A photograph of four potted plants in a row against a light gray wall. From left to right: a small green cactus in a white pot, a larger cactus with orange spines in a white pot, a snake plant in a white pot, and a small green plant in a silver metal bucket.

# Foundations of Form 1041

Klaralee R. Charlton JD LLC  
3i Law LLC  
Denver, Colorado

aker

## Lee R. Charlton

actice focuses on fiduciary tax, estate  
nistration, and business transactional law. As part  
practice, I guide clients through the process of  
nistering a loved one's estate including the  
tion, valuation, management and transfer of  
s including financial accounts, real estate, and  
ess interests with a focus on minimizing estate  
ncome tax liability. I also work closely with  
es of ongoing trusts to ensure compliance and  
re my clients' annual fiduciary income tax  
s.



Death & Tax Attorney

3i Law LLC

Denver, Colorado

(303) 245-2100

[KCharlton@3iLawFirm.com](mailto:KCharlton@3iLawFirm.com)

nda

- What is Form 1041?
- Filing Requirements
- Choice of Filing Period
- Common Types of Income
- Unique Trust and Estate Deductions
- I.R.C. § 645 & 663(b) Elections
- I.R.C. § 1014 Basis Adjustment Reporting
- Allocation of Income Between Entity and Beneficiaries



What is Form  
?





What is Form 1041?

Form <b>1041</b> Department of the Treasury—Internal Revenue Service Go to <a href="http://www.irs.gov/Form1041">www.irs.gov/Form1041</a> for instructions and the latest information.		<b>2022</b>	OMB No. 1545-0092
<b>A</b> Check all that apply: <input type="checkbox"/> Decedent's estate <input type="checkbox"/> Simple trust <input type="checkbox"/> Complex trust <input type="checkbox"/> Qualified disability trust <input type="checkbox"/> ESBT (S portion only) <input type="checkbox"/> Grantor type trust <input type="checkbox"/> Bankruptcy estate—Ch. 7 <input type="checkbox"/> Bankruptcy estate—Ch. 11 <input type="checkbox"/> Pooled income fund		For calendar year 2022 or fiscal year beginning _____, 2022, and ending _____, 20____	
<b>B</b> Number of Schedules K-1 attached (see instructions) _____		<b>C</b> Employer identification number _____	
<b>F</b> Check applicable boxes: <input type="checkbox"/> Initial return <input type="checkbox"/> Final return <input type="checkbox"/> Amended return <input type="checkbox"/> Net operating loss carryback <input type="checkbox"/> Change in trust's name <input type="checkbox"/> Change in fiduciary <input type="checkbox"/> Change in fiduciary's name <input type="checkbox"/> Change in fiduciary's address		<b>D</b> Date entity created _____	
<b>G</b> Check here if the estate or filing trust made a section 645 election _____		<b>E</b> Nonexempt charitable and split-interest trusts, check applicable box(es). See instructions. <input type="checkbox"/> Described in sec. 4947(a)(1). Check here if not a private foundation . . . . <input type="checkbox"/> <input type="checkbox"/> Described in sec. 4947(a)(2)	
<b>1</b> Interest income . . . . .		<b>1</b>	
<b>2a</b> Total ordinary dividends . . . . .		<b>2a</b>	
<b>b</b> Qualified dividends allocable to: (1) Beneficiaries _____ (2) Estate or trust _____			
<b>3</b> Business income or (loss). Attach Schedule C (Form 1040) . . . . .		<b>3</b>	
<b>4</b> Capital gain or (loss). Attach Schedule D (Form 1041) . . . . .		<b>4</b>	
<b>5</b> Rents, royalties, partnerships, other estates and trusts, etc. Attach Schedule E (Form 1040) . . . . .		<b>5</b>	
<b>6</b> Farm income or (loss). Attach Schedule F (Form 1040) . . . . .		<b>6</b>	
<b>7</b> Ordinary gain or (loss). Attach Form 4797 . . . . .		<b>7</b>	
<b>8</b> Other income. List type and amount _____		<b>8</b>	
<b>9</b> <b>Total income.</b> Combine lines 1, 2a, and 3 through 8 . . . . .		<b>9</b>	
<b>10</b> Interest. Check if Form 4952 is attached <input type="checkbox"/> . . . . .		<b>10</b>	
<b>11</b> Taxes . . . . .		<b>11</b>	
<b>12</b> Fiduciary fees. If only a portion is deductible under section 67(e), see instructions . . . . .		<b>12</b>	
<b>13</b> Charitable deduction (from Schedule A, line 7) . . . . .		<b>13</b>	
<b>14</b> Attorney, accountant, and return preparer fees. If only a portion is deductible under section 67(e), see instructions . . . . .		<b>14</b>	
<b>15a</b> Other deductions (attach schedule). See instructions for deductions allowable under section 67(e) . . . . .		<b>15a</b>	
<b>b</b> Net operating loss deduction. See instructions . . . . .		<b>15b</b>	
<b>16</b> Add lines 10 through 15b . . . . .		<b>16</b>	
<b>17</b> Adjusted total income or (loss). Subtract line 16 from line 9 . . . . .		<b>17</b>	
<b>18</b> Income distribution deduction (from Schedule B, line 15). Attach Schedules K-1 (Form 1041) . . . . .		<b>18</b>	
<b>19</b> Estate tax deduction including certain generation-skipping taxes (attach computation) . . . . .		<b>19</b>	
<b>20</b> Qualified business income deduction. Attach Form 8995 or 8995-A . . . . .		<b>20</b>	
<b>21</b> Exemption . . . . .		<b>21</b>	
<b>22</b> Add lines 18 through 21 . . . . .		<b>22</b>	
<b>23</b> Taxable income. Subtract line 22 from line 17. If a loss, see instructions . . . . .		<b>23</b>	
<b>24</b> <b>Total tax</b> (from Schedule G, Part I, line 9) . . . . .		<b>24</b>	
<b>25</b> Current year net 965 tax liability paid from Form 965-A, Part II, column (k) (see instructions) . . . . .		<b>25</b>	
<b>26</b> <b>Total payments</b> (from Schedule G, Part II, line 19) . . . . .		<b>26</b>	
<b>27</b> Estimated tax penalty. See instructions . . . . .		<b>27</b>	
<b>28</b> <b>Tax due.</b> If line 26 is smaller than the total of lines 24, 25, and 27, enter amount owed . . . . .		<b>28</b>	
<b>29</b> <b>Overpayment.</b> If line 26 is larger than the total of lines 24, 25, and 27, enter amount overpaid . . . . .		<b>29</b>	
<b>30</b> Amount of line 29 to be: <b>a Credited to 2023</b> _____ ; <b>b Refunded</b> _____		<b>30</b>	
<b>Sign Here</b> Signature of fiduciary or officer representing fiduciary _____ Date _____ EIN of fiduciary if a financial institution _____		May the IRS discuss this return with the preparer shown below? See instructions. <input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>Paid Preparer Use Only</b> Print/Type preparer's name _____ Preparer's signature _____ Date _____ Check <input type="checkbox"/> if self-employed PTIN _____ Firm's name _____ Firm's EIN _____ Firm's address _____ Phone no. _____			

What is Form 1041?

<b>Schedule A Charitable Deduction.</b> Don't complete for a simple trust or a pooled income fund.		
1	Amounts paid or permanently set aside for charitable purposes from gross income. See instructions	1
2	Tax-exempt income allocable to charitable contributions. See instructions	2
3	Subtract line 2 from line 1	3
4	Capital gains for the tax year allocated to corpus and paid or permanently set aside for charitable purposes	4
5	Add lines 3 and 4	5
6	Section 1202 exclusion allocable to capital gains paid or permanently set aside for charitable purposes. See instructions	6
7	<b>Charitable deduction.</b> Subtract line 6 from line 5. Enter here and on page 1, line 13	7

<b>Schedule B Income Distribution Deduction</b>		
1	Adjusted total income. See instructions	1
2	Adjusted tax-exempt interest	2
3	Total net gain from Schedule D (Form 1041), line 19, column (1). See instructions	3
4	Enter amount from Schedule A, line 4 (minus any allocable section 1202 exclusion)	4
5	Capital gains for the tax year included on Schedule A, line 1. See instructions	5
6	Enter any gain from page 1, line 4, as a negative number. If page 1, line 4, is a loss, enter the loss as a positive number	6
7	<b>Distributable net income.</b> Combine lines 1 through 6. If zero or less, enter -0-	7
8	If a complex trust, enter accounting income for the tax year as determined under the governing instrument and applicable local law	8
9	Income required to be distributed currently	9
10	Other amounts paid, credited, or otherwise required to be distributed	10
11	Total distributions. Add lines 9 and 10. If greater than line 8, see instructions	11
12	Enter the amount of tax-exempt income included on line 11	12
13	Tentative income distribution deduction. Subtract line 12 from line 11	13
14	Tentative income distribution deduction. Subtract line 2 from line 7. If zero or less, enter -0-	14
15	<b>Income distribution deduction.</b> Enter the smaller of line 13 or line 14 here and on page 1, line 18	15

<b>Schedule G Tax Computation and Payments</b> (see instructions)		
<b>Part I — Tax Computation</b>		
1	<b>Tax:</b>	
a	Tax on taxable income. See instructions	1a
b	Tax on lump-sum distributions. Attach Form 4972	1b
c	Alternative minimum tax (from Schedule I (Form 1041), line 54)	1c
d	<b>Total.</b> Add lines 1a through 1c	1d
2a	Foreign tax credit. Attach Form 1116	2a
b	General business credit. Attach Form 3800	2b
c	Credit for prior year minimum tax. Attach Form 8801	2c
d	Bond credits. Attach Form 8912	2d
e	<b>Total credits.</b> Add lines 2a through 2d	2e
3	Subtract line 2e from line 1d. If zero or less, enter -0-	3
4	Tax on the ESBT portion of the trust (from ESBT Tax Worksheet, line 17). See instructions	4
5	Net investment income tax from Form 8960, line 21	5
6	Recapture taxes. Check if from: <input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611	6
7	Household employment taxes. Attach Schedule H (Form 1040)	7
8	Other taxes and amounts due	8
9	<b>Total tax.</b> Add lines 3 through 8. Enter here and on page 1, line 24	9

<b>Part II — Payments</b>		
10	2022 estimated tax payments and amount applied from 2021 return	10
11	Estimated tax payments allocated to beneficiaries (from Form 1041-T)	11
12	Subtract line 11 from line 10	12
13	Tax paid with Form 7004. See instructions	13
14	Federal income tax withheld. If any is from Form(s) 1099, check here <input type="checkbox"/>	14
15	Current year net 965 tax liability from Form 965-A, Part I, column (f) (see instructions)	15
16	Other payments: a Form 2439 ; b Form 4136 ; <b>Total</b>	16c
17	Credit for qualified sick and family leave wages for leave taken before April 1, 2021	17
18	Credit for qualified sick and family leave wages for leave taken after March 31, 2021, and before October 1, 2021	18
19	<b>Total payments.</b> Add lines 12 through 15 and 16c through 18. Enter here and on page 1, line 26	19



# What is Form 1041?

Form 1041 (2022)

Other Information		Yes
<b>1</b>	Did the estate or trust receive tax-exempt income? If "Yes," attach a computation of the allocation of expenses. Enter the amount of tax-exempt interest income and exempt-interest dividends . . . . . \$	<input type="checkbox"/>
<b>2</b>	Did the estate or trust receive all or any part of the earnings (salary, wages, and other compensation) of any individual by reason of a contract assignment or similar arrangement? . . . . .	<input type="checkbox"/>
<b>3</b>	At any time during calendar year 2022, did the estate or trust have an interest in or a signature or other authority over a bank, securities, or other financial account in a foreign country? . . . . . See the instructions for exceptions and filing requirements for FinCEN Form 114. If "Yes," enter the name of the foreign country	<input type="checkbox"/>
<b>4</b>	During the tax year, did the estate or trust receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the estate or trust may have to file Form 3520. See instructions . . . . .	<input type="checkbox"/>
<b>5</b>	Did the estate or trust receive, or pay, any qualified residence interest on seller-provided financing? If "Yes," see the instructions for the required attachment . . . . .	<input type="checkbox"/>
<b>6</b>	If this is an estate or a complex trust making the section 663(b) election, check here. See instructions . . . . .	<input type="checkbox"/>
<b>7</b>	To make a section 643(e)(3) election, attach Schedule D (Form 1041), and check here. See instructions . . . . .	<input type="checkbox"/>
<b>8</b>	If the decedent's estate has been open for more than 2 years, attach an explanation for the delay in closing the estate, and check here . . . . .	<input type="checkbox"/>
<b>9</b>	Are any present or future trust beneficiaries skip persons? See instructions . . . . .	<input type="checkbox"/>
<b>10</b>	Was the trust a specified domestic entity required to file Form 8938 for the tax year? See the Instructions for Form 8938 . . . . .	<input type="checkbox"/>
<b>11a</b>	Did the estate or trust distribute S corporation stock for which it made a section 965(i) election? . . . . .	<input type="checkbox"/>
<b>b</b>	If "Yes," did each beneficiary enter into an agreement to be liable for the net tax liability? See instructions . . . . .	<input type="checkbox"/>
<b>12</b>	Did the estate or trust either make a section 965(i) election or enter into a transfer agreement as an eligible 965(i) transferee for S corporation stock held on the last day of the tax year? See instructions . . . . .	<input type="checkbox"/>
<b>13</b>	<b>ESBTs only.</b> Does the ESBT have a nonresident alien grantor? If "Yes," see instructions . . . . .	<input type="checkbox"/>
<b>14</b>	<b>ESBTs only.</b> Did the S portion of the trust claim a qualified business income deduction? If "Yes," see instructions . . . . .	<input type="checkbox"/>

# ities Using Form 1041

ent's Estate

able Trusts

T (Irrevocable Life Insurance Trust)

AT (Spousal Lifetime Access Trust)

T (Supplemental Needs Trust)

mentary Trust

eated under a Will

evocable Upon Death

ed Disability Trust

**A** Check all that apply:

- Decedent's estate
- Simple trust
- Complex trust
- Qualified disability trust
- ESBT (S portion only)
- Grantor type trust
- Bankruptcy estate-Ch. 7
- Bankruptcy estate-Ch. 11
- Pooled income fund



# When to Use Form 1041

Taxpayer  
starts  
working

Taxpayer  
Passes  
Away

Ongoing Trust  
May Come Into  
Existence

Trust  
Termination

**Form 1040**

**Estate Form 1041**

**Trust Form 1041**

During working years,  
taxpayer files Form 1040 to  
report income earned from  
work and investments

At taxpayer's death, Estate  
begins reporting income  
earned or paid post-death

When Estate terminates,  
ongoing Trusts may be  
created for ongoing  
management requiring  
reporting for trust income

# When to Use Form 1041

Taxpayer Starts Working

Taxpayer Passes Away

Form 1040

working years, files Form 1040 to report income earned from investments

Taxpayer Creates Irrevocable Trust to Accomplish Specific Goal (i.e. Estate tax savings)

Trust Form 1041

Trust files income tax return to report earnings during period of trust's existence

Trust Terminates per Terms Document

# Types of Trusts

- Grantor Trust
  - All income taxable to the Grantor
- Simple Trust
  - Required to distribute all Income annually
  - Does not actually distribute Principal or any monies to Charity during the current tax year
- Complex Trust
  - Any Trust which is not a Simple Trust
- Qualified Disability Trust
  - Irrevocable Non-Grantor Trust for Benefit of Disabled Individual(s) receiving SSDI Established by 3<sup>rd</sup> Party before Individual Turns 65



# ing Question



Form 1041 is filed for which of the following types of taxpayers?

- A. Individual
- B. Trust
- C. LLC

# Requirements to Form 1041



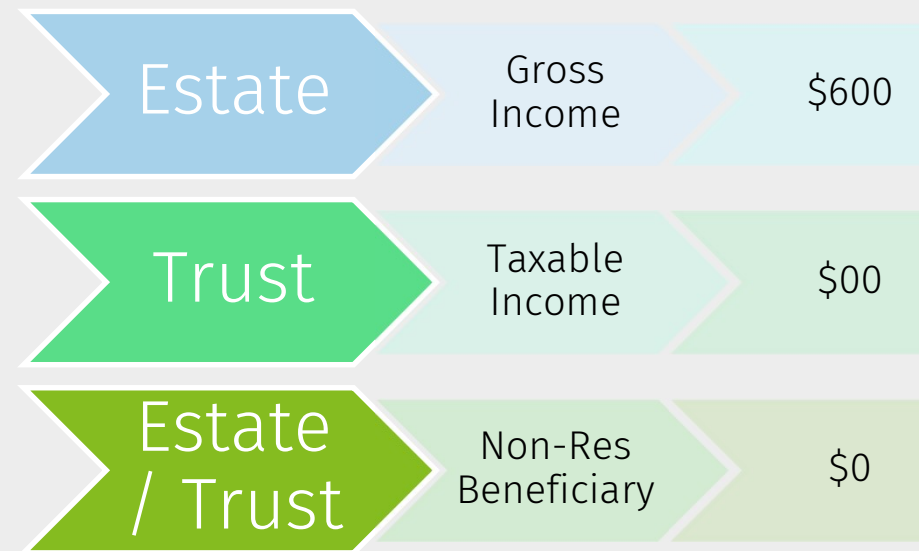
# Requirements to File a Form 1041

012(a)

Every estate the gross income of which for taxable year is \$600 or more;

Every trust having for the taxable year any taxable income, or having gross income of \$600 or over, regardless of the amount of taxable income;

Every estate or trust of which any beneficiary is a nonresident alien;





# Requirements to a Form 1041

## GENERAL RULE

- IRC § 6012(a)
  - (3) Every estate the gross income of which for the taxable year is \$600 or more;
  - (4) Every trust having for the taxable year any taxable income, or having gross income of \$600 or over, regardless of the amount of taxable income;
  - (5) Every estate or trust of which any beneficiary is a nonresident alien;

# Requirements to File a Form 1041

le

ate has \$10,000 in income for the year, derived from qualified dividends and long-term capital gains. Estate's expenses for the year total \$15,000.

Must file Form 1041 since Gross Income is greater than \$600

le

st has \$500 in income for the year, derived from interest. Trust's expenses for the year are \$10 and the Personal Exemption is \$300.

Must file Form 1041 since the Trust has Taxable Income greater than \$0

# Requirements to File a Form 1041

le

Trust has \$1,000 of income from tax-exempt municipal bonds, and \$1,000,000 collected as a death benefit from life insurance

No Form 1041 is required since both items of income are excluded from gross income under IRC §§ 103 & 101, respectively

le

Same facts as above, except that Trust has a beneficiary who is a citizen of another country and who is present in the U.S. less than 180 days during the year

Form 1041 is required because of the nonresident alien beneficiary

HOWEVER, remember to check for tax treaty



## Requirements to a Form 1041

- Example
  - Irrevocable Trust whose beneficiary is a 45 old disabled individual receiving SSI earns \$1,000 of interest. The personal exemption the trust is \$4,300.
  - Must file Form 1041 since Gross Income is greater than \$600 even though the trust has no taxable income because the personal exemption exceeds the taxable income.

# Requirements to a Form 1041

## GRANTOR TRUSTS

- IF All Income Reported Under Grantor's SSN
  - Do nothing
- IF Income Reported Under Trust's EIN
  - File Grantor Trust Return

# ms of a Trust state Plan

- Have a Copy of the Governing Document on File
  - Last Will & Testament
  - Trust Agreement
- Read the Governing Document
- Inquire About Transactions Occurring During the Year

# es of Estates

## Testate

- Will – Review the Will and any Agreements Among Beneficiaries
- Identify Beneficiaries and Types of Distributions
- Determine Transactions During the Year

## Intestate

- No Will – State Law Governs Distribution
- Identify Beneficiaries and Types of Distributions
- Determine Transactions During the Year

## Types of Trust Trusts

- Specific Bequests
- Charitable Beneficiaries
- Mandatory vs. Discretionary Income Distributions
- Mandatory vs. Discretionary Principal Distributions
- Accumulating Income
- Terminating Distributions



# Income Allocation Options

## Trust 1

Interest Income \$10,000

Distributions to beneficiaries

Trust pays tax on \$10,000

Beneficiaries pay tax on

## Trust 2

Interest Income \$10,000

Trust distributes \$6,000 to beneficiaries.

Trust pays tax on \$4,000

Beneficiaries pay tax on \$6,000

## Trust 3

Interest Income \$10,000

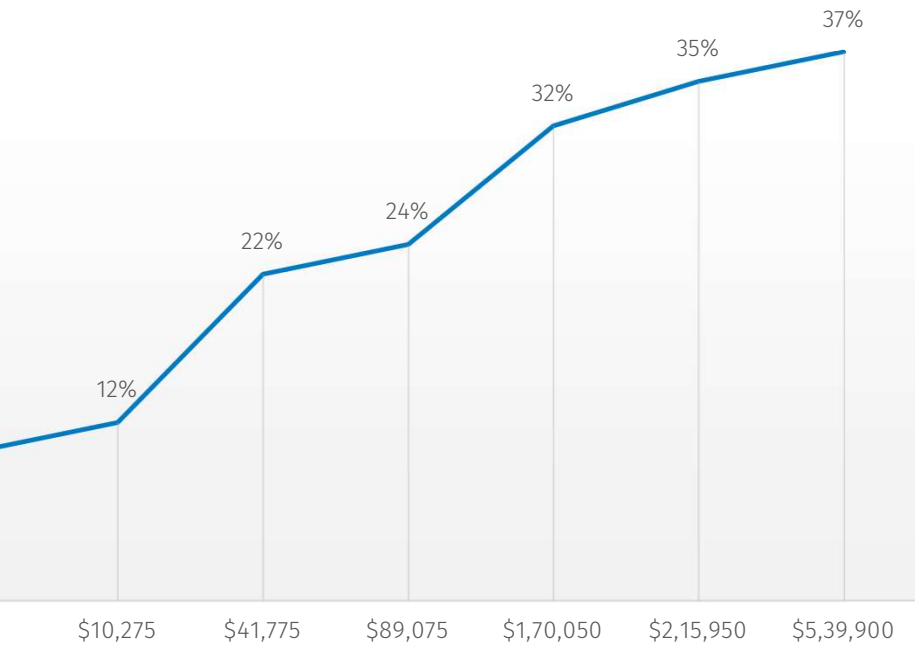
Trust distributes \$13,000 to beneficiaries.

Trust pays tax on \$0

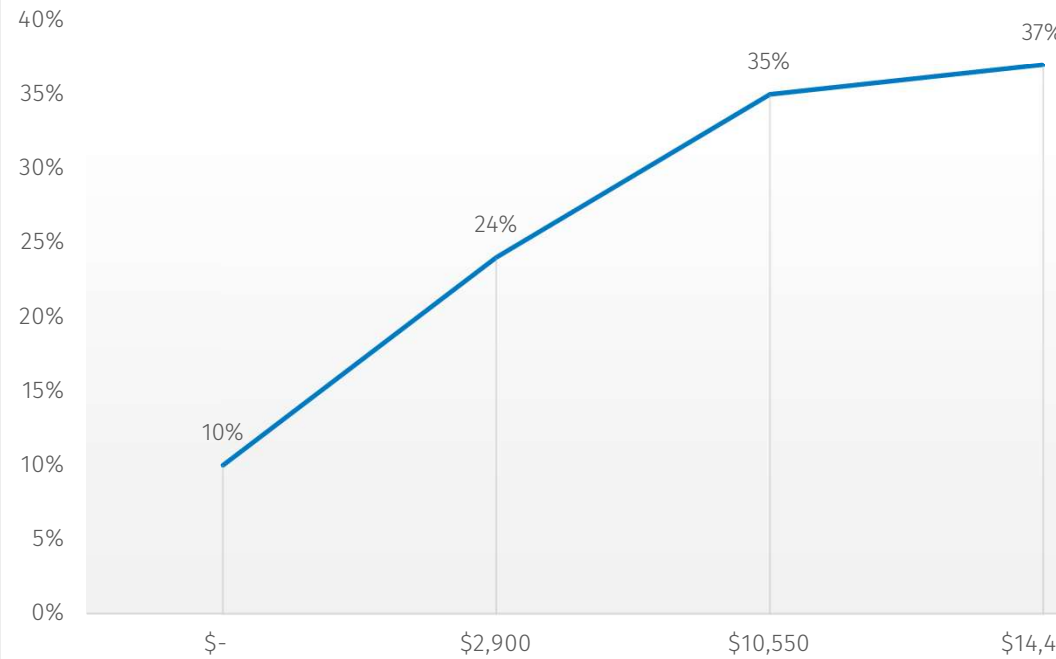
Beneficiaries pay tax on \$10,000

# Income Tax Rates – Trust/Estate vs Individual

Individual Single Tax Rates



Trust & Estate Tax Rate



# ing Question



Which of the following is required to file Form 10

- A. Estate with \$400 of Gross Income
- B. Trust with \$10 of Taxable Income
- C. Grantor Trust with \$800 Reported under Grantor's SSN

al vs.  
endar Year



# Year Options – Fiscal vs. Calendar Year

Form <b>1041</b>	Department of the Treasury—Internal Revenue Service		<b>2022</b>	OMB No. 1545-0092
	<b>U.S. Income Tax Return for Estates and Trusts</b>			
Go to <a href="http://www.irs.gov/Form1041">www.irs.gov/Form1041</a> for instructions and the latest information.				
<b>A</b> Check all that apply:	For calendar year 2022 or fiscal year beginning _____, 2022, and ending _____, 20			
<input type="checkbox"/> Decedent's estate	Name of estate or trust (If a grantor type trust, see the instructions.)		<b>C</b> Employer identification number	
<input type="checkbox"/> Simple trust	Name and title of fiduciary		<b>D</b> Date entity created	
<input type="checkbox"/> Complex trust	Number, street, and room or suite no. (If a P.O. box, see the instructions.)		<b>E</b> Nonexempt charitable and split-interest trusts, check applicable box(es). See instructions.	
<input type="checkbox"/> Qualified disability trust	City or town, state or province, country, and ZIP or foreign postal code		<input type="checkbox"/> Described in sec. 4947(a)(1). Check here if not a private foundation . . . . <input type="checkbox"/>	
<input type="checkbox"/> ESBT (S portion only)			<input type="checkbox"/> Described in sec. 4947(a)(2)	
<input type="checkbox"/> Grantor type trust				
<input type="checkbox"/> Bankruptcy estate—Ch. 7				
<input type="checkbox"/> Bankruptcy estate—Ch. 11				
<input type="checkbox"/> Pooled income fund				

