

Internal Revenue Service, Treasury

§ 1.1014-8

Step 10. Bases of A's and B's interests as of January 1, 1964.

A	
Tentative basis (Step 9)	12,893
less	
Allocable depreciation (Step 8)	3,570
	9,323
B	
Tentative basis (Step 9)	19,134
less	
Allocable depreciation (Step 8)	5,430
	13,704

§ 1.1014-8 Bequest, devise, or inheritance of a remainder interest.

(a)(1) Where property is transferred for life, with remainder in fee, and the remainderman dies before the life tenant, no adjustment is made to the uniform basis of the property on the death of the remainderman (see paragraph (a) of § 1.1014-4). However, the basis of the remainderman's heir, legatee, or devisee for the remainder interest is determined by adding to (or subtracting from) the part of the adjusted uniform basis assigned to the remainder interest (determined in accordance with the principles set forth in §§ 1.1014-4 through 1.1014-6) the difference between—

(i) The value of the remainder interest included in the remainderman's estate, and

(ii) The basis of the remainder interest immediately prior to the remainderman's death.

(2) The basis of any property distributed to the heir, legatee, or devisee upon termination of a trust (or legal life estate) or at any other time (unless included in the gross income of the legatee or devisee) shall be determined by adding to (or subtracting from) the adjusted uniform basis of the property thus distributed the difference between—

(i) The value of the remainder interest in the property included in the remainderman's estate, and

(ii) The basis of the remainder interest in the property immediately prior to the remainderman's death.

(b) The provisions of paragraph (a) of this section are illustrated by the following examples:

Example 1. Assume that, under the will of a decedent, property consisting of common stock with a value of \$1,000 at the time of the decedent's death is transferred in trust, to pay the income to A for life, remainder to B

or to B's estate. B predeceases A and bequeaths the remainder interest to C. Assume that B dies on January 1, 1956, and that the value of the stock originally transferred is \$1,600 at B's death. A's age at that time is 37. The value of the remainder interest included in B's estate is \$547 (0.34185, remainder factor age 37, ×\$1,600), and hence \$547 is C's basis for the remainder interest immediately after B's death. Assume that C sells the remainder interest on January 1, 1961, when A's age is 42. C's basis for the remainder interest at the time of such sale is \$596, computed as follows:

Basis of remainder interest computed with respect to uniform basis of entire property (0.39131, remainder factor age 42, ×\$1,000, uniform basis of entire property)	\$391
plus	
Value of remainder interest included in B's estate	\$547
less	
Basis of remainder interest immediately prior to B's death (0.34185, remainder factor age 37, ×\$1,000)	342
	205
Basis of C's remainder interest at the time of sale	596

Example 2. Assume the same facts as in example (1), except that C does not sell the remainder interest. Upon A's death terminating the trust, C's basis for the stock distributed to him is computed as follows:

Uniform basis of the property, adjusted to date of termination of the trust	\$1,000
plus	
Value of remainder interests in the property at the time of B's death	\$547
less	
B's share of uniform basis of the property at the time of his death	342
	205
C's basis for the stock distributed to him upon the termination of the trust	1,205

Example 3. Assume the same facts as in example (2), except that the property transferred is depreciable. Assume further that \$100 of depreciation was allowed prior to B's death and that \$50 of depreciation is allowed between the time of B's death and the termination of the trust. Upon A's death terminating the trust, C's basis for the property distributed to him is computed as follows:

Uniform basis of the property, adjusted to date of termination of the trust:	
Uniform basis immediately after decedent's death	\$1,000
Depreciation allowed following decedent's death	150
	\$350
plus	
Value of remainder interest in the property at the time of B's death	547
less	
B's share of uniform basis of the property at the time of his death (0.34185×\$900, uniform basis at B's death)	308

	239
C's basis for the property distributed to him upon the termination of the trust	1,089

(c) The rules stated in paragraph (a) of this section do not apply where the basis of the remainder interest in the hands of the remainderman's transferee is determined by reference to its cost to such transferee. See also paragraph (a) of § 1.1014-4. Thus, if, in example (1) of paragraph (b) of this section B sold his remainder interest to C for \$547 in cash, C's basis for the stock distributed to him upon the death of A terminating the trust is \$547.

§ 1.1014-9 Special rule with respect to DISC stock.

(a) *In general.* If property consisting of stock of a DISC or former DISC (as defined in section 992(a) (1) or (3) as the case may be) is considered to have been acquired from a decedent (within the meaning of paragraph (a) or (b) of § 1.1014-2), the uniform basis of such stock under section 1014, as determined pursuant to §§ 1.1014-1 through 1.1014-8 shall be reduced as provided in this section. Such uniform basis shall be reduced by the amount (hereinafter referred to in this section as the amount of reduction), if any, which the decedent would have included in his gross income under section 995(c) as a dividend if the decedent had lived and sold such stock at its fair market value on the estate tax valuation date. If the alternate valuation date for Federal estate tax purposes is elected under section 2032, in computing the gain which the decedent would have had if he had lived and sold the stock on the alternate valuation date, the decedent's basis shall be determined with reduction for any distributions with respect to the stock which may have been made, after the date of the decedent's death and on or before the alternate valuation date, from the DISC's previously taxed income (as defined in section 996(f)(2)). For this purpose, the last sentence of section 996(e)(2) (relating to reductions of basis of DISC stock) shall not apply. For purposes of this section, if the corporation is not a DISC or former DISC at the date of the decedent's death but is a DISC for a taxable year which begins after such date and on or before the alternate valuation

date, the corporation will be considered to be a DISC or former DISC only if the alternate valuation date is elected. The provisions of this paragraph apply with respect to stock of a DISC or former DISC which is included in the gross estate of the decedent, including but not limited to property which—

(1) Is acquired from the decedent before his death, and the entire property is subsequently included in the decedent's gross estate for estate tax purposes, or

(2) Is acquired property described in paragraph (d) of § 1.1014-3.

(b) *Portion of property acquired from decedent before his death included in decedent's gross estate—(1) In general.* In cases where, due to the operation of the estate tax, only a portion of property which consists of stock of a DISC or former DISC and which is acquired from a decedent before his death is included in the decedent's gross estate, the uniform basis of such stock under section 1014, as determined pursuant to §§ 1.1014-1 through 1.1014-8, shall be reduced by an amount which bears the same ratio to the amount of reduction which would have been determined under paragraph (a) of this section if the entire property consisting of such stock were included in the decedent's gross estate as the value of such property included in the decedent's gross estate bears to the value of the entire property.

(2) *Example.* The provisions of this paragraph may be illustrated by the following example:

Example: The decedent creates a trust during his lifetime to pay the income to A for life, remainder to B or his estate. The trust instrument further provides that if the decedent shall survive A, the income shall be paid to the decedent for life. 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 stock of X corporation (which is a DISC at the time the shares are transferred to the trust and at the time of the decedent's death) 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. Applying the principles of paragraph (b)(3)(i) of § 1.1014-6, the uniform basis of the entire