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Department of the Treasury

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Date: May 20, 1999

Re:

Legend:

Decedent	=
GST Exempt Trust	=
Spouse	=
Date 1	=
Trustee	=

This is in response to your submission dated March 24, 1999, in which you requested a ruling under § 2652 of the Internal Revenue Code and § 301.9100-1 of the Procedure and Administration Regulations.

Decedent died testate on Date 1 survived by Spouse. Under Article Two of the will, the residue of Decedent's estate is to be held in trust. Trustee is directed to divide the residue into a Family Trust (to be funded with the amount that will pass free of estate tax by reason of Decedent's available unified credit), a "GST Exempt Trust" (to be funded with an amount equal to Decedent's unused GST exemption not otherwise allocated), and a Primary Marital Trust (to be funded with the balance of the residue).

During his life, Spouse is to receive all of the net income from the GST Exempt Trust and the Primary Marital Trust, payable quarterly or monthly. Upon Spouse's death, any part or all of the principal and any undistributed income in the Primary Marital Trust is to be distributed in accordance with Spouse's exercise of a general power of appointment. If Spouse does not exercise the power of appointment, then the income and principal will be distributed per stirpes to Decedent's descendants. Any accumulated income and all the principal in the GST Exempt Trust are to be divided into three equal trusts to be held for the benefit of Decedent's children. On Schedule M of Form 706, (that was timely filed by the estate), the executor made an election under § 2056(b)(7) with respect to the entire value of the GST Exempt Trust. A deduction under § 2056(a) was claimed with respect to the GST Exempt Trust and the Primary Marital Trust.

The executor, however, failed to make an election under § 2652(a)(3) with respect to the GST Exempt Trust. On April 27, 1999, the estate filed an amended Schedule R, signifying that a reverse QTIP election was being made with respect to the GST Exempt Trust. However, the executor did allocate Decedent's \$1,000,000 GST exemption to the GST Exempt Trust.

The Decedent's personal representative requests an extension of time under § 301.9100-1 to make an election under § 2652(a)(3) with respect to the GST Exempt Trust.

Section 2001(a) imposes a tax on the transfer of the taxable estate of every decedent who is a citizen or resident of the United States.

Section 2056(a) provides that, for purposes of the tax imposed by § 2001, the value of the taxable estate is to be determined by deducting from the value of the gross estate an amount equal to the value of any interest in property that passes or has passed from the decedent to the surviving spouse.

Section 2056(b)(1) provides the general rule that no deduction shall be allowed for an interest passing to the surviving spouse if, on the lapse of time, on the occurrence of an event or contingency, or on the failure of an event or contingency to occur, the interest will terminate or fail, and after the termination of the spouse's interest, an interest in the property passes to someone other than the spouse.

Section 2056(b)(7)(A) provides that, in the case of qualified terminable interest property, the entire property shall be treated as passing to the surviving spouse for purposes of § 2056(a) and no part of the property shall be treated as passing to any person other than the surviving spouse.

Section 2056(b)(7)(B)(i) defines "qualified terminable interest property" (QTIP) as property: (1) which passes from the decedent, (2) in which the surviving spouse has a qualifying income interest for life, and (3) to which an election under § 2056(b)(7)(B)(v) applies.

Section 2601 imposes a tax on every generation-skipping transfer made by a "transferor" to a skip person (a person assigned to a generation that is 2 or more generations below the generation assignment of the transferor). Under § 2652(a) a "transferor" is defined, generally, as the last person with respect to whom the property was subject to an estate or gift tax. With regard to the generation-skipping transfer tax (GSTT), each individual is allowed an exemption of \$1,000,000, which may be allocated by such individual (or by his or her executor) to

any property with respect to which such individual is the transferor.

Under § 2632(a), the allocation may be made at any time on or before the date prescribed for filing the individual's estate tax return (including extensions). Under § 2632(c), any portion of an individual's GSTT exemption not allocated within the time prescribed in § 2632(a), is allocated in accordance with that section.

Section 2652(a)(3) provides that in the case of any trust with respect to which a deduction is allowed to the decedent's estate under § 2056(b)(7), the estate of the decedent may elect to treat all of the property in the trust, for purposes of the GSTT, as if the election to be treated as qualified terminable interest property had not been made. This election is referred to as the "reverse" QTIP election. The consequence of a reverse QTIP election is that the decedent remains, for GSTT purposes, the transferor of the QTIP trust for which the election is made. As a result, the decedent's GSTT exemption may be allocated to the QTIP trust.

Under § 301.9100-1(c) the Commissioner may grant a reasonable extension of time 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, if the taxpayer demonstrates to the satisfaction of the Commissioner that the taxpayer has acted reasonably and in good faith, and granting relief will not prejudice the interests of the government.

Sections 301.9100-1 through 301.9100-3 provide the standards the Commissioner will use to determine whether to grant an extension of time to make an election. § 301.9100-1(a).

Section 301.9100-2 provides automatic extensions of time for making certain elections. Section 301.9100-3 provides extensions of time for making elections that do not meet the requirements of § 301.9100-2.

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

In this case, the standards of §§ 301.9100-1 and 301.9100-3 have been satisfied. Consequently, an extension of time is granted until April 27, 1999, for making an election under §2652(a)(3) with respect to the GST Exempt Trust.

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. We note that an extension of time to make the "reverse" QTIP election under § 2652(a)(3) does not extend the time to make an allocation of any remaining GSTT exemption. In the instant case, the executor made an allocation of the GSTT exemption to the GST Exempt Trust on the estate tax return. Consequently, in view of the reverse QTIP election, the allocation of Decedent's GSTT exemption to the GST Exempt Trust will not change.

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

Sincerely yours,

Paul F. Kugler
Assistant Chief Counsel
(Passthroughs and Special
Industries)

Enclosure

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