MEGA 1031

Malbur Exchange Group & Associates, LLC

Our Unique Philosophy

At MEGA 1031, we feel strongly that our greatest responsibility is to make sure your money is financially secure and that you receive every cent of interest earned before, during and through each transaction.

Unlike a majority of other Qualified Intermediaries, MEGA 1031 passes back to all clients 100% of the interest earned in their individual accounts. Our clients' monies are held in secure segregated accounts, not pooled into large company accounts. We believe that although the common industry practice of pooling accounts results in more financial gain for the QIs, it also exposes clients to substantially more financial risk.

We believe this transparent approach is the most ethical and honest manner to conduct business. Your money belongs to you and you alone, so all interest earned is forwarded to you by Colorado Business Bank at the close of your exchange.

What exactly does the MEGA 1031 approach mean to your 1031 transaction?

- Your exchange money is held in a secure segregated account, separate and safe from the monies of other clients or our company's funds.
- While in our care, we will not use your money to earn extra interest for our company.
- You will always know the financial risk associated with how your money is invested during its time in our trust.
- MEGA 1031 is fully bonded and insured for your total peace of mind.
- Your money is available on demand to purchase any identified Replacement Property.

By working with MEGA 1031, you also have access to a team of highly trained professionals dedicated to giving you personal attention at every level. We know that it takes time to understand your needs and goals so our staff goes the extra mile to listen to your concerns, discuss strategies, and provide sound guidance on every step of your transaction.

Along with our outstanding personal service, we offer speedy turn-around on document processing, reducing the time and stress of closing transactions.

What every investor should know about 1031 Exchanges

In a typical transaction, you are taxed on any capital gain realized when the property is sold. However, under Section 1031 of the IRS code, that capital gain tax can be deferred until some future date if the property is exchanged for a "like-kind" property.

According to Section 1031,

> "No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment if such property is exchanged solely for property of like kind which is to be held either for productive use in a trade or business or for investment."

The theory behind Section 1031 is that when you reinvest the sale proceeds into another property, the economic gain has not been realized in a way that generates funds to pay any tax. In other words, your investment is still the same, only the form has changed (e.g. vacant land exchanged for apartment building). Therefore, it would be unfair to force you to pay tax on a "paper" gain.

Advantages of 1031 Exchanges

1. You can increase your buying power since federal capital gains taxes are deferred, allowing you to leverage these savings by putting them into the new property you are purchasing. This additional equity reinvested in the new property will make your financing easier.

2. You can do exchange after exchange, each time pyramiding your savings. Additionally, if you choose to pass the property onto your heirs, the deferred tax liability is completely forgiven by the IRS upon your death resulting in a greater profit for your heirs when the property is eventually sold.

3. As the Exchanger you will have greater selling power since you do not have to inflate the sales price in order to recoup some of the capital gains that would normally accrue when selling an investment property. This will enable you to set a more flexible and possibly profitable price.

4. You can acquire replacement property with greater income potential, for instance by selling raw land and acquire income-producing property. You could also acquire a apartment building with additional units or another income producing property in a more profitable location.

5. You have the opportunity to consolidate several difficult-to-manage properties into one easy-to-manage large property or to relocate or expand a current business or investment.

Basic Requirements of 1031 Exchanges

1. Both properties must be "Like-Kind".

Like-kind simply means real property and refers to the nature or character of the property not its grade or quality.

Like-kind is a very broad and liberal category where just about any type of investment or business use property would qualify. Examples of like-kind properties:

- rental properties (single family homes, apartment buildings, triplexes, etc.),
- office buildings, shopping malls, almost any type businesses, airports, marinas, golf courses, etc with a lease of at least 30 years including options
- parking lots
- time shares
- farms, retail stores
- factories, retail stores
- interest in a co-tenancy
- oil, gas and mineral interests
- water and timber rights

It is important to note that properties which are not considered as like kind include: stocks, bonds, notes, interest in a partnership, certificates of trust and personal property.

Properties can be located anywhere within the US with no restrictions relating to the exchange taking place in one or more states.

2. Both properties must be held for investment or business use.

Both the relinquished property and replacement property must be for investment or business use and each must be held for a minimum of one to two years.

You cannot purchase a replacement property with the intent to sell immediately.

Qualified 1031 exchange properties cannot be used for personal use more than 14 days per year (or 10% of the actual number of days the property has been rented in any given year).

3. Exchanger must use a Qualified Intermediary.

One of the so called "safe harbors" in the 1031 Exchange regulations is the requirement to use Qualified Intermediary in the actual exchange process.

Both the sale of the property you sell and the purchase of the replacement property must flow through the Intermediary, usually by direct deeding to avoid duplicate transfer taxes.

The qualified Intermediary may not be the taxpayer or an agent of the taxpayer (realtor, attorney, tax advisor, banker, accountant, employee, etc.) or lineal descendant of the Exchanger.

4. Seller must use a qualified escrow agent.

The qualified Escrow Agent may not be the taxpayer (seller) or an agent of the taxpayer (such as your realtor, attorney, banker, accountant or other employee, etc.) or an actual lineal descendant of the Seller.

The Seller should not have any type of access to the proceeds from the sale of the property.

The Seller is entitled to all earnings on the escrow funds, but these taxable funds must also be restricted in the same manner as the principal.

The Seller is entitled to obtain security for his funds while the 1031 transaction is in progress.

5. To gain the benefits of a 1031 Exchange, the proper documentation must be used.

Required documents

- 1031 Exchange agreement between the seller and Qualified Intermediary.

The most important document in a 1031 exchange, in this document the Seller gives the Intermediary the right to acquire the relinquished property from the Seller and convey it to the buyer. It also gives the Intermediary the right to acquire the replacement property from the seller and then convey it to the Exchanger.

- 1031 Exchange notice agreement between the Qualified Intermediary and escrow agent.

When a MEGA 1031 consultant is acting as your Intermediary the Notice Agreement will notify the seller and buyer that the properties are being exchanged and we are the Intermediary.

- 1031 Exchange assignment for the rollover of the relinquished property.

This document Assigns the Exchanger's rights in the Agreement of Sale to the Intermediary and serves as written notification to the buyer of the relinquished property of Sellers intent to affect a 1031 Exchange and also includes a hold harmless clause which assures the buyer that there are no hidden liabilities or costs.

Alternately a 1031 Clause may be inserted into the Agreement of Sale, in which case this document is not required.

- 1031 Exchange agreement and assignment of the identified replacement property.

This document assigns the Sellers rights in the Agreement of Sale to the Intermediary and also serves as a written notification to the seller of the replacement property that the Exchangers intends to effect a 1031 Exchange. Normally this document also includes a hold harmless clause to assure the seller of the replacement property that there are no additional liabilities or costs which may accrue to him.

Alternately a 1031Clause may be included into the Agreement of Sale, and in such a case this document is no longer necessary.

1031 Timeline

1. The first node on the 1031 timeline is the 45-Day Identification Period which begins with the closing of the relinquished property. During this period, the client must identify the like-kind replacement property.

During this 45-Day Identification Period, the exchanger may choose a new property by revoking the initial identification and making a new one.

If the replacement property has not been properly identified to the Intermediary by midnight of the 45th day, the Exchange requirements have not been met and the taxpayer will not be eligible for the deferment of the capital gains tax due on the sale.

2 The 180-Day Exchange Period commences at the same time as the 45-day Identification period and requires that at least one of the identified replacement properties has been acquired before this period elapses.

3. In cases where the settlement of the relinquished property occurs between October 16 and December 31, the 180-day Exchange Period will be shortened to the income tax deadline of April 15 of the next calendar year unless the exchanger you files an IRS extension. For a corporation, this filing date is March 15 of the next calendar year unless an IRS extension is filed.

Replacement Properties Limitations

- Three property rule

The Exchanger (seller) may identify up to three replacement properties regardless of their fair market value. The Exchanger is not required to purchase all three properties but must purchase at least one of the identified properties. For example, if selling a relinquished property for $100,000, three replacement properties can be identified with a combined fair market of $750,000.

