

1031 Exchange Identification Rules

In This Issue

- 1031 Exchange Identification Rules
- Featured Property:
For Lease

Here are the basics for 1031 identification rules:

- During the 45-day identification period (“Identification Period”), a taxpayer can identify up to three properties, regardless of value.
- A taxpayer can identify more than three properties as long as the total value of the identified properties does not exceed 200% of the value of the property sold.
- If both of these rules are violated, the taxpayer will be treated as having failed to identify any properties, except:
 - Any properties actually acquired by the taxpayer during the Identification Period will be considered properly identified; and
 - All properties identified during the Identification Period will be treated as properly identified if the taxpayer actually acquires properties with a total value equal to 95% of the total value of the properties identified.

For more detailed information on 1031 identification rules, please see the following link:

http://apiexchange.com/index_main.php?id=8&idz=40

Two audits recently conducted by the Franchise Tax Board (FTB) found two instances which disqualified taxpayers from their 1031 exchanges.

The first was a taxpayer who relinquished her right to all cash proceeds from the sale of the relinquished property. Prior to the close of escrow, the taxpayer sent an e-mail to the escrow agent instructing the escrow agent to release \$150,000.00 of the proceeds from the sale to the taxpayer. There was no reference to any document allowing the taxpayer to take the money, and no communication to or from the qualified intermediary. The FTB held that the ability of the taxpayer to direct the closer to distribute a portion of the sales proceeds to her constituted “constructive receipt” of all of the sale proceeds, disqualifying the transaction from 1031 exchange treatment. The FTB found that the ability of the taxpayer to instruct the escrow company by simple notice showed that there were no restrictions on the taxpayer’s access to the sales proceeds, and this constituted constructive receipt.

The other audit that disqualified another taxpayer found that because the taxpayer used his son, who is an attorney, as the qualified intermediary, this disqualified him on the basis of using a disqualified person. The laws clearly define a disqualified person including that of lineal descendant such as a son or daughter regardless of their profession.

Source: Asset Preservation Incorporated

www.APIExchange.com

Fed Faces Problems from Quantitative Easing

Quantitative easing has been used by the Fed to keep interest rates at a historic low over the past few years. However, the effect of this has caused the monetary base to skyrocket from \$800 billion base in September of 2008 to nearly \$4 trillion now and rising by \$40 billion per month. Since this

monetary expansion began, almost all of this liquidity has been injected into 12 money center banks resulting in unprecedented excess bank reserves held at the Fed by these 12 banks. This has resulted in roughly \$21 trillion in untapped bank lending capacity, about three times the amount of

Outstanding loans. This leads to a big question of whether these banks will continue to hold their reserves with the Fed or expand their lending. If the latter occurs, it will likely result in staggering inflation which would be disastrous for those on fixed incomes. **Source:** The Linneman Letter, Linneman Associates

Featured Property: For Lease



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*Available 10/1/2014

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Linda specializes in commercial and industrial sales and leasing throughout the San Gabriel Valley. She has extensive knowledge in 1031 exchange transactions, investment opportunities, and market analysis. Feel free to contact Linda with any questions or requests for information.

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