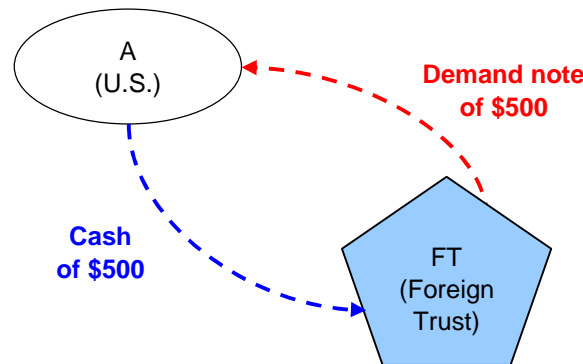


**Reg. 1.679-4(d)(7),
Example 1**

**Demand Note Is Not a
Qualified Obligation**

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⬠ Means a trust

A is a U.S. resident and FT is a foreign trust. A transfers 500X to FT in exchange for a demand note that permits A to require repayment by FT at any time. A is a related person (as defined in Reg. 1.679-1(c)(5)) with respect to FT. Because FT's obligation to A could remain outstanding for more than five years, the obligation is not a qualified obligation and, it is not taken into account for purposes of determining whether A's transfer is eligible for the fair market value exception of Reg. 1.679-4(a)(4). Accordingly, Reg. 1.679-1 applies and A is treated as the owner of FT with respect to the full 500X transfer to FT.

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