

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

U.S. Income Tax Return for Estates and Trusts

2026

Volume 4 of 5



Department of the Treasury
Internal Revenue Service

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Line 9—Income Required To Be Distributed Currently

Line 9 is to be completed by all simple trusts as well as complex trusts and decedents' estates that are required to distribute income currently, whether it is distributed or not. The determination of whether trust income is required to be distributed currently depends on the terms of the governing instrument and the applicable local law.

The line 9 distributions are referred to as "first-tier distributions" and are deductible by the estate or trust to the extent of the DNI. The beneficiary includes such amounts in their income to the extent of their proportionate share of the DNI.

Line 10—Other Amounts Paid, Credited, or Otherwise Required To Be Distributed

Line 10 is to be completed only by a decedent's estate or complex trust. These distributions consist of any other

amounts paid, credited, or required to be distributed and are referred to as “second-tier distributions.”

Such amounts include annuities to the extent not paid out of income, mandatory and discretionary distributions of corpus, and distributions of property in kind.

If Form 1041-T was timely filed to elect to treat estimated tax payments as made by a beneficiary, the payments are treated as paid or credited to the beneficiary on the last day of the tax year and must be included on line 10.

Unless a section 643(e)(3) election is made, the value of all noncash property actually paid, credited, or required to be distributed to any beneficiaries is the smaller of:

1. The estate’s or trust’s adjusted basis in the property immediately before distribution, plus any gain or minus any loss recognized by the estate or

trust on the distribution (basis of beneficiary); or

2. The FMV of such property.

If a section 643(e)(3) election is made by the fiduciary, then the amount entered on line 10 will be the FMV of the property.

A fiduciary of a complex trust or a decedent's estate may elect to treat any amount paid or credited to a beneficiary within 65 days following the close of the tax year as being paid or credited on the last day of that tax year. To make this election, see *Question 6* under *Other Information*, later.

The beneficiary includes the amounts on line 10 in their income only to the extent of their proportionate share of the DNI.

Complex trusts. If the second-tier distributions exceed the DNI allocable to the second tier, the trust may have an accumulation distribution. See the line 11 instructions next.

Line 11—Total Distributions

If line 11 is more than line 8, and you are filing for a complex trust that has previously accumulated income, see the instructions for Schedule J, later, to see if you must complete Schedule J (Form 1041), Accumulation Distribution for Certain Complex Trusts.

Line 12—Adjustment for Tax-Exempt Income

In figuring the income distribution deduction, the estate or trust isn't allowed a deduction for any item of the DNI that isn't included in the gross income of the estate or trust. Thus, for purposes of figuring the allowable income distribution deduction, the DNI (line 7) is figured without regard to any tax-exempt interest.

If tax-exempt interest is the only tax-exempt income included in the total distributions (line 11), and the DNI (line 7) is less than or equal

to line 11, then enter on line 12 the amount from line 2.

If tax-exempt interest is the only tax-exempt income included in the total distributions (line 11), and the DNI (line 7) is more than line 11 (that is, the estate or trust made a distribution that is less than the DNI), then figure the adjustment by multiplying line 2 by a fraction, the numerator of which is the total distributions (line 11), and the denominator of which is the DNI (line 7). Enter the result on line 12.

If line 11 includes tax-exempt income other than tax-exempt interest, figure line 12 by subtracting the total of the following from tax-exempt income included on line 11.

1. The charitable contribution deduction allocable to such tax-exempt income.
2. Expenses allocable to tax-exempt income.

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.

Schedule G—Tax Computation and Payments

Part I—Tax Computation

Line 1a

2025 Tax Rate Schedule. For tax years beginning in 2025, figure the tax using the following Tax Rate Schedule and enter the tax on line 1a. However, see the Instructions for Schedule D (Form 1041) and the Qualified Dividends Tax Worksheet, later.

2025 Tax Rate Schedule			
If taxable income is:			
Over—	But not over —	Its tax is:	Of the amount over —
\$0	\$3,150	10%	\$0
3,150	11,450	\$315.00 + 24%	3,150
11,450	15,650	\$2,307.00 + 35%	11,450
15,650	-----	\$3,777.00 + 37%	15,650

Schedule D (Form 1041) and Schedule D Tax Worksheet. Use Part V of Schedule D (Form 1041), or the Schedule D Tax Worksheet, whichever is applicable, to figure the estate's or trust's tax if the estate or trust files Schedule D (Form 1041) and has:

- A net capital gain and any taxable income, or
- Qualified dividends on line 2b(2) of Form 1041 and any taxable income.

Qualified Dividends Tax Worksheet. If you don't have to complete Part I or II of Schedule D and the estate or trust has an

amount entered on line 2b(2) of Form 1041 and any taxable income (line 23),

then figure the estate's or trust's tax using the worksheet, later, and enter the tax on line 1a.

Note: You must reduce the amount you enter on line 2b(2) of Form 1041 by the portion of the section 691(c) deduction claimed on line 19 of Form 1041 if the estate or trust received qualified dividends that were IRD.

Line 1c—Alternative Minimum Tax

Attach Schedule I (Form 1041) if any of the following apply.