Calendar year (DoD – 12/31)

Fiscal year (DoD – Last Day of Months Prior to DoD)

Calendar year only (unless making a § 645 Election)



# ate – Calendar Year – Date of Death 7/4/23

Calendar Year 2023

2023 Attorney Fees (\$20,000)

2023 Property Taxes (\$3,000)

1/23 Cap Gain Distrib. \$12,000

Net Income (\$11,000)

Loss carryover

Calendar Year 2024

5/1/24 House Sells Gain \$20,000

6/5/24 CPA Fees (\$2,000)

= Net Income \$18,000

ate – Fiscal  
r – Date of  
th 7/4/23

Fiscal Year 2023-2024

9/1/23 Attorney Fees (\$20,000)

10/1/23 Property Taxes (\$3,000)

12/31/23 Capital Gain Distrib. \$12,000

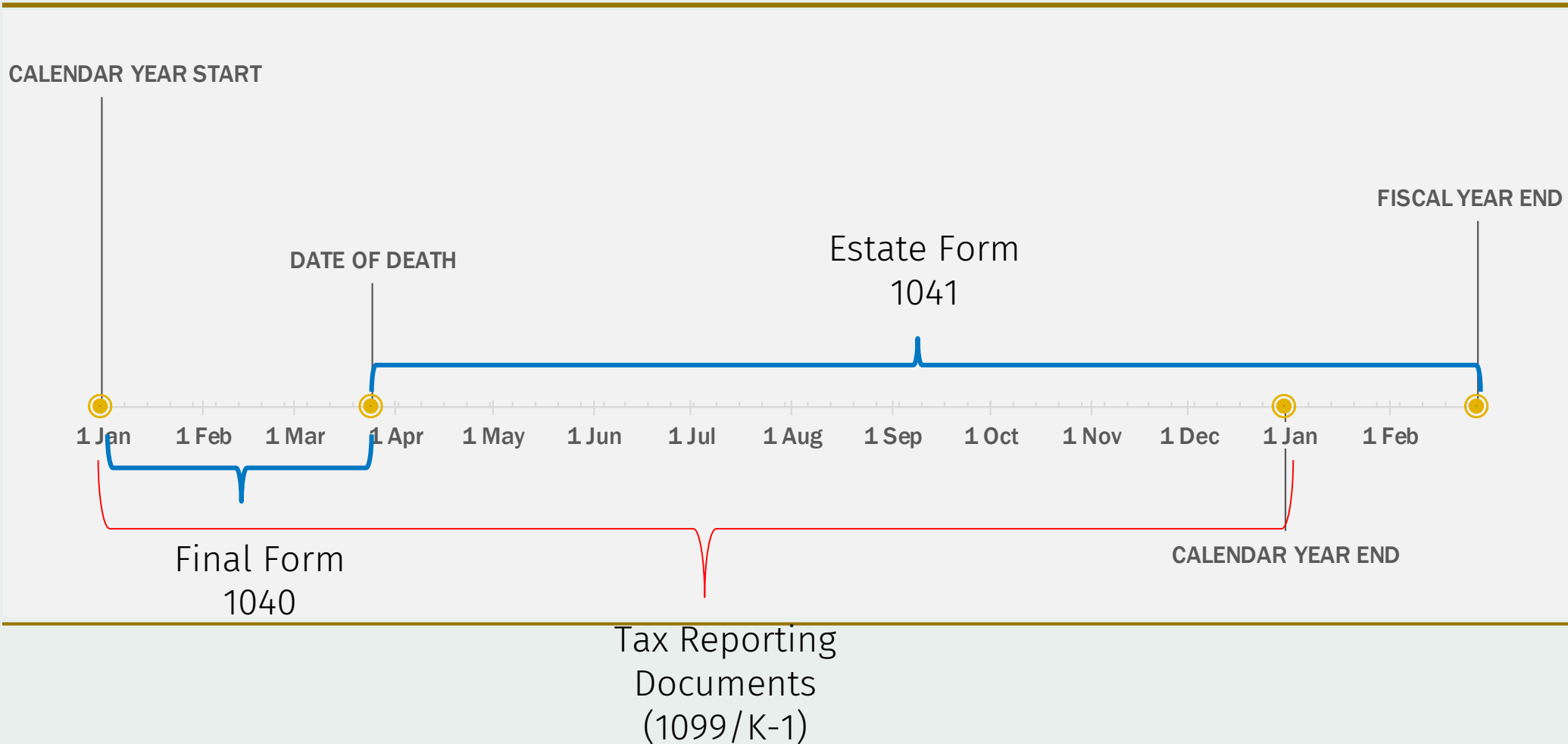
5/1/24 House Sells Gain \$20,000

6/5/24 CPA Fees (\$2,000)

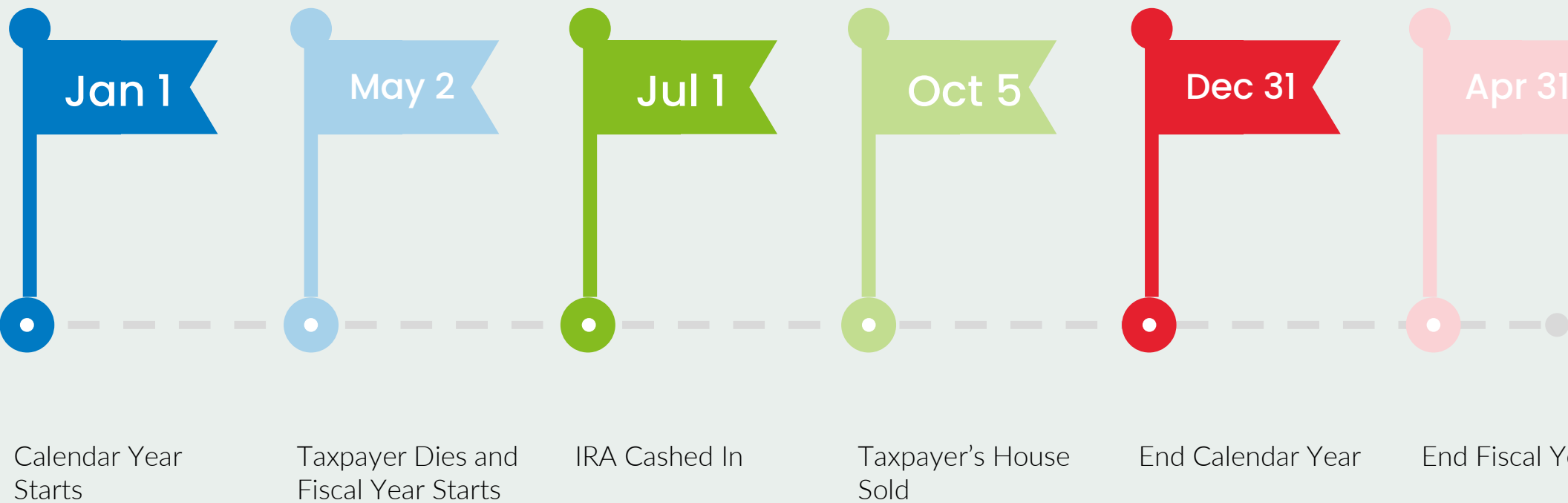
= Net Income \$7,000

# Short & Fiscal Year Accounting Headaches

## SHORT & FISCAL YEAR ACCOUNTING HEADACHES



# Start & Fiscal Year Accounting Headaches



# 9- Div Detail

## Detail for Dividends and Distributions

20

Security description	CUSIP and/or symbol	State	Date	Amount	Transaction type	Notes
XYZ CORPORATION	123456789 XYZ		01/15/20	847.97	Qualified dividend	
			01/15/20	359.53	Nondividend distribution	
			04/15/20	225.77	Qualified dividend	
Form 1040			04/15/20	106.73	Nondividend distribution	
			07/15/20	225.77	Qualified dividend	
Form 1041			07/15/20	106.73	Nondividend distribution	
			10/15/20	225.77	Qualified dividend	
			10/15/20	106.73	Nondividend distribution	
				<b>2,205.00</b>	<b>Total Dividends &amp; distributions</b>	



# -B Detail

1099-B Proceeds From Broker and Barter Exchange Transactions - 2017 - Statement for Recipient

(Copy B) (OMB NO. 1545-0715)

Long-Term Transactions for Which Basis is Reported to the IRS; Report on Form 8949, Part II, with Box D checked.

Long Term (Box 2)  
Covered (Box 3)

Description of Property (Box 1a) / CUSIP / Symbol										
Activity Type	Quantity Sold (Box 1a)	Date Acquired (Box 1b)	Date Sold or Disposed (Box 1c)	Proceeds (Box 1d) Gross Proceeds Reported to the IRS (Box 6) (X)	Cost or Other Basis (Box 1e)	Unadjusted Gain/Loss	Accrued Market Discount (Box 1f)	Wash Sale Loss Disallowed (Box 1g)	Federal Income Tax Withheld (Box 4)	Loss Not Allowed Based on Amount in Box 1d (Box 7)
<b>INVESCO INTERNATIONAL GROWTH / 008882532 / AIYX</b>										
Sale	10.29800	01/27/2016	02/17/2017	328.70	316.18	12.52	0.00	0.00	0.00	<input type="checkbox"/>
<b>INVESCO EUROPEAN GRWTH FD CL C / 008882839 / AEDCX</b>										
Sale	294.72000	01/27/2016	05/03/2017	10,388.88	8,826.09	1,562.79	0.00	0.00	0.00	<input type="checkbox"/>
<b>INVESCO INTL GROWTH CL R6 / 00889A400 / IGFRX</b>										
Sale	114.44500	Various	12/15/2017	4,140.62	3,602.88	537.74	0.00	0.00	0.00	<input type="checkbox"/>
<b>ALLIANZGI NFJ LARGE CAP VAL I / 018918433 / ANVIX</b>										
Sale	38.09200	01/27/2016	02/17/2017	887.92	817.18	70.74	0.00	0.00	0.00	<input type="checkbox"/>
<b>COLUMBIA ACORN INTL CL I / 197199813 / ACINX</b>										
Sale	14.81900	01/27/2016	02/17/2017	594.23	561.75	32.48	0.00	0.00	0.00	<input type="checkbox"/>
<b>WALT DISNEY CO / 254687106 / DIS</b>										
Sale	47.00000	07/13/2016	12/15/2017	5,264.00	4,853.76	410.24	0.00	0.00	0.00	<input type="checkbox"/>
<b>ENCANA CORP / 292505104 / ECA</b>										
Sale	269.00000	01/27/2016	12/15/2017	3,160.75	1,061.01	2,099.74	0.00	0.00	0.00	<input type="checkbox"/>

# Schedule K-1 from Partnership

When amount of income is known, report accordingly.

When amount of income is unknown,

Proportionately Allocate Income Based on # of Days Partner Was Alive

Report all income on return that coordinates with majority of time period

Report income all on return that matches tax year

Inconsistent!

**Schedule K-1 (Form 1065) 2022**  
 Department of the Treasury Internal Revenue Service  
 For calendar year 2022, or tax year beginning / / 2022 ending / /

**Partner's Share of Income, Deductions, Credits, etc.**  
 See separate instructions.

**Part I Information About the Partnership**

**A** Partnership's employer identification number

**B** Partnership's name, address, city, state, and ZIP code

**C** IRS center where partnership filed return:

**D**  Check if this is a publicly traded partnership (PTP)

**Part II Information About the Partner**

**E** Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)

**F** Name, address, city, state, and ZIP code for partner entered in E. See instructions.

**G**  General partner or LLC member-manager  Limited partner or other LLC member

**H1**  Domestic partner  Foreign partner

**H2**  If the partner is a disregarded entity (DE), enter the partner's:  
 TIN \_\_\_\_\_ Name \_\_\_\_\_

**I1** What type of entity is this partner?

**I2** If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here

**J** Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
Profit _____ %	_____ %	_____ %
Loss _____ %	_____ %	_____ %
Capital _____ %	_____ %	_____ %

Check if decrease is due to sale or exchange of partnership interest

**K** Partner's share of liabilities:

	Beginning	Ending
Nonrecourse . . . \$	\$	\$
Qualified nonrecourse financing . . . \$	\$	\$
Recourse . . . \$	\$	\$

Check this box if item K includes liability amounts from lower-tier partnerships

**L Partner's Capital Account Analysis**

Beginning capital account . . . \$	\$
Capital contributed during the year . . . \$	\$
Current year net income (loss) . . . \$	\$
Other increase (decrease) (attach explanation) \$	\$
Withdrawals and distributions . . . \$(	_____)
Ending capital account . . . . . \$	\$

**M** Did the partner contribute property with a built-in gain (loss)?  
 Yes  No If "Yes," attach statement. See instructions.

**N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)**

Beginning . . . . . \$	\$
Ending . . . . . \$	\$

**Part III Partner's Share of Current Year Deductions, Credits, and Other**

<b>1</b> Ordinary business income (loss)	<b>14</b> Self-empl
<b>2</b> Net rental real estate income (loss)	
<b>3</b> Other net rental income (loss)	<b>15</b> Credits
<b>4a</b> Guaranteed payments for services	
<b>4b</b> Guaranteed payments for capital	<b>16</b> Schedule checked
<b>4c</b> Total guaranteed payments	<b>17</b> Alternative
<b>5</b> Interest income	
<b>6a</b> Ordinary dividends	
<b>6b</b> Qualified dividends	<b>18</b> Tax-exem nondeduc
<b>6c</b> Dividend equivalents	
<b>7</b> Royalties	
<b>8</b> Net short-term capital gain (loss)	
<b>9a</b> Net long-term capital gain (loss)	<b>19</b> Distribu
<b>9b</b> Collectibles (28%) gain (loss)	
<b>9c</b> Unrecaptured section 1250 gain	<b>20</b> Other info
<b>10</b> Net section 1231 gain (loss)	
<b>11</b> Other income (loss)	
<b>12</b> Section 179 deduction	<b>21</b> Foreign ta
<b>13</b> Other deductions	
<b>22</b> <input type="checkbox"/> More than one activity for at-risk purposes*	
<b>23</b> <input type="checkbox"/> More than one activity for passive activity purpose	

\*See attached statement for additional information.

For IRS Use Only

For Paperwork Reduction Act Notice, see the Instructions for Form 1065. www.irs.gov/Form1065 Cat. No. 11394R Schedule

## Form 1041 Due Date

- Calendar Year
  - April 15<sup>th</sup>
- Fiscal Year
  - 3 & 1/2 Months After End of Tax Year
  - IE Fiscal Year 3/1 - 2/28, Due on June 15





# Form 1041 Extensions

Due Date of Return

Until 15<sup>th</sup>

1/2 Months After Year End

04 or 05 for Estate or Trust

Automatic 5 & 1/2 Mo Extension

Calendar Year Due Sept 30th

**Form 7004**  
(Rev. December 2018)  
Department of the Treasury  
Internal Revenue Service

**Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns**

▶ **File a separate application for each return.**  
▶ **Go to [www.irs.gov/Form7004](http://www.irs.gov/Form7004) for instructions and the latest information.**

OMB No. 1545-0233

Name \_\_\_\_\_ Identifying number \_\_\_\_\_

Number, street, and room or suite no. (if P.O. box, see instructions.) \_\_\_\_\_

City, town, state, and ZIP code (if a foreign address, enter city, province or state, and country (follow the country's practice for entering postal code).) \_\_\_\_\_

**Note:** File request for extension by the due date of the return. See instructions before completing this form.

**Part I Automatic Extension for Certain Business Income Tax, Information, and Other Returns.** See instructions.

**1** Enter the form code for the return listed below that this application is for \_\_\_\_\_

Application Is For:	Form Code	Application Is For:	Form Code
Form 706-GS(D)	01	Form 1120-ND (section 4951 taxes)	20
Form 706-GS(T)	02	Form 1120-PC	21
Form 1041 (bankruptcy estate only)	03	Form 1120-POL	22
Form 1041 (estate other than a bankruptcy estate)	04	Form 1120-REIT	23
Form 1041 (trust)	05	Form 1120-RIC	24
Form 1041-N	06	Form 1120S	25
Form 1041-QFT	07	Form 1120-SF	26
Form 1042	08	Form 3520-A	27
Form 1065	09	Form 8612	28
Form 1066	11	Form 8613	29
Form 1120	12	Form 8725	30
Form 1120-C	34	Form 8804	31
Form 1120-F	15	Form 8831	32
Form 1120-FSC	16	Form 8876	33
Form 1120-H	17	Form 8924	35
Form 1120-L	18	Form 8928	36
Form 1120-ND	19		

**Part II All Filers Must Complete This Part**

**2** If the organization is a foreign corporation that does not have an office or place of business in the United States, check here \_\_\_\_\_

**3** If the organization is a corporation and is the common parent of a group that intends to file a consolidated return, check here \_\_\_\_\_   
If checked, attach a statement listing the name, address, and employer identification number (EIN) for each member covered by this application.

**4** If the organization is a corporation or partnership that qualifies under Regulations section 1.6081-5, check here \_\_\_\_\_

**5a** The application is for calendar year 20\_\_\_\_, or tax year beginning \_\_\_\_\_, 20\_\_\_\_, and ending \_\_\_\_\_, 20\_\_\_\_.

**b Short tax year.** If this tax year is less than 12 months, check the reason:  Initial return  Final return  
 Change in accounting period  Consolidated return to be filed  Other (See instructions—attach explanation.)

**6** Tentative total tax \_\_\_\_\_ **6** \_\_\_\_\_

**7** Total payments and credits. See instructions \_\_\_\_\_ **7** \_\_\_\_\_

**8** Balance due. Subtract line 7 from line 6. See instructions \_\_\_\_\_ **8** \_\_\_\_\_

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 13804A Form **7004** (Rev. 12-2018)

# Estimated Tax Payments

- Estimated payments are required for tax years ending AFTER the 2<sup>nd</sup> anniversary of the decedent's death. IRC § 6654(l)(2)
- When no probate estate is open, a trust responsible for payment of debts, taxes, and administrative expenses can claim the 2 year payment exemption.
- Estimated tax payments are submitted with Form 1041-ES.

C. § 645  
tion





# 5 Election – Combining the Trust & Estate

<b>Form 1041</b> Department of the Treasury—Internal Revenue Service <b>U.S. Income Tax Return for Estates and Trusts</b> Go to <a href="http://www.irs.gov/Form1041">www.irs.gov/Form1041</a> for instructions and the latest information.		<b>2022</b>		OMB No. 1545-0092
<b>A</b> Check all that apply:		For calendar year 2022 or fiscal year beginning _____, 2022, and ending _____, 20____		<b>C</b> Employer identification number
<input type="checkbox"/> Decedent's estate <input type="checkbox"/> Simple trust <input type="checkbox"/> Complex trust <input type="checkbox"/> Qualified disability trust <input type="checkbox"/> ESBT (S portion only) <input type="checkbox"/> Grantor type trust <input type="checkbox"/> Bankruptcy estate—Ch. 7 <input type="checkbox"/> Bankruptcy estate—Ch. 11 <input type="checkbox"/> Pooled income fund		Name of estate or trust (If a grantor type trust, see the instructions.)		<b>D</b> Date entity created
		Name and title of fiduciary		<b>E</b> Nonexempt charitable and split-interest trusts, check applicable box(es). See instructions.
		Number, street, and room or suite no. (If a P.O. box, see the instructions.)		<input type="checkbox"/> Described in sec. 4947(a)(1). Check here if not a private foundation . . . . <input type="checkbox"/>
		City or town, state or province, country, and ZIP or foreign postal code		<input type="checkbox"/> Described in sec. 4947(a)(2)
<b>B</b> Number of Schedules K-1 attached (see instructions)		<b>F</b> Check applicable boxes:		<input type="checkbox"/> Net operating loss carryback
		<input type="checkbox"/> Initial return <input type="checkbox"/> Final return <input type="checkbox"/> Amended return		<input type="checkbox"/> Change in fiduciary's address
		<input type="checkbox"/> Change in trust's name <input type="checkbox"/> Change in fiduciary <input type="checkbox"/> Change in fiduciary's name		
<b>G</b> Check here if the estate or filing trust made a section 645 election . . . . .		<input type="checkbox"/> Trust TIN		

Executor of estate and Trustee of qualified revocable trust (QRT) can make the 645 election on Form 8855 to be treated as a single taxpaying unit. Once the election is made, it cannot be revoked.

QRT is any trust that, on the day the decedent died, was treated as owned by the decedent under section 676 by reason of a power to revoke that was exercisable by the decedent.

# ing the tion

- The 645 Election is made on the first, timely filed Form 1041 using Form 8855.
- Trust should file a timely Form 1041 on the calendar year if it is unknown whether the 645 election will be made.
- Election limited to 2 yrs from Date of Death if No Form 706. If 706 is filed, limit extended until 6 months from final determination.
- Simplifies income and expense reporting and allows the use of the fiscal year for a trust.
- IRC § 645, Treas. Reg. § 1.645-1

# Form 8855

When both an estate and trust exist as electing entities, the trustee and executor sign Form 8855 to confirm the 645 election.

If an estate does not exist (and no executor has been appointed), the trustee alone would sign Form 8855 to confirm the 645 election and confirm that the QRT is qualified to make the election.

Form <b>8855</b> (Rev. January 2009) Department of the Treasury Internal Revenue Service	<b>Election To Treat a Qualified Revocable Trust as Part of an Estate</b>	OMB No. 1545-0047
<b>Part I Estate (or Filing Trust) Information</b>		
Name of estate (or the filing trust, if applicable (see instructions))	Employer identification number (see instructions)	
Name of executor (or the filing trustee, if applicable)	Type of entity prior to the election: <input type="checkbox"/> Domestic estate <input type="checkbox"/> Domestic trust	
Number, street, and room or suite no. (or P.O. box number if mail is not delivered to street address)	Date of executor's appointment	
City or town, state, and ZIP code (if a foreign address, see instructions)		
Under penalties of perjury, I, as executor (or filing trustee):		
<ul style="list-style-type: none"><li>• Confirm that under applicable local law or the governing document, I have the authority to make this election for the estate (or executor) or trust (if filing trustee) and to agree to the conditions of the election;</li><li>• Elect the treatment provided under section 645 for the above-named estate (or filing trust, if applicable);</li><li>• Confirm that an agreement has been reached with the trustees of each qualified revocable trust (QRT) joining in the election to allocate the tax burden of the combined electing trusts and related estate, if any, for each tax year during the election period in a manner that reasonably reflects each entity's tax obligation;</li><li>• Agree to ensure that the related estate's (or filing trust's, if applicable) share of the tax obligations of the combined electing trusts and related estate, if any, is timely paid to the United States Treasury;</li><li>• Agree to accept responsibility for filing a complete, accurate, and timely income tax return, when required by law, for the combined electing trust(s) and related estate, if any, for each tax year during the election period;</li><li>• (If I am the filing trustee) confirm that if there is more than one QRT making this election, that I have been appointed by all of each QRT making this election to be the filing trustee and I agree to accept the responsibility of filing the appropriate income tax return for the combined electing trust(s) for each tax year during the election period and all other responsibilities of the filing trustee;</li><li>• (If I am the filing trustee) represent that no executor has been appointed for a related estate and to the best of my knowledge and belief, one will not be appointed;</li><li>• (If I am the filing trustee) agree that, if an executor is appointed for the related estate after this Form 8855 is filed, that I will file an amended Form 8855 if the late appointed executor agrees to the election, and I agree to cooperate with the executor in filing any amended returns required to be filed as a result of the executor's appointment; and</li><li>• Confirm to the best of my knowledge and belief, that all information contained in this election and any accompanying schedules is true, correct, and complete.</li></ul>		
Signature of executor (or filing trustee)	Date	

# Calendar Year Trust and Estate

2023

2023 Attorney Fees (\$20,000)  
2023 Property Taxes (\$3,000)  
2023 Capital Gain Distrib. \$12,000  
Income (\$11,000)

Estate 2023

5/1/23 House Sells Gain \$20,000  
6/5/23 CPA Fees File 1040 (\$2,000)  
= Net Income \$18,000

# Calendar Year Trust and Estate

## Trust & Estate 2023

5/1/23 House Sells Gain \$20,000

6/5/23 CPA Fees (\$2,000)

9/1/23 Attorney Fees (\$20,000)

10/1/23 Property Taxes (\$3,000)

12/31/23 Capital Gain Distrib. \$12,000

= Net Income \$7,000

# Calendar Year Trust w/o Estate (Date of Death 6/10/22)

## Calendar Year Trust 2022

2022 IRA Cashed In \$22,000  
2022 CPA Fees File 1040 (\$2,000) =  
Net Income \$20,000

Tax Due by 4/15/2023 \$5,000

## Calendar Year Trust 2023

1/1/23 Dividends \$50,000  
3/1/23 Property Taxes (\$10,000)  
Net Income \$40,000

Tax Due by 4/15/2024 \$10,000

# al Year Trust Estate

Fiscal Year Trust 6/10/22 – 5/30/23

11/1/22 IRA Cashed In \$22,000  
12/5/22 CPA Fees File 1040 (\$2,000)  
1/1/23 Dividends \$50,000  
3/1/23 Property Taxes (\$10,000) =  
Net Income \$60,000

Tax Due by 9/15/23



# al Year Trust Estate

Fiscal Year Trust 6/10/22 – 5/30/23

11/1/22 IRA Cashed In \$22,000

12/5/22 CPA Fees File 1040 (\$2,000)

1/1/23 Dividends \$50,000

3/1/23 Property Taxes (\$10,000) =

Net Income \$60,000

Allocate Income via K-1 to Beneficiaries

Tax Due by 4/15/24

# ing the tion

- If both the trust and estate are terminating, then the trust must file a blank 1041 to notify the IRS of its termination. All income and expenses are reported on the combined return.
- If the trust is continuing, then the trust will file a short year return reporting income and expenses earned and incurred after the combined 1041 filing.
- If the estate is continuing, the estate files on the same schedule as before.
- IRC § 645, Treas. Reg. § 1.645-1

