

§ 1.652(c)-3

which the last taxable year of the beneficiary ends, see section 662(c) and § 1.662(c)-2.

§ 1.652(c)-3 Termination of existence of other beneficiaries.

If the existence of a beneficiary which is not an individual terminates, the amount to be included under section 652(a) in its gross income for its last taxable year is computed with reference to §§ 1.652(c)-1 and 1.652(c)-2 as if the beneficiary were a deceased individual, except that income required to be distributed prior to the termination but actually distributed to the beneficiary's successor in interest is included in the beneficiary's income for its last taxable year.

§ 1.652(c)-4 Illustration of the provisions of sections 651 and 652.

The rules applicable to a trust required to distribute all of its income currently to its beneficiaries may be illustrated by the following example:

Example. (a) Under the terms of a simple trust all of the income is to be distributed equally to beneficiaries A and B and capital gains are to be allocated to corpus. The trust and both beneficiaries file returns on the calendar year basis. No provision is made in the governing instrument with respect to depreciation. During the taxable year 1955, the trust had the following items of income and expense:

Rents	\$25,000
Dividends of domestic corporations	50,000
Tax-exempt interest on municipal bonds	25,000
Long-term capital gains	15,000
Taxes and expenses directly attributable to rents	5,000
Trustee's commissions allocable to income account	2,600
Trustee's commissions allocable to principal account	1,300
Depreciation	5,000

(b) The income of the trust for fiduciary accounting purposes is \$92,400, computed as follows:

Rents	\$25,000
Dividends	50,000
Tax-exempt interest	25,000
Total	100,000
Deductions:	
Expenses directly attributable to rental income	\$5,000
Trustee's commissions allocable to income account	2,600
Total	7,600
Income computed under section 643(b)	92,400

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One-half (\$46,200) of the income of \$92,400 is currently distributable to each beneficiary.

(c) The distributable net income of the trust computed under section 643(a) is \$91,100, determined as follows (cents are disregarded in the computation):

Rents	\$25,000
Dividends	50,000
Tax-exempt interest	\$25,000
Less: Expenses allocable thereto (25,000/100,000 × \$3,900)	975
Total	99,025
Deductions:	
Expenses directly attributable to rental income	\$5,000
Trustee's commissions (\$3,900 less \$975 allocable to tax-exempt interest)	2,925
Total	7,925
Distributable net income	91,100

In computing the distributable net income of \$91,100, the taxable income of the trust was computed with the following modifications: No deductions were allowed for distributions to the beneficiaries and for personal exemption of the trust (section 643(a) (1) and (2)); capital gains were excluded and no deduction under section 1202 (relating to the 50-percent deduction for long-term capital gains) was taken into account (section 643(a)(3)); the tax-exempt interest (as adjusted for expenses) and the dividend exclusion of \$50 were included (section 643(a) (5) and (7)). Since all of the income of the trust is required to be currently distributed, no deduction is allowable for depreciation in the absence of specific provisions in the governing instrument providing for the keeping of the trust corpus intact. See section 167(h) and the regulations thereunder.

(d) The deduction allowable to the trust under section 651(a) for distributions to the beneficiaries is \$67,025, computed as follows:

Distributable net income computed under section 643(a) (see paragraph (c))	\$91,100
Less:	
Tax-exempt interest as adjusted	\$24,025
Dividend exclusion	50
Total	24,075
Distributable net income as determined under section 651(b)	67,025

Since the amount of the income (\$92,400) required to be distributed currently by the trust exceeds the distributable net income (\$67,025) as computed under section 651(b), the deduction allowable under section 651(a) is limited to the distributable net income of \$67,025.

(e) The taxable income of the trust is \$7,200 computed as follows:

Rents	\$25,000
Dividends (\$50,000 less \$50 exclusion)	49,950
Long-term capital gains	15,000
Gross income	89,950