Attn: 

Legend
Taxpayer =
Year 1 =
Year 4 =
Year 5 =
Year 6 =
Year 7 =
Date 1 =
Date 2 =
Date 3 =
Family Trust =
GRAT 1 =
GRAT 2 =
GRAT 3 =
GRAT 4 =
Dear [Name]:

This letter responds to your authorized representative’s letter of March 18, 2016, requesting an extension of time under § 2642(g) of the Internal Revenue Code and § 301.9100 of the Procedure and Administration Regulations to make an election under § 2632(c)(5)(A)(i)(II) to opt out of the automatic allocation rules under § 2632(c) with respect to Taxpayer’s transfers to GRATs 1 through 12.

Facts

On Date 1 of Year 1, a date after December 31, 2000, Taxpayer created and funded Family Trust, an irrevocable trust, for the benefit of her issue. Family Trust has Generation-Skipping Transfer tax potential.

In Year 4, Taxpayer established and funded six irrevocable grantor retained annuity trusts, GRATs 1 through 6. Under the terms of GRATs 1 through 6, Taxpayer’s retained interest terminated and any remaining principal passed to Family Trust on Date 2 of Year 6. Taxpayer survived the term of GRATs 1 through 6. Thus, for GST tax purposes, the estate tax inclusion period (ETIP) with respect to GRATs 1 through 6 closed on Date 2 of Year 6.

In Year 5, Taxpayer established and funded six additional GRATs, GRATs 7 through 12. Under the terms of GRATs 7 through 12, Taxpayer’s retained interest terminated and any remaining principal passed to Family Trust on Date 3 of Year 7. Thus, for GST tax purposes, the ETIP with respect to GRATs 7 through 12 closed on Date 3 of Year 7.
PLR-110656-16

Attorney provided Taxpayer with legal and tax advice in connection with the creation and establishment of GRATS 1 through 12. Attorney advised Taxpayer of the rules under § 2632(c) regarding the automatic allocation of GST exemption and the ability to elect out of the automatic allocation of GST exemption by making an election under § 2632(c)(5) at the close of the § 2632(c)(5) at the close of the ETIP. Pursuant to this discussion, Taxpayer decided that she did not want GST exemption allocated to the transfers to GRATS 1 through 12. Taxpayer retained a tax professional to prepare and file her Forms 709, United States Gift (and Generation-Skipping Transfer) Tax Returns, for Years 4 through 7, and relied on the tax professional to elect out of the automatic allocation of GST exemption to the transfers to GRATS 1 through 12. However, in preparing Taxpayer’s Year 6 Form 709 and Year 7 Form 709, the tax professional inadvertently failed to elect out of the automatic allocation of GST exemption to the transfers to GRATS 1 through 6 in Year 4 and to GRATS 7 through 12 in Year 5 under § 2632(c)(5)(A)(i)(II).

The personal representatives of Taxpayer’s estate request an extension of time under § 2642(g) and § 301.9100-3 to elect out of the automatic allocation of Taxpayer’s GST exemption to the transfers to GRATs 1 through 12. In addition, the personal representatives of Taxpayer’s estate request a ruling that with respect to Taxpayer’s transfers to GRATs 1 through 6, the election out is based on the fair market value on Date 2 of Year 6 of assets distributed to Family Trust, and with respect to Taxpayer’s transfers to GRATs 7 through 12, the election out is based on the fair market value on Date 3 of Year 7 of assets distributed to Family Trust.

Law and Analysis

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

Section 2602 provides that the amount of the tax imposed by § 2601 is the taxable amount multiplied by the applicable rate. Section 2641(a) defines applicable rate as the product of the maximum federal estate tax rate and the inclusion ratio with respect to the transfer.

Section 2631(a) provides that for purposes of determining the inclusion ratio, every individual shall be allowed a GST exemption amount which may be allocated by such individual (or his executor) to any property with respect to which such individual is the transferor. Section 2631(b) provides that any allocation under § 2631(a), once made shall be irrevocable.

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 2632(c)(1) provides that if any individual makes an indirect skip during such individual’s lifetime, any unused portion of such individual’s GST exemption shall be allocated to the property transferred to the extent necessary to make the inclusion ratio for such property zero.

Section 2632(c)(3)(A) provides that the term “indirect skip” means any transfer of property (other than a direct skip) subject to the tax imposed by chapter 12 made to a GST Trust.

