

age 59½ in the year 2003 and receives a distribution of the full account balance under the plan consisting of \$180,000 in cash and the loan receivable equal to the \$28,919 outstanding loan amount in 1995 plus interest accrued thereafter to the payment date in 2003. At that time, the plan's records reflect an offset of the loan amount against the loan receivable in the participant's account and a distribution of \$180,000 in cash.

(ii) For the year 2003, the plan must report a gross distribution of \$180,000 in Box 1 of Form 1099-R and a taxable amount of \$164,590 in Box 2 of Form 1099-R (\$180,000 minus the remaining tax basis of \$15,410).

Example 4. (i) The facts are the same as in Example 1, except that in 2000, after the deemed distribution, the participant receives a \$10,000 hardship distribution. At the time of the hardship distribution, the participant's account balance under the plan totals \$50,000. For 2000, the plan reports, in Box 1 of Form 1099-R, a gross distribution of \$10,000 and, in Box 2 of Form 1099-R, a taxable amount of \$6,000 (the \$10,000 actual distribution minus \$4,000 of tax basis (\$10,000 times (\$20,000/\$50,000)) allocated to this actual distribution). The plan then records a decrease in tax basis equal to \$4,000, so that the participant's remaining tax basis as of December 31, 2000, totals \$16,000 (\$20,000 minus \$4,000). After 1999, the plan disregards, for purposes of section 72, the interest that accrues on the loan after the 1999 deemed distribution. Thus, as of December 31, 2001, the total taxable amount reported by the plan as a result of the deemed distribution plus the 2000 actual distribution is \$26,000 and the plan's records show that the participant's tax basis is \$16,000. As of January 1, 2002, the plan decides to apply Q&A-19 of this section to the loan. Accordingly, it reduces the participant's tax basis by the initial default amount of \$20,000, so that the participant's remaining tax basis in the plan is reduced from \$16,000 to zero. However, because the \$20,000 initial default amount exceeds \$16,000, the plan records a loan transition amount of \$4,000 (\$20,000 minus \$16,000). Thereafter, the amount of the outstanding loan, other than the \$4,000 loan transition amount, is not treated as part of the account balance for purposes of section 72. The participant attains age 59½ in the year 2003 and receives a distribution of the full account balance under the plan consisting of \$60,000 in cash and the loan receivable. At that time, the plan's records reflect an offset of the loan amount against the loan receivable in the participant's account and a distribution of \$60,000 in cash.

(ii) In accordance with paragraph (c)(2)(iv) of this Q&A-22, the plan must report in Box 1 of Form 1099-R a gross distribution of \$64,000 and in Box 2 of Form 1099-R a taxable amount for the participant for the year 2003 equal to \$64,000 (the sum of the \$60,000 paid in

the year 2003 plus \$4,000 as the loan transition amount).

[T.D. 8894, 65 FR 46591, July 31, 2000]

§ 1.73-1 Services of child.

(a) Compensation for personal services of a child shall, regardless of the provisions of State law relating to who is entitled to the earnings of the child, and regardless of whether the income is in fact received by the child, be deemed to be the gross income of the child and not the gross income of the parent of the child. Such compensation, therefore, shall be included in the gross income of the child and shall be reflected in the return rendered by or for such child. The income of a minor child is not required to be included in the gross income of the parent for income tax purposes. For requirements for making the return by such child, or for such child by his guardian, or other person charged with the care of his person or property, see section 6012.

(b) In the determination of taxable income or adjusted gross income, as the case may be, all expenditures made by the parent or the child attributable to amounts which are includable in the gross income of the child and not of the parent solely by reason of section 73 are deemed to have been paid or incurred by the child. In such determination, the child is entitled to take deductions not only for expenditures made on his behalf by his parent which would be commonly considered as business expenses, but also for other expenditures such as charitable contributions made by the parent in the name of the child and out of the child's earnings.

(c) For purposes of section 73, the term "parent" includes any individual who is entitled to the services of the child by reason of having parental rights and duties in respect of the child. See section 6201(c) and the regulations in Part 301 of this chapter (Procedure and Administration) for assessment of tax against the parent in certain cases.

§ 1.74-1 Prizes and awards.

(a) *Inclusion in gross income.* (1) Section 74(a) requires the inclusion in gross income of all amounts received as prizes and awards, unless such prizes