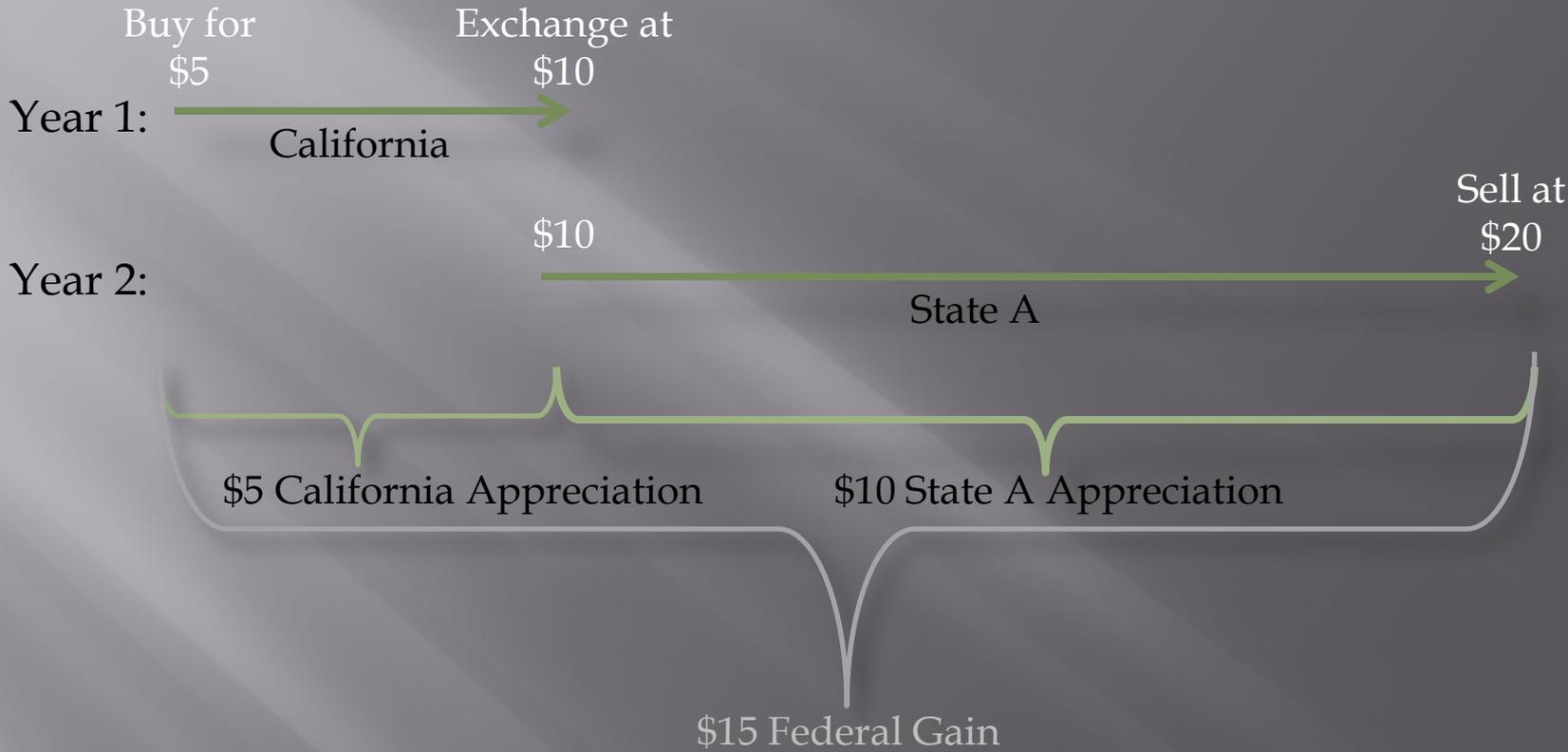


**INTERESTED PARTIES
MEETING
1031 EXCHANGE SOURCING
REGULATION**

February 3, 2016

NOTE: This handout is intended only for purposes of facilitating discussion at the interested parties meeting on February 3, 2016 – it illustrates the various scenarios that FTB staff will be referring to during our discussion.

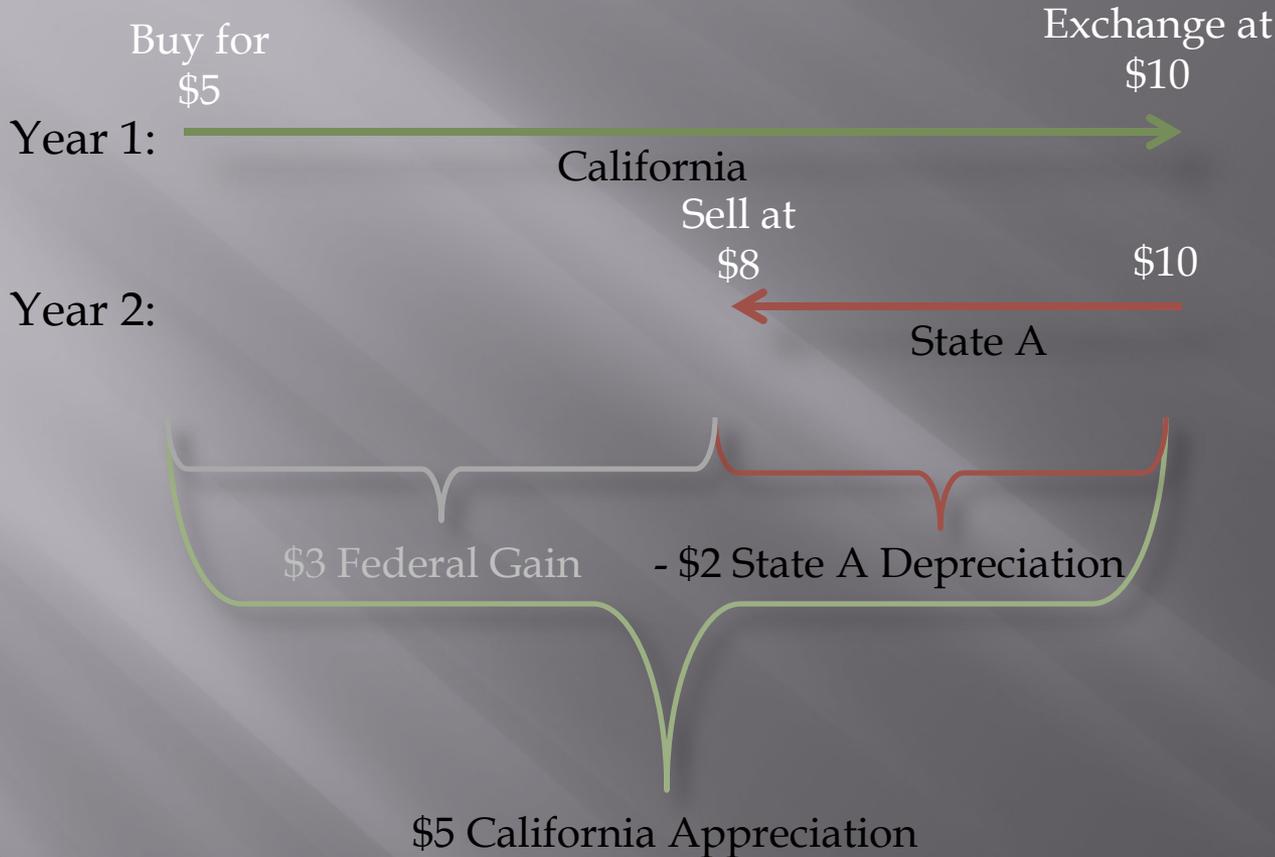
1. Exchange out of California – Appreciation in Value