- The estate or trust must complete Schedule B.
- The estate or trust claims a credit on line 2b, 2c, or 2d of Schedule G.
- The estate's or trust's share of alternative minimum taxable income (line 27 of Schedule I (Form 1041)) exceeds

\$30,700. Enter the amount from line 54 of Schedule I (Form 1041) on line 1c.

Line 1d—Certain Credit Recapture, Excessive Payments, and Penalties

If the estate or trust has certain credit recaptures, excessive payments, or penalties from Form 4255, Certain Credit Recapture, Excessive Payments, and Penalties, enter the amount from column (q) of Form 4255, Part I, line 3, on line 1d.

Line 1e—Total

If the amount from line 14 of Form 8978 is a positive amount, include it in the total reported on line 1e. On the dotted line

next to line 1e, enter "From Form 8978" and the amount. Attach Form 8978.

Line 2a—Foreign Tax Credit

Attach Form 1116, Foreign Tax Credit (Individual, Estate, or Trust), if you elect to claim credit for income or profits

taxes paid or accrued to a foreign country or a U.S. territory.

The estate or trust may claim credit for that part of the foreign taxes not allocable to the beneficiaries (including charitable beneficiaries). Enter the estate's or trust's share of the credit on line 2a. See Pub. 514, Foreign Tax Credit for Individuals, for details.

Line 2b—General Business Credit

Caution: Don't include any amounts that are allocated to a beneficiary. Credits that are allocated between the estate or trust and the beneficiaries are listed in the instructions for box 13 of Schedule K-1, later. Generally, these credits are apportioned on the basis of the income allocable to the estate or trust and the beneficiaries.

Qualified Dividends Tax Worksheet—Schedule G, Part I, Line 1a

Keep for Your Records



Caution: Don't use this worksheet if the estate or trust must complete Schedule D (Form 1041).

1.	Enter the amount from Form 1041, line 23	1.	_____
2.	Enter the amount from Form 1041, line 2b(2)	2.	_____
3.	If you are claiming investment interest expense on Form 4952, enter the amount from line 4g; otherwise, enter -0-	3.	_____
4.	Subtract line 3 from line 2. If zero or less, enter -0-	4.	_____
5.	Subtract line 4 from line 1. If zero or less, enter -0-	5.	_____
6.	Enter the smaller of the amount on line 1 or \$3,250	6.	_____
7.	Enter the smaller of the amount on line 5 or line 6	7.	_____
8.	Subtract line 7 from line 6. If zero or less, enter -0-. This amount is taxed at 0%	8.	_____
9.	Enter the smaller of line 1 or line 4	9.	_____
10.	Subtract line 8 from line 4	10.	_____
11.	Enter the smaller of line 1 or \$15,900	11.	_____
12.	Add lines 5 and 8	12.	_____
13.	Subtract line 12 from line 11. If zero or less, enter -0-	13.	_____
14.	Enter the smaller of line 10 or line 13	14.	_____
15.	Multiply line 14 by 15% (0.15)	15.	_____
16.	Enter the amount from line 9	16.	_____
17.	Add lines 8 and 14	17.	_____
18.	Subtract line 17 from line 16. If zero or less, enter -0-	18.	_____
19.	Multiply line 18 by 20% (0.20)	19.	_____
20.	Figure the tax on the amount on line 5. Use the 2025 Tax Rate Schedule	20.	_____
21.	Add lines 15, 19, and 20	21.	_____
22.	Figure the tax on the amount on line 1. Use the 2025 Tax Rate Schedule	22.	_____
23.	Tax on all taxable income. Enter the smaller of line 21 or line 22 here and on Schedule G, line 1a	23.	_____

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Enter on line 2b the estate's or trust's total general business credit allowed for the current year from Form 3800. The estate or trust must file Form 3800 to claim any of the general business credits. Generally, if the estate's or trust's only source of a credit is from a pass-through entity and the beneficiary isn't entitled to an allocable share of a credit, you aren't required to complete the source form for that credit. However, certain credits have limitations and special computations that may require you to complete the source form. See the Instructions for Form 3800 for more information.

Line 2c—Credit for Prior Year Minimum Tax

An estate or trust that paid AMT in a previous year may be eligible for a minimum tax credit in 2025. See Form 8801,

Credit for Prior Year Minimum Tax—
Individuals, Estates, and Trusts.

Line 2d—Bond Credits

Complete and attach Form 8912, Credit to Holders of Tax Credit Bonds, if the estate or trust claims a credit for holding a tax credit bond. Also, be sure to include the credit in interest income.

Line 2e—Total Credits

To claim a credit allowable to the estate or trust other than the credits entered on lines 2a through 2d, include the allowable credit in the total for line 2e. Complete and attach the appropriate form and enter the form number and amount of the allowable credit on the dotted line to the left of the entry space.

If the amount from line 14 of Form 8978 is a negative amount, treat it as a positive amount and add it to the total reported on line 2e. On the dotted line next to line 2e, enter "From Form 8978" and the amount. Attach Form 8978.

