

Instructions for Form 1041 and Schedules A, B, G, J, and K-1

U.S. Income Tax Return for Estates and Trusts

2026

Volume 3 of 5



Department of the Treasury
Internal Revenue Service

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See Pub. 550 for the definition of qualified dividends if the estate or trust received dividends not reported on Form 1099-DIV.

Exception. Some dividends may be reported to the estate or trust as in box 1b of Form 1099-DIV but aren't qualified dividends. These include the following.

- Dividends received on any share of stock that the estate or trust held for less than 61 days during the 121-day period that began 60 days before the ex-dividend date. The ex-dividend date is the first date following the declaration of a dividend on which the purchaser of a stock isn't entitled to receive the next dividend payment. When counting the number of days the stock was held, include the day the estate or trust disposed of the stock but not the day it acquired the stock.

However, you can't count certain days during which the estate's or trust's risk of loss was diminished. See Pub. 550 for more details.

- Dividends attributable to periods totaling more than 366 days that the estate or trust received on any share of preferred stock held for less than 91 days during the 181-day period that began 90 days before the ex-dividend date. When counting the number of days the stock was held, include the day the estate or trust disposed of the stock but not the day it acquired the stock. However, you can't count certain days during which the estate's or trust's risk of loss was diminished. See Pub. 550 for more details. Preferred dividends attributable to periods totaling less than 367 days are subject to the 61-day holding period rule above.

- Dividends on any share of stock to the extent that the estate or trust is under an obligation (including a short sale) to make related payments with respect to positions in substantially similar or related property.
- Payments in lieu of dividends, but only if you know or have reason to know that the payments are not qualified dividends.

Tip: If you have an entry on line 2b(2), be sure you use Schedule D (Form 1041), the Schedule D Tax Worksheet, or the Qualified Dividends Tax Worksheet, whichever applies, to figure the estate's or trust's tax. Figuring the estate's or trust's tax liability in this manner will usually result in a lower tax.

Line 3—Business Income or (Loss)

If the estate operated a business, report the income and expenses on Schedule C (Form 1040), Profit or Loss From Business. Enter the net profit or (loss) from Schedule C on line 3.

Line 4—Capital Gain or (Loss)

Enter the gain from column (3) of Schedule D (Form 1041), Part III, line 19, or the loss from Part IV, line 20.

If you deferred a capital gain into a QOF, you must file your return with Schedule D, Form 8949, and Form 8997 attached.

You will need to file Form 8997 annually until you dispose of the investment. See the Form 8997 instructions.

Caution: Don't substitute Schedule D (Form 1040) for Schedule D (Form 1041).

Line 5—Rents, Royalties, Partnerships, Other Estates and Trusts, etc.

Use Schedule E (Form 1040), Supplemental Income and Loss, to report the estate's or trust's share of income or (losses) from rents, royalties, partnerships, S corporations, other estates and trusts, and REMICs.

Also use Schedule E (Form 1040) to report farm rental income and expenses based on crops or livestock produced by a tenant. Enter the net profit or (loss) from Schedule E on line 5. See the Instructions for Schedule E (Form 1040) for reporting requirements.

If the estate or trust received a Schedule K-1 from a partnership, an S corporation, or other flow-through entity, use the corresponding lines on Form 1041 to report the interest, dividends, capital gains, etc., from the flow-through entity.

Line 6—Farm Income or (Loss)

If the estate or trust operated a farm, use Schedule F (Form 1040), Profit or Loss From Farming, to report farm income and expenses. Enter the net profit or (loss) from Schedule F on line 6.

Caution: If an estate or trust has farm rental income and expenses based on crops or livestock produced by a tenant, report the

income and expenses on Schedule E (Form 1040). **Don't** use Form 4835, Farm Rental Income and Expenses, or Schedule F (Form 1040) to report such income and expenses and **don't** include the net profit or (loss) from such income and expenses on line 6.

Line 7—Ordinary Gain or (Loss)

Enter from line 17 of Form 4797, Sales of Business Property, the ordinary gain or loss from the sale or exchange of property other than capital assets and also from involuntary conversions (other than casualty or theft).

Line 8—Other Income

Enter other items of income not included on lines 1, 2a, and 3 through 7. List the type and amount on an attached schedule if the estate or trust has more than one item. Items to be reported on line 8 include the following.

- Unpaid compensation received by the decedent's estate that is IRD.

- Any part of a total distribution shown on Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., that is treated as ordinary income. For more information, see Form 4972, Tax on Lump-Sum Distributions, and its instructions.
- Taxable contributions received during the tax year by an Alaska Native Settlement Trust from an Alaska Native Corporation. Report gain from taxable contributions of noncash property on Schedule D (Form 1041).

Note: Beginning in tax year 2021, there is no current-year section 965(a) income inclusion reported on line 8. However, see the instructions for Schedule G, Part I, line 8, later, for information about a triggering event for a section 965(i) net tax liability.

Deductions

Depreciation, Depletion, and Amortization

A trust or decedent's estate is allowed a deduction for depreciation, depletion, and amortization only to the extent the deductions aren't apportioned to the beneficiaries. An estate or trust isn't allowed to make an election under section 179 to expense depreciable business assets.

The estate's or trust's share of depreciation, depletion, and amortization is generally reported on the appropriate lines of Schedule C, E, or F (Form 1040), the net income or loss from which is shown on line 3, 5, or 6 of Form 1041. If the deduction isn't related to a specific business or activity, then report it on line 15a.

Depreciation. For a decedent's estate, the depreciation deduction is apportioned between the estate and the heirs, legatees,

and devisees on the basis of the estate's income allocable to each.

For a trust, the depreciation deduction is apportioned between the income beneficiaries and the trust on the basis of the trust income allocable to each, unless the governing instrument (or local law) requires or permits the trustee to maintain a depreciation reserve. If the trustee is required to maintain a reserve, the deduction is first allocated to the trust, up to the amount of the reserve. Any excess is allocated among the income beneficiaries and the trust in the same manner as the trust's accounting income. See Regulations section 1.167(h)-1(b).

Depletion. For mineral or timber property held by a decedent's estate, the depletion deduction is apportioned between the estate and the heirs, legatees, and devisees on the basis of the estate's income from such property allocable to each.

For mineral or timber property held in trust, the depletion deduction is apportioned between the income beneficiaries and the trust based on the trust income from such property allocable to each, unless the governing instrument (or local law) requires or permits the trustee to maintain a reserve for depletion. If the trustee is required to maintain a reserve, the deduction is first allocated to the trust, up to the amount of the reserve. Any excess is allocated among the beneficiaries and the trust in the same manner as the trust's accounting income. See Regulations section 1.611-1(c)(4).

