

1031 Exchange Services

QI Scorecard

Six questions a tax advisor should ask

1. Who is the Qualified Intermediary?

- Institutional or independent
- Regulated or unregulated
- Parent corporation or subsidiary

2. Segregated exchange proceeds or commingled funds?

- Segregated accounts: are each taxpayer's exchange proceeds held in an independent and segregated account with the bank or investment firm?
- Commingled funds: are the taxpayer's funds pooled with other proceeds in a single account under the control of the intermediary?
- Does the QI actually hold the funds in segregated accounts or merely provide a separate accounting of funds to each taxpayer?

3. Does bonding create security of funds?

- What does the bond cover — is coverage limited only to criminal actions?
- Who does the bond cover — are officers and principals excluded from coverage?
- Who issued the bond — is there an assessment of the financial ability of the issuer?

4. What events could affect the exchange?

- What happens to the exchange proceeds if QI is sold?
- What happens to the exchange proceeds if QI is incapacitated or dies?
- What happens to the exchange proceeds if QI files bankruptcy?
- What happens if QI is unable to meet financial obligations to taxpayers?

5. Is there oversight of the QI industry?

- No comprehensive regulation of QI industry
- No comprehensive licensing or ethical requirements to act as a QI
- Industry trade associations do not provide authoritative oversight or enforcement

6. What are the risks and obligations of the tax advisor for a bad referral?

- Reputation risk
- Legal and financial liability
- Due diligence obligations

All of these questions should be asked and satisfied before choosing a Qualified Intermediary. At the end of the day, you and your advisors must give up complete control over the exchange funds and are reliant on the Qualified Intermediary's promise to repay the full amount of the exchange proceeds. Wells Fargo Bank, as the Qualified Intermediary, offers superior security for your transaction.

Together we'll go far



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