

would qualify as an accumulation distribution for the purposes of such subpart D if in excess of \$2,000 and not excepted under section 665(b) and the regulations thereunder. In the case of a foreign trust created by a U.S. person, the distribution, regardless of the amount, would qualify as an accumulation distribution for the purposes of subpart D. For the purposes of such subpart D, the trust would be treated as subject to the provisions of such subpart C for the preceding taxable year in which the extraordinary or taxable stock dividends were received and in computing undistributed net income for such preceding year, the extraordinary or taxable stock dividends would be included in distributable net income under section 643(a). The rule stated in the preceding sentence would also apply if the distribution in the later year were made out of corpus without regard to a determination that the extraordinary dividends or taxable stock dividends in question were currently distributable to the beneficiary.

[T.D. 6500, 25 FR 11814, Nov. 26, 1960, as amended by T.D. 6989, 34 FR 735, Jan. 17, 1969. Redesignated by T.D. 6989, 34 FR 735, Jan. 17, 1969]

**§ 1.665(e)-2 Application of separate share rule.**

In trusts to which the separate share rule of section 663(c) is applicable for any taxable year, subpart D (section 665 and following), part I, subchapter J, of the Code, is applied as if each share were a separate trust. Thus, “undistributed net income” and the amount of an “accumulation distribution” are computed separately for each share. The “taxes imposed on the trust” are allocated as follows:

(a) There is first allocated to each separate share that portion of the “taxes imposed on the trust”, computed before the allowance of credits under section 642(a), which bears the same relation to the total that the distributable net income of the separate share bears to the distributable net income of the trust, adjusted for this purpose as follows:

(1) There is excluded from distributable net income of the trust and of each separate share any tax-exempt interest, foreign income of a foreign

trust, and excluded dividends, to the extent such amounts are included in distributable net income pursuant to section 643(a) (5), (6), and (7); and

(2) The distributable net income of the trust is reduced by any deductions allowable under section 661 for amounts paid, credited, or required to be distributed during the taxable year, and the distributable net income of each separate share is reduced by any such deduction allocable to that share.

(b) The taxes so determined for each separate share are then reduced by that portion of the credits against tax allowable to the trust under section 642(a) in computing the “taxes imposed on the trust” which bear the same relation to the total that the items of income allocable to the separate share with respect to which the credit is allowed bear to the total of such items of the trust. The amount of taxes imposed on the trust allocable to a separate share as so determined is then reduced by the amount of the taxes allowed under sections 667 and 668 as a credit to a beneficiary of the separate share on account of any accumulation distribution determined for any taxable year intervening between the year for which the determination is made and the year of an accumulation distribution with respect to which the determination is made. See paragraph (b) of § 1.665(d)-1.

[T.D. 6500, 25 FR 11814, Nov. 26, 1960, as amended by T.D. 6989, 34 FR 741, Jan. 17, 1969. Redesignated by T.D. 6989, 34 FR 736, Jan. 17, 1969]

**§ 1.666(a)-1A Amount allocated.**

(a) *In general.* In the case of a trust that is subject to subpart C of part I of subchapter J of chapter 1 of the Code (relating to estates and trusts that may accumulate income or that distribute corpus), section 666(a) prescribes rules for determining the taxable years from which an accumulation distribution will be deemed to have been made and the extent to which the accumulation distribution is considered to consist of undistributed net income. In general, an accumulation distribution made in taxable years beginning after December 31, 1969, is deemed to have been made first from the earliest preceding taxable year of the trust for which there is undistributed

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net income. An accumulation distribution made in a taxable year beginning before January 1, 1970, is deemed to have been made first from the most recent preceding taxable year of the trust for which there is undistributed net income. See § 1.665(e)-1A for the definition of "preceding taxable year."

(b) *Distributions by domestic trusts—(1) Taxable years beginning after December 31, 1973.* An accumulation distribution made by a trust (other than a foreign trust created by a U.S. person) in any taxable year beginning after December 31, 1973, is allocated to the preceding taxable years of the trust (defined in § 1.665(e)-1A(a)(1)(ii) as those beginning after December 31, 1968) according to the amount of undistributed net income of the trust for such years. For this purpose, an accumulation distribution is first to be allocated to the earliest such preceding taxable year in which there is undistributed net income and shall then be allocated, beginning with the next earliest, to any remaining preceding taxable years of the trust. The portion of the accumulation distribution allocated to the earliest preceding taxable year is the amount of the undistributed net income for that preceding taxable year. The portion of the accumulation distribution allocated to any preceding taxable year subsequent to the earliest such preceding taxable year is the excess of the accumulation distribution over the aggregate of the undistributed net income for all earlier preceding taxable years. See paragraph (d) of this section for adjustments to undistributed net income for prior distributions. The provisions of this subparagraph may be illustrated by the following example:

*Example.* In 1977, a domestic trust reporting on the calendar year basis makes an accumulation distribution of \$33,000. Therefore, years before 1969 are ignored. In 1969, the trust had \$6,000 of undistributed net income; in 1970, \$4,000; in 1971, none; in 1972, \$7,000; in 1973, \$5,000; in 1974, \$8,000; in 1975, \$6,000; and \$4,000 in 1976. The accumulation distribution is deemed distributed \$6,000 in 1969, \$4,000 in 1970, none in 1971, \$7,000 in 1972, \$5,000 in 1973, \$8,000 in 1974, and \$3,000 in 1975.

