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TO THE SAN BRUNO PIPELINE VICTIMS

On Wednesday the 23rd of February I had a serious discussion with the Internal Revenue Service representative in Washington DC.

The big question that needed to be answered is when does the time clock start to run for the two year time frame under Section 1031 of the Internal Revenue Code.

The best way I can explain this matter to you all is to give you two examples. You will each have to take my examples—put in your figures and determine your best course of action.

EXAMPLE 1:

We bought our house many years ago for \$50,000. With improvements we have done over the years lets say that amounts to \$20,000. We now have a cost basis in our principal place of residence of \$70,000.

In 2010 you received \$25,000 from P G & E and \$30,000 from other insurance advancements. That totals \$55,000. In 2011 you received \$400,000 from your insurance company as proceeds from your fire insurance policy on your home. The receipt of the monies in 2011 exceeded your \$70,000 cost basis of your home. Now you start to recognize gain on proceeds received. That starts the time clock running. You now have until December 31, 2013 to get completely rebuilt in order for the proceeds that you have received to stay tax free and not become taxable income to you.

EXAMPLE 2:

We just recently bought our home in San Bruno and we paid \$550,000 for our principal place of residence which was destroyed in the pipeline explosion.

In 2010 we received \$600,000 in insurance proceeds from an insurance company in full settlement of all claims due to the fire explosion. You now have gain on the sale of the principal place of residence based on the proceeds received. That starts the time clock running. You have two years after the year in which you received gain which means you have until December 31, 2012 to get rebuilt and replace what was destroyed.

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I suspect many of you will fall under Example 1 as opposed to Example 2 which means that the monies received in 2010 were less than your cost basis of the house. The gain that you received happened in 2011, and therefore you have until December 31, 2013 to get rebuilt.

That is the position that the Internal Revenue Service is going to take. I have the name and phone number of their specialist who is their spokesperson in this area.

If any of you have a problem with this matter—we can contact the specialist who will be glad to talk to the field agents about what the position is that the Service is going to take.

I hope that this answers the question of the starting of the time clock running period for those of you who are going to rebuild or replace the principal place of residence that was destroyed in the pipeline explosion.

I would like to take this opportunity to thank Congresswomen Jackie Speier's office for their assistance in getting these people from the Internal Revenue Service to contact me so that we can get these issues resolved. I would also like to thank United Policyholders and Amy Bach for their cooperation in allowing me to write these articles and get them out to you. I am hoping that Jackie Speier's office will send to me the Bill I understand she is getting ready to propose so I can review it to make sure that it will work for a practical standpoint.