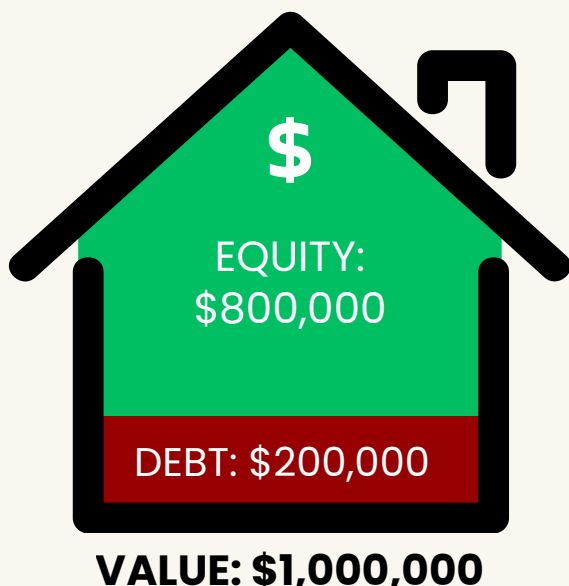


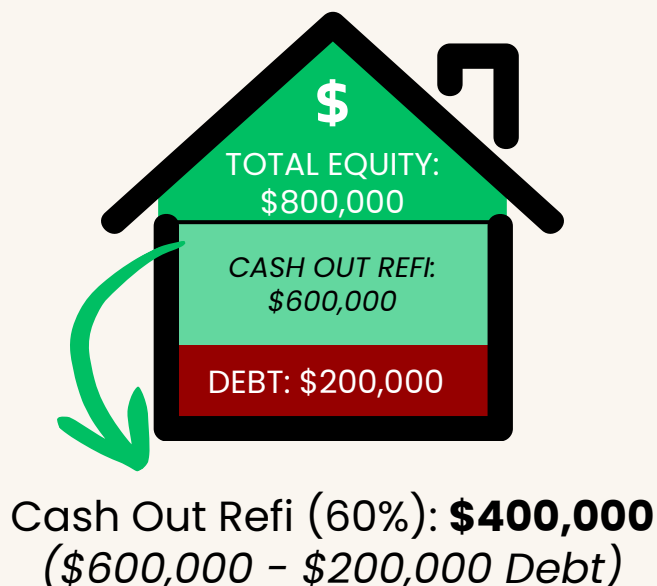
REFI + 1031 STRATEGY

Simplified Step-by-Step

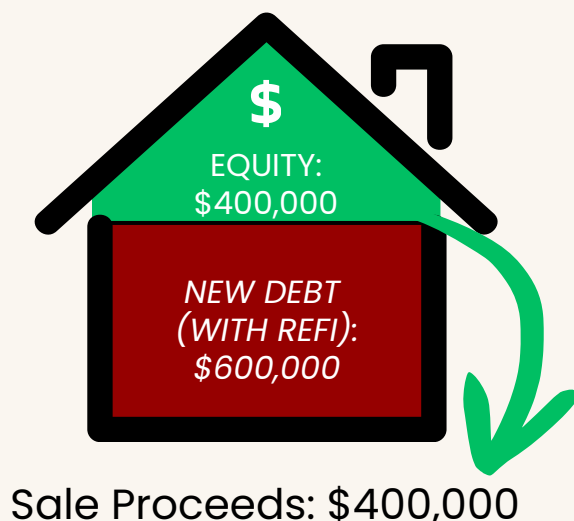
STEP 1: ASSESS VALUE



STEP 2: REFINANCE



STEP 3: LIST & SELL



STEP 4: 1031 EXCHANGE

SALE PROCEEDS TO INVEST:
\$400,000

1031 Into New Investment Property

Can self-manage or hire professional property management company to shift to more passive income model

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FAQ Sheet

What is a 1031 exchange, and how does it work?

A 1031 exchange lets you sell an investment property and reinvest the proceeds into another qualifying property without paying capital gains tax right away. The IRS has strict timelines: you must plan the 1031 ahead of selling, and identify replacement property within 45 days and close within 180 days.

Can I refinance my property before a 1031 exchange?

Yes. A cash-out refinance prior to a 1031 exchange is permissible as long as it serves a legitimate business or investment purpose—not solely to avoid taxes. The timing between your refinance, use of proceeds, and eventual sale is critical to maintaining IRS compliance.

What qualifies as a legitimate business purpose for the refinance?

Acceptable uses include:

- Purchasing additional investment property
- Diversifying into stocks, bonds, REITs, or private equity
- Funding a business venture
- Making improvements to the property
- Restructuring existing debt
- Covering business or operational expenses

How long should I wait between refinancing and selling my property?

Generally:

- Under 3 months: Highly risky; likely viewed as tax avoidance
- 3-6 months: Somewhat risky; requires strong justification and documentation
- 6-12 months: Stronger position with documented business purpose
- 12+ months: Safest separation, very low IRS challenge risk

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FAQ Sheet

What happens if I refinance too close to my eventual property sale date?

If the IRS determines your refinance was primarily designed to extract equity immediately before the sale, the cash proceeds may be reclassified as "boot" (taxable cash received), creating a capital gains tax liability even if the 1031 exchange itself remains valid.

Can I take cash out at the time of closing on my sale?

Yes, but any cash taken at closing is taxable and treated as "boot." This won't invalidate your 1031 exchange - the remaining proceeds can still be exchanged tax-deferred - but you'll owe capital gains tax on the cash amount received. This is why the refinance strategy happens before the sale: it allows you to access equity tax-free as loan proceeds rather than taking taxable boot at closing.

What documentation should I maintain to demonstrate compliance?

- Loan documents clearly stating business purpose
- Records showing how refinance proceeds were used
- Timeline showing separation between refinance and sale
- Documentation of business or investment activities funded by proceeds
- Communications with your tax advisor regarding the strategy
- Do not mix refinance proceeds with 1031 exchange funds, and ensure all exchange proceeds remain with your Qualified Intermediary.

Consult with your tax adviser and 1031 company to ensure proper compliance.

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FAQ Sheet

How can The Katalyst Team help with refinancing and 1031 strategy?

The Katalyst Team can help you plan for this approach well in advance - from exploring refinance options now to coordinating with your tax advisor and strategizing how to maximize your exchange. We can also connect you with trusted 1031 facilitators and professional management partners if you want to reduce the day-to-day workload while continuing to own your new investment property.

Will I still maintain control of my property if I use professional management?

Yes. You remain the owner of the property and retain decision-making authority on all major financial choices, as well as receiving all of the benefits of ownership: appreciation, depreciation, cashflow, etc. The management company simply carries out the day-to-day operations on your behalf.

What are the advantages of hiring a company for professional property management?

A professional management company can:

- Handle tenants, leasing, and collections
- Oversee repairs and property upkeep
- Ensure compliance with laws and regulations
- Free up your time while preserving the benefits of ownership
- Provide you with updated reports and accounting documentation

SUMMARY

A 1031 exchange can be one of the most powerful tools for building wealth through real estate, and the key is planning early. By refinancing ahead of time and strategizing well, you can unlock equity without triggering taxes, and maintain your 1031 tax deferral benefits when you sell and roll over into a new investment property.

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