Maximize FDIC Coverage for your 1031 Exchange Account

Security of your 1031 exchange funds can be analyzed in several ways. Let's focus here on FDIC coverage.

FDIC deposit insurance has been increased from $100,000 to $250,000 per depositor through December 31, 2013. This increased level of coverage is for all interest-bearing deposit accounts for any depositor with any bank. Exchange Services, LLC uses the Qualified Trust safe harbor for every transaction. We use the taxpayer's tax identification number and put the taxpayer's funds in a separate bank account. So, FDIC coverage goes to the taxpayer. This will also lessen the risk of loss by the failure of the QI, as the account is not owned by the QI, but rather held in trust in the name of the taxpayer.

An individual with a qualified trust account holding 1031 exchange proceeds has a separate signing capacity from other deposits they may have at the same bank. So, the trust has its own coverage up to the maximum of $250,000 per trust relationship. A trust, with a married couple as trustees of the trust would receive $500,000 of FDIC coverage, $250,000 for each trustee. A trust with several beneficiaries could benefit even more, as the maximum FDIC coverage will be multiplied by the number of beneficiary relationships associated with the trust. A family trust with husband and wife as trustees, with their 3 children as beneficiaries, has a total of 6 beneficiary relationships; the wife for the benefit of the 3 children, and the husband for the benefit of the 3 children. A total of $1,500,000 in FDIC coverage is available.

An exchanger participating with several entities may also receive separate coverage through each of those entities, or signing authorities, if they are separate legal entities. Each individual, corporation, partnership, or other entity has its own $250,000 limit. At a customer request, a flexible QI may be able to spread deposits around amongst different chartered banks to increase coverage, allowing $250,000 coverage at each of the depository institutions.

On October 14, 2008 the FDIC announced the Temporary Liquidity Guarantee Program. This program allows full deposit coverage for non-interest bearing checking accounts, regardless of the dollar amount. This option may make sense for the risk-averse taxpayer, at the sacrifice of interest earned. This temporary guarantee is scheduled to expire at the end of 2009. Be sure to check with your deposit institution, as this feature is only available to banks which participate in this program.

Finally, use care with accounts where taxpayer funds are pooled in the name of the Intermediary, and not set up as a beneficiary or custodial account. Unless the depository is properly notified of the taxpayer's interest in the account, this structure may limit FDIC coverage to the QI, and the QI's $250,000 limit the entire account. For taxpayers seeking maximum protection of their 1031 exchange proceeds, it is critical to assure one's self of the type of account being used by the QI, how it is set up, and the FDIC coverage available.

Tax deferred exchanges and the protection of funds can be a complicated matter for most taxpayers. Awareness of the issues and sound tax and legal advice are encouraged at every step of the process. Consult with your tax and legal advisor to assure your exchange funds are protected to the maximum amounts allowable by law.

Contact us for more information (877) 596-1031

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