

679 applies) is otherwise treated as the owner under the provisions of this subpart other than this section” for “if the grantor of the trust is otherwise treated as the owner under sections 671 to 677, inclusive”.

**EFFECTIVE DATE OF 1983 AMENDMENT**

Amendment by Pub. L. 97-448 effective, except as otherwise provided, as if it had been included in the provision of the Economic Recovery Tax Act of 1981, Pub. L. 97-34, to which such amendment relates, see section 109 of Pub. L. 97-448, set out as a note under section 1 of this title.

**EFFECTIVE DATE OF 1976 AMENDMENT**

For effective date of amendment by Pub. L. 94-455, see section 1013(f)(1) of Pub. L. 94-455, set out as an Effective Date note under section 679 of this title.

**§ 679. Foreign trusts having one or more United States beneficiaries**

**(a) Transferor treated as owner**

**(1) In general**

A United States person who directly or indirectly transfers property to a foreign trust (other than a trust described in section 6048(a)(3)(B)(ii)) shall be treated as the owner for his taxable year of the portion of such trust attributable to such property if for such year there is a United States beneficiary of any portion of such trust.

**(2) Exceptions**

Paragraph (1) shall not apply—

**(A) Transfers by reason of death**

To any transfer by reason of the death of the transferor.

**(B) Transfers at fair market value**

To any transfer of property to a trust in exchange for consideration of at least the fair market value of the transferred property. For purposes of the preceding sentence, consideration other than cash shall be taken into account at its fair market value.

**(3) Certain obligations not taken into account under fair market value exception**

**(A) In general**

In determining whether paragraph (2)(B) applies to any transfer by a person described in clause (ii) or (iii) of subparagraph (C), there shall not be taken into account—

(i) except as provided in regulations, any obligation of a person described in subparagraph (C), and

(ii) to the extent provided in regulations, any obligation which is guaranteed by a person described in subparagraph (C).

**(B) Treatment of principal payments on obligation**

Principal payments by the trust on any obligation referred to in subparagraph (A) shall be taken into account on and after the date of the payment in determining the portion of the trust attributable to the property transferred.

**(C) Persons described**

The persons described in this subparagraph are—

(i) the trust,

(ii) any grantor, owner, or beneficiary of the trust, and

(iii) any person who is related (within the meaning of section 643(i)(2)(B)) to any grantor, owner, or beneficiary of the trust.

**(4) Special rules applicable to foreign grantor who later becomes a United States person**

**(A) In general**

If a nonresident alien individual has a residency starting date within 5 years after directly or indirectly transferring property to a foreign trust, this section and section 6048 shall be applied as if such individual transferred to such trust on the residency starting date an amount equal to the portion of such trust attributable to the property transferred by such individual to such trust in such transfer.

**(B) Treatment of undistributed income**

For purposes of this section, undistributed net income for periods before such individual's residency starting date shall be taken into account in determining the portion of the trust which is attributable to property transferred by such individual to such trust but shall not otherwise be taken into account.

**(C) Residency starting date**

For purposes of this paragraph, an individual's residency starting date is the residency starting date determined under section 7701(b)(2)(A).

**(5) Outbound trust migrations**

If—

(A) an individual who is a citizen or resident of the United States transferred property to a trust which was not a foreign trust, and

(B) such trust becomes a foreign trust while such individual is alive,

then this section and section 6048 shall be applied as if such individual transferred to such trust on the date such trust becomes a foreign trust an amount equal to the portion of such trust attributable to the property previously transferred by such individual to such trust. A rule similar to the rule of paragraph (4)(B) shall apply for purposes of this paragraph.

**(b) Trusts acquiring United States beneficiaries**

If—

(1) subsection (a) applies to a trust for the transferor's taxable year, and

(2) subsection (a) would have applied to the trust for his immediately preceding taxable year but for the fact that for such preceding taxable year there was no United States beneficiary for any portion of the trust,

then, for purposes of this subtitle, the transferor shall be treated as having income for the taxable year (in addition to his other income for such year) equal to the undistributed net income (at the close of such immediately preceding taxable year) attributable to the portion of the trust referred to in subsection (a).