ESBT Tax Worksheet—Schedule G, Part I, Line 4

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ESBT Tax Computation	
1.	Ordinary income (loss) from Schedule K-1 (Form 1120-S) 1. _____
2a.	Total ordinary dividends from Schedule K-1 (Form 1120-S) 2a. _____
2b.	Qualified dividends from Schedule K-1 (Form 1120-S) 2b. _____
3.	Capital gain. See instructions and attach Schedule D (Form 1041) 3. _____
4.	Other income (loss) reported on Schedule K-1 (Form 1120-S) 4. _____
5.	Total income. Add lines 1, 2a, 3, and 4 5. _____
6.	Other allowable deductions from Schedule K-1 (Form 1120-S) 6. _____
7.	Administrative expenses (allocated to the S portion) 7. _____
8.	State and local income taxes (allocated to the S portion) 8. _____
9.	Interest expense on indebtedness to acquire S corporation stock 9. _____
10.	Charitable contribution deduction. Check here if deduction includes prior year carryover [] 10. _____
11.	Qualified business income deduction (S portion). Attach Form 8995 or 8995-A 11. _____
12.	Total deductions. Add lines 6 through 11 12. _____
13.	Taxable income (S portion). Subtract line 12 from line 5 13. _____
14a.	Tax. Tax on taxable income. See instructions 14a. _____
14b.	Alternative minimum tax (S portion). Attach Schedule I (Form 1041) 14b. _____
14c.	Total. Add lines 14a and 14b 14c. _____
15a.	Foreign tax credit (S portion). Attach Form 1116 15a. _____
15b.	General business credit (S portion). Attach Form 3800 15b. _____
15c.	Credit for prior-year minimum tax (S portion). Attach Form 8801 15c. _____
15d.	Bond credits (S portion). Attach Form 8912 15d. _____
15e.	Total credits. Add lines 15a through 15d 15e. _____
16.	Recapture taxes (S portion). Check if from: Form 4255 [] or Form 8611 [] 16. _____
17.	Total ESBT tax. Subtract line 15e from line 14c and add line 16. Enter here and on Form 1041, Schedule G, Part I, line 4 17. _____

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Line 4—Tax on the ESBT Portion of the Trust

Use the ESBT Tax Worksheet to figure the ESBT tax. Enter the amount from line 17 of the ESBT Tax Worksheet on line 4.

See *Electing Small Business Trusts (ESBTs)*, earlier, for the special tax computation rules that apply to the portion of an ESBT consisting of stock in one or more S corporations.

Line 5—Net Investment Income Tax (NIIT)

Enter the amount of NIIT calculated and attach Form 8960.

See the Instructions for Form 8960 to calculate the tax, and

Net Investment Income Tax (NIIT), later, for more information.

Line 6a—Certain Credit Recapture, Excessive Payments, and Penalties

If the estate or trust has certain credit recaptures, excessive payments, or penalties from Form 4255, enter the amount from column (r) of Form 4255, Part I, line 3, on line 6a.

Line 6b—Recapture of Low-Income Housing Credit

If the estate or trust disposed of property (or there was a reduction in the qualified basis of the property) on which the low-income housing credit was claimed, see Form 8611, Recapture of Low-Income Housing Credit, to figure any recapture tax allocable to the estate or trust. Include the tax on line 6b and enter "LIHCR" on the dotted line to the left of the entry space.

Line 6c—Other Recapture Taxes

Recapture of qualified electric vehicle credit. If the estate or trust claimed the

qualified electric vehicle credit in a prior tax year for a vehicle that ceased to qualify for the credit, part or all of the credit may have to be recaptured. See Regulations section 1.30-1(b) for details. If the estate or trust owes any recapture tax, include it on line 6c and enter "QEVCR" on the dotted line to the left of the entry space.

Recapture of the new markets credit. If the estate or trust owes any new markets recapture tax, include it on line 6c and enter "NMCR" on the dotted line to the left of the entry space. For more information, including how to figure the recapture amount, see section 45D(g).

Recapture of the credit for employer-provided childcare facilities and services. If the facility ceased to operate as a qualified childcare facility or there was a change in ownership, part or all of the credit may have to be recaptured. See Form 8882, Credit for Employer-Provided Childcare Facilities and

Services, for details. If the estate or trust owes any recapture tax, include it on line 6c and enter "ECCFR" on the dotted line to the left of the entry space.

Recapture of the alternative motor vehicle credit. See section 30B(h)(8) for details.

Include the tax on line 6c and enter "AMVCR" on the dotted line to the left of the entry space.

Line 7—Household Employment Taxes

If any of the following apply, see Schedule H (Form 1040) and its instructions to determine if the estate or trust owes these taxes.

1. The estate or trust paid any one household employee cash wages of \$2,800 or more in 2025. Cash wages include wages paid by checks, money orders, etc. When figuring the amount of cash wages paid, combine cash wages paid by the estate or trust with

cash wages paid to the household employee in the same calendar year by the household of the decedent or beneficiary for whom the administrator, executor, or trustee of the estate or trust is acting.

2. The estate or trust withheld federal income tax during 2025 at the request of any household employee.
3. The estate or trust paid total cash wages of \$1,000 or more in any calendar quarter of 2024 or 2025 to household employees.

Enter on line 7 any household employment taxes owed from Schedule H (Form 1040), Part III, line 26.

Note: See *Amended Schedule H (Form 1040)* under *F. Initial Return, Amended Return, etc.*, earlier, for information on filing an amended Schedule H (Form 1040) for a Form 1041.

