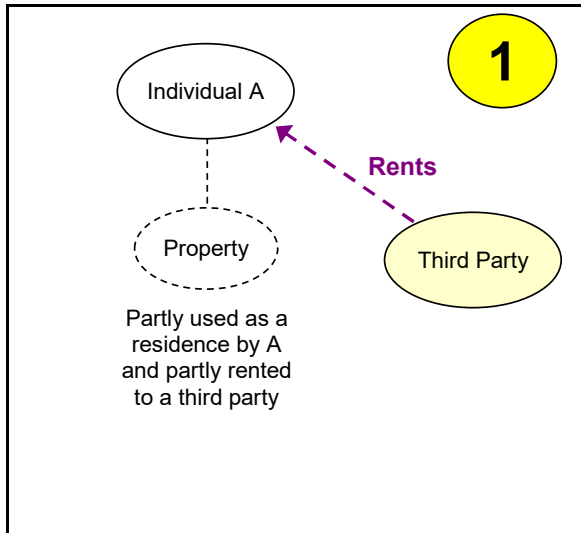
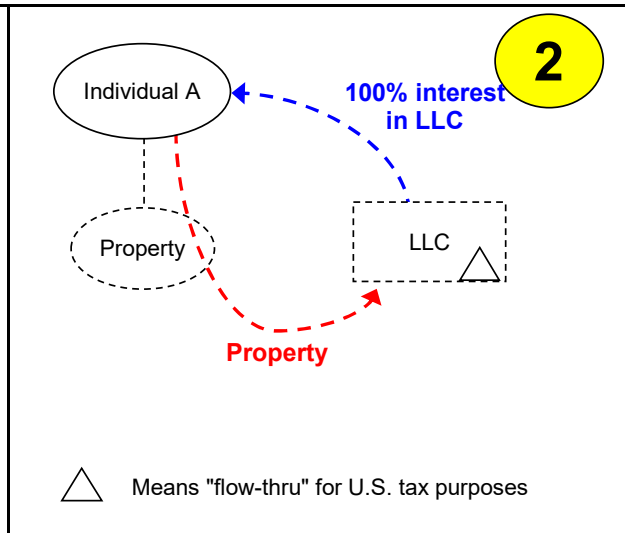


**LLC Owned By Individual
And Grantor Trust Was a DRE**

Initial Structure

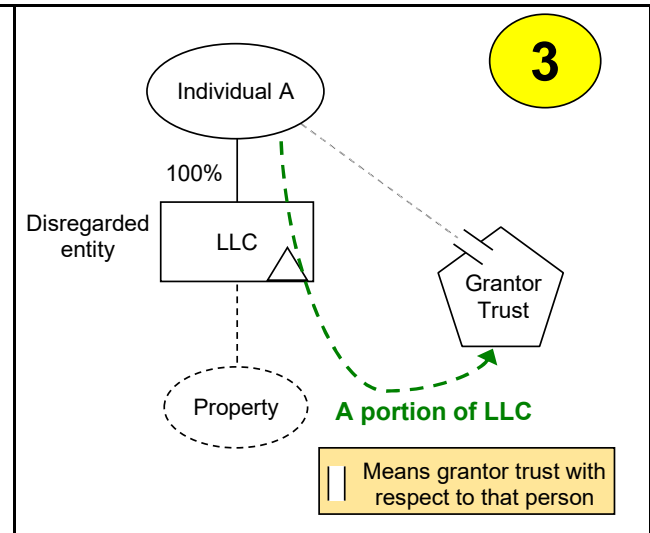


Contribution of Property to LLC



△ Means "flow-thru" for U.S. tax purposes

Contrib'n of Part of LLC to Grantor Trust



A is the sole owner of property ("Property") part of which is rented to unrelated third persons for residential use, and, the remainder of which is used by A for residential purposes. A proposes to transfer 100% of Property to a newly formed limited liability company ("LLC") in exchange for a 100% interest in LLC. Thereafter, A intends to transfer approximately x% of A's interest in LLC to a trust ("Trust") which A will create. A represents that Trust will be treated as a grantor trust in which A is the sole owner within the meaning of sections 671 through 679. On an ongoing basis, A will make rental payments to LLC for A's personal use of the property and LLC will collect rental payments from the unrelated third party tenants. A represents that LLC will not make an election to be treated as an association taxable as a corporation for Federal income tax purposes.

The PLR holds that the LLC will be disregarded as an entity separate from its owner, A, and the payment of rent by A to LLC does not result in any taxable income to or deduction for A. See also Rev. Rul. 2004-77.

Ending Point