(2) *Taxable years beginning after December 31, 1969, and before January 1, 1974.* If a trust (other than a foreign

trust created by a U.S. person) makes an accumulation distribution in a taxable year beginning after December 31, 1969, and before January 1, 1974, the distribution will be deemed distributed in the same manner as accumulation distributions qualifying under subparagraph (1) of this paragraph, except that the first year to which the distribution may be thrown back cannot be earlier than the fifth taxable year of the trust preceding the year in which the accumulation distribution is made. Thus, for example, in the case of an accumulation distribution made in the taxable year of a domestic trust which begins on January 1, 1972, the taxable year of the trust beginning on January 1, 1967, would be the first year in which the distribution was deemed made, assuming that there was undistributed net income for 1967. See also § 1.665(e)-1A(a)(1). The provisions of this subparagraph may be illustrated by the following example:

*Example.* In 1973, a domestic trust, reporting on the calendar year basis, makes an accumulation distribution of \$25,000. In 1968, the fifth year preceding 1973, the trust had \$7,000 of undistributed net income; in 1969, none; in 1970, \$12,000; in 1971, \$4,000; in 1972, \$4,000. The accumulation distribution is deemed distributed in the amounts of \$7,000 in 1968, none in 1969, \$12,000 in 1970, \$4,000 in 1971, and \$2,000 in 1972.

(3) *Taxable years beginning after December 31, 1968, and before January 1, 1970.* Accumulation distributions made in taxable years of the trust beginning after December 31, 1968, and before January 1, 1970, are allocated to prior years according to § 1.666(a)-1.

(c) *Distributions by foreign trusts—(1) Foreign trusts created solely by U.S. persons—(i) Taxable years beginning after December 31, 1969.* If a foreign trust created by a U.S. person makes an accumulation distribution in any taxable year beginning after December 31, 1969, the distribution is allocated to the trust's preceding taxable years (defined in § 1.665(e)-1A(a)(2) as those beginning after Dec. 31, 1953, and ending after Aug. 16, 1954) according to the amount of undistributed net income of the trust for such years. For this purpose, an accumulation distribution is first allocated to the earliest such preceding

taxable year in which there is undistributed net income and shall then be allocated in turn, beginning with the next earliest, to any remaining preceding taxable years of the trust. The portion of the accumulation distribution allocated to the earliest preceding taxable year is the amount of the undistributed net income for that preceding taxable year. The portion of the accumulation distribution allocated to any preceding taxable year subsequent to the earliest such preceding taxable year is the excess of the accumulation distribution over the aggregate of the undistributed net income for all earlier preceding taxable years. See paragraph (d) of this section for adjustments to undistributed net income for prior distributions. The provisions of this subdivision may be illustrated by the following example:

*Example.* In 1971, a foreign trust created by a U.S. person, reporting on the calendar year basis, makes an accumulation distribution of \$50,000. In 1961, the trust had \$12,000 of undistributed net income; in 1962, none; in 1963, \$10,000; in 1964, \$8,000; in 1965, \$5,000; in 1966, \$14,000; in 1967, none; in 1968, \$3,000; in 1969, \$2,000; and in 1970, \$1,000. The accumulation distribution is deemed distributed in the amounts of \$12,000 in 1961, none in 1962, \$10,000 in 1963, \$8,000 in 1964, \$5,000 in 1965, \$14,000 in 1966, none in 1967, and \$1,000 in 1968.

(ii) *Taxable years beginning after December 31, 1968, and before January 1, 1970.* Accumulation distributions made in taxable years of the trust beginning after December 31, 1968, and before January 1, 1970, are allocated to prior years according to § 1.666(a)-1.