•How much of the \$15 federal gain (\$20 sales price minus \$5 basis) is California source gain?

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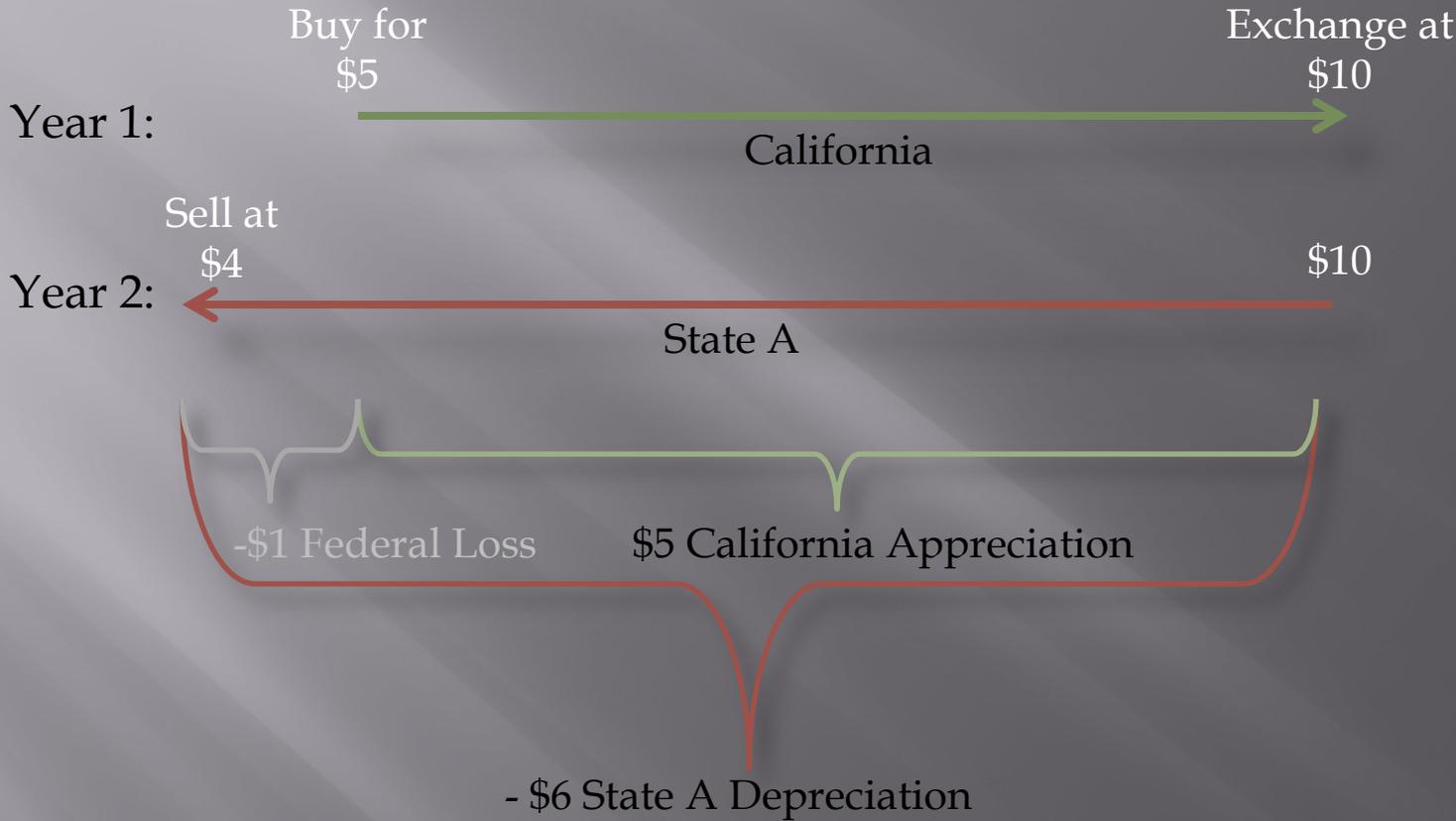
2. Exchange out of California – Depreciation in Value



- How much of the \$3 federal gain (\$8 sales price minus \$5 basis) is California source gain?
- Does TP have California source gain in excess of the federal gain reported in the year the State A property is sold?