**(c) Trusts treated as having a United States beneficiary****(1) In general**

For purposes of this section, a trust shall be treated as having a United States beneficiary for the taxable year unless—

(A) under the terms of the trust, no part of the income or corpus of the trust may be paid or accumulated during the taxable year to or for the benefit of a United States person, and

(B) if the trust were terminated at any time during the taxable year, no part of the income or corpus of such trust could be paid to or for the benefit of a United States person.

For purposes of subparagraph (A), an amount shall be treated as accumulated for the benefit of a United States person even if the United States person's interest in the trust is contingent on a future event.

**(2) Attribution of ownership**

For purposes of paragraph (1), an amount shall be treated as paid or accumulated to or for the benefit of a United States person if such amount is paid to or accumulated for a foreign corporation, foreign partnership, or foreign trust or estate, and—

(A) in the case of a foreign corporation, such corporation is a controlled foreign corporation (as defined in section 957(a)),

(B) in the case of a foreign partnership, a United States person is a partner of such partnership, or

(C) in the case of a foreign trust or estate, such trust or estate has a United States beneficiary (within the meaning of paragraph (1)).

**(3) Certain United States beneficiaries disregarded**

A beneficiary shall not be treated as a United States person in applying this section with respect to any transfer of property to foreign trust if such beneficiary first became a United States person more than 5 years after the date of such transfer.

**(4) Special rule in case of discretion to identify beneficiaries**

For purposes of paragraph (1)(A), if any person has the discretion (by authority given in the trust agreement, by power of appointment, or otherwise) of making a distribution from the trust to, or for the benefit of, any person, such trust shall be treated as having a beneficiary who is a United States person unless—

(A) the terms of the trust specifically identify the class of persons to whom such distributions may be made, and

(B) none of those persons are United States persons during the taxable year.

**(5) Certain agreements and understandings treated as terms of the trust**

For purposes of paragraph (1)(A), if any United States person who directly or indirectly transfers property to the trust is directly or indirectly involved in any agreement or understanding (whether written, oral, or

otherwise) that may result in the income or corpus of the trust being paid or accumulated to or for the benefit of a United States person, such agreement or understanding shall be treated as a term of the trust.

**(6) Uncompensated use of trust property treated as a payment**

For purposes of this subsection, a loan of cash or marketable securities (or the use of any other trust property) directly or indirectly to or by any United States person (whether or not a beneficiary under the terms of the trust) shall be treated as paid or accumulated for the benefit of a United States person. The preceding sentence shall not apply to the extent that the United States person repays the loan at a market rate of interest (or pays the fair market value of the use of such property) within a reasonable period of time.

**(d) Presumption that foreign trust has United States beneficiary**

If a United States person directly or indirectly transfers property to a foreign trust (other than a trust described in section 6048(a)(3)(B)(ii)), the Secretary may treat such trust as having a United States beneficiary for purposes of applying this section to such transfer unless such person—

(1) submits such information to the Secretary as the Secretary may require with respect to such transfer, and

(2) demonstrates to the satisfaction of the Secretary that such trust satisfies the requirements of subparagraphs (A) and (B) of subsection (c)(1).

**(e) Regulations**

The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section.

(Added Pub. L. 94-455, title X, §1013(a), Oct. 4, 1976, 90 Stat. 1614; amended Pub. L. 96-603, §2(b), Dec. 28, 1980, 94 Stat. 3509; Pub. L. 104-188, title I, §1903(a)-(f), Aug. 20, 1996, 110 Stat. 1909, 1910; Pub. L. 105-34, title XVI, §1601(i)(2), Aug. 5, 1997, 111 Stat. 1093; Pub. L. 105-206, title VI, §6018(g), July 22, 1998, 112 Stat. 823; Pub. L. 111-147, title V, §§531, 532(a), 533(c), Mar. 18, 2010, 124 Stat. 113, 114.)

## AMENDMENTS

2010—Subsec. (c)(1). Pub. L. 111-147, §531(a), inserted concluding provisions.

Subsec. (c)(4), (5). Pub. L. 111-147, §531(b), (c), added pars. (4) and (5).

Subsec. (c)(6). Pub. L. 111-147, §533(c), added par. (6).

Subsecs. (d), (e). Pub. L. 111-147, §532(a), added subsec. (d) and redesignated former subsec. (d) as (e).

1998—Subsec. (a)(1). Pub. L. 105-206 provided that the amendment made by section 1903(b) of Pub. L. 104-188 shall be applied as if “or” in the material proposed to be stricken were capitalized. See 1996 Amendment note below.

1997—Subsec. (a)(3)(C)(ii), (iii). Pub. L. 105-34 inserted “, owner,” after “grantor”.

1996—Subsec. (a)(1). Pub. L. 104-188, §1903(b), which directed that subsec. (a) of this section be amended by substituting “section 6048(a)(3)(B)(ii)” for “section 404(a)(4) or 404A”, was executed to par. (1) by making the substitution for “section 404(a)(4) Or section 404A” to reflect the probable intent of Congress. See 1998 Amendment note above.

Subsec. (a)(2)(B). Pub. L. 104-188, §1903(a)(1), amended subpar. (B) generally. Prior to amendment, subpar. (B) read as follows: "TRANSFERS WHERE GAIN IS RECOGNIZED TO TRANSFEROR.—To any sale or exchange of the property at its fair market value in a transaction in which all of the gain to the transferor is realized at the time of the transfer and is recognized either at such time or is returned as provided in section 453."

Subsec. (a)(3). Pub. L. 104-188, §1903(a)(2), added par. (3).

Subsec. (a)(4), (5). Pub. L. 104-188, §1903(c), added pars. (4) and (5).

Subsec. (c)(2)(A). Pub. L. 104-188, §1903(e), amended subpar. (A) generally. Prior to amendment, subpar. (A) read as follows: "in the case of a foreign corporation, more than 50 percent of the total combined voting power of all classes of stock entitled to vote of such corporation is owned (within the meaning of section 958(a)) or is considered to be owned (within the meaning of section 958(b)) by United States shareholders (as defined in section 951(b))."

Subsec. (c)(3). Pub. L. 104-188, §1903(d), added par. (3).

Subsec. (d). Pub. L. 104-188, §1903(f), added subsec. (d).

1980—Subsec. (a)(1). Pub. L. 96-603 inserted "Or section 404A" after "section 404(a)(4)".

#### EFFECTIVE DATE OF 2010 AMENDMENT

Pub. L. 111-147, title V, §532(b), Mar. 18, 2010, 124 Stat. 114, provided that: "The amendments made by this section [amending this section] shall apply to transfers of property after the date of the enactment of this Act [Mar. 18, 2010]."

Amendment by section 533(c) of Pub. L. 111-147 applicable to loans made, and uses of property, after Mar. 18, 2010, see section 533(e) of Pub. L. 111-147, set out as a note under section 643 of this title.

#### EFFECTIVE DATE OF 1998 AMENDMENT

Amendment by section 6018 of Pub. L. 105-206 effective as if included in the provisions of the Small Business Job Protection Act of 1996, Pub. L. 104-188, to which such amendment relates, see section 6018(h) of Pub. L. 105-206, set out as a note under section 23 of this title.

#### EFFECTIVE DATE OF 1997 AMENDMENT

Amendment by Pub. L. 105-34 effective as if included in the provisions of the Small Business Job Protection Act of 1996, Pub. L. 104-188, to which it relates, see section 1601(j) of Pub. L. 105-34, set out as a note under section 23 of this title.

#### EFFECTIVE DATE OF 1996 AMENDMENT

Pub. L. 104-188, title I, §1903(g), Aug. 20, 1996, 110 Stat. 1910, provided that: "The amendments made by this section [amending this section] shall apply to transfers of property after February 6, 1995."

#### EFFECTIVE DATE OF 1980 AMENDMENT

Amendment by Pub. L. 96-603 applicable with respect to employer contributions or accruals for taxable years beginning after Dec. 31, 1979, election to apply amendments retroactively with respect to foreign subsidiaries, allowance or prior deductions in case of certain funded branch plans, and time and manner for making elections, see section 2(e) of Pub. L. 96-603, set out as an Effective Date note under section 404A of this title.

