

which he can recover by amortization deductions over W's life expectancy.

Example 3. Unimproved land having a fair market value of \$18,800 at the date of the decedent's death on January 1, 1970, is devised to A, a male, for life, with remainder over to B, a female. The estate does not elect the alternate valuation allowed by section 2032. On January 1, 1971, A sells his life interest to S for \$12,500. S is not related to A or B. At the time of the sale, A is 39 years of age. By reference to § 20.2031-7A(c), the life estate factor for age 39, male, is found to be 0.79854. Therefore, the present value of the portion of the uniform basis assigned to A's life interest is \$15,012.55 ($\$18,800 \times 0.79854$). This portion is disregarded under section 1001(e). A realizes no loss; his gain is \$12,500, the amount realized. S has a basis of \$12,500 which he can recover by amortization deductions over A's life expectancy.

Example 4. The facts are the same as in example (3) except that on January 1, 1971, A and B jointly sell the entire property to S for \$25,000 and divide the proceeds equally between them. A and B are not related, and there is no element of gift or compensation in the transaction. By reference to § 20.2031-7A(c), the remainder factor for age 39, male, is found to be 0.20146. Therefore, the present value of the uniform basis assigned to B's remainder interest is \$3,787.45 ($\$18,800 \times 0.20146$). On the sale A realizes a loss of \$2,512.55 ($\$15,012.55$ less $\$12,500$), the portion of the uniform basis assigned to his life interest not being disregarded by reason of section 1001(e)(3). B's gain on the sale is \$8,712.55 ($\$12,500$ less $\$3,787.45$). S has a basis in the entire property of \$25,000, no part of which, however, can be recovered by amortization deductions over A's life expectancy.

Example 5. (a) Nondepreciable property having a fair market value of \$54,000 at the date of decedent's death on January 1, 1971, is devised to her husband, H, for life and, after his death, to her daughter, D, for life, with remainder over to her grandson, G. The estate does not elect the alternate valuation allowed by section 2032. On January 1, 1973, H sells his life interest to D for \$32,000. At the date of the sale, H is 62 years of age, and D is 45 years of age. By reference to § 20.2031-7A(c), the life estate factor for age 62, male, is found to be 0.52321. Therefore, the present value on January 1, 1973, of the portion of the adjusted uniform basis assigned to H's life interest is \$28,253 ($\$54,000 \times 0.52321$). Pursuant to section 1001(e), H realizes no loss; his gain is \$32,000, the amount realized from the sale. D has a basis of \$32,000 which she can recover by amortization deductions over H's life expectancy.

(b) On January 1, 1976, D sells both life estates to G for \$40,000. During each of the years 1973 through 1975, D is allowed a deduction for the amortization of H's life interest. At the date of the sale H is 65 years of age,

and D is 48 years of age. For purposes of determining gain or loss on the sale by D, the portion of the adjusted uniform basis assigned to H's life interest and the portion assigned to D's life interest are not taken into account under section 1001(e). However, pursuant to § 1.1001-1(f)(1), D's cost basis in H's life interest, minus deductions for the amortization of such interest, is taken into account. On the sale, D realizes gain of \$40,000 minus an amount which is equal to the \$32,000 cost basis (for H's life estate) reduced by amortization deductions. G is entitled to amortize over H's life expectancy that part of the \$40,000 cost which is attributable to H's life interest. That part of the \$40,000 cost which is attributable to D's life interest is not amortizable by G until H dies.

Example 6. Securities worth \$1,000,000 at the date of decedent's death on January 1, 1971, are bequeathed to his wife, W, for life, with remainder over to his son, S. W is 48 years of age when the life interest is acquired. The estate does not elect the alternate valuation allowed by section 2032. By reference to § 20.2031-7A(c), the life estate factor for age 48, female, is found to be 0.77488, and the remainder factor for such age is found to be 0.22512. Therefore, the present value of the portion of the uniform basis assigned to W's life interest is \$774,880 ($\$1,000,000 \times 0.77488$), and the present value of the portion of the uniform basis assigned to S's remainder interest is \$225,120 ($\$1,000,000 \times 0.22512$). On February 1, 1971, W transfers her life interest to corporation X in exchange for all of the stock of X pursuant to a transaction in which no gain or loss is recognized by reason of section 351. On February 1, 1972, W sells all of her stock in X to S for \$800,000. Pursuant to section 1001(e) and § 1.1001-1(f)(2), W realizes no loss; her gain is \$800,000, the amount realized from the sale. On February 1, 1972, X sells to N for \$900,000 the life interest transferred to it by W. Pursuant to section 1001(e) and § 1.1001-1(f)(1), X realizes no loss; its gain is \$900,000, the amount realized from the sale. N has a basis of \$900,000 which he can recover by amortization deductions over W's life expectancy.

