

§ 1.662(c)-3

26 CFR Ch. I (4-1-02 Edition)

§ 1.662(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 662(a) in its gross income for the last taxable year is computed with reference to §§ 1.662(c)-1 and 1.662(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.

§ 1.662(c)-4 Illustration of the provisions of sections 661 and 662.

The provisions of sections 661 and 662 may be illustrated in general by the following example:

*Example.* (a) Under the terms of a testamentary trust one-half of the trust income is to be distributed currently to W, the decedent's wife, for her life. The remaining trust income may, in the trustee's discretion, either be paid to D, the grantor's daughter, paid to designated charities, or accumulated. The trust is to terminate at the death of W and the principal will then be payable to D. No provision is made in the trust instrument with respect to depreciation of rental property. Capital gains are allocable to the principal account under the applicable local law. The trust and both beneficiaries file returns on the calendar year basis. The records of

the fiduciary show the following items of income and deduction for the taxable year 1955:

Rents .....	\$50,000
Dividends of domestic corporations .....	50,000
Tax-exempt interest .....	20,000
Partially tax-exempt interest .....	10,000
Capital gains (long term) .....	20,000
Depreciation of rental property .....	10,000
Expenses attributable to rental income .....	15,400
Trustee's commissions allocable to income account .....	2,800
Trustee's commissions allocable to principal account .....	1,100

(b) The income for trust accounting purposes is \$111,800, and the trustee distributes one-half (\$55,900) to W and in his discretion makes a contribution of one-quarter (\$27,950) to charity X and distributes the remaining one-quarter (\$27,950) to D. The total of the distributions to beneficiaries is \$83,850, consisting of (1) income required to be distributed currently to W of \$55,900 and (2) other amounts properly paid or credited to D of \$27,950. The income for trust accounting purposes of \$111,800 is determined as follows:

Rents .....	\$50,000
Dividends .....	50,000
Tax-exempt interest .....	20,000
Partially tax-exempt interest .....	10,000
Total .....	130,000
Less:	
Rental expenses .....	\$15,400
Trustee's commissions allocable to income account .....	2,800
	<u>18,200</u>
Income as computed under section 643(b) .....	111,800

(c) The distributable net income of the trust as computed under section 643(a) is \$82,750, determined as follows:

Rents .....	\$50,000
Dividends .....	50,000
Partially tax-exempt interest .....	10,000
Tax-exempt interest .....	\$20,000
Less:	
Trustee's commissions allocable thereto (20,000/130,000 of \$3,900) .....	\$600
Charitable contributions allocable thereto (20,000/130,000 of \$27,950) .....	4,300
	<u>4,900</u>
Total .....	125,100
Deductions:	
Rental expenses .....	15,400
Trustee's commissions (\$3,900 less \$600 allocated to tax-exempt interest) .....	3,300
Charitable deduction (\$27,950 less \$4,300 attributable to tax-exempt interest) ..	23,650
	<u>42,350</u>
Distributable net income .....	82,750

In computing the distributable net income of \$82,750, the taxable income of the trust was computed with the following modifications: No deductions were allowed for distributions to beneficiaries and for personal exemption of the trust (section 643(a) (1) and (2)); cap-

ital 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)); and the tax-exempt interest (as adjusted for expenses and charitable contributions) and the