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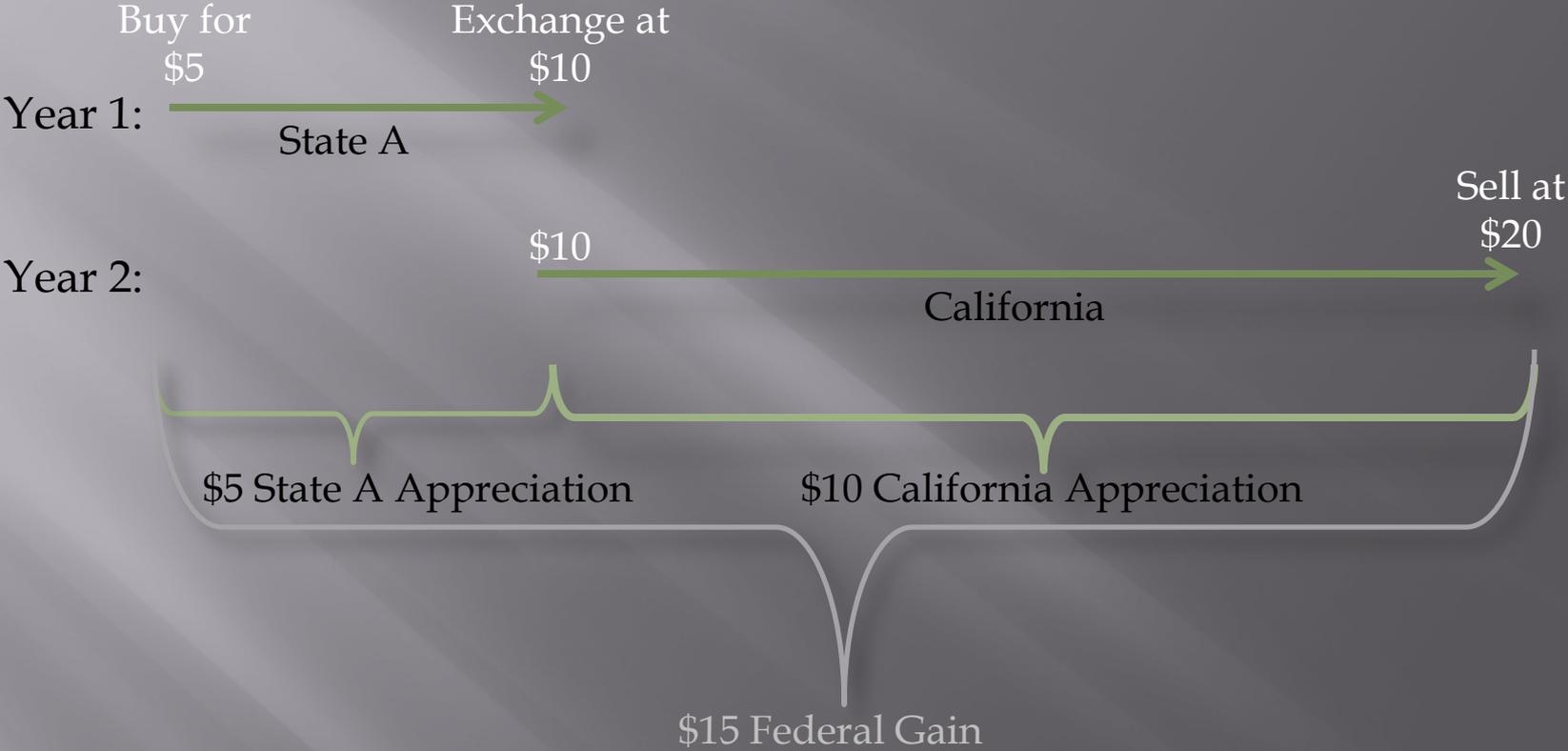
3. Exchange out of California – Loss on Sale



- How much of the \$1 federal loss (\$4 sales prices minus \$5 basis) is California source loss?
- Does TP have California source gain in the year State A property is sold even though a federal loss is reported?

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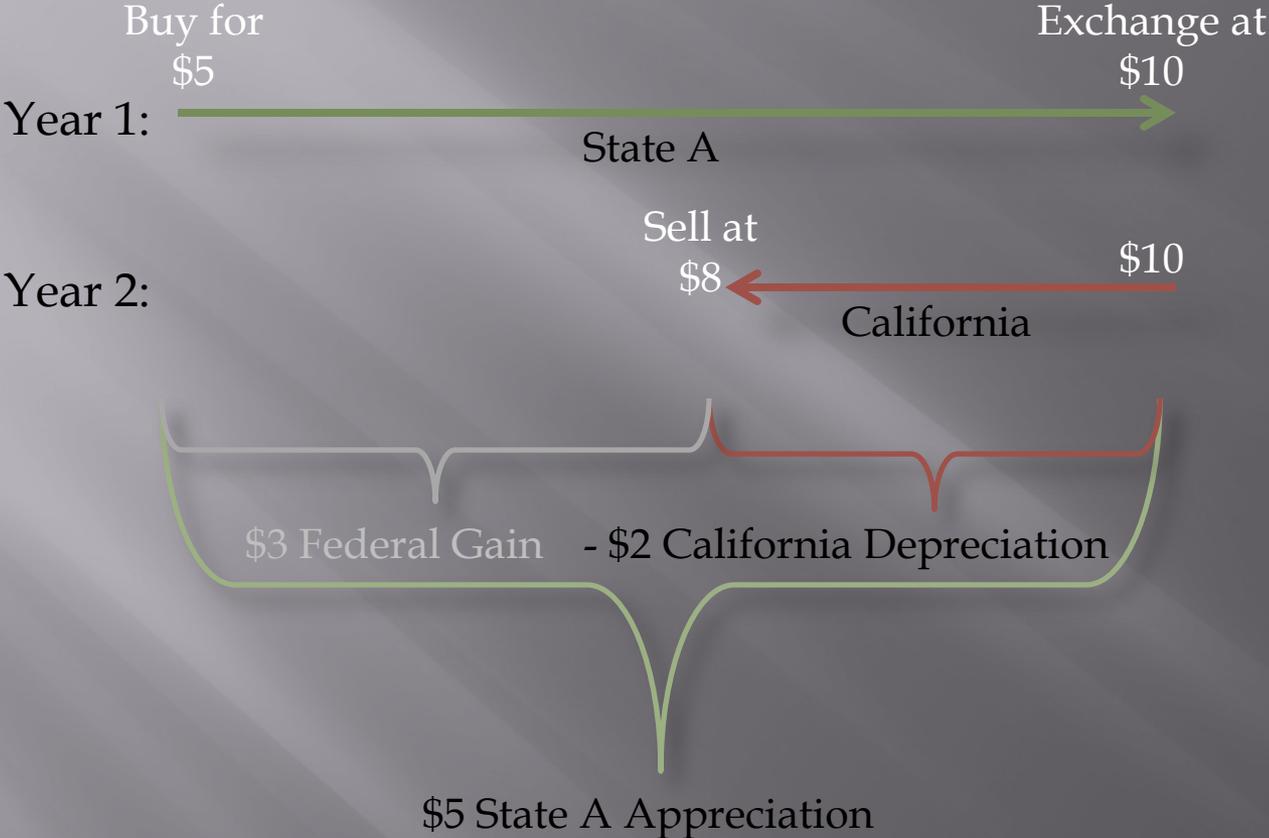
4. Exchange into California - Appreciation in Value



•How much of the \$15 federal gain (\$20 sales price minus \$5 basis) is California source gain?

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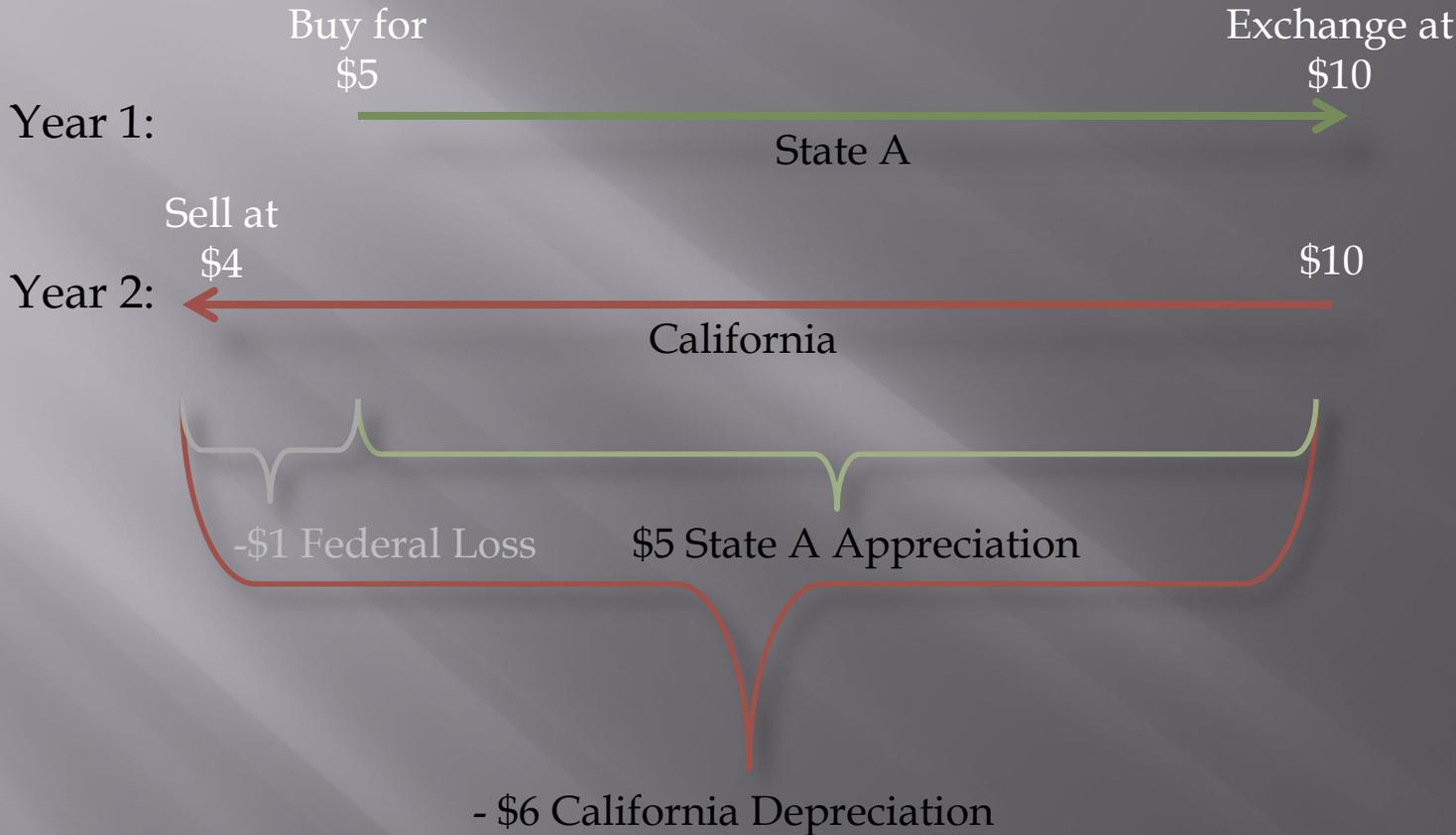
5. Exchange into California - Depreciation in Value



- How much of the \$3 federal gain (\$8 sales price minus \$5 basis) is California source gain?
- Does TP have a California source loss even though TP is reporting a federal gain in the year the California replacement property is sold?

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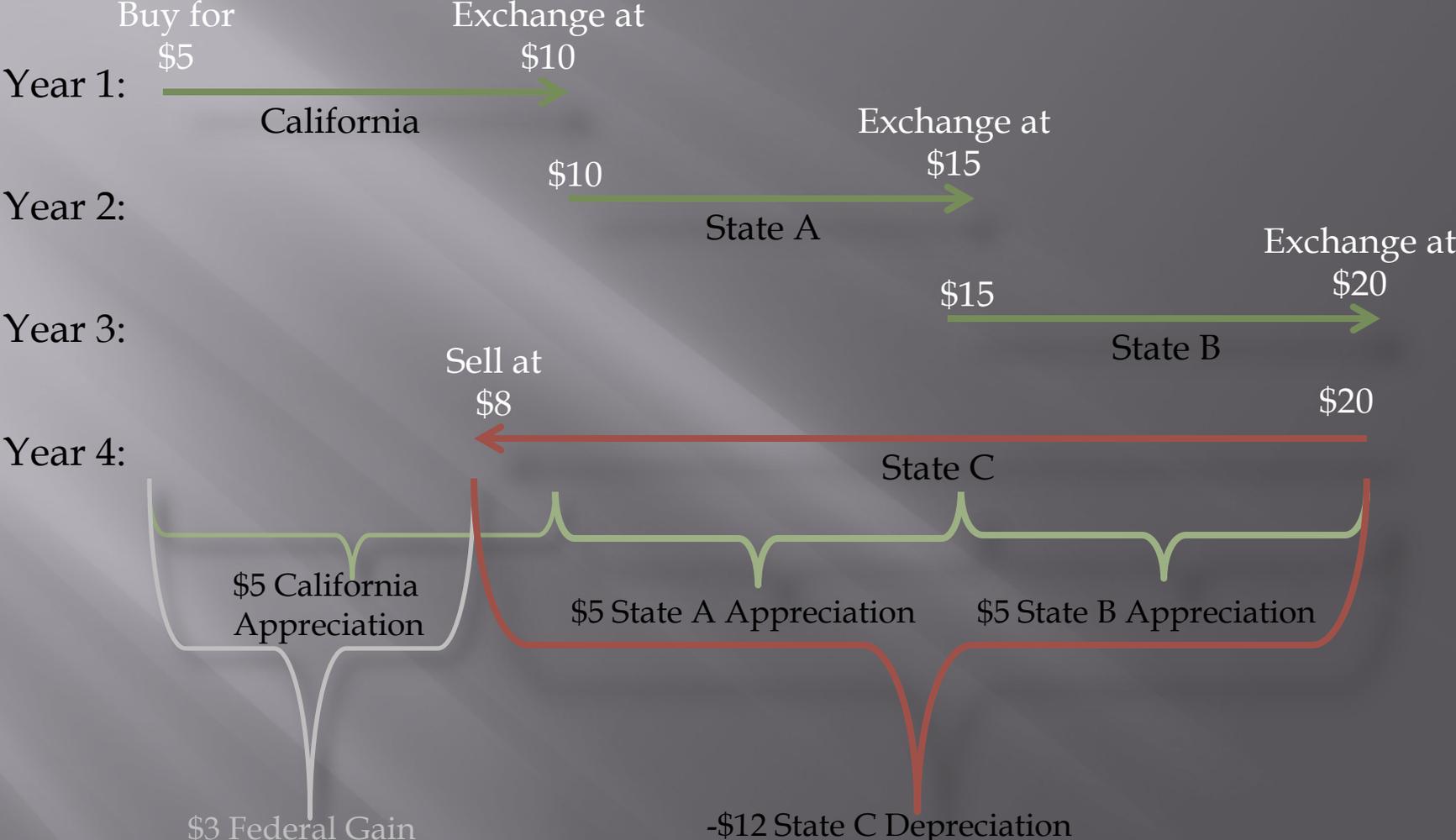
6. Exchange into California – Loss on Sale



