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Person To Contact:
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Date: April 10, 2007

Legend:

A =

B =

C =

D =

Trust =

State 1 =

State 2 =

Dear :

This responds to a letter dated September 27, 2006, submitted on behalf of A, A's daughter, B, A's stepdaughter, C and A's sister, D, by their authorized representative, requesting rulings under §§ 671 and 2501 of the Internal Revenue Code.

Facts

According to the information submitted, A, a resident of State 1, proposes to execute Trust, which will be governed by the laws of State 2. A State 2 corporate trustee will be appointed as trustee.

Article Second, Paragraph 2.1 of Trust provides that during the lifetime of A, any property that is directed to be held in accordance with the terms and conditions set forth in Article Second shall be held by the Trustee, in trust, nevertheless, in a separate trust for the following uses and purposes: To manage, invest and reinvest the same, to collect the income thereof, and to pay over or apply the net income and principal thereof to such extent, if any, including the whole thereof, and in such amounts and proportions, including all to one to the exclusion of the others, and at such time or times as (a) the Power of Appointment Committee, by unanimous agreement, shall appoint, or (b) A and one member of the Power of Appointment Committee by unanimous agreement shall appoint, to or for the benefit of such one or more members of the class consisting of A, A's spouse, A's sister D, and A's descendants (including A's daughter B and A's stepdaughter C) until the death of A. Any net income (which may be the whole of such income) not so paid over or applied shall be accumulated and added to the principal of the trust at least annually and thereafter shall be held, administered, and disposed of as a part of the trust principal.

Article Second, Paragraph 2.2 of Trust provides that upon the death of A, the principal of the Trust under Paragraph 2.1 of Article Second, as it is then constituted, and any accrued, accumulated and undistributed income, shall be transferred, conveyed, and paid over to such person or persons or organization or organizations (other than A, A's estate, A's creditors and the creditors of A's estate) to such extent, in such amounts or proportions, and in such lawful interests or estates, whether absolute or in trust, as A may appoint by Last Will and Testament by specific reference to this power. A may, at any time and from time to time during his life by a written, acknowledged instrument delivered to the Trustee, release such power of appointment with respect to any or all of the property subject to such power or may further limit the persons or entities in whose favor or the extent to which this power may be exercised.

If the power of appointment is for any reason not effectively exercised in whole or in part by A, the Trust principal, as it is then constituted, together with any accrued, accumulated and undistributed income, to the extent not effectively appointed by A, shall, upon A's death, be disposed of as follows: If any descendant of A is then living, such property shall be divided into a sufficient number of equal shares so that there shall be set aside one such share for each child of A who is still living and one such share for the collective descendants who are then living of any child of A who is not then living. From each such share so set aside for the collective descendants who are then living of any child of A who is not then living there shall be set aside per stirpital parts for such descendants. Each child who is then living for whom a share is set aside and each descendant who is then living of a child of A who is not then living for whom a per stirpital part is set aside is herein referred to as a "primary beneficiary." The share or

part of a share so set aside for a primary beneficiary shall be held in a separate trust in accordance with the terms and conditions set forth in Article Third. If no descendant of A is then living, such property shall be disposed of in accordance with the terms and conditions set forth in Article Fourth.

Article Fourth provides that any property which is directed to be disposed of in accordance with the terms and conditions set forth in Article Fourth shall be transferred, conveyed, and paid over to such one or more members of the class consisting of (i) the then-living descendants of A's parents and (ii) qualified charitable organizations as the Trustee, in the exercise of sole and absolute discretion, shall select, in such amounts and proportions, including all to one to the exclusion of all others, as the Trustee, in the exercise of sole and absolute discretion, shall determine.

