

INCOME TAXATION OF TRUSTS AND ESTATES

Supplemental Estate Problems

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All of the problems involve a complex trust or estate governed by Sections 661-662. For purposes of allocating any indirect expenses, assume that the allocation is based on the proportionate amounts of gross fiduciary accounting income. For each trust, calculate the following:

- a. Taxable income before income distribution deduction.
- b. Fiduciary accounting income (if applicable).
- c. Distributable net income.
- d. Income distribution deduction.
- e. Gross income of beneficiary.
- f. Character of income to beneficiary.

1. Estate with the following:

Interest Income	\$10,000
Dividend Income	\$20,000
Tax Exempt Interest	\$10,000
Capital Gain	\$40,000
Interest Expense	\$1,000 (directly related to tax exempt interest)
Executor Fees	\$8,000

Executor distributes \$100,000 from the residue, \$40,000 to A and \$60,000 to B.

2. Estate with the following:

Interest Income	\$40,000
Rental Income	\$60,000
Real Estate Taxes	\$20,000
Depreciation Expense	\$20,000 (no reserve maintained)

Executor distributes from the residue \$20,000 to A, \$20,000 to B. Executor also distributes \$10,000 to C pursuant to the provision of the will that states "I direct my Executor to distribute \$10,000 to C upon my death."

3. Estate with the following:

Dividend Income	\$50,000
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Executor distributes from the residue \$30,000 to A. Executor also distributes \$10,000 worth of stock (with a basis to the estate of \$10,000) to C pursuant to the provision of the will that states "I direct my Executor to distribute \$10,000 to C upon my death."

4. Estate with the following:
Dividend Income \$100,000

Executor distributes stock from the residue worth \$30,000 (with a basis to the estate of \$20,000) to A. Executor distributes from the residue \$20,000 to B.

5. What if in Question 4, the executor made the election to recognize gain pursuant to Section 643(e)(3), how would your answer change?