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Fight fraud - Security imperative for closing and 1031 exchange funds - by Patricia Flowers

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Fraud and cybercrime, particularly involving bank wire transfers for real estate transactions, continue to increase at an alarming rate. Phishing attempts with false emails claiming to be a legitimate business or institution wanting to change wire instructions to redirect funds, acquire sensitive information such as passwords, tax IDs or bank account numbers to gain access, are consistently elevating to new and more deviant levels. More and more criminals are exploiting the speed, convenience and anonymity of the Internet.

Attempts to redirect (and ultimately steal) deposits, purchase funds, closing proceeds or commissions are on the rise. The fraudsters are getting smarter and bolder, and with increased vigor they now try to intercept funds used in everyday business transactions. As an investor or advisor directly or indirectly involved in real estate transactions and 1031 exchanges, being aware and attentive is critically important to you and your clients' funds and business interests.

With federal and state tax laws requiring investors to pay up to 1/3 of their gains in taxes upon sale of investment real estate, Section 1031 Tax Deferred Exchanges are utilized more now than ever. This tax code requires that a Qualified Intermediary (QI) hold sale proceeds during an exchange to avoid constructive or actual receipt by the taxpayer, so as not to void any allowable tax deferral.

Surprisingly, there are no Federal requirements regarding the security that QIs must have in place for the monies they are holding for their customers. Therefore, it is critical to choose a Qualified Intermediary that is informed and vigilant, and one that has proactive protections in place to thwart cybercriminals.

Protective measures that should be in place to safeguard your real estate funds include secure signing procedures, taxpayer verification, wiring confirmations and financial assurance.

Secure Signing/Taxpayer Verification: We at IPX1031 implement a multitude of digital security measures, including the use of a secure electronic document-signing platform. The digital signature

platform incorporates processes, including multi-step authentication, which are designed to verify the signor of documents.

Independent Source Confirmation: Fraudsters are targeting wiring instructions and disbursement authorization emails, hacking into private and business accounts and resending fraudulent emails, acting as the broker, settlement agent or investor to purposely misdirect (and ultimately steal) deposits, purchase funds, closing proceeds or commissions.

Every wire request should be independently confirmed before release of funds - calls to verify should always be made to a known source, using information found in original contact communications, executed contract agreements, or the like. Any discrepancy or last minute wire instruction change is “cause for pause” to re-confirm before wiring. This helps to eliminate potential confusion and fraudulent activity against all those involved in an exchange transaction.

Financial Assurance: Since Qualified Intermediaries remain unregulated by the Federal government, they are not required to have cybersecurity prevention protocols in place. Safety and security of funds is a matter of paramount importance. For example as part of a national publicly traded and Fortune 500 company, IPX1031 has access to secure systems and industry professionals and are able to provide sophisticated technologies to protect exchange funds. All this is backed by a \$100 million Fidelity Bond, \$30 million E&O coverage and a separate \$50 million Written Performance Guaranty. Along with the financial strength and resources of our parent company, funds will be safe, secure, and available when needed.

Security and vigilance are everyone’s responsibility. Many individuals and businesses underestimate the threat mobile and online fraud poses to their profitability, cash flow and reputations. Review the FBI recommendations and talk with your IT group. Take simple steps in the office, at home and on the road with mobile devices to reduce vulnerability and towards keeping your computers, your information and your business dealings secure. Don’t leave your data – and your profits – open to cyber criminals.

Cybercrime is evolving and will continue to be an ongoing threat that has the potential to cause serious damage. The security of your information is extremely important in protecting your assets. Ask your QI about their cybercrime prevention policies and vigilance to secure all of their customers’ exchange funds. Your business depends on it!

As an industry leader, for over two decades we have offered creative tax strategies with proven solutions for building wealth, preserving profits and maximizing investment dollars through a 1031 tax deferred exchange. When you want the best, expect it from IPX1031, a leader in what matters – safety, security and expertise.

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