Article Twelfth, Paragraph 12.5 provides that the Power of Appointment Committee shall initially consist of B, C, and D. At all times, at least two persons who are beneficiaries under Trust (other than A, A's spouse or any successor spouse of A), or who are parents or guardians of such beneficiaries if there are less than two adult beneficiaries, shall be members of the Power of Appointment committee. In the event that either B, C, or D shall die before the death of A, A's then eldest living descendant who is also a beneficiary under Trust shall become the successor member of the Power of Appointment committee. Any member of the Power of Appointment committee shall exercise the power of appointment granted under Article Second only in a non-fiduciary capacity and shall manifest any exercise of the power of appointment granted under Article Second by an acknowledged instrument in writing delivered to the Trustee.

Article Twelfth, Paragraph 12.2 of Trust provides that A's stepdaughter C shall be treated as a child of A and as a descendant of A's parents, and the descendants of C shall be treated as the descendants of A and A's parents.

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, 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.

Section 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)(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 revest 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.

Based solely on the facts and representations submitted, we conclude an examination of the Trust reveals none of the circumstances that would cause A to be treated as the owner of any portion of the Trust under §§ 673, 674, 676, or 677.

We further conclude that an examination of the Trust reveals none of the circumstances that would cause administrative controls to be considered exercisable primarily for the benefit of A under § 675. Thus, the circumstances attendant on the

operation of the Trust will determine whether A will be treated as the owner of any portion of the 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 for the imposition of a gift tax on the transfer of property by gift. Section 2511(a) provides that the gift tax applies to a transfer by way of gift 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 with respect to which the donor so parted with dominion and control as to leave the donor with no power to change the disposition of the property, 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) provides an example where the donor transfers property 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 had instead provided that the remainder should go to X or his heirs, the entire transfer would be a completed gift.

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. See also, Estate of Sanford v. Commissioner, 308 U.S. 39 (1939).

Section 2514(b) provides that, in the case of a power of appointment created after October 21, 1942, the exercise or release of the general power of appointment 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 exercisable in favor of the individual possessing the power, the individual's estate, the individual's creditors, or the creditors of the individual's estate.

Section 25.2514-1(c)(1) provides 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)(B) provides that, in the case of a power of appointment created after October 21, 1942, which is exercisable by the possessor only in conjunction with another person, 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, then the power is not 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 that a co-holder of a power of appointment 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 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. 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.

Section 25.2514-1(b)(2) provides that the term "power of appointment" does not include the powers reserved by a donor to himself or herself. However, no provision of § 2514 or the applicable regulations is to be construed as limiting the application of any other Code section or provision of the regulations.

In this case, A has retained a limited testamentary power to appoint the Trust corpus and accumulated income to any persons (other than A's estate, etc.). In view of this retained power, A's transfer of property to Trust will not be a completed gift subject to federal gift tax. See § 25.2511-2(b).

In addition, B, C, and D, as members of the Power of Appointment Committee, have the power to distribute Trust income and corpus to themselves. However, each member can only exercise the power to distribute the trust income and corpus with the consent of another member or with the consent of A. Therefore, B's power can only be exercised with the consent of C or D, or with the consent of A. C's power can only be exercised with the consent of B or D, or with the consent of A. D's power can only be

exercised with the consent of B or C, or with the consent of A. Further, on the death of B, C, or D, the deceased's power will devolve to the surviving Committee members and A jointly (and a new committee member will be appointed). Therefore, B, C, and D will not have a general power of appointment by reason of the joint distribution power. See § 25.2514-3(b)(2). Accordingly, during the period the Power of Appointment Committee consists of B, C, and D, they will not be treated as making a taxable gift if Trust income or corpus is distributed to A under the terms of Trust.

Except as expressly provided herein, no opinion is expressed or implied concerning the federal tax consequences of the facts described above under any other provision of the Code.

This ruling is directed only to the taxpayer(s) requesting it. Section 6110(k)(3) 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 the taxpayers' authorized representative.

Sincerely,

Audrey W. Ellis
Senior Counsel, Branch 1
Office of the Associate Chief Counsel
(Passthroughs and Special Industries)

Enclosures (2)

Copy of this letter
Copy for section 6110 purposes