

be thrown back may be reduced by accumulation distributions in intervening years and also by any taxes imposed on the trust which are deemed to be distributed under section 666 by reason of the accumulation distributions. On the other hand, undistributed net income for any year will not be reduced by any distributions in an intervening year which are excluded from the definition of an accumulation distribution under section 665(b), or which are excluded under section 663(a)(1), relating to gifts, bequests, etc. See paragraph (f)(5) of § 1.668(b)-2 for an illustration of the reduction of undistributed net income for any year by a subsequent accumulation distribution.

[T.D. 6989, 34 FR 733, 741, Jan. 17, 1969]

**§ 1.665(b)-1 Accumulation distributions of trusts other than certain foreign trusts; in general.**

(a) Subject to the limitations set forth in § 1.665(b)-2, in the case of a trust other than a foreign trust created by a U.S. person, the term *accumulation distribution* for any taxable year means an amount (if in excess of \$2,000), by which the amounts properly paid, credited, or required to be distributed within the meaning of section 661(a)(2) for that year exceed the distributable net income (determined under section 643(a)) of the trust, reduced (but not below zero) by the amount of income required to be distributed currently. (In computing the amount of an accumulation distribution pursuant to the preceding sentence, there is taken into account amounts applied or distributed for the support of a dependent under the circumstances specified in section 677(b) or section 678(c) out of corpus or out of other than income for the taxable year and amounts used to discharge or satisfy any person's legal obligation as that term is used in § 1.662(a)-4.) If the distribution as so computed is \$2,000 or less, it is not an accumulation distribution within the meaning of subpart D (section 665 and following), part I, subchapter J, chapter 1 of the Code. If the distribution exceeds \$2,000, then the full amount is an accumulation distribution for the purposes of subpart D.

(b) Although amounts properly paid, credited, or required to be distributed

under section 661(a)(2) do not exceed the income of the trust during the taxable year, an accumulation distribution may result if such amounts exceed distributable net income reduced (but not below zero) by the amount required to be distributed currently. This may result from the fact that expenses allocable to corpus are taken into account in determining taxable income and hence distributable net income. However, in the case of a trust other than a foreign trust created by a U.S. person, the provisions of subpart D will not apply unless there is undistributed net income in at least one of the five preceding taxable years. See section 666 and the regulations thereunder.

(c) The provisions of paragraphs (a) and (b) of this section may be illustrated by the following examples (it is assumed in each case that the exclusions provided in § 1.665(b)-2 do not apply):

*Example 1.* A trustee properly makes a distribution to a beneficiary of \$20,000 during the taxable year 1956, of which \$10,000 is income required to be distributed currently to the beneficiary. The distributable net income of the trust is \$15,000. There is an accumulation distribution of \$5,000 computed as follows:

Total distribution .....	\$20,000
Less: Income required to be distributed currently (section 661(a)(1)) .....	10,000
Other amounts distributed (section 661(a)(2)) .....	10,000
Distributable net income .....	\$15,000
Less: Income required to be distributed currently .....	10,000
Balance of distributable net income .....	5,000
Accumulation distribution .....	5,000

*Example 2.* Under the terms of the trust instrument, an annuity of \$15,000 is required to be paid to A out of income each year and the trustee may in his discretion make distributions out of income or corpus to B. During the taxable year the trust had income of \$18,000, as defined in section 643(b), and expenses allocable to corpus of \$5,000. Distributable net income amounted to \$13,000. The trustee distributed \$15,000 of income to A and in the exercise of his discretion, paid \$5,000 to B. There is an accumulation distribution of \$5,000 computed as follows:

Total distribution .....	\$20,000
Less: Income required to be distributed currently to A (section 661(a)(1)) .....	15,000
Other amounts distributed (section 661(a)(2)) .....	5,000
Distributable net income .....	\$13,000

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Less: Income required to be distributed currently to A .....	15,000
Balance of distributable net income .....	0
Accumulation distribution to B .....	5,000

*Example 3.* Under the terms of a trust instrument, the trustee may either accumulate the trust income or make distributions to A and B. The trustee may also invade corpus for the benefit of A and B. During the taxable year, the trust had income as defined in section 643(b) of \$22,000 and expenses of \$5,000 allocable to corpus. Distributable net income amounts to \$17,000. The trustee distributed \$10,000 each to A and B during the taxable year. There is an accumulation distribution of \$3,000 computed as follows:

Total distribution .....	\$20,000
Less: income required to be distributed currently .....	0
Other amounts distributed (section 661(a)(2)) .....	20,000
Distributable net income .....	17,000
Accumulation distribution .....	3,000

(d) There are not taken into account, in computing the accumulation distribution for any taxable year, any amounts deemed distributed in that year because of an accumulation distribution in a later year.

[T.D. 6500, 25 FR 11814, Nov. 26, 1960, as amended by T.D. 6989, 34 FR 734, Jan. 17, 1969]

**§ 1.665(b)-2 Exclusions from accumulation distributions in the case of trusts (other than a foreign trust created by a U.S. person).**

(a) In the case of a trust other than a foreign trust created by a U.S. person, certain amounts paid, credited, or required to be distributed to a beneficiary are excluded under section 665(b) in determining whether there is an accumulation distribution for the purposes of subpart D (section 665 and following), part I, subchapter J, chapter 1 of the Code. These exclusions are solely for the purpose of determining the amount allocable to preceding years under section 666 and in no way affect the determination under subpart C (section 661 and following) of such part I of the beneficiary's tax liability for the year of distribution. Further, amounts excluded from accumulation distributions do not reduce the amount of undistributed net income for the 5 years preceding the year of distribution.

(b) The amounts excluded from the computation of an accumulation dis-

tribution are discussed in the following subparagraphs:

(1) *Distributions from accumulations while a beneficiary is under 21.* (i) The first exception to the definition of an accumulation distribution is for amounts paid, credited, or required to be distributed to a beneficiary who was under 21 years of age or unborn when it was accumulated. A distribution is to be considered as so paid, credited, or required to be distributed to the extent, and only to the extent, that there is no undistributed net income for taxable years preceding the year of distribution other than undistributed net income accumulated while the beneficiary was under 21. If a distribution can be made from income accumulated either before or after a beneficiary reaches 21, it will be considered as made from the most recently accumulated income, and it will be so considered even though the governing instrument directs that distributions be charged first against the earliest accumulations.

(ii) As was indicated in paragraph (a) of this section, a distribution of an amount excepted from the definition of an accumulation distribution will not reduce undistributed net income for the purpose of determining the effect of a future accumulation distribution. Thus, a distribution to a beneficiary of income accumulated before he reached 21 would not reduce the undistributed net income includible in a future accumulation distribution to another beneficiary. However, all future distributions to the same beneficiary, or to another beneficiary to whom a distribution would be excepted under the provisions of this subparagraph, would be excepted from the definition of an accumulation distribution to the extent that they could not be paid, credited, or required to be distributed from other accumulated income.

(iii) The following examples illustrate the application of the foregoing rules of this subparagraph (in each of these examples it is assumed that the exceptions in section 665(b) (2), (3), and (4) do not apply):

(a) Income is to be accumulated until A reaches 21 when the corpus and accumulated income are to be distributed