

Table of Contents

Introduction	1
Creation of Trusts	3
Grantors	3
Trust Document.	5
Trustee	8
Trust Assets	10
Beneficiaries	10
Types of Trusts	12
Grantor Trusts	22
Creation of Trusts Review Questions	27
Creation of Trusts Review Answers	29
Trust Basics	31
Accounting Methods	33
Cash Method	33
Accrual Method.	34
Hybrid Method	35
Change of Accounting Method	35
Accounting Period.	35
Filing Requirement.	36
Irrevocable Trusts	36
Grantor Trusts	37
Other Types of Trusts	39
Section 645 Election	40
Notice Concerning Fiduciary Relationship	43
Employer Identification Number.	44
Requesting an EIN	44
Signatures.	47
Alternative Minimum Tax	47
Estimated Tax Payments	48
Allocating Estimated Tax Payments to Beneficiaries.	51
Withholding Tax for Foreign Beneficiaries.	52
Self-Employment Tax.	53
E-filing.	54
Extensions	55

Penalties	55
Late Filing	55
Late Payment	56
Abatement	57
Trust Basics Review Questions	59
Trust Basics Review Answers	63
Trust Administration	69
Grantor	69
Trust Document.	69
Trust Investments	70
Powers and Duties of the Trustee	71
Beneficiaries	73
Distributions of Income or Principal	74
Fiduciary Accounting Income	74
Powers of Appointment.	78
Court Enforcement	78
Transfers of Beneficial Interests	79
Creditor Claims	79
Trust Administration Review Questions	81
Trust Administration Review Answers	83
Income and Deductions	85
Income	85
Interest Income	85
Dividend Income	88
Qualified Dividends	89
Extraordinary Dividends.	89
Short-Term Capital Gain Distributions	90
Business and Farm Income.	90
Basis of Inherited Assets	92
Capital Gains and Losses	93
Rental Income.	96
Partnership and S Corporation Income or Loss	99
Tax-Exempt Income	102
Retirement Plans.	103
Income in Respect of a Decedent	105

Deductions	107
Taxes	107
Fiduciary Fees	108
Charitable Deductions	109
Net Operating Losses	111
Casualty or Theft Losses	114
Depreciation and Depletion	114
Section 179	117
Deductions in Respect of a Decedent	117
Administration Expenses	118
Miscellaneous Itemized Deductions	118
Allocating Deductions Among Income Types	121
Income and Deductions Review Questions	125
Income and Deductions Review Answers	131
Distributions and Allocating Income to Beneficiaries	139
Distributions	139
Income or Principal	139
Distributable Net Income	140
Property Distributions	149
65-Day Election	155
Income Distribution Deduction	156
Allocating Income to Beneficiaries	160
Grantor Trusts	160
Tier System	161
Simple Trusts	162
Complex Trusts	164
Effect of Charitable Deduction	166
Separate Share Rules	167
Net Investment Income Tax	171
Form 8960	172
Schedule K-1 (Form 1041)	175
Pass-Through Items	175
Portfolio and Other Nonbusiness Income	175
Deductions Subject to Special Rules	178
Examples—Filled-In Returns	182

Simple Trust	182
Complex Trust	193
Distributions and Allocating Income to Beneficiaries Review Questions	203
Distributions and Allocating Income to Beneficiaries Review Answers	207
Termination	211
Termination Date	211
Death of Beneficiary	212
Revocation by Grantor	213
Trust Document	213
Termination by Trustee	214
Termination by Beneficiaries	214
Final Year Tax Reporting	215
Unused Capital Losses	217
Unused NOLs	218
Excess Deductions	219
Passive Losses	221
Business Tax Credits	221
Allocation of Estimated Tax Payments	222
Basis of Property Distributed	223
Holding Period for Property Distributed	224
Testamentary Trusts	224
Nongrantor Trusts	224
Discretionary Distributions	225
Distributions of Substituted Property	225
Residuary or Fractional Distribution	225
Final Year Issues	226
The Future of Trusts	228
Termination Review Questions	229
Termination Review Answers	233