

Syndications

What Are Syndications?

Syndications involve a group of investors pooling their resources to collectively invest in a project, often in real estate. This strategy enables individuals to potentially access opportunities they might not be able to pursue individual while spreading both risks and potential rewards across the group.

Ground-Up Development Syndications

Ground-up development syndications entail a group of investors collectively financing and participating in the creation of a new project, often starting from scratch with construction on vacant land.

Tax Benefits Associated With Ground-Up Development

Investors can potentially benefit from tax advantages during the construction phase of the development. By allocating costs strategically, investors can accelerate depreciation deductions, reducing their taxable income and overall tax liability.

How This Works:

1. Diminished Investment Value

- a. During the construction phase, sponsors can leverage the fact that investments are linked to a non-income generating asset, potentially reducing investor's tax liabilities .
- b. As construction advances, investor's stakes become inherently less valuable compared to projected completion, providing sponsors an opportunity to showcase substantial value reduction.

2. Roth IRA Conversion

- a. Once the sponsor has leveraged reduced asset values during the construction phase, sponsors can implement Roth IRA conversions by transferring traditional IRA assets to a Roth IRA, enabling tax-free growth of investor interests in the fund.
- b. The construction phase's decreased asset valuation provides the opportunity for the sponsor to execute a Roth IRA conversion, potentially minimizing taxes associated with transferring assets previously held in a traditional IRA.

Summary

Ground-up development syndications fund new projects from the start. Investors can gain tax advantages during construction by strategically allocating costs, accelerating depreciation deductions to lower taxable income. During construction, reduced investment value due to non-income generating assets can decrease tax liabilities. This reduced asset value also allows for Roth IRA conversions, transferring assets to Roth IRAs for tax-free growth, utilizing the lower asset valuation to minimize taxes from traditional IRA asset transfers.



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Real Estate Risk Disclosure:

- There is no guarantee that any strategy will be successful or achieve investment objectives including, among other things, profits, distributions, tax benefits, exit strategy, etc.;
- Potential for property value loss – All real estate investments have the potential to lose value during the life of the investments;
- Change of tax status – The income stream and depreciation schedule for any investment property may affect the property owner's income bracket and/or tax status. An unfavorable tax ruling may cancel deferral of capital gains and result in immediate tax liabilities;
- Potential for foreclosure – All financed real estate investments have potential for foreclosure;
- Illiquidity – These assets are commonly offered through private placement offerings and are illiquid securities. There is no secondary market for these investments.
- Reduction or Elimination of Monthly Cash Flow Distributions – Like any investment in real estate, if a property unexpectedly loses tenants or sustains substantial damage, there is potential for suspension of cash flow distributions;
- Impact of fees/expenses – Costs associated with the transaction may impact investors' returns and may outweigh the tax benefits
- Stated tax benefits – Any stated tax benefits are not guaranteed and are subject to changes in the tax code. Speak to your tax professional prior to investing.

Oil and Gas Investment Risks

Private investments in oil and gas are high risk, including, but not limited to the following considerations:

Political Risk – Federal or local governments could enact regulations/legislation that could adversely affect the oil and gas industry, thereby negatively affecting your investment.

Geological Risk – Oil and gas production can be negatively affected by the difficulty of extraction and the possibility that the accessible reserves in any deposit will be smaller than estimated. There is no guarantee that any drilling operation will be successful.

Supply, Demand, and Price Risk – A reduction in oil and gas prices, a decrease in demand, or a surplus of available supply can reduce or even eliminate investment returns.

Cost Risk – Unexpected or increased operating expenses can reduce or even eliminate investment returns.

Dividend Cuts – Any dividend payments can be reduced or eliminated if the company is unable to earn enough revenue to fund the payments to investors.

Oil Spill Risk – In addition to the cost of repairs, clean up, potential fines, and potential litigation, oil spills can negatively affect the reputation of the company, all of which can reduce or eliminate investment returns.