

**Internal Revenue Service**

Department of the Treasury  
Washington, DC 20224

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2514.00-00

Person To Contact:  
, ID No.

Telephone Number:

Refer Reply To:  
CC:PSI:B02  
PLR-140408-13

Date:  
February 24, 2014

Settlor	=
Child 1	=
Child 2	=
A	=
B	=
C	=
D	=
E	=
F	=
Trust	=
State	=
Corporate Trustee	=

Dear :

This responds to a letter dated September 3, 2013, and subsequent correspondence, requesting rulings under §§ 671, 2501 and 2514 of the Internal Revenue Code.

The information submitted states that Settlor proposes to create an irrevocable trust (Trust) for the benefit of himself, his daughters, his daughters' issue, and six individuals A through F. Corporate Trustee is a trust company located in State.

Trust provides that during Settlor's lifetime, the Corporate Trustee shall distribute as much of the net income and/or principal as Distribution Committee may at any time and from time to time determine, to members of a class consisting of the Settlor and the Distribution Committee members, in such amounts or proportions as the Distribution Committee members may, acting by unanimity, select, for any purpose (Unanimous Member Power). The Corporate Trustee shall also distribute as much of the net income and/or principal as the majority of the Distribution Committee members (excluding, however, any Distribution Committee Member who, if he or she were a trustee, would be considered an interested trustee or an insured trustee) may at any time and from

time to time determine, to the Settlor and/or any one or more of the Settlor's lineal descendants, if such determination is consented to, in writing, by the Settlor (Settlor's Consent Power). Further, the Corporate Trustee shall distribute as much of the principal to any one or more of the lineal descendants of the Settlor, as the Settlor, in a non-fiduciary capacity, determines is for the health, education, maintenance, and support of any such lineal descendant (Settlor's Sole Power). The Settlor is not required to exercise the Settlor's Sole Power. Any net income not distributed by the Corporate Trustee will be accumulated and added to principal.

Trust further provides that upon Settlor's death, the Trust property will be distributed to such one or more persons (other than the Settlor, the Settlor's estate, the Settlor's creditors, and the creditors of the Settlor's estate) as the Settlor may appoint by a Will specifically referring to this power of appointment (Settlor's Testamentary Power). In default of appointment, the Trust property shall be set aside into per stirpital shares for the Settlor's then living descendants, and each share so set aside for a descendant will be distributed to the trustees of a Descendant's Separate Trust to be held as a separate trust and to be disposed of under the terms of such trust.

Trust further provides that Child 1, Child 2, and individuals A through F, are designated as the Distribution Committee members. If any Distribution Committee members are unable to serve for any reason, he or she shall not be replaced and the remaining Distribution Committee members shall continue to serve and act with full authority. Trust terminates at the death of Settlor, thus the Distribution Committee ceases to exist.

Finally, Trust provides that if both Child 1 and Child 2 are no longer serving as Distribution Committee members, or if there are fewer than two serving Distribution Committee members, the Trust property will be distributed to the Settlor and Trust shall terminate.

You have requested the following rulings:

1. During the period Distribution Committee members are serving, no portion of the items of income, deductions and credits against tax of the Trust will be included in computing the taxable income, deductions and credits of the Settlor under § 671 or any Distribution Committee member under § 678(a).

2. The contribution of property to Trust by Settlor will not be a completed gift subject to federal gift tax.

3. Any distribution of property by the Distribution Committee from Trust to Settlor will not be a completed gift, subject to Federal gift tax, by any member of the Distribution Committee.

4. Any distribution of property by Distribution Committee from Trust to any beneficiary of Trust, other than Settlor, will not be a completed gift subject to federal gift tax, by any member of the Distribution Committee, other than Settlor.

#### Ruling 1

Section 671 provides that where it is specified in subpart E of Part I of subchapter J that the grantor or another person shall be treated as the owner of any portion of a trust, there shall then be included in computing the taxable income and credits of the grantor or the other person those items of income, deductions, and credits against tax of the trust which are attributable to that portion of the trust to the extent that such items would be taken into account under chapter 1 in computing taxable income or credits against the tax of an individual.

Section 672(a) provides that, for purposes of subpart E, the term “adverse party” means any person having a substantial beneficial interest in the trust which would be adversely affected by the exercise or nonexercise of the power which he possesses respecting the trust.

Sections 673 through 677 specify the circumstances under which the grantor is treated as the owner of a portion of a trust.

Section 673(a) provides that the grantor shall be treated as the owner of any portion of a trust in which the grantor has a reversionary interest in either the corpus or the income therefrom, if, as of the inception of that portion of the trust, the value of such interest exceeds 5 percent of the value of such portion.