- 200% Value rule

Exchanger may identify more than three properties but their combined fair market value cannot exceed 200% of the fair market value of the relinquished property. For example, identified, their if your relinquished property was sold for $200,000 and four or more replacements are combined fair market value cannot exceed $400,000 or double the sale price of the relinquished property.

Important Exceptions to the Three Property Rule and the 200% Value Rule:

- Any replacement property which is acquired within the 45-day Identification Period will be treated as properly identified, regardless of whether or not it is within the Three Property Rule or 200% Value Rule.
- If the Three Property Rule and 200% Value Rule are violated, the property will still be treated as properly identified, provided that 95% of the combined fair market value of the identified replacement property has been acquired.

  For example, if you sell a property for $200,000 and identify five properties with a combined fair market value of $800,000, this may be treated as properly identified provided all five properties are acquired.

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EXCHANGER CHECKLIST

This checklist is intended to provide a brief overview of the steps involved in an IRC §1031 tax deferred exchange and when MEGA 1031 should be contacted throughout the process. This checklist does not address all issues involved in an exchange. Please read all of the exchange documents prepared by MEGA 1031. As a Qualified Intermediary, MEGA 1031 cannot provide tax or legal advice. Investors should always seek the advice of their tax and/or legal advisors regarding their specific situation.

Step 1: __ REVIEW: Review your entire transaction with a tax and/or legal advisors.

Step 2: __ SALE CONTRACT: Enter into an “assignable” contract to sell the relinquished property.

Step 3: __CONTACT MEGA 1031: Before closing, contact MEGA 1031 to initiate the exchange transaction.

Step 4:__ EXCHANGE SET-UP: MEGA 1031 will prepare the exchange documents for the relinquished property sale.

A) The original documents will be forwarded to the closing officer who will coordinate the signatures.

B) Copies of documents are forwarded to the exchanger.

Step 5: __ RELINQUISHED PROPERTY CLOSES: MEGA 1031 is assigned to the transaction as the seller and sale closes.

A) Pursuant to the assignment agreement and exchange documents, MEGA 1031 instructs the closing officer to directly deed the relinquished property to the buyer.

B) Exchange proceeds are transferred directly to Colorado Business Bank, a trust bank for MEGA 1031, via wire transfer.

Step 6: __ IDENTIFICATION PERIOD: Both the 45-day identification period and exchange period begin.

Although it is the sole responsibility of the exchanger to meet all identification rules, MEGA 1031 will forward confirmation of the exchange proceeds received, the timelines for the 45-day identification period and 180-day (or the date the tax return is due, whichever is earlier) exchange period, the identification requirements and the identification rules.

Step 7: __ PROPERTY IDENTIFIED: Exchanger properly identifies replacement property by midnight of the 45th day.

A) Specific written identification, signed by the taxpayer, is forwarded to MEGA 1031.

B) Written identification can also be made to a party involved in the exchange transaction who is not a disqualified person. See the Treasury

Step 8: __ PURCHASE CONTRACT: Enter into an “assignable” contract to purchase replacement property.

Step 9: __ CONTACT MEGA 1031: After signing the replacement property contract, contact MEGA 1031.

Step 10: __ EXCHANGE PAPERWORK DRAWN: MEGA 1031 will prepare the exchange documents for purchase.

A) The original documents will be forwarded to the closing officer who will coordinate the signatures.

B) Copies of documents are forwarded to the exchanger.

Step 11: __ REPLACEMENT PROPERTY CLOSES: MEGA 1031 is assigned into the transaction and purchase closes.

A) Pursuant to the assignment agreement and exchange documents, MEGA 1031 instructs the closing officer to directly deed the replacement property from the seller.

B) MEGA 1031 wire transfers all interest and exchange proceeds from Colorado Business Bank to the closing officer.

__ COMPLETION: If all exchange funds are used to acquire the replacement property or properties, and all the exchange requirements are met, the exchange is complete

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Malbur Exchange Group & Associates, LLC

Dear Investor,

My team and I are here for you whether this is your first exchange or you have done many in the past. We realize there is a first time for everything and we will take you step-by-step through your exchange.

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We look forward to hearing from you!

Best regards,

M. Burke McHugh
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