[T.D. 7142, 36 FR 18951, Sept. 24, 1971, as amended by T.D. 8540, 59 FR 30102, June 10, 1994]

§ 1.1014-6 Special rule for adjustments to basis where property is acquired from a decedent prior to his death.

(a) *In general.* (1) The basis of property described in section 1014(b)(9) which is acquired from a decedent prior to his death shall be adjusted for depreciation, obsolescence, amortization, and depletion allowed the taxpayer on such property for the period prior to the decedent's death. Thus, in general,

the adjusted basis of such property will be its fair market value at the decedent's death, or the applicable alternate valuation date, less the amount allowed (determined with regard to section 1016(a)(2)(B)) to the taxpayer as deductions for exhaustion, wear and tear, obsolescence, amortization, and depletion for the period held by the taxpayer prior to the decedent's death. The deduction allowed for a taxable year in which the decedent dies shall be an amount properly allocable to that part of the year prior to his death. For a discussion of the basis adjustment required by section 1014(b)(9) where property is held in trust, see paragraph (c) of this section.

(2) Where property coming within the purview of subparagraph (1) of this paragraph was held by the decedent and his surviving spouse as tenants by the entirety or as joint tenants with right of survivorship, and joint income tax returns were filed by the decedent and the surviving spouse in which the deductions referred to in subparagraph (1) were taken, there shall be allocated to the surviving spouse's interest in the property that proportion of the deductions allowed for each period for which the joint returns were filed which her income from the property bears to the total income from the property. Each spouse's income from the property shall be determined in accordance with local law.

(3) The application of this paragraph may be illustrated by the following examples:

Example 1. The taxpayer acquired income-producing property by gift on January 1, 1954. The property had a fair market value of \$50,000 on the date of the donor's death, January 1, 1956, and was included in his gross estate at that amount for estate tax purposes as a transfer in contemplation of death. Depreciation in the amount of \$750 per year was allowable for each of the taxable years 1954 and 1955. However, the taxpayer claimed depreciation in the amount of \$500 for each of these years (resulting in a reduction in his taxes) and his income tax returns were accepted as filed. The adjusted basis of the property as of the date of the decedent's death is \$49,000 (\$50,000, the fair market value at the decedent's death, less \$1,000, the total of the amounts actually allowed as deductions).

Example 2. On July 1, 1952, H purchased for \$30,000 income-producing property which he

conveyed to himself and W, his wife, as tenants by the entirety. Under local law each spouse was entitled to one-half of the income therefrom. H died on January 1, 1955, at which time the fair market value of the property was \$40,000. The entire value of the property was included in H's gross estate. H and W filed joint income tax returns for the years 1952, 1953, and 1954. The total depreciation allowance for the year 1952 was \$500 and for each of the other years 1953 and 1954 was \$1,000. One-half of the \$2,500 depreciation will be allocated to W. The adjusted basis of the property in W's hands of January 1, 1955, was \$38,750 (\$40,000, value on the date of H's death, less \$1,250, depreciation allocated to W for periods before H's death). However, if, under local law, all of the income from the property was allocable to H, no adjustment under this paragraph would be required and W's basis for the property as of the date of H's death would be \$40,000.

(b) *Multiple interests in property described in section 1014(b)(9) and acquired from a decedent prior to his death.* (1) Where more than one person has an interest in property described in section 1014(b)(9) which was acquired from a decedent before his death, the basis of such property and of each of the several interests therein shall, in general, be determined and adjusted in accordance with the principles contained in §§ 1.1014-4 and 1.1014-5, relating to the uniformity of basis rule. Application of these principles to the determination of basis under section 1014(b)(9) is shown in the remaining subparagraphs of this paragraph in connection with certain commonly encountered situations involving multiple interests in property acquired from a decedent before his death.