Section 674(a) provides, in general, that the grantor shall be treated as the owner of any portion of a trust in respect of which the beneficial enjoyment of the corpus or the income therefrom is subject to a power of disposition, exercisable by the grantor or a nonadverse party, or both, without the approval or consent of any adverse party.

Section 674(b) provides that § 674(a) shall not apply to the power in § 674(b)(5) regardless of by whom held. Section 674(b)(5)(A) describes a power to distribute corpus to or for a beneficiary provided that the power is limited by a reasonably definite standard which is set forth in the trust instrument.

Section 674(b)(3) provides that § 674(a) shall not apply to a power exercisable only by will, other than a power in the grantor to appoint by will the income of the trust where the income is accumulated for such disposition by the grantor or may be so accumulated in the discretion of the grantor or a nonadverse party, or both, without the approval or consent of any adverse party.

Under § 675 and applicable regulations, the grantor is treated as the owner of

any portion of a trust if, under the terms of the trust agreement or circumstances attendant to its operation, administrative control is exercisable primarily for the benefit of the grantor rather than the beneficiary of the trust.

Section 676(a) provides that the grantor shall be treated as the owner of any portion of a trust, whether or not he is treated as such owner under any other provision of part I, subchapter J, chapter 1, where at any time the power to re-vest in the grantor title to such portion is exercisable by the grantor or a nonadverse party, or both.

Section 677(a) provides, in general, that the grantor shall be treated as the owner of any portion of a trust, whether or not he is treated as such owner under § 674, whose income without the approval or consent of any adverse party is, or, in the discretion of the grantor or a nonadverse party, or both, may be (1) distributed to the grantor or the grantor's spouse; (2) held or accumulated for future distribution to the grantor or the grantor's spouse; or (3) applied to the payment of premiums on policies of insurance on the life of the grantor or the grantor's spouse.

Section 678(a) provides that a person other than the grantor shall be treated as the owner of any portion of a trust with respect to which: (1) such person has a power exercisable solely by himself to vest the corpus or the income therefrom in himself, or (2) such person has previously partially released or otherwise modified such a power and after the release or modification retains such control as would, within the principles of §§ 671-677, inclusive, subject a grantor of a trust to treatment as the owner thereof.

Based solely on the facts submitted and representations made, we conclude an examination of Trust reveals none of the circumstances that would cause Settlor to be treated as the owner of any portion of Trust under §§ 673, 674, 676, or 677. Because none of the other Distribution Committee members has a power exercisable solely by himself to vest Trust income or corpus in himself, none shall be treated as the owner of any portion of the Trust under § 678(a).

We further conclude that an examination of Trust reveals none of the circumstances that would cause administrative controls to be considered exercisable primarily for the benefit of Settlor under § 675. Thus, the circumstances attendant on the operation of Trust will determine whether Settlor will be treated as the owner of any portion of Trust under § 675. This is a question of fact, the determination of which must be deferred until the federal income tax returns of the parties involved have been examined by the office with responsibility for such examination.

### Rulings 2 and 3

Section 2501(a)(1) provides that a tax is imposed for each calendar year on the transfer of property by gift during such calendar year by any individual, resident or nonresident. Section 2511(a) provides that the tax imposed by § 2501 applies whether

the transfer is in trust or otherwise, whether the gift is direct or indirect, and whether the property is real or personal, tangible or intangible.

Section 25.2511-2(b) of the Gift Tax Regulations provides that a gift is complete as to any property, or part thereof or interest therein, of which the donor has so parted with dominion and control as to leave in the donor no power to change its disposition, whether for the donor's own benefit or for the benefit of another. But if upon a transfer of property (whether in trust or otherwise) the donor reserves any power over its disposition, the gift may be wholly incomplete, or may be partially complete and partially incomplete, depending upon all the facts in the particular case. Accordingly, in every case of a transfer of property subject to a reserved power, the terms of the power must be examined and its scope determined.

Section 25.2511-2(b) also provides an example where the donor transfers property to another in trust to pay the income to the donor or accumulate it in the discretion of the trustee, and the donor retains a testamentary power to appoint the remainder among the donor's descendants. The regulation concludes that no portion of the transfer is a completed gift. However, if the donor had not retained a testamentary power of appointment, but instead provided that the remainder should go to X or his heirs, the entire transfer would be a completed gift.

Section 25.2511-2(c) provides that a gift is incomplete in every instance in which a donor reserves the power to re-vest the beneficial title in himself or herself. A gift is also incomplete if and to the extent that a reserved power gives the donor the power to name new beneficiaries or to change the interests of the beneficiaries as between themselves unless the power is a fiduciary power limited by a fixed or ascertainable standard.

