## Rev. Rul. 2007-13, Situation 2

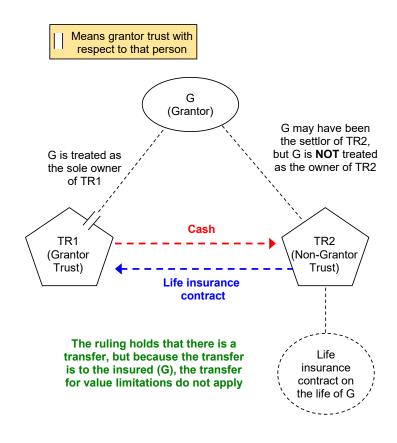
## Sale of Life Insurance Contract From Non-Grantor Trust to Grantor Trust

Copyright © 2023 Andrew Mitchel LLC International Tax Services www.andrewmitchel.com

TR1 is a grantor trust that is treated as wholly owned by G under subpart E of Part I of subchapter J of the Internal Revenue Code. TR2 is a not a grantor trust. TR2 owns a life insurance contract upon the life of G. TR2 transfers the life insurance contract to TR1 in exchange for cash.

Section 101(a)(2) provides, generally, that if a life insurance contract, or any interest therein, is transferred for a valuable consideration, the exclusion from gross income provided by section 101(a)(1) shall not exceed an amount equal to the sum of the actual value of the consideration and the premiums and other amounts subsequently paid by the transferee.

Section 101(a)(2)(B) provides that section 101(a)(2) does not apply to a transfer of a life insurance contract or any interest therein to the insured, to a partner of the insured, to a partnership in which the insured is a partner, or to a corporation in which the insured is a shareholder or officer.



Because G is treated as the owner of all the assets of TR1 but not of TR2 for federal income tax purposes, G is treated as the owner of the cash (but not the life insurance contract) before the exchange, and as the owner of the life insurance contract (but not the cash) after the exchange. Accordingly, there has been a transfer of the life insurance contract for a valuable consideration within the meaning of section 101(a)(2). Nevertheless, the transfer for value limitations of section 101(a)(2) do not apply, because the transfer to TR1 is treated as a transfer to G, the insured, within the meaning of section 101(a)(2)(B).