#### EFFECTIVE DATE

Pub. L. 94-455, title X, §1013(f)(1), Oct. 4, 1976, 90 Stat. 1616, provided that: "The amendments made by this section (other than subsection (c)) [enacting this section and amending sections 643, 678, 6048, and 6678 of this title] shall apply to taxable years ending after December 31, 1975, but only in the case of—

"(A) foreign trusts created after May 21, 1974, and

"(B) transfers of property to foreign trusts after May 21, 1974."

## SUBPART F—MISCELLANEOUS

Sec. 681.	Limitation on charitable deduction.
682.	Income of an estate or trust in case of divorce, etc.
683.	Use of trust as an exchange fund.
684.	Recognition of gain on certain transfers to certain foreign trusts and estates.
685.	Treatment of funeral trusts.

#### AMENDMENTS

2010—Pub. L. 111-312, title III, §301(a), Dec. 17, 2010, 124 Stat. 3300, amended analysis to read as if amendment by Pub. L. 107-16, §542(e)(1)(D), had never been enacted. See 2001 Amendment note below.

2001—Pub. L. 107-16, title V, §542(e)(1)(D), June 7, 2001, 115 Stat. 85, inserted "and nonresident aliens" after "estates" in item 684.

1997—Pub. L. 105-34, title XI, §1131(c)(6), title XIII, §1309(b), Aug. 5, 1997, 111 Stat. 980, 1043, added items 684 and 685.

1976—Pub. L. 94-455, title XXI, §2131(e)(2), Oct. 4, 1976, 90 Stat. 1924, substituted "Use of trust as an exchange fund" for "Applicability of provisions" in item 683.

### § 681. Limitation on charitable deduction

#### (a) Trade or business income

In computing the deduction allowable under section 642(c) to a trust, no amount otherwise allowable under section 642(c) as a deduction shall be allowed as a deduction with respect to income of the taxable year which is allocable to its unrelated business income for such year. For purposes of the preceding sentence, the term "unrelated business income" means an amount equal to the amount which, if such trust were exempt from tax under section 501(a) by reason of section 501(c)(3), would be computed as its unrelated business taxable income under section 512 (relating to income derived from certain business activities and from certain property acquired with borrowed funds).

#### (b) Cross reference

**For disallowance of certain charitable, etc., deductions otherwise allowable under section 642(c), see sections 508(d) and 4948(c)(4).**

(Aug. 16, 1954, ch. 736, 68A Stat. 232; Pub. L. 90-630, §6(b), Oct. 22, 1968, 82 Stat. 1330; Pub. L. 91-172, title I, §§101(j)(18), (19), 121(d)(2)(B), Dec. 30, 1969, 83 Stat. 528, 547.)

#### AMENDMENTS

1969—Subsec. (a). Pub. L. 91-172, §121(d)(2)(B), substituted reference to certain property acquired with borrowed funds for reference to certain leases.

Subsec. (b). Pub. L. 91-172, §101(j)(18), (19), redesignated subsec. (d) as (b) and substituted "sections 518(d) and 4948(c)(4)" for "section 503(e)". Former subsec. (b), dealing generally with the operation of trusts, was struck out.

Subsec. (c). Pub. L. 91-172, §101(j)(18), struck out subsec. (c) dealing with accumulated income.

Subsec. (d). Pub. L. 91-172, §101(j)(19), redesignated subsec. (d) as (b).

1968—Subsec. (c). Pub. L. 90-630 inserted provision that par. (1) does not apply to income attributable to property transferred to a trust before January 1, 1951, by the creator thereof if the trust was irrevocable on such date and if the income is required to be accumulated pursuant to the mandatory terms of the instrument creating the trust.

#### EFFECTIVE DATE OF 1969 AMENDMENT

Amendment by section 101(j)(18), (19) of Pub. L. 91-172 effective Jan. 1, 1970, see section 101(k)(1) of Pub. L.