- How much of the \$1 federal loss (\$4 sales prices minus \$5 basis) is California source loss?
- Does TP have California source loss in excess of the federal loss in the year the California replacement property is sold?

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7. Multiple Exchanges – Insufficient Deferred Gain



- How much of the \$3 federal gain (\$8 sales prices minus \$5 basis) is California source gain?
- Does TP have California source gain in excess of the federal gain reported in the year the State C property is sold?

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7. Multiple Exchanges – Insufficient Deferred Gain – Cont'd

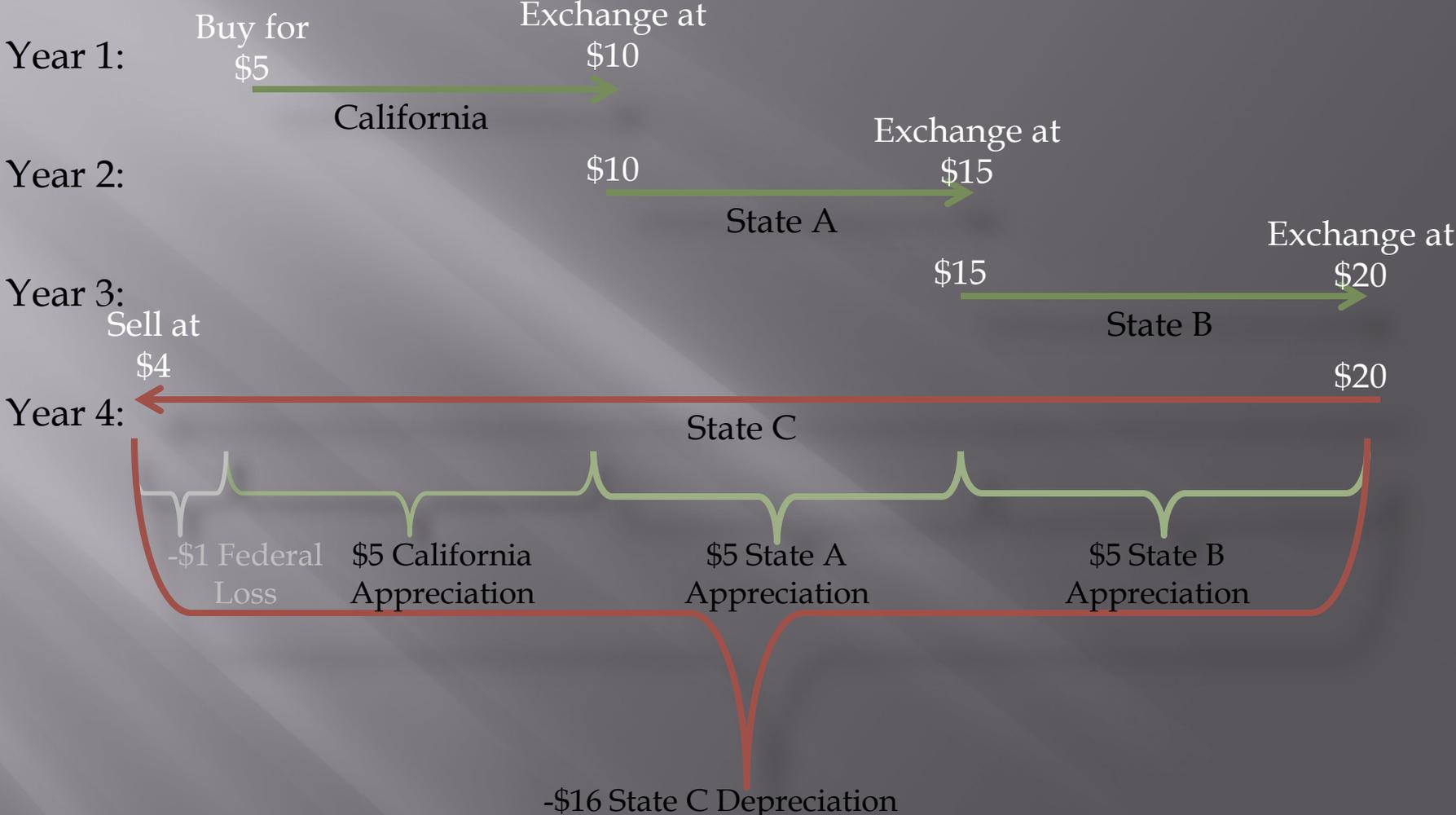
New Fact: The State C property is sold for \$15 instead of \$8.



•How much of the \$10 federal gain (\$15 sales price minus \$5 basis) is California source gain?

