

§ 1.662(a)-1

	Rental income	Taxable dividends	Excluded dividends	Partially tax-exempt interest	Tax-exempt interest	Total
Amounts deemed distributed under section 661(a) before applying the limitation of section 661(c) .....	3,500	3,975	25	4,000	3,500	15,000

In the absence of specific provisions in the trust instrument for the allocation of different classes of income, the charitable contribution is deemed to consist of a pro rata portion of the gross amount of each items of income of the trust (except dividends excluded under section 116) and the trust is deemed to have distributed to A a pro rata portion (one-half) of each item of income included in distributable net income.

(e) The taxable income of the trust is \$11,375 computed as follows:

Rental income .....	\$20,000
Dividends (\$10,000 less \$50 exclusion) .....	9,950
Partially tax-exempt interest .....	10,000
<b>Gross income .....</b>	<b>39,950</b>
<b>Deductions:</b>	
Rental expenses .....	\$2,000
Depreciation of rental property .....	3,000
Trustee's commissions .....	4,000
Charitable contributions .....	8,000
Distributions to A .....	11,475
Personal exemption .....	100
	<b>28,575</b>
<b>Taxable income .....</b>	<b>11,375</b>

In computing the taxable income of the trust no deduction is allowable for the portions of the charitable contributions deduction (\$2,000) and trustee's commissions (\$1,000) which are treated under section 661(b) as attributable to the tax-exempt interest excludable from gross income. Also, of the dividends of \$4,000 deemed to have been distributed to A under section 661(a), \$25 (25/50ths of \$50) is deemed to have been distributed from the excluded dividends and is not an allowable deduction to the trust. Accordingly, the deduction allowable under section 661 is deemed to be composed of \$3,500 rental income, \$3,975 of dividends, and \$4,000 partially tax-exempt interest. No deduction is allowable for the portion of tax-exempt interest or for the portion of the excluded dividends deemed to have been distributed to the beneficiary.

(f) The trust is entitled to the credit allowed by section 34 with respect to dividends of \$5,975 (\$9,950 less \$3,975 distributed to A) included in gross income. Also, the trust is allowed the credit provided by section 35

with respect to partially tax-exempt interest of \$6,000 (\$10,000 less \$4,000 deemed distributed to A) included in gross income.

(g) Dividends of \$4,000 allocable to A are to be aggregated with his other dividends (if any) for purposes of the dividend exclusion under section 116 and the dividend received credit under section 84.

**§ 1.662(a)-1 Inclusion of amounts in gross income of beneficiaries of estates and complex trusts; general.**

There is included in the gross income of a beneficiary of an estate or complex trust the sum of:

(a) Amounts of income required to be distributed currently to him, and

(b) All other amounts properly paid, credited, or required to be distributed to him

by the estate or trust. The preceding sentence is subject to the rules contained in § 1.662(a)-2 (relating to currently distributable income), § 1.662(a)-3 (relating to other amounts distributed), and §§ 1.662(b)-1 and 1.662(b)-2 (relating to character of amounts). Section 662 has no application to amounts excluded under section 663(a).

**§ 1.662(a)-2 Currently distributable income.**

(a) There is first included in the gross income of each beneficiary under section 662(a)(1) the amount of income for the taxable year of the estate or trust required to be distributed currently to him, subject to the provisions of paragraph (b) of this section. Such amount is included in the beneficiary's gross income whether or not it is actually distributed.

(b) If the amount of income required to be distributed currently to all beneficiaries exceeds the distributable net income (as defined in section 643(a) but computed without taking into account