Amortization. The deduction for amortization is apportioned between an estate or trust and its beneficiaries under the same principles used to apportion the deductions for depreciation and depletion.

The deduction for the amortization of reforestation expenditures under section 194 is allowed only to an estate.

Allocable share from a pass-through entity. Depreciation, depletion, and amortization received from a pass-through entity on a Schedule K-1 are apportioned and reported in the same manner as discussed above. A section 179 expense received from a pass-through entity on a Schedule K-1 isn't deductible by the estate or trust.

Allocation of Deductions for Tax-Exempt Income

Generally, no deduction that would otherwise be allowable is allowed for any expense (whether for business or for the production of income) that is allocable to tax-exempt income. Examples of tax-exempt income include:

- Certain death benefits (section 101),
- Interest on state or local bonds (section 103),
- Compensation for injuries or sickness (section 104), and

- Income from discharge of indebtedness in a title 11 case (section 108).

Exception. State income taxes and business expenses that are allocable to tax-exempt interest are deductible.

Expenses that are directly allocable to tax-exempt income are allocated only to tax-exempt income. A reasonable proportion of expenses indirectly allocable to both tax-exempt income and other income must be allocated to each class of income.

Deductions That May Be Allowable for Estate Tax Purposes

Administration expenses and casualty and theft losses deductible on Form 706 may be deducted, to the extent otherwise deductible for income tax purposes, on Form 1041 if the fiduciary files a statement waiving the right to deduct the expenses and losses on Form 706.

The statement must be filed before the expiration of the statutory period of limitations for the tax year the deduction is claimed. See Pub. 559 for more information.

Accrued Expenses

Generally, an accrual-basis taxpayer can deduct accrued expenses in the tax year that (a) all events have occurred that determine the liability, and (b) the amount of the liability can be figured with reasonable accuracy.

However, all the events that establish liability are treated as occurring only when economic performance takes place. There are exceptions for recurring items.

See section 461(h).

Limitations on Deductions

At-Risk Loss Limitations

Generally, the amount the estate or trust has “at-risk” limits the loss it can deduct for any tax year.

Use Form 6198, At-Risk Limitations, to figure the deductible loss for the year and file it with Form 1041. For more information, see Pub. 925, Passive Activity and At-Risk Rules.

Passive Activity Loss and Credit Limitations

In general. Section 469 and the regulations thereunder generally limit losses from passive activities to the amount of income derived from all passive activities. Similarly, credits from passive activities are generally limited to the tax attributable to such activities. These limitations are first applied at the estate or trust level.

Generally, an activity is a passive activity if it involves the conduct of any trade or business, and the taxpayer does not materially participate in the activity. Passive activities don't include working interests in oil and gas properties. See section 469(c)(3).

Note: Material participation standards for estates and trusts haven't been established by regulations.

For a grantor trust, material participation is determined at the grantor level.

If the estate or trust distributes an interest in a passive activity, the basis of the property immediately before the distribution is increased by the passive activity losses allocable to the interest, and such losses can't be deducted. See section 469(j)(12).

Tip: Losses from passive activities are first subject to the at-risk rules. When the losses are deductible under the at-risk rules, the passive activity rules then apply.

Rental activities. Generally, rental activities are passive activities, whether or not the taxpayer materially participates. However, certain taxpayers who materially participate in real property trades or businesses aren't subject to the passive activity limitations on

losses from rental real estate activities in which they materially participate. For more details, see section 469(c)(7).

For tax years of an estate ending less than 2 years after the decedent's date of death, up to \$25,000 of deductions and deduction equivalents of credits from rental real estate activities in which the decedent actively participated are allowed. Any excess losses or credits are suspended for the year and carried forward.

Portfolio income. Portfolio income isn't treated as income from a passive activity, and passive losses and credits generally may not be applied to offset it. Portfolio income generally includes interest, dividends, royalties, and income from annuities. Portfolio income of an estate or trust must be accounted for separately.

Forms to file. See Form 8582, Passive Activity Loss Limitations, to figure the amount of losses allowed from passive activities.

See Form 8582-CR, Passive Activity Credit Limitations, to figure the amount of credit allowed for the current year.

Business Interest

Business interest expense could be limited. For more information about limitations on deductions for business interest, see section 163(j) and *Line 10*, later.

Transactions Between Related Taxpayers

Under section 267, a trust that uses the accrual method of accounting may only deduct business expenses and interest owed to a related party in the year the payment is included in the income of the related party. For this purpose, a related party includes:

1. A grantor and a fiduciary of any trust;
2. A fiduciary of a trust and a fiduciary of another trust, if the same person is a grantor of both trusts;

3. A fiduciary of a trust and a beneficiary of such trust;
4. A fiduciary of a trust and a beneficiary of another trust, if the same person is a grantor of both trusts;
5. A fiduciary of a trust and a corporation more than 50% in value of the outstanding stock of which is owned, directly or indirectly, by or for the trust or by or for a person who is a grantor of the trust; and
6. An executor of an estate and a beneficiary of that estate, except for a sale or exchange to satisfy a pecuniary bequest (that is, a bequest of a sum of money).

Line 10—Interest

Enter the amount of interest (subject to limitations) paid or incurred by the estate or trust on amounts borrowed by the estate or trust, or on debt acquired by the estate or

trust (for example, outstanding obligations from the decedent) that isn't claimed elsewhere on the return.

If the proceeds of a loan were used for more than one purpose (for example, to purchase a portfolio investment and to acquire an interest in a passive activity), the fiduciary must make an interest allocation according to the rules in Temporary Regulations section 1.163-8T.

Don't include interest paid on indebtedness incurred or continued to purchase or carry obligations on which the interest is wholly exempt from income tax.

Personal interest isn't deductible. Examples of personal interest include interest paid on:

- Revolving charge accounts used to purchase personal-use property;
- Personal notes for money borrowed from a bank, a credit union, or other person;

- Installment loans on personal-use property;
- Underpayments of federal, state, or local income taxes; and
- Certain loans used to purchase vehicles for personal use. See *Qualified passenger vehicle loan interest deduction*, later.

Interest that is paid or incurred on indebtedness allocable to a trade or business (including a rental activity) should be deducted on the appropriate line of Schedule C, E, or F (Form 1040), the net income or loss from which is shown on line 3, 5, or 6 of Form 1041.

Types of interest to include on line 10 are:

1. Any investment interest (subject to limitations—see below),
2. Any qualified residence interest (see later), and

3. Any interest payable under section 6601 on any unpaid portion of the estate tax attributable to the value of a reversionary or remainder interest in property for the period during which an extension of time for payment of such tax is in effect.

Limitation on deduction of business

interest. Business interest expense is limited to the sum of business interest income, 30% of the adjusted taxable income, and floor plan financing interest. Business interest expense includes any interest paid or accrued on indebtedness properly allocable to a trade or business. A taxpayer, other than a tax shelter, that meets the gross receipts test is not required to limit business interest expense under section 163(j). A taxpayer meets the gross receipts test if the taxpayer has average annual gross receipts of \$31 million or less for the 3 prior tax years.

Gross receipts include the aggregate gross receipts from all persons treated as a single employer such as a controlled group of corporations, commonly controlled partnerships or proprietorships, and affiliated service groups. If the taxpayer fails to meet the gross receipts test, Form 8990 is generally required.

Investment interest. Generally, investment interest is interest (including amortizable bond premium on taxable bonds acquired after October 22, 1986, but before January 1, 1988) that is paid or incurred on indebtedness that is properly allocable to property held for investment. Investment interest doesn't include any qualified residence interest, or interest that is taken into account under section 469 in figuring income or loss from a passive activity.

Generally, net investment income (NII) is the excess of investment income over investment expenses.

Investment expenses (other than interest) are deductible only to the extent they are allowable under section 67(e).

The amount of the investment interest deduction may be limited. Use Form 4952, Investment Interest Expense Deduction, to figure the allowable investment interest deduction.

If you must complete Form 4952, check the box on line 10 of Form 1041 and attach Form 4952. Then, add the deductible investment interest to the other types of deductible interest and enter the total on line 10.

Qualified residence interest. Interest paid or incurred by an estate or trust on indebtedness secured by a qualified residence of a beneficiary of an estate or trust is treated as qualified residence interest if the residence would be a qualified residence (that is, the principal residence or the secondary residence selected by the beneficiary) if owned by the beneficiary.

The beneficiary must have a present interest in the estate or trust or an interest in the residuary of the estate or trust. See Pub. 936, Home Mortgage Interest Deduction, for an explanation of the general rules for deducting home mortgage interest.

See section 163(h)(3) for a definition of qualified residence interest and for limitations on indebtedness.

Qualified passenger vehicle loan interest deduction. Non-grantor trusts and decedents' estates may be able to claim a deduction for qualified passenger vehicle loan interest (QPVLI) (see *Qualified passenger vehicle loan interest*, later) paid or accrued in 2025. In the case of a grantor trust, the eligibility of the grantor trust's deemed owner to deduct the interest paid by the grantor trust as QPVLI is determined by disregarding the grantor trust and instead looking to the

deemed owner to test whether all of the requirements for deductible QPVLI have been satisfied.

VIN required on the return. In order to take the QPVLI deduction, the non-grantor trust or decedent's estate must attach a statement to its Form 1041 with the vehicle identification number (VIN) of the purchased applicable passenger vehicle (APV) (see *Applicable passenger vehicle*, later). If the non-grantor trust or decedent's estate paid QPVLI allocable to multiple APVs, include the VIN of each APV.

If the purchased APV was replaced due to an unforeseen intervening event as described in Proposed Regulations section 1.163-16(c)(3)(ii), include the VIN of the substitute APV.

Maximum amount of deduction. A non-grantor trust or decedent's estate can't deduct more than \$10,000 of QPVLI paid or accrued in 2025.

The amount of the QPVL I deduction (after applying the \$10,000 limit) is reduced if the AGI of the non-grantor trust or decedent's estate is greater than \$100,000.

To determine the AGI of the non-grantor trust or decedent's estate, see Adjusted gross income (AGI), earlier.

Complete the No Tax on Car Loan Interest Worksheet to determine the amount of the QPVL I deduction.

Qualified passenger vehicle loan interest (QPVL I). QPVL I is interest paid or accrued on a loan that meets all the following requirements.

- The loan was originated after December 31, 2024.
- The loan was originated by the non-grantor trust or decedent's estate, or the non-grantor trust or decedent's estate became the obligor on the loan by reason of the previous obligor's death

(see Change in obligor by reason of previous obligor's death, later).

- The proceeds from the loan were used to purchase an APV. Lease payments do not qualify.
- The APV is for personal use (not expected to be used predominantly for business or commercial use; see *Personal use*, later).
- The loan is secured by a first lien on the purchased APV.

Change in obligor by reason of previous obligor's death. If a loan that met these requirements at the time it was originated by a previous obligor, and the non-grantor trust or decedent's estate became the obligor by reason of a previous obligor's death, interest paid by the non-grantor trust or decedent's estate on the loan is generally QPVLTI if the loan continues to be secured by a first lien on the purchased APV.

A change in obligor by reason of a previous obligor's death could occur, for example, when a decedent's estate succeeds to ownership of a decedent's APV subject to a loan originated by the decedent. See Proposed Regulations section 1.163-16(d)(5). See Schedule 1-A (Form 1040) for the eligibility criteria applicable to an individual.

Loan amount. Indebtedness that can be counted for purposes of determining QPVL I includes indebtedness incurred to finance the purchase price of the APV, as well as items or amounts that are customarily financed in an APV purchase transaction and that are directly related to the purchased APV. For example, this includes vehicle service plans, extended warranties, sales tax, and vehicle-related fees. Interest on items and services not customarily financed in an APV purchase transaction and that are directly related to the purchased APV, such as liability

insurance, a trailer, or amounts representing debt on a vehicle traded in as part of the purchase transaction for the APV (so-called negative equity), is not eligible for the deduction.

Refinanced loan. If the non-grantor trust or decedent's estate prior loan that had QPVLII is later refinanced, interest paid on the refinanced amount is generally eligible for the deduction, so long as the new loan is secured by a first lien on the APV with respect to which the refinanced loan was incurred. The loan amount is limited to the outstanding balance of the refinanced loan as of the date of the refinancing.

Applicable passenger vehicle. In general, an APV is any vehicle that meets the following conditions.

- The original use of the vehicle starts with the non-grantor trust or decedent's estate, or,

in the case of a change in obligor by reason of the previous obligor's death, the original obligor (a used vehicle does not qualify).

- The vehicle is a motor vehicle manufactured primarily for use on public streets, roads, and highways (not including a vehicle operated exclusively on a rail or rails).
- The vehicle has at least 2 wheels.
- The vehicle is a car, minivan, van, SUV, pickup truck, or motorcycle, and has a gross vehicle weight rating of less than 14,000 pounds.
- The vehicle has undergone final assembly in the United States.

Final assembly in the United States. The location of final assembly will be listed on the vehicle information label attached to each vehicle on a dealer's premises.

Non-grantor trusts or decedents' estates can rely on that information label. Non-grantor trusts or decedents' estates can also rely on the vehicle's plant of manufacture as reported in the VIN to determine whether the vehicle has undergone final assembly in the United States. The [VIN Decoder](#) website for the National Highway Traffic Safety Administration provides plant of manufacture information. Non-grantor trusts or decedents' estates can follow the instructions on that website to see if the vehicle's plant of manufacture is located in the United States.