(2) Where property is acquired from a decedent before his death, and the entire property is subsequently included in the decedent's gross estate for estate tax purposes, the uniform basis of the property, as well as the basis of each of the several interests in the property, shall be determined by taking into account the basis adjustments required by section 1014(a) owing to such inclusion of the entire property in the decedent's gross estate. For example, suppose that the decedent transfers property in trust, with a life estate to A, and the remainder to B or his estate. The transferred property consists of 100 shares of the common stock of X Corporation, with a basis of \$10,000 at the

time of the transfer. At the time of the decedent's death the value of the stock is \$20,000. The transfer is held to have been made in contemplation of death and the entire value of the trust is included in the decedent's gross estate. Under section 1014(a), the uniform basis of the property in the hands of the trustee, the life tenant, and the remainderman, is \$20,000. If immediately prior to the decedent's death, A's share of the uniform basis of \$10,000 was \$6,000, and B's share was \$4,000, then, immediately after the decedent's death, A's share of the uniform basis of \$20,000 is \$12,000, and B's share is \$8,000.

(3)(i) In cases where, due to the operation of the estate tax, only a portion of property acquired from a decedent before his death is included in the decedent's gross estate, as in cases where the decedent retained a reversion to take effect upon the expiration of a life estate in another, the uniform basis of the entire property shall be determined by taking into account any basis adjustments required by section 1014(a) owing to such inclusion of a portion of the property in the decedent's gross estate. In such cases the uniform basis is the adjusted basis of the entire property immediately prior to the decedent's death increased (or decreased) by an amount which bears the same relation to the total appreciation (or diminution) in value of the entire property (over the adjusted basis of the entire property immediately prior to the decedent's death) as the value of the property included in the decedent's gross estate bears to the value of the entire property. For example, assume that the decedent creates a trust to pay the income to A for life, remainder to B or his estate. The trust instrument further provides that if the decedent should survive A, the income shall be paid to the decedent for life. Assume that the decedent predeceases A, so that, due to the operation of the estate tax, only the present value of the remainder interest is included in the decedent's gross estate. The trust consists of 100 shares of the common stock of X Corporation with an adjusted basis immediately prior to the decedent's death of \$10,000 (as determined under section 1015). At the time of the decedent's death, the value of the stock is

\$20,000, and the value of the remainder interest in the hands of B is \$8,000. The uniform basis of the entire property following the decedent's death is \$14,000, computed as follows:

Uniform basis prior to decedent's death	\$10,000
plus	
Increase in uniform basis (determined by the following formula)	4,000
[Increase in uniform basis (to be determined)/\$10,000 (total appreciation)]=	
[\$8,000 (value of property included in gross estate)/\$20,000 (value of entire property)]	
	14,000
Uniform basis under section 1014(a)	14,000

(ii) In cases of the type described in subdivision (i) of this subparagraph, the basis of any interest which is included in the decedent's gross estate may be ascertained by adding to (or subtracting from) the basis of such interest determined immediately prior to the decedent's death the increase (or decrease) in the uniform basis of the property attributable to the inclusion of the interest in the decedent's gross estate. Where the interest is sold or otherwise disposed of at any time after the decedent's death, proper adjustment must be made in order to reflect the change in value of the interest on account of the passage of time, as provided in § 1.1014-5. For an illustration of the operation of this subdivision, see step 6 of the example in § 1.1014-7.

(iii) In cases of the type described in subdivision (i) of this subparagraph (cases where, due to the operation of the estate tax, only a portion of the property is included in the decedent's gross estate), the basis for computing the depreciation, amortization, or depletion allowance shall be the uniform basis of the property determined under section 1014(a). However, the manner of taking into account such allowance computed with respect to such uniform basis is subject to the following limitations:

(a) In cases where the value of the life interest is not included in the decedent's gross estate, the amount of such allowance to the life tenant under section 167(h) (or section 611(b)) shall not exceed (or be less than) the amount which would have been allowable to the life tenant if no portion of the basis of the property was determined under section 1014(a). Proper adjustment shall be made for the amount allowable to the life tenant, as required by section 1016.

Thus, an appropriate adjustment shall be made to the uniform basis of the property in the hands of the trustee, to the basis of the life interest in the hands of the life tenant, and to the basis of the remainder in the hands of the remainderman.

(b) Any remaining allowance (that is, the increase in the amount of depreciation, amortization, or depletion allowable resulting from any increase in the uniform basis of the property under section 1014(a)) shall not be allowed to the life tenant. The remaining allowance shall, instead, be allowed to the trustee to the extent that the trustee both (1) is required or permitted, by the governing trust instrument (or under local law), to maintain a reserve for depreciation, amortization, or depletion, and (2) actually maintains such a reserve. If, in accordance with the preceding sentence, the trustee does maintain such a reserve, the remaining allowance shall be taken into account, under section 1016, in adjusting the uniform basis of the property in the hands of the trustee and in adjusting the basis of the remainder interest in the hands of the remainderman, but shall not be taken into account, under section 1016, in determining the basis of the life interest in the hands of the life tenant. For an example of the operation of this subdivision, see paragraph (b) of § 1.1014-7.

(4) In cases where the basis of any interest in property is not determined under section 1014(a), as where such interest (i) is not included in the decedent's gross estate, or (ii) is sold, exchanged or otherwise disposed of before the decedent's death, the basis of such interest shall be determined under other applicable provisions of the Code. To illustrate, in the example shown in subparagraph (3)(i) of this paragraph the basis of the life estate in the hands of A shall be determined under section 1015, relating to the basis of property acquired by gift. If, on the other hand, A had sold his life interest prior to the decedent's death, the basis of the life estate in the hands of A's transferee would be determined under section 1012.

(c) *Adjustments for deductions allowed prior to the decedent's death.* (1) As stated in paragraph (a) of this section, sec-

tion 1014(b)(9) requires a reduction in the uniform basis of property acquired from a decedent before his death for certain deductions allowed in respect of such property during the decedent's lifetime. In general, the amount of the reduction in basis required by section 1014(b)(9) shall be the aggregate of the deductions allowed in respect of the property, but shall not include deductions allowed in respect of the property to the decedent himself. In cases where, owing to the operation of the estate tax, only a part of the value of the entire property is included in the decedent's gross estate, the amount of the reduction required by section 1014(b)(9) shall be an amount which bears the same relation to the total of all deductions (described in paragraph (a) of this section) allowed in respect of the property as the value of the property included in the decedent's gross estate bears to the value of the entire property.

(2) The application of this paragraph may be illustrated by the following examples:

Example 1. The decedent creates a trust to pay the income to A for life, remainder to B or his estate. The property transferred in trust consists of an apartment building with a basis of \$50,000 at the time of the transfer. The decedent dies 2 years after the transfer is made and the gift is held to have been made in contemplation of death. Depreciation on the property was allowed in the amount of \$1,000 annually. At the time of the decedent's death the value of the property is \$58,000. The uniform basis of the property in the hands of the trustee, the life tenant, and the remainderman, immediately after the decedent's death is \$56,000 (\$58,000, fair market value of the property immediately after the decedent's death, reduced by \$2,000, deductions for depreciation allowed prior to the decedent's death).

Example 2. The decedent creates a trust to pay the income to A for life, remainder to B or his estate. The trust instrument provides that if the decedent should survive A, the income shall be paid to the decedent for life. The decedent predeceases A and the present value of the remainder interest is included in the decedent's gross estate for estate tax purposes. The property transferred consists of an apartment building with a basis of \$110,000 at the time of the transfer. Following the creation of the trust and during the balance of the decedent's life, deductions for depreciation were allowed on the property in the amount of \$10,000. At the time of

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decedent's death the value of the entire property is \$150,000, and the value of the remainder interest is \$100,000. Accordingly, the uniform basis of the property in the hands of the trustee, the life tenant, and the remainderman, as adjusted under section 1014(b)(9), is \$126,666, computed as follows:

Uniform basis prior to decedent's death	\$100,000
plus	
Increase in uniform basis—before reduction (determined by the following formula)	33,333
[Increase in uniform basis (to be determined)/\$50,000 (total appreciation of property since time of transfer)]=	
[\$100,000 (value of property included in gross estate)/\$150,000 (value of entire property)]	
less	133,333
Deductions allowed prior to decedent's death—taken into account under section 1014(b)(9) (determined by the following formula)	6,667
[Prior deductions taken into account (to be determined) \$10,000 (total deductions allowed prior to decedent's death)]=	
[\$100,000 (value of property included in gross estate) /\$150,000 (value of entire property)]	
Uniform basis under section 1014	126,666

[T.D. 6500, 25 FR 11910, Nov. 26, 1960, as amended by T.D. 6712, 29 FR 3656, Mar. 24, 1964; T.D. 7142, 36 FR 18952, Sept. 24, 1971]

§ 1.1014-7 Example applying rules of §§ 1.1014-4 through 1.1014-6 to case involving multiple interests.

(a) On January 1, 1950, the decedent creates a trust to pay the income to A for life, remainder to B or his estate. The trust instrument provides that if the decedent should survive A, the income shall be paid to the decedent for life. The decedent, who died on January 1, 1955, predeceases A, so that, due to the operation of the estate tax, only the present value of the remainder interest is included in the decedent's gross estate. The trust consists of an apartment building with a basis of \$30,000 at the time of transfer. Under the trust instrument the trustee is required to maintain a reserve for depreciation. During the decedent's lifetime depreciation is allowed in the amount of \$800 annually. At the time of the decedent's death the value of the apartment building is \$45,000. A, the life tenant, is 43 years of age at the time of the decedent's death. Immediately after the decedent's death, the uniform basis of the entire property under section 1014(a) is \$32,027; A's basis for the life interest is \$15,553; and B's basis for the remainder interest is \$16,474, computed as follows:

<i>Step 1.</i> Uniform basis (adjusted) immediately prior to decedent's death:	
Basis at time of transfer	\$30,000
less	
Depreciation allowed under section 1016 before decedent's death (\$800 × 5)	4,000
	26,000
<i>Step 2.</i> Value of property included in decedent's gross estate:	
0.40180 (remainder factor, age 43) × \$45,000 (value of entire property)	\$18,081
<i>Step 3.</i> Uniform basis of property under section 1014(a), before reduction required by section 1014(b)(9):	
Uniform basis (adjusted) prior to decedent's death	26,000
Increase in uniform basis (determined by the following formula)	7,634
Increase in uniform basis (to be determined) \$19,000 (total appreciation, \$45,000 – \$26,000)=	
\$18,081 (value of property included in gross estate) /\$45,000 (value of entire property)]	
	33,634
<i>Step 4.</i> Uniform basis reduced as required by section 1014(b)(9) for deductions allowed prior to death:	
Uniform basis before reduction	\$33,634
less	
Deductions allowed prior to decedent's death—taken into account under section 1014(b)(9) (determined by the following formula)	1,607
Prior deductions taken into account (to be determined) \$4,000 (total deductions allowed prior to decedent's death)]=	
\$18,081 (value of property included in gross estate) /\$45,000 (value of entire property)	
	32,027
<i>Step 5.</i> A's basis for the life interest at the time of the decedent's death, determined under section 1015: 0.59820 (life factor, age 43) × \$26,000	
	15,553
<i>Step 6.</i> B's basis for the remainder interest, determined under section 1014(a): Basis prior to the decedent's death:	
0.40180 (remainder factor, age 43) × \$26,000	10,447
plus	
Increase in uniform basis owing to decedent's death:	
Increase in uniform basis	\$7,634
plus	
Reduction required by section 1014(b)(9)	1,607
	6,027
	16,474

(b) Assume the same facts as in paragraph (a) of this section. Assume further, that following the decedent's death depreciation is allowed in the amount of \$1,000 annually. As of January 1, 1964, when A's age is 52, the adjusted uniform basis of the entire property is \$23,027; A's basis for the life interest is \$9,323; and B's basis for the remainder interest is \$13,704, computed as follows: