

# Table of Contents

<b>Introduction</b> .....	<b>1</b>
<b>Creation of Trusts</b> .....	<b>3</b>
Grantors .....	3
Trust document .....	4
Trustee .....	6
Trust assets.....	8
Beneficiaries .....	8
Types of trusts .....	10
Grantor trusts.....	18
<b>Trust Basics</b> .....	<b>25</b>
Accounting methods.....	27
Cash method .....	27
Accrual method.....	27
Hybrid method .....	28
Change of accounting method .....	28
Accounting period .....	29
Filing requirements .....	30
Irrevocable trusts.....	30
Grantor trusts.....	30
Section 645 election.....	32
Notice concerning fiduciary relationship .....	34
Employer identification number .....	35
Requesting an EIN .....	35
Signatures.....	37
Alternative minimum tax .....	37
Estimated tax payments .....	40
Allocating estimated tax payments to beneficiaries .....	43
E-filing .....	44

Extensions .....	45
Penalties .....	45
Late filing.....	45
Late payment.....	46
Abatement .....	47
<b>Trust Administration.....</b>	<b>53</b>
Grantor.....	53
Trust document.....	53
Trust investments.....	54
Powers and duties of the trustee.....	55
Beneficiaries .....	57
Distributions of income or principal.....	57
Fiduciary accounting income.....	57
Powers of appointment.....	61
Court enforcement .....	61
Transfers of beneficial interests.....	62
Creditor claims.....	62
<b>Income and Deductions .....</b>	<b>65</b>
Income .....	65
Interest income .....	65
Dividend income .....	67
Qualified dividends .....	68
Extraordinary dividends .....	68
Short-term capital gain distributions .....	69
Business and farm income .....	69
Basis of inherited assets.....	70
Capital gains and losses.....	71
Rental income .....	74
Partnership and S corporation income or loss .....	76
Tax-exempt income.....	78

Retirement plans and traditional IRAs .....	78
Income in respect of a decedent (IRD).....	80
<b>Deductible Expenses .....</b>	<b>82</b>
Business interest.....	82
Taxes .....	83
Fiduciary fees.....	84
Charitable deductions .....	84
Net operating losses .....	86
Casualty or theft losses .....	88
Depreciation and depletion.....	88
Section 179 .....	91
Deductions in respect of a decedent .....	91
Qualified business income deduction .....	91
Administration expenses .....	92
Miscellaneous itemized deductions .....	93
Allocating deductions among income types .....	95
<b>Distributions and Allocating Income to Beneficiaries .....</b>	<b>105</b>
<b>Distributions.....</b>	<b>105</b>
Income or principal.....	105
Distributable net income.....	105
Property distributions .....	114
65-day election .....	119
Income distribution deduction .....	120
<b>Allocating income to beneficiaries.....</b>	<b>123</b>
Grantor trusts.....	124
Tier system .....	124
Simple trusts.....	125
Complex trusts.....	126
Effect of charitable deduction .....	128
Separate share rules .....	129

Net investment income tax .....	132
<b>Schedule K-1 (Form 1041).....</b>	<b>135</b>
Pass-through items .....	135
Portfolio and other nonbusiness income.....	136
Business and rental income .....	137
Deductions subject to special rules .....	137
Alternative minimum tax items.....	138
Credits and credit recapture .....	139
Other information .....	139
<b>Examples — filled-in returns.....</b>	<b>141</b>
Simple trust.....	141
Complex trust .....	153
<b>Termination.....</b>	<b>171</b>
Termination date .....	171
Death of beneficiary .....	172
Revocation by grantor .....	173
Trust document.....	173
Termination by trustee .....	173
Termination by beneficiaries.....	174
<b>Final year tax reporting .....</b>	<b>174</b>
Unused capital losses .....	176
Unused NOLs .....	177
Excess deductions.....	178
Passive activity losses .....	179
Business tax credits .....	180
<b>Allocation of estimated tax payments .....</b>	<b>181</b>
<b>Basis of property distributed .....</b>	<b>181</b>
<b>Holding period for property distributed .....</b>	<b>182</b>
Testamentary trusts.....	182
Nongrantor living trusts .....	182

Discretionary distributions .....	183
Distributions of substituted property .....	183
Residuary or fractional distribution.....	183
Final year issues .....	184
The future of trusts.....	185
<b>Index.....</b>	<b>193</b>