

**Income Taxation of Trusts and Estates**  
**Sample Problem Examination Question**  
**Spring Semester, 2004**  
**Professor C. Harvey**

**Sample Problem Examination Question**

John formed a trust for his daughter, Jane. The trust is a cash basis taxpayer on a calendar tax year. The trustee is a bank and the trust is not a grantor trust. The trust requires the trustee to distribute all of the trust's fiduciary accounting income to John's daughter. There are no distributions of principal and no charitable beneficiaries during the year.

**2002 Transactions:**

**Income:**

Dividend Income	\$25,000
Tax Exempt Interest Income	12,500
Capital Gains (allocable to corpus)	10,000

**Expenses:**

Trustee Commissions (payable from income)	\$6,000
Investment Expenses (payable from income and directly allocable to dividend income)	5,000

1. Calculate the trust's fiduciary accounting income.
2. What is the trust's personal exemption?
3. Calculate the trust's Tentative Taxable Income (taxable income before income distribution deduction).
4. Calculate the trust's Distributable Net Income.
5. Calculate the trust's Income Distribution Deduction.
6. Calculate the trust's Taxable Income.

7. Calculate the amount includable in Jane's gross income.
8. What is the character of the amounts Jane has received?
9. Would you change your answer if the trustee distributed the income to Jane on January 30, 2003?
10. How would you change your answer to Question 5, 7 and 8 if the Trustee Commissions were directly allocable to the dividend income?

How you choose to answer the questions is up to you, but I strongly encourage you to use the roadmap that the questions lay out for you. Be sure to have all of the detailed calculations in your blue book so that I can understand how you derived your answers. Getting the correct answer is obviously an important part of your grade, but how you derived the answer is equally important.

For your review purposes and by no means meant to represent a full and complete examination answer, I thought you might like to have some answers to this problem to help you in studying for the real examination.

1. Calculate the trust's fiduciary accounting income.  
FAI = \$26,500
2. What is the trust's personal exemption?  
\$300
3. Calculate the trust's Tentative Taxable Income (taxable income before income distribution deduction).  
TTI = \$25,700
4. Calculate the trust's Distributable Net Income.  
DNI = \$26,500
5. Calculate the trust's Income Distribution Deduction.  
IDD = \$16,000
6. Calculate the trust's Taxable Income.  
TI = \$9,700
7. Calculate the amount includable in Jane's gross income.  
GI = \$16,000
8. What is the character of the amounts Jane has received?  
Tax-exempt = \$10,500  
Dividend = \$16,000
9. Would you change your answer if the trustee distributed the income to Jane on January 30, 2003?  
Well how do you read Sections 651(a) and 652(a)?
10. How would you change your answer to Question 5, 7 and 8 if the Trustee Commissions were directly allocable to the dividend income?  
TTI = \$23,700  
DNI = \$26,500  
IDD = \$14,000

TI = \$9,700

GI = \$14,000

Character

Tax-exempt = \$12,500

Dividend = \$14,000