

adjustments in respect of capital expenditures or losses, tax-free distributions, or other distributions applicable in reduction of basis, or other items for which the basis is adjustable are made without regard to which one of the persons to whom the same uniform basis is applicable makes the capital expenditures or sustains the capital losses, or to whom the tax-free or other distributions are made, or to whom the deductions are allowed or allowable. See § 1.1014-6 for adjustments in respect of property acquired from a decedent prior to his death.

(c) *Records.* The executor or other legal representative of the decedent, the fiduciary of a trust under a will, the life tenant and every other person to whom a uniform basis under this section is applicable, shall maintain records showing in detail all deductions, distributions, or other items for which adjustment to basis is required to be made by sections 1016 and 1017, and shall furnish to the district director such information with respect to those adjustments as he may require.

#### § 1.1014-5 Gain or loss.

(a) *Sale or other disposition of a life interest, remainder interest, or other interest in property acquired from a decedent.* (1) Except as provided in paragraph (b) of this section with respect to the sale or other disposition after October 9, 1969, of a term interest in property, gain or loss from a sale or other disposition of a life interest, remainder interest, or other interest in property acquired from a decedent is determined by comparing the amount of the proceeds with the amount of that part of the adjusted uniform basis which is assignable to the interest so transferred. The adjusted uniform basis is the uniform basis of the entire property adjusted to the date of sale or other disposition of any such interest as required by sections 1016 and 1017. The uniform basis is the unadjusted basis of the entire property determined immediately after the decedent's death under the applicable sections of part II of subchapter O of chapter 1 of the Code.

(2) Except as provided in paragraph (b) of this section, the proper measure of gain or loss resulting from a sale or other disposition of an interest in prop-

erty acquired from a decedent is so much of the increase or decrease in the value of the entire property as is reflected in such sale or other disposition. Hence, in ascertaining the basis of a life interest, remainder interest, or other interest which has been so transferred, the uniform basis rule contemplates that proper adjustments will be made to reflect the change in relative value of the interests on account of the passage of time.

(3) The factors set forth in the tables contained in § 20.2031-7 or, for certain prior periods, § 20.2031-7A, of part 20 of this chapter (Estate Tax Regulations) shall be used in the manner provided therein in determining the basis of the life interest, the remainder interest, or the term certain interest in the property on the date such interest is sold. The basis of the life interest, the remainder interest, or the term certain interest is computed by multiplying the uniform basis (adjusted to the time of the sale) by the appropriate factor. In the case of the sale of a life interest or a remainder interest, the factor used is the factor (adjusted where appropriate) which appears in the life interest or the remainder interest column of the table opposite the age (on the date of the sale) of the person at whose death the life interest will terminate. In the case of the sale of a term certain interest, the factor used is the factor (adjusted where appropriate) which appears in the term certain column of the table opposite the number of years remaining (on the date of sale) before the term certain interest will terminate.

(b) *Sale or other disposition of certain term interests.* In determining gain or loss from the sale or other disposition after October 9, 1969, of a term interest in property (as defined in paragraph (f)(2) of § 1.1001-1) the adjusted basis of which is determined pursuant, or by reference, to section 1014 (relating to the basis of property acquired from a decedent) or section 1015 (relating to the basis of property acquired by gift or by a transfer in trust), that part of the adjusted uniform basis assignable under the rules of paragraph (a) of this section to the interest sold or otherwise disposed of shall be disregarded to the extent and in the manner provided

by section 1001(e) and paragraph (f) of § 1.1001-1.

(c) *Illustrations.* The application of this section may be illustrated by the following examples, in which references are made to the actuarial tables contained in part 20 of this chapter (Estate Tax Regulations):

*Example 1.* Securities worth \$500,000 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 \$387,440 ( $\$500,000 \times 0.77488$ ), and the present value of the portion of the uniform basis assigned to S's remainder interest is \$112,560 ( $\$500,000 \times 0.22512$ ). W sells her life interest to her nephew, A, on February 1, 1971, for \$370,000, at which time W is still 48 years of age. Pursuant to section 1001(e), W realizes no loss; her gain is \$370,000, the amount realized from the sale. A has a basis of \$370,000 which he can recover by amortization deductions over W's life expectancy.

*Example 2.* The facts are the same as in example (1) except that W retains the life interest for 12 years, until she is 60 years of age, and then sells it to A on February 1, 1983, when the fair market value of the securities has increased to \$650,000. By reference to § 20.2031-7A(c), the life estate factor for age 60, female, is found to be 0.63226 and the remainder factor for such age is found to be 0.36774. Therefore, the present value on February 1, 1983, of the portion of the uniform basis assigned to W's life interest is \$316,130 ( $\$500,000 \times 0.63226$ ) and the present value on that date of the portion of the uniform basis assigned to S's remainder interest is \$183,870 ( $\$500,000 \times 0.36774$ ). W sells her life interest for \$410,969, that being the commuted value of her remaining life interest in the securities as appreciated ( $\$650,000 \times 0.63226$ ). Pursuant to section 1001(e), W's gain is \$410,969, the amount realized. A has a basis of \$410,969 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. There-

fore, 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