

Internal Revenue Service, Treasury

§ 1.662(a)-2

portion (one-half) of each item of income included in distributable net income.

(e) The taxable income of the trust is \$11,375 computed as follows:

Rental income	\$20,000	
Dividends (\$10,000 less \$50 exclusion)	9,950	
Partially tax-exempt interest	10,000	
		39,950
Deductions:		
Rental expenses	\$2,000	
Depreciation of rental property ...	3,000	
Trustee's commissions	4,000	
Charitable contributions	8,000	
Distributions to A	11,475	
Personal exemption	100	
		28,575
Taxable income	11,375	

In computing the taxable income of the trust no deduction is allowable for the portions of the charitable contributions deduction (\$2,000) and trustee's commissions (\$1,000) which are treated under section 661(b) as attributable to the tax-exempt interest excludable from gross income. Also, of the dividends of \$4,000 deemed to have been distributed to A under section 661(a), \$25 (25/50ths of \$50) is deemed to have been distributed from the excluded dividends and is not an allowable deduction to the trust. Accordingly, the deduction allowable under section 661 is deemed to be composed of \$3,500 rental income, \$3,975 of dividends, and \$4,000 partially tax-exempt interest. No deduction is allowable for the portion of tax-exempt interest or for the portion of the excluded dividends deemed to have been distributed to the beneficiary.

(f) The trust is entitled to the credit allowed by section 34 with respect to dividends of \$5,975 (\$9,950 less \$3,975 distributed to A) included in gross income. Also, the trust is allowed the credit provided by section 35 with respect to partially tax-exempt interest of \$6,000 (\$10,000 less \$4,000 deemed distributed to A) included in gross income.

(g) Dividends of \$4,000 allocable to A are to be aggregated with his other dividends (if any) for purposes of the dividend exclusion under section 116 and the dividend received credit under section 84.

§ 1.662(a)-1 Inclusion of amounts in gross income of beneficiaries of estates and complex trusts; general.

There is included in the gross income of a beneficiary of an estate or complex trust the sum of:

(a) Amounts of income required to be distributed currently to him, and

(b) All other amounts properly paid, credited, or required to be distributed to him

by the estate or trust. The preceding sentence is subject to the rules contained in §1.662(a)-2 (relating to currently distributable income), §1.662(a)-3 (relating to other amounts distributed), and §§1.662(b)-1 and 1.662(b)-2 (relating to character of amounts). Section 662 has no application to amounts excluded under section 663(a).

§ 1.662(a)-2 Currently distributable income.

(a) There is first included in the gross income of each beneficiary under section 662(a)(1) the amount of income for the taxable year of the estate or trust required to be distributed currently to him, subject to the provisions of paragraph (b) of this section. Such amount is included in the beneficiary's gross income whether or not it is actually distributed.

(b) If the amount of income required to be distributed currently to all beneficiaries exceeds the distributable net income (as defined in section 643(a) but computed without taking into account the payment, crediting, or setting aside of an amount for which a charitable contributions deduction is allowable under section 642(c)) of the estate or trust, then there is included in the gross income of each beneficiary an amount which bears the same ratio to distributable net income (as so computed) as the amount of income required to be distributed currently to the beneficiary bears to the amount required to be distributed currently to all beneficiaries.

(c) The phrase *the amount of income for the taxable year required to be distributed currently* includes any amount required to be paid out of income or corpus to the extent the amount is satisfied out of income for the taxable year. Thus, an annuity required to be paid in all events (either out of income or corpus) would qualify as income required to be distributed currently to the extent there is income (as defined in section 643(b)) not paid, credited, or required to be distributed to other beneficiaries for the taxable year. If an annuity or a portion of an annuity is deemed under this paragraph to be income required to be distributed currently, it is treated in all respects in

the same manner as an amount of income actually required to be distributed currently. The phrase *the amount of income for the taxable year required to be distributed currently* also includes any amount required to be paid during the taxable year in all events (either out of income or corpus) pursuant to a court order or decree or under local law, by a decedent's estate as an allowance or award for the support of the decedent's widow or other dependent for a limited period during the administration of the estate to the extent there is income (as defined in section 643(b)) of the estate for the taxable year not paid, credited, or required to be distributed to other beneficiaries.