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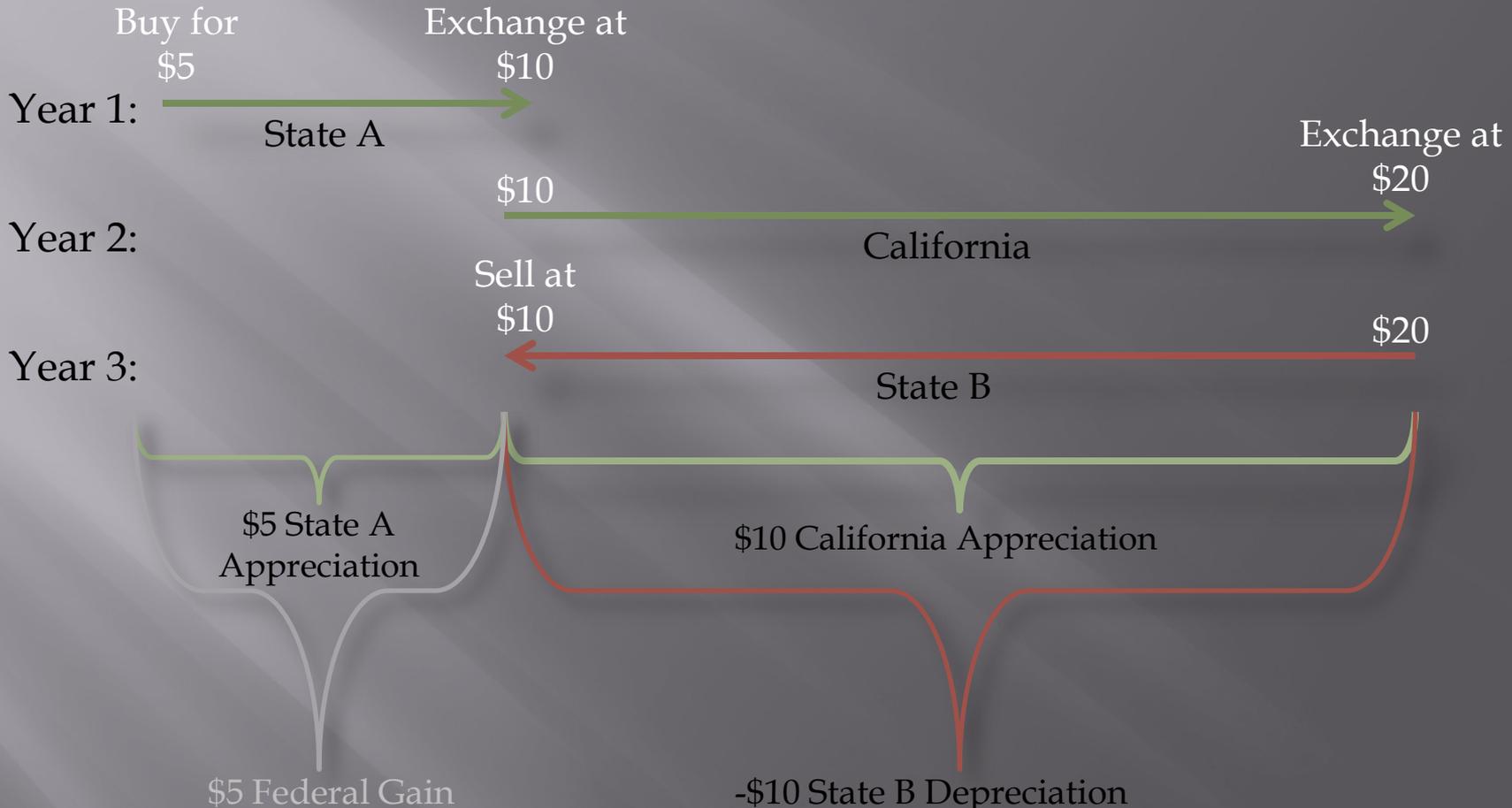
8. Multiple Exchanges – Loss on Sale



- How much of the \$1 federal loss (\$4 sales prices minus \$5 basis) is California source loss?
- Does TP have California source gain in the year the State C property is sold even though a federal loss is reported?

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9. Exchange into & back out of California - Depreciation in Value

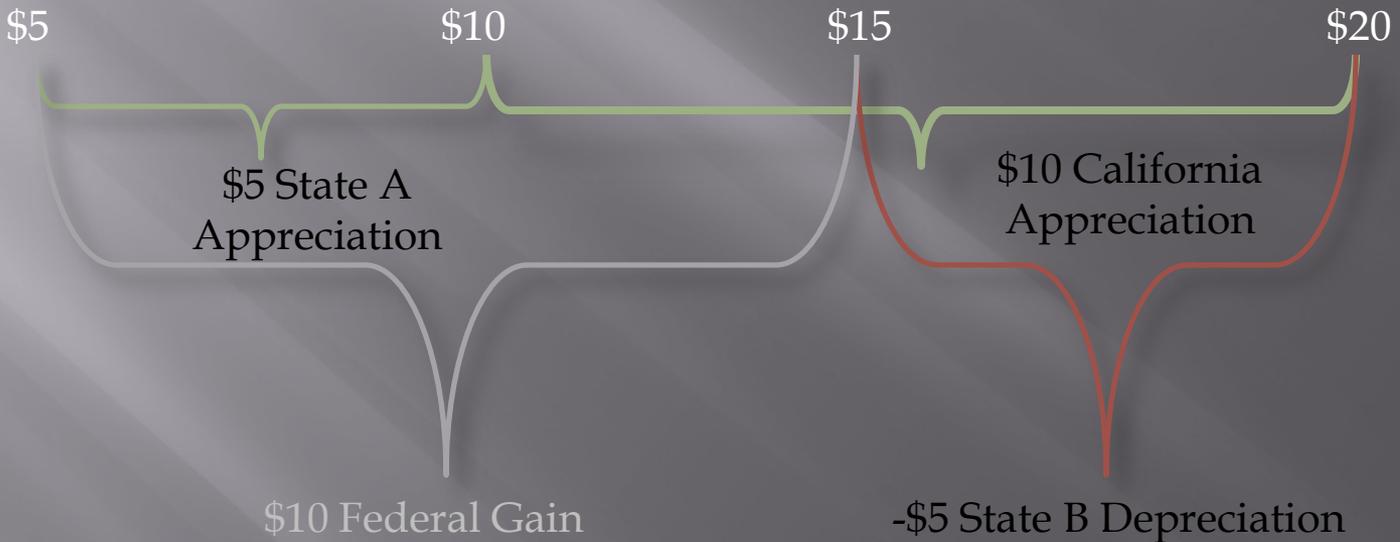


- How much of the \$5 federal gain (\$10 sales prices minus \$5 basis) is California source gain?
- Does TP have California source gain in excess of the federal gain reported in the year the State B property is sold?