Section 2632(c)(4) provides that for purposes of § 2632(c), an indirect skip to which § 2642(f) applies shall be deemed to have been made only at the close of the ETIP. The fair market value of such transfer shall be the fair market value of the trust property at the close of the ETIP.

Section 2632(c)(5)(A)(i) provides, in part, that an individual may elect to have § 2632(c) not apply to an indirect skip or any or all transfers made by such individual to a particular trust.

Section 26.2632-1(b)(2)(iii)(A) of the Generation-Skipping Transfer Tax Regulations provides that a transferor may prevent the automatic allocation of GST exemption (elect out) with respect to: (1) one or more prior-year transfers subject to § 2642(f) (regarding ETIPs) made by the transferor to a specified trust or trusts; (2) one or more (or all) current-year transfers made by the transferor to a specified trust or trusts; (3) one or more (or all) future transfers made by the transferor to a specified trust or trusts; and (4) all future transfers made by the transferor to all trusts (whether or not in existence at the time of the election out).

Section 26.2632-1(b)(2)(iii)(B) provides that to elect out, the transferor must attach an election out statement to a Form 709 filed within the time period provided in § 26.2632-1(b)(2)(iii)(C). In general, the election out statement must identify the trust, and specifically must provide that the transferor is electing out of the automatic allocation of GST exemption with respect to the described transfer or transfers. Prior-year transfers that are subject to § 2642(f), and to which the election out is to apply, must be specifically described or otherwise identified in the election out statement.

Under § 26.2632-1(b)(2)(iii)(C), to elect out, the Form 709 with the attached election out statement must be filed on or before the due date for timely filing the Form 709 for the calendar year in which: (1) for a transfer subject to § 2642(f), the ETIP closes; or (2) for all other elections out, the first transfer to be covered by the election out was made.

Section 2642(b)(1)(A) 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 ETIP, its value at the time of the close of the ETIP.

Section 2642(f)(1) provides that for purposes of determining the inclusion ratio, if an
individual makes an inter vivos transfer of property, and the value of such property
would be includible in the gross estate of such individual under chapter 11 if such
individual died immediately after making such transfer (other than by reason of § 2035),
any allocation of GST exemption to such property shall not be made before the close of
the ETIP (and the value of such property shall be determined under § 2642(f)(2)).
If such transfer is a direct skip, such skip shall be treated as occurring as of the close of
the ETIP.

Section 2642(f)(3) provides that for purposes of § 2642(f), the term “estate tax inclusion
period” means any period after the transfer described in paragraph (1) during which the
value of the property involved in such transfer would be includible in the gross estate of
the transferor under chapter 11 if he died.

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).

Section 2642(g)(1)(B) provides that in determining whether to grant relief under
§ 2642(g)(1), the Secretary shall take into account all relevant circumstances, including
evidence of intent contained in the trust instrument or instrument of transfer and such
other factors as the Secretary deems relevant. For purposes of determining whether to
grant relief, the time for making the allocation (or election) shall be treated as if not
expressly prescribed by statute.

Notice 2001-50, 2001-2 C.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 GST 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) and Notice 2001-50, 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.

Under § 301.9100-3(b)(1)(v), 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 upon the facts submitted and representations made, we conclude that the requirements of § 301.9100-3 are satisfied. Therefore, the personal representatives of Taxpayer’s estate are granted an extension of time of 120 days from the date of this letter to file supplemental Forms 709 to elect out of the automatic allocation rules of § 2632(c)(1) for the transfers to GRATs 1 through 12. With respect to the transfers to GRATs 1 through 6, the election out is based on the fair market value on Date 2 of Year 6 of the assets distributed from GRATs 1 through 6 to Family Trust. With respect to the transfers to GRATs 7 through 12, the election out is based on the fair market value on Date 3 of Year 7 of the assets distributed by GRATs 7 through 13 to Family Trust.

The personal representatives of Taxpayer’s estate should make the election on supplemental Forms 709 filed for Year 6 and Year 7 and file these forms with the Internal Revenue Service Center, Cincinnati, Ohio 45999. A copy of this letter should be attached to the Forms 709. A copy is enclosed for this purpose.

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.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

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.

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

Sincerely,

Associate Chief Counsel
(Passthroughs & Special Industries)

By:  
Karlene M. Lesho
Senior Technician Reviewer, Branch 4
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Enclosures (2)

   Copy of this letter
   Copy for § 6110 purposes

cc: