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trust in fact made such distribution on the last day of such year. However, such taxes are allowed as a credit under section 668(b) against the tax of the beneficiaries who are treated as having received the distributions in the preceding taxable year. The amount of taxes which may not be refunded or credited to the trust under this paragraph and which are allowed as a credit under section 668(b) against the tax of the beneficiaries, is an amount equal to the excess of:

(1) The taxes imposed on the trust (as defined in section 665(d) and § 1.655(d)-1) for any preceding taxable year (computed without regard to the accumulation distribution for the taxable year) over

(2) The amount of taxes for such preceding taxable year which would be imposed on the undistributed portion of distributable net income of the trust for such preceding taxable year after the application of subpart D (section 665 and following), part I, subchapter J, chapter 1 of the Code, on account of the accumulation distribution determined for the taxable year.

It should be noted that the credit under section 667 is computed by the use of a different ratio from that used for computing the amount of taxes deemed distributed under section 666(c).

(b) Paragraph (a) of this section may be illustrated by the following examples:

Example 1. In 1954, a trust of which A is the sole beneficiary has taxable income of \$20,000 (including capital gains of \$5,100 allocable to corpus less a personal exemption of \$100), on which a tax of \$7,260 is paid.

The undistributed portion of distributable net income is \$15,000, to which \$6,160 of the tax is allocable under section 665. The undistributed net income is therefore \$8,840 (\$15,000 minus \$6,160). In 1955, the trust makes an accumulation distribution of \$8,840. Under section 666(b), the total taxes for 1954 attributable to the undistributed net income are deemed distributed, so \$15,000 is deemed distributed. The amount of the tax which may not be refunded to the trust under section 667 and the credit to which A is entitled under section 668(b) is the excess of \$6,160 over zero, since after the distribution and the application of subpart D there is no remaining undistributed portion of distributable net income for 1954.

Example 2. The same trust as in example 1 of this paragraph distributes \$5,000 in 1955, rather than \$8,840. The amount of the tax which may not be refunded to the trust but which is available to A as a credit is \$4,044, computed as follows:

Accumulation distribution in 1955	\$5,000
Taxes deemed distributed under section 666(c) (5,000/8,840×\$6,160)	3,484
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Total amount deemed distributed out of the undistributed portion of distributable net income	8,484
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Tax attributable to the undistributed portion of distributable net income (\$15,000) before 1955 distribution (see example 1 of this paragraph) ..	6,160
Tax on \$11,516 (taxable income of \$20,000 minus \$8,484, amount deemed distributed)	\$3,216
Tax on \$5,000 (capital gains of \$5,100, less personal exemption of \$100, allocable to corpus)	1,100
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Tax attributable to undistributed portion of distributable net income after 1955 distribution	2,116
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Refund disallowed to the trust and credit available to A in 1955	4,044

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

§ 1.667(a)-1A Denial of refund to trusts.

If an amount is deemed under section 666 or 669 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)-1A. However, such taxes imposed on the trust are allowed as a credit under section 667(b) against the tax of certain beneficiaries who are treated as having received the distributions in the preceding taxable year.

[T.D. 7204, 37 FR 17147, Aug. 25, 1972]

§ 1.667(b)-1A Authorization of credit to beneficiary for taxes imposed on the trust.

(a) *Determination of credit*—(1) *In general.* Section 667(b) allows under certain circumstances a credit (without interest) against the tax imposed by subtitle A of the Code on the beneficiary for the taxable year in which the accumulation distribution is required to be included in income under section 668(a). In the case of an accumulation distribution consisting only of undistributed net income, the amount of such credit is the total of the taxes

deemed distributed to such beneficiary under section 666 (b) and (c) as a result of such accumulation distribution for preceding taxable years of the trust on the last day of which such beneficiary was in being, less the amount of such taxes for such preceding taxable years taken into account in reducing the amount of partial tax determined under § 1.668(b)-1A. In the case of an accumulation distribution consisting only of undistributed capital gain, the amount of such credit is the total of the taxes deemed distributed as a result of the accumulation distribution to such beneficiary under section 669 (d) and (e) for preceding taxable years of the trust on the last day of which such beneficiary was in being, less the amount of such taxes for such preceding taxable years taken into account in reducing the amount of partial tax determined under § 1.669(b)-1A. In the case of an accumulation distribution consisting of both undistributed net income and undistributed capital gain, a credit will not be available unless the total taxes deemed distributed to the beneficiary for all preceding taxable years as a result of the accumulation distribution exceeds the beneficiary's partial tax determined under §§ 1.668(b)-1A and 1.669(b)-1A without reference to the taxes deemed distributed. A credit is not allowed for any taxes deemed distributed as a result of an accumulation distribution to a beneficiary by reason of sections 666 (b) and (c) or sections 669 (d) and (e) for a preceding taxable year of the trust before the beneficiary was born or created. However, if as a result of an accumulation distribution the total taxes deemed distributed under sections 668(a)(2) and 668(a)(3) in preceding taxable years before the beneficiary was born or created exceed the partial taxes attributable to amounts deemed distributed in such years, such excess may be used to offset any liability for partial taxes attributable to amounts deemed distributed as a result of the same accumulation distribution in preceding taxable years after the beneficiary was born or created.

(2) *Exact method.* In the case of the tax computed under the exact method provided in §§ 1.668(b)-1A(b) and

1.669(b)-1A(b), the credit allowed by this section is computed as follows:

(i) Compute the total taxes deemed distributed under §§ 1.666(b)-1A and 1.666(c)-1A or §§ 1.669(d)-1A and 1.669(e)-1A, whichever are appropriate, for the preceding taxable years of the trust on the last day of which the beneficiary was in being.

(ii) Compute the total of the amounts of tax determined under § 1.668(b)-1A(b)(1) or § 1.669(b)-1A(b) (1), whichever is appropriate, for the prior taxable years of the beneficiary in which he was in being.

If the amount determined under subdivision (i) of this subparagraph does not exceed the amount determined under subdivision (ii) of this subparagraph, no credit is allowable. If the amount determined under subdivision (i) of this subparagraph exceeds the amount determined under subdivision (ii) of this subparagraph, the credit allowable is the lesser of the amount of such excess or the amount of taxes deemed distributed to the beneficiary for all preceding taxable years to the extent that such taxes are not used in § 1.668(b)-1A(b)(2) or § 1.669(b)-1A(b)(2) in determining the beneficiary's partial tax under section 668(a)(2) or 668(a)(3). The application of this subparagraph may be illustrated by the following example:

Example. An accumulation distribution made in 1975 is deemed distribution in 1973 and 1974, years in which the beneficiary was in being. The taxes deemed distributed in such years are \$4,000 and \$2,000, respectively, totaling \$6,000. The amounts of tax computed under § 1.668(b)-1A(b)(1) attributable to the amounts thrown back are \$3,000 and \$2,000, respectively, totaling \$5,000. The credit allowable under this subparagraph is therefore \$1,000 (\$6,000 less \$5,000).

(3) *Short-cut method.* In the case of the tax computed under the short-cut method provided in § 1.668(b)-1A(c) or § 1.669(b)-1A(c), the credit allowed by this section is computed as follows:

(i) Compute the total taxes deemed distributed in all preceding taxable years of the trust under §§ 1.666(b)-1A and 1.666(c)-1A or §§ 1.669(d)-1A and 1.669(e)-1A, whichever are appropriate.

(ii) Compute the beneficiary's partial tax determined under either § 1.668(b)-

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1A(c)(1)(v) or § 1.669(b)-1A (c)(1)(v), whichever is appropriate.

If the amount determined under subdivision (i) of this subparagraph does not exceed the amount determined under subdivision (ii) of this subparagraph, no credit is allowable. If the amount determined under subdivision (i) of this subparagraph exceeds the amount determined under subdivision (ii) of this subparagraph,

(iii) Compute the total taxes deemed distributed under §§ 1.666(b)-1A and 1.666(c)-1A or §§ 1.669(d)-1A and 1.669(e)-1A, which are appropriate, for the preceding taxable years of the trust on the last day of which the beneficiary was in being.

(iv) Multiply the amount by which subdivision (i) of this subparagraph exceeds subdivision (ii) of this subparagraph by a fraction, the numerator of which is the amount determined under subdivision (iii) of this subparagraph and the denominator of which is the amount determined under subdivision (i) of this subparagraph. The result is the allowable credit. The application of this subparagraph may be illustrated by the following example:

Example. An accumulation distribution that consists only of undistributed net income is made in 1975. The taxes deemed distributed in the preceding years under §§ 1.666(b)-1A and 1.666(c)-1A are \$15,000. The amount determined under § 1.668(b)-1A(c)(1)(v) is \$12,000. The beneficiary was in being on the last day of all but one preceding taxable year in which the accumulation distribution was deemed made, and the taxes deemed distributed in those years was \$10,000. Therefore, the excess of the subdivision (i) amount over the subdivision (ii) amount is \$3,000, and is multiplied by 10,000/15,000, resulting in an answer of \$2,000, which is the credit allowable when computed under the short-cut method.

(b) *Year of credit.* The credit to which a beneficiary is entitled under this section is allowed for the taxable year in which the accumulation distribution (to which the credit relates) is required to be included in the income of the beneficiary under section 668(a). Any excess over the total tax liability of the beneficiary for such year is treated as an overpayment of tax by the bene-

ficiary. See section 6401(b) and the regulations thereunder.

[T.D. 7204, 37 FR 17147, Aug. 25, 1972]

§ 1.668(a)-1A Amounts treated as received in prior taxable years; inclusion in gross income.

(a) Section 668(a) provides that the total of the amounts treated under sections 666 and 669 as having been distributed by the trust on the last day of a preceding taxable year of the trust shall be included in the income of the beneficiary or beneficiaries receiving them. The total of such amounts is includable in the income of each beneficiary to the extent the amounts would have been included under section 662 (a)(2) and (b) as if the total had actually been an amount properly paid by the trust under section 661 (a)(2) on the last day of such preceding taxable year. The total is included in the income of the beneficiary for the taxable year of the beneficiary in which such amounts are in fact paid, credited, or required to be distributed unless the taxable year of the beneficiary differs from the taxable year of the trust (see section 662(c) and the regulations thereunder). The character of the amounts treated as received by a beneficiary in prior taxable years, including taxes deemed distributed, in the hands of the beneficiary is determined by the rules set forth in section 662(b) and the regulations thereunder.

(b) Any deduction allowed to the trust in computing distributable net income for a preceding taxable year (such as depreciation, depletion, etc.) is not deemed allocable to a beneficiary because of amounts included in a beneficiary's gross income under this section since the deduction has already been utilized in reducing the amount included in the beneficiary's income.

(c) For purposes of applying section 668(a)(3), a trust shall be considered to be other than a "trust which is not required to distribute all of its income currently" for each taxable year prior to the first taxable year beginning after December 31, 1968, and ending after November 30, 1969, in which income is accumulated. Income will not be deemed to have been accumulated for purposes of applying section 668(a)(3) in a year if the trustee makes