# Working and Ending the Election Timeline

of Death  
/1/23

3/31/24 End of 1<sup>st</sup>  
Fiscal Year

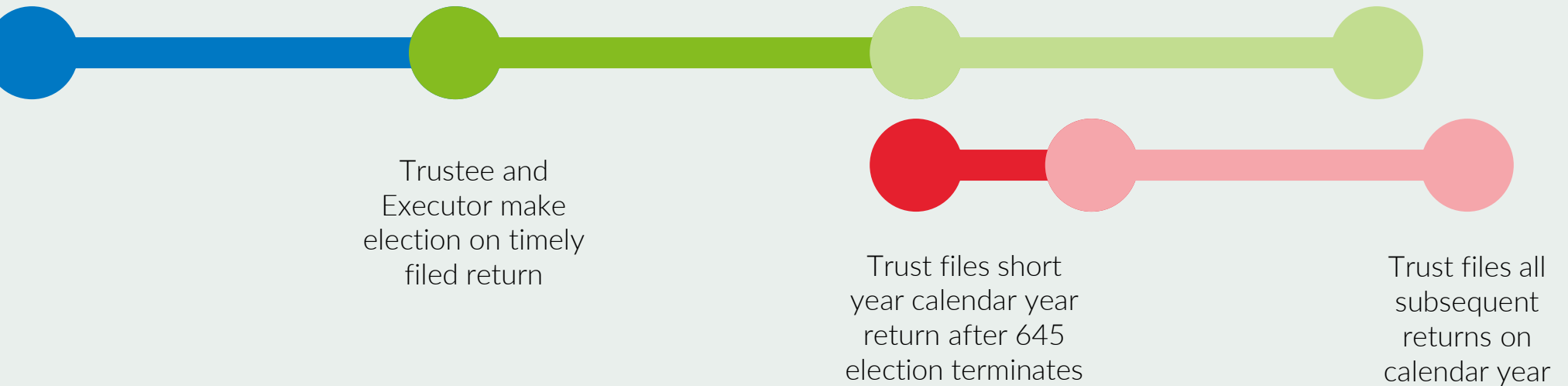
3/31/25 End of  
Second Fiscal  
Year

Estate continues  
filing on fiscal year  
without trust

Trustee and  
Executor make  
election on timely  
filed return

Trust files short  
year calendar year  
return after 645  
election terminates

Trust files all  
subsequent  
returns on  
calendar year



# ing Question



True or False? A Trust must always file on a calendar year and may not file on a fiscal year?

- A. True
- B. False

ntor Trust  
urns



# Requirements to File a Form 1041 for Grantor Trust

## GRANTOR TRUSTS

Income Reported Under Grantor's SSN

nothing

Revocable Trust for Estate Planning Purposes

Income Reported Under Trust's EIN

File Grantor Trust Return

Intentionally Defective Grantor Trust that is Irrevocable & Has an EIN, but Grantor wants to Pay Tax on Trust Income

# Requirements to File a Form 1041 for Grantor Trust

Form <b>1041</b> U.S. Income Tax Return for Estates and Trusts		2022	OMB No. 1545-0092
Department of the Treasury - Internal Revenue Service ▶ Goto <a href="http://www.irs.gov/Form1041">www.irs.gov/Form1041</a> for instructions and the latest information.			
<b>A</b> Check all that apply: <input type="checkbox"/> Decedent's estate <input type="checkbox"/> Simple trust <input type="checkbox"/> Complex trust <input type="checkbox"/> Qualified disability trust <input type="checkbox"/> ESBT (S portion only) <input checked="" type="checkbox"/> Grantor type trust <input type="checkbox"/> Bankruptcy estate-Ch. 7 <input type="checkbox"/> Bankruptcy estate-Ch. 11 <input type="checkbox"/> Pooled income fund		For calendar year 2017 or fiscal year beginning _____, 2017, and ending _____, 20_____ Name of estate or trust (If a grantor type trust, see the instructions.) <b>Fake Family Irrevocable Trust</b> Name and title of fiduciary <b>TRUSTEE</b> <b>John Smith</b> Number, street, and room or suite no. (If a P.O. box, see the instructions.) <b>9999 Broadway Street</b> City or town, state or province, country, and ZIP or foreign postal code <b>Denver CO 80203</b>	
<b>B</b> Number of Schedules K-1 attached (see instructions) ▶		<b>C</b> Employer identification number <b>66-5588996</b> <b>D</b> Date entity created _____ <b>E</b> Nonexempt charitable and split-interest trusts, check applicable box(es), see instructions. <input type="checkbox"/> Described in sec. 4947(a)(1). Check here if not a private foundation ▶ <input type="checkbox"/> <input type="checkbox"/> Described in sec. 4947(a)(2)	
<b>F</b> Check applicable boxes: <input checked="" type="checkbox"/> Initial return <input type="checkbox"/> Final return <input type="checkbox"/> Amended return <input type="checkbox"/> Change in trust's name <input type="checkbox"/> Change in fiduciary <input type="checkbox"/> Change in fiduciary's name		<input type="checkbox"/> Net operating loss carryback <input type="checkbox"/> Change in fiduciary's address	
<b>G</b> Check here if the estate or filing trust made a section 645 election <input type="checkbox"/> Trust TIN <input type="checkbox"/>			
<b>Income</b>	<b>1</b> Interest income . . . . .	<b>1</b>	
	<b>2 a</b> Total ordinary dividends . . . . .	<b>2a</b>	
	<b>b</b> Qualified dividends allocable to: (1) Beneficiaries _____ (2) Estate or trust _____		
	<b>3</b> Business income or (loss). Attach Schedule C or C-EZ (Form 1040) . . . . .	<b>3</b>	*****
	<b>4</b> Capital gain or (loss). Attach Schedule D (Form 1041) . . . . .	<b>4</b>	*** See ***
	<b>5</b> Rents, royalties, partnerships, other estates and trusts, etc. Attach Schedule E (Form 1040) . . . . .	<b>5</b>	*** Grantor ***
	<b>6</b> Farm income or (loss). Attach Schedule F (Form 1040) . . . . .	<b>6</b>	*** Statement ***
	<b>7</b> Ordinary gain or (loss). Attach Form 4797 . . . . .	<b>7</b>	*****
	<b>8</b> Other income. List type and amount _____	<b>8</b>	
<b>9 Total income.</b> Combine lines 1, 2a, and 3 through 8 . . . . . ▶	<b>9</b>		0



# Requirements to File a Form 1041 for Grantor Trust

Under Regulation 1.671-4 (b) (2) (ii)

Statement of income, deductions and credits attributable to grantor						2022	PG01
Name of Trust						66-5588996	
Fake Family Irrevocable Trust							
Grantor Information: John Smith						144-11-4411	
123 Elm Street							
Denver						CO 80203	
<u>Interest Information Attributed to Grantor Treated as Owner</u>							
<u>Description</u>	<u>Interest</u>	<u>US Gov't Int.</u>	<u>Interest Expenses</u>	<u>Tax Exempt Int.</u>	<u>Foreign Tax Paid</u>		
Wells Fargo	250						
<u>Dividend Information Attributed to Grantor Treated as Owner</u>							
<u>Description</u>	<u>Dividend</u>	<u>Qualified Div.</u>	<u>Capital Gain Dist.</u>	<u>Investment Exp.</u>	<u>Foreign Tax Paid</u>		
Vanguard	650	600					
<u>Capital Gain/Loss Information Attributed to Grantor Treated as Owner</u>							
<u>Description</u>	<u>Date Acquired</u>	<u>Date Sold</u>	<u>Sales Price</u>	<u>Cost/Basis</u>	<u>Adjustments</u>	<u>Gain/Loss</u>	
5 Shares of Apple	01-01-2015	01-01-2017	5,000	3,000		2,000	
10 Shares of Amazon	01-01-2015	01-01-2017	2,555	3,222		(667)	

# es of Income





# es of Income

Here if the estate or trust made a Section 675 election:  Trust TIN

Interest income . . . . .	<b>1</b>	
<b>a</b> Total ordinary dividends . . . . .	<b>2a</b>	
<b>b</b> Qualified dividends allocable to: <b>(1)</b> Beneficiaries _____ <b>(2)</b> Estate or trust _____		
Business income or (loss). Attach Schedule C or C-EZ (Form 1040) . . . . .	<b>3</b>	
Capital gain or (loss). Attach Schedule D (Form 1041) . . . . .	<b>4</b>	
Rents, royalties, partnerships, other estates and trusts, etc. Attach Schedule E (Form 1040) . . . . .	<b>5</b>	
Farm income or (loss). Attach Schedule F (Form 1040) . . . . .	<b>6</b>	
Ordinary gain or (loss). Attach Form 4797 . . . . .	<b>7</b>	
Other income. List type and amount <u>1099-R</u> _____	<b>8</b>	
<b>Total income.</b> Combine lines 1, 2a, and 3 through 8 . . . . . ▶	<b>9</b>	
Interest. Check if Form 1099 is attached <input type="checkbox"/>	<b>10</b>	

# Exempt Income

<b>Other Information</b>		<b>Yes</b>	<b>No</b>
<b>1</b>	Did the estate or trust receive tax-exempt income? If "Yes," attach a computation of the allocation of expenses. Enter the amount of tax-exempt interest income and exempt-interest dividends ► \$ _____	<input type="checkbox"/>	<input type="checkbox"/>
<b>2</b>	Did the estate or trust receive all or any part of the earnings (salary, wages, and other compensation) of any individual by reason of a contract assignment or similar arrangement? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>3</b>	At any time during calendar year 2018, did the estate or trust have an interest in or a signature or other authority over a bank, securities, or other financial account in a foreign country? . . . . . See the instructions for exceptions and filing requirements for FinCEN Form 114. If "Yes," enter the name of the foreign country ► _____	<input type="checkbox"/>	<input type="checkbox"/>
<b>4</b>	During the tax year, did the estate or trust receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the estate or trust may have to file Form 3520. See instructions . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>5</b>	Did the estate or trust receive, or pay, any qualified residence interest on seller-provided financing? If "Yes," see the instructions for required attachment . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>6</b>	If this is an estate or a complex trust making the section 663(b) election, check here. See instructions . . . ► <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>7</b>	To make a section 643(e)(3) election, attach Schedule D (Form 1041), and check here. See instructions . . . ► <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>8</b>	If the decedent's estate has been open for more than 2 years, attach an explanation for the delay in closing the estate, and check here ► <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>9</b>	Are any present or future trust beneficiaries skip persons? See instructions . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
<b>10</b>	Was the trust a specified domestic entity required to file Form 8938 for the tax year (see the Instructions for Form 8938)? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>

# Exempt Income – Expense Allocation

## INCOME

Dividends \$50

Tax Exempt Interest \$50

## EXPENSES

Trustee Fee \$20

Property Tax \$30

## ALLOWABLE DEDUCTIONS

Trustee Fee \$10

Property Tax \$30\*

## RESULT

Taxable Income \$50

- Deductions \$40

=Taxable Income \$10

# ing Question



An Estate has \$100 of dividend income, \$100 of tax-exempt interest, \$50 Trustee Fees, and \$40 mortgage interest expense. What is the trust's net taxable income?

- A. \$110
- B. \$95
- C. \$35

# es of uctions





# es of Deductions

<b>10</b>	Interest. Check if Form 4952 is attached <input type="checkbox"/>	<b>10</b>	
<b>11</b>	Taxes	<b>11</b>	
<b>12</b>	Fiduciary fees. If only a portion is deductible under section 67(e), see instructions	<b>12</b>	
<b>13</b>	Charitable deduction (from Schedule A, line 7)	<b>13</b>	
<b>14</b>	Attorney, accountant, and return preparer fees. If only a portion is deductible under section 67(e), see instructions	<b>14</b>	
<b>15a</b>	Other deductions (attach schedule). See instructions for deductions allowable under section 67(e)	<b>15a</b>	
<b>b</b>	Net operating loss deduction. See instructions	<b>15b</b>	
<b>16</b>	Add lines 10 through 15b	<b>16</b>	
<b>17</b>	Adjusted total income or (loss). Subtract line 16 from line 9	<b>17</b>	
<b>18</b>	Income distribution deduction (from Schedule B, line 15). Attach Schedules K-1 (Form 1041)	<b>18</b>	
<b>19</b>	Estate tax deduction including certain generation-skipping taxes (attach computation)	<b>19</b>	
<b>20</b>	Exemption	<b>20</b>	
<b>21</b>	Add lines 18 through 20	<b>21</b>	

# es of Deductions

Line Number	Example
10 Interest	Mortgage Interest on Decedent's Primary Residence, Bond Premium (not personal interest i.e. credit card)
11 Taxes	State Income Taxes (Final 1040 or 1041), Property Taxes on Non-Rental Real Estate Cap of \$10,000 starting in 2018
12 Fiduciary Fees	Trustee, Executor/Personal Representative Fee Do Not Claim Fees Already Deducted on Form 706
13 Charitable Deduction	See Schedule A – Very Seldom Allowable. Do not use for donation of personal property.
14 Attorney, Accountant, Return Preparer	Do Not Claim Fees Already Deducted on Form 706

# es of Deductions Cont.

Line Number	Example
15(a) Other Deductions (Not Subj to 2%)	Expenses Unique to an Estate or Trust, Death Certificates, Court Filing Fees, Extra Investment Fees Applicable Only to Trust/Estate
Disallowed 2018-2025 15(c) Other Deduction (Subj to 2%)	Investment Advisory Fees, Safe Deposit Box, , Expenses Related to Real Property (insurance, utilities*)
18 Income Distribution Deduction	See Schedule B – Income Flowed Through to Beneficiaries
19 Estate Tax Deduction	Estate Tax Related to IRD Income
20 Personal Exemption	Estate = \$600, Simple Trust = \$300, Complex Trust = \$100, Final Year = \$0

# Professional & Fiduciary Fees – FORM 706

Form 706 (Rev. 11-2018)

<b>Estate of:</b>	<b>Decedent's social security number</b>
-------------------	--

## SCHEDULE J—Funeral Expenses and Expenses Incurred in Administering Property Subject to Claims

▶ Use Schedule PC to make a protective claim for refund due to an expense not currently deductible.  
For such a claim, report the expense on Schedule J but without a value in the last column.

