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ZERO TAX BLUEPRINT

FOR HIGH INCOME EARNERS

Maximizing Tax Strategy with Tactical Real Estate Investing

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SECTION 1: MY JOURNEY SHOULD SOUND FAMILIAR

My journey should sound familiar. Mine started in 2010, working under two of the most respected companies in the commercial real estate industry. By 2017, it was time for me to start my own commercial advisory company which I still own today, HarborWest. We started out of the gate strong, and business volume since has only grown exponentially. I've enjoyed seeing my income reflect the years of hard work and sacrifice, from college all-nighters to sunrises at the corporate office. However, that success placed me right into the highest 37% federal tax bracket. I've also lived and built my life in California, which has the highest state income tax in the country at over 13%. It felt like the harder that I worked to grow my income and career, the heavier the tax law was penalizing me.

That frustration became almost overwhelming after seeing how poorly the government was spending my money. Nickel-and-diming home office deductions wasn't going to fix that, I refused to participate in any of those audit-triggering tax scams (I walked out of a presentation on "charitable conservation easements" in the first 6 minutes), and it wasn't realistic to pack up and move my family out of California to save a few bucks living in a different 0% income tax state.

I became absolutely obsessed with researching the "magic formula" for the most lucrative tax deduction strategy that I could legally utilize for my situation. I spent months comparing advice from CPAs & tax strategists, tax attorneys, ultra-high-net-worth clients, trusted senior colleagues and deep online research. The rich know exactly how to scale and protect their money, and if you spend enough time in the same room with them – you're bound to learn something. I learned that tax law actually rewards high income earners, if you know how to use your money effectively. Additionally, it turned out that the path to zero taxes can be scaled, and was directly tied to the industry I've spent 12 years in becoming an industry expert - commercial real estate. After implementing the required strategies for myself into a repeatable system over the past three years, I wanted to create a path to zero taxes blueprint for other high income earners that were feeling my same pain every tax season. This brief guide will outline and explain that process, which I hope is as enlightening to you as it was to me.

There's no catch here, which is what I would be asking if I was you. My commercial real estate company is setup to quarterback multiple stages of this process and provide resources for the remaining stages which would be handled by handpicked specialists we've partnered with. We've perfected this system - everything presented herein you can research yourself, we've just provided the cheat code to save you time. If we've earned some good faith with you after absorbing our strategy, I hope we can setup a call together to discuss working together. If you decide the strategy is not for you, I hope you at least found the information interesting and inspired you in some way to invest time into researching an approach that will be.

*While the information presented in this publication has been CPA and attorney reviewed, it is strictly for **discussion purposes only** and is not intended to provide tax, legal or accounting advice. Strategy will vary drastically depending on your individual situation, tax code interpretation, and always subject to everchanging tax laws. You should seek professional advice and conduct your own research before engaging in any transaction or using any information on this guide for tax planning purposes.*

LET'S DIVE RIGHT IN!... (✓)

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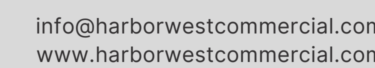


Section 2: The Gold Key is Accelerated Depreciation.

The IRS tax code encourages or discourages certain actions that the government believes will lead toward or away from economic growth. Most people understand there are a few general “write-offs” they can claim, but never really take the time to understand or take advantage of the full scope of what the IRS allows. Let me save you hours of research: **the largest tax write-off available to taxpayers is asset depreciation.** The Federal government allows taxpayers to take eligible assets, assign a life expectancy to that asset, and claim that asset depreciation as an expense every year spread over the asset’s life. This is a “ghost expense” meaning it's only a loss on paper and that you don’t actually incur any realized loss from that expense. What a beautiful thing, right?

The largest and most common asset most taxpayers can own and depreciate is real estate. Within real estate, you have residential properties and commercial properties. Residential properties are properties with at least 80% dwelling units and can be depreciated over 27.5 years - meaning $1,000,000 worth of depreciable residential real estate, you can write off that “ghost expense” of $36,363 per year. A commercial property is property for business use as opposed to living space (retail, office, industrial, self-storage, etc.). Commercial properties are depreciated over 39 years, meaning $1,000,000 worth of depreciable commercial real estate, you can write off a ghost expense of $25,641 per year. This default method of spreading the depreciation evenly over the asset’s life is called the “straight line method”.

