

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

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For 1974 through 1978, the undistributed portion of distributable net income, taxes imposed on the trust attributable to the undistributed net income, and undistributed net income are as follows:

Year	Undistributed portion of distributable net income	Taxes imposed on the trust attributable to the undistributed net income	Undistributed net income
1974 .....	\$12,100	\$3,400	\$8,700
1975 .....	16,100	5,200	10,900
1976 .....	6,100	1,360	4,740
1977 .....	None	None	None
1978 .....	10,100	2,640	7,460

The trust has no undistributed capital gain.

(b) Since the entire amount of the accumulation distribution for 1979 (\$7,000) is less than the undistributed net income for 1974 (\$8,700), an additional amount of \$2,736 (7,000/8,700×\$3,400) is deemed distributed under section 666(c).

(c) In allocating the accumulation distribution for 1980, the amount of undistributed net income for 1974 will reflect the accumulation distribution for 1979. The undis-

tributed net income for 1974 will then be \$1,700 and the taxes imposed on the trust for 1974 will be \$664, determined as follows:

Undistributed net income as of the close of 1974 .....	\$8,700
Less: Accumulation distribution (1979) .....	7,000
	1,700
Balance (undistributed net income as of the close of 1979) .....	1,700
Taxes imposed on the trust attributable to the undistributed net income as of the close of 1979 (1,700/8,700×\$3,400) .....	664

(d) The accumulation distribution of \$26,000 for 1980 is deemed to have been made on the last day of the preceding taxable years of the trust to the extent of \$24,800, the total of the undistributed net income for such years, as shown in the tabulation below. In addition, \$9,864, the total taxes imposed on the trust attributable to the undistributed net income 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
1974 .....	\$1,700	\$664
1975 .....	10,900	5,200
1976 .....	4,740	1,360
1977 .....	None	None
1978 .....	7,460	2,640
1979 .....	None	None

*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. Both X and the trust report on the calendar year basis. All of the income for 1974 was accumulated. The distributable net income of the trust for the taxable year 1974 is \$20,100 and the income taxes paid by the trust for 1974 attributable to the undistributed net income are \$7,260. All of the income for 1975 and 1976 was distributed and in addition the trustee made accumulation distributions within the meaning of section 665(b) of \$5,420 for each year.

(b) The undistributed net income of the trust determined under section 665(a) as of the close of 1974, is \$12,840, computed as follows:

Distributable net income .....	\$20,100
Less: Taxes imposed on the trust attributable to the undistributed net income .....	7,260
	12,840
Undistributed net income as of the close of 1974 .....	12,840

(c) The accumulation distribution of \$5,420 made during the taxable year 1975 is deemed under section 666(a) to have been made on December 31, 1974. Since this accumulation distribution is less than the 1974 undistributed net income of \$12,840, a portion of the taxes imposed on the trust for 1974 is also deemed under section 666(c) to have been distributed on December 31, 1974. The total amount deemed to have been distributed to X on December 31, 1974 is \$8,484, computed as follows:

Accumulation distribution .....	\$5,420
Taxes deemed distributed (5,420/12,840×\$7,260) .....	3,064
Total .....	8,484

(d) After the application of the provisions of subpart D to the accumulation distribution of 1975, the undistributed net income of the trust for 1974 is \$7,420, computed as follows:

Undistributed net income as of the close of 1974 .....	\$12,840
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Less: 1975 accumulation distribution deemed distributed on December 31, 1974 (paragraph (c) of this example)	5,420
Undistributed net income for 1974 as of the close of 1975	7,420

(e) The taxes imposed on the trust attributable to the undistributed net income for the taxable year 1974, as adjusted to give effect to the 1975 accumulation distribution, amount to \$4,196, computed as follows:

Taxes imposed on the trust attributable to undistributed net income as of the close of 1974	\$7,260
Less: Taxes deemed distributed in 1974	3,064
Taxes attributable to the undistributed net income determined as of the close of 1975	4,196

(f) The accumulation distribution of \$5,420 made during the taxable year 1976 is, under section 666(a), deemed a distribution to X on December 31, 1974, within the meaning of section 661(a)(2). Since the accumulation distribution is less than the 1974 adjusted undistributed net income of \$7,420, the trust is deemed under section 666(c) also to have distributed on December 31, 1974, a portion of the taxes imposed on the trust for 1974. The total amount deemed to be distributed on December 31, 1974, with respect to the accumulation distribution made in 1976, is \$8,484, computed as follows:

Accumulation distribution	\$5,420
Taxes deemed distributed (5,420/7,420×\$4,196)	3,064
Total	8,484

(g) After the application of the provisions of subpart D to the accumulation distribution of 1976, the undistributed net income of the trust for 1974 is \$2,000, computed as follows:

Undistributed net income for 1974 as of the close of 1975	\$7,420
Less: 1976 accumulation distribution deemed distributed on December 31, 1974 (paragraph (f) of this example)	5,420
Undistributed net income for 1974 as of the close of 1976	2,000

(h) The taxes imposed on the trust attributable to the undistributed net income of the trust for the taxable year 1974, determined as of the close of the taxable year 1976, amount to \$1,132 (\$4,196 less \$3,064).

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

**§ 1.666(d)-1A Information required from trusts.**

(a) *Adequate records required.* For all taxable years of a trust, the trustee must retain copies of the trust's income tax return as well as information pertaining to any adjustments in the tax shown as due on the return. The trustee shall also keep the records of the trust required to be retained by section 6001 and the regulations thereunder for each taxable year as to which the period of limitations on assessment of tax under section 6501 has not expired. If the trustee fails to produce such copies and records, and such failure is due to circumstances beyond the reasonable control of the trustee or any predecessor trustee, the trustee may reconstruct the amount of corpus, accumulated income, etc., from competent sources (including, to the extent permissible, Internal Revenue Service records). To the extent that an accurate reconstruction can be made for a taxable year, the requirements of this paragraph shall be deemed satisfied for such year.

(b) *Rule when information is not available—(1) Accumulation distributions.* If adequate records (as required by paragraph (a) of this section) are not available to determine the proper application of subpart D to an accumulation distribution made in a taxable year by a trust, such accumulation distribution shall be deemed to consist of undistributed net income earned during the earliest preceding taxable year (as defined in § 1.665(e)-1A) of the trust in which it can be established that the trust was in existence. If adequate records are available for some years, but not for others, the accumulation distribution shall be allocated first to the earliest preceding taxable year of the trust for which there are adequate records and then to each subsequent preceding taxable year for which there are adequate records. To the extent that the distribution is not allocated in such manner to years for which adequate records are available, it will be deemed distributed on the last day of the earliest preceding taxable year of the trust in which it is established that the trust was in existence and for which the trust has no records. The provisions of