

Income Taxation of Trusts and Estates

Take Home Questions 1, 2 & 3

Simple Trust Questions

Due: 8:00 pm on March 13, 2006

Directions: Please limit your answers to the questions asked. Attach your answers to this sheet and deliver them to me before class or the Graduate Tax Office on the due date. You are not to work with anyone in or outside of the class.

Exam Number: _____

Question 1

(a) On January 1, 2005, Bob Smith gifted \$500,000 to a trust for his children, Jim, Tom, and Sally. The trust requires the trustee to distribute all of the income among the children in such amounts as the trustee may decide. In addition, the trustee is permitted to invade principal for the children's education and medical needs. In 5 years, the trust will terminate and distribute the balance equally among the children. For 2005, the trust had fiduciary accounting income of \$16,000. The trustee distributed from fiduciary accounting income \$4,000 to Tom, \$8,000 to Sally and \$4,000 to Jim. Is the trust a simple trust under Section 651 for 2005?

(b) How would your answer to Part (a) change if the trustee also invaded principal for Jim's medical care in the amount of \$4,000?

Question 2

During the year 2005, the trust from Question 1 Part (a) received interest income of \$10,000 and dividend income of \$8,000 and had a long-term capital gain on the sale of investments of \$12,000. The trustee distributed \$6,000 to Tom, Sally and Jim for a total of \$18,000. Calculate the fiduciary accounting income, gross income, distributable net income, income distribution deduction and taxable income of the trust. In addition, calculate the gross income and the character of that gross income to each child.

Question 3

During the year 2005, the trust from Question 1 Part (a) received dividend income of \$10,000 and tax-exempt interest income of \$6,000. The trust also recognized an ordinary gain of \$20,000, which is allocated \$18,000 to corpus and \$2,000 to fiduciary accounting income. The trust incurred legal and accounting fees of \$6,000, which is related to all of the trust's income, but the trustee exercised his discretion and charged the expense to corpus. The trustee distributed \$6,000 to Tom, Sally and Jim for a total of \$18,000. Calculate the fiduciary accounting income, gross income, distributable net income, income distribution deduction and taxable income of the trust. In addition, calculate the gross income and the character of that gross income to each child.