GST TAX AND INSURANCE TRUSTS

Impact of Generation-Skipping Tax on Life Insurance Trusts

Although the generation-skipping tax has increased the complexity of life insurance trusts, the GST tax has also heightened the importance and usefulness of these trusts as vehicles for multi-generational tax-free transfers of wealth.

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A substantial estate may be created through the purchase of a large life insurance policy, and the entire insurance proceeds may be passed to descendants free of estate tax by establishing an irrevocable trust that would purchase and maintain the policy with money given by the insured. While this relatively straightforward planning device has always had to meet certain technical requirements (e.g., the insured must have no "incidents of ownership" in the policy), a new dimension of planning considerations was brought into play with the adoption of the generation-skipping transfer (GST) tax.

In general, the GST tax potentially applies only to gifts (during lifetime or at death) with respect to which an individual of a generation two or more generations below the donor's (e.g., grandchild, great grandchild) has a beneficial interest. Such a person is referred to in Chapter 13 of the Internal Revenue Code (the GST tax chapter) as a "skip person." 1 Planners must generally consider possible GST tax any time a grandchild (or other skip person) holds an interest in an insurance trust.

Operation of the GST tax

The GST tax was enacted, essentially, as a substitute for the estate and gift tax in situations where wealth is passed to a grandchild or other party of a generation two or more generations below that of the donor, without having passed through taxable ownership by the intervening generation (i.e., the generation of the donor's children). Thus, a generation is "skipped," and the passage of property escapes the estate or gift tax that otherwise would have been imposed on transfers from that intervening generation to the next. The GST tax is imposed-as a substitute for gift and estate taxes-on transfers that involve such "skips." All donors are allowed an exemption that excludes up to $1 million in GSTs from GST tax. A donor may choose to allocate portions of the total $1 million exemption to GSTs made during the donor's lifetime until the entire $1 million is consumed. Any unused balance is allocated when the donor dies. The GST tax rate is a flat rate equal to the highest federal estate tax rate, currently 55%.

In the case of an outright gift directly to a skip person (e.g., a cash gift to an adult grandchild), the GST tax is applicable as of the date of the gift; this is referred to as a "direct skip." If the donor does not otherwise elect, GST exemption is allocated dollar-for-dollar to the otherwise GST taxable direct skip. The mechanics of the imposition of the GST tax and the allocation of GST exemption are more complicated when the beneficial interest of the skip person is through a trust involving intervening interests of prior-generation beneficiaries, who are not skip persons. In that situation, the GST tax generally is not computed and paid until the skip person accedes to his interest-either via a distribution from the trust (a "taxable distribution") or when the intervening interests of all prior-generation persons terminate (a "taxable termination"). The GST tax is based on the value of the interest at that time. [2]

A trust that has beneficiaries who are both skip persons and nonskip persons may be totally or partially exempt from GST tax if the grantor elects to allocate some of his available GST exemption to transfers to the trust. In essence, GST exemption is allocated in an amount equal to the value of property transferred to the trust-not the value of property eventually received by the skip person on a subsequent taxable termination or taxable distribution. Hence, if GST exemption has been allocated to all funds given to an insurance trust, the trust is said to be fully GST tax exempt.

Using a life insurance trust to avoid GST tax

In the case of any life insurance policy that includes as a beneficiary a skip person (e.g., a grandchild), the GST tax is potentially applicable. An irrevocable life insurance trust can be a vehicle not only to avoid estate tax on the death benefit (its traditional estate planning role), but also to avoid GST tax liability long after the insured's death. In simple terms, the entire death benefit of an insurance policy (plus any growth in value while held by the trust) can be sheltered from GST tax through allocation of the grantor's GST exemption merely to the amounts given to the trust for premium payments and to any policy given to the trust.

This "leveraging" of the GST exemption through a life insurance trust is illustrated by the following example:

Example. H establishes an irrevocable life insurance trust, which acquires a $5 million policy on the life of H. Upon H's death, the proceeds are to be held by the trustee; the income is to be paid to H's son, S, for life, and on S's death, the corpus is to be distributed to H's three grandchildren (S's children), GC. Each year for 20 years, until his death, H contributes $20,000 to the trust for the payment of premiums. [3] Each such year, on Form 709 (the gift tax return), H allocates GST exemption to the $20,000 gifts. H subsequently dies, survived by S and GC, and the insurance proceeds are paid to the trust.