Line 8—Other Taxes and Amounts Due

Triggering event under section 965(i). If you had a triggering event under section 965(i) during the year,

enter on line 8 the current-year tax liability from the triggered deferred net 965 tax liability from column (f) of Form 965-A, Part IV.

ESBTs. If a triggering event occurred in the S portion of the ESBT, also include on the attachment that shows the amount of the net 965 tax liability attributable to the S portion of the trust the triggered deferred net 965 tax liability from column (f) of Form 965-A, Part IV.

Section 965. Section 965(a) inclusion amounts are not applicable for tax year 2021 and later years. However, section 965 may still apply to certain estates and trusts

(including the S portion of ESBTs) where a section 965(h) or section 965(i) election has been made.

Interest on deferred tax attributable to installment sales of certain timeshares and residential lots and certain nondealer real property installment obligations.

If an obligation arising from the disposition of real property to which section 453(l) or 453A applies is outstanding at the close of the year, the estate or trust must include the interest due under section 453(l)(3)(B) or 453A(c), whichever is applicable, in the amount to be entered on Form 1041, Schedule G, line 8, with the notation "Section 453(l) interest" or "Section 453A(c) interest," whichever is applicable. Attach a schedule showing the computation.

Form 4970, Tax on Accumulation

Distribution of Trusts. Include on this line any tax due on an accumulation distribution from a trust.

To the left of the entry space, enter "From Form 4970" and the amount of the tax.

Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. Include the interest due under the look-back method of section 460(b) (2). To the left of the entry space, enter "From Form 8697" and the amount of interest due.

Form 8866, Interest Computation Under the Look-Back

Method for Property Depreciated Under the Income Forecast Method. Include the interest due under the look-back method of section 167(g)(2). To the left of the entry space, enter "From Form 8866" and the amount of interest due.

Interest on deferral of gain from certain constructive ownership transactions. Include the interest due under section 1260(b) on any deferral of gain from certain

constructive ownership transactions. To the left of the entry space, enter "1260(b)" and the amount of interest due.

Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts. If the estate or trust fails to receive the minimum distribution under section 4974, use Form 5329 to pay the excise tax. To the left of the entry space, enter "From Form 5329" and the amount of the tax.

Additional tax on the early disposition of noncash property for which a section 247(g)(3) election was made by an Alaska Native Settlement Trust. This additional 10% tax should only be shown on an amended return filed by a Settlement Trust for the year in which the Settlement Trust received a contribution of noncash property from an Alaska Native Corporation and elected to defer the recognition of income related to such property, but disposed of the

property within the first tax year subsequent to the tax year the Settlement Trust received the property. Determine the increase in tax due to the inclusion of the deferred income and include on this line the additional tax due, equal to 10% of the increase in tax due to the inclusion of the deferred income. The increase in tax due to the inclusion of the deferred income, which is the base amount for the computation of the additional 10% tax shown on this line, should be shown elsewhere on Schedule G. If the amended return also shows changes to income, deductions, or credits unrelated to the inclusion of the deferred income, attach a schedule showing the computation of the additional tax due only to the inclusion of the deferred income. To the left of the entry space, enter "Section 247(g)(3) tax."

Form 8978 Worksheet—Schedule G, Part I, Line 8

Keep for Your Records 

Use this worksheet if (a) Schedule G, line 3, is zero; (b) after line 3 was reduced to zero, you have a negative amount from Form 8978, line 14, that was not used to reduce line 3 to zero; and (c) you have chapter 1 taxes entered on Schedule G, line 4; Schedule G, lines 6a–6c; and Schedule G, line 8; and/or tax and interest from Form 8621.

1.	Enter the total amount of chapter 1 taxes from Schedule G, line 4; Schedule G, lines 6a–6c; and Schedule G, line 8; and tax and interest from Form 8621	1.	_____
2.	Enter the negative amount from Form 8978, line 14, that has not already been used to reduce Schedule G, line 3, to zero	2.	(_____)
3.	Combine line 1 and line 2	3.	_____
4.	Enter the amount of non-chapter 1 taxes included on Schedule G, line 8	4.	_____
5.	If line 3 is negative, enter as a negative the amount from line 1. Otherwise, enter the amount from line 2	5.	(_____)
6.	Combine line 4 and line 5. Enter the result on Schedule G, line 8. This amount may be a negative number	6.	_____

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Form 8978 Worksheet. If you have a negative amount from Form 8978, line 14, that was not used to reduce Schedule G, line 3, to zero, and you have chapter 1 taxes and/or tax and interest from Form 8621, then complete the Form 8978 Worksheet—Schedule G, Part I, Line 8 to figure the amount to enter on line 8.

Line 9—Total Tax

Add Schedule G, Part I, lines 3 through 8. Enter the total on Schedule G, Part I, line 9; and page 1 of Form 1041, line 24.

Part II—Payments Line 10—2025 Estimated Tax Payments and Amount Applied From 2024 Return

Enter the amount of any estimated tax payment you made with Form 1041-ES for 2025 plus the amount of any overpayment from the 2024 return that was applied to the 2025 estimated tax.

If the estate or trust is the beneficiary of another trust and received a payment of estimated tax that was credited to the trust (as reflected on the Schedule K-1 issued to the trust), then report this amount separately with the notation "Section 643(g)" in the space next to line 10 and include this amount in the amount entered on line 10.



