

the annuitant, with the term of years determined by when the fund will be exhausted by the annuity payments.

(iii) The annuity factor for a term of years at 6.8 percent is derived by subtracting the applicable remainder factor in Table B (see § 20.2031-7(d)(6)) from 1.000000 and then dividing the result by .068. An annuity of \$100,000 payable at the end of each year for a period that has an annuity factor of 10.0 would have a present value exactly equal to the principal available to pay the annuity over the term. The annuity factor for 17 years is 9.8999 and the annuity factor for 18 years is 10.2059. Thus, it is determined that the \$1,000,000 initial transfer will be sufficient to make 17 annual payments of \$100,000, but not to make the entire 18th payment. The present value of an annuity of \$100,000 payable at the end of each year for 17 years certain is \$100,000 times 9.8999 or \$989,990. The remaining amount is \$10,010.00. Of the initial corpus amount, \$10,010.00 is not needed to make payments for 17 years, so this amount, as accumulated for 18 years, will be available for the final payment. The 18-year accumulation factor is $(1 + 0.068)^{18}$ or 3.268004. Then the amount available in 18 years is \$10,010.00 times 3.268004 or \$32,712.72. Therefore, for purposes of analysis we consider the annuity payments as being composed of two distinct annuity components. The two annuity components taken together must equal the total annual amount of \$100,000. The first annuity is the exact amount that the trust will have available for the final payment, \$32,712.72. The second annuity component then must be \$100,000 minus \$32,712.72, or \$67,287.28. Specifically, the initial corpus will be able to make payments of \$67,287.28 per year for 17 years plus payments of \$32,712.72 per year for 18 years. The total annuity is valued by adding the value of the two separate temporary component annuities.

(iv) Based on Table H of Publication 1457, Actuarial Valuations Version 3A, which may be obtained from the IRS Internet site, the present value of an annuity of \$67,287.28 per year payable for 17 years or until the prior death of a person aged 60 is \$597,013.12 ($\$67,287.28 \times 8.8726$). The present value of an annuity of \$32,712.72 per year payable for 18 years or until the prior death of a person aged 60 is \$296,887.56 ($\$32,712.72 \times 9.0756$). Thus, the present value of the charitable annuity interest is \$893,900.68 ($\$597,013.12 + \$296,887.56$).

(3) [Reserved] For further guidance, see § 25.7520-3(b)(3).

(4) *Example.* The provisions of paragraph (b)(3) of this section are illustrated by the following example:

Example. Terminal illness. The donor transfers property worth \$1,000,000 to a child on or after May 1, 2009, in exchange for the child's

promise to pay the donor \$80,000 per year for the donor's life, payable annually at the end of each period. The donor is age 75 but has been diagnosed with an incurable illness and has at least a 50 percent probability of dying within 1 year. The section 7520 interest rate for the month of the transfer is 7.6 percent, and the standard annuity factor at that interest rate for a person age 75 in normal health is 6.6493 ($1 - .49465/.076$). Thus, if the donor were not terminally ill, the present value of the annuity would be \$531,944.00 ($\$80,000 \times 6.6493$). Assuming the presumption provided in paragraph (b)(3) of this section does not apply, because there is at least a 50 percent probability that the donor will die within 1 year, the standard section 7520 annuity factor may not be used to determine the present value of the donor's annuity interest. Instead, a special section 7520 annuity factor must be computed that takes into account the projection of the donor's actual life expectancy.

(5) [Reserved] For further guidance, see § 25.7520-3(b)(5).

(c) *Effective/applicability dates.* Section 25.7520-3(a) is effective as of May 1, 1989. The provisions of paragraph (b) of this section, except *Example 5* in paragraph (b)(2)(v) and paragraph (b)(4), are effective with respect to gifts made after December 13, 1995. *Example 5* in paragraph (b)(2)(v) and paragraph (b)(4) are effective with respect to gifts made on or after May 1, 2009.

[T.D. 9448, 74 FR 21517, May 7, 2009]

§ 25.7520-4 Transitional rules.

(a) *Reliance.* If the valuation date is after April 30, 1989, and before June 10, 1994, a donor can rely on Notice 89-24, 1989-1 C.B. 660, or Notice 89-60, 1989-1 C.B. 700 (See § 601.601(d)(2)(ii)(b) of this chapter), in valuing the transferred interest.

(b) *Transfers in 1989.* If a donor transferred an interest in property by gift after December 31, 1988, and before May 1, 1989, retaining an interest in the same property and, after April 30, 1989, and before January 1, 1990, transferred the retained interest in the property, the donor may, at the donor's option, value the transfer of the retained interest under either § 25.2512-5(d) or § 25.2512-5A(d).

(c) *Effective date.* This section is effective as of May 1, 1989.