

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-147852-02
Date:
October 30, 2002

Re:

LEGEND:

Taxpayer =

Date 1 =

Spouse =

Trust =

Daughter =

x =

Corporation =

A =

Year 1 =

Date 2 =

Attorney =

Law Firm =

Dear :

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

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The facts and representations submitted are summarized as follows: After consulting with an estate planning attorney, on Date 1, Taxpayer and Spouse established Trust, an irrevocable trust, for the benefit of Daughter and her descendants.

Section 3.1 of Trust provides that during Daughter's lifetime, the trustees shall pay the annual net income of the trust to Daughter annually or at more frequent intervals. Section 3.2 of Trust provides that the trustees may pay such part or all of the principal of the trust to Daughter at such times as the trustees deem advisable for her health, education, support and maintenance in her accustomed manner of living.

Section 4 of Trust provides that on Daughter's death, the trustees shall pay the remaining assets of the trust to Daughter's issue, Daughter's spouse, Taxpayer and Spouse's grandchildren, and grandchildren's issue in such shares and in such manner, whether outright or in trust, as she directs by written directions to the trustees or by her will. If any assets of the trust are not disposed of by the preceding provisions, the trustees shall divide the same among Daughter's issue who survive her, per stirpes, and dispose of the shares so provided as follows. Section 4.1(1) of Trust provides that the trustees shall pay the annual net income of the trust to such child annually or at more frequent intervals. Section 4.1(2) of Trust provides that the trustees may pay such part or all of the principal of the trust to such child as the trustees deem advisable for such child's health, education, support and maintenance in his or her accustomed manner of living. Section 4.1(3) provides that on such child's death, the trustees shall pay the remaining assets of the trust to such child's issue, such child's spouse and Taxpayer and Spouse's issue, in such shares and in such manner, whether outright or in trust, as such child directs by written directions to the trustees or by such child's will.

On Date 1, Taxpayer and Spouse each transferred x shares of Corporation stock, with a reported value of \$A, to Trust. Taxpayer and Spouse relied on an accountant to prepare their tax returns. Taxpayer and Spouse each filed gift tax returns for Year 1 reporting their transfers to Trust and electing to split gifts made by them to third parties during the calendar year under § 2513. However, the estate planning attorney inadvertently failed to advise Taxpayer, Spouse, and their accountant to allocate Taxpayer's and Spouse's respective GST exemptions to Trust. In addition, the accountant did not inquire as to whether Taxpayer and Spouse intended Trust to be GST exempt. No allocation of Taxpayer's GST exemption was made on the Year 1 gift tax return. No additional transfers have been made to Trust.

Spouse died on Date 2. Shortly after Spouse's death, Daughter retained Attorney, an estate planning attorney with Law Firm, to advise her regarding her own estate planning. After reviewing Trust instrument and related documents, Attorney notified Daughter that no GST exemption had been allocated to 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 an allocation of Taxpayer's GST exemption for the transfer to Trust in Year 1; (2) the allocation will be effective as of Date 1, the date of the transfer to Trust; and (3) the gift tax value of the Year 1 transfer to Trust shall be used in determining the amount of Taxpayer's GST exemption to be allocated to Trust.

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)) that 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 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 § 2642(g)(1), which was enacted into law on June 7, 2001.

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 and such other factors as the Secretary deems relevant. For purposes of determining

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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) 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.

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 transfer to Trust in Year 1. The allocation will be effective as of Date 1, the date of the transfer to Trust, and the gift tax value of the transfer to Trust will be used in determining the amount of GST exemption to be allocated to Trust.

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The allocation should be made on a supplemental Form 709 United States Gift (and Generation-Skipping Transfer) Tax Return and filed with the Internal Revenue Service Center, Cincinnati, OH 45999. A copy of this letter should be attached to the supplemental Form 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 the 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 taxpayers requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

Sincerely,

Heather C. Maloy

Heather C. Maloy
Associate Chief Counsel
(Passthroughs and Special Industries)

Enclosures

Copy for section 6110 purposes
Copy of this letter