- Residential – $1,000,000 Example Value / 27.5 Years = $36,363 / Year Depreciation Expense
- Commercial – $1,000,000 Example Value / 39 Years – $25,641 / Year Depreciation Expense

Most taxpayers are aware of the depreciation write-off, but **what separates those that pay low taxes versus zero taxes is cost segregation.** Cost segregation in its simplest form can be defined as accelerated depreciation. Depreciating a real estate asset over 27.5 or 39 years is the default method and spreads the depreciation evenly over the life of the asset. A cost segregation study uses the advanced method of depreciation and allows you to correctly classify different building components that depreciate quicker than those defaulted time frames.

For example, a $150,000 commercial HVAC system using the default method over 39 years would allow you to claim $3,846 per year of depreciation on that HVAC system. Using the advanced method and re-classifying this example to its more accurate life (7 years in this case), your $3,846 expense claim for this year now jumps to $21,428. Now imagine you could re-classify the entire property to shorter asset life expectancies like this HVAC system to your advantage - the great news is that you can. By performing a cost segregation study, which is an inspection report performed by a certified professional, you receive a re-classification of a large chunk of the property’s components that you can provide to your tax preparer to justify higher, accelerated depreciation claims when you file your tax returns. **Cost segregation eligibility varies drastically by property.** There are properties that qualify very well to have a high percentage re-classified and can dramatically lower your tax bill. There are also properties that qualify very poorly, and only have a low percentage eligible to have its depreciation life re-classified....

Next Page! Keep reading for More On Cost Segregation...

Section 2: The Gold Key is Accelerated Depreciation.

We would argue the two most critical factors are the property's collateral basis and its complexity. Collateral basis is the assessed value of the physical building. All properties are divided into building value versus land value, which is assessed annually by the county tax assessor and oftentimes different from what you may have paid for the property. The **important thing to understand here is that land is not depreciable.** So, with comparing two potential purchases at the same purchase price and complexity, the property with the lower land value is going to have a larger depreciable basis. CPA's can consider land value reported from the county tax assessor or from an MAI-accredited appraiser. We typically will utilize the lower of the two in order to maximize basis, and in some scenarios might engage a property tax appeal process if applicable.

The below example compares the exact same purchase price, but with different assessed land value. The default "straight line" depreciation difference is already noticeable, but now further imagine the multiplied impact of the difference once cost segregation is applied.

Commercial Property #1 – Santa Monica, CA
Total Purchase Price = $3,000,000
Assessor's Land Value = $1,800,000
Remaining Depreciable Building Value - $1,200,000
Straight-Line Depreciation = $30,769 / Year

Commercial Property #2 – Colorado Springs, CO
Total Purchase Price = $3,000,000
Assessor's Land Value = $300,000
Remaining Depreciable Building Value - $2,700,000
Straight-Line Depreciation = $69,230 / Year

The **second critical factor is the complexity of the property.** In a cost segregation study, you are re-classifying specific building components of the asset that will depreciate faster than the defaulted straight-line method. Building components like equipment, HVAC, plumbing, electrical, pavement and roofing are all re-categorized. So, the more components you have to re-categorize that would depreciate sooner than the straight-line method, the larger your eligible depreciation write-off can be. For example, an apartment building will be more complex than say a shell industrial warehouse, and a specialized medical office facility is going to have better eligibility than that apartment building.

Commercial Property #1 – Specialized Medical Facility
Collateral Depreciable Basis = $5,000,000
Re-Classification Eligibility = 40.00%
Dollar Amount Re-Classified = $2,000,000

Commercial Property #2 – Shell Industrial Warehouse
Collateral Depreciable Basis = $5,000,000
Re-Classification Eligibility = 22.00%
Dollar Amount Re-Classified = $1,100,000

Interesting. Well, How Do I Maximize This Deduction?...

Section 3: now, let's juice up this deduction.

There is an art and science to maximizing your tax deduction for accelerated depreciation. You are going to have a set amount available to purchase investment property for depreciation anyways, so let's make sure to take every advantage available to purchase the most eligible properties for cost segregation, and as much of it as we can, right?

Targeting **highly depreciable commercial real estate properties** will make that difference. As we already discussed, markets with lower land value are going to maximize your collateral basis. With an apples-to-apples purchase price compared to another market, the cost segregation study will need to "juice up" the depreciation amount to the purchase price. Using the same comparison, a more complex commercial property will have more re-classifiable assets to maximize your deduction.

