERCIAL FOR A SINGLE FAMILY
- PERSONAL PROPERTY NO LONGER QUALIFIES
- CANNOT BE “INVENTORY” (FLIPS)
- SHOULD NOT BE YOUR PERSONAL RESIDENCE

RULES CONTINUED

- MANDATORY, YOU DON'T ELECT OUT
- TO AVOID NON RECOGNITION, MUST STRUCTURE THE SALE AROUND
- THE RULES FOR NON RECONITION
- EG – DO NOT USE AN INTERMEDIARY, DO NOT IDENTIFY PROPERTY
- TAKE CASH (BOOT) OUT

FORM 8824

- IDENTIFY PROPERTY TO RECEIVE (THE REPLACEMENT PROPERTY) W/IN 45 DAYS OF SALE OF PROPERTY GIVEN UP
- IDENTIFY UP TO 3 PROPERTIES TO EXCHANGE
- CAN EXCHANGE MORE THAN 1 PROPERTY SO THE PROPERTY RECEIVED IS WORTH MORE THAN THE PROPERTY GIVEN UP
- WHAT IF THE IDENTIFIED PROPERTY FALLS THROUGH? IF W/IN THE 45 DAYS, SIMPLY NOTIFY THE INTERMEDIARY OF THE NEW PROPERTY TO BE EXCHANGED. THAT'S WHY A LOT OF PEOPLE IDENTIFY UP TO 3 PROPERTIES. IF AFTER THE 45 DAY PERIOD, THE LIKE KIND EXCHANGE IS DISQUALIFIED.

THE 200% RULE

- YOU CAN IDENTIFY ANY NUMBER OF PROPERTIES AS LONG AS THE TOTAL VALUE OF ALL OF THE PROPERTIES DO NOT EXCEED 200% OF THE PROPERTY YOU GAVE UP. YOU MIGHT USE THIS METHOD IF THE PROPERTY GIVEN UP IS FAR MORE EXPENSIVE THAN WHAT YOU WANT TO EXCHANGE. EG AN APARTMENT BUILDING FOR 10 SINGLE FAMILY HOMES.

THE 95% EXCEPTION RULE

- THIS METHOD ALLOWS THE SELLER TO IDENTIFY ANY NUMBER OF PROPERTIES EVEN IF THE TOTAL VALUE EXCEEDS 200% OF THE PROPERTY GIVEN UP. HOWEVER, THE SELLER MUST ACQUIRE AT LEAST 95% OF THE FAIR MARKET VALUE OF THE PROPERTIES IDENTIFIED.
- EG SAY THE SELLER IDENTIFIES 10 PROPERTIES OF EQUAL VALUE WITH THE 45 DAY REQUIREMENT. HOWEVER, ONE OF THE PROPERTIES IS SOLD TO SOMEONE ELSE. THE 1031 EXCHANGE WILL FALL THROUGH AND NOT QUALIFY FOR NON RECOGNITION OF GAIN.

RELATED PARTY RULES

- ALL FAMILY MEMBERS EXCEPT AUNTS, UNCLES, STEPPARENTS,
- NEICES, NEPHEWS, EX SPOUSES (SO JUST GET DIVORCED)

- TWO YEAR HOLDING REQUIREMENT FOR BOTH PARTIES

- FAILURE TO DO SO VOIDS THE LIKE KIND EXCHANGE IN THE YEAR
- OF DISQUALIFICATION

REFINANCING TO PULL OUT CASH

- FOR THE PROPERTY BEING SOLD:
- DO NOT REFINANCE CLOSE TO PUTTING IT ON THE MARKET TO SELL.
- NEEDS TO BE DONE FOR A LEGITIMATE BUSINESS PURPOSE
- EG REPAIRS TO THE PROPERTY, RELIEVE FINANCIAL DISTRESS OF A BUSINESS (THINK COVID AND TENANTS ARE NOT PAYING RENT), PAY BUSINESS EXPENSES LIKE MARKETING
- KEEP GOOD RECORDS OF WHAT THE MONEY WAS USED FOR

REFINANCING TO PULL OUT CASH

- FOR THE PROPERTY BEING BOUGHT
- ESTABLISH INDEPENDENT ECONOMIC SUBSTANCE
- DOES NOT HAVE TO BE TIED DIRECTLY TO THE NEW PROPERTY
- DO NOT REFINANCE IMMEDIATELY UNLESS YOU CAN PROVE A BUSINESS PURPOSE.
- EG PAYING DOWN DEBT ON OTHER PROPERTY OWNED BY THE TAXPAYER AND THEN REFINANCING THAT PROPERTY LATER IS OK

WHY 1031 EXCHANGES?