(d) If an annuity is paid, credited, or required to be distributed tax free, that is, under a provision whereby the executor or trustee will pay the income tax of the annuitant resulting from the receipt of the annuity, the payment of or for the tax by the executor or trustee will be treated as income paid, credited, or required to be distributed currently to the extent it is made out of income.

(e) The application of the rules stated in this section may be illustrated by the following examples:

Example 1. (1) Assume that under the terms of the trust instrument \$5,000 is to be paid to X charity out of income each year; that \$20,000 of income is currently distributable to A; and that an annuity of \$12,000 is to be paid to B out of income or corpus. All expenses are charges against income and capital gains are allocable to corpus. During the taxable year the trust had income of \$30,000 (after the payment of expenses) derived from taxable interest and made the payments to X charity and distributions to A and B as required by the governing instrument.

(2) The amounts treated as distributed currently under section 662(a)(1) total \$25,000 (\$20,000 to A and \$5,000 to B). Since the charitable contribution is out of income the amount of income available for B's annuity is only \$5,000. The distributable net income of the trust computed under section 643(a) without taking into consideration the charitable contributions deduction of \$5,000 as provided by section 661(a)(1), is \$30,000. Since the amounts treated as distributed currently of \$25,000 do not exceed the distributable net income (as modified) of \$30,000, A is required to include \$20,000 in his gross income and B is required to include \$5,000 in his gross income under section 662(a)(1).

Example 2. Assume the same facts as in paragraph (1) of example 1, except that the trust has, in addition, \$10,000 of administration expenses, commissions, etc., chargeable to corpus. The amounts treated as distributed currently under section 662(a)(1) total \$25,000 (\$20,000 to A and \$5,000 to B), since trust income under section 643(b) remains the same as in example 1. Distributable net income of the trust computed under section 643(a) but without taking into account the charitable contributions deduction of \$5,000 as provided by section 662(a)(1) is only \$20,000. Since the amounts treated as distributed currently of \$25,000 exceed the distributable net income (as so computed) of \$20,000, A is required to include \$16,000 (20,000/25,000 of \$20,000) in his gross income and B is required to include \$4,000 (5,000/25,000 of \$20,000) in his gross income under section 662(a)(1). Because A and B are beneficiaries of amounts of income required to be distributed currently, they do not benefit from the reduction of distributable net income by the charitable contributions deduction.

[T.D. 6500, 25 FR 11814, Nov. 26, 1960; 25 FR 14021, Dec. 31, 1960, as amended by T.D. 7287, 38 FR 26912, Sept. 27, 1973]

§ 1.662(a)-3 Other amounts distributed.

(a) There is included in the gross income of a beneficiary under section 662(a)(2) any amount properly paid, credited, or required to be distributed to the beneficiary for the taxable year, other than (1) income required to be distributed currently, as determined under § 1.662(a)-2, (2) amounts excluded under section 663(a) and the regulations thereunder, and (3) amounts in excess of distributable net income (see paragraph (c) of this section). An amount which is credited or required to be distributed is included in the gross income of a beneficiary whether or not it is actually distributed.

(b) Some of the payments to be included under paragraph (a) of this section are: (1) A distribution made to a beneficiary in the discretion of the fiduciary; (2) a distribution required by the terms of the governing instrument upon the happening of a specified event; (3) an annuity which is required to be paid in all events but which is payable only out of corpus; (4) a distribution of property in kind (see paragraph (f) of § 1.661(a)-2); (5) an amount applied or distributed for the support of a dependent of a grantor or a trustee or cotrustee under the circumstances