Because GC, the grandchildren of the grantor, H, are skip persons who hold an interest in the trust, the GST tax comes into play, but the tax is not imposed until S dies. When S dies, a taxable termination occurs, and the GST tax would be imposed (absent the allocation of GST exemption) on the value of GC's interest. Assuming no appreciation or decline in value of the invested insurance proceeds during the years that the income was paid to S, the taxable termination transfer to GC would be $5 million. At the applicable 55% rate, the GST tax would be $2,750,000 if the GST exemption had not been used. But because H allocated GST exemption to 100% of all gifts to the trust (a total use of $400,000 of the $1 million GST exemption over the 20 years before H's death), the insurance trust was at all times a fully GST tax exempt trust, so that 100% of any GST to a skip person (in this case, the $5 million passing to GC) is exempt from GST tax. Had the investments appreciated in value to $10 million, that full amount of principal would have been GST tax exempt, as would any income distributions to GC during S's lifetime, had the trust so allowed.

Allocating GST exemption most effectively

For wealthy individuals whose estate planning will fully consume the $1 million GST exemption, carefully considered choices must be made to allocate the GST exemption in the most effective manner among several gifts. As discussed above, life insurance trusts represent one of the most effective vehicles for using the GST exemption because of the significant leverage factor. But what about an insurance trust where skip persons hold only contingent remainder interests? (An example would be a trust for children until the youngest reaches age 35, with the grandchildren to take only if a child dies before termination of the trust.)

In such circumstances, an allocation of GST exemption could end up being wasted if, as is likely here, the contingency does not eventually occur; no taxable transfer will be received by a skip person, and the GST tax will not be applicable. Once an allocation of GST exemption is made, it cannot be revised or revoked. [4] If a decision is made not to allocate GST exemption to a trust in which skip persons hold only contingent interests, powers of appointment can sometimes be used to hedge against potential future adverse GST tax consequences, as discussed below.

Using a contingent power of appointment to avoid potential GST tax in the case of a nonexempt trust. When a decision is made not to allocate GST exemption to an insurance trust in which a skip person holds merely a contingent interest, there is a means of hedging the gamble that the GST tax will not become applicable. This is done by granting the beneficiary in the first generation below that of the

grantor a contingent testamentary general power of appointment over the property that would otherwise pass to the skip person. The power of appointment would become operative only on the occurrence of the contingency upon which the skip person's interest is based. In that event, the power of appointment has the effect of including the subject property in the gross estate of the intervening-generation powerholder.

If the property is included in the estate of a person no more than one generation below the original grantor's generation, the GST tax does not apply (because there will not be a skipped generation with respect to the imposition of estate tax). In effect, the transferor of the property, for GST tax purposes, becomes the intervening-generation person, and as to that transferor, an ultimate recipient in the next younger generation is not a skip person. **5** While this technique merely substitutes estate taxation for GST taxation, the effective tax rate on the estate of the intervening-generation transferor might well be less than the otherwise applicable GST tax rate, which is fixed at 55%, the highest marginal estate tax rate.

Another variation on the use of a power of appointment to avoid GST taxation is illustrated by the following example. Here, a direct skip transfer is substituted for what otherwise would have been a taxable termination in order to take advantage of the "predeceased child" exception.

Example. G establishes an irrevocable life insurance trust which provides that the income is to be paid to G's surviving spouse, W, for life, and then the principal is to be distributed in equal portions among their three children or the children's issue, by right of representation. If any of the three children predecease W, that child's portion of the trust would go to his or her children, who would be skip persons, and the value of the property passing to these skip persons upon W's death would be subject to GST tax at a 55% rate.

Under the predeceased child exception of **Section 2612(c)(2)** , a transfer from an individual to a grandchild is not deemed to skip a generation if the grandchild's parent who is a lineal descendant of the transferor or the transferor's spouse is dead at the time of the transfer. This exception, however, applies only to direct skips, and in this example the transfer to the skip persons is a taxable termination. This problem could potentially be solved by a trust provision granting W a special or limited power of appointment, which W could exercise to effectively eliminate any transfer from the trust to the skip persons. Equalization treatment for the children of the predeceased child can be achieved by providing for an alternative testamentary transfer for them from W's estate. Such an equalization transfer directly from W to W's grandchildren would not be a GST because the predeceased child exception would apply to such a direct skip.