**Note:** Do not list expenses of administering property not subject to claims on this schedule. To report those expenses, see instructions.

If executors' commissions, attorney fees, etc., are claimed and allowed as a deduction for estate tax purposes, they are not allowable as a deduction in computing the taxable income of the estate for federal income tax purposes. They are allowable as an income tax deduction on Form 1041, U.S. Income Tax Return for Estates and Trusts, if a waiver is filed to forgo the deduction on Form 706. See the Instructions for Form 1041.

Are you aware of any actual or potential reimbursement to the estate for any expense claimed as a deduction on this schedule?	<b>Yes</b>	<b>No</b>
.....	<input type="checkbox"/>	<input type="checkbox"/>
If "Yes," attach a statement describing the expense(s) subject to potential reimbursement. See instructions.		

Item number	Description	Expense amount	Total amount
<b>A. Funeral expenses:</b>			
Total funeral expenses .....			▶

### B. Administration expenses:

- 1 Executors' commissions—amount estimated/agreed upon/paid. (Strike out the words that do not apply.) .....
- 2 Attorney fees—amount estimated/agreed upon/paid. (Strike out the words that do not apply.) .....
- 3 Accountant fees—amount estimated/agreed upon/paid. (Strike out the words that do not apply.) .....


# 642(c) Charitable Deduction

1041 (2019)

P

**Schedule A Charitable Deduction.** Don't complete for a simple trust or a pooled income fund.

Amounts paid or permanently set aside for charitable purposes from gross income. See instructions	<b>1</b>	
Tax-exempt income allocable to charitable contributions. See instructions . . . . .	<b>2</b>	
Subtract line 2 from line 1 . . . . .	<b>3</b>	
Capital gains for the tax year allocated to corpus and paid or permanently set aside for charitable purposes . . . . .	<b>4</b>	
Add lines 3 and 4 . . . . .	<b>5</b>	
Section 1202 exclusion allocable to capital gains paid or permanently set aside for charitable purposes. See instructions . . . . .	<b>6</b>	
<b>Charitable deduction.</b> Subtract line 6 from line 5. Enter here and on page 1, line 13 . . . . .	<b>7</b>	

# 642(c) Charitable Deduction

- Payments Must Come from Qualifying Gross Income
- Payments Must Be Made for a Qualifying Charitable Purpose
- Payments Must Be Made Pursuant to the Governing Instrument
- Payments Usually Must Be Made in the Year of Deduction
  - Election for Payments Made in Following Year
  - Amounts Permanently Set Aside



# ment from Gross Income Example

Example

- Trust earns \$1,000 of tax exempt income and \$9,000 rents.
- Trust is divided 80% to friends and 20% to charity.
- Charitable portion of the \$10,000 of income is \$2,000.
- However, trust can only claim a deduction of \$1,800 unless the governing instrument provides otherwise.

## Schedule A Charitable Deduction. Don't complete for a simple trust or a pooled income fund.

1	Amounts paid or permanently set aside for charitable purposes from gross income. See instructions	1	
2	Tax-exempt income allocable to charitable contributions. See instructions . . . . .	2	
3	Subtract line 2 from line 1 . . . . .	3	
4	Capital gains for the tax year allocated to corpus and paid or permanently set aside for charitable purposes . . . . .	4	
5	Add lines 3 and 4 . . . . .	5	
6	Section 1202 exclusion allocable to capital gains paid or permanently set aside for charitable purposes. See instructions . . . . .	6	
7	<b>Charitable deduction.</b> Subtract line 6 from line 5. Enter here and on page 1, line 13 . . . . .	7	



# Charitable Deduction Language

*In extent possible, any charitable bequest provided for hereunder shall be payable from the principal of the trust in respect of a decedent and then from the fiduciary accounting income of the (estate/trust). If the income of the trust in respect of a decedent and fiduciary accounting income of the (estate/trust) is insufficient to fully satisfy the charitable bequest made hereunder, then the (personal representative/trustee) is directed to satisfy any remainder from principal.”*

Example – No  
Requirement to  
Paid from  
ome

- Terms of Estate Require 20% of Remainder to distributed to Charity and 80% to Kids
- Estate has \$100,000 IRA and Cash of \$400,000
- Charity receives \$100,000 and Kids receive \$400,000
- Estate reports taxable income of \$100,000 and claim a \$20,000 charitable deduction.
- Estate (or kids if passed through on K-1) pay tax on \$80,000.

## Example – Required to be Paid from Income

- Terms of Estate Require 20% of Remainder to be distributed to Charity and 80% to Kids. Will require charitable amount to be paid from income first.
- Estate has \$100,000 IRA and Cash of \$400,000
- Charity receives \$100,000 and Kids receive \$400,000
- Estate reports taxable income of \$100,000 and claim a \$100,000 charitable deduction.
- No Tax is Paid 😊

# Subject & Not Subject to 2%

2018-61

Deductions	10	Interest. Check if Form 4952 is attached <input type="checkbox"/>	10		
	11	Taxes	11		
	12	Fiduciary fees. If a portion is subject to the 2% floor, see instructions	12		
	13	Charitable deduction (from Schedule A, line 7)	13		
	14	Attorney, accountant, and return preparer fees. If a portion is subject to the 2% floor, see instructions	14		
	15a	Other deductions <b>not</b> subject to the 2% floor (attach schedule)	15a		
	b	Net operating loss deduction. See instructions	15b		
	c	<del>Allowable miscellaneous itemized deductions subject to the 2% floor</del>	15c		
	16	Add lines 10 through 15c	16		
	17	Adjusted total income or (loss). Subtract line 16 from line 9	17		
	18	Income distribution deduction (from Schedule B, line 15). Attach Schedules K-1 (Form 1041)	18		
19	Estate tax deduction including certain generation-skipping taxes (attach computation)	19			
20	Exemption	20			
21	Add lines 18 through 20	21			

# Subject to 2% vs. Not Subject to 2%

Subject to 2%

Deductions Special to a Trust or Estate

Certificates

Additional Copies of Will

Transferring Trust Property to Beneficiary

Trustee Fees (if higher than individual fees)

Appraisal Fees (DoD Value)

Subject to 2%

(Not Available 2018-2025)

Deductions Not Special to a Trust or Estate

Advisory Fees

Insurance

Utilities, HOA

Checks

Safe Deposit Box

Appraisal Fees (Insurance)

as. Reg §  
2(b)-3  
Allocating  
Deductions Against  
Classes of Income

- a) All deductible items directly attributable to one class of income are allocated thereto.
- b) The deductions which are not directly attributable to a specific class of income may be allocated to any item of income included in computing distributable net income, but a portion must be allocated to nontaxable income.
- c) ...
- d) To the extent that any items of deduction which are directly attributable to a class of income exceed that class of income, they may be allocated to another class of income included in distributable net income in the manner provided in paragraph (b) of this section, except that any excess deductions attributable to tax-exempt income may not be offset against any other class of income.

# Example 1a – Proportionate Allocation

Income		Proportionate Allocation	Net Income
Dividends	\$1,000	(\$222)	(\$778)
Interest	\$1,500	(\$333)	(\$1,167)
LT Cap Gain	\$20,000	(\$4,445)	(\$15,555)
Expenses			
Trustee Fee	\$5,000		



## Example 1b – Targeted Allocation

Income		Targeted Allocation	Net Income
Dividends	\$1,000	(\$1,000)	(\$0)
Interest	\$1,500	(\$1,500)	(\$0)
LT Cap Gain	\$20,000	(\$2,500)	(\$17,500)
Expenses			
Trustee Fee	\$5,000		

# Personal Exemptions for Trusts & Estates

- Estate's Exemption \$600
- Simple Trust's Exemption \$300
- Complex Trust's Exemption \$100
- No Inflation Adjustments
- Qualified Disability Trust \$4,300 (2021 – Adjusted for Inflation)
- Do Not Pass Out to Beneficiaries on Final Year

# Medical and Funeral Expenses

- Medical and Funeral Expenses ARE NOT Deductible on Form 1041
- Medical expenses are either deductible on Decedent's Final 1040 if paid within a year of death or deductible on Decedent's Estate Tax Return (if any) as a Debt.
- Funeral expenses are deductible on Decedent's Estate Tax Return, Form 706 (if any)

# ing Question



Which of the following expenses are deductible on Form 1041?

- A. Final Medical Expenses for Decedent
- B. Investment Advisory Fees
- C. State Income Taxes for Decedent's Final 1040

ome  
tribution  
uction –  
of Distributable Net  
e (DNI)



# ation of Trusts Estates

$$\begin{aligned} & \text{Total Income} \\ & \quad - \underline{\text{Minus Deductions}} \\ & = \text{Adjusted Total Income} \\ & \quad - \text{Minus } \textit{Income Distribution Deduction} (**K-1) \\ & \quad \quad - \underline{\text{Minus Exemption}} \\ & = \text{Taxable Income} \end{aligned}$$



# 18 – Income Distribution Deduction

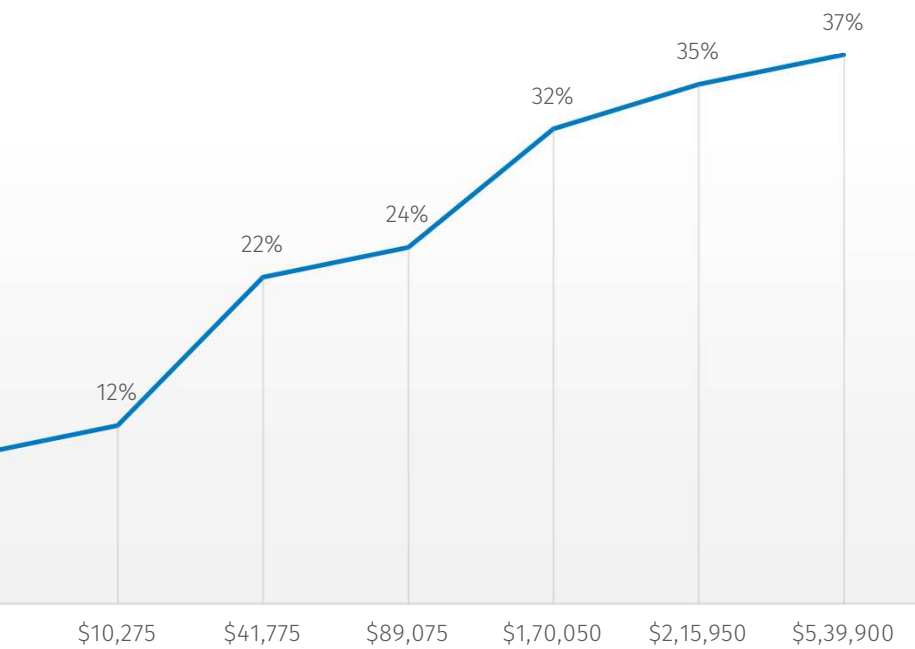
Deductions	10	Interest. Check if Form 4952 is attached <input type="checkbox"/>	10		
	11	Taxes	11		
	12	Fiduciary fees. If only a portion is deductible under section 67(e), see instructions	12		
	13	Charitable deduction (from Schedule A, line 7)	13		
	14	Attorney, accountant, and return preparer fees. If only a portion is deductible under section 67(e), see instructions	14		
	15a	Other deductions (attach schedule). See instructions for deductions allowable under section 67(e)	15a		
	b	Net operating loss deduction. See instructions	15b		
	16	Add lines 10 through 15b	16		
	17	Adjusted total income or (loss). Subtract line 16 from line 9	17		
	18	Income distribution deduction (from Schedule B, line 15). Attach Schedules K-1 (Form 1041)	18		
	19	Estate tax deduction including certain generation-skipping taxes (attach computation)	19		
20	Exemption	20			
21	Add lines 18 through 20	21			