(2) *Foreign trusts created partly by U.S. persons—(i) Taxable years beginning after December 31, 1969.* If a trust that is in part a foreign trust created by a U.S. person and in part a foreign trust created by a person other than a U.S. person makes an accumulation distribution in any year after December 31, 1969, the distribution is deemed made from the undistributed net income of the foreign trust created by a U.S. person in the proportion that the total undistributed net income for all preceding years of the foreign trust created by the U.S. person bears to the total undistributed net income for all years of the entire foreign trust. In addition, such distribution is deemed made from the undistributed net in-

come of the foreign trust created by a person other than a U.S. person in the proportion that the total undistributed net income for all preceding years of the foreign trust created by a person other than a U.S. person bears to the total undistributed net income for all years of the entire foreign trust. Accordingly, an accumulation distribution of such a trust is composed of two portions with one portion relating to the undistributed net income of the foreign trust created by the U.S. person and the other portion relating to the undistributed net income of the foreign trust created by the person other than a U.S. person. For these purposes, each portion of an accumulation distribution made in any taxable year is first allocated to each of such preceding taxable years in turn, beginning with the earliest preceding taxable year, as defined in § 1.665(e)-1A(a), of the applicable foreign trusts, to the extent of the undistributed net income for the such trust for each of those years. Thus, each portion of an accumulation distribution is deemed to have been made from the earliest accumulated income of the applicable trust. If the foreign trust created by a U.S. person makes an accumulation distribution in any year beginning after December 31, 1969, the distribution is included in the beneficiary's income for that year to the extent of the undistributed net income of the trust for the trust's preceding taxable years which began after December 31, 1953, and ended after August 16, 1954. The provisions of this subdivision may be illustrated by the following example:

*Example.* A trust is created in 1962 under the laws of Country X by the transfer to a trustee in Country X of property by both a U.S. person and a person other than a U.S. person. Both the trust and the only beneficiary of the trust (who is a U.S. person) report their taxable income on a calendar year basis. On March 31, 1974, the trust makes an accumulation distribution of \$150,000 to the beneficiary. The distributable net income of both the portion of the trust which is a foreign trust created by a U.S. person and the portion of the trust which is a foreign trust created by a person other than a U.S. person for each year is computed in accordance with the provisions of paragraph (b)(3) of § 1.643(d)-1 and the undistributed net income for each portion of the trust for each year is computed as described in paragraph (b) of

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§ 1.665(a)-1A. For taxable years 1962 through 1973, the portion of the trust which is a foreign trust created by a U.S. person and the portion of the trust which is a foreign trust created by a person other than a U.S. person had the following amounts of undistributed net income:

Year	Undistributed net income-portion of the trust created by a U.S. person	Undistributed net income-portion of the trust created by a person other than a U.S. person
1962 ...	\$7,000	\$4,000
1963 ...	12,000	7,000
1964 ...	None	None
1965 ...	11,000	5,000
1966 ...	8,000	3,000
1967 ...	None	None
1968 ...	4,000	2,000
1969 ...	17,000	8,000
1970 ...	16,000	9,000
1971 ...	None	None
1972 ...	25,000	12,000
1973 ...	20,000	10,000
Totals	120,000	60,000

The accumulation distribution in the amount of \$150,000 is deemed to have been distributed in the amount of \$100,000 (120,000/180,000×\$150,000) from the portion of the trust which is a foreign trust created by a U.S. person and in the amount of \$39,000, which is less than \$50,000 (60,000/180,000×\$150,000), from the portion of the trust which is a foreign trust created by a person other than a U.S. person computed as follows:

Year	Throwback to preceding years of foreign trust created by a U.S. person	Throwback to preceding years of portion of the entire foreign trust which is not a foreign trust created by a U.S. person
1962 .....	\$7,000	None
1963 .....	12,000	None
1964 .....	None	None
1965 .....	\$11,000	None
1966 .....	8,000	None
1967 .....	None	None
1968 .....	4,000	None
1969 .....	17,000	\$8,000
1970 .....	16,000	9,000
1971 .....	None	None
1972 .....	\$25,000	\$12,000
1973 .....	None	10,000
Totals	100,000	39,000

Pursuant to this paragraph, the accumulation distribution in the amount of \$100,000 from the portion of the trust which is a foreign trust created by a U.S. person is included in the beneficiary's income for 1974, as the amount represents undistributed net income of the trust for the trust's preceding taxable years which began after December 31, 1953, and ended after August 16, 1954. The accumulation distribution in the amount of \$50,000 from the portion of the trust which is a foreign trust created by a

person other than a U.S. person is included in the beneficiary's income for 1974 to the extent of the undistributed net income of the trust for the preceding years beginning after December 31, 1968. Accordingly, with respect to the portion of the trust which is a foreign trust created by a person other than a U.S. person, only the undistributed net income for the years 1969 through 1973, which totals \$39,000, is includible in the beneficiary's income for 1974. Thus, of the \$150,000 distribution made in 1974, the beneficiary is required to include a total of \$139,000 in his income for 1974. The balance of \$11,000 is deemed to represent a distribution of corpus.

(ii) *Taxable years beginning after December 31, 1968, and before January 1, 1970.* Accumulation distributions made in taxable years of the trust beginning after December 31, 1968, and before January 1, 1970, are allocated to prior years according to § 1.666(a)-1.

