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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.

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Both X and the trust report on the calendar year basis. All of the income for 1954 was accumulated. The distributable net income of the trust for the taxable year 1954 is \$20,100 and the income taxes paid by the trust for 1954 with respect to its distributable net income are \$7,260. All of the income for 1955 and 1956 was distributed and in addition the trustee made accumulation distributions within the meaning of section 665(b) of \$6,420 for each year.

(b) The undistributed net income of the trust determined under section 665(a) as of the close of 1954, is \$12,840, computed as follows:

Distributable net income	\$20,100
Less: Taxes imposed on the trust	7,260
	12,840
Undistributed net income as of the close of 1954	12,840

(c) The accumulation distribution of \$6,420 made during the taxable year 1955 is deemed under section 666(a) to have been made on December 31, 1954. Since this accumulation distribution is less than the 1954 undistributed net income of \$12,840, a portion of the taxes imposed on the trust for 1954 is also deemed under section 666(c) to have been distributed on December 31, 1954. The total amount deemed to have been distributed to X on December 31, 1954, is \$10,050, computed as follows:

Accumulation distribution	\$6,420
Taxes deemed distributed (6,420/12,840×\$7,260)	3,630
	10,050
Total	10,050

(d) After the application of the provisions of subpart D (section 665 and following), part I, subchapter J, chapter I of the Code, to the accumulation distribution of 1955, the undistributed portion of the distributable net income of the trust for 1954, is \$10,050, and the taxes imposed with respect thereto are \$2,623, computed as follows:

Distributable net income as of the close of 1954	\$20,100
Less: 1955 accumulation distribution and taxes deemed distributed on December 31, 1954 (paragraph (c) of this example)	10,050
	10,050
Undistributed portion of the 1954 distributable net income adjusted as of the close of 1955	10,050
Less: Personal exemption	100
	9,950
Balance	9,950
Income taxes on \$9,950	2,623

(e) The undistributed net income of the trust for the taxable year 1954, as adjusted to give effect to the 1955 accumulation distribution, is \$7,427, computed as follows:

Undistributed portion of distributable net income as of the close of 1955	\$10,050
Less: Income taxes applicable thereto	2,623
	7,427
Undistributed net income determined as of the close of 1955	7,427

(f) Inasmuch as all of the income of the trust for the taxable year 1955 was distributed to X, the trust had no undistributed net income for that year. Accordingly, the accumulation distribution of \$6,420 made during the taxable year 1956 is, under section 666(a), deemed a distribution to X on December 31, 1954, within the meaning of section 661(a)(2). Since this accumulation distribution is less than the 1954 adjusted undistributed net income of \$7,427, the trust is deemed under section 666(c) also to have distributed on December 31, 1954, a portion of the taxes imposed on the trust for 1954. The total amount deemed to be distributed on December 31, 1954, with respect to the accumulation distribution made in 1956, is \$8,687, computed as follows:

Accumulation distribution	\$6,420
Taxes deemed distributed (6,420/7,427×\$2,623)	2,267
	8,687
Total	8,687

(g) After the application of the provisions of subpart D to the accumulation distribution of 1956, the undistributed portion of the distributable net income of the trust for 1954, is \$1,363, and the taxes imposed on the trust with respect thereto are \$253, computed as follows:

Undistributed portion of distributable net income as of the close of 1955	\$10,050
Less: 1956 accumulation distribution and taxes deemed distributed on December 31, 1954 (paragraph (f) of this example)	8,687
	1,363
Undistributed portion of distributable net income as of the close of 1956	1,363
Less: Personal exemption	100
	1,263
Balance	1,263
Income taxes on \$1,263	253

(h) The undistributed net income of the trust for the taxable year 1954, determined as of the close of the taxable year 1956, is \$1,110 (\$1,363 less \$253).

§ 1.667-1 Denial of refund to trusts.

(a) If an amount is deemed under section 666 to be an amount paid, credited, or required to be distributed on the last day of a preceding taxable year, the trust is not allowed a refund or credit of the amount of "taxes imposed on the trust", as defined in § 1.665(d)-1, which would not have been payable for the preceding taxable year had the