## Schedule B Income Distribution Deduction

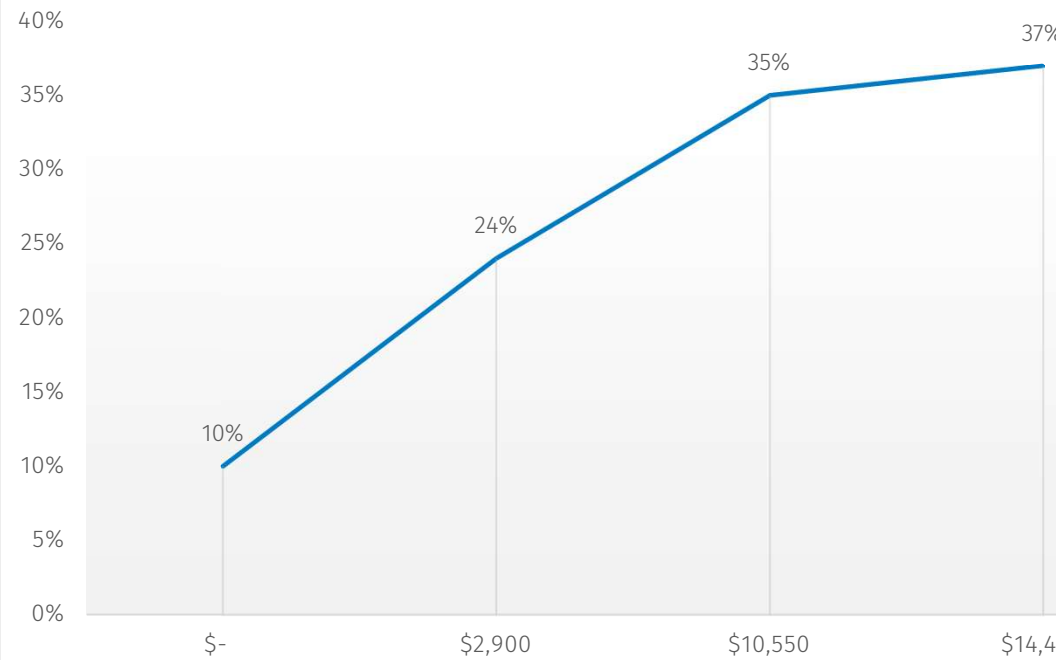
1	Adjusted total income. See instructions	1		
2	Adjusted tax-exempt interest	2		
3	Total net gain from Schedule D (Form 1041), line 19, column (1). See instructions	3		
4	Enter amount from Schedule A, line 4 (minus any allocable section 1202 exclusion)	4		
5	Capital gains for the tax year included on Schedule A, line 1. See instructions	5		
6	Enter any gain from page 1, line 4, as a negative number. If page 1, line 4, is a loss, enter the loss as a positive number	6		
7	<b>Distributable net income.</b> Combine lines 1 through 6. If zero or less, enter -0-	7		
8	If a complex trust, enter accounting income for the tax year as determined under the governing instrument and applicable local law	8		
9	Income required to be distributed currently	9		
10	Other amounts paid, credited, or otherwise required to be distributed	10		
11	Total distributions. Add lines 9 and 10. If greater than line 8, see instructions	11		
12	Enter the amount of tax-exempt income included on line 11	12		
13	Tentative income distribution deduction. Subtract line 12 from line 11	13		
14	Tentative income distribution deduction. Subtract line 2 from line 7. If zero or less, enter -0-	14		
15	<b>Income distribution deduction.</b> Enter the smaller of line 13 or line 14 here and on page 1, line 18	15		

# Income Tax Rates – Trust/Estate vs Individual

Individual Single Tax Rates



Trust & Estate Tax Rate



# Income Distribution Deduction

- IRC Section 661 grants trusts and estates the right to take a deduction for income that is either
  - 1) required to be distributed to a beneficiary (whether or not it's actually distributed to them) or
  - 2) income that happens to be distributed to a beneficiary during the year .
- However, this Deduction may not exceed **Distributable Net Income!**
- IRC Section 662 says that beneficiaries must include in their own income those amounts that are required to be distributed to them or other amounts that are allowed to be distributed to them during the year.

# Example

## Trust Terms

Trust income to be divided equally among three grandchildren.

Total distributions to grandchildren during tax year are \$100,000

## Income Receipts & Expenses

- Dividends \$10,000
- Tax Exempt Int. \$5,000
- Rental Income \$20,000
- Capital Gains \$25,000
  
- Rental Expenses \$2,000
- Trustee Fee \$1,000
- Investment Fee \$500

# Example Without Income Distribution Production

Income	1	Interest income . . . . .	1	
	2 a	Total ordinary dividends . . . . .	2a	10,000
	b	Qualified dividends allocable to: (1) Beneficiaries _____ (2) Estate or trust _____		
	3	Business income or (loss). Attach Schedule C or C-EZ (Form 1040) . . . . .	3	
	4	Capital gain or (loss). Attach Schedule D (Form 1041) . . . . .	4	25,000
	5	Rents, royalties, partnerships, other estates and trusts, etc. Attach Schedule E (Form 1040) . . . . .	5	18,000
	6	Farm income or (loss). Attach Schedule F (Form 1040) . . . . .	6	
	7	Ordinary gain or (loss). Attach Form 4797 . . . . .	7	
	8	Other income. List type and amount _____	8	
9	<b>Total income.</b> Combine lines 1, 2a, and 3 through 8 . . . . . ▶	9	53,000	
Deductions	10	Interest. Check if Form 4952 is attached ▶ <input type="checkbox"/>	10	
	11	Taxes . . . . .	11	
	12	Fiduciary fees. If a portion is subject to the 2% floor, see instructions . . . . .	12	800
	13	Charitable deduction (from Schedule A, line 7) . . . . .	13	
	14	Attorney, accountant, and return preparer fees. If a portion is subject to the 2% floor, see instructions . . . . .	14	
	15 a	Other deductions <b>not</b> subject to the 2% floor (attach schedule) . . . . .	15a	
	b	Net operating loss deduction. See instructions . . . . .	15b	
	c	Allowable miscellaneous itemized deductions subject to the 2% floor . . . . .	15c	
	16	Add lines 10 through 15c . . . . . ▶	16	800
	17	Adjusted total income or (loss). Subtract line 16 from line 9 . . . . .	17	52,143
	18	Income distribution deduction (from Schedule B, line 15). Attach Schedules K-1 (Form 1041) . . . . .	18	
19	Estate tax deduction including certain generation-skipping taxes (attach computation) . . . . .	19		
20	Exemption . . . . .	20		
21	Add lines 18 through 20 . . . . . ▶	21		
Tax and Payments	22	Taxable income. Subtract line 21 from line 17. If a loss, see instructions . . . . .	22	52,000
	23	<b>Total tax</b> (from Schedule G, line 7) . . . . .	23	15,400
	24	<b>Payments:</b> a 2017 estimated tax payments and amount applied from 2016 return . . . . .	24a	
	b	Estimated tax payments allocated to beneficiaries (from Form 1041-T) . . . . .	24b	
	c	Subtract line 24b from line 24a . . . . .	24c	
	d	Tax paid with Form 7004. See instructions . . . . .	24d	
	e	Federal income tax withheld. If any is from Form(s) 1099, check ▶ <input type="checkbox"/>	24e	
		Other payments: f Form 2439 _____ ; g Form 4136 _____ ; Total ▶	24h	
	25	<b>Total payments.</b> Add lines 24c through 24e, and 24h . . . . . ▶	25	
	26	Estimated tax penalty. See instructions . . . . .	26	
27	<b>Tax due.</b> If line 25 is smaller than the total of lines 23 and 26, enter amount owed . . . . .	27	15,400	
28	<b>Overpayment.</b> If line 25 is larger than the total of lines 23 and 26, enter amount overpaid . . . . .	28		
29	Amount of line 28 to be: a Credited to 2018 estimated tax ▶ _____ ; b Refunded ▶ _____	29		

1. Order of lines or items. To obtain that the table examined the form, including all attachments and schedules, and to the best of my knowledge and



# Example With Income Distribution Production

Income	1	Interest income . . . . .	1	
	2 a	Total ordinary dividends . . . . .	2a	10,
	b	Qualified dividends allocable to: (1) Beneficiaries _____ (2) Estate or trust _____		
	3	Business income or (loss). Attach Schedule C or C-EZ (Form 1040) . . . . .	3	
	4	Capital gain or (loss). Attach Schedule D (Form 1041) . . . . .	4	25,
	5	Rents, royalties, partnerships, other estates and trusts, etc. Attach Schedule E (Form 1040) . . . . .	5	18,
	6	Farm income or (loss). Attach Schedule F (Form 1040) . . . . .	6	
	7	Ordinary gain or (loss). Attach Form 4797 . . . . .	7	
	8	Other income. List type and amount _____	8	
9	<b>Total income.</b> Combine lines 1, 2a, and 3 through 8 . . . . . ▶	9	53,	
Deductions	10	Interest. Check if Form 4952 is attached ▶ <input type="checkbox"/>	10	
	11	Taxes . . . . .	11	
	12	Fiduciary fees. If a portion is subject to the 2% floor, see instructions . . . . .	12	
	13	Charitable deduction (from Schedule A, line 7) . . . . .	13	
	14	Attorney, accountant, and return preparer fees. If a portion is subject to the 2% floor, see instructions . . . . .	14	
	15 a	Other deductions <b>not</b> subject to the 2% floor (attach schedule) . . . . .	15a	
	b	Net operating loss deduction. See instructions . . . . .	15b	
	c	Allowable miscellaneous itemized deductions subject to the 2% floor . . . . .	15c	
	16	Add lines 10 through 15c . . . . . ▶	16	1,
	17	Adjusted total income or (loss). Subtract line 16 from line 9 . . . . .	17	51, 632
	18	Income distribution deduction (from Schedule B, line 15). Attach Schedules K-1 (Form 1041) . . . . .	18	51,
19	Estate tax deduction including certain generation-skipping taxes (attach computation) . . . . .	19		
20	Exemption . . . . .	20		
21	Add lines 18 through 20 . . . . . ▶	21	51,	
Tax and Payments	22	Taxable income. Subtract line 21 from line 17. If a loss, see instructions . . . . .	22	
	23	<b>Total tax</b> (from Schedule G, line 7) . . . . .	23	
	24	<b>Payments:</b> a 2017 estimated tax payments and amount applied from 2016 return . . . . .	24a	
	b	Estimated tax payments allocated to beneficiaries (from Form 1041-T) . . . . .	24b	
	c	Subtract line 24b from line 24a . . . . .	24c	
	d	Tax paid with Form 7004. See instructions . . . . .	24d	
	e	Federal income tax withheld. If any is from Form(s) 1099, check ▶ <input type="checkbox"/>	24e	
		Other payments: f Form 2439 _____ ; g Form 4136 _____ ; Total ▶	24h	
	25	<b>Total payments.</b> Add lines 24c through 24e, and 24h . . . . . ▶	25	
26	Estimated tax penalty. See instructions . . . . .	26		
27	<b>Tax due.</b> If line 25 is smaller than the total of lines 23 and 26, enter amount owed . . . . .	27		
28	<b>Overpayment.</b> If line 25 is larger than the total of lines 23 and 26, enter amount overpaid . . . . .	28		
29	Amount of line 28 to be: a <b>Credited to 2018 estimated tax</b> ▶ _____ ; b <b>Refunded</b> ▶ _____	29		

I understand that I am responsible for providing accurate information and for the correctness of the information reported on this return, including accompanying schedules and statements, and to the best of my knowledge and



# ation to K-1s

	Income	Expenses	DNI/IDD	Per Beneficiary
Dividends	\$ 10,000.00	\$ 258.11	\$ 9,741.89	\$ 3,247.30
Rents	\$ 18,000.00	\$ 464.60	\$ 17,535.40	\$ 5,845.13
Capital Gains	\$ 25,000.00	\$ 645.28	\$ 24,354.72	\$ 8,118.24
Total	\$ 53,000.00	\$ 1,368.00	\$ 51,632.00	\$ 17,210.67
Total Expenses	\$ 1,368.00			
Tax Exempt Inc	\$ 4,875.00			\$ 1,625.00

Reg 1.652(b)-3

# Schedule K-1 for of the three and children

**Schedule K-1  
(Form 1041)**  
Department of the Treasury  
Internal Revenue Service

beginning \_\_\_\_\_ ending \_\_\_\_\_

**Beneficiary's Share of Income, Deductions,  
Credits, etc.** ▶ See page 2 of form and instructions.

Part I Information About the Estate or Trust	
A	Estate's or trust's employer identification number  66-5588996
B	Estate's or trust's name  Fake Family Irrevocable Trust
C	Beneficiary's name, address, city, state, and ZIP code  John Smith 9999 Broadway Street Denver CO 80203
D	<input type="checkbox"/> Check if Form 1041-T was filed and enter the date it was filed _____
E	<input type="checkbox"/> Check if this is the final Form 1041 for the estate or trust

Part II Information About the Beneficiary	
F	Beneficiary's identifying number
G	Beneficiary's name, address, city, state, and ZIP code  Fake Grandchild

001117  
OMB No. 1545-0042

Final K-1       Amended K-1

Part III Beneficiary's Share of Current Year Income, Deductions, Credits, and Other Items			
1	Interest income	11	Final year of dividends
2a	Ordinary dividends		
2b	Qualified dividends	3,247	
3	Net short-term capital gain		
4a	Net long-term capital gain	8,118	
4b	28% rate gain		12
4c	Unrecaptured section 1250 gain		A
5	Other portfolio and investment income		150
6	Ordinary business income		
7	Net rental real estate income		
8	Other rental income	5,845	13
9	Directly appointed deductions		Credits and credit capacity
10	Estate tax deduction		
			14
			Other information
			A
			1,625
			E
			3,247



## as. Regs. 2(h)-2

- Creates New Categories for Excess Deductions Claimed by Beneficiaries After Trust or Estate Terminates
- Effective for Tax Years Starting After Regs Become Final (Oct 19, 2020)
- However, Taxpayers may rely on the proposed regulations for Tax Years Starting After December 31, 2017

# Schedule K-1 (Pre & Post Regulation Changes)

## Years Prior to 2018

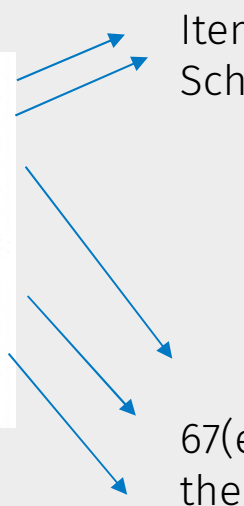
<b>Final year deductions</b>	
Excess deductions	See the beneficiary's instructions
Short-term capital loss carryover	Schedule D, line 5
Long-term capital loss carryover	Schedule D, line 12; line 5 of the wksht. for Sch. D, line 18; and line 16 of the wksht. for Sch. D, line 19
Net operating loss carryover — regular tax	Form 1040, Schedule 1, line 21
Net operating loss carryover — minimum tax	Form 6251, line 2f

## Tax Years 2018 Forward

<b>11. Final year deductions</b>	
<b>A</b> Excess deductions — Section 67(e) expenses	See the beneficiary's instructions
<b>B</b> Excess deductions — Non-miscellaneous itemized deductions	See the beneficiary's instructions
<b>C</b> Short-term capital loss carryover	Schedule D, line 5
<b>D</b> Long-term capital loss carryover	Schedule D, line 12; line 5 of the wksht. for Sch. D, line 18; and line 16 of the wksht. for Sch. D, line 19
<b>E</b> Net operating loss carryover — regular tax	Schedule 1 (Form 1040), line 21
<b>F</b> Net operating loss carryover — minimum tax	Form 6251, line 2f

# Itemized vs. Above the Line

Interest. Check if Form 4952 is attached <input type="checkbox"/>	<b>10</b>
Real estate taxes	<b>11</b>
Fiduciary fees. If only a portion is deductible under section 67(e), see instructions	<b>12</b>
Charitable deduction (from Schedule A, line 7)	<b>13</b>
Attorney, accountant, and return preparer fees. If only a portion is deductible under section 67(e), see instructions	<b>14</b>
Other deductions (attach schedule). See instructions for deductions allowable under section 67(e)	<b>15a</b>
Net operating loss deduction. See instructions	<b>15b</b>



These deductions do not carry over on beneficiary's return so coordination with taxable income of beneficiary is advisable if significant deductions passing out.



# ing Question



**Lorem ipsum dolor sit amet, consectetur adipiscing elit dictum tempus orci?**

- A. List option
- B. List option
- C. List option

§ 663(b)  
tion



## (b) Election

- Income Distribution Deduction Requires a DISTRIBUTION
- Year End Timing Issues
- 65 Day Rule

mple

- Estate earns \$50,000 during calendar year 2021.
- Estate is waiting to make distributions because a lawsuit is pending and monies may need to be used for a judgment.
- In February 2022, the lawsuit settles for \$10,000.
- Estate distributes remaining \$40,000 to beneficiaries by March 6<sup>th</sup>
- Estate can claim income distribution deduction for \$40,000 even though payment wasn't made during calendar year.

# (b) Election

Other Information		Yes	No
1	Did the estate or trust receive tax-exempt income? If "Yes," attach a computation of the allocation of expenses. Enter the amount of tax-exempt interest income and exempt-interest dividends ► \$ _____	<input type="checkbox"/>	<input type="checkbox"/>
2	Did the estate or trust receive all or any part of the earnings (salary, wages, and other compensation) of any individual by reason of a contract assignment or similar arrangement? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
3	At any time during calendar year 2018, did the estate or trust have an interest in or a signature or other authority over a bank, securities, or other financial account in a foreign country? . . . . . See the instructions for exceptions and filing requirements for FinCEN Form 114. If "Yes," enter the name of the foreign country ► _____	<input type="checkbox"/>	<input type="checkbox"/>
4	During the tax year, did the estate or trust receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the estate or trust may have to file Form 3520. See instructions . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
5	Did the estate or trust receive, or pay, any qualified residence interest on seller-provided financing? If "Yes," see the instructions for required attachment . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
6	If this is an estate or a complex trust making the section 663(b) election, check here. See instructions . . . . . ► <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	To make a section 643(e)(3) election, attach Schedule D (Form 1041), and check here. See instructions . . . . . ► <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	If the decedent's estate has been open for more than 2 years, attach an explanation for the delay in closing the estate, and check here ► <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	Are any present or future trust beneficiaries skip persons? See instructions . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
10	Was the trust a specified domestic entity required to file Form 8938 for the tax year (see the Instructions for Form 8938)? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>

# All or Nothing

- Tax liability may be unknown till well after 65-day rule deadline
- Trustee may overdistribute to beneficiary during 65-day period
- Make 663(b) election only for those sums needed for the prior year.
- Use the remaining distribution for the year in which the distribution was actually made.



# Beneficiaries' Schedule K-1

Only Report Income on the  
Schedule K-1

Noncooperative Beneficiaries

Obtaining Beneficiaries' Social  
Security Numbers

Penalties

SSN ID Truncation (fraud prevention)

xx-xx-1234



# Timing of Beneficiaries Reporting Income

Fiduciary Reports the Income in the Year in which the Trust or Estate's Tax Year ENDS

Schedule K-1  
(Form 1041)

Department of the Treasury  
Internal Revenue Service

For calendar year **2020**, or tax year

beginning [ / / 2020 ] ending [ / / ]

**Beneficiary's Share of Income, Deductions, Credits, etc.**

▶ See back of form and instructions.

**Part I Information About the Estate or Trust**

**A** Estate's or trust's employer identification number

**B** Estate's or trust's name

**C** Fiduciary's name, address, city, state, and ZIP code

Schedule K-1  
(Form 1041)

Department of the Treasury  
Internal Revenue Service

For calendar year 2020, or tax year

beginning [ 08 / 23 / 2020 ] ending [ 07 / 31 / **2021** ]

**Beneficiary's Share of Income, Deductions, Credits, etc.**

▶ See back of form and instructions.

**Part I Information About the Estate or Trust**

**A** Estate's or trust's employer identification number

**B** Estate's or trust's name

**C** Fiduciary's name, address, city, state, and ZIP code

# ing Question



What is the last date to make a distribution to a beneficiary for the 2023 calendar tax year?

- A. December 31, 2023
- B. March 5, 2024
- C. April 15, 2024

§ 1014  
S ADJUSTMENT



# is – Inherited Assets

## 014 Basis of Property Acquired from a Decedent

[T]he basis of property in the hands of a person acquiring the property from a decedent from the property passed from a decedent shall, if not sold, exchanged, or otherwise disposed before the decedent's death by such person, be—

(1) the fair market value of the property at the date of the decedent's death.

**PROPERTY ACQUIRED FROM THE DECEDENT** For purposes of subsection (a), following property shall be considered to have been acquired from ... the decedent:

(9) ... property acquired from the decedent by reason of death, form of ownership, or conditions if by reason thereof the property is required to be included in determining value of the decedent's gross estate under chapter 11 of subtitle B or under the Internal Revenue Code of 1939.

# is – Inherited Assets

014

requently Referred to as a “Step Up in Basis”

TE\*\* This is really a “Basis Adjustment”

is is Adjusted to Fair Market Value as of Date of Death

n result in a Step Down in Basis if the original purchase price was higher than the date of  
ath value.



# is – Inherited Assets

014

## APPRECIATED PROPERTY ACQUIRED BY DECEDENT BY GIFT WITHIN 1 YEAR OF DEATH

(1) IN GENERAL In the case of a decedent dying after December 31, 1981, if—

(A) appreciated property was acquired by the decedent by gift during the 1-year period ending on the date of the decedent's death, and

(B) such property is acquired from the decedent by (or passes from the decedent to) donor of such property (or the spouse of such donor),

the basis of such property in the hands of such donor (or spouse) shall be the adjusted basis of such property in the hands of the decedent immediately before the death of the decedent.

# Holding Period – Inherited Assets

## 223(9) Holding Period of Property

In the case of a person acquiring property from a decedent ... if—

(A) the basis of such property in the hands of such person is determined under section 1014 and

(B) such property is sold or otherwise disposed of by such person within 1 year after the decedent's death,

such person shall be considered to have held such property for more than 1 year.

# Form 1041 - Schedule D

<b>SCHEDULE D</b> <b>(Form 1041)</b>		<b>Capital Gains and Losses</b> ▶ Attach to Form 1041, Form 5227, or Form 990-T. ▶ Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9 and 10. ▶ Go to <a href="http://www.irs.gov/F1041">www.irs.gov/F1041</a> for instructions and the latest information.			OMB No.
Department of the Treasury Internal Revenue Service					
Name of estate or trust				Employer identification number	
Did you dispose of any investment(s) in a qualified opportunity fund during the tax year? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," attach Form 8949 and see its instructions for additional requirements for reporting your gain or loss.					
<b>Note:</b> Form 5227 filers need to complete <i>only</i> Parts I and II.					
<b>Part I Short-Term Capital Gains and Losses—Generally Assets Held One Year or Less</b> (see instructions)					
See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.		(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g)	(h) C Subtr from c combin c
<b>1a</b> Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b .					
<b>1b</b> Totals for all transactions reported on Form(s) 8949 with <b>Box A</b> checked . . . . .					
<b>2</b> Totals for all transactions reported on Form(s) 8949 with <b>Box B</b> checked . . . . .					
<b>3</b> Totals for all transactions reported on Form(s) 8949 with <b>Box C</b> checked . . . . .					
<b>4</b> Short-term capital gain or (loss) from Forms 4684, 6252, 6781, and 8824 . . . . .					<b>4</b>
<b>5</b> Net short-term gain or (loss) from partnerships, S corporations, and other estates or trusts . . . . .					<b>5</b>
<b>6</b> Short-term capital loss carryover. Enter the amount, if any, from line 9 of the 2018 Capital Loss Carryover Worksheet . . . . .					<b>6</b> (
<b>7</b> <b>Net short-term capital gain or (loss).</b> Combine lines 1a through 6 in column (h). Enter here and on line 17, column (3) on the back . . . . . ▶					<b>7</b>

## How to Show Fair Market Value

- Stocks/Bonds
  - Estate Val Printout
  - High/Low Average
- Real Estate
  - Property Appraisal = Gold Standard
  - Market Analysis or Assessor's Office
- Businesses
  - Income/Asset Valuations
  - Formal Business Valuation

# Calculating Stocks & Bonds Date of Death Value

Reg. § 20.2031-2 Valuation of stocks and bonds

ABC Stock or Bond – Trades Multiple Times Per Day
Date of Death High: \$11.00
Date of Death Low: \$10.00
Fair Market Value: $(\$11 + \$10) / 2 = \$10.50$

XYZ Bond – Trades Only Once a Day
Trading Day Before Date of Death Close: \$9.00
Date of Death Close: \$11.00
Fair Market Value: $(\$9 + \$11) / 2 = \$10.00$

# Application of IRC 1014 vs IRC 121

Personal Residence Exclusion Allowed for a Trust or Estate under IRC 121

Surviving spouse may use twice the exclusion if she reports the sale on her Form 1040 and property is sold within 2 years of decedent's date of death. Surviving spouse may exclude \$500,000 of gain under I.R.C. § 121 if the 2 out of 5 year rule for use and ownership was met as of decedent's date of death.



# Example – Decedent's Personal Residence

Example:

House purchased in 1985 for \$150,000.

Used as primary residence until decedent's death. Date of death value \$700,000

Sold by estate for \$800,000. Gain = \$800,000 - \$700,000 = \$100,000

Owned with spouse on date of death, then only 1/2 house receives basis

adjustment. If sold for \$800,000, total basis (\$350,000 + \$75,000 = \$425,000), Gain

(\$800,000 - \$425,000 = \$375,000).

Exclude up to \$500,000 of gain if sold within 2 years of decedent's date of death

under IRC 121. If sold after, then only exclude \$250,000 of gain, pay tax on \$125,000

of gain.

# Claiming a Loss on Sale of Property Post Death

An estate may claim a loss on the sale of the decedent's assets, including the personal residence, if the assets meet the standards to be characterized as a capital asset.

The character of the assets depends on how the estate or trust holds or uses it.

If a personal representative or trustee intends to realize the value of the assets, including the personal residence, through sale, then the assets are deemed a capital asset held for investment. Gain or loss on the sale of the residence is capital gain or loss reportable by the estate on the fiduciary income tax return under IRC § 165.

# Example – Sale of House by Estate

Decedent's Estate

House purchase price \$250,000

Date of death value \$600,000

Schedule D Form 1041

- Sale Price \$600,000
- Tax Basis \$600,000
- Adjustments to Gain (\$35,000)
- Long Term Capital Loss (\$35,000)

Deduct Taxes as Expense on 1041

## Settlement Statement

Sale Price	\$600,000
Taxes	(\$2,000)
Commissions	(\$30,000)
<u>Seller Concession</u>	<u>(\$5,000)</u>
Net Proceeds	\$563,000

# ing Question



Decedent purchased Apple Stock for \$500 in 2005. At death, Stock is worth \$2,500. Estate sells stock for \$2,000. What is the tax result of this sale?

- A. Gain of \$1,500
- B. Loss of \$500
- C. Gain of \$2,000

- What is Form 1041?
- Filing Requirements
- Choice of Filing Period
- Common Types of Income
- Unique Trust and Estate Deductions
- Allocation of Income Between Entity and Beneficiaries
- I.R.C. § 645 & 663(b) Elections
- I.R.C. § 1014 Basis Adjustment Reporting