

Internal Revenue Service

Department of the Treasury

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Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:
CC:PSI:B09-PLR-130936-02
Date:
June 11, 2002

Re:

LEGEND:

Taxpayer =

Date 1 =

Trust =

Foundation 1 =

Foundation 2 =

X =

Company 1 =

Y =

Company 2 =

A =

B =

C =

Accounting Firm
1 =

Year 1 =

Year 2 =

Accounting Firm
2 =

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Dear _____ :

This is in response to your letter dated February 7, 2002, on behalf of Taxpayer, requesting an extension of time under § 301.9100-3 of the Procedure and Administration Regulations to make allocations of Generation-Skipping Transfer (GST) exemption.

The facts and representations submitted are summarized as follows: On Date 1, Taxpayer established the Trust, an irrevocable trust, for the benefit of the children and other issue of Taxpayer. Because Taxpayer had no children at the time the Trust was established, the terms of the Trust provides that the beneficiaries of the Trust are the issue of Taxpayer's parents, other than their children, until such time as Taxpayer has issue.

The terms of the Trust provide the trustees discretion to use the principal and income of the Trust for loans or distributions to the Trust beneficiaries. Specific provisions are included for loans and distributions for post-secondary education, for purchase of a residence, to establish or expand a business, to enable a beneficiary to forgo employment in order to stay at home with young children, to match certain charitable contributions, to support a disabled beneficiary, to fund emergency health care, and for travel to certain locations and for missionary work. The Trust continues until Taxpayer's line of issue fails, unless earlier termination is required by operation of local law. If earlier termination is required by operation of local law, the remaining assets of the Trust are to be distributed to Taxpayer's then living issue, by right of representation. If Taxpayer's line of issue should fail, the remaining assets of the Trust are to be distributed to Foundation 1, or if Foundation 1 is not then in existence, to Foundation 2.

On Date 1, Taxpayer transferred to the Trust x shares of Company 1 stock and y shares of Company 2 stock. Taxpayer represents that the x shares of Company 1 stock had an aggregate value of \$A and the y shares of Company 2 stock had an aggregate value of \$B at the time of the transfer. On Date 1, Taxpayer also transferred \$C cash to the Trust. Taxpayer relied on Accounting Firm 1 to prepare his Year 1 Form 709 United States Gift (and Generation-Skipping Transfer) Tax Return. Taxpayer reported the transfers to the Trust on a timely filed Year 1 gift tax return. On the Year 1 gift tax return, Accounting Firm 1 failed to allocate any of Taxpayer's GST exemption to the Year 1 transfers to the Trust.

In Year 2, Accounting Firm 2 reviewed Taxpayer's Year 1 gift tax return and discovered that none of Taxpayer's GST exemption had been allocated to the Year 1 transfers to the Trust. No additional transfers have been made to, and no distributions have been made from, the Trust.

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Taxpayer has requested the following rulings: (1) an extension of time under § 2642(g) of the Internal Revenue Code and §§ 301.9100-1 and 301.9100-3 to make allocations of Taxpayer's GST exemption for the transfers to the Trust in Year 1; and (2) that such allocation shall be made based on the value of the property transferred to the Trust as of the date of the original transfers.

Section 2601 imposes a tax on every generation-skipping transfer (GST). A GST is defined under § 2611(a) as (1) a taxable distribution, (2) a taxable termination, and (3) a direct skip.

Section 2631(a) provides that, for purposes of determining the inclusion ratio, every individual shall be allowed a GST exemption of \$1,000,000 (adjusted for inflation under § 2631(c)) which may be allocated by such individual (or his executor) to any property with respect to which such individual is the transferor.

Section 2632(a)(1) provides that any allocation by an individual of his or her GST exemption under § 2631(a) may be made at any time on or before the date prescribed for filing the estate tax return for such individual's estate (determined with regard to extensions), regardless of whether such a return is required to be filed.

Section 26.2632-1(b)(2) of the Generation-Skipping Transfer Tax Regulations provides that an allocation of GST exemption to property transferred during the transferor's lifetime, other than in a direct skip, is made on Form 709.

Section 2642(b)(1) provides that, except as provided in § 2642(f), if the allocation of the GST exemption to any transfers of property is made on a gift tax return filed on or before the date prescribed by § 6075(b) for such transfer or is deemed to be made under § 2632(b)(1) or (c)(1) the value of such property for purposes of § 2642(a) shall be its value as finally determined for purposes of chapter 12 (within the meaning of § 2001(f)(2)), or, in the case of an allocation deemed to have been made at the close of an estate tax inclusion period, its value at the time of the close of the estate tax inclusion period, and such allocation shall be effective on and after the date of such transfer, or, in the case of an allocation deemed to have been made at the close of an estate tax inclusion period, on and after the close of such estate tax inclusion period.

Section 2642(g)(1)(A) provides, generally, that the Secretary shall by regulation prescribe such circumstances and procedures under which extensions of time will be granted to make an allocation of GST exemption described in § 2642(b)(1) or (2), and an election under § 2632(b)(3) or (c)(5). Such regulations shall include procedures for requesting comparable relief with respect to transfers made before the date of the enactment of this paragraph.

Section 2642(g)(1)(B) provides that in determining whether to grant relief under this paragraph, the Secretary shall take into account all relevant circumstances, including evidence of intent contained in the trust instrument or instrument of transfer

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and such other factors as the Secretary deems relevant. For purposes of determining whether to grant relief under this paragraph, the time for making the allocation (or election) shall be treated as if not expressly prescribed by statute.

Notice 2001-50, 2001-34 I.R.B. 189, provides that under § 2642(g)(1)(B), the time for allocating the GST exemption to lifetime transfers and transfers at death, the time for electing out of the automatic allocation rules, and the time for electing to treat any trust as a generation-skipping trust are to be treated as if not expressly prescribed by statute. The Notice further provides that taxpayers may seek an extension of time to make an allocation described in § 2642(b)(1) or (b)(2) or an election described in § 2632(b)(3) or (c)(5) under the provisions of § 301.9100-3.

Section 301.9100-1(c) provides that the Commissioner has discretion to grant a reasonable extension of time under the rules set forth in §§ 301.9100-2 and 301.9100-3 to make a regulatory election, or a statutory election (but no more than 6 months except in the case of a taxpayer who is abroad), under all subtitles of the Internal Revenue Code except subtitles E, G, H, and I.

Section 301.9100-3 provides the standards used to determine whether to grant an extension of time to make an election whose due date is prescribed by a regulation (and not expressly provided by statute). Under § 301.9100-1(b), a regulatory election includes an election whose due date is prescribed by a notice published in the Internal Revenue Bulletin. In accordance with § 2642(g)(1)(B), the time for allocating the GST exemption to lifetime transfers and transfers at death, the time for electing out of the automatic allocation rules, and the time for electing to treat any trust as a GST trust are to be treated as if not expressly prescribed by statute. Accordingly, taxpayers may seek an extension of time to make an allocation described in § 2642(b)(1) or (b)(2) or an election described in § 2632(b)(3) or (c)(5) under the provisions of § 301.9100-3.

Requests for relief under § 301.9100-3 will be granted when the taxpayer provides the evidence to establish to the satisfaction of the Commissioner that the taxpayer acted reasonably and in good faith, and that granting relief will not prejudice the interests of the government.

Section 301.9100-3(b)(1)(v) provides that a taxpayer is deemed to have acted reasonably and in good faith if the taxpayer reasonably relied on a qualified tax professional, including a tax professional employed by the taxpayer, and the tax professional failed to make, or advise the taxpayer to make, the election.

Based on the facts submitted and the representations made, we conclude that the requirements of § 301.9100-3 have been satisfied. Therefore, Taxpayer is granted an extension of time of 60 days from the date of this letter to make an allocation of Taxpayer's available GST exemption, with respect to Taxpayer's transfers to the Trust in Year 1. The allocation will be effective as of Date 1, the date of the transfers to the

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Trust, and the gift tax value of the transfers to the Trust will be used in determining the amount of GST exemption to be allocated to the Trust.

This allocation should be made on a supplemental Form 709 United States Gift (and Generation-Skipping Transfer) Tax Return and filed with the Cincinnati Service Center at the following address:

Internal Revenue Service Center
Cincinnati, OH 45999

A copy of this letter should be attached to the supplemental Forms 709. A copy is enclosed for this purpose.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Except as specifically ruled herein, we express or imply no opinion on the federal tax consequences of the transaction under the cited provisions or under any other provisions of the Code. In addition, we express or imply no opinion regarding the value of the property transferred to Trust.

In accordance with the power of attorney on file with this office, a copy of this letter is being sent to Taxpayer.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

Sincerely,
William P. O'Shea
Acting Associate Chief Counsel
(Passthroughs and Special Industries)

Enclosures

Copy for section 6110 purposes
Copy of this letter