Personal use. "Personal use" means a use other than:

- Use in any trade or business (except for the use in the trade or business of being an employee), or
- For the production of income.

A non-grantor trust or decedent's estate is considered to have purchased an APV for personal use if, at the time the non-grantor

trust or decedent's estate incurs a loan to purchase an APV, the non-grantor trust or decedent's estate expects that the APV will be used for personal use for more than 50% of the time by any combination of the following: beneficiaries who have a present or future interest in the trust or estate; that beneficiary's spouse; that beneficiary's or spouse's child, grandchild, great-grandchild, etc.; and that beneficiary's or spouse's brother, sister, stepbrother, stepsister, or his or her descendants.

QPVLI deducted elsewhere on Form

1041. If some of all of the QPVLI qualifies to be deducted in more than one place on the return, the non-grantor trust or decedent's estate may choose where to report the deduction, but the non-grantor trust or decedent's estate cannot deduct the same amount more than once. For example, if some of the interest on the loan is claimed as a deduction on Schedule C (Form 1040),

Schedule E (Form 1040), or Schedule F (Form 1040), that interest cannot be claimed on line 10 as a QPVL I deduction.

Worksheet line 1. To determine the amount that should be entered on line 1, follow the steps below.

1. Add together all interest paid or accrued in 2025 on a vehicle loan that qualifies as QPVL I.
2. Subtract any interest on the loan that was reported elsewhere on the return instead of on Form 1041.
3. If the amount determined after completing (1) and (2) is greater than \$10,000, enter \$10,000 on line 1. If the amount determined after completing (1) and (2) is less than or equal to \$10,000, enter that amount on line 1.

Worksheet line 2. To determine the non-grantor trust's or decedent's estate's AGI, see Adjusted gross income (AGI), earlier.

Line 11—Taxes

Caution: The maximum deduction for state and local taxes is \$40,000. This applies to the total of your state and local income taxes (or general sales taxes, if elected instead of income taxes), real estate taxes, and personal property taxes. The limitation does not apply to foreign income taxes, and state and local taxes paid or accrued in carrying on a trade or business or for the production of income.

Complete the State and Local Tax Deduction Worksheet, later, to see if your deduction is limited.

Worksheet line 2. To figure the estate's or trust's adjusted gross income, see Adjusted gross income (AGI), earlier.

No Tax on Car Loan Interest Worksheet

Keep for Your Records 

Computation to determine amount of the QPVLI deduction		
1.	Enter the amount of your paid or accrued QPVLI. See instructions. Don't enter more than \$10,000	1. _____
2.	Enter the estate's or trust's adjusted gross income. See instructions	2. _____
3.	Enter \$100,000	3. _____
4.	Subtract line 3 from line 2. If zero or less, include the amount from line 1 in the entry you make on Form 1041, line 10, Interest. If more than zero, continue to line 5	4. _____
5.	Divide line 4 by \$1,000. If the result isn't a whole number, increase it to the next higher whole number. (For example, increase 1.5 to 2 and increase 0.5 to 1)	5. _____
6.	Multiply line 5 by \$200	6. _____
7.	Qualified car loan interest deduction. Subtract line 6 from line 1. If zero or less, enter -0-. Include this amount in the entry you make on Form 1041, line 10, Interest	7. _____

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Enter any deductible taxes paid or incurred during the tax year that aren't deductible elsewhere on Form 1041.

Deductible taxes include the following.

- State and local income taxes. You can deduct state and local income taxes unless you elect to deduct state and local general sales taxes. You can't deduct both.
- State and local general sales taxes. You can elect to deduct state and local general sales taxes instead of state and local income taxes. Generally, you can elect to deduct the actual state and local general sales taxes (including compensating use taxes) you paid in 2025 if the tax rate was the same as the general sales tax rate. However, sales taxes on food, clothing, medical supplies, and motor vehicles are deductible as a general sales tax even if the tax rate was less than the general sales tax rate.

Sales taxes on motor vehicles are also deductible as a general sales tax if the tax rate was more than the general sales tax rate, but the tax is deductible only up to the amount of tax that would have been imposed at the general sales tax rate.

Motor vehicles include cars, motorcycles, motor homes, recreational vehicles, sport utility vehicles, trucks, vans, and off-road vehicles. Also include any state and local general sales taxes paid for a leased motor vehicle.

Do not include sales taxes paid on items used in a trade or business. An estate or trust **cannot** use the Optional State Sales Tax Tables for individuals in the Instructions for Schedule A (Form 1040), Itemized Deductions, to figure its deduction.

- State and local real property taxes.

Note: The deduction for foreign real property taxes is no longer allowed.

- State and local personal property taxes.
- Foreign or U.S. territory income taxes.
You may want to take a credit for the tax instead of a deduction. See the instructions for Schedule G, Part I, line 2a, later, for more details.
- The generation-skipping transfer (GST) tax imposed on income distributions.
Don't deduct:
 - Federal income taxes;
 - Estate, inheritance, legacy, succession, and gift taxes;
 - Federal duties and excise taxes; or • Foreign real property taxes.

Safe harbor for certain charitable contributions made in exchange for a state or local tax credit. If you made a charitable contribution in exchange for a state or local tax credit and your charitable contribution deduction must be reduced as a

result of receiving or expecting to receive the tax credit, you may qualify for a safe harbor that allows you to treat some or all of the disallowed charitable contribution as a payment of state and local taxes.

The safe harbor applies if you meet the following conditions.

1. You made a cash contribution to an entity described in section 170(c).
2. In return for the cash contribution, you received a state or local tax credit.
3. You must reduce your charitable contribution deduction by the amount of the state or local tax credit you receive.

If you meet these conditions, and to the extent you apply the state or local tax credit to this or a prior year's state or local tax liability, you may include this amount on line 11.

To the extent you apply a portion of the credit to offset your state or local tax liability in a subsequent year (as permitted by law), you may treat this amount as state or local tax paid in the year the credit is applied. For more information about this safe harbor and examples, see [Notice 2019-12](#).

Line 12—Fiduciary Fees

Enter the deductible fees paid or incurred to the fiduciary for administering the estate or trust during the tax year.

Fiduciary expenses include probate court fees and costs, fiduciary bond premiums, legal publication costs of notices to creditors or heirs, the cost of certified copies of the decedent's death certificate, and costs related to fiduciary accounts.

Tip: Fiduciary fees deducted on Form 706 can't be deducted on Form 1041.