$10,000 annual exclusion. Certain transfers that qualify for the gift tax annual exclusion may also qualify for a separate exclusion from GST tax. For instance, a direct skip to an individual skip person that qualifies for the gift tax annual exclusion is also GST tax free. **6** While transfers to trusts will generally not qualify for this GST tax exclusion, there is a limited exception-the **Section 2642(c)** "vested interest" trust. This is a trust that has only one beneficiary (who is a skip person), and the assets of the trust are includable in the beneficiary's gross estate if he or she dies before the trust is terminated. The trust, however, must also satisfy **Section 2503(c)** (terminating by age 21), or else a *Crummey*, 397 F.2d 82, **22 AFTR 2d 6023** , 68-2 USTC 12,541 power must be included in addition to the **Section 2642(c)**

requirements. Funding a **Section 2642(c)** trust with life insurance is an attractive planning technique that enables a grantor to establish a trust for a grandchild, and make gifts to the trust to pay premiums up to the gift tax annual exclusion each year. Such gifts would also be free of GST tax, and the grantor would not have to use any of his GST exemption.

Potential GST tax trap in lapsing *Crummey* powers

Estate planning with irrevocable trusts often incorporates the device known as *Crummey*, 397 F.2d 82, **22 AFTR2d 6023** , 68-2 USTC 12,541, **22 AFTR 2d 6023** powers. **7** The *Crummey*, 397 F.2d 82, **22 AFTR 2d 6023** , 68-2 USTC 12,541 power allows use of the $10,000 annual per-donee gift tax exclusion for gifts to trusts that have beneficiaries who otherwise would have only future interests in the gift property. Although *Crummey*, 397 F.2d 82, **22 AFTR 2d 6023** , 68-2 USTC 12,541 powers can result in substantial gift tax savings, they have various "side effects" that require special planning attention. Technically, a *Crummey*, 397 F.2d 82, **22 AFTR 2d 6023** , 68-2 USTC 12,541 power is a general power of appointment because it empowers the powerholder to withdraw trust property for his or her own benefit. *Crummey*, 397 F.2d 82, **22 AFTR 2d 6023** , 68-2 USTC 12,541 powers virtually always expire unexercised, and this is deemed, for tax purposes, to be a release or lapse of a general power of appointment with all the attendant gift and estate tax consequences for the powerholder.

The most immediate consequence is that the holder of the *Crummey*, 397 F.2d 82, **22 AFTR 2d 6023** , 68-2 USTC 12,541 power has made a gift (assuming a completed gift under normal gift tax rules) to the other beneficiaries of the trust of the property subject to the power. There is an applicable statutory exception, though. Under the so-called five-and-five limitation of **Section 2514(e)** , the lapse of a general power of appointment during any calendar year is not deemed a taxable transfer to the extent that the property subject to the power does not exceed the greater of $5,000 or 5% of the property subject to the power.

The potential gift and estate tax consequences of lapsing *Crummey*, 397 F.2d 82, **22 AFTR 2d 6023** , 68-2 USTC 12,541 powers are beyond the scope of this article. Nevertheless, there are GST tax implications that may be overlooked. Consider the following:

Example. Grantor, G, makes a $9,000 gift to a new irrevocable life insurance trust. The grantor's child, C, has the life income interest in the trust, and the remainder is to pass to G's grandchild, GC, a skip person. C is given a 60-day *Crummey*, 397 F.2d 82, **22 AFTR 2d 6023** , 68-2 USTC 12,541 withdrawal power as to the $9,000. At the time of the gift, G allocates $9,000 of his GST exemption so that the trust will be fully GST tax exempt. The *Crummey*, 397 F.2d 82, **22 AFTR 2d 6023** , 68-2 USTC 12,541 withdrawal power expires unexercised, and after the 60-day period, the trustee uses the $9,000 to pay the life insurance premium. Because C is deemed to have possessed a general power of appointment over the amount subject to withdrawal, Example (5) of Reg. 26.2652-1(a)(6) concludes that upon the lapse of the withdrawal right, C becomes a transferor (for GST tax purposes) to the trust with respect to the portion of the property that exceeds the five-and-five limitation. Thus, C is the transferor with respect to $4,000, and

G remains the transferor with respect to $5,000.

In this example, it might appear that in order for the trust to remain fully GST tax exempt, C would have to allocate $4,000 of his GST exemption to the gift he is deemed to have made to the trust. And if G has previously allocated $9,000 of G's GST exemption to the trust at the time of his transfer, a total of $13,000 of GST exemption will have been allocated, although the actual amount received by the trust was $9,000. There are two potential solutions to this problem. One involves structuring the *Crummey*, 397 F.2d 82, **22 AFTR 2d 6023** , 68-2 USTC 12,541 withdrawal rights as "hanging powers," as discussed below. The other approach relies on **Section 2654(b)(1)** , which treats the portion of the trust attributable to the transfers deemed made by C as a separate trust for GST tax purposes.

As to this separate trust, C is the transferor, and since GC is not a skip person with respect to C, there is no serious need for C to allocate GST exemption (although the price will be inclusion of this portion of the trust in C's estate at death). Although G could, therefore, allocate exemption to G's entire $9,000 gift without overlapping an allocation by C, an even more aggressive approach might be to have G make a "late allocation" (described later). Because the amount of GST exemption to be allocated in a late allocation (i.e., after the gift tax return filing date) is based on the value of the property as of the date of the late allocation, that value in the above example would be only about $5,000, after carving out the $4,000 then in C's separate trust. (Intentional late allocations, however, must be planned with a keen awareness that if the insured dies before the allocation is made and subsequent to the last date by which his executor could still have made a timely allocation, the trust will end up not fully GST tax exempt.)

Hanging powers. Through the use of so-called hanging powers, *Crummey*, 397 F.2d 82, **22 AFTR 2d 6023** , 68-2 USTC 12,541 withdrawal rights are drafted so as to lapse only to the extent of the five-and-five limitation. Any amount in excess of the five-and-five limit does not lapse but instead "hangs" and remains subject to the withdrawal power in the next year. This strategy avoids a gift to the trust from the powerholder caused by the lapse of the withdrawal power as to the amount in excess of the five-and-five limit. The withdrawal right remains operative; it is carried forward and is subject to lapse only to the extent of the five-and-five amount in each succeeding calendar year, until the entire "hanging" amount is fully lapsed (if ever). Thus, by eliminating the transfers deemed made to the trust by the holder of a lapsing withdrawal power, there would be no need to allocate GST exemption of the powerholder (unless the powerholder died before all powers lapsed and other trust beneficiaries are skip persons with respect to the powerholder), and the trust can remain fully GST tax exempt through allocation of the original grantor's GST exemption sufficient to cover all the amounts actually transferred to the trust.

In TAM 8901004, the IRS described a particular hanging power arrangement and ruled that it was ineffective and that the beneficiaries holding powers had made gifts to the extent the total amount subject to a withdrawal power exceeded the portion sheltered by the five-and-five rule. The TAM relied on the principle of *Procter* **8** In that case, a transfer was made subject to a condition subsequent, which provided that if the transfer were later determined by a court to be a taxable gift, the transfer would be canceled and the property returned to the transferor. The court held that such a condition was void because it violated public policy by requiring a court to rule on an issue that, by virtue of the court's ruling, could

become moot.

While the application of this rationale to a properly drafted hanging power is highly questionable, and probably incorrect, TAM 8901004 has never been tested in court. Nevertheless, the TAM might be inapplicable in the case of a hanging power drafted so that the determination of the extent to which the withdrawal right does not lapse and is carried forward is keyed to a mechanical numerical formula (i.e., application of the five-and-five rule) without the use of language that conditions it specifically on potential tax consequences.

GST tax return requirements

The rules with respect to filing a GST tax return and the liability for payment of the tax vary, depending on the type of transfer. These rules are set forth in detail in **Reg. 26.2662-1** . The following is a summary of these requirements:

Direct skips. Inter vivos direct skips must be reported on Form 709. As in the case of the gift tax, the Form 709 must be filed, and the tax paid, by April 15 of the year following the calendar year in which the taxable transfer occurred. The transferor must file the return and pay the tax.

In the case of a direct skip occurring at death, Form 706 (the estate tax return) must be filed, and the tax paid, by the transferor's executor on or before the due date for filing the estate tax return. In the case of a direct skip occurring at death with respect to property involved in a trust arrangement, special rules apply. If the total value of such property involved in any one trust arrangement is at least $250,000 ($100,000 for decedents dying before 6/24/96), the trustee-not the executor-is responsible for filing the return and paying the tax. The examples contained in **Reg. 26.2662-1(c)(2)(vi)** address life insurance proceeds payable to a skip person. According to the Regulation, if the insurance proceeds equal at least $250,000 ($100,000 for decedents dying before 6/24/96), the insurance policy is treated as a trust under **Section 2652(b)(1)** , and the insurance company is deemed the trustee responsible for filing the tax return and paying the GST tax from the policy proceeds.

Taxable distributions. In the case of a taxable distribution from a trust, Form 706GS(D) must be filed, and the tax paid, by the transferee on or before April 15 of the year following the calendar year of the distribution. In addition, the trust is required to file a Form 706GS(D-1), a copy of which must be sent to each distributee.

Taxable terminations. In the case of a taxable termination, the trustee is responsible for filing the return and paying the tax, which would be chargeable against the interest acceded to by the skip person. This return, on Form 706GS(T), is generally due by April 15 of the year following the year of the taxable termination.

Mechanics for allocating GST exemption to a life insurance trust. In general, the grantor's available GST exemption may be electively allocated to a trust that is not itself a skip person, at any time during the

grantor's lifetime, and by his executor up to the last date for filing the estate tax return (including any extension). [9] Thus, allocation need not necessarily be made at the time of each transfer of property to the trust, but late allocations will be based on property values as of the effective date of the allocation or, at the election of the transferor, as of the first day of the month during which the late allocation is made. (In the case of an insurance trust where the insured has died prior to the late allocation, this election to use the first-of-the-month alternative "valuation date" is not available. [10])

For transfers made during the grantor's lifetime, an allocation of GST exemption is made on Form 709. This form is used to make the allocation even if the transfer is not subject to gift tax or GST tax and this return would not have otherwise been required. The normal filing deadline for Form 709 is April 15 of the year following the calendar year in which the reportable transfer was made, and this deadline is subject to potential extension to October 15 of such following year.

If the allocation of GST exemption is made on a Form 709 filed within the applicable filing period, the property to which the allocation is made is valued as of the date of the transfer; this is referred to in the Regulations as a "timely allocation." [11] The Form 709 does not contain a specific section for the allocation of GST exemption, so a separate statement must be attached, containing the information specified in the instructions to the form. If uncertainty exists as to values, the amount of the allocation may be expressed in terms of a formula (e.g., "the amount necessary to produce an inclusion ratio of zero").

A transferor is not precluded from making an allocation of GST exemption on a Form 709 at any time after the normal filing deadline. But in such a case (referred to as a "late allocation") the amount of available GST exemption that must be allocated to make the trust 100% GST tax exempt is based on the value of the transferred property as of the date of filing the Form 709. If the value of the transferred property has increased between the time of the transfer and the late allocation, to achieve a fully GST tax exempt trust a greater amount of GST exemption must be allocated than if a timely allocation had been made, and conversely, a lesser amount of GST exemption must be allocated if the value of the transferred property has declined.

Example. Grantor, G, establishes a life insurance trust and transfers $8,000 per year to the trust for payment of premiums, but for the first three years G neglects to allocate GST exemption. After the deadline for filing Form 709 for the third such year, G files a Form 709 to make a late allocation intended to exempt 100% of the trust from GST tax. If, at that time, the value of the trust (based on the interpolated terminal reserve value of the policy) is $15,000, the late allocation would be in that amount.

Although this example tends to indicate that late allocations during the early years of a life insurance policy (when cash value is less than the aggregate gifts of premiums) would use less GST exemption than would timely annual allocations, this would not be a prudent planning technique. If the insured-grantor died before the late allocation was made, the trust value to which GST exemption would have to be allocated to achieve a fully GST tax exempt trust would include the entire policy death benefit.

In the case of a typical life insurance trust, to which the grantor makes a gift, at least annually, of the cash amount needed to pay the policy premium, Form 709 should be filed on or before April 15 of each year to

allocate GST exemption to all such cash gifts made in the prior calendar year. If the grantor has made a gift to the trust and dies before allocating GST exemption, but before the April 15 deadline for a timely allocation, a timely allocation based on the value of the gift may still be made by the grantor's executor. This becomes extremely important because a late allocation would be based on the valuation of the trust including the insurance death benefit.

Once an allocation of GST exemption is made, it is irrevocable, except that a timely filed allocation may be amended by a subsequent Form 709 filed before the deadline for timely filing. **12**

Automatic allocation when the trust itself is a skip person. In the case of an inter vivos GST which is a direct skip, GST exemption is allocated automatically unless the donor elects otherwise. A direct skip is a transfer directly to a skip person that is subject to federal estate or gift tax. A trust may be a skip person if, for example, all the beneficiaries are skip persons (such as a trust solely for the benefit of grandchildren). Thus, if the grantor takes no action with respect to allocating GST exemption to such a trust, the allocation will happen automatically. If the grantor wishes to preserve his GST exemption for other GSTs, he must elect out of the automatic allocation by filing a timely Form 709 and paying the applicable GST tax. **13** The election would not be necessary, however, to the extent that the gift qualifies as a nontaxable gift for GST tax purposes under **Section 2642(c)** (e.g., a **Section 2642(c)** trust (discussed above)).

Allocation of GST exemption not effective during an ETIP. Under certain circumstances, property transferred by a grantor to a trust may continue to be subject to inclusion in the grantor's gross estate when he dies. An example, in a noninsurance context, would be a trust which provides that the grantor is entitled to the trust income for life. **14** The period during which transferred property is subject to potential inclusion in the estate of the transferor, or his spouse, is referred to as the "estate tax inclusion period" or "ETIP." **15** **Reg. 26.2632-1(c)** provides that an allocation of GST exemption to property which is subject to an ETIP cannot be revoked, but becomes effective only upon termination of the ETIP, based on the property's value at that time. The apparent rationale for the ETIP rule is that if the transfer of the property is deemed, for estate tax purposes, to be effective as of the date of death, and valued as of that later date, an allocation of GST exemption should not be effective as of the earlier date of the actual transfer, when the property's value is likely to be substantially lower.

In the context of the typical life insurance trust, the ETIP rule would not come into play because neither the grantor nor the grantor's spouse would ordinarily hold an interest giving rise to an ETIP. Although such interests are avoided primarily to escape estate taxation, they also present a significant GST tax problem because the pendency of an ETIP would prevent the effective allocation of GST exemption at the time gifts are made to the trust. Accordingly, the trust could not become fully GST tax exempt prior to (1) the death of the grantor/insured and (2) receipt of the entire death benefit. The final GST tax Regulations **16** provide a small safe harbor, defining certain interests not considered sufficiently material to give rise to an ETIP. These include, in the case of the grantor's spouse, a withdrawal right, possessed by the spouse, which does not exceed the five-and-five limitation and is exercisable for no more than 60 days.

Conclusion

Use of the traditional life insurance trust for avoiding estate tax has taken on new dimensions since the adoption of the GST tax. The GST tax has presented new challenges, and requires of tax planners an even greater degree of sophistication and care. Perhaps most significantly, because life insurance is ideally suited to take maximum advantage of the leveraging potential inherent in the operation of the $1 million GST exemption, the existence of the GST tax has markedly heightened the importance and usefulness of life insurance trusts as vehicles for multi-generational tax-free transfers of family wealth.

1

See **Section 2613** .

2

Section 2612 .

3

Through the use of *Crummey*, 397 F.2d 82, **22 AFTR 2d 6023** , 68-2 USTC 12,541 powers, the $10,000 per-donee gift tax annual exclusion can be used to avoid gift tax on the annual contribution for premium payments. Lapsing *Crummey*, 397 F.2d 82, **22 AFTR 2d 6023** , 68-2 USTC 12,541 powers, however, present additional tax complications, as discussed later.

4

Section 2631(b) .

5

See **Section 2652(a)** and related Regulations.

6

Section 2642(c)(1) .

7

See *Crummey*, 397 F.2d 82, **22 AFTR 2d 6023** , 68-2 USTC 12,541 .

8

Procter, 142 F.2d 824, **32 AFTR 750** , 44-1 USTC 10,110

9

Section 2632(a)(1) . As discussed later, if the trust itself is a skip person, GST exemption is automatically allocated to lifetime transfers, unless the donor elects otherwise.

10

Reg. 26.2642-2(a)(2) .

11

Reg. 26.2632-1(b)(2)(ii) .

12

Regs. 26.2632-1(b)(2)(i) and **26.2632-1(b)(2)(iii), Example 1** .

13

Reg. 26.2632-1(b)(1) .

14

See **Section 2036** .

15

Reg. 26.2632-1(c)(2) .

16

Reg. 26.2632-1(c)(2)(ii) .

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