

§ 1.669(c)-1A

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

669(a) to have been distributed to A on June 30, 1974, and part of the capital gain distribution from trust Z was deemed under section 669(a) to have been distributed to A on December 31, 1974. Because there were portions of capital gain distributions from two other trusts deemed distributed within the same prior taxable year of A (1974), the 1978 capital gain distribution from trust X may not be computed under the short-cut method provided in paragraph (c) of this section. Therefore the exact method under paragraph (b) of this section must be used to compute the tax imposed by section 668(a)(3).

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

§ 1.669(c)-1A Special rules applicable to section 669.

(a) *Effect of other distributions.* The income of the beneficiary, for any of his prior taxable years for which a tax is being recomputed under § 1.669(b)-1A, shall include any amounts of prior accumulation distributions (including prior capital gain distributions) deemed distributed under sections 666 and 669 in such prior taxable year. For purposes of the preceding sentence, a *prior accumulation distribution* is a distribution from the same or another trust which was paid, credited, or required to be distributed in a prior taxable year of the beneficiary. The term *prior accumulation distribution* also includes accumulation distributions of the same or other trusts which were distributed to the beneficiary in the same taxable year. The term "prior capital gain distribution" also includes capital gain distributions of other trusts which were paid, credited, or required to be distributed to the beneficiary in the same taxable year and which the beneficiary has determined under paragraph (b) of this section to treat as having been distributed before the capital gain distribution for which tax is being computed under § 1.669(b)-1A.

(b) *Multiple distributions in the same taxable year.* For purposes of paragraph (a) of this section, capital gain distributions made from more than one trust in the same taxable year of the beneficiary, regardless of when in the taxable year they were actually made, shall be treated as having been made

consecutively, in whichever order the beneficiary may determine. However, the beneficiary must treat them as having been made in the same order for the purpose of computing the partial tax on the several capital gain distributions. The beneficiary shall indicate the order he has determined to deem the capital gain distributions to have been received by him on his return for the taxable year. A failure by him so to indicate, however, shall not affect his right to make such determination. The purpose of this rule is to assure that the tax resulting from the later (as so deemed under this paragraph) distribution is computed with the inclusion of the earlier distribution in the taxable base and that the tax resulting from the earlier (as so deemed under this paragraph) distribution is computed with the later distribution excluded from the taxable base.

(c) *Rule when beneficiary not in existence on the last day of a taxable year.* If a beneficiary was not in existence on the last day of a preceding taxable year of the trust with respect to which a distribution is deemed made under section 669(a), it shall be assumed, for purposes of the computations under paragraphs (b) and (c) of § 1.669(b)-1A, that the beneficiary:

- (1) Was in existence on such last day,
- (2) Was a calendar year taxpayer,
- (3) Had no gross income other than the amounts deemed distributed to him from such trust in his calendar year in which such last day occurred and from all other trusts from which amounts are deemed to have been distributed to him in such calendar year,
- (4) If an individual, was unmarried and had no dependents,
- (5) Had no deductions other than the standard deduction, if applicable, under section 141 for such calendar year, and
- (6) Was entitled to the personal exemption under section 151 or 642(b).

For example, assume that part of a capital gain distribution made in 1980 is deemed under section 669(a) to have been distributed to the beneficiary, A, in 1973. \$10,000 of a prior accumulation distribution was deemed distributed in 1973. A was born on October 9, 1975. It will be assumed for purposes of § 1.669(b)-1A that A was alive in 1973, was on the calendar year basis, had no

income other than (i) the \$10,000 from the accumulation distribution deemed distributed in 1973 and (ii) the part of the 1980 distribution deemed distributed in 1973, and had no deductions other than the personal exemption provided in section 151. If A were a trust or estate created after 1973, the same assumptions would apply, except that the trust or estate would not be entitled to the standard deduction and would receive the personal exemption provided under section 642(b) in the same manner as allowed under such section for A's first actual taxable year.

(d) *Examples.* The provisions of paragraphs (a) and (b) of this section may be illustrated by the following examples:

Example 1. In 1978, trust X made a capital gain distribution to A, a calendar year taxpayer, of which \$3,000 was deemed to have been distributed in 1974. In 1980, trust X makes another capital gain distribution to A, \$10,000 of which is deemed under section 669(a) to have been distributed in 1974. Also in 1980, trust Y makes a capital gain distribution to A, of which \$5,000 is deemed under section 669(a) to have been distributed in 1974. A determines to treat the 1980 distribution from trust Y as having been made prior to the 1980 distribution from trust X. In computing the tax on the 1980 trust Y distribution, A's gross income for 1974 includes (i) the \$3,000 deemed distributed from the 1978 distribution, and (ii) the \$5,000 deemed distributed in 1974 from the 1980 Trust Y capital gain distribution. To compute A's tax under the exact method for 1974 on the \$10,000 from the 1980 trust X capital gain distribution deemed distributed in 1974, A's gross income for 1974 includes (i) the \$10,000, (ii) the \$3,000 previously deemed distributed in 1974 from the 1978 trust X capital gain distribution, and (iii) the \$5,000 deemed distributed in 1974 from the 1980 trust Y capital gain distribution.

Example 2. In 1978, trust T makes a capital gain distribution to B, a calendar year taxpayer. Determination of the tax on the distribution under the short-cut method requires the use of B's gross income for 1975, 1976, and 1977. In 1977, B received an accumulation distribution from trust U, of which \$2,000 was deemed to have been distributed in 1975, and \$3,000 in 1976. B's gross income for 1975, for purposes of using the short-cut method to determine the tax from the trust T capital gain distribution, will be deemed to include the \$2,000 deemed distributed in 1975 by trust U, and his gross income for 1976

will be deemed to include the \$3,000 deemed distributed by trust U in 1976.

[T.D. 7204, 37 FR 17155, Aug. 25, 1972]

§ 1.669(c)-2A Computation of the beneficiary's income and tax for a prior taxable year.

(a) *Basis for computation.* (1) The beneficiary's income and tax paid for any prior taxable year for which a recomputation is involved under either the exact method or the short-cut method shall be determined by reference to the information required to be furnished by him under § 1.669(c)-3A(a). The gross income, related deductions, and taxes paid for a prior taxable year of the beneficiary as finally determined shall be used for recomputation purposes. The term *as finally determined* shall have the same meaning for purposes of this section as in § 1.668(b)-3A(a).

(2) If any computations rely on the beneficiary's return for a prior taxable year for which the applicable period of limitations on assessment under section 6501 has expired, and such return shows a mathematical error on its face which resulted in the wrong amount of tax being paid for such year, the determination of both the tax for such year computed with the inclusion of the section 669 amounts in the beneficiary's gross income, and the tax for such year computed without including such amounts in such gross income, shall be based upon the return after the correction of such mathematical errors.

(b) *Effect of allocation of undistributed capital gain on items based on amount of income and with respect to a net operating loss, a charitable contributions carryover, or a capital loss carryover.* (1) In computing the tax for any taxable year under either the exact method or the short-cut method, any item which depends upon the amount of gross income, adjusted gross income, or taxable income shall be recomputed to take into consideration the amount of undistributed capital gain allocated to such year. For example, if \$2,000 of undistributed long-term capital gain is allocated to 1970, adjusted gross income for 1970 is increased from \$5,000 to \$6,000. The allowable 50 percent charitable deduction under section 170(b)(1)(A) is then increased and the