

## **INCOME TAXATION OF TRUSTS AND ESTATES**

### **Supplemental Simple Trust Problems**

**Professor Christopher M. Harvey**

All of the problems involve a simple trust governed by Sections 651-652. 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.
  - c. Distributable net income.
  - d. Income distribution deduction.
  - e. Gross income of beneficiary.
  - f. Character of income to beneficiary.
- 
1. Simple trust with the following:  
Interest Income     \$10,000  
Dividend Income    \$20,000
  
  2. Simple trust with the following:  
Interest Income     \$10,000  
Dividend Income    \$20,000  
Trustees Fee         \$5,000 (all chargeable to income)
  
  3. Simple trust with the following:  
Interest Income     \$10,000  
Dividend Income    \$20,000  
Trustees Fee         \$5,000 (all chargeable to principal)
  
  4. Simple trust with the following:  
Interest Income     \$10,000  
Dividend Income    \$20,000  
Capital Gain         \$10,000  
Trustees Fee         \$5,000 (all chargeable to income)
  
  5. Simple trust with the following:  
Interest Income     \$10,000  
Dividend Income    \$20,000  
Capital Loss         (\$5,000)

- Trustees Fee           \$5,000 (all chargeable to income)
6. Simple trust with the following:
- |                     |                                    |
|---------------------|------------------------------------|
| Interest Income     | \$10,000                           |
| Dividend Income     | \$20,000                           |
| Tax Exempt Interest | \$10,000                           |
| Trustees Fee        | \$8,000 (all chargeable to income) |
7. Simple trust with the following:
- |                     |                                    |
|---------------------|------------------------------------|
| Interest Income     | \$10,000                           |
| Dividend Income     | \$20,000                           |
| Tax Exempt Interest | \$10,000                           |
| Capital Gain        | \$40,000                           |
| Trustees Fee        | \$8,000 (all chargeable to income) |
8. Simple trust 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) |
| Trustees Fee        | \$8,000 (all chargeable to income)                |
9. Simple Trust with the following:
- |                      |                                  |
|----------------------|----------------------------------|
| Interest Income      | \$40,000                         |
| Rental Income        | \$60,000                         |
| Real Estate Taxes    | \$20,000                         |
| Depreciation Expense | \$20,000 (no reserve maintained) |
10. Simple Trust with the following:
- |                      |                               |
|----------------------|-------------------------------|
| Interest Income      | \$40,000                      |
| Rental Income        | \$60,000                      |
| Real Estate Taxes    | \$20,000                      |
| Depreciation Expense | \$20,000 (reserve maintained) |
11. Simple Trust with the following:
- |                     |          |
|---------------------|----------|
| Interest Income     | \$40,000 |
| Tax Exempt Interest | \$20,000 |
| Capital Gain        | \$50,000 |
| Rental Income       | \$60,000 |

Real Estate Taxes	\$20,000
Depreciation Expense	\$20,000 (reserve maintained)
Trustees Fees	\$12,000 (all chargeable to income)

Note: answer key assumes trustees fees are allocated among income items based on the gross amount of income, not net income.

12. Simple Trust with the following:

Section 1245 income	\$100,000 (chargeable to income)
Interest Income	\$50,000
Tax Exempt Income	\$50,000
Trustees Fees	\$10,000 (chargeable to income)

Note: only allocate the trustees fees among Interest Income and Tax-Exempt Income.

13. Simple Trust with the following:

Section 1245 income	\$100,000 (chargeable to principal)
Interest Income	\$50,000
Tax Exempt Income	\$50,000
Trustees Fees	\$10,000 (chargeable to income)

Note: only allocate the trustees fees among Interest Income and Tax-Exempt Income.