(3) *Foreign trusts created by non-U.S. persons.* To the extent that a foreign trust is a foreign trust created by a person other than a U.S. person, an accumulation distribution is included in the beneficiary's income for the year paid, credited, or required to be distributed to the extent provided under paragraph (b) of this section.

(d) *Reduction of undistributed net income for prior accumulation distributions.* For the purposes of allocating to any preceding taxable year an accumulation distribution of the taxable year, the undistributed net income of such preceding taxable year is reduced by the amount from such year deemed distributed in any accumulation distribution of undistributed net income made in any taxable year intervening between such preceding taxable year and the taxable year. Accordingly, for example, if a trust has undistributed net income for 1974 and makes accumulation distributions during the taxable years 1978 and 1979, in determining that part of the 1979 accumulation distribution that is thrown back to 1974 the undistributed net income for 1974 is first reduced by the amount of the undistributed net income for 1974 deemed distributed in the 1978 accumulation distribution.

(e) *Rule when no undistributed net income.* If, before the application of the provisions of subpart D to an accumulation distribution for the taxable

year, there is no undistributed net income for a preceding taxable year, then no portion of the accumulation distribution is undistributed net income deemed distributed on the last day of such preceding taxable year. Thus, if an accumulation distribution is made during the taxable year 1975 from a trust whose earliest preceding taxable year is taxable year 1970, and the trust had no undistributed net income for 1970, then no portion of the 1975 accumulation distribution is undistributed net income deemed distributed on the last day of 1970.

[T.D. 7204, 37 FR 17143, Aug. 25, 1972]

**§ 1.666(b)-1A Total taxes deemed distributed.**

(a) If an accumulation distribution is deemed under § 1.666(a)-1A to be distributed on the last day of a preceding taxable year and the amount is not less than the undistributed net income for such preceding taxable year, then an additional amount equal to the "taxes imposed on the trust attributable to the undistributed net income" (as defined in § 1.665(d)-1A(b)) for such preceding taxable year is also deemed distributed under section 661(a)(2). For example, a trust has undistributed net income of \$8,000 for the taxable year 1974. The taxes imposed on the trust attributable to the undistributed net income are \$3,032. During the taxable year 1977, an accumulation distribution of \$8,000 is made to the beneficiary, which is deemed under § 1.666(a)-1A to have been distributed on the last day of 1974. The 1977 accumulation distribution is not less than the 1974 undistributed net income. Accordingly, the taxes of \$3,032 imposed on the trust attributable to the undistributed net income for 1974 are also deemed to have been distributed on the last day of 1974. Thus, a total of \$11,032 will be deemed to have been distributed on the last day of 1974.

(b) For the purpose of paragraph (a) of this section, the undistributed net income of any preceding taxable year and the taxes imposed on the trust for such preceding taxable year attributable to such undistributed net income are computed after taking into account any accumulation distributions of taxable years intervening between such preceding taxable year and

the taxable year. See paragraph (d) of § 1.666(a)-1A.

[T.D. 7204, 37 FR 17145, Aug. 25, 1972]

**§ 1.666(c)-1A Pro rata portion of taxes deemed distributed.**

(a) If an accumulation distribution is deemed under § 1.666(a)-1A to be distributed on the last day of a preceding taxable year and the amount is less than the undistributed net income for such preceding taxable year, then an additional amount is also deemed distributed under section 661(a)(2). The additional amount is equal to the "taxes imposed on the trust attributable to the undistributed net income" (as defined in § 1.665(a)-1A(b)) for such preceding taxable year, multiplied by a fraction, the numerator of which is the amount of the accumulation distribution allocated to such preceding taxable year and the denominator of which is the undistributed net income for such preceding taxable year. See paragraph (b) of example 1 and paragraphs (c) and (f) of example 2 in § 1.666(c)-2A for illustrations of this paragraph.

(b) For the purpose of paragraph (a) of this section, the undistributed net income of any preceding taxable year and the taxes imposed on the trust for such preceding taxable year attributable to such undistributed net income are computed after taking into account any accumulation distributions of any taxable years intervening between such preceding taxable year and the taxable year. See paragraph (d) of § 1.666(a)-1A and paragraph (c) of example 1 and paragraphs (e) and (h) of example 2 in § 1.666(c)-2A.

[T.D. 7204, 37 FR 17145, Aug. 25, 1972]

**§ 1.666(c)-2A Illustration of the provisions of section 666 (a), (b), and (c).**

The application of the provisions of §§ 1.666(a)-1A, 1.666(b)-1A, and 1.666(c)-1A may be illustrated by the following examples:

*Example 1.* (a) A trust created on January 1, 1974, makes accumulation distributions as follows:

1979 .....	\$7,000
1980 .....	26,000