Don't include on Form 1041 estimated tax paid by an individual before death. Instead, include those payments on the decedent's final income tax return.

Line 11—Estimated Tax Payments Allocated to Beneficiaries (From Form 1041-T)

The trustee (or executor, for the final year of the estate) may elect under section 643(g) to have any portion of its estimated tax treated as a payment of estimated tax made by a beneficiary or beneficiaries.

The election is made on Form 1041-T, which must be filed by the 65th day after the close of the trust's tax year. Form 1041-T shows the amounts to be allocated to each beneficiary. This amount is reported in box 13, code A, of the beneficiary's Schedule K-1 (Form 1041).

Attach Form 1041-T to your return only if you haven't yet filed it; however, attaching Form 1041-T to Form 1041 doesn't extend the due date for filing Form 1041-T. If you have already filed Form 1041-T, don't attach a copy to your return.

Caution: Failure to file Form 1041-T by the due date (March 6, 2026, for calendar-year estates and trusts) will result in an invalid election. An invalid election will require the filing of an amended Schedule K-1 for each beneficiary who was allocated a payment of estimated tax.

Line 13—Tax Paid With Form 7004

If you filed Form 7004 to request an extension of time to file Form 1041, enter the amount that you paid with the extension request.

Line 14—Federal Income Tax Withheld

Use line 14 to claim a credit for any federal income tax withheld (and not repaid) by (a) an employer on wages and salaries of a decedent received by the decedent's estate; (b) a payer of certain gambling winnings (for example, state lottery winnings); or (c) a payer of distributions from pensions, annuities, retirement or profit-sharing plans, IRAs, insurance contracts, etc., received by a decedent's estate or trust. Attach a copy of Form W-2, Form W-2G, or Form 1099-R to the front of the return.

Caution: Except for backup withholding (as explained below), withheld income tax can't be passed through to beneficiaries on either Schedule K-1 or Form 1041-T.

Backup withholding. If the estate or trust received a 2025 Form 1099 showing federal income tax withheld (that is, backup withholding) on interest income, dividends, or other income, check the box and include the amount withheld on income retained by the estate or trust in the total for line 14.

Report in box 13, code B, of Schedule K-1 (Form 1041) any credit for backup withholding on income distributed to the beneficiary.

Line 15—Current Net 965 Tax Liability—Eligible for Installment Payment Election

If you have a section 965(i) net tax liability for which a triggering event has occurred in the current year and you are making a

section 965(h) election with respect to that section 965 net tax liability, enter this amount from column (f) of Form 965-A, Part I.

Line 16—Credit for Tax Paid on Undistributed Capital Gains

Attach Copy B of Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains.

Line 17—Credit for Federal Tax Paid on Fuels

Enter any credit for federal excise taxes paid on fuels that are ultimately used for nontaxable purposes (for example, an off-highway business use). Attach Form 4136, Credit for Federal Tax Paid on Fuels. See Pub. 510, Excise Taxes, for more information.

Line 18a—Elective Payment Election Amount From Form 3800

Enter any elective payment election amount from column (j) of Form 3800, Part III, line 6.

Line 18b—Other Credits or Payments

Enter any other applicable credit or payment not entered elsewhere in Schedule G, Part II.

Line 18c—Section 1062 Applicable Net Tax Liability

If the estate or trust is electing to defer the payment of net income tax attributable to the gain from the sale or exchange of qualified farmland property, complete and attach Form 1062 and Schedule(s) A (Form 1062). Enter the amount from Form 1062, Part III, line 14. See the Instructions for Form 1062 for more information. Also, see section 1062.

Net Investment Income Tax (NIIT)

Certain estates and trusts may be subject to the NIIT. Estates and trusts use Form 8960 to report their NII and calculate the tax. The amount of NIIT payable by the estate or trust is reported on Form 1041, Schedule G, line 5.

The NIIT is imposed on estates and trusts to the extent that they have undistributed NII and AGI exceeding \$15,650. See *Definitions*, earlier, for the calculation of an estate's or trust's AGI. The following types of estates and trusts may owe the NIIT in addition to their regular income tax liability.

- Decedents' estates.
- Simple and complex trusts.
- ESBTs.
- Pooled income funds.
- Bankruptcy estates.

However, in the case of bankruptcy estates, the AGI threshold is \$125,000.

Calculation of NII. In general, an estate's or trust's NII is calculated in the same way as an individual's. However, there are special rules for the calculation of NII in the case of an ESBT.

See the Instructions for Form 8960 and Regulations section 1.1411-3(e) for information on the calculation (and

Regulations section 1.1411-3(c)(1) for information on the ESBT calculation).

Distributions on NII. The NIIT is imposed on estates and trusts to the extent they have undistributed NII. In order to arrive at the estate's or trust's undistributed NII, the estate's or trust's NII is reduced for (1) distributions of NII to beneficiaries, and (2) NII allocable to charities when the estate or trust is allowed a deduction under section 642(c). The instructions for Form 8960, line 18b, provide more information on the calculation of undistributed NII.

