

Internal Revenue Service, Treasury

§ 1.666(c)-1

Year	Throwback to preceding years of foreign trust created by 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
1953	4,000	None
1952	None	None
Totals	15,000	10,000

Pursuant to paragraph (a)(3) of this section, only \$11,000 of the accumulation distribution in the amount of \$15,000 from the portion of the trust which is a foreign trust created by a U.S. person is includible in the beneficiary's gross income for 1965 as the \$11,000 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 \$10,000 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 gross income for 1965 to the extent of the undistributed net income of the trust for the preceding 5 years. Accordingly, the entire \$10,000 (representing the undistributed net income for the year 1964) is includible in the beneficiary's gross income for 1965. Thus, of the \$25,000 distribution made in 1965, the beneficiary is required to include a total of \$21,000 in his gross income for 1965.

(d) 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 computed without regard to the accumulation distribution of the taxable year or of taxable years following the taxable year. However, accumulation distributions of any taxable years intervening between such preceding taxable year and the taxable year are taken into account. Accordingly, if a trust has undistributed net income for the taxable year 1954 and makes an accumulation distribution during the taxable year 1955, the undistributed net income for 1954 is computed without regard to the accumulation distribution for 1955 or any subsequent year. If the trust makes a further accumulation distribution for 1956, the undistributed net income for 1954 is computed without regard to the accumulation distribution for 1956 or subsequent years; but in determining the undistributed net income for 1954 for purposes of the 1956 accumulation distribution the accumu-

lation distribution for 1955 will be taken into account.

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

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

(a) If an accumulation distribution is deemed under § 1.666(a)-1 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" (as defined in § 1.665(d)-1) for such preceding taxable year is likewise deemed distributed under section 661(a)(2). For example, a trust has taxable income of \$11,032 (not including any capital gains) and undistributed net income of \$8,000 for the taxable year 1954. The taxes imposed on the trust are \$3,032. During the taxable year 1955, an accumulation distribution of \$8,000 is made to the beneficiary, which is deemed under § 1.666(a)-1 to have been distributed on the last day of 1954. The taxes imposed on the trust for 1954 of \$3,032 are also deemed to have been distributed on the last day of 1954 since the 1955 accumulation distribution is not less than the 1954 undistributed net income. Thus, a total of \$11,032 will be deemed to have been distributed on the last day of 1954 because of the accumulation distribution of \$8,000 made in 1955.

(b) For the purpose of paragraph (a) of this section, the undistributed net income of any preceding taxable year is computed without regard to the accumulation distribution of the taxable year or any taxable year following such taxable year. However, any accumulation distribution of taxable years intervening between such preceding taxable year and the taxable year are taken into account. See paragraph (d) of § 1.666(a)-1 and paragraphs (f)(5) and (g)(1) of § 1.668(b)-2.

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

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

(a) If an accumulation distribution is deemed under § 1.666(a)-1 to be distributed on the last day of a preceding taxable year and the amount is less than

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the undistributed net income for such preceding taxable year, then an additional amount is likewise deemed distributed under section 661(a)(2). The additional amount is equal to the taxes imposed on the trust, as defined in § 1.665(d)-1, for such preceding taxable year, multiplied by the fraction of which the numerator is the amount of the accumulation distribution and the denominator 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)-2, and paragraph (f)(2) of § 1.668(b)-2 for illustrations of this paragraph.

(b) For the purpose of paragraph (a) of this section, the undistributed net income of any preceding taxable year is computed without regard to the accumulation distribution of the taxable year or any taxable year following the taxable year. However, accumulation distributions of any taxable years intervening between such preceding taxable year and the taxable year are taken into account. See paragraph (d) of § 1.666(a)-1, paragraph (c) of example 1 and paragraphs (e) and (h) of example 2 in § 1.666(c)-2 and paragraph (f)(5)(iii) of § 1.668(b)-2.

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

§ 1.666(c)-2 Illustration of the provisions of section 666.

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

Example 1. (a) A trust makes accumulation distributions as follows:

1959	\$7,000
1960	25,000

For 1954 through 1958, the undistributed portion of distributable net income taxes imposed on the trust, and undistributed net income are as follows:

Year	Undistributed portion of distributable net income	Taxes imposed on the trust	Undistributed net income
1958	\$12,100	\$3,400	\$8,700
1957	16,100	5,200	10,900
1956	6,100	1,360	4,740
1955	None	None	None
1954	10,100	2,640	7,460

(b) Since the entire amount of the accumulation distribution for 1959 (\$7,000), deter-

mined without regard to the accumulation distribution for 1960, is less than the undistributed net income for 1958 (\$8,700), an additional amount of \$2,736 (7,000/ 8,700×\$3,400) is likewise deemed distributed under section 666(c).

(c) In allocating the accumulation distribution for 1960, the undistributed net income for 1958 will take into account the accumulation distribution for 1959, and the additional amount of taxes imposed on the trust for 1958 deemed distributed. The undistributed net income for 1958 will then be \$1,906; and the taxes imposed on the trust for 1958 will then be \$458, determined as follows:

Undistributed portion of distributable net income as of the close of 1958	\$12,100
Less:	
Accumulation distribution (1959)	\$7,000
Taxes deemed distributed under section 666(c) (7,000/ 8,700×\$3,400)	2,736
	<u>9,736</u>
Balance (undistributed portion of distributable net income as of the close of 1959)	2,364
Less: Personal exemption	100
Balance	2,264
Taxes imposed on the trust (income taxes on \$2,264)	458
Undistributed portion of distributable net income as of the close of 1959	2,364
Less: Income taxes attributable thereto	458
Undistributed net income for 1958 as of the close of 1959	1,906

(d) The accumulation distribution of \$25,000 for 1960 is deemed to have been made on the last day of the 5 preceding taxable years of the trust to the extent of \$17,546, the total of the undistributed net income for such years, as shown in the tabulation below. In addition, \$7,018, the total taxes imposed on the trust for such years is also deemed to have been distributed on the last day of such years, as shown below:

Year	Undistributed net income	Taxes imposed on the trust
1959	None	None
1958	\$1,906	\$458
1957	10,900	5,200
1956	4,740	1,360
1955	None	None

(e) No portion of the 1960 accumulation distribution is deemed made on the last day of 1954 because, as to 1960, 1954 is the sixth preceding taxable year.

Example 2. (a) Under the terms of a trust instrument, the trustee has discretion to accumulate or distribute the income to X and to invade corpus for the benefit of X. The entire income of the trust is from royalties.