

SEASHINE REAL | INCOME TAX POSITION SUMMARY

Disclaimer: This summary is prepared as an accommodation to communicate the internal tax position established by Seashine for its purposes only. Seashine disclaims this position for any other purpose - Residents and investors must obtain independent tax advice and may not rely on this document or any other statements made by Seashine regarding REAL tax characterization as Seashine does not offer tax advice.

After extensive research and consideration, Seashine and its legal and tax advisors have determined that the Seashine Real Estate Acquisition Lease (“REAL”) is best and most accurately characterized as a mortgage for tax purposes only.

Constructive Ownership

REAL is a lease not a loan. However, for income tax purposes Seashine and its advisors believe that REAL will be characterized as a mortgage for tax purposes only by the IRS. The IRS evaluates the facts and circumstances of transactions like REAL to determine the applicable tax treatment. They consistently resolve that circumstances are what they do and, in the case of REAL Constructive Ownership lies with the property Resident.

The following facts and circumstances support Seashine's position on this matter:

1. **True Lease Test:** REAL fails to qualify for an advance ruling as a “True Lease” as established by the IRS and the courts. Specifically, REAL fails to satisfy Minimum At Risk Investment, Purchase and Sale Right and Investment by Lessee True Lease tests;
2. **Intent of the Parties:** The Program Agreement (Section 38) clearly states that the intent of the parties is for the lease to be characterized as a mortgage for tax purposes only. Agreement by the parties is a significant consideration for the IRS.
3. **Benefits & Burdens of Ownership:** During the term of the REAL Program Agreement the Resident assumes the Benefits and Burdens of ownership including:
 - a. A right to possession - Use of the property is granted under the Program Agreement. In fact, Seashine does not even have a key to the property;
 - b. An obligation to pay taxes, assessments and charges against the property - The Program Agreement requires the Resident to pay, either directly as a portion of the monthly payment amount or as additional monthly payment amount in the case of assessments or charges, a monthly portion of the annual taxes and assessments against the property;

- c. A responsibility for insuring the property - The Program Agreement requires the Resident to pay a monthly portion of the annual insurance premiums;
- d. A duty to maintain the property - The Program Agreement requires the Resident to perform all repairs and maintenance to the property at their cost;
- e. A bearing of the risk of loss - The Resident, by paying the Acquisition Premium (which is at least 10% of the property purchase price) bears significant economic risk of loss;
- f. A right to obtain legal title at any time by paying the Program Balance in full - The Program Balance is a fixed amount equal to the initial purchase price minus the Acquisition Premium plus a transaction fee. The Program Agreement gives the Resident the right to take legal title to the property at any time during the term of the agreement by paying the Program Balance;
- g. A right to earn 100% of net property appreciation - Following payment in full of the Program Balance, the Resident is paid all net proceeds from the sale of the property when they exercise the option to purchase by selling the property to a third party during the term of the Program Agreement.

The position described herein demands that REAL be reported as a mortgage for tax purposes only. To that end, before Jan 31 of each year, each Resident receives an IRS form 1098 reporting that portion of their total monthly payments that would be characterized as mortgage interest. Seashine also prepares and files IRS form 1099s when Resident's exit REAL by selling the property to a third party. Lastly, but importantly, Seashine does not attempt to utilize any tax benefits including depreciation expense that would be available were REAL to be characterized as a lease for tax purposes.

If you have any questions, please feel free to contact us directly.