- OF COURSE TO AVOID PAYING TAXES ON THE GAIN
- AND LATER, UPON DEATH (SORRY YOU HAVE TO DIE), YOUR HEIRS GET A STEP UP IN BASIS SO NO TAX IS EVER PAID ON THAT PROPERTY
- HOWEVER, GET TAX ADVICE FIRST BECAUSE A LOT OF TIMES IT MIGHT BE BETTER TO REPORT CAPITAL GAIN (DEPENDS ON YOUR TAX BRACKET)
- REMEMBER, IF YOU HAVE DONE COMPONENTIZED DEPRECIATION, THAT DEPRECIATION WILL NEED TO BE RECAPTURED, IT CANNOT BE DEFERRED

QUALIFIED OPPORTUNITY ZONES

- LIKE A 1031 EXCHANGE – HAVE 180 DAYS TO INVEST IN REAL ESTATE OR A BUSINESS LOCATED IN A QOZ
- WWW.CDFIFUND.GOV/OPPORTUNITY-ZONES
- USE THE PROCEEDS TO INVEST IN DEPRESSED AREAS THAT ARE DESIGNATED QUALIFIED OPPORTUNITY ZONES

QUALIFIED OPPORTUNITY ZONES IN NC

- IF YOU HOLD THE NEW PROPERTY OR BUSINESS > 5 YEARS, 10% OF YOUR DEFERRED GAIN IS EXCLUDED
- >7 YEARS, 15% EXCLUDED, >10 YEARS, 100% EXCLUDED
- CURRENTLY, NC DOES NOT RECOGNIZE TAX DEFERRAL SO ALL GAINS WILL BE TAXED IN NC IN THE YEAR OF DISPOSITION OF THE ORIGINAL PROPERTY

SHORT TERM RENTALS

- IF THE AVERAGE STAY IS 7 DAYS OR LESS, THEN THE RENT IS A TRADE OR BUSINESS. IF YOU MATERIALLY PARTICIPATE, THEN ANY LOSS CAN BE OFFSET AGAINST OTHER ORDINARY INCOME (SUCH AS A W-2).
- IF YOU DON'T MATERIALLY PARTICIPATE, AND YOU HAVE A LOSS, YOU DO NOT QUALIFY FOR THE \$25,000 SPECIAL ALLOWANCE FOR REAL ESTATE RENTALS
- YOU DO NOT OWE SE TAX ON SHORT TERM RENTALS UNLESS YOU PROVIDE MORE SERVICES SUCH AS BREAKFAST (THINK B&B)
- IF YOU MAKE MONEY, YOU DO NOT WANT TO MATERIALLY PARTICIPATE

GIFTING REAL ESTATE

- JUST NOT A GOOD IDEA.
- THIS IS USALLY DONE WHEN PARENTS GIVE THEIR HOMES TO THEIR CHILDREN TO QUALIFY FOR MEDICARE PROGRAMS
- THIS IS HARD TO DO, SHOULD MEET WITH AN ESTATE ATTORNEY
- ONCE GIFTED, THE BASIS OF THE GIFTED PROPERTY IS THE BASIS OF THE OWNER. SO IF BOUGHT IN 1975 FOR \$25000 AND IT IS NOW WORTH \$250,000, WHEN GIFTED, YOUR BASIS IS \$25000 AND THE GAIN OF \$225,000 IS SUBJECT TO CAPITAL GAINS TAX

NC TAX RATES ARE CHANGING

- INDIVIDUALS

- 2021 5.25%

- 2022 4.995

By 2027 3.99%

C CORPORATIONS

2021 2.25%

BY 2030 0%

BACK DOOR ROTHs

- STILL VIABLE
- KEEP GOOD RECORDS
- BE CAREFUL IF YOU HAVE OTHER IRA ACCOUNTS

JOKES

- WHY DID THE BIKE FALL OVER? IT WAS TOO TIRED
- WHAT DID THE POLICEMAN SAY TO HIS BELLY?
- YOU'RE UNDER A VEST
- WHY DID THE FROG TAKE THE BUS TO WORK. HIS CAR GOT TOAD AWAY
- WHAT DO YOU CALL A PRIEST THAT BECOMES A LAWYER?
- A FATHER IN LAW

Questions?

Sandy Shelton PLLC

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Closing:

- Thank you for another great meeting and for making this work in-person and virtually.
- **Reminder – Coffee Chat is next week Tuesday the 15th** at Amoroso’s Bakery off College Rd.
- Next Month’s meeting is **Rent Collections with a company named RentRedi.** We will be discussing traditional collections versus digital.
- **Thank you everyone and have a very nice evening!**

Minutes submitted by: Jennifer Dille with TESS, LLC