



2024
**ADVISOR
SUMMIT**

Jan 23-25 • Houston, TX





Enhanced Service through Advanced Tax Strategies

Hosted by: Brent Robbs





Agenda

- The Basics
 - Reviewing a Tax Return
 - The Importance of Tax Projections
- Strategies
 - Real Estate
 - Oil & Gas
 - Equipment Leasing
 - Roth Conversions
 - Passthrough Entities
 - Charitable Giving
- Bringing It All Together





Reviewing a Tax Return

The Basics

- The tax return is your client's financial footprint for the year
- A quick, high-level review will provide you with a better understanding of their financial situation, allowing you to have more meaningful conversations and make more impactful recommendations
- Where to start? What to look for?

Action Items

- Request last year's tax return for every prospect or client and add tax return review to your process





The Importance of Tax Projections

The Basics

- Accounts for the client's entire tax situation
- Accounts for all aspects of federal and state tax consequences
- Allows for side-by-side and year-over-year comparisons
 - Prior Year/Current Year - No Planning/Current Year - With Planning
 - No Changes/Roth Conversion/LCM RC/LCM RC + STL, STR, or EZ
- Works in conjunction with financial planning software

Takeaways

- Financial planning software cannot replace tax projection software for complex strategies





Real Estate: Overview

Strategies

- Passive v Nonpassive
- Real Estate Limited Partnerships (RELPs)
- Direct Investments
- Opportunity Zones
- Like-kind Exchanges





Real Estate: Passive v Nonpassive

Strategies

- Passive
 - Taxed at ordinary income tax rates
 - Passive Activity Losses (PALs) limited to passive income until activity is disposed
 - Excess PALs carry forward indefinitely
 - Unused PALs can be used against all income in final year
- Nonpassive
 - Taxed at ordinary income tax rates
 - Losses can offset any other income source
- Activities generally default to passive unless one of the tests on the following slide are met

Action Items

- Review Schedule C businesses and Schedule E passthroughs to confirm proper tax reporting

Tax Forms

- Sch E
- Sch C
- 8582
- 4797





Real Estate: Passive v Nonpassive

Strategies

- Real Estate Professional Status (REPS)
 - 750 hours, **AND**
 - Greater than 50% of professional time, **PLUS**
 - Material participation
- Material Participation
 - Seven tests ranging from 100 to 500 hours
- Grouping Election
 - Group similar or related activities to reach REPS and/or material participation

Action Items

- Review Form 8582 to determine PAL carryforward

Tax Forms

- Sch E
- Sch C
- 8582
- 4797





Real Estate: RELPs

Strategies

- Limited partnerships designed to invest primarily in real estate
 - Examples: LCM Funds, surgery centers (not grouped)
- Generally, provide significant tax losses due to depreciation, but losses are trapped due to passive nature
- LCM K-1s are always passive

Action Items

- Review Schedule E to confirm proper tax reporting for LCM Funds

Tax Forms

- Sch E
- 8582
- 4797





Real Estate: Direct Investments

Strategies

- Long-term rentals
 - REPS
- Short-term rentals (STR Loophole)
 - Material Participation Only
- If nonpassive, consider cost segregation study
 - Accelerates depreciation deductions that can offset ordinary income

Action Items

- Review direct investments on tax returns and calculate cash-on-cash returns
- Recommend LCM as a hassle-free, hands-off replacement when appropriate

Tax Forms

- Sch E
- Sch C
- 8582
- 4797





Real Estate: Opportunity Zones

Strategies

- Current Rules
 - Defer capital gains from sale of stock, real estate, business, etc.
 - Tax-free growth on OZ investments held 10+ years
 - Generally, gains must be reinvested into OZ within 180 days of realization
 - Special rules for passthrough gains that allows for reinvestment 180 days after original filing deadline of the passthrough tax return
 - Gain inclusion on 2026 tax return; payable in 2027

Action Items

- Review OZ investments on tax returns to ensure proper tax reporting

Tax Forms

- Sch D
- 8997
- 8949
- 4797





Real Estate: Opportunity Zones

Strategies

- Proposed Legislation: *The Opportunity Zones Transparency, Extension, and Improvement Act*
 - Extension of deferral period until 2028; payable in 2029
 - Increased eligibility for basis step up
 - 15% for investments made by 12/31/21
 - 10% for investments made by 12/31/23
 - Additional flexibility by allowing "fund of funds" structure
 - New designated tracts based on updated data
 - Updated tax reporting requirements

Action Items

- Review Form 4797 to identify §1231 gains and recommend LCOZ to refund taxes already paid

Tax Forms

- Sch D
- 8997
- 8949
- 4797





Real Estate: Like-Kind Exchanges

Strategies

- Defer gains in real estate by reinvesting in real estate in a timely manner
 - Full deferral requires all proceeds and debt to be reinvested
- Allowed for investment/rental property, not personal property
- Requires qualified intermediary to hold funds in escrow
 - Must be established before sale of first property
- Timeline
 - 45 days to identify up to three replacement properties
 - 180 days to close on replacement properties
- Generally, cannot be done into or out of LCM Funds

