

Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

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Telephone Number:

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CC:FIP:B04

PLR-159502-04

Date

January 14, 2005

Legend

Taxpayer =

Trust 1 =

Trust 2 =

Policy =

State =

Dear

This is in reply to the ruling request filed by your representative, dated October 26, 2004, and supplementary submissions. The letter requests that we rule with respect to a proposed transfer of a life insurance policy on the life of Taxpayer, under § 101 of the Internal Revenue Code.

FACTS

Taxpayer has represented that Trust 1 and Trust 2 are both grantor trusts of Taxpayer. Taxpayer, Trust 1, and Trust 2 are all calendar year taxpayers. Trust 1 presently holds Policy, a life insurance policy insuring the life of Taxpayer.

Taxpayer proposes, for valuable consideration, to transfer Policy from the trustees of Trust 1 to the trustees of Trust 2. Accordingly, the transfer of Policy will be from one of Taxpayer's grantor trusts to another of Taxpayer's grantor trusts.

APPLICABLE LAW

Rev. Rul. 85-13, 1985-1 C.B. 184, concludes that if a grantor is treated as the owner of the entire trust, the grantor is considered to be the owner of the trust assets for federal income tax purposes.

Section 101(a)(1) of the Code provides that, except as otherwise provided in §§ 101(a)(2), 101 (d), and 101(f), gross income does not include amounts received under a life insurance contract, if such amounts are paid by reason of the death of the insured.

Section 101(a)(2) provides, generally, that if a life insurance contract, or any interest therein, is transferred for a valuable consideration, the exclusion from gross income provided by § 101(a)(1) is limited to an amount equal to the sum of the actual value of the consideration and the premiums and other amounts subsequently paid by the transferee.

The term "transfer for a valuable consideration" is defined for purposes of § 101(a)(2) in § 1.101-1(b)(4) of the regulations as any absolute transfer for value of a right to receive all or a part of the proceeds of a life insurance policy.

ANALYSIS

Taxpayer has represented that Trust 1 and Trust 2 are grantor trusts of Taxpayer. Thus, Taxpayer is treated for federal income tax purposes as the owner of all of the assets of both trusts. See Rev. Rul. 85-13. Therefore, the proposed transfer of Policy, even though for valuable consideration, will be disregarded for federal income tax purposes, and will not affect the application of § 101(a)(1) to amounts the beneficiaries of the policies will receive upon the death of Taxpayer.

RULING

Based solely on the information submitted and on the representations made, it is held that the transfer of Policy, for a valuable consideration, by the trustees of Trust 1 to the trustees of Trust 2 will be disregarded for federal income tax purposes and is not a transfer for value within the meaning of § 101(a)(2).

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

No opinion is expressed or implied concerning any matter of State law.

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.

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

A copy of this letter must be attached to any income tax return to which it is relevant.

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.

Sincerely,

/S/

Donald J. Drees, Jr.
Acting Chief, Branch 4
Office of Associate Chief Counsel
(Financial Institutions & Products)