

§ 1.669(a)-1A

26 CFR Ch. I (4-1-04 Edition)

Year	Dividends	Rents	Interest (taxable)	Interest (exempt)	Total
1957	\$5,000	\$7,500	\$7,500	\$2,500	¹ \$22,500
1954	3,730	4,974	2,487	1,243	² 12,434
Total	8,730	12,474	9,987	3,743	34,934

¹ See paragraph (d)(2) of this example.
² See paragraph (g)(2) of this example.

Thus, B will include in gross income for the year 1957 dividends of \$8,730 (subject to the dividend exclusion), rents of \$12,474, and taxable interest of \$9,987 and will exclude the tax-exempt interest of \$3,743.

(2) *Computation of tax.* (i) For the purpose of computing B's tax liability for 1957, it is assumed that he was single for the entire year and had income (other than distributions from the trust) of \$15,000 from salary. Also, he had allowable deductions of \$8,100, which included the deductions for personal exemption.

(ii) The computation of the tax for the taxable year 1957 attributable to the section 666 amounts which are included in B's gross income for that year, as provided in paragraph (a)(1) of § 1.668(a)-4, is as follows:

	Section 666 amounts excluded	Section 666 amounts included
Salary	\$15,000	\$15,000
Trust income:		
Dividends (\$50 excluded)	4,950	8,680
Rents	7,500	12,474
Taxable interest	7,500	9,987
Total	34,950	46,141
Less: Allowable deductions	8,100	8,100
Taxable income	26,850	38,041
Total tax	11,267	18,388
Less: Dividends received credit	198	275
Tax liability	11,069	18,113
Tax on income from which section 666 amounts are excluded		11,069
1957 tax attributable to section 666 amounts		7,044

See explanation following computation in paragraph (h)(2)(ii) of this example with respect to the computation of the dividend received credit on dividends received by the trust in 1954.

(iii) The amount of tax, computed at 1954 rates, attributable to the section 666 amounts which are deemed to have been distributed by the trust on the last day of 1954, is \$6,939, computed as follows:

1954 taxable income as adjusted (paragraph (h)(2)(iii) of this example)	\$24,659
Section 666 amounts:	
Dividends	3,730
Rents	4,974

Taxable interest	2,487
Taxable income as adjusted	35,850
Total tax	16,963
Less: Dividends received credit	150
Balance of tax	16,813
Tax liability for 1954	\$4,002
Tax attributable to 1956 accumulation distribution this example)	5,872
	9,874
Tax attributable to the section 666 amounts distributed in 1957	6,939

Only that portion (\$3,750) of the dividends received by the trust after July 31, 1954, and deemed distributed under section 666 on the last day of that year, is included in computing the dividend received credit of \$150. See paragraphs (f)(3) and (g)(2) of this example.

(iv) Inasmuch as the tax of \$6,939 attributable to the section 666 amounts as determined for the preceding taxable year 1954 is less than the tax of \$7,044 attributable to these amounts for the year 1957, the amount of \$6,939 shall be added to the tax computed for 1957 without including in gross income the section 666 amounts. Thus, B's tax liability for 1957 is \$18,008 (\$11,069 plus \$6,939).

(3) *Credit against the tax.* B is allowed under section 668(b) a credit of \$5,444 against his 1957 tax liability for the balance of the taxes paid by the trust for 1954 and which may not be refunded or credited to the trust under section 667. See paragraph(g)(3) of this example.

(Sec. 669(a) as amended by sec. 331(a), Tax Reform Act 1969 (83 Stat. 592))

[T.D. 6500, 25 FR 11814, Nov. 26, 1960, as amended by T.D. 6989, 34 FR 738, Jan. 17, 1969]

§ 1.669(a)-1A Amount allocated.

(a) *In general.* After a trust has distributed all of its undistributed net income, the rules concerning the treatment of capital gain distributions (prescribed under section 669) may become applicable to an accumulation distribution. This section prescribes rules to determine from which years capital gain distributions are considered to be made. For the definition of "capital

gain distribution," see § 1.665(g)-1A. Section 669 does not apply to a trust that has distributed all of its income currently since its inception. See § 1.668(a)-1A(c). Capital gain retains its character in the hands of the beneficiary. See § 1.669(f)-1A. A capital gain distribution to more than one beneficiary will be allocated among them. See § 1.668(a)-2A.

(b) *First-in, first-out rule.* A capital gain distribution is allocated to the preceding taxable years of the trust (as defined in § 1.665(e)-1A(a)(1)(iii)), according to the undistributed capital gain of the trust for such years. For this purpose, a capital gain distribution is first allocated to the earliest such preceding taxable year in which there is undistributed capital gain 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 capital gain distribution allocated to the earliest preceding taxable year is the amount of undistributed capital gain for that preceding taxable year. The portion of the capital gain distribution allocated to any preceding taxable year subsequent to the earliest such preceding taxable year is the excess of the capital gain distribution over the aggregate of the undistributed capital gain for all earlier preceding taxable years. See paragraph (c) of this section for adjustments to undistributed capital gain for prior distributions.

(c) *Reduction of undistributed capital gain for prior capital gain distributions.* For the purposes of allocating to any preceding taxable year a capital gain distribution of the taxable year, the undistributed capital gain of such preceding taxable year is reduced by the amount from such year deemed distributed in any capital gain distribution made in any taxable year intervening between such preceding taxable year and the taxable year. Accordingly, for example, if a trust subject to the capital gain throwback has no undistributed net income but has undistributed capital gain for 1974, and makes capital gain distributions during the taxable years 1978 and 1979, then in determining that part of the 1979 capital gain distribution that is thrown back to 1974, the undistributed capital gain for 1974

is reduced by the amount of such undistributed capital gain for 1974 deemed distributed in the 1978 capital gain distribution.

(d) *Rule when no undistributed capital gain.* If, before the application of the provisions of subpart D to a capital gain distribution for the taxable year, there is no undistributed capital gain for a preceding taxable year, then no portion of the capital gain distribution is deemed distributed on the last day of such preceding taxable year. Thus, for example, if a capital gain 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 capital gain for 1970, then no portion of the 1975 capital gain distribution is deemed distributed on the last day of 1970.

(e) *Example.* The provisions of this section may be illustrated by the following example:

Example. In 1977, a trust reporting on the calendar year basis makes a capital gain distribution of \$33,000. In 1969, the trust had \$6,000 of undistributed capital gain; in 1970, \$4,000; in 1971, none; in 1972, \$7,000; in 1973, \$5,000; in 1974, \$8,000; in 1975, \$6,000; in 1976, \$4,000; and \$6,000 in 1977. The capital gain 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.

[T.D. 7204, 37 FR 17153, Aug. 25, 1972]

§ 1.669(b)-1A Tax on distribution.

(a) *In general.* The partial tax imposed on the beneficiary by section 668(a)(3) shall be the lesser of:

(1) The tax computed under paragraph (b) of this section (the "exact" method), or

(2) The tax computed under paragraph (c) of this section (the "short-cut" method),

except as provided in § 1.669(c)-3A (relating to failure to furnish proper information) and paragraph (d) of this section (relating to disallowance of short-cut method). For purposes of this paragraph, the method used in the return shall be accepted as the method that produces the lesser tax. The beneficiary's choice of the two methods is not dependent upon the method that he uses to compute his partial tax imposed by section 668(a)(2).