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**TO OUR FRIENDS SAN BRUNO PIPELINE EXPLOSION**

I have been in discussion with top executives at the Internal Revenue Service and have some unofficial news which I would like to share with you at this time.

**Issue One:** What is the tax status, if any, of the monies you received from Pacific Gas & Electric Company? Based on my conversations with the people at the Internal Revenue Service in Washington, D. C. if those proceeds were used to clean up or rebuild your home that was destroyed—you will have no taxable income from those proceeds. If you received a check but did not lose your home but had damage to your home such as fire retardant and used the money to clean up debris from the fire funds are non taxable. As long as you can show that is what you used the money for—that money will not be taxable income to you.

Let me get specific in a couple of cases. There are two Code Sections that will come into play. Code Section 121 and Code Section 1033.

Let me give you an example of what I am dealing with. For those of you who lost loved ones in the fire—the question becomes what was the fair market value of the house upon the death of your loved one? For sake of discussion we are going to assume that your loved one died before the house burned down, therefore, you will get a step up in basis for the fair market value of the house prior to the fire which is like two minutes before your loved one died—then the house burned down. You may have a step up in basis to the fair market value of the house which probably is going to equal to your insurance proceeds. So if handled properly and accounted for properly you may be able to walk away without any taxable income from the proceeds you received from your insurance company.

Let us assume that you did not lose your home but incurred damage to your home due to fire retardant or ashes or debris from the fire caused damage to your property which you had to have cleaned up and repaired. As long as you can prove that the funds received were used for that purpose—you do not have taxable income.

I have raised the issue with the Internal Revenue Service as to whether they will allow you to combine personal property proceeds along with real property proceeds in calculating what it cost you to rebuild your home. Further discussion on this next week.

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Page 2 of 2

I would suggest that you keep an accurate record of all the things that you had to purchase after the fire—clothing, household goods, furniture etc. You will need to have those records in order to show the Internal Revenue Service that you replaced like for like. A suggestion—get a credit card that gives you airline miles. You are probably spending enough that you can get two First Class tickets to take yourself on a vacation when this is all over with. You are going to need it—trust me on this one.

I have raised certain other issues that I feel may come into play with the Internal Revenue Service and they have promised to discuss it with their technical folks in Washington, D. C. They will get back to me as soon as they can with some answers. As I receive those answers—I will be forwarding the questions and answers to Amy at United Policyholders who has promised to get them distributed to all the victims of the San Bruno Disaster.

As a practitioner I might suggest to you that you seriously consider going on an extension for the filing of your 2010 Federal and State tax returns. This may give you a benefit because you may need additional time to figure out what you are going to do—whether you are going to rebuild or sell out or replace the residence. Your decision is going to have an effect on your tax returns one way or another. Taking the additional time which the extension will allow could be very helpful to you. Please remember that you must pay all the tax due by April 18, 2011 for the 2010 year. Make sure that your practitioner knows this so when he prepares your extension he pays enough in to keep you out of any penalty situation.

I hope that this answers some of your questions on how to handle the Pacific Gas & Electric Company proceeds. As we get further clarification from the Internal Revenue Service I will be dictating these articles and forward them on to you.

Thank you for your help and thank you too United Policyholders and Rebuilding Together for allowing me the privilege of assisting you in this trying time.