Most real estate investors in the market are **focused on the wrong benefit.** They are chasing deals that yield them a 6.0% return instead of a 5.85% return on their investment, a market that will appreciate 5% in value year-over-year versus 4.2%, or a deal that has 25% upside in rents versus a 18% upside in rents. While we never want a tax decision to drive a business decision, this might be the one scenario where it could make some sense. You are already a high-income earner through your business or profession regardless of owning investment properties. You are not here to chase the nickel and dimed cash flow; you are here for the larger benefit of significant depreciation.

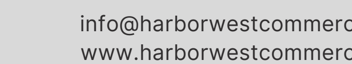
Besides the investment property purchase decision strategies we implement, the second piece of this is **massive leverage through financing.** Let's say you have $1,200,000 to spend on an investment property this year. Assuming all else equal, a financed property will allow you to purchase a larger property which means more building and more depreciation. We would argue that leveraging an investment property has the **highest benefit multiplier** compared to maximizing basis or complexity, and the largest impact on your tax deduction as you'll see below. Securing favorable loan terms also plays an important role in the long-term strategy. For example, having no prepayment penalty upon early sale, or interest-only payments to stretch your cash flow if we are maxing out leverage (LTV).

Commercial Property #1 – All Cash Purchase

Down Payment Available = $1,200,000
Maximum Loan (LTV) = 0% LTV (All Cash Buy)
Eligible Purchase Price / Value = $1,200,000
Property Land Value = $500,000
Collateral Depreciable Basis = $700,000

Commercial Property #2 – Financed Purchase

Down Payment Available = $1,200,000
Maximum Loan (LTV) = 65% LTV (Financed)
Eligible Purchase Price / Value = $3,600,000
Property Land Value = $500,000
Collateral Depreciable Basis = $3,100,000



SECTION 3: NOW, LET'S JUICE UP THIS DEDUCTION.

The final strategy to maximize your accelerated depreciation tax deduction on top of purchase strategy and leveraged financing is **taking advantage of "bonus depreciation".** Bonus depreciation was significantly modified by the Trump Administration in 2017 through the Tax Cuts and Jobs Act and enacted at the end of 2018, and more recently by the CARES Act of 2022. Bonus depreciation allows certain assets including real estate to be deducted at a much faster rate in the first year of ownership. So, cost segregation re-classifies your property from a standard depreciation schedule into an advanced and accelerated depreciation schedule. Allowed bonus depreciation then allows those re-classified depreciation components that can be categorized under 20-year schedules or less, to be claimed and deducted in "year one" of ownership.

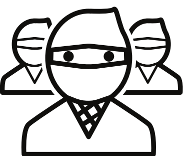
With bonus depreciation stacked on top of cost segregation, you have an extremely powerful and IRS approved toolbox to very realistically **create enough of a paper loss to pay zero taxes.** To the extent there is a remaining depreciation carry-over balance in "year one", this amount can be used to offset income on a "go forward" yearly basis.

Since 2018 and through 2022, first year bonus depreciation is set at 100%. However, the Tax Cuts and Jobs Act stipulates that **first-year bonus depreciation will phase out through 2026.** Unless the government changes or renews first year bonus depreciation legislation, the phase-out schedule will be as follows:

- 100% FOR PROPERTY PLACED IN SERVICE DURING CALENDAR YEAR 2022
- 80% FOR PROPERTY PLACED IN SERVICE DURING CALENDAR YEAR 2023
- 60% FOR PROPERTY PLACED IN SERVICE DURING CALENDAR YEAR 2024
- 40% FOR PROPERTY PLACED IN SERVICE DURING CALENDAR YEAR 2025
- 20% FOR PROPERTY PLACED IN SERVICE DURING CALENDAR YEAR 2026

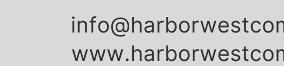
What this means is that we have a very short window to take this lucrative bonus tax advantage that is soon to phase out. While cost segregation strategies are not likely to go anywhere anytime soon, bonus depreciation is timely. The good news is that first-year depreciation allowance is still significant over the upcoming years, and keep in mind, losses can be carried forward year-over-year.

So, you now hopefully understand that the **path to zero taxes** is paved by...