Note: Fiduciary fees are allowable under section 67(e) if they are costs that are paid or incurred in connection with the administration of an estate or a non-grantor trust that would not have been incurred if the property were not held in such estate or trust. See [*Final Regulations - TD9918*](#) and Regulations section 1.67-4 for more information.

Line 14—Attorney, Accountant, and Return Preparer Fees

Expenses for preparation of fiduciary income tax returns, the decedent's final individual income tax returns, and all estate and GST tax returns are fully deductible. However, expenses for preparing all other tax returns, including gift tax returns, are considered costs commonly and customarily incurred by individuals and are **not** deductible. For more information, see [*Final Regulations - TD9918*](#) and Regulations section 1.67-4.

State and Local Tax Deduction Worksheet

Keep for Your Records



If the amount of state and local taxes is \$10,000 or less, you don't have to complete the worksheet.	
1. Enter the amount of your state and local taxes. If your state and local taxes are more than \$40,000, enter \$40,000	1. _____
2. Enter the estate's or trust's adjusted gross income. See instructions	2. _____
3. Enter \$500,000	3. _____
4. Is the amount on line 2 more than the amount on line 3?	
<input type="checkbox"/> No. Skip lines 5 through 7 and enter the amount from line 1 on line 8.	
<input type="checkbox"/> Yes. Subtract line 3 from line 2	
5. Multiply line 4 by 30% (0.30)	4. _____
6. Subtract the amount on line 5 from \$40,000	5. _____
7. Enter the larger of the amount on line 6 or \$10,000.	6. _____
8. State and local tax deduction. Enter the smaller of line 1 or line 7. Include this amount in the entry you make on Form 1041, line 11, Taxes	7. _____
	8. _____

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Line 15a—Other Deductions

Attach your own statement, listing by type and amount all allowable deductions that aren't deductible elsewhere on Form 1041.

Allowable deductions include all deductions listed in section 67(b) (including estate taxes attributable to IRD under section 691(c)), and other costs allowable under section 67(e) paid or incurred in connection with the administration of the estate or trust that would not have been incurred if the property were not held in the estate or trust.

Don't include any losses on worthless bonds and similar obligations and nonbusiness bad debts. Report these losses, as applicable, on Form 8949.

Don't deduct medical or funeral expenses on Form 1041. Medical expenses of the decedent paid by the estate may be deductible on the

decedent's income tax return for the year incurred. See section 213(c). Funeral expenses are deductible only on Form 706.

Other costs paid or incurred by estates and non-grantor trusts. Under section 67(e), deductions are allowable for costs which are paid or incurred by an estate or non-grantor trust in connection with the administration of the estate or trust and would **not** have been incurred if the property were **not** held in such estate or trust.

In determining whether a cost is deductible by an estate or non-grantor trust, it must be determined whether the cost would be "commonly or customarily" incurred by a hypothetical individual owning the same property. If the cost would be deductible by a hypothetical individual, it is not deductible by the estate or non-grantor trust.

It is the type of product or service rendered to the estate or non-grantor trust in exchange for the cost,

rather than the description of the cost of that product or service, that is determinative.

Costs that are incurred commonly or customarily by individuals include costs incurred in defense of a claim against the estate, the decedent, or the non-grantor trust that are unrelated to the existence, validity, or administration of the estate or trust. These amounts are not allowable deductions.

Ownership costs. Ownership costs are costs that are chargeable to or incurred by an owner of property simply by reason of being the owner of the property. These costs are commonly or customarily incurred by a hypothetical individual owner of such property and are not deductible by an estate or non-grantor trust. Under section 67(b), they include, but are not limited to, condominium fees, insurance premiums, maintenance and lawn services, automobile registration and insurance costs, and partnership costs deemed to be passed through to and

reportable by a partner. Other expenses incurred merely by reason of the ownership of property may be fully deductible under other provisions of the Code.

Appraisal fees. Appraisal fees incurred to determine the FMV of assets as of the decedent's date of death (or the alternate valuation date), to determine value for purposes of making distributions, or as otherwise required to properly prepare the estate's or trust's tax returns, or a GST tax return, are not incurred commonly or customarily by an individual and are deductible. The cost of appraisals for other purposes (for example, insurance) is commonly or customarily incurred by individuals and is not an allowable deduction.

Investment advisory fees. Fees for investment advice, including any related services that would be provided to any individual investor as part of an investment advisory fee, are incurred commonly or

customarily by a hypothetical individual investor and are not deductible. However, certain incremental costs of investment advice beyond the amount that would normally be charged to an individual investor are deductible.

An incremental cost is a special, additional charge that is added solely because the investment advice is rendered to a trust or estate rather than to an individual, including balancing beyond the usual varying interests of current beneficiaries and remaindermen. The deductible portion of the investment advisory fees is limited to the amount of those fees, if any, that exceeds the fees normally charged to an individual investor. See Regulations section 1.67-4(b)(4).

Bundled fees. If an estate or non-grantor trust pays a single fee, commission, or other expense, such as a fiduciary's commission, attorney's fee, or accountant's fee for both costs that are incurred commonly or

customarily by individuals and costs (other than a de minimis amount) that are **not** incurred commonly or customarily by individuals, then (except to the extent provided otherwise by guidance published in the Internal Revenue Bulletin) the single fee, commission, or other expense (bundled fee) must be allocated between the costs that are incurred commonly or customarily by individuals, such costs not being deductible, and costs that are **not** incurred commonly or customarily by individuals, such costs being deductible.

There is an exception to the allocation rule if a bundled fee is not computed on an hourly basis. In this situation, only the portion of that fee that is attributable to investment advice is not deductible. The remaining portion **is** deductible.

Out-of-pocket expenses billed to the estate or non-grantor trust are treated as separate

from the bundled fee and are not subject to allocation.

Estates and non-grantor trusts cannot deduct payments made from the bundled fee to third parties if such payments would not have been deductible if they had been paid directly by the estate or non-grantor trust.

Any reasonable method may be used to allocate a bundled fee, including without limitation the allocation of a portion of a fiduciary commission that is a bundled fee to investment advice. For more information, see Regulations section 1.67-4(c)(4).

Note: The reasonable method standard does not apply to determine the portion of the bundled fee attributable to payments made to third parties commonly or customarily incurred by an individual or to any other separately assessed expense commonly or customarily incurred by an individual, because those payments and expenses are

readily identifiable without any discretion on the part of the fiduciary or return preparer.

For more information, see Regulations section 1.67-4.

Other Deductions Reported on Line 15a

Bond premium(s). For taxable bonds acquired before

October 23, 1986, if the fiduciary elected to amortize the premium, report the amortization on this line. If you made the election to amortize the premium, the basis in the taxable bond must be reduced by the amount of amortization.

For tax-exempt bonds, you can't deduct the premium that is amortized. Although the premium can't be deducted, you must amortize the tax-exempt bond by the amount of premium amortized.

For more information, see section 171 and Pub. 550.

If you claim a bond premium deduction for the estate or trust, figure the deduction on a separate sheet and attach it to Form 1041.

Casualty and theft losses. Use Form 4684, Casualties and Thefts, to figure any deductible casualty and theft losses.

Estate's or trust's share of amortization, depreciation, and depletion not claimed elsewhere. If you can't deduct the estate's or trust's apportioned share of amortization, depreciation, and depletion as rent or royalty expenses on Schedule E (Form 1040), or as business or farm expenses on Schedule C or F (Form 1040), itemize the estate's or trust's apportioned share of the deductions on an attached sheet and include them on line 15a.

Note: Don't report the beneficiary's apportioned share of depreciation, depletion, and amortization on line 15a. Report the beneficiary's apportioned share of deductions in box 9 of Schedule K-1 (Form 1041).

Itemize each beneficiary's apportioned share of the deductions and report them in the appropriate box of Schedule K-1 (Form 1041).

Section 179D. Enter any applicable deduction under section 179D for costs of energy efficient commercial business property placed in service during the tax year. Complete and attach Form 7205, Energy Efficient Commercial Buildings Deduction.

Line 15b—Net Operating Loss Deduction

An estate or trust is allowed an NOLD under section 172.

If you claim an NOLD for the estate or trust, figure the deduction on a separate sheet and attach it to the return.

Line 18—Income Distribution Deduction

If the estate or trust was required to distribute income currently or if it paid, credited, or was required to distribute any

other amounts to beneficiaries during the tax year, complete Schedule B to determine the estate's or trust's income distribution deduction. However, if you are filing for a pooled income fund, don't complete Schedule B. Instead, attach a statement to support the computation of the income distribution deduction. For more information, see *Pooled Income Funds*, earlier.

If the estate or trust claims an income distribution deduction, complete and attach:

- Part I (through line 24) and Part II of Schedule I (Form 1041) to refigure the deduction on a minimum tax basis, and
- Schedule K-1 (Form 1041) for each beneficiary to which a distribution was made or required to be made.

Cemetery perpetual care fund. On line 18, deduct the amount, not more than \$5 per gravesite, paid for maintenance of cemetery property.

To the right of the entry space for line 18, enter the number of gravesites. Also enter “Section 642(i) trust” in parentheses after the trust’s name at the top of Form 1041. You don’t have to complete Schedule B of Form 1041, and Schedule K-1 (Form 1041).

Don’t enter less than zero on line 18.

Line 19—Estate Tax Deduction Including Certain Generation-Skipping Transfer Taxes

If the estate or trust includes IRD in its gross income, and such amount was included in the decedent’s gross estate for estate tax purposes, the estate or trust is allowed to deduct in the same tax year that the income is included that portion of the estate tax imposed on the decedent’s estate that is attributable to the inclusion of the IRD in the decedent’s estate. For an example of the computation, see Regulations section 1.691(c)-1 and Pub. 559.

If any amount properly paid, credited, or required to be distributed by an estate or trust to a beneficiary consists of IRD received by the estate or trust, don't include such amounts in determining the estate tax deduction for the estate or trust. Figure the deduction on a separate sheet. Attach the sheet to your return.

Caution: If you claim a deduction for estate tax attributable to qualified dividends or capital gains, you may have to adjust the amount on Form 1041, page 1, line 2b(2); or Schedule D (Form 1041), line 22.

Also, a deduction is allowed for the GST tax imposed as a result of a taxable termination or a direct skip occurring as a result of the death of the transferor. See section 691(c)(3). Enter the estate's or trust's share of these deductions on line 19.

Line 20—Qualified Business Income Deduction

To figure your QBI deduction, use Form 8995 or 8995-A, as applicable.

Use Form 8995 if:

- You have QBI (loss), real estate investment trust (REIT) dividends, or PTP income (loss);
- Your 2025 taxable income before the QBI deduction is less than or equal to \$197,300; and
- You aren't a patron in a specified agricultural or horticultural cooperative.

If you don't meet these requirements, use Form 8995-A. Attach whichever form you use (Form 8995 or 8995-A) to your return. Also attach Schedule C, E, or F (Form 1040), whichever form you use to report information about your QBI.

See the instructions for Forms 8995 and 8995-A for more information for figuring and reporting your QBI deduction.

Note: Report the beneficiary's apportioned share of items of QBI (loss) subject to beneficiary specific determinations, W-2 wages, unadjusted basis immediately after acquisition (UBIA) of qualified property, qualified REIT dividends, and qualified PTP income on a statement attached to Schedule K-1 (Form 1041). See the instructions for box 14, code I, of Schedule K-1 (Form 1041), later.

Line 21—Exemption

Decedents' estates. A decedent's estate is allowed a \$600 exemption.

Trusts required to distribute all income currently. A trust whose governing instrument requires that all income be distributed currently is allowed a \$300

exemption, even if it distributed amounts other than income during the tax year.

Qualified disability trusts. A qualified disability trust is allowed a \$5,100 exemption. This amount is not subject to phaseout.

A qualified disability trust is any trust:

1. Described in 42 U.S.C. 1396p(c)(2)(B)(iv) and established solely for the benefit of an individual under 65 years of age who is disabled, and
2. All of the beneficiaries of which are determined by the Commissioner of Social Security to have been disabled for some part of the tax year within the meaning of 42 U.S.C. 1382c(a)(3).

A trust will not fail to meet item 2 above just because the trust's corpus may revert to a person who isn't disabled after the trust ceases to have any disabled beneficiaries.

All other trusts. A trust not described above is allowed a \$100 exemption.

Tax and Payments

Line 23—Taxable Income

Minimum taxable income. Line 23 can't be less than the larger of:

- The inversion gain of the estate or trust, as figured under section 7874, if the estate or trust is an expatriated entity or a partner in an expatriated entity; or
- The sum of the excess inclusions of the estate or trust from

Schedule Q (Form 1066), Quarterly Notice to Residual Interest Holder of REMIC Taxable Income or Net Loss Allocation, line 2c.

Net operating loss (NOL). If line 23 (figured without regard to the minimum taxable income rule stated above) is a loss, the estate or trust may have an NOL.

Don't include the deductions claimed on lines 13, 18, and 21 when figuring the amount of the NOL.

Generally, an NOL can only be carried forward to subsequent years and cannot be carried back. The 2-year carryback period only applies to the portion of an NOL attributable to a farming loss. For more information, see the Instructions for Form 172.

