

Internal Revenue Service, Treasury

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(b) The fair market value of the property in the fund at the time of C's contribution is \$40,000. Assuming the fair market value of the property in the fund is \$100,000 on December 31, 1970, and that the income of the fund for the second quarter ending December 31, 1970, is \$2,000, the income is shared by the income beneficiaries and X University as follows:

<i>Beneficiary</i>	<i>Allocation of income</i>
A, B, and C	90% (\$90,000 divided by \$100,000).
X University	10% (\$10,000 divided by \$100,000).

(c) For the quarter ending December 31, 1970, each unit of participation is allocated \$2 (90 percent×\$2,000 divided by 900) of the income earned for that quarter. A, B, C, and X University share in the income as follows:

<i>Beneficiary</i>	<i>Share of income</i>
A	\$200 (100×\$2).
B	\$400 (200×\$2).
C	\$1,200 (600×\$2).
X University	\$200 (10%×\$2,000).

[T.D. 7105, 36 FR 6477, Apr. 6, 1971; 36 FR 7004, Apr. 13, 1971, as amended by T.D. 7125, 36 FR 11032, June 8, 1971; T.D. 7357, 40 FR 23742, June 2, 1975; T.D. 7633, 44 FR 57925, Oct. 9, 1979; T.D. 9102, 69 FR 18, Jan. 2, 2004]

§ 1.642(c)-6 Valuation of a remainder interest in property transferred to a pooled income fund.

(a) *In general.* (1) For purposes of sections 170, 2055, 2106, and 2522, the fair market value of a remainder interest in property transferred to a pooled income fund is its present value determined under paragraph (d) of this section.

(2) The present value of a remainder interest at the time of the transfer of property to the pooled income fund is determined by computing the present value (at the time of the transfer) of the life income interest and subtracting that value from the fair market value of the transferred property on the valuation date. The fact that the income beneficiary may not receive the last income payment, as provided in paragraph (b)(7) of § 1.642(c)-5, is not taken into account for purposes of determining the value of the life income interest. For purposes of this section, the valuation date is the date on which property is transferred to the fund by the donor except that, for purposes of section 2055 or 2106, it is the alternate valuation date, if elected, under the provisions and limitations set forth in

section 2032 and the regulations thereunder.

(3) Any claim for a deduction on any return for the value of the remainder interest in property transferred to a pooled income fund must be supported by a statement attached to the return showing the computation of the present value of the interest.

(b) *Actuarial computations by the Internal Revenue Service.* The regulations in this and in related sections provide tables of actuarial factors and examples that illustrate the use of the tables in determining the value of remainder interests in property. Section 1.7520-1(c)(2) refers to government publications that provide additional tables of factors and examples of computations for more complex situations. If the computation requires the use of a factor that is not provided in this section, the Commissioner may supply the factor upon a request for a ruling. A request for a ruling must be accompanied by a recitation of the facts including the pooled income fund's highest yearly rate of return for the 3 taxable years immediately preceding the date of transfer, the date of birth of each measuring life, and copies of the relevant documents. A request for a ruling must comply with the instructions for requesting a ruling published periodically in the Internal Revenue Bulletin (see §§ 601.201 and 601.601(d)(2)(ii)(b) of this chapter) and include payment of the required user fee. If the Commissioner furnishes the factor, a copy of the letter supplying the factor should be attached to the tax return in which the deduction is claimed. If the Commissioner does not furnish the factor, the taxpayer must furnish a factor computed in accordance with the principles set forth in this section.

(c) *Computation of pooled income fund's yearly rate of return.* (1) For purposes of determining the present value of the life income interest, the yearly rate of return earned by a pooled income fund for a taxable year is the percentage obtained by dividing the amount of income earned by the pooled income fund for the taxable year by an amount equal to—

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(i) The average fair market value of the property in such fund for that taxable year; less

(ii) The corrective term adjustment.

(2) The average fair market value of the property in a pooled income fund for a taxable year shall be the sum of the amounts of the fair market value of all property held by the pooled income fund on each determination date, as defined in paragraph (a)(5)(vi) of § 1.642(c)-5, of such taxable year divided by the number of determination dates in such taxable year. For such purposes the fair market value of property held by the fund shall be determined without including any income earned by the fund.

(3)(i) The corrective term adjustment shall be the sum of the products obtained by multiplying each income payment made by the pooled income fund within its taxable year by the percentage set forth in column (2) of the following table opposite the period within such year, set forth in column (1), which includes the date on which that payment is made:

(1) Payment period	(2) Percentage of payment
Last week of 4th quarter	0
Balance of 4th quarter	25
Last week of 3d quarter	25
Balance of 3d quarter	50
Last week of 2d quarter	50
Balance of 2d quarter	75
Last week of 1st quarter	75
Balance of 1st quarter	100

(ii) If the taxable year of the fund consists of less than 12 months, the corrective term adjustment shall be the sum of the products obtained by multiplying each income payment made by the pooled income fund within such taxable year by the percentage obtained by subtracting from 1 a fraction the numerator of which is the number of days from the first day of such taxable year to the date of such income payment and the denominator of which is 365.

(4) A pooled income fund's method of calculating its yearly rate of return must be supported by a full statement attached to the income tax return of the pooled income fund for each taxable year.

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

Example 1. (a) The pooled income fund maintained by W University has established determination dates on the first day of each calendar quarter. The pooled income fund is on a calendar-year basis. The pooled income fund earned \$5,000 of income during 1971. The fair market value of its property (determined without including any income earned by the fund), and the income paid out, on the first day of each calendar quarter in 1971 are as follows:

Date	Fair market value of property	Income payment
Jan. 1	\$100,000	\$1,200
Apr. 1	105,000	1,200
July 1	95,000	1,200
Oct. 1	100,000	1,400
	400,000	5,000

(b) The average fair market value of the property in the fund for 1971 is \$100,000 (\$400,000, divided by 4).

(c) The corrective term adjustment for 1971 is \$3,050, determined by applying the percentages obtained in column (2) of the table in subparagraph (3) of this paragraph:

Multiplication:	Product
100%×\$1,200	\$1,200
75%×\$1,200	900
50%×\$1,200	600
25%×\$1,400	350
Sum of products	3,050

(d) The pooled income fund's yearly rate of return for 1971 is 5.157 percent, determined as follows:

$$\$5,000 \div \$100,000 - \$3,050 = 0.05157$$

Example 2. (a) The pooled income fund maintained by X University has established determination dates on the first day of each calendar quarter. The pooled income fund is on a calendar-year basis. The pooled income fund earned \$5,000 of income during 1971 and paid out \$3,000 on December 15, 1971, and \$2,000 on January 15, 1972, the last amount being treated under paragraph (b)(7) of § 1.642(c)-5 as paid on December 31, 1971. The fair market value of its property (determined without including any income earned by the fund) on the determination dates in 1971 and the income paid out during 1971 are as follows:

Date	Fair market value of property	Income payment
Jan. 1	\$125,000
Apr. 1	125,000
July 1	75,000
Oct. 1	75,000
Dec. 15	\$3,000

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Date	Fair market value of property	Income payment
Dec. 31	2,000
	400,000	5,000

(b) The average fair market value of the property in the fund for 1971 is \$100,000 (\$400,000 divided by 4).

(c) The corrective term adjustment for 1971 is \$750, determined by applying the percentages obtained in column (2) of the table in subparagraph (3) of this paragraph:

	Product
Multiplication:	
0%×\$2,000	
25%×\$3,000	\$750
Sum of products	750

(d) The pooled income fund's yearly rate of return for 1971 is 5.038 percent, determined as follows:

$$\$5,000 \div \$100,000 - \$750 = 0.05038$$

(d) and (e) [Reserved] For further guidance, see § 1.642(c)-6T(d) and (e).

Valuation dates		Applicable regulations
After	Before	
12-31-51	01-01-52	1.642(c)-6A(a).
	01-01-71	1.642(c)-6A(b).
12-31-70	12-01-83	1.642(c)-6A(c).
11-30-83	05-01-89	1.642(c)-6A(d).
04-30-89	05-01-99	1.642(c)-6A(e).
04-30-99	05-01-09	1.642(c)-6A(f).

(e) *Present value of the remainder interest in the case of transfers to pooled income funds for which the valuation date is on or after May 1, 2009—(1) In general.* In the case of transfers to pooled income funds for which the valuation date is on or after May 1, 2009, the present value of a remainder interest is determined under this section. See, however, § 1.7520-3(b) (relating to exceptions to the use of prescribed tables under certain circumstances). The present value of a remainder interest that is dependent on the termination of the life of one individual is computed by the use of Table S in paragraph (e)(6) of this section. For purposes of the computations under this section, the age of an individual is the age at the individual's nearest birthday.

(2) *Transitional rules for valuation of transfers to pooled income funds.* (i) For

(f) *Effective/applicability dates.* This section applies after April 30, 1999, and before May 1, 2009.

[T.D. 7105, 36 FR 6480, Apr. 6, 1971; 36 FR 9512, May 26, 1971; 36 FR 12290, June 30, 1971, as amended by T.D. 7955, 49 FR 19976, May 11, 1984; T.D. 8540, 59 FR 30105, June 10, 1994; T.D. 8819, 64 FR 23190, Apr. 30, 1999; T.D. 8886, 65 FR 36910, June 12, 2000; T.D. 9448, 74 FR 21440, May 7, 2009]

§ 1.642(c)-6T Valuation of a remainder interest in property transferred to a pooled income fund (temporary).

(a) through (c) [Reserved] For further guidance, see § 1.642(c)-6(a) through (c).

(d) *Valuation.* The present value of the remainder interest in property transferred to a pooled income fund on or after May 1, 2009, is determined under paragraph (e) of this section. The present value of the remainder interest in property transferred to a pooled income fund for which the valuation date is before May 1, 2009, is determined under the following sections:

purposes of sections 2055, 2106, or 2624, if on May 1, 2009, the decedent was mentally incompetent so that the disposition of the property could not be changed, and the decedent died on or after May 1, 2009, without having regained competency to dispose of the decedent's property, or the decedent died within 90 days of the date that the decedent first regained competency on or after May 1, 2009, the present value of a remainder interest is determined as if the valuation date with respect to the decedent's gross estate is either before or after May 1, 2009, at the option of the decedent's executor.

(ii) For purposes of sections 170, 2055, 2106, 2522, or 2624, in the case of transfers to a pooled income fund for which the valuation date is on or after May 1, 2009, and before July 1, 2009, the present value of the remainder interest under