- SMART COMMERCIAL REAL ESTATE INVESTING DECISIONS, COMBINED WITH...
- MAXIMIZING THE RIGHT TAX CODE STRATEGIES YOU CAN APPLY TO THEM

OK, I GET IT. BUT WHAT'S THE LONG-TERM STRATEGY?...



Section 4: Rinse, Repeat and Grow the Process.

Once you've purchased your commercial real estate investment property and utilized the tax strategies that you've just been introduced, you should hopefully be close to paying zero taxes for the year. You might have even had enough paper loss to offset your annual income, and **rollover the additional losses to next year** which is the first and most easily understood strategy to our long-term plan.

A simple and full-proof annual strategy could be to purchase one investment property per year to offset your income for that year. While that may work, depreciation on any given property will eventually run out. If we are utilizing cost segregation and bonus depreciation, that timespan is significantly shortened and your runway on any given property for **accelerated depreciation will be depleted rather quickly.** You could continue purchasing new properties with a brand-new basis to start its own depreciation schedule, but the downside to that strategy is that you are forever stuck purchasing smaller properties, accumulating larger management responsibilities, and never able to achieve scale or tap into your full "equity bank account" for that property to really grow exponentially. Your second and smarter option, however, is to use that first property to purchase a larger property and "rollover" into that new higher basis.

Here's the catch: the IRS has allowed you to take massive paper losses through depreciation for your investment properties. However, the key to remember is that **your tax liability to the IRS has not been waived, it's only been delayed.** The government can tax you upon the time of sale of that investment property to recapture the taxes you delayed over the years, which is the "catch" you've probably been waiting to read about. When you depreciate your property every year, your cost basis is reduced. For example, if you purchased a building for $10,000,000 and depreciated $6,000,000 over the years, now your basis is $4,000,000. So, when you sell the building for $15,000,000, the taxable gain is $11,000,000 (or $15,000,000 - $4,000,000). This is what is referred to as "depreciation recapture." The government has allowed you the tax benefits of depreciation but when the property is sold, that depreciation must be "recaptured." which at the time of this publication is taxed at a 25% rate.

So, how can we **continue delaying that tax liability?** There's really only two ways, the first is a step-up in basis. This occurs when the property owner dies, and the property is inherited by the owner's heirs. The inheritors do not take on the tax liability of the previous owner, and the due tax liability in essence is "wiped away". Waiting for someone to die for tax benefits is not only morbid, but inefficient. There's a better way which allows you to keep growing as a commercial real estate investor, while continuing to delay the tax liability of the properties you depreciate over your lifetime, which is utilizing a very common tax strategy in real estate called a 1031 exchange.

A "**1031-exchange" is a tax strategy** that allows you to sell an investment property and defer the capital gains taxes due from that sale by rolling that equity or gain on sale into a new investment property. The strategy refers to Section 1031 of the IRS tax code which stipulates that an owner can re-invest sale proceeds from real estate used for either investment or business purposes (not personal) into a replacement property (which must also be utilized for business or investment purposes) to further delay tax liability if the transaction meets specific requirements.

Next Page! Keep Reading for 1031-Exchange Rules...

Section 4: Rinse, Repeat and Grow the Process.

The rules and regulations surrounding a proper 1031-exchange can be complex, but there are a few general guidelines that you should know about above all others for this process...

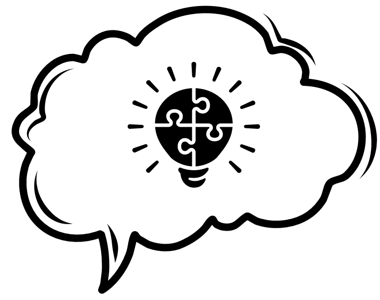
- 1.) Eligible sale proceeds must be held by a third-party, licensed 1031 accommodator
- 2.) Replacement property #2 must be "like-kind", with value + debt larger than property #1
- 3.) You have 45 days to identify and report up to (3) Potential replacement properties
- 4.) You have 180 days from the closing of the initial sale, to close the replacement sale

If the investment property you sold has appreciated in value since purchase, and even more so if you've reduced the principal loan amount of any financing used, your gain on sale is going to be larger than the amount you used to initially purchase it. If utilized correctly, you can use the entirety of that gain as down payment on a larger replacement property for your 1031 exchange. While your depreciation depletion will rollover into this new property, you've now leveraged and used the gain to in essence **purchase additional untapped basis to keep depreciating**, all while deferring those taxes.

Residential properties (1-4 units) are eligible for cost segregation benefits and 1031-exchanges, but we **highly recommend and support commercial properties only**. Residential properties are going to "tap out" after the first transaction or two. As you trade up to larger properties over the years, commercial properties are going to be your focus – there's not too many $2,000,000 duplexes out there, and the one's that do exist – imagine the location and land value. How is that going to fare for maximizing your depreciable basis? High leveraged residential properties can also cause major 1031-exchange issues if the replacement "upleg" property cannot qualify to replace the debt on the relinquished "downleg" property. Lastly, commercial properties typically have higher depreciation re-classifications with shorter asset life components, and generally more lucrative value-add potential.

We've summarized the process into an infographic on the following pages, but we've now completed the process from start to finish. Rinse, repeat and keep growing your passive income and net worth, all while claiming the most lucrative tax deductions available to us by the IRS tax code.

Again, What a Beautiful Thing, Right?



Very Exciting. Now How Do I Ensure I Qualify for this?

Section 5: Assessing Your Qualification.

The first prerequisite is that you must be ready to be a real estate investment property owner. Although it sounds simple, there are many people that are not in the right position to be real estate investors at this time. That could be because of low risk tolerance, opportunity cost for other investment alternatives, inability to qualify for a commercial mortgage or leveraged financing, or an intolerance for the responsibilities that come with being a landlord - including property management, legal liability risks and uncontrollables like market and economy fluctuations. These risks can of course be mitigated to some degree, but performing a **self-assessment of your risk tolerance and qualification**, and then consulting your advisory team (real estate agent, mortgage broker, tax preparer and attorney) is really the first step.

Assuming you've pre-qualified yourself and are ready to start your own journey to zero taxes, **ensuring you are in compliance with the IRS tax code** to claim these significant deductions will be essential. Paper losses that you will incur through this process are considered passive losses and can only be used to offset passive income. So, you could easily offset the income of your investment property through depreciation, and rollover any additional depreciation losses to future tax years. However, we're here because you are a high income active earner. So, unless your income is from being a full-time real estate investor, you likely generate your high income from being a business owner or high salary W-2 employee. This is considered active income, which generally cannot be offset by passive losses according to the IRS.

This might be disappointing to read after learning the potential of this tax strategy process, but pick your head up - there are a few solutions to make your W-2 salary or active income eligible to be offset by the passive depreciation losses that will be created. That solution is qualifying for something called Real Estate Professional Status (REPS).

Real Estate Professional Status (REPS) is a tax status within the IRS code that allows real estate professionals to deduct their passive losses from their active taxable income. Eligibility for this tax status is a somewhat detailed process, but there are two (2) primary qualification for REPS.

1.) Material Participation

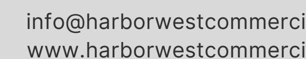
Your material participation in real property trades and businesses should account for at least 50% of all the personal services you rendered throughout a year.

2.) Qualifying # of Hours

You spend over 750 hours in actual trade and businesses involving your material participation.

In short, you must declare real estate as your primary profession and be able to provide evidence of your time spent within the profession on an annual basis. If you are a business owner, it will be somewhat easier to actively participate in real estate activities for your current and potential investment properties in order to justify qualifying for Real Estate Professional Status (REPS). However, if you are a full-time salaried professional (W-2) that becomes more difficult to honestly justify.

Next Page for More on REPS Tax Qualification...



Section 5: Assessing Your Qualification.

The most common and successful workaround however to qualify your W-2 active income to be eligible to be off-set by passive losses, is by having **your spouse qualify for REPS status and jointly filing your tax return.** While this might not be an available option to single W-2 earners, or W-2 earners with spouses that already have dedicated careers, it is simply the easiest and most justifiable route that is recognized and accepted by the IRS for REPS status. You can imagine the tax consequences if your interpretation of the tax code was incorrect, so I would argue that meeting with an experienced attorney and tax planner within this specialty to ensure you are setup properly to legitimately qualify for REPS status and understand the ongoing record keeping responsibilities, is the **most crucial piece of this process.** Otherwise, the outlined tax strategy means nothing if we can't meaningfully use it to off-set your taxable income.

Your individual situation also **determines the commercial property types we need to target** in order to qualify for this. For example, if your REPS qualifying hours will be based on managing your own portfolio (and not based on real estate services), acquiring an easy NNN leased property that runs itself already or a large apartment building that would require you to hire an on-site manager, would make it hard to justify your material participation. For this example, we may target light value-add properties in your state that would need your attention for stabilization, but not demanding enough to require hiring a professional management company.

You might read in other publications the argument that investing in *short-term rentals (STR)* is a loophole around REPS in order to apply passive losses to active income. We would argue that this however is just that, a temporary "loophole" that will eventually be closed by the IRS. There has been some recent case law where STRs are viewed separate and distinct from a "real estate trade or business" and we believe this is not a long-term solution or strategy. This route also additionally opens up unnecessary hurdles – AirBnB operator headaches, unfavorable financing, everchanging permitting laws, and simply not being scalable for this long-term plan.

If you are simply not in a life situation to have you or your spouse qualify for REPS, this can still be an attractive, just not as lucrative, long-term tax strategy for you. Your active W-2 income might remain taxable, but you can still pay zero taxes on your commercial investment property income, and rollover those large losses into future tax years to continue predictably offsetting that passive income.

Key Term Review! You Should Understand These (4) Four Primary Blueprint Concepts At This Point...

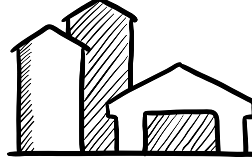
1. Cost Segregation
2. Bonus Depreciation
3. 1031 Exchange
4. REPS Tax Status

Lots of great info. Can you please summarize?

Section 6: Okay, Let's Put It All Together!

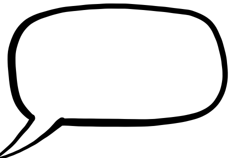
Every piece of this tax strategy process has its own complexities and can only be successful if they are each properly implemented. We've put together a strategic team of specialists to take care of each stage, in order to ensure your investment process is as seamless and confident as possible. When you're ready to talk more and get your questions answered, we'll be here. In the meantime, let's summarize what we've now learned and the process to **start your journey to zero taxes!**

Step ONE: Real Estate Advisory Process.



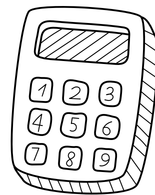
- Determine your available funds to invest for this year's purchase
- Identify your real estate investment strategy, goals, and disqualifiers
- Establish pre-qualification for financing on leveraged purchase
- Execute investment property purchase process with your Broker

Step TWO: Tax + Legal Advisory Process.



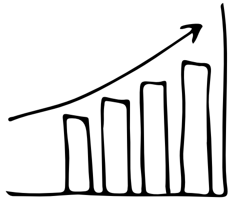
- Setup proper entity structure(s) for this year and future transactions
- Establish eligibility for Real Estate Professional Status (REPS) with CPA
- Tax planning to ensure sound strategy and proper records keeping

Step THREE: Implementing the Strategy.



- Conduct Cost Segregation study for the new investment property
- Apply property Cost Segregation report results to your tax preparation
- Apply Bonus Depreciation for Y1 & subsequent years on drop schedule

Step FOUR: Rinse, Repeat + Grow.



- Identify tax year that you have diminishing returns of depreciation
- Sell depleted investment property in that tax year as 1031-X downleg
- Disburse the proceeds/gain on sale into a 1031-exchange account
- Purchase larger property at higher basis, leveraged using Financing

Your long-term strategy is to keep repeating the above process of purchasing commercial investment property, maximizing depreciation through cost segregation and bonus depreciation, selling your appreciated properties, and using 1031 exchanges to rollover your untaxed gains into larger properties with higher bases. Continuing to grow your nest egg and delaying tax liability until the time of your passing, when the IRS will recognize that your heirs are gifted a **"basis step-up" and the tax liability is completely forgiven - "swap 'till you drop".** What a legacy to leave your children!

This Makes Sense. But Can We See An Example?...

Section 7: Zero Tax BluePrint, A Case Study.

Our example case study assumes that you are a high income W-2 professional living in an income tax applicable state with a stay-at-home spouse. Your salary income is $750,000 per year and you've grown a savings account over the past few years to $800,000 that you are ready to put to use. You've consulted with our team and are ready to take advantage of the process to offset your $750,000 income you expect for tax year 2022.