Complete Form 172, Net Operating Losses (NOLs), to figure the amount of the NOL that is available for carryback or carryover. Use Form 1045, Application for Tentative Refund, or file an amended return to apply for a refund based on an NOL carryback. For more information, see the Instructions for Form 1045.

On the termination of the estate or trust, any unused NOL carryover that would be allowable to the estate or trust in a later tax year but for the termination is allowed to the beneficiaries succeeding to the property of

the estate or trust. See the instructions for box 11, codes E and F, of Schedule K-1 (Form 1041), later.

Excess deductions on termination. If the estate or trust has for its final year deductions (excluding the charitable deduction and personal exemption) in excess of its gross income, the excess deductions are allowed to the beneficiaries succeeding to the property of the estate or trust and retain their separate character as an amount allowed in arriving at AGI, a non-miscellaneous itemized deduction, or a miscellaneous itemized deduction. In general, an unused NOL carryover that is allowed to beneficiaries (as explained above) can't also be treated as an excess deduction.

However, if the final year of the estate or trust is also the last year of the NOL carryover period, the NOL carryover not absorbed in that tax year by the estate or trust is included as an excess deduction.

See the instructions for box 11, codes A and B, of Schedule K-1 (Form 1041), later.

Line 25a—Current Payment on Deferred Net 965 Tax Liability

If you made a payment with respect to a current net 965 tax liability, enter the amount of the payment from column (k) of Form 965-A, Part II.

Line 25b—First Installment of Section 1062 Applicable Net Tax Liability

Complete and attach Form 1062, Schedule(s) A (Form 1062), and a copy of the covenant(s) if electing to defer the payment of net income tax attributable to the gain from the sale or exchange of qualified farmland property during this tax year under section 1062. Enter the amount from Form 1062, Part III, line 15. See the Instructions for Form 1062 for more information. Also, see section 1062.

Line 27—Estimated Tax Penalty

If line 28 is at least \$1,000 and more than 10% of the tax shown on Form 1041, or the estate or trust underpaid its 2025 estimated tax liability for any payment period, it may owe a penalty. See Form 2210 to determine whether the estate or trust owes a penalty and to figure the amount of the penalty.

Note: The penalty may be waived or reduced under certain conditions. See Pub. 505, Tax Withholding and Estimated Tax, and the Instructions for Form 2210 for details.

Line 28—Tax Due

You must pay the tax in full when the return is filed.

Making a Payment

The IRS recommends paying electronically whenever possible. Options to pay electronically include any of the payment

options below. Also, go to [IRS.gov/Payments](https://www.irs.gov/Payments) to see all of your payment options.

Pay by card or digital wallet. To pay by debit or credit card, or digital wallet, go to [IRS.gov/Payments](https://www.irs.gov/Payments). A fee is charged by these service providers.

Electronic funds withdrawal (EFW). EFW from a checking or savings account is also available to those who file electronically. Go to [IRS.gov/EFW](https://www.irs.gov/EFW) for more information.

EFTPS. Payment of the tax due may be submitted electronically through EFTPS. EFTPS is a free service of the Department of the Treasury. Go to [IRS.gov/EFTPS](https://www.irs.gov/EFTPS) and [EFTPS.gov](https://www.eftps.gov) for more information.

Same-day wire. Payment of the tax due shown on Form 1041 may be submitted electronically through same-day wire from your financial institution. Contact your financial institution for availability, cost, and time frames. Go to [IRS.gov/SameDayWire](https://www.irs.gov/SameDayWire).

Paying by cash. You may be able to pay your balance due with cash at a participating retail store. Go to [IRS.gov/PayYourTaxesWithCash](https://www.irs.gov/PayYourTaxesWithCash).

Paying by check. Make the check payable to “United States

Treasury.” Write the estate’s or trust’s name, EIN, and “2025 Form 1041” on the check to assist us in posting it to the proper account. Go to [IRS.gov/PayByMail](https://www.irs.gov/PayByMail) for more information.

Line 30a—Credited to 2026 Estimated Tax

Enter the amount from line 29 that you want applied to the estate’s or trust’s 2026 estimated tax.

Line 30b—Amount Refunded

If there is an overpayment on line 30b, complete lines 30c, 30d, and 30e to enter your account information.

Schedule A—Charitable Deduction

General Instructions

Generally, any part of the gross income of an estate or trust (other than a simple trust) that, under the terms of the will or governing instrument, is paid (or treated as paid) during the tax year for a charitable purpose specified in section 170(c) is allowed as a deduction to the estate or trust. It isn't necessary that the charitable organization be created or organized in the United States.

A pooled income fund or a section 4947(a)(1) nonexempt charitable trust treated as a private foundation must attach a separate sheet to Form 1041 instead of using Schedule A of Form 1041 to figure the charitable deduction.

Additional return to be filed by trusts.

Trusts, other than split-interest trusts or nonexempt charitable trusts, that claim a charitable deduction also file Form 1041-A

unless the trust is required to distribute currently to the beneficiaries all the income for the year determined under section 643(b) and related regulations.

Pooled income funds and charitable lead trusts also file Form 5227. See Form 5227 for information about any exceptions.

Election to treat contributions as paid in the prior tax year. The fiduciary of an estate or trust may elect to treat as paid during the tax year any amount of gross income received during that tax year or any prior tax year that was paid in the next tax year for a charitable purpose.

For example, if a calendar-year estate or trust makes a qualified charitable contribution on February 7, 2026, from income earned in 2025 or prior, then the fiduciary can elect to treat the contribution as paid in 2025.

To make the election, the fiduciary must file a statement with Form 1041 for the tax year in

which the contribution is treated as paid. This statement must include:

1. The name and address of the fiduciary;
2. The name of the estate or trust;
3. An indication that the fiduciary is making an election under section 642(c)(1) for contributions treated as paid during such tax year;
4. The name and address of each organization to which any such contribution is paid; and
5. The amount of each contribution and date of actual payment or, if applicable, the total amount of contributions paid to each organization during the next tax year, to be treated as paid in the prior tax year.

The election must be filed by the due date (including extensions) for Form 1041 for the next tax year. If the original return was filed on time, you may make the election on an amended return filed no later than 6 months after the due date of the return (excluding extensions). Enter "Filed pursuant to section 301.9100-2" at the top of the amended return and file it at the same address you used for your original return.

For more information about the charitable deduction, see section 642(c) and the related regulations.

Specific Instructions

Line 1—Amounts Paid or Permanently Set Aside for Charitable Purposes From Gross Income

Enter amounts that were paid for a charitable purpose out of the estate's or trust's gross income, including any capital gains that are attributable to income under the governing

instrument or local law. Include amounts paid during the tax year from gross income received in a prior tax year, but only if no deduction was allowed for any prior tax year for these amounts.