Section 25.2511-2(e) provides that a donor is considered as himself having a power if it is exercisable by him in conjunction with any person not having a substantial adverse interest in the disposition of the transferred property or the income therefrom.

Section 25.2511-2(f) provides that the relinquishment or termination of a power to change the beneficiaries of transferred property, occurring otherwise than by death of the donor, is regarded as the event which completes the gift and causes the gift tax to apply.

Section 25.2511-2(g) provides that if a donor transfers property to himself as trustee (or to himself and some other person, not possessing a substantial adverse interest, as trustees), and retains no beneficial interest in the trust property and no power over it except fiduciary powers, the exercise or nonexercise of which is limited by a fixed or ascertainable standard, to change the beneficiaries of the transferred property, the donor has made a completed gift and the entire value of the transferred property is subject to the gift tax.

Section 25.2511-2(e) does not define “substantial adverse interest.” Section 25.2514-3(b)(2) provides, in part, that a taker in default of appointment under a power has an interest that is adverse to an exercise of the power. Section 25.2514-3(b)(2) also provides that a coholder of a power is considered as having an adverse interest where he may possess the power after the possessor’s death and may exercise it at that time in favor of himself, his estate, his creditors, or the creditors of his estate.

In *Estate of Sanford v. Commissioner*, 308 U.S. 39 (1939), the taxpayer created a trust for the benefit of named beneficiaries and reserved the power to revoke the trust in whole or in part, and to designate new beneficiaries other than himself. Six years later, in 1919, the taxpayer relinquished the power to revoke the trust, but retained the right to change the beneficiaries. In 1924, the taxpayer relinquished the right to change the beneficiaries. The Court stated that the taxpayer’s gift is not complete, for purposes of the gift tax, when the donor has reserved the power to determine those others who would ultimately receive the property. Accordingly, the Court held that the taxpayer’s gift was complete in 1924, when he relinquished his right to change the beneficiaries of the trust. A grantor’s retention of a power to change the beneficial interests in a trust causes the transfer to the trust to be incomplete for gift tax purposes, even though the power may be defeated by the actions of third parties. *Goldstein v. Commisisoner*, 37 T.C. 897 (1962). See also *Estate of Goelet v. Commissioner*, 51 T.C. 352 (1968).

In this case, Settlor retained the Settlor’s Consent Power over the income and principal of Trust. Under § 25.2511-2(e), a donor is considered as himself having a power if it is exercisable by him in conjunction with any person not having a substantial adverse interest in the disposition of the transferred property or the income therefrom. The Distribution Committee members are not takers in default for purposes of § 25.2514-3(b)(2). They are merely co-holders of the power. The Distribution Committee ceases to exist upon the death of Settlor. Under § 25.2514-3(b)(2), a coholder of a power is only considered as having an adverse interest where he may possess the power after the possessor’s death and may exercise it at that time in favor of himself, his estate, his creditors, or the creditors of his estate. In this case, the Distribution Committee ceases to exist upon Settlor’s death. Accordingly, the Distribution Committee members do not have interests adverse to Settlor under § 25.2514-3(b)(2) and for purposes of § 25.2511-2(e). Therefore, Settlor is considered as possessing the power to distribute income and principal to any beneficiary himself because he retained the Settlor’s Consent Power. The retention of this power causes the transfer of property to Trust to be wholly incomplete for federal gift tax purposes.

Settlor also retained the Settlor’s Sole Power over the principal of Trust. Under § 25.2511-2(c), a gift is incomplete if and to the extent that a reserved power gives the donor the power to name new beneficiaries or to change the interests of the beneficiaries. In this case, Settlor’s Sole Power gives Settlor the power to change the interests of the beneficiaries. Accordingly, the retention of the Settlor’s Sole Power

causes the transfer of property to Trust to be wholly incomplete for federal gift tax purposes.

Further, Settlor retained Settlor's Testamentary Power to appoint the property in Trust to anyone, including trusts, other than Settlor's estate, Settlor's creditors, or the creditors of Settlor's estate. Under § 25.2511-2(b) the retention of a testamentary power to appoint the remainder of a trust is considered a retention of dominion and control over the remainder. Accordingly, the retention of this power causes the transfer of property to Trust to be incomplete with respect to the remainder in Trust for federal gift tax purposes.