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9. Exchange into & back out of California – Depreciation in Value – Cont'd

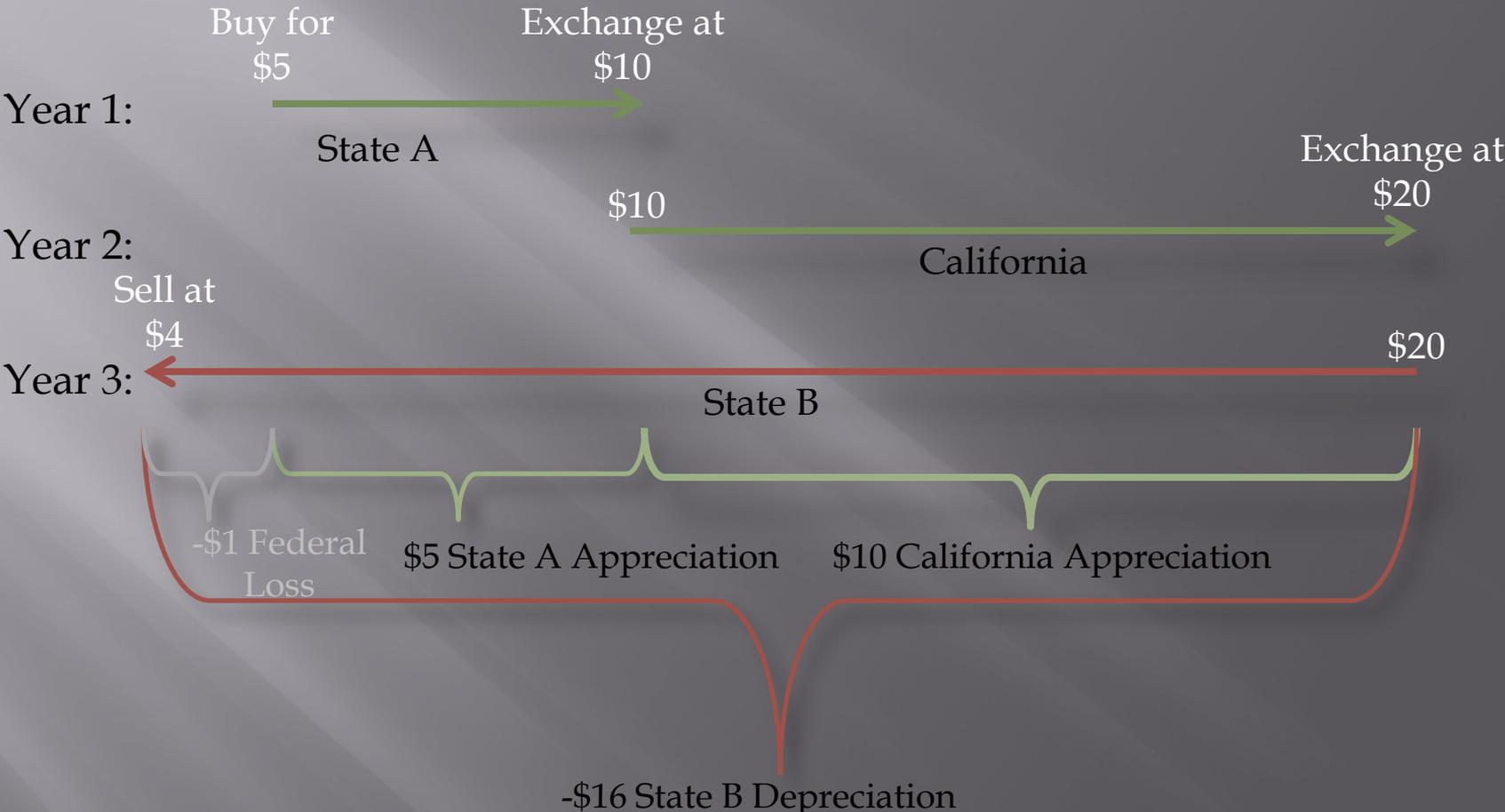
New Fact: The State B property is sold for \$15 instead of \$10.



•How much of the \$10 federal gain (\$15 sales price minus \$5 basis) is California source gain?

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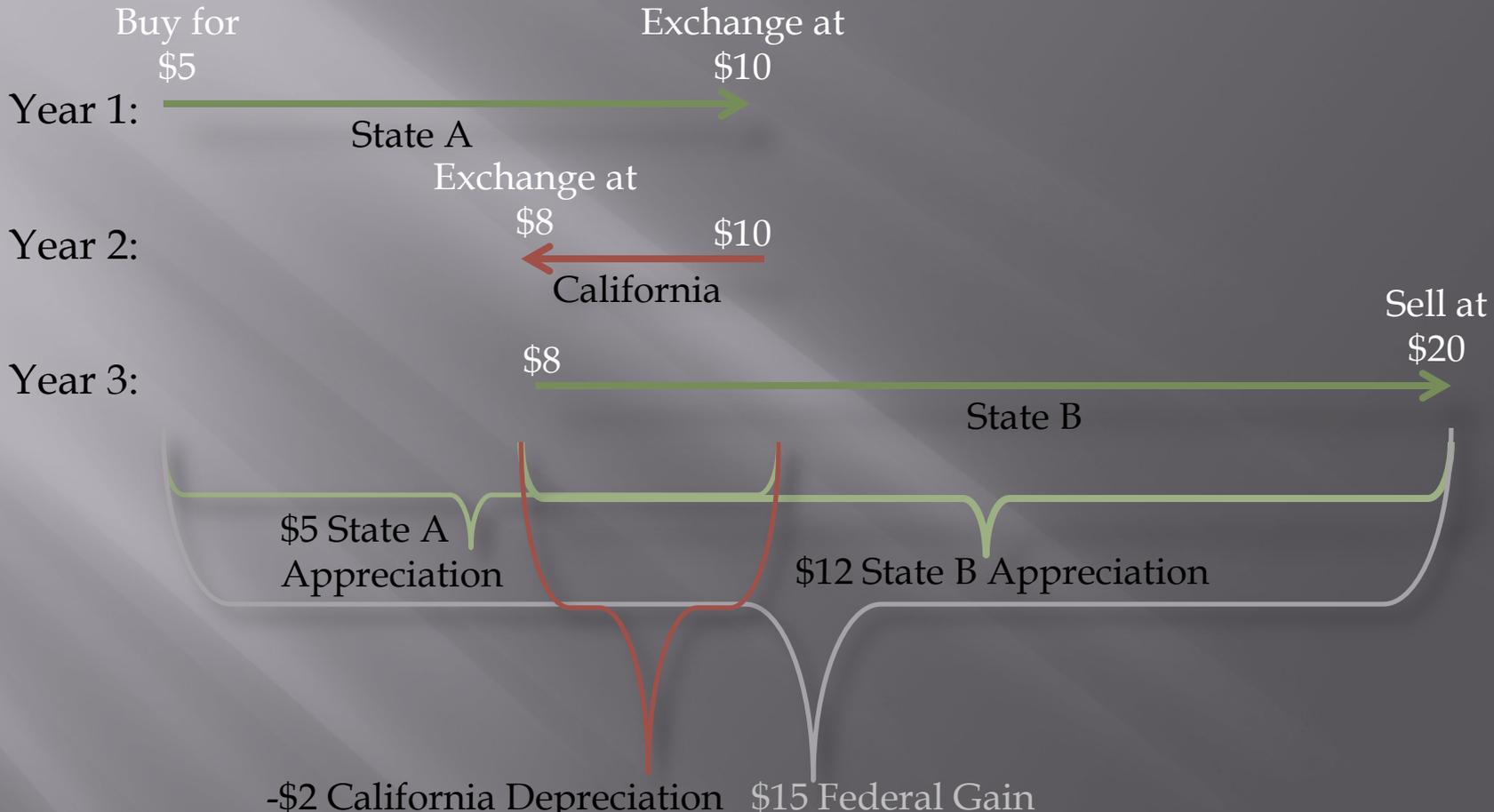
10. Exchange into & back out of California – Loss on Sale



