

ACTUARIAL VALUATIONS

Examples for
Computing
Depreciation
Adjustment Factors

For Income Tax
Purposes Only

Version 3C

Table S - Based on Life Table 2000CM

Interest at 0.2 Percent

Age	Life Annuity	Life Estate	Remainder	Age	Life Annuity	Life Estate	Remainder
55	70.9197	0.14184	0.85816	60	68.8944	0.13779	0.86221
56	70.5554	0.14111	0.85889	61	68.0495	0.13610	0.86390
57	69.7319	0.13946	0.86054	62	67.1999	0.13440	0.86560
58	68.8944	0.13779	0.86221	63	66.3464	0.13269	0.86731
59	68.0495	0.13610	0.86390	64	65.4911	0.13098	0.86902
60	67.1999	0.13440	0.86560	65	64.6326	0.12927	0.87073
61	66.3464	0.13269	0.86731	66	63.7710	0.12754	0.87245
62	65.4911	0.13098	0.86902	67	62.9068	0.12581	0.87419
63	64.6326	0.12927	0.87073	68	62.0402	0.12408	0.87592
64	63.7710	0.12754	0.87245	69	61.1718	0.12234	0.87766
65	62.9068	0.12581	0.87419	70	60.3039	0.12061	0.87939
66	62.0402	0.12408	0.87592	71	59.4390	0.11888	0.88112
67	61.1718	0.12234	0.87766	72	58.5788	0.11716	0.88284
68	60.3039	0.12061	0.87939	73	57.7242	0.11545	0.88455
69	59.4390	0.11888	0.88112	74	56.8739	0.11375	0.88625
70	58.5788	0.11716	0.88284	75	56.0270	0.11205	0.88795
71	57.7242	0.11545	0.88455	76	55.1825	0.11036	0.88964
72	56.8739	0.11375	0.88625	77	54.3378	0.10868	0.89132
73	56.0270	0.11205	0.88795	78	53.4941	0.10699	0.89301
74	55.1825	0.11036	0.88964	79	52.6507	0.10530	0.89470
75	54.3378	0.10868	0.89132	80	51.8065	0.10361	0.89639
76	53.4941	0.10699	0.89301	81	50.9598	0.10192	0.89808
77	52.6507	0.10530	0.89470	82	50.1096	0.10022	0.89978
78	50.9598	0.10361	0.89639	83	2559	0.09851	0.90149
79	50.1096	0.10192	0.89808	84		0.09680	0.90320
80		0.10022	0.89978	85		0.09508	0.90492
81		0.09851	0.90149	86		0.09335	0.90665
82		0.09680	0.90320	87			0.90837
83		0.09508	0.90492	88			0.91010
84		0.09335	0.90665	89			0.91182
85			0.90837	90			0.91355
86			0.91010				
87			0.91182				
88			0.91355				
89							
90							



ACTUARIAL VALUATIONS

Version 3C

Examples for Computing Depreciation
Adjustment Factors

For Income Tax Purposes Only

Department of the Treasury
Internal Revenue Service
Publication 1459 (5-2009)
Catalog Number 10720V

TABLE OF CONTENTS

Use of Table.....	3
Website Location of Table.....	3
Synopsis of Previous Tables.....	4
Example.....	5

USE OF TABLES

This publication illustrates the method for using actuarial factors for certain income tax valuations of future interests. This publication *does not contain* the tables of actuarial factors used in the example. The actuarial tables cited in the examples below can be found on the IRS website at the following address:

Website: <http://www.irs.gov/retirement/article/0,,id=206601,00.html>

The factors and tables associated with this publication involving life contingencies are derived from the values of l_x taken from the Life Table for the Total Population appearing as Table 1, in U.S. Decennial Life Tables for 1999-2001" published by the U.S. Department of Health and Human Services, Public Health Service, National Center for Health Statistics. Table 1 appears in the associated set of tables labeled as Table 2000CM.

Associated Table On The Web

In Table C, the primary actuarial table on the IRS website associated with this publication and the following example, the factors are based on interest rates ranging from 0.2 percent to 20.0 percent in intervals of 0.2 percent. The wide range of rates is shown pursuant to Section 7520 of the Internal Revenue Code, which requires the use of an interest rate of 120 percent of the annual mid-term applicable federal rate for the month in which the valuation date falls. All of the factors associated with this publication reflect annual compounding of interest.

The factors in Table C are used for making adjustments to the standard remainder factor for valuing gifts of depreciable property. Under section 1.170A-12 of the Federal Income Tax Regulations, such an adjustment must be made for a charitable gift of a remainder interest in a depreciable property in order to take a charitable deduction for the gift.

HISTORICAL SYNOPSIS OF TABLES

Period	Table	Interest Rate	Publications
1-1-1951 to 12-31-1970	US1938	3.5%	11
1-1-1971 to 11-30-1983	Table LN	6%	723, 723A, 723B
12-1-1983 to 4-30-1989	Table CM	10%	723C, 723D, 723E
5-1-1989 to 4-30-1999*	80CNSMT	§ 7520 rates	1457, 1458, 1459 (5-1989 version)
5-1-1999 to 4-30-2009	90CM	§ 7520 rates	1457, 1458, 1459 (7-1999 version)
5-1-2009 --	2000CM	§ 7520 rates	1457, 1458, 1459 (5-2009 version)

* On October 22, 1989, section 7520 was enacted which prescribed the use of an interest rate equal to 120 percent of the midterm applicable federal rate, rounded to the nearest two tenths of a percent for actuarial computations.

EXAMPLE

A person aged 60 donates to State University a remainder interest in her personal residence consisting of a house and land, reserving a life estate interest for herself. At the time of the gift the land has a value of \$50,000 and the house (i.e the improvements) has a value of \$200,000 with an estimated useful life of 45 years, and the salvage value of the improvements is considered to be \$10,000. The donor elects to use the interest rate for the month in which the gift takes place, which is 4.6 percent. Using Table C(4.6) on page 23, under the Remainder Factor column and across from age 60 is the factor 0.41890. Thus the present worth of the remainder interest in \$1.00 payable at the death of a person aged 60 is \$0.41890. The present value of the nondepreciable property is \$60,000 (\$50,000 for land plus \$10,000 salvage value) times 0.41890 or \$25,134.00. The factor for valuing the remainder interest in the depreciable portion of the property is computed as follows:

(1) R-factor for initial age of tenant:		
	Table C (4.6), age 60	= 42414.02
minus (2) R-factor for terminal age of tenant:		
	Table C (4.6), age 105	= 1.818015

(3) Difference		= 42412.20
(4) D-factor for initial age of tenant:		
	Table C (4.6), age 60	= 5896.282
times (5) Useful lifetime of house		= 45

(6) Product		= 265332.69
		42412.20
(7) line (3) above divided by line (6) above		= -----
		265332.69
equals (8) Depreciation Adjustment Factor		= .15985
(9) Remainder Factor, Table C (4.6), age 60		= .41890
(10) Line (9) minus line (8):		
	Depreciation Remainder Factor	= .25905

The factor for the present worth of the remainder interest in the depreciable portion of the property is 0.25905. The present value of the remainder interest in the depreciable part of the gift is \$190,000 (\$200,000 house value minus \$10,000 salvage value) times 0.25905 or \$49,219.50.

The present value of the remainder interest in the entire property is \$25,134.00 plus \$49,219.50 or \$74,353.50.