NII allocable to the deduction under section 642(c). An estate's, trust's, or pooled income fund's NII is reduced by the amount of NII allocable to the charitable deduction allowed under section 642(c).

In the case of an estate, trust, or pooled income fund that has NII and non-NII income in a year when a section 642(c) deduction is claimed, the amount of the NII deduction allocable to the section 642(c) deduction will be less than the amount reported on Form 1041, Schedule A, line 7 (or on the separate calculation in the case of a pooled income fund).

Beneficiary reporting. In general, the amount of the income distribution deduction (from Form 1041, Schedule B, line 15) that reduces the estate's or trust's NII will be the amount of NII that will be taxable to the beneficiaries on their Schedules K-1 (Form 1041).

The Schedule K-1 has code H in box 14 to report the amount of NII distributed to the beneficiary. The amount reported in code H represents an adjustment (either positive or negative) that the beneficiary must use in completing its Form 8960 (if necessary).

In the case where the trust's income distribution deduction allowed in calculating undistributed NII is less than the amount on Schedule B, line 15, then code H will show a negative number that is the difference between the two amounts. In the case of an estate or trust that issues more than one Schedule K-1 for a year, the sum of the amounts reported in code H on all of the Schedules K-1 will be the difference between Schedule B, line 15, and the amount deducted on Form 8960, line 18b, for amounts of NII distributed to a beneficiary.

Tip: The beneficiary's NII will equal all taxable amounts reported on the Schedule K-1, adjusted by the amount reported in box 14, code H.

Tip: The only instance where code H will be a positive number is when:

- The estate or trust owns directly, or indirectly, an (a) interest in a section 1291 fund, or (b) interest in a controlled

foreign corporation or qualified electing fund and no election under Regulations section 1.1411-10(g) has been made with respect to that interest; and

- The distribution from one of the entities described above is (a) NII to the estate or trust, but not included in its taxable income; and (b) the distributions from the estate or trust to the beneficiary(ies) in the year exceed the amount of the income distribution deduction allowed for regular tax purposes (from Schedule B, line 15).

Special rules. In the final year of an estate or trust, deductions in excess of income may be reported to the beneficiary in box 11 of Schedule K-1. These deductions may also be deductible by the beneficiary for NIIT purposes. In this situation, the terminating estate or trust should provide the beneficiary information regarding whether the amounts reported in box 11, codes A through E,

include any amounts that are deductible for NIIT purposes. See Regulations section 1.1411-4(g)(4).

Other Information

Question 1

If the estate or trust received tax-exempt income, figure the allocation of expenses between tax-exempt and taxable income on a separate sheet and attach it to the return. Enter only the deductible amounts on the return. Don't figure the allocation on the return itself. For more information, see *Allocation of Deductions for Tax-Exempt Income*, earlier.

Report the amount of tax-exempt interest income received or accrued in the space provided below Question 1.

Also, include any exempt-interest dividends the estate or trust received as a shareholder

in a mutual fund or other regulated investment company (RIC).

Question 2

All salaries, wages, and other compensation for personal services must be included on the return of the person who earned the income, even if the income was irrevocably assigned to a trust by a contract assignment or similar arrangement.

The grantor or person creating the trust is considered the owner if they keep “beneficial enjoyment” of or substantial control over the trust property. The trust’s income, deductions, and credits are allocable to the owner.

If you checked “Yes” for Question 2, see *Special Reporting Instructions*, earlier.

Question 3

Check “Yes” and enter the name of the foreign country if either (1) or (2) below applies.

1. The estate or trust owns more than 50% of the stock in any corporation that owns one or more foreign bank accounts.
2. At any time during the year, the estate or trust had an interest in or signature or other authority over a bank, securities, or other financial account in a foreign country.

Exception. Check “No” if either of the following applies to the estate or trust.

- The combined value of the accounts was \$10,000 or less during the whole year.
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.

If you checked “Yes” for Question 3,
electronically file

FinCEN Form 114, Report of Foreign Bank
and Financial

Accounts (FBAR), with the Department of the
Treasury using FinCEN’s BSA E-Filing System.
Because FinCEN Form 114 isn’t a tax form,
don’t file it with Form 1041. Go to [FinCEN.gov](https://www.fincen.gov)
for more information.

Caution: If you are required to file FinCEN
Form 114 but don’t, you may have to pay a
penalty of up to \$10,000 (or more
in some cases).

Question 4

The estate or trust may be required to file
Form 3520, Annual Return To Report
Transactions With Foreign Trusts and Receipt
of Certain Foreign Gifts, if:

- It directly or indirectly transferred
property or money to a foreign trust—for

this purpose, any U.S. person who created a foreign trust is considered a transferor;

- It is treated as the owner of any part of the assets of a foreign trust under the grantor trust rules; or
- It received a distribution from a foreign trust.

Tip: An owner of a foreign trust must ensure that the trust files an annual information return on Form 3520-A.

Question 5

An estate or trust claiming an interest deduction for qualified residence interest (as defined in section 163(h)(3)) on seller-provided financing must include on an attachment to the 2025 Form 1041 the name, address, and TIN of the person to whom the interest was paid or accrued (that is, the seller).

If the estate or trust received or accrued such interest, it must provide identical information on the person liable for such interest (that is, the buyer). This information doesn't need to be reported if it duplicates information already reported on Form 1098.