Estates, and certain trusts, may claim a deduction for amounts permanently set aside for a charitable purpose from gross income. Such amounts must be permanently set aside during the tax year to be used exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, or for the establishment, acquisition, maintenance, or operation of a public cemetery not operated for profit.

For a trust to qualify, the trust may not be a simple trust, and the set-aside amounts must be required by the terms of a trust instrument that was created on or before October 9, 1969.

Further, the trust instrument must provide for an irrevocable remainder interest to be transferred to or for the use of an organization described in section 170(c) or the trust must have been created by a grantor who was at all times after October 9, 1969, under a mental disability to change the terms of the trust.

Also, certain testamentary trusts that were established by a will that was executed on or before October 9, 1969, may qualify. See Regulations section 1.642(c)-2(b).

Don't include any capital gains for the tax year allocated to corpus and paid or permanently set aside for charitable purposes. Instead, enter these amounts on line 4.

Line 2—Tax-Exempt Income Allocable to Charitable Contributions

Any estate or trust that pays or sets aside any part of its income for a charitable purpose

must reduce the deduction by the portion allocable to any tax-exempt income. If the governing instrument specifically provides as to the source from which amounts are paid, permanently set aside, or to be used for charitable purposes, the specific provisions control. In all other cases, determine the amount of tax-exempt income allocable to charitable contributions by multiplying line 1 by a fraction, the numerator of which is the total tax-exempt income of the estate or trust, and the denominator of which is the gross income of the estate or trust. Don't include in the denominator any losses allocated to corpus.

Line 4—Capital Gains for the Tax Year Allocated to Corpus and Paid or Permanently Set Aside for Charitable Purposes

Enter the total of all capital gains for the tax year that are:

- Allocated to corpus, and

- Paid or permanently set aside for charitable purposes.

Line 6—Section 1202 Exclusion Allocable to Capital Gains Paid or Permanently Set Aside for Charitable Purposes

If the exclusion of gain from the sale or exchange of qualified small business (QSB) stock was claimed, enter the part of the gain included on Schedule A, lines 1 and 4, that was excluded under section 1202.

Schedule B—Income Distribution Deduction

General Instructions

If the estate or trust was required to distribute income currently or if it paid, credited, or was required to distribute any other amounts to beneficiaries during the tax year, complete Schedule B to determine the estate's or trust's income distribution deduction.

Note: Use Schedule I (Form 1041) to compute the DNI and income distribution deduction on a minimum tax basis.

Pooled income funds. Don't complete Schedule B for these funds. Instead, attach a separate statement to support the computation of the income distribution deduction. See *Pooled Income Funds*, earlier, for more information.

Separate share rule. If a single trust or an estate has more than one beneficiary, and if different beneficiaries have substantially separate and independent shares, their shares are treated as separate trusts or estates for the sole purpose of determining the DNI allocable to the respective beneficiaries.

If the separate share rule applies, figure the DNI allocable to each beneficiary on a separate sheet and attach the sheet to this return.

Any deduction or loss that is applicable solely to one separate share of the trust or estate isn't available to any other share of the same trust or estate.

For more information, see section 663(c) and related regulations.

Withholding of tax on foreign persons.

The fiduciary may be liable for withholding tax on distributions to beneficiaries who are foreign persons. For more information, see Pub. 515, and Forms 1042 and 1042-S.

Specific Instructions

Line 1—Adjusted Total Income

Generally, enter on Schedule B, line 1, the amount from line 17 on page 1 of Form 1041. However, if both line 4 and line 17 on page 1 of Form 1041 are losses, enter on Schedule B, line 1, the smaller of those losses. If line 4 is zero or a gain and line 17 is a loss, enter zero on line 1 of Schedule B.

If you are filing for a simple trust, subtract from adjusted total income any extraordinary dividends or taxable stock dividends included on page 1, line 2, and determined under the governing instrument and applicable local law to be allocable to corpus.

Line 2—Adjusted Tax-Exempt Interest

To figure the adjusted tax-exempt interest, follow the steps below.

Step 1. Add tax-exempt interest income on line 2 of Schedule A, any expenses allowable under section 212 allocable to tax-exempt interest, and any interest expense allocable to tax-exempt interest.

Step 2. Subtract the Step 1 total from the amount of tax-exempt interest (including exempt-interest dividends) received.

Section 212 expenses that are directly allocable to tax-exempt interest are allocated only to tax-exempt interest.

A reasonable proportion of section 212 expenses that are indirectly allocable to both tax-exempt interest and other income must be allocated to each class of income.

Figure the interest expense allocable to tax-exempt interest according to the guidelines in Rev. Proc. 72-18, 1972-1 C.B. 740.

See Regulations sections 1.643(a)-5 and 1.265-1 for more information.

Line 3

Include all capital gains, whether or not distributed, that are attributable to income under the governing instrument or local law. For example, if the trustee distributed 50% of the current year's capital gains to the income beneficiaries (and reflects this amount in column (1) of Schedule D (Form 1041), line 19), but under the governing instrument all capital gains are attributable to income, then include 100% of the capital gains on line 3.

If the amount in column (1) of Schedule D (Form 1041), line 19, is a net loss, enter zero.

If the exclusion of gain from the sale or exchange of QSB stock was claimed, don't reduce the gain on line 3 by any amount excluded under section 1202.

Line 5

In figuring the amount of long-term and short-term capital gain for the tax year included on Schedule A, line 1, the specific provisions of the governing instrument control if the instrument specifically provides as to the source from which amounts are paid, permanently set aside, or to be used for charitable purposes.

In all other cases, determine the amount to enter by multiplying line 1 of Schedule A by a fraction, the numerator of which is the amount of net capital gains that are included in the accounting income of the estate or

trust (that is, not allocated to corpus) and are distributed to charities, and the denominator of which is all items of income (including the amount of such net capital gains) included in the DNI.

Reduce the amount on line 5 by any allocable section 1202 exclusion.

Line 8—Accounting Income

If you are filing for a decedent's estate or a simple trust, skip this line. If you are filing for a complex trust, enter the income for the tax year determined under the terms of the governing instrument and applicable local law. Don't include extraordinary dividends or taxable stock dividends determined under the governing instrument and applicable local law to be allocable to corpus.

Lines 9 and 10

Don't include any:

- Amount that was deducted on the prior year's return that was required to be distributed in the prior year,
- Amount that is paid or permanently set aside for charitable purposes or otherwise qualifying for the charitable deduction, or
- Amount that is properly paid or credited as a gift or bequest of a specific amount of money or specific property.

Note: An amount that can be paid or credited only from income isn't considered a gift or bequest. Also, to qualify as a gift or bequest, the amount must be paid in three or fewer installments.