- How much of the \$1 federal loss (\$4 sales price minus \$5 basis) is California source loss?
- Does TP have California source gain in the year the State B property is sold even though a federal loss is reported?

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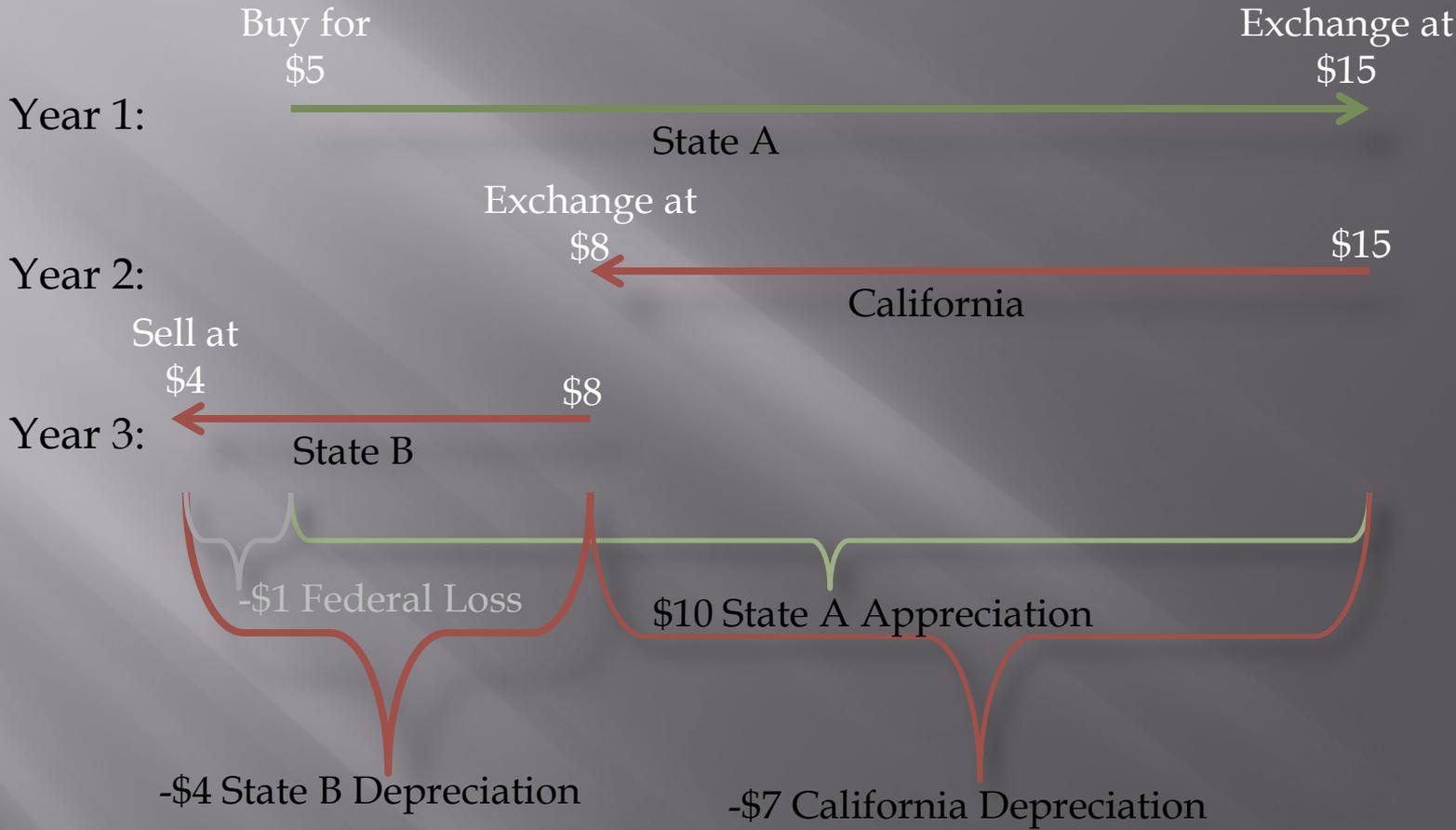
11. Exchange into & back out of California – California Depreciation in Value



- How much of the \$15 federal gain (\$20 sales price minus \$5 basis) is California source gain?
- Does TP have California loss in the year the State B property is sold even though TP reported a federal gain on the sale?

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12. Exchange into & back out of California – California Depreciation in Value & Loss on Sale



- How much of the \$1 federal loss (\$4 sales price minus \$5 basis) is California source loss?
- Does TP have California source loss in excess of the federal loss reported in the year the State B property is sold?

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13. Apportioning Taxpayers

- Is a regulation necessary to clarify which year's apportionment rules and percentages should be applied to deferred gains/losses from 1031 exchanges?
- Scope of the Regulation?

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14. Other Issues?