Question 6

To make the section 663(b) election to treat any amount paid or credited to a beneficiary within 65 days following the close of the tax year as being paid or credited on the last day of that tax year, check the box. This election can be made by the fiduciary of a complex trust or the executor of a decedent's estate. For the election to be valid, you must file Form 1041 by the due date (including extensions). Once made, the election is irrevocable.

Question 7

To make the section 643(e)(3) election to recognize gain on property distributed in kind,

check the box and see the Instructions for Schedule D (Form 1041).

Question 9

Generally, a beneficiary is a skip person if the beneficiary is in a generation that is 2 or more generations below the generation of the transferor to the trust.

To determine if a beneficiary that is a trust is a skip person, and for exceptions to the general rules, see the definition of a skip person in the instructions for Schedule R (Form 706).

Question 10

A domestic trust that is a specified domestic entity must file Form 8938 along with Form 1041 for the tax year. Form 8938 must be filed each year the value of the trust's specified foreign financial assets meets or exceeds the reporting threshold. A trust exceeds the threshold amount if the total value of the specified foreign financial assets

is more than \$50,000 on the last day of the tax year or more than \$75,000 at any time during the tax year. For more information on domestic trusts that are specified domestic entities, the filing threshold, and the types of foreign financial assets that must be reported, see the Instructions for Form 8938.

A domestic trust that is required to file Form 8938 along with Form 1041 for the tax year must check "Yes" to Question 10.

Question 11a

A distribution of S corporation stock by an estate or trust that results in a change of ownership for federal income tax purposes is a triggering event described in Regulations section 1.965-7(c)(3). If the estate or trust transfers less than all of its shares of stock of the S corporation, the transfer will be a triggering event only with respect to the portion of the estate's or trust's section 965(i) net tax liability that is properly allocable to the transferred shares.

If the person who received the distribution of S corporation stock is an eligible section 965(i) transferee, the estate or trust may enter into a transfer agreement with the eligible section 965(i) transferee to prevent the assessment of the estate's or trust's section 965(i) net tax liability in the tax year that includes the triggering event.

The estate or trust must report in column (g) of Form 965-A, Part IV, the transfer out of the section 965 tax liability properly allocable to S corporation shares for which the estate or trust entered into a transfer agreement with an eligible section 965(i) transferee. See the Instructions for Form 965-A for additional information.

Caution: The transfer agreement must be filed within 30 days of the triggering event. See Form 965-D, Transfer Agreement Under Section 965(i)(2), and the related instructions for additional information.

Question 11b

If the estate or trust distributed S corporation shares and the estate or trust did not enter into a timely transfer agreement for all shares transferred during the tax year, the transfer of shares not covered by a transfer agreement is a triggering event. See *Triggering event under section 965(i)*, earlier.

The estate or trust may file a consent agreement under section 965(i)(4)(D) to make the election under section 965(h) to pay in installments the triggered section 965(i) net tax liability. See Form 965-E, Consent Agreement Under Section 965(i)(4)(D), and the related instructions for how to file the consent agreement. See *Triggered deferred S corporation-related net 965 tax liability* under *Part I* in the Instructions for Form 965-A for how to make the installment election.

Caution: The due date of the original Form 965-E is within 30 days of the triggering event.

Caution: The due date of the election to pay in installments is the due date of the return for the tax year, including extensions. The actual payment of the first installment is due no later than the due date of the return for the tax year without extensions, even if the election is made on a return filed by the extended due date.

Question 12

Check "Yes" if the estate or trust entered into a transfer agreement as an eligible 965(i) transferee.

If, during the tax year, the estate or trust entered into a transfer agreement as an eligible 965(i) transferee, the estate or trust must report the transfer in of that liability on Part IV of Form 965-A. See the Instructions for Form 965-A for additional information.

Question 13

Digital assets are any digital representations of value that are recorded on a cryptographically secured distributed ledger or any similar technology. For example, digital assets include non-fungible tokens (NFTs) and virtual currencies, such as cryptocurrencies and stablecoins. If a particular asset has the characteristics of a digital asset, it will be treated as a digital asset for federal income tax purposes.

Check "Yes" if at any time during 2025, you (a) received

(as a reward, award, or payment for property or services); or (b) sold, exchanged, or otherwise disposed of a digital asset (or any financial interest in any digital asset). For example, check "Yes" if at any time during 2025 you:

- Received digital assets as payment for property or services provided;

- Received digital assets as a result of a reward or award;
- Received new digital assets as a result of mining, staking, and similar activities;
- Received digital assets as a result of a hard fork;
- Disposed of digital assets in exchange for property or services;
- Disposed of a digital asset in exchange or trade for another digital asset;
- Sold a digital asset; or
- Otherwise disposed of any other financial interest in a digital asset.

You have a financial interest in a digital asset if you are the owner of record of a digital asset, or have an ownership stake in an account that holds one or more digital assets, including the rights and obligations to acquire a financial interest, or you own a wallet that holds digital assets.

The following actions or transactions in 2025, alone, generally don't require you to check "Yes."

- Holding a digital asset in a wallet or account.
- Transferring a digital asset from one wallet or account you own or control to another wallet or account that you own or control.
- Purchasing digital assets using U.S. or other real currency, including through the use of electronic platforms such as PayPal and Venmo.

Do not leave the question unanswered. You must answer "Yes" or "No" by checking the appropriate box. For more information, go to [IRS.gov/VirtualCurrencyFAQs](https://www.irs.gov/VirtualCurrencyFAQs).

How to report digital asset transactions.

If, in 2025, you disposed of any digital asset, which you held as a capital asset, through a sale, trade, exchange, payment, or other

transfer, check "Yes" and use Form 8949 to calculate your capital gain or loss and report that gain or loss on Schedule D (Form 1041).

If you received any digital asset as compensation for services or disposed of any digital asset that you held for sale to customers in a trade or business, you must report the income as you would report other income of the same type.

Question 14

If the deemed owner of a grantor portion of the ESBT is a nonresident alien, the items of income, deduction, and credit from that grantor portion must be reallocated to the S portion. See *Line 4* under *Schedule G, Part I*, earlier, for how to figure the tax on the S portion of the trust.

Question 15

The S portion of the ESBT must take into account the qualified items of income, gain, deduction, and loss and other items from any

S corporation owned by the ESBT, and any qualified items of income, gain, deduction, and loss and other items reallocated to the S portion. See *Question 14*, earlier. For purposes of determining whether the taxable income of an ESBT exceeds the threshold amount, the S portion and the non-S portion of an ESBT are treated as a single trust. See Regulations section 1.199A-6(d)(3)(vi).

Schedule J (Form 1041)— Accumulation Distribution for Certain Complex Trusts

General Instructions

Use Schedule J (Form 1041) to report an accumulation distribution for a domestic complex trust that was:

- Previously treated at any time as a foreign trust (unless an exception is provided in future regulations); or

- Created before March 1, 1984, unless that trust would not be aggregated with other trusts under the rules of section 643(f) if that section applied to the trust.

An accumulation distribution is the excess of amounts properly paid, credited, or required to be distributed (other than income required to be distributed currently) over the DNI of the trust reduced by income required to be distributed currently. To have an accumulation distribution, the distribution must exceed the accounting income of the trust.

Specific Instructions

Part I—Accumulation Distribution in 2025

Line 1—Distribution Under Section 661(a)(2)

Enter the amount from Form 1041, Schedule B, line 10, for 2025.

This is the amount properly paid, credited, or required to be distributed other than the amount of income for the current tax year required to be distributed currently.

Line 2—Distributable Net Income

Enter the amount from Form 1041, Schedule B, line 7, for 2025. This is the amount of DNI for the current tax year determined under section 643(a).

Line 3—Distribution Under Section 661(a)(1)

Enter the amount from Form 1041, Schedule B, line 9, for 2025. This is the amount of income for the current tax year required to be distributed currently.

Line 5—Accumulation Distribution

If line 11 of Form 1041, Schedule B, is more than line 8 of Form 1041, Schedule B,

complete the rest of Schedule J and file it with Form 1041, unless the trust has no previously accumulated income.

Generally, amounts accumulated before a beneficiary reaches age 21 may be excluded by the beneficiary. See sections 665 and 667(c) for exceptions relating to multiple trusts. The trustee reports to the IRS the total amount of the accumulation distribution before any reduction for income accumulated before the beneficiary reaches age 21. If the multiple trust rules don't apply, the beneficiary claims the exclusion when filing Form 4970, as you may not be aware that the beneficiary may be a beneficiary of other trusts with other trustees.

For examples of accumulation distributions that include payments from one trust to another trust, and amounts distributed for a dependent's support, see Regulations section 1.665(b)-1A(b).

Part II—Ordinary Income Accumulation Distribution

Enter the applicable year at the top of each column for each throwback year.

Line 6—DNI for Earlier Years

Enter the applicable amounts as follows.

Throwback year(s)	Amount from line
1969–1977.....	Form 1041, Schedule C, line 5
1978–1979.....	Form 1041, line 61
1980.....	Form 1041, line 60
1981–1982.....	Form 1041, line 58
1983–1996.....	Form 1041, Schedule B, line 9
1997–2024.....	Form 1041, Schedule B, line 7

For information about throwback years, see the instructions for line 13. For purposes of line 6, in figuring the DNI of the trust for a

throwback year, subtract any estate tax deduction for IRD if the income is includible in figuring the DNI of the trust for that year.

Line 7—Distributions Made During Earlier Years

Enter the applicable amounts as follows.

Throwback year(s)	Amount from line
1969–1977.....	Form 1041, Schedule C, line 8
1978.....	Form 1041, line 64
1979.....	Form 1041, line 65
1980.....	Form 1041, line 64
1981–1982.....	Form 1041, line 62
1983–1996.....	Form 1041, Schedule B, line 13
1997–2024.....	Form 1041, Schedule B, line 11

Line 11—Prior Accumulation Distribution Thrown Back to Any Throwback Year

Enter the amount of prior accumulation distributions thrown back to the throwback years. Don't enter distributions excluded under section 663(a)(1) for gifts, bequests, etc.

Line 13—Throwback Years

Allocate the amount on line 5 that is an accumulation distribution to the earliest applicable year first, but don't allocate more than the amount on line 12 for any throwback year. An accumulation distribution is