

tion 163(h).

Example 8. The will of Testator, who dies in 2000, directs the executor to distribute the X stock and all dividends therefrom to child A and the residue of the estate to child B. The estate has two separate shares consisting of the income on the X stock bequeathed to A and the residue of the estate bequeathed to B. The bequest of the X stock meets the definition of section 663(a)(1) and therefore is not a separate share. If any distributions, other than shares of the X stock, are made during the year to either A or B, then for purposes of determining the distributable net income for the separate shares, gross income attributable to dividends on the X stock must be allocated to A's separate share and any other income must be allocated to B's separate share.

Example 9. The will of Testator, who dies in 2000, directs the executor to divide the residue of the estate equally between Testator's two children, A and B. The will directs the executor to fund A's share first with the proceeds of Testator's individual retirement account. The date of death value of the estate after the payment of debts, expenses, and estate taxes is \$9,000,000. During 2000, the \$900,000 balance in Testator's individual retirement account is distributed to the estate. The entire \$900,000 is allocated to corpus under applicable local law. This amount is income in respect of a decedent within the meaning of section 691(a). The estate has two separate shares, one for the benefit of A and one for the benefit of B. If any distributions are made to either A or B during the year, then, for purposes of determining the distributable net income for each separate share, the \$900,000 of income in respect of a decedent must be allocated to A's share.

Example 10. The facts are the same as in *Example 9*, except that the will directs the executor to fund A's share first with X stock valued at \$3,000,000, rather than with the proceeds of the individual retirement account. The estate has two separate shares, one for the benefit of A and one for the benefit of B. If any distributions are made to either A or B during the year, then, for purposes of determining the distributable net income for each separate share, the \$900,000 of gross income attributable to the proceeds from the individual retirement account must be allocated between the two shares to the extent that they could potentially be funded with those proceeds. The maximum amount of A's share that could potentially be funded with the income in respect of decedent is \$1,500,000 (\$4,500,000 value of share less \$3,000,000 to be funded with stock) and the maximum amount of B's share that could potentially be funded with income in respect of decedent is \$4,500,000. Based upon the relative values of these amounts, the gross income attributable to the proceeds of the individual retirement account is allocated \$225,000 (or one-fourth) to A's share

and \$675,000 (or three-fourths) to B's share.

Example 11. The will of Testator, who dies in 2000, provides that after the payment of specific bequests of money, the residue of the estate is to be divided equally among the Testator's three children, A, B, and C. The will also provides that during the period of administration one-half of the income from the residue is to be paid to a designated charitable organization. After the specific bequests of money are paid, the estate initially has three equal separate shares. One share is for the benefit of the charitable organization and A, another share is for the benefit of the charitable organization and B, and the last share is for the benefit of the charitable organization and C. During the period of administration, payments of income to the charitable organization are deductible by the estate to the extent provided in section 642(c) and are not subject to the distribution provisions of sections 661 and 662.

Par. 9. Section 1.663(c)-6 is added to read as follows:

§1.663(c)-6 Effective dates.

Sections 1.663(c)-1 through 1.663(c)-5 are applicable for estates and qualified revocable trusts within the meaning of section 645(b)(1) with respect to decedents who die after December 28, 1999. However, for estates and qualified revocable trusts with respect to decedents who died after the date that section 1307 of the Tax Reform Act of 1997 became effective but before December 28, 1999, the IRS will accept any reasonable interpretation of the separate share provisions, including those provisions provided in 1999-11 I.R.B. 41 (see §601.601(d)(2)(ii)(b) of this chapter). For trusts other than qualified revocable trusts, §1.663(c)-2 is applicable for taxable years of such trusts beginning after December 28, 1999.

Robert E. Wenzel,
*Deputy Commissioner of
Internal Revenue.*

Approved December 13, 1999.

Jonathan Talisman,
*Acting Assistant Secretary
for the Treasury.*

(Filed by the Office of the Federal Register on December 27, 1999, 8:45 a.m., and published in the issue of the Federal Register for December 28, 1999, 64 F.R. 72540)

Section 807.—Rules for Certain Reserves

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of January 2000. See Rev. Rul. 2000-1, page 250.

Section 846.—Discounted Unpaid Losses Defined

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of January 2000. See Rev. Rul. 2000-1, page 250.

Section 1274.—Determination of Issue Price in the Case of Certain Debt Instruments Issued for Property

(Also Sections 42, 280G, 382, 412, 467, 468, 482, 483, 642, 807, 846, 1288, 7520, 7872.)

Federal rates; adjusted federal rates; adjusted federal long-term rate, and the long-term exempt rate. For purposes of sections 1274, 1288, 382, and other section of the Code, tables set forth the rates for January 2000.

Rev. Rul. 2000-1

This revenue ruling provides various prescribed rates for federal income tax purposes for January 2000 (the current month.) Table 1 contains the short-term, mid-term, and long-term applicable federal rates (AFR) for the current month for purposes of section 1274(d) of the Internal Revenue Code. Table 2 contains the short-term, mid-term, and long-term adjusted applicable federal rates (adjusted AFR) for the current month for purposes of section 1288(b). Table 3 sets forth the adjusted federal long-term rate and the long-term tax-exempt rate described in section 382(f). Table 4 contains the appropriate percentages for determining the low-income housing credit described in section 42(b)(2) for buildings placed in service during the current month. Table 5 contains the federal rate for determining the present value of an annuity, an interest for life or for a term of years, or a remainder or a reversionary interest for purposes of section 7520. Finally, Table 6 contains the deemed rate of return for transfers made during calendar year 2000 to pooled income funds described in § 642(c)(5) that have been in existence for less than 3 taxable years immediately preceding the taxable year in which the transfer is made.

REV. RUL. 2000-1 TABLE 1

Applicable Federal Rates (AFR) for January 2000

Period for Compounding

	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
<i>Short-Term</i>				
AFR	5.88%	5.80%	5.76%	5.73%
110% AFR	6.48%	6.38%	6.33%	6.30%
120% AFR	7.08%	6.96%	6.90%	6.86%
130% AFR	7.68%	7.54%	7.47%	7.42%
<i>Mid-Term</i>				
AFR	6.21%	6.12%	6.07%	6.04%
110% AFR	6.84%	6.73%	6.67%	6.64%
120% AFR	7.47%	7.34%	7.27%	7.23%
130% AFR	8.12%	7.96%	7.88%	7.83%
150% AFR	9.39%	9.18%	9.08%	9.01%
175% AFR	11.00%	10.71%	10.57%	10.48%
<i>Long-Term</i>				
AFR	6.45%	6.35%	6.30%	6.27%
110% AFR	7.11%	6.99%	6.93%	6.89%
120% AFR	7.77%	7.62%	7.55%	7.50%
130% AFR	8.43%	8.26%	8.18%	8.12%

REV. RUL. 2000-1 TABLE 2

Adjusted AFR for January 2000

Period for Compounding

	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
Short-term adjusted AFR	4.01%	3.97%	3.95%	3.94%
Mid-term adjusted AFR	4.66%	4.61%	4.58%	4.57%
Long-term adjusted AFR	5.59%	5.51%	5.47%	5.45%

REV. RUL. 2000-1 TABLE 3

Rates Under Section 382 for January 2000

Adjusted federal long-term rate for the current month	5.59%
Long-term tax-exempt rate for ownership changes during the current month (the highest of the adjusted federal long-term rates for the current month and the prior two months.)	5.72%

REV. RUL. 2000-1 TABLE 4

Appropriate Percentages Under Section 42(b)(2)
for January 2000

Appropriate percentage for the 70% present value low-income housing credit	8.48%
Appropriate percentage for the 30% present value low-income housing credit	3.64%

REV. RUL. 2000-1 TABLE 5

Rate Under Section 7520 for January 2000

Applicable federal rate for determining the present value of an annuity, an interest for life or a term of years, or a remainder or reversionary interest	7.4%
---	------

Rev. Rul. 2000-1 TABLE 6

Deemed Rate of Transfers to New Pooled Income Funds During 2000

Deemed rate of return for transfers during 2000 to pooled income funds that have been in existence for less than 3 taxable years	6.80%
--	-------