Takeaways

- Clients that have direct investments in real estate can use LKEs or OZ investments to defer tax

Tax Forms

- Sch E
- 8824
- 8582





Oil & Gas

Strategies

- Tax Benefits
 - Deductions against ordinary income for Intangible Drilling Costs (IDCs)
 - 1st Year: 70-75%
 - 2nd Year: 10-15%
 - Ongoing 15% depletion allowance
- Structure
 - General Partner while well is drilled
 - Convert to Limited Partner once complete

Takeaways

- Preferential tax treatment of oil & gas investments can reduce ordinary income tax at year-end



Tax Forms

- Sch E





Equipment Leasing

Strategies

- Purchase equipment with debt to capitalize on depreciation rules
- Tax Considerations
 - Utilize §168(k) bonus depreciation and/or §179 expense to generate tax losses
 - Subject to excess business loss rules (\$610,000 in 2024)
 - If passive, subject to PAL rules
 - If nonpassive, subject to SE tax in years that generate profit
- Structure
 - Single-member LLC so that losses may net with other income on personal tax return

Takeaways

- Understand equipment leasing before you sell
- Coordinate with client's CPA before you execute

Tax Forms

- Sch C
- 4652





Roth Conversions

Strategies





Roth Conversions

Strategies

	Marketable Securities	Discounted Real Estate
Timing	Near year-end or following market correction	Invest before valuation date; convert after valuation date
Tax Reporting	Straightforward	Complex

Considerations

- Basis
- Tax Brackets
- RMDs
- QCDs
- NIIT
- IRMAA
- NUA
- Estimates
- State Tax Consequences
- Estate Planning/IRD Assets

Takeaways

- There are many factors to consider when determining the amount and timing of Roth conversions

Tax Forms

- 8606





Passthrough Entities

Strategies

- Passthrough entities are the most common business structures because the majority of taxes are paid only at the individual income tax level
 - Single Member LLC: Schedule C
 - Partnership: Form 1065
 - S Corporation: Form 1120S
- SALT Workaround
 - State and Local Tax (SALT) deductions are capped at \$10,000
 - Most states now allow for state tax to be paid at the entity-level
 - Allows business owners to take a federal deduction and receive a state tax credit

Action Items

- Develop a high-level understanding of PTE in states where your business clients reside and make sure that they are taking advantage of PTE

Tax Forms

- 1065
- 1120S





Charitable Giving

Strategies

- Donating long-term appreciated stock positions
- Donor Advised Funds (DAFs)
- Charitable Trusts (CRTs/CLTs)
- Conservation Easements
- Qualified Charitable Distributions (QCDs)
- Private Foundations

Action Items

- Maintain an understanding of charitable strategies
- Ask clients about charitable goals

Tax Forms

- Sch A
- 8283





Bringing It All Together

- Utilize liquidity events as catalysts to implement tax-efficient investing with alternatives
- Layer tax strategies to optimize results
 - Pairing LIFI with PAL CFs provides tax-free income source
 - Pair capital gains with LCOZ investments to defer tax
 - Pair capital gains from passive K-1s with LCOZ investments to defer tax **AND** free up PALs
 - Pair LCM Roth Conversions with STL/STR/EZ/charitable giving to offset ordinary income tax

Takeaways

- Understand how these strategies work separately and jointly
- Aim to identify the right and wrong combinations
- Let the tax benefits help you sell





Summary of Takeaways

- Takeaways
 - Financial planning software cannot replace tax projection software for complex strategies
 - Clients that have direct investments in real estate can use LKEs or OZ investments to defer tax
 - Preferential tax treatment of oil & gas investments can reduce ordinary income tax at year-end
 - There are many factors to consider when determining the amount and timing of Roth conversions
 - Understand equipment leasing before you sell and coordinate with client's CPA before you execute
 - Understand how these strategies work separately and jointly, aim to identify the right and wrong combinations, and let the tax benefits help you sell





Summary of Takeaways

■ Action Items

- Request last year's tax return for every prospect or client and add tax return review to your process
- Review Schedule C businesses and Schedule E passthroughs to confirm proper tax reporting
- Review Form 8582 to determine PAL carryforward
- Review Schedule E to confirm proper tax reporting for LCM Funds
- Review direct investments on tax returns and calculate cash-on-cash returns
- Recommend LCM as a hassle-free, hands-off replacement when appropriate
- Review OZ investments on tax returns to ensure proper tax reporting
- Review Form 4797 to identify §1231 gains and recommend LCOZ to refund taxes already paid
- Develop a high-level understanding of PTE in states where your business clients reside and make sure that they are taking advantage of PTE
- Maintain an understanding of charitable strategies
- Ask clients about charitable goals





Next Session starts at 10:15a

“Creating Value through Natural Gas”
Hosted by: Will Dressel and team





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