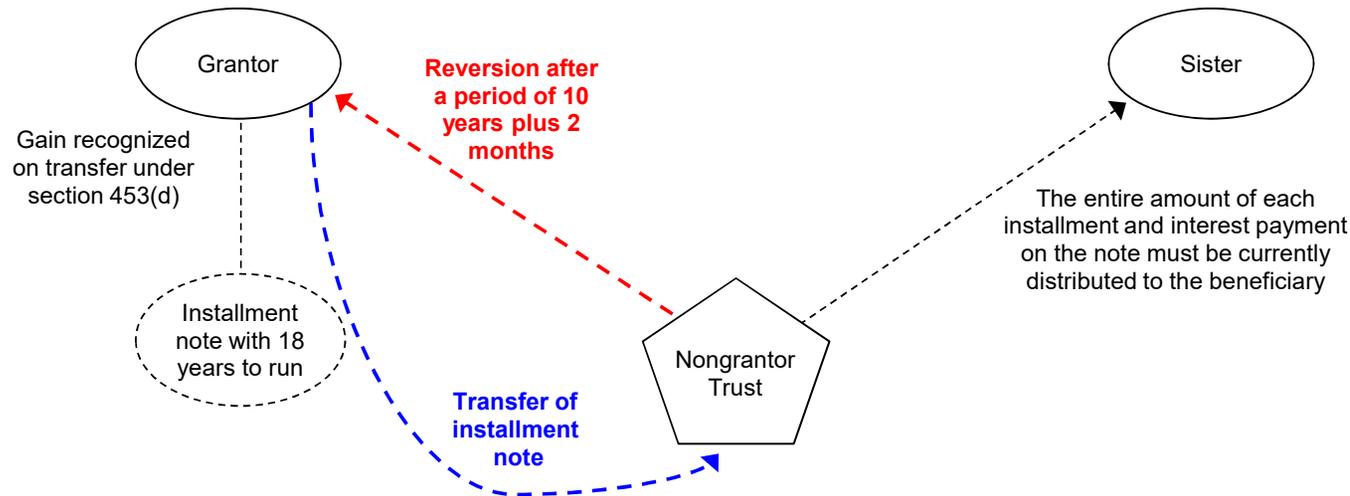


## Transfer of an Installment Note to a Nongrantor Trust Was a Disposition



The grantor sold property and accepted an installment note providing for payment in monthly installments over a period of 20 years plus interest at 6% on the unpaid balance. He properly elected to report the gain on the sale on the installment method of accounting under section 453. The grantor, while the installment obligation still had 18 years to run, transferred the installment note in trust for the benefit of his sister. The trust instrument provides that the entire amount of each installment and interest payment on the note shall be currently distributed to the beneficiary. The trust instrument also provides that the trust shall terminate after ten years and two months at which time the balance due on the installment obligation shall revert to the grantor.

Section 453(d) provides that if an installment obligation is disposed of, gain or loss shall result to the transferor in the taxable year in which the disposition occurs to the extent of the difference between the basis of the obligation and the fair market value of the obligation at the time of disposition, in the case of disposition otherwise than by sale or exchange. The transfer of an installment obligation in trust results in a disposition of the installment obligation with immediate tax consequences to the grantor in all cases where the facts and circumstances are such that the grantor is not the owner of any part of the trust under the provisions of subpart E of subchapter J of the Code. Under the circumstances of this case, the grantor is not the owner of any part of the trust. (Cf. Rev. Rul. 67-70.) Accordingly, the transfer in trust of the installment obligation effected a "disposition" of the obligation. The grantor is taxable in the year of the transfer on the difference between the basis of the obligation and its fair market value at the time of transfer.