Finally, the Distribution Committee possesses the Unanimous Member Power over income and principal. This power is not a condition precedent to Settlor's powers. Settlor's powers over the income and principal are presently exercisable and not subject to a condition precedent. Settlor retains dominion and control over the income and principal of Trust until the Distribution Committee members exercise their Unanimous Member Power. Accordingly, this power does not cause the transfer of property to be complete for federal gift tax purposes. See *Goldstein v. Commissioner*, 37 T.C. 897 (1962); *Estate of Goelet v. Commissioner*, 51 T.C. 352 (1968).

Accordingly, based on the facts submitted and the representations made, we conclude that the contribution of property to Trust by Settlor is not a completed gift subject to federal gift tax. Any distribution from Trust to Settlor is merely a return of Settlor's property. Therefore, we conclude that any distribution of property by the Distribution Committee from Trust to Settlor will not be a completed gift subject to federal gift tax, by any member of the Distribution Committee. Further, upon Settlor's death, the fair market value of the property in Trust is includible in Settlor's gross estate for federal estate tax purposes.

#### Ruling 4

Section 2514(b) provides that the exercise or release of a general power of appointment created after October 21, 1942, shall be deemed a transfer of property by the individual possessing such power.

Section 2514(c) provides that the term "general power of appointment" means a power which is exercisable in favor of the individual possessing the power (possessor), the possessor's estate, the possessor's creditors, or the creditors of the individual's estate.

Section 25.2514-1(c)(1) provides, in part, that a power of appointment is not a general power if by its terms it is exercisable only in favor of one or more designated persons or classes other than the possessor or his creditors, or the possessor's estate

or the creditors of the estate.

Section 2514(c)(3)(A) provides, that in the case of a power of appointment created after October 21, 1942, if the power is exercisable by the possessor only in conjunction with the creator of the power, such power is not deemed a general power of appointment.

Section 2514(c)(3)(B) provides, that in the case of a power of appointment created after October 21, 1942, if the power is not exercisable by the possessor except in conjunction with a person having a substantial interest in the property subject to the power, which is adverse to the exercise of the power in favor of the possessor, such power shall not be deemed a general power of appointment. For purposes of § 2514(c)(3)(b), a person who, after the death of the possessor, may be possessed of a power of appointment (with respect to the property subject to the possessor's power) which he may exercise in his own favor shall be deemed as having an interest in the property and such interest shall be deemed adverse to such exercise of the possessor's power.

Section 25.2514-3(b)(2) provides, in part, that a co-holder of a power has no adverse interest merely because of his joint possession of the power nor merely because he is a permissible appointee under a power. However, a co-holder of a power is considered as having an adverse interest where he may possess the power after the possessor's death and may exercise it at that time in favor of himself, his estate, his creditors, or the creditors of his estate. Thus, for example, if X, Y, and Z held a power jointly to appoint among a group of persons which includes themselves and if on the death of X the power will pass to Y and Z jointly, then Y and Z are considered to have interests adverse to the exercise of the power in favor of X. Similarly, if on Y's death the power will pass to Z, Z is considered to have an interest adverse to the exercise of the power in favor of Y.

The powers held by the Distribution Committee members under the Settlor's Consent Power are powers that are exercisable only in conjunction with the creator, Settlor. Accordingly, under § 2514(c)(3)(A), the Distribution Committee members do not possess general powers of appointment by virtue of possessing this power. Further, the powers held by the Distribution Committee members under the Unanimous Member Powers are not general powers of appointment. As in the example in § 25.2514-3(b)(2), the Distribution Committee members have substantial adverse interests in the property subject to this power. Accordingly, any distribution made from Trust to a beneficiary, other than Settlor, pursuant to the exercise of these powers, the Settlor's Consent Power and the Unanimous Member Powers, are not gifts by the Distribution Committee members. Instead, such distributions are gifts by Settlor.

Based upon the facts submitted and representations made, we conclude that any distribution of property by the Distribution Committee from Trust to any beneficiary of



Trust, other than Settlor, will not be a completed gift subject to federal gift tax, by any member of the Distribution Committee. Further, we conclude that any distribution of property from Trust to a beneficiary, other than Settlor, will be a completed gift by Settlor.

Except as specifically ruled herein, we express no opinion on the federal tax consequences of the transaction under the cited provisions or under any other provisions of the Code. Specifically, we express no opinion on the trust provisions permitting Corporate Trustee to distribute income or principal to trustees of other qualified trusts (decanting).

This ruling is directed only to the taxpayer that requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent. Pursuant to a power of attorney on file, a copy of this letter is being sent to X's authorized representative.

Sincerely,

Bradford R. Poston  
Senior Counsel, Branch 2  
Office of the Associate Chief Counsel  
(Passthroughs & Special Industries)

Enclosures: 2  
Copy of this letter  
Copy for § 6110 purposes

cc: