

(d) the amount of the account receivable from the DISC's shareholder established by the related supplier under section 4.03 above; and

(e) the parties' rights to receive payment of the accounts receivable referred to in (c) and (d) above free of further Federal income tax consequences, provided such payments are made within the time and in the manner prescribed by section 1.994-1(e)(5) of the regulations.

.02 Cases pending before the United States Tax Court.—If a case has reached trial status in the Tax Court and it is determined that the taxpayer is entitled to the benefits of the provisions of section 4 above, the parties may stipulate or otherwise arrange with the Court so that any adjustment in tax for the years before the Court will reflect the application of section 4 above, provided the DISC's shareholder executes the required closing agreement.

.03 Closed cases.—In any closed case involving a redetermination of DISC income, the DISC's shareholder may file a request for the treatment provided by section 4 above, if such treatment will not change any taxpayer's liability for a year which is barred by the statute of limitations, or a year for which the tax liability has been finally determined by offer in compromise, closing agreement, or court action. Such request must be filed within 180 days after September 9, 1985, with the District Director for the District in which the shareholder filed its tax return for the year to which such redetermination relates, and shall contain the information required by section 5.011 above. The request will then be processed in the same manner as in a pending case described in sections 5.012 and 5.013 above.

.04 Cases within the jurisdiction of the Department of Justice.—If a taxpayer files a request for treatment under section 4 above with the appropriate District Director, with respect to a case within the jurisdiction of the Department of Justice, the Service, through its Chief Counsel, will recommend to the Department of Justice the action to be taken with respect to the taxpayer's request.

SEC. 6. EFFECTIVE DATE

This revenue procedure will be effective

as of October 12, 1984, the date on which section 1.994-1(e)(5)(v) of the regulations was adopted in final form and was published in the Federal Register.

SEC. 7. EFFECT ON OTHER REVENUE PROCEDURES

Rev. Proc. 84-3 is modified and superseded.

26 CFR 601.602: Tax forms and instructions. (Also Part 1, Sections 2511, 2512, 7872; 25.2511-1, 25.2512-1.)

Rev. Proc. 85-46

SECTION 1. PURPOSE

The purpose of this revenue procedure is to provide guidance in valuing and reporting gifts resulting from low-interest and interest-free demand loans for 1984 and prior years.

SEC. 2. BACKGROUND

.01 Section 2501 of the Internal Revenue Code imposes a tax on the transfer of property by gifts. Section 25.2511-1 of the Gift Tax Regulations provides that all transactions whereby property or property rights or interests are gratuitously passed or conferred upon another, regardless of the means or device employed, constitute gifts subject to gift tax. Section 25.2512-1 of the regulations provides that the value of the property transferred at the date of the gift is the amount of the gift. The value of the use of amoney subject to an interest-free demand note constitutes a gift for gift tax purposes. See Rev. Rul. 73-61, 1973-1 C.B. 408. In addition, the transfer of property in exchange for a note accruing interest at a rate below the prevailing market rate constitutes a gift for gift tax purposes. See *Blackburn v. Commissioner*, 20 T.C. 204 (1953), which held that the amount of the gift was the value of the property minus the mortgage note valued to reflect the present value of the deferral at prevailing interest rates.

.02 In *Dickman v. Commissioner*, 104 S. Ct. 1086 (1984), 1984-1 C.B. 197, the Supreme Court held that, in the case of an interest-free demand loan, a gift is made of the value of the use of the money loaned. While the Court did not decide the issue of valuation of such a gift, the Court did

state that the right to use money is plainly a valuable right, readily measurable by reference to current interest rates. The Court also took notice of the fact that the interest rates for demand loans are ordinarily less than the interest rates for term certain loans.

.03 News Release IR-84-60, dated May 11, 1984, announced that for interest-free demand loan gifts made before January 1, 1984, donors may compute the value of the gifts by multiplying the average outstanding loan balance for the calendar period by interest rates that are based upon the lesser of either the statutory interest rate for refunds and deficiencies or the annual average rate for three month Treasury bills.

.04 News Release IR-84-60 also stated that the Service will not require gift tax reporting for interest-free demand loan gifts made before January 1, 1984, if the amount of the gift to a donee is less than the annual exclusion for the year, or if the average annual outstanding balance of the loan did not total, in the aggregate, more than \$50,000 per year per donee made by a single taxpayer (\$100,000 made by a married couple). News Release IR-84-60 was published as Announcement 84-60, 1984-23 I.R.B. 58, on June 4, 1984.

.05 Code Section 7872, which was enacted by the Tax Reform Act of 1984, (P.L. 98-369), 98 Stat. 699, provides special rules for valuing interest-free and other below market loan gifts made after the applicable effective date of that Act. Section 7872(c)(2) provides a de minimis exception rule for gift loans directly between individuals if the aggregate amount of all loans outstanding between the lender and borrower does not exceed \$10,000.

SEC. 3. APPLICATION

.01 *Demand Loan Gifts—Years Affected.* A taxpayer who loans money on an interest-free demand basis makes a gift of the value of the use of the money loaned. In addition, a taxpayer who loans money on a demand basis at an interest rate below the prevailing market rate makes a low-interest demand loan gift of the value of the use of the money based on the difference between the rate at which the money is loaned and the prevailing market rate.

When the loan is payable upon demand, a gift occurs, the value of which is measured by the number of days that the loan is outstanding. Whether the loan is outstanding for an entire gift tax reporting period or for only part of a period, the gift of the value of the use of the money loaned is to be computed as of the end of the reporting period. A gift tax return for that period is required to be filed if the value of the gift exceeds the limits described in section 3.05 of this procedure. See section 3.12 for the nonapplicability of these limits to gifts of future interests. Preceding gift tax reporting periods are 1) June 2, 1924, to December 31, 1924, June 6, 1932, to December 31, 1932; 2) calendar years 1925 and 1933 through 1970; 3) the first calendar quarter of 1971 and all intervening quarters through 1981; and 4) all calendar years after 1981.

.02 Valuation of Demand Loan Gifts. The value of a gift resulting from an interest-free demand loan outstanding before January 1, 1984, may be computed for any calendar period by multiplying the average outstanding loan balance for that period by the interest rate for the applicable year in the list in section 3.05 of this procedure. The value of a gift resulting from a low-interest demand loan outstanding before January 1, 1984, may be computed for any calendar period by multiplying the average outstanding loan balance for each loan for that period by the difference between the rate of interest on the gift loan and the interest rate for the applicable year in the list in section 3.05. The value of a gift for periods before the effective date of section 7872 resulting from an interest-free or low-interest demand loan outstanding during 1984 may also be computed by using the applicable interest rate or rates for 1984 from the list in section 3.05. A rate of 9.9% is to be used for computing the value of gifts for each day that such loans were outstanding from January 1, 1984, through June 6, 1984, and for each day after June 6,

1984, that such loans were outstanding provided that the loan was outstanding on June 6, 1984, and repaid before September 17, 1984. Interest-free and low-interest demand loans which were outstanding after June 6, 1984, whose interest rate provisions were modified before September 17, 1984, are treated as if repaid on the date of modification. See News Release IR-84-95, dated August 28, 1984. Accordingly, these loans may be valued using the 9.9% rate for the period beginning on January 1, 1984, and ending on the date of modification. Section 7872 governs interest-free and low-interest demand loans outstanding after June 6, 1984, through December 31, 1984 (unless such loans were outstanding on June 6, 1984, and repaid before September 17, 1984), and requires that a rate of 10 percent, compounded semiannually, be used for computing the value of gifts for each day in 1984 after June 6 that the loan is outstanding. In the case of loans outstanding after June 6, 1984, whose interest rate provisions were modified before September 17, 1984, section 7872 governs the loan beginning on the day following the date of modification. For special rules applicable to interest-free and low-interest demand loans outstanding both on and after June 6, 1984 (and not repaid or modified before September 17, 1984), see section 3.07 of this Revenue Procedure. The rates in section 3.05 are based upon the lesser of either the statutory rate for refunds and deficiencies or the annual average rate for 13-week Treasury bills.

.03 De Minimis Demand Loan Principal Amounts. For low-interest and interest-free demand loan principal amounts outstanding before January 1, 1984, if the average annual outstanding balance of the loans did not total, in the aggregate, more than \$50,000 per year per donee made by a single taxpayer (\$100,000 made by a married couple), no gift tax reporting for the loan gifts is required. Married couples who were qualified for the split-gift election under section 2513 of the Code in any gift

tax period before 1984, in which a gift loan was outstanding but were not required to file a gift tax return for any gifts other than for gifts resulting from loans outstanding during that period, are not required to file a gift tax return if the only reason for filing would be to elect the split-gift provision for that period. This \$50,000/100,000 de minimis rule does not apply to gifts resulting from low-interest and interest-free demand loans outstanding after December 31, 1983.

.04 De Minimis Demand Loan Gifts. For low-interest and interest-free demand loans outstanding before January 1, 1984, if the aggregate amount of the loan gifts to one donee is less than the annual exclusion for the year during which any loans were outstanding, no gift tax reporting for the gifts is required. The annual exclusion from a gift was \$5,000 for years before 1939, \$4,000 for the years 1939 through 1942, \$3,000 for the years 1943 through 1981, and \$10,000 thereafter. Low-interest and interest-free demand loans resulting in gifts to a donee which in the aggregate are not in excess of the annual exclusion may be disregarded for purposes of filing gift tax returns for periods before 1984, even though the donor made gifts other than gifts from low-interest and interest-free demand loans to the same donee during the same year.

For gifts resulting from low-interest and interest-free demand loans outstanding after December 31, 1983, this special exclusion rule does not apply. Thus, after December 31, 1983, if the aggregate amount of the loan gifts to one donee plus gifts other than gifts from low-interest and interest-free demand loans during the same year to that donee is greater than the annual exclusion for the year, a gift tax return is required to be filed.

.05 Rates and De Minimis Gift and Principal Amounts. Applicable interest rates and yearly minimum average annual interest-free loan amounts corresponding to the gift amount that equals the annual exclusion are as follows:

Year	Interest Rate	Gift Amount		Average Annual Interest-Free Loan Amount	
		Single Taxpayer	Married Taxpayer	Single Taxpayer	Married Taxpayer
1984 (before June 7)*	9.9%				
1983	8.6%	10,000	20,000	116,279	232,558
1982	10.6%	10,000	20,000	94,339	188,678
1981	12.0%	3,000	6,000	50,000	100,000
1980	11.5%	3,000	6,000	50,000	100,000
1979	6.0%	3,000	6,000	50,000	100,000
1978	6.1%	3,000	6,000	50,000	100,000
1977	5.2%	3,000	6,000	57,692	115,384
1976	4.9%	3,000	6,000	61,224	122,448
1975	5.8%	3,000	6,000	51,724	103,448
1974	6.0%	3,000	6,000	50,000	100,000
1973	6.0%	3,000	6,000	50,000	100,000
1972	4.0%	3,000	6,000	75,000	150,000
1971	4.3%	3,000	6,000	69,767	139,534
1970	6.0%	3,000	6,000	50,000	100,000
1969	6.0%	3,000	6,000	50,000	100,000
1968	5.3%	3,000	6,000	56,603	113,206
1967	4.3%	3,000	6,000	69,767	139,534
1966	4.8%	3,000	6,000	62,500	125,000
1965	3.9%	3,000	6,000	76,923	153,846
1964	3.5%	3,000	6,000	85,714	171,428
1963	3.1%	3,000	6,000	96,774	193,548
1962	2.7%	3,000	6,000	111,111	222,222
1961	2.3%	3,000	6,000	130,434	260,868
1960	2.9%	3,000	6,000	103,448	206,896
1959	3.4%	3,000	6,000	88,235	176,470
1958	1.8%	3,000	6,000	166,666	333,332
1957	3.2%	3,000	6,000	93,750	187,500
1956	2.6%	3,000	6,000	115,384	230,768
1955	1.7%	3,000	6,000	176,470	352,940
1954	.9%	3,000	6,000	333,333	666,666
1953	1.9%	3,000	6,000	157,894	315,788
1952	1.7%	3,000	6,000	176,470	352,940
1951	1.5%	3,000	6,000	200,000	400,000
1950	1.2%	3,000	6,000	250,000	500,000
1949	1.1%	3,000	6,000	272,727	545,454
1948	1.0%	3,000	6,000	300,000	600,000
1947	.5%	3,000	6,000	600,000	1,200,000
1946	.3%	3,000	6,000	1,000,000	2,000,000
1945	.3%	3,000	6,000	1,000,000	2,000,000
1944	.3%	3,000	6,000	1,000,000	2,000,000
1943	.3%	3,000	6,000	1,000,000	2,000,000
1942	.3%	4,000	8,000	1,333,333	2,666,666
1941	.1%	4,000	8,000	4,000,000	8,000,000
1940	.01%	4,000	8,000	40,000,000	80,000,000
1939	.02%	4,000	8,000	20,000,000	40,000,000

*This rate also applies to demand loans outstanding on and after June 6, 1984, if the loan was repaid before September 17, 1984, or, if its interest rate was modified before September 17, 1984, the interest rate is applicable up to the date of the modification. In the case of any other low-interest or interest-free demand loans outstanding after June 6, 1984, see section 3.07 of this Revenue Procedure.

Interest rates and corresponding average annual interest-free loan amounts for years prior to 1939 have not been included in the table because a combi-

nation of low interest rates during those years and a relatively high (\$5,000) statutory annual exclusion creates a very high loan amount that would ex-

empt all but a relatively few donors from the requirement to report low-interest or interest-free demand loan gifts made in years before 1939. The

interest rates for those years may be obtained by writing to the Associate Chief Counsel (Technical), 1111 Constitution Avenue, N.W., Washington, D.C. 20224.

.06 *Illustrative Computations.* For years prior to 1984, the average annual (or quarterly) loan amount of an interest-free or low-interest demand loan is computed by multiplying the amount of each interest-free or low-interest demand loan made by the taxpayer (and the taxpayer's spouse, if applicable) to each donee which is outstanding during a gift reporting period by a fraction, the numerator of which is the number of days the loan is outstanding during that period and the denominator of which is the number of days in that reporting period. For 1984, the average annual loan amount is determined as in the case of pre-1984 loans, except that the numerator of the fraction is the number of days the loan was outstanding prior to June 7, 1984 (or prior to September 17, 1984, if the loan was repaid or its interest rate modified before September 17, 1984). For purposes of applying this revenue procedure, the number of days the loan is outstanding is calculated by including the day the loan is entered into but excluding the day the loan is repaid.

Number of days in the gift tax reporting periods:

For years prior to 1971, and for 1982, 1983, and 1984;

365—for annual reporting periods (366 for leap years).

For years 1971 through 1981:

90—for the first quarter (except 91 for the first quarter of 1972, 1976, and 1980)

91—for the second quarter

92—for the third quarter, and

92—for the fourth quarter.

Example A: An unmarried taxpayer, *T*, made an interest-free demand loan in the amount of \$150,000 (loan 1), to child *A* on March 1, 1983. No payments were made by *A* until June 15, 1983, at which time the entire loan was repaid. On August 1, 1983, *T* made another interest-free demand loan to *A* in the amount of \$200,000 (loan 2). *A* repaid \$75,000 of loan 2 on September 10, 1983, leaving an outstanding principal amount of \$125,000, none of which was repaid during 1983. On December 1, 1983, *T* made another interest-free demand loan to *A* in the

amount of \$50,000 (loan 3), none of which was repaid in 1983. The average

annual loan amount for 1983 is computed as follows:

	Amount		No. of days outstanding divided by No. of days in reporting Period		Average Annual Loan Amount
Loan 1:	150,000	×	106/365	=	43,561.65
Loan 2:	200,000	×	40/365	=	21,917.80
	125,000	×	112/365	=	38,356.16
Loan 3:	50,000	×	30/365	=	4,109.59
Total Average Annual Loan Amount:					107,945.20

The average annual loan amount (\$107,945.20) for the loans in 1983 is less than the limitation for a single taxpayer set forth in section 3.05 above. (The loans that contribute to the average annual loan amount constitute a gift to *A* of only \$9,283.29 (\$107,945.20 × 8.6%).) Therefore, *T* is not required to file a gift tax return for 1983 reporting the loans to *A*.

Example B: An unmarried taxpayer, *S*, made a demand loan to *C* of \$100,000 at an interest rate of 8 percent (loan 1) on February 1, 1982. No

payment was made by *C* until December 15, 1982, at which time the entire loan was repaid. On March 15, *S* made an interest-free demand loan to *2C* in the amount of \$150,000 (loan 2) which was repaid in full by *C* on October 10, 1982. A third loan was made by *S* to *C* on June 15, in the amount of \$175,000 at an interest rate of 6 percent (loan 3). This loan was not repaid by *C* during 1982. The average annual loan amount and the gift for 1982 are computed as follows:

	Amount		No. of days outstanding divided by No. of days in reporting period		Average Annual Loan Amount
Loan 1:	100,000	×	317/365	=	86,849.32
Loan 2:	150,000	×	209/365	=	85,890.41
Loan 3:	175,000	×	199/365	=	95,410.96

The gifts to *C* are determined by use of the interest rates in section 3.05 reduced by the interest rate actually charged on each respective loan and are computed as follows:

	Average Annual Loan Amount		Interest Rate		Gift
Loan 1:	86,849.32	×	2.6%	=	2,258.08
Loan 2:	85,890.41	×	10.6%	=	9,104.38
Loan 3:	95,410.96	×	4.6%	=	4,388.90
Aggregate Gift to <i>C</i> :					\$15,751.36

Since the aggregate gift (\$15,751.36) from loans to *C* during 1982 exceeded the limitation for a single taxpayer set forth in section 3.05 above, *S* is required to file a gift tax return reporting the loans to *C*.

Example C: A married taxpayer, *M*, made a demand loan of \$125,000 at an interest rate of 8 percent (loan 1) to child *B* on January 15, 1980. No payment was made by *B* until June 10, 1980, at which time the entire loan was

repaid. On February 10, *M* made an interest-free demand loan to *B* in the amount of \$80,000 (loan 2) which was not repaid by *B* during 1980. *M* made another interest-free demand loan to *B* on March 1, 1980, in the amount of \$175,000 which was repaid by *B* on

December 15, 1980. Gifts are determined on a quarterly basis for 1980 because gift tax returns were required to be filed on a quarterly basis for that year. The average quarterly loan amount for the first quarter of 1980 is computed as follows:

Amount	No. of days outstanding divided by No. of days in reporting period	Average Quarterly Loan Amount
Loan 1: 125,000	× 76/91 =	104,395.60
Loan 2: 80,000	× 50/91 =	43,956.04
Loan 3: 175,000	× 30/91 =	57,692.30

Average Quarterly Loan Amount	Average Annualized Loan Amount	Interest Rate	Gift
Loan 1: 104,395.60 × ¼ =	26,098.90	× 3.5% =	913.46
Loan 2: 43,956.04 × ¼ =	10,989.01	× 11.5% =	1,263.74
Loan 3: 57,692.30 × ¼ =	14,423.08	× 11.5% =	1,658.65
Aggregate Gift to <i>B</i> :			3,835.85

Since the amount of the aggregate gift for loans made to *B* by *M* in the first quarter of 1980 is \$3,835.85 and does not exceed the annual limitation for a married taxpayer set forth in section 3.05 above, *M* is not required to file a quarterly gift tax return reporting the loans to *B* for the first quarter of 1980. However, *M* would be required to file quarterly gift tax returns for any subsequent quarter of 1980 in which the aggregate loan amount of prior quarters in 1980 plus the current quarter amount exceeds the limitations of section 3.05 above, taking into consideration the quarterly gift tax filing requirement under section 6075(b) of the Code as in effect in 1980 which required a quarterly return (rather than a yearly return) for a donor whose aggregate year-to-date gifts exceeded \$25,000.

.07 *Coordination with Section 7872.* Interest-free and low-interest demand gift loans outstanding after June 6, 1984, are subject to the rules of section 7872 after June 6, 1984, unless the demand loan is repaid or the interest rate is modified before September 17, 1984. Interest-free and low-interest demand

loans which were outstanding on June 6, 1984, whose interest rate provisions were modified before September 17, 1984, are subject to section 7872 beginning on the date of modification. For purposes of making gift tax computations, an interest-free or low-interest loan outstanding both on and after June 6, 1984, but not repaid or modified before September 17, 1984, is treated as if it was repaid on June 7, 1984 (the "first deemed loan"), and a new loan between the same parties with the same terms was entered into on June 7, 1984 (the "second deemed loan"). The amount of the loan gift with respect to the first deemed loan is determined under the rules set forth in this Revenue Procedure. The amount of the loan gift with respect to the second deemed loan is determined under section 7872. The loan gift amount for the entire year is the sum of the loan gift amounts of both deemed loans.

In the case of an interest-free demand loan of fixed principal amount which is outstanding for the entire 1984 calendar year, the donor may, as an alternative to the approach described in the above paragraph, determine the

loan gift amount for 1984 by multiplying the outstanding balance by an interest rate of 10 percent. In the case of an interest-free demand loan of fixed principal amount outstanding for the entire period of June 7 through December 31, 1984, the donor may, as an alternative to the calculations described in the regulations under section 7872, determine the loan gift amount by multiplying the outstanding balance by an interest rate of 5.68 percent.

Example A: An unmarried taxpayer, *P*, made an interest-free demand loan in the amount of \$150,000 to child *D* on January 15, 1984, which remained outstanding on December 31, 1984. The gift to *D* is determined by treating the loan as if it was repaid on June 7, 1984, and a second interest-free demand loan in the amount of \$150,000 was entered into on June 7, 1984. As to the first loan deemed repaid on June 7, 1984, the average annual loan amount is computed as follows:

$\$150,000 \times 144/366 = \$59,016.39$
 The amount of the gift as to this first loan is \$5,842.62

$(\$59,016.39 \times 9.9\%)$.

Section 7872 governs the second loan deemed to have been made on June 7, 1984. However, because the second deemed loan is outstanding for the entire period June 7 through December 31, 1984, the amount of the loan gift with respect to this second loan may be determined by multiplying the outstanding principal amount (\$150,000) by 5.68 percent, resulting in a loan gift of \$8,520.00.

The loan gift to *D* for 1984 is the sum of the two deemed loan gift amounts, or \$14,362.62 (\$5,842.62 + \$8,520.00).

Example B: Assume the same facts as in Example A except that the loan is already outstanding on January 1, 1984. Because the loan is outstanding for the entire 1984 calendar year, the taxpayer may value the loan gift amount by multiplying the outstanding balance by 10 percent, resulting in a loan gift amount of \$15,000.00.

.08 *Demand Loans other than De Minimis Loans.* A donor is entitled to one statutory annual exclusion for qualifying gifts per donee per year. If part or all of the annual exclusion was ap-

plied to gifts, other than gifts resulting from low-interest and interest-free demand loans, made by the donor to the donee, only the remaining exclusion amount, if any, may be applied to gifts resulting from low-interest and interest-free demand loans that are not de minimis.

.09 Gift Tax Return not Previously Filed. If no gift tax return was filed for any prior taxable period during which the aggregate annualized amount of interest-free demand loans outstanding to one donee exceeded the average annual loan amount in section 3.05 above, the gift must be reported on a properly filed gift tax return and any gift tax due must be paid. Also, if the gifts from both outstanding low-interest and interest-free demand loans total in the aggregate more than the gift amount in section 3.05 above, and no gift tax return was filed for that prior taxable period, the gift must be reported and any gift tax due must be paid.

If the gifts from low-interest and interest-free demand loans to a donee outstanding in a year after December 31, 1983, and other present interest gifts to that donee made in the same year total in the aggregate more than the statutory annual exclusion amount, the gift(s) must be reported and any gift tax due must be paid.

.10 Gift Tax Return Previously Filed. If a gift tax return was filed for any period prior to 1984 during which the aggregate annualized amount of outstanding interest-free demand loans exceeded the average annual loan amount in section 3.05 or the aggregate gifts resulting from outstanding low-interest and interest-free demand loans exceeded the gift amount in section 3.05 and any gift resulting from such loans was not reported on the gift tax return, the gift must be reported on an amended gift tax return properly filed within the statutory limitations for assessment under section 6501 of the Code and any gift tax due must be paid. If a gift tax return was filed for any year which ends after December 31, 1983, during which an interest-free or low-interest demand loan to the donee was outstanding and the total gifts resulting from such loans, and any

other present interest gifts to that donee exceeded the statutory \$10,000 annual exclusion amount, the gift(s) must be reported on a properly filed amended gift tax return.

.11 Refunds for de minimis loan gift or overvaluation. If in any year before 1984, the donor made low-interest or interest-free demand loan gifts that did not in the aggregate exceed the statutory annual exclusion amount for that year and if a gift tax return was filed for that period reporting any such loan gift, a refund of any gift tax paid attributable to the outstanding low-interest and interest-free demand loans may be claimed, but only if the year is one for which a refund claim would otherwise be considered timely filed within the limitation period for refunds allowed under section 6511 of the code. A refund may also be claimed for the excess gift tax paid for any demand loan gift that was reported in a previously filed gift tax return if the gift was valued on the basis of a valuation in excess of the valuation determined pursuant to sections 3.02 and 3.05, but only if the year is one for which a refund claim would otherwise be considered timely filed within the limitation period for refunds allowed under section 6511 of the Code.

.12 Treatment of De Minimis Loan Gifts in Subsequent Tax Returns. Gifts made before January 1, 1984, that resulted from low-interest and interest-free demand loans outstanding in prior gift tax periods of no more than the average annual loan amounts for those periods set forth in section 3.05, will be disregarded for purposes of computing the gift tax on the donor's gifts made in years subsequent to such loans and in computing the estate tax on the donor's estate. However, reportable gifts resulting from low-interest and interest-free demand loans outstanding after December 31, 1983, will not be disregarded for purposes of computing the donor's gift tax in subsequent years and the donor's estate tax.

.13 Indirect Gift Loans. Low-interest and interest-free demand loans made to trusts or other entities are treated for purposes of this revenue procedure as separate loans made proportionately to

those individuals who have a beneficial interest in the trust or other entity. The exceptions set forth in sections 3.03 and 3.04 apply only to individuals who have a present interest in the loan proceeds or the income attributable to the loan proceeds. If the low-interest or interest-free demand loan is transferred to a trust or other entity for the benefit of a donee who is under age 21, the donee is not considered to have a future interest in the income attributable to the loan proceeds for any period during which the gift loan is outstanding and the donee is under age 21, if a) the income from the loan proceeds may be expended by or for the benefit of the donee prior to attaining age 21, b) any portion of the income attributable to the loan proceeds so disposed of will pass to the donee upon attaining the age of 21, and c) any portion of the income of the loan proceeds not disposed of in such manner prior to the donee attaining age 21, will be payable either to the estate of the donee or as the donee may appoint under a general power of appointment as defined in Code section 2514(c) if the donee dies before attaining the age of 21 years.

SEC. 4. EFFECTIVE DATE

This revenue procedure is effective September 16, 1985, the date of its publication.

26 CFR 601.602: Tax forms and instructions.

Rev. Proc. 85-47

CONTENTS

PART A. GENERAL

SECTION 1. PURPOSE

SECTION 2. BACKGROUND— PRIOR YEAR CHANGES (TAX YEAR 1984)

SECTION 3. NATURE OF CHANGES—CURRENT YEAR (TAX YEAR 1985)

SECTION 4. WAGE AND PEN- SION INFORMATION FILED WITH SSA

SECTION 5. APPLICATION FOR MAGNETIC MEDIA REPORT-