You've determined with us that your general real estate investment strategy is that you want to invest in multifamily commercial as your preferred asset class, within larger MSA markets, and would like to be within a two-hour flight to the property. You are comfortable utilizing your full $800,000 savings for the new investment purchase, and we secure a 15-unit apartment complex in Phoenix, AZ for $2,400,000 with 65% LTV financing.

Property Purchase

$800,000 - Available Down Payments
+ $1,600,000 - Mortgage Financing (65%)
$2,400,000 - New Property Purchase Price

Determining Basis

$2,400,000 New Property Value
- $400,000 Land Basis
$2,000,000 Depreciable Basis

Apply Cost Segregation

$2,000,000 Depreciable Basis
> 38% Cost Segregation Re-Classified
$760,000 Re-Classified Depreciation

Apply Bonus Depreciation

$760,000 Re-Classified Depreciation
x 100% Bonus Depreciation for 2022
$760,000 Depreciation Write-Off

Offsetting Your 2022 Income

$760,000 Depreciation Write Off
+ $750,000 W-2 Income for 2022
- $10,000 Adjusted Taxable Income

Important Note!

Not every state recognizes this passive loss deduction. Your liability will depend on your home state, your effective tax rate, and your investment strategy.

Determine Tax Liability

- $10,000 Adjusted Taxable Income
x 42.2% Example Effective Tax Rate
= **$0 Tax Liability Owed**

Zero taxable income in this example, in fact there's $10,000 in **losses that will rollover** into the next year. The above is an extremely simplified example to help understand how the process ties together, there are other factors to consider including transaction costs, third party costs and your own personal tax considerations which are unique to you. But, you can see how this comes together.

Very Exciting. What About Year 2 and Beyond?...

Section 7: Zero Tax BluePrint, A Case Study. (Pt. 2)

Let's **take the case study a step further** however and model the long-term strategy, assuming you sell the property early in Y2 (2023) and have saved an additional $400,000 during the year while your W-2 has remained at $750,000 per year for 2023. We will also make some general assumptions on the land basis, transaction costs and cost segregation of the new replacement property...

Adjusted Basis Property #1

$2,000,000 Original Depreciable Basis
- $760,000 Y1 Bonus Depreciated 2022
$1,240,000 Adjusted Basis Property #1

Selling Property #1

$2,650,000 Appreciated Value
- $130,000 Transaction Costs
- $1,550,000 Remaining Mortgage
$970,000 Proceeds > 1031 Funds

Property Purchase #2

$970,000 1031 Sale Proceeds
+ $400,000 Additional Savings
$1,370,000 Available Down Payment
+ $2,750,000 Mortgage Financing (65%)
$4,120,000 - New Property Purchase Price

Determining Rollover Basis

$4,120,000 New Property Value
- $600,000 Example Land Basis
$3,520,000 Depreciable Basis #2
- $1,240,000 Rollover Basis Property #1
$2,280,000 Adjusted Rollover Basis

Apply Cost Segregation

$2,280,000 Depreciable Basis
> 38% Cost Segregation Re-Classified
$866,000 Re-Classified Depreciation

Apply Bonus Depreciation

$866,000 Re-Classified Depreciation
x 80% Bonus Depreciation for 2023
$693,000 Depreciation Write-Off

Offsetting Your 2023 Income

$693,000 Depreciation Write Off
- $10,000 Rollover loss from 2022
+ $750,000 W-2 Income for 2023
+ $47,000 Adjusted Taxable Income

Important Note!

Not every state recognizes this passive loss deduction. Your liability will depend on your home state, your effective tax rate, and your investment strategy.

Determine Tax Liability

+ $47,000 Adjusted Taxable Income
x 42.2% Example Effective Tax Rate
= $19,000 Tax Liability Owed

I'm ON Board. But Who Is Going To Help ME Figure All of This Out?...

Section 8: Introducing, Your Star Quarterbacks.

COLIN DUBEL, President / HarborWest Commercial

Newport Beach, CA | colin@harborwestcommercial.com | (949) 735 - 6415

Colin Dubel is President at HarborWest Commercial Corporation. HIs company is based in Newport Beach, CA and provides advisory services for commercial real estate investors. Colin's selected engagements are primarily buyer representation for nationwide commercial real estate properties, and mortgage brokerage for leveraged financing on those purchases. As a one-stop shop for commercial investment property acquisitions, Colin has been involved in over $500 million in nationwide transaction volume since forming HarborWest in 2017. Prior to forming HarborWest, Colin was Associate Director at Charter Capital Group where he arranged financing nationwide for commercial and multifamily properties. He also held positions in asset management for Irvine Company, and at CBRE in both their market research and financial consulting groups for the Western Region. He graduated from UC Irvine with a degree in Business Economics and is currently a licensed real estate broker in California.

Colin Dubel is responsible within the **"Zero Tax Blueprint"** process for quarterbacking the real estate side which includes investment property buyer representation, mortgage brokerage, landlord representation, and real estate third party coordination.

ALTON MOORE, CPA, ESQ, Founder / Evolution Tax + Legal

Costa Mesa, CA | alton@evolutiontaxlegal.com | (949) 229 - 6015

Alton Moore is a dually licensed California attorney and CPA. Alton has vast experience in the legal and tax worlds. His career began in Big 4 accounting with Ernst & Young, LLP. There he worked primarily amongst the international, state and local, and real estate tax compliance and consulting practices. Thereafter, Alton moved to an in-house role with a large family office known as Raj Capital. There, he helped the family office form and operate an Opportunity Zone real estate specific investment fund. Thereafter, the private practice world of law and accounting beckoned him back which led to his next position with the Tax Law Offices of David W. Klasing. While there, Alton was the head of the firm's international tax and legal departments. Alton found an opportunity to combine his experiences to provide a unique set of law and accounting services to clients worldwide through establishing Evolution Tax & Legal.

Alton Moore is responsible within the **"Zero Tax Blueprint"** process for quarterbacking the legal & accounting side, which includes advanced tax preparation, depreciation schedule records keeping, entity formation, legal documents review, REPS tax status qualification, and general counsel services.

Section 8: Introducing, Your Star Quarterbacks.

GLENN BEITL, Co-Founder / Pacific Cost Segregation
Los Angeles, CA | gbeitl@pacseg.com | (661) 645 - 2520

Glenn Beitl is a Principal and co-founder of Pacific Cost Segregation (PCS) and has been actively involved in the cost segregation business since 1985. He has performed projects in various industries ranging in size from small tenant improvements to over $1 billion in construction costs. Mr. Beitl's prior experience includes serving as the West Region Director of Cost Segregation with The Schonbraun McCann Group, and Director of Navigant Consulting's Cost Segregation Fixed Assets practice in Los Angeles. Previously he held a leadership position within PricewaterhouseCoopers' Fixed Assets Solutions Team where he served for six years on the firm's National Cost Segregation Leadership Committee. Mr. Beitl also co-instructed the "Income Tax Strategies for Fixed Assets and Cost Segregation Studies" seminar at the yearly Tax Leadership Conference.

Prior and while at Arthur Consulting Group, Mr. Beitl managed a wide range of cost segregation projects and was also instrumental in the design of their proprietary cost segregation software. His IRS mitigation and audit support experience aided in the sustained (no-change adjustments) on the subsequent IRS reviews of his completed projects. Mr. Beitl holds a B.S. in Industrial Engineering, Construction Management from California State University of Long Beach and is a Senior Member of the American Society of Cost Segregation Professionals (ASCSP).Mr. Beitl held affiliate memberships with the International Conference of Building Officials, and the Associated General Contractors.

Glenn Beitl is responsible within the **"Zero Tax Blueprint"** process for quarterbacking the Cost Segregation responsibilities including investment property pre-screening, site visit inspections, cost segregation analysis, and consulting with CPA's during client tax reporting.

NOTABLE MENTIONS / The Zero Tax Blueprint Bullpen

Our team also partners with other specialists to ensure that this entire process is seamless for our clients. These specialists are usually different on every transaction depending on property size and location, deal complexity and availability – but will most commonly include:

- Commercial Escrow & Title Officers
- 1031 Exchange Licensed Accommodators
- Local Sales & Leasing Brokers
- Local Property Management Companies
- Property Tax Appeal Specialists

Let's Rock and Roll!...

How Do I Get Started?

Well, Let's Start First With a Free Consultation Call. There's a Lot to Unpack Here. Let's Go Over Your Questions Together, And See if This is a Good Fit For You. Sound Fair?

To Schedule a Consultation, Please Visit Our Website Below or Contact Me Directly. Talk Soon!...

Colin Dubel, President
HarborWest Commercial