



PIG/PAL Investing

A Real Estate Based Investment Strategy Seeking to Generate Non-Taxable Current Income



AEI intends to conduct its real estate fund operations in a manner that will cause net income derived from its real estate rental activities to constitute "passive activity income". Consultation with your tax and financial professionals may be necessary to understand the financial and tax implications of an investment in an AEI Fund. Periodic consultation about changes in tax laws may be necessary because of future changes in statutes and regulations or in interpretations by courts or state and federal tax authorities. The information in this brochure is for illustration purposes only and is presented in good faith, however, it is general in nature and is not intended as financial or tax advice specific to any individual investment situation. AEI assumes no obligation to inform any potential investor about changes in tax law or other factors that may affect the information contained herein.

Passive Losses:

An untapped source to create tax-advantaged income

What can I do with my passive losses?

By some estimates, millions of taxpayers carry suspended passive activity losses on their current tax returns. For those frustrated taxpayers, this gives rise to the question: "What can I do with my passive losses?"

THE BASICS

Passive Income and Passive Losses

The Tax Reform Act of 1986 created the categories of passive income and passive losses.* At the same time, it also limited the use and value of passive losses. For many taxpayers, the Act mandated that passive losses could be used only to shelter passive income; not portfolio income and not earned income. This means that taxpayers leave valuable deductions on the table every tax season. For taxpayers who have passive losses, those losses are simply unused and carried forward year by year.

There is a solution...

Passive Activity Defined

Passive income is produced by a trade or business activity in which the taxpayer does not "materially participate." You materially participate in an activity if you are involved in the operation of the activity on a regular, continuous, and substantial basis. In general, rental activity, including rental real estate business, is passive, even if you do materially participate. However, rental real estate activity in which you materially participate is not passive if you qualify as a real estate professional.

*Passive Losses Defined

The excess of passive activity deductions over your passive activity income.

*Passive Income Defined

Net rental income or income from a business in which the taxpayer does not materially participate.

\$1 PIG + \$1 PAL = \$1 Non-Taxable Current Income

THE SOLUTION

PIG/PAL Investing

To realize these benefits, taxpayers with eligible passive activity losses (PALs) can pair those losses with a passive income generating (PIG) investment. This strategy is commonly referred to as “PIG/PAL” investing. An investor’s passive income can be off-set by passive losses on a dollar-for-dollar basis. The passive losses shelter the passive income from taxation to produce tax-advantaged income. There is no limitation on the amount of passive income and passive losses that can be off-set annually.

By investing in a conservative real estate fund or property that creates stable income, investors can pair their existing passive losses with passive income from those investments on a dollar-for-dollar basis, thus delivering tax-advantaged income.

TWO APPROACHES

Real Estate Funds

The first option involves a real estate fund structured as a limited partnership or LLC. Unlike REITs that generate dividends (portfolio income), these real estate funds generate distributions that qualify as passive income.

CASE STUDY

Meet the Carpenters

Mike and Janet Carpenter own a small medical office building in which they operate a family dental practice. Their successful practice keeps them busy. The additional space in their building is frequently vacant. In some years, real estate expenses have outweighed rental revenues resulting in accumulated passive losses.

During their annual tax review, Mike and Janet’s CPA pointed out these stagnant passive losses on their 8582 tax form. He explained that passive losses can only be offset by passive

Direct Property Purchases

The second option involves the direct purchase of rental real estate. Rental income from direct property ownership is passive. In this regard, investors have two options; they can purchase entire properties as the sole owner or they can purchase partial interests in properties through one or more tenant-in-common (TIC) or Delaware Statutory Trust (DST) offerings. Either way, the rental income generated can become tax-advantaged when off-set by the investor’s passive losses.

TAX FORM 8582

Where to Find Your Passive Activity Losses

Form 8582 is the tax form used to reflect carry-forward passive activity losses. Your tax preparer, CPA or Financial Professional can help you locate this part of your tax return.

income, and that doing so shields the passive income from taxation on a dollar-for-dollar basis. He recommended they speak with their financial professional to learn about investments that could help them unlock the value of their existing passive losses.

Mike and Janet spoke with their financial professional and learned that they could realize a higher tax-equivalent yield by using their existing passive losses to shelter passive income generated by a PIG investment. After discussing their investment objectives with their financial professional, the Carpenters decided to invest in a conservative real estate investment fund to put their passive losses to use.

Form **8582** Passive Ac
Department of the Treasury
Internal Revenue Service
Name(s) shown on return
Go to www.irs.gov/Form8582

Part I 2024 Passive Activity Loss
Caution: Complete Parts IV and V before con

Rental Real Estate Activities With Active Participation (For Allowance for Rental Real Estate Activities in the instruction)

1a Activities with net income (enter the amount from Part IV, line 1a)
b Activities with net loss (enter the amount from Part IV, line 1b)
c Prior years' unallowed losses (enter the amount from Part IV, line 1c)
d Combine lines 1a, 1b, and 1c

All Other Passive Activities

2a Activities with net income (enter the amount from Part IV, line 2a)
b Activities with net loss (enter the amount from Part IV, line 2b)
c Prior years' unallowed losses (enter the amount from Part IV, line 2c)
d Combine lines 2a, 2b, and 2c

3 Combine lines 1d and 2d and subtract any prior year zero or more, stop here and include this form with your prior year unallowed losses entered on line 1c or 2c, normally used
If line 3 is a loss and:
• Line 1d is a loss, go to Part II, line 10.
• Line 2d is a loss (and line 1d is a loss), go to Part II, line 10.

Caution: If your filing status is married filing separately and you are filing a joint return, you must file Form 8582 for each spouse.

AEI Capital Corporation

Your source for tax-advantaged real estate investments.

Our Difference

Experience

AEI was founded in 1971 as a securities firm dedicated to offering investment alternatives beyond the stock and bond markets. Our attention was directed primarily toward commercial real estate. AEI's first net leased property offering occurred in 1975, with most of our early offerings utilizing leverage. In 1984, AEI made the decision to eliminate the use of mortgage debt for its Funds. During the ensuing decades, AEI became known in the financial services industry as one of the few all-cash, no-debt, net lease Fund sponsors.

Philosophy

Our investment philosophy is built upon one simple principle: Own well-located corporate real estate – without debt – to help minimize risk and maximize returns. Then, lease that real estate under long-term net leases to high net worth corporate tenants.

We believe that our debt-free approach to commercial real estate ownership provides the best opportunity for attractive returns combined with the highest degree of capital protection.

Strategy

Our time-proven strategy is to identify creditworthy companies that prefer to lease rather than own the properties they occupy – and then provide it to them as their landlord.

Discipline

Our track record reflects our dedication to a disciplined and conservative investment strategy. By faithfully maintaining a debt-free approach to property ownership, we have remained focused on our core competency.

Our Solutions

AEI offers net leased commercial real estate investment funds and high-quality direct and fractional property ownership opportunities that provide investors with the potential to receive passive income that may be sheltered by passive losses from other investments.

By investing in one of our private Funds or investment properties, you gain access to:

- Income from the rents paid by creditworthy corporate tenants
- Properties that have passed AEI's stringent due diligence process



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A leading national sponsor of debt-free real estate investments.