

Selected Issues in the Preparation of Form 1041

Donald T. Williamson, CPA

LaMonaca & Williamson

Eminent Professor of Taxation

American University

Allocations of Deductions to Income

Situation II: The sole beneficiary has a large investment interest carryforward on his personal return. To maximize tax savings for the beneficiary, allocate as much investment income as possible to him as follows:

<u>Schedule K-1</u>	<u>Gross Income</u>		<u>Less Expenses Allocated</u>	<u>Equals</u>	<u>Income Reportable to Beneficiary</u>
line 1: Interest income	\$ 2,000	-	\$ 0	=	2,000
line 2: Dividend income	2,000	-	0	=	2,000
line 3b: Net long-term capital gain	<u>10,000</u>	-	<u>6,000</u>	=	<u>4,000</u>
	<u>\$14,000</u>	-	<u>\$6,000</u>	=	<u>\$8,000</u>

Situation III: The sole beneficiary has a large capital loss carryforward on her personal return. To maximize tax savings for this beneficiary, allocate as much long-term capital gain income as possible to her, as follows:

<u>Schedule K-1</u>	<u>Gross Income</u>		<u>Less Expenses Allocated</u>	<u>Equals</u>	<u>Income Reportable to Beneficiary</u>
line 1: Interest income	\$ 2,000	-	\$ 2,000	=	\$ 0
line 2: Dividend income	2,000	-	2,000	=	0
line 3b: Net long-term capital gain	<u>10,000</u>	-	<u>2,000</u>	=	<u>8,000</u>
	<u>\$14,000</u>	-	<u>\$6,000</u>	=	<u>\$8,000</u>

Estimated Tax Payments

- Estate required to make estimated tax payments every year starting two tax years after date of decedent's death.
- Trust (and estate after 2 years) must pay estimated income tax if expects to owe at least \$1,000 in tax AND expects the withholding to be less than:
 - 100% of tax of prior year; or
 - 90% of tax of current year.

Allocating Estimated Tax Payments to Beneficiaries

- §643(g)(3) Election
 - Always available to trusts however only to estates in final tax year.
 - File 1041-T by the 65th day after the close of the taxable year.
- Amount allocated to beneficiary is
 - treated as distribution that carries out DNI to beneficiary on last day of tax year;
 - treated as payment of estimated tax made by beneficiary on following January 15;
and
 - reported on Schedule K-1, line 13a.

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

2016

For calendar year 2016,
or tax year beginning _____, 2016,
and ending _____, 20____

Final K-1 Amended K-1

661113

OMB No. 1545-0092

**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

D Check if Form 1041-T was filed and enter the date it was filed _____

E 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

H Domestic beneficiary Foreign beneficiary

**Part III Beneficiary's Share of Current Year Income,
Deductions, Credits, and Other Items**

1 Interest income	11 Final year deductions
2a Ordinary dividends	
2b Qualified dividends	
3 Net short-term capital gain	
4a Net long-term capital gain	
4b 28% rate gain	12 Alternative minimum tax adjustment
4c Unrecaptured section 1250 gain	
5 Other portfolio and nonbusiness income	
6 Ordinary business income	
7 Net rental real estate income	13 Credits and credit recapture
8 Other rental income	
9 Directly apportioned deductions	
	14 Other information
10 Estate tax deduction	

*See attached statement for additional information.
Note. A statement must be attached showing the beneficiary's share of income and directly apportioned deductions from each business, rental real estate, and other rental activity.

For IRS Use Only

§643(e)(3) Election: Gains or Losses on Transfers of Properties to Beneficiaries

- Form 1041, Schedule D, line 9.
- Recognize gain or loss on transfer of property between entity and beneficiary.
 - Gain/Loss = FMV of property on date of transfer – entity's tax basis
 - Loss deduction is disallowed.
- Applies to all distributions during tax year.

Form **1041**

Department of the Treasury—Internal Revenue Service
U.S. Income Tax Return for Estates and Trusts

2016

OMB No. 1545-0092

Information about Form 1041 and its separate instructions is at www.irs.gov/form1041.

A Check all that apply:

<input type="checkbox"/> Decedent's estate	For calendar year 2016 or fiscal year beginning, 2016, and ending, 20	C Employer identification number
<input type="checkbox"/> Simple trust	Name of estate or trust (if a grantor type trust, see the instructions.)	
<input type="checkbox"/> Complex trust	Name and title of fiduciary	D Date entity created
<input type="checkbox"/> Qualified disability trust	Number, street, and room or suite no. (if a P.O. box, see the instructions.)	E Nonexempt charitable and split-interest trusts, check applicable box(es), see instructions.
<input type="checkbox"/> ESBT (S portion only)	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"/> Grantor type trust		<input type="checkbox"/> Described in sec. 4947(a)(2)
<input type="checkbox"/> Bankruptcy estate—Ch. 7		<input type="checkbox"/> Net operating loss carryback
<input type="checkbox"/> Bankruptcy estate—Ch. 11		<input type="checkbox"/> Change in fiduciary's name
<input type="checkbox"/> Pooled income fund		<input type="checkbox"/> Change in fiduciary's address

B Number of Schedules K-1 attached (see instructions) ▶

F Check applicable boxes: Initial return Final return Amended return Change in trust's name Change in fiduciary Change in fiduciary's name Trust TIN ▶

G Check here if the estate or filing trust made a section 645 election Trust TIN ▶

Income	1 Interest income	1
	2a Total ordinary dividends	2a
	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
	5 Rents, royalties, partnerships, other estates and trusts, etc. Attach Schedule E (Form 1040)	5
	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 Total income. Combine lines 1, 2a, and 3 through 8 ▶	9	
Deductions	10 Interest. Check if Form 4952 is attached ▶ <input type="checkbox"/>	10
	11 Taxes	11
	12 Fiduciary fees	12
	13 Charitable deduction (from Schedule A, line 7)	13
	14 Attorney, accountant, and return preparer fees	14
	15a Other deductions not 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
	17 Adjusted total income or (loss). Subtract line 16 from line 9 17	
Tax and Payments	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
	22 Taxable income. Subtract line 21 from line 17. If a loss, see instructions	22
	23 Total tax (from Schedule G, line 7)	23
	24 Payments: a 2016 estimated tax payments and amount applied from 2015 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 Total payments. Add lines 24c through 24e, and 24h ▶	25	
26 Estimated tax penalty. See instructions	26	
27 Tax due. If line 25 is smaller than the total of lines 23 and 26, enter amount owed	27	
28 Overpayment. 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 2017 estimated tax ▶ ; b Refunded ▶	29	

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Sign Here ▶ Signature of fiduciary or officer representing fiduciary Date EIN of fiduciary if a financial institution

Paid Preparer Use Only

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.		

May the IRS discuss this return with the preparer shown below (see Instr. J)? Yes No

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	Charitable deduction. Subtract line 6 from line 5. Enter here and on page 1, line 13	7	

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	Distributable net income. 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	Income distribution deduction. Enter the smaller of line 13 or line 14 here and on page 1, line 18	15	

Schedule G Tax Computation (see instructions)

1	Tax:	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 56)	1c		
		d	Total. Add lines 1a through 1c		1d	
2a	Foreign tax credit. Attach Form 1116	a		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	Total credits. Add lines 2a through 2d			2e		
3	Subtract line 2e from line 1d. If zero or less, enter -0-			3		
4	Net investment income tax from Form 8960, line 21			4		
5	Recapture taxes. Check if from: <input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611			5		
6	Household employment taxes. Attach Schedule H (Form 1040)			6		
7	Total tax. Add lines 3 through 6. Enter here and on page 1, line 23			7		

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 ▶ \$		
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?		
3	At any time during calendar year 2016, 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 ▶		
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		
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		
6	If this is an estate or a complex trust making the section 663(b) election, check here. See instructions ▶ <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"/>		
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"/>		
9	Are any present or future trust beneficiaries skip persons? See instructions		
10	Was the trust a specified domestic entity required to file Form 8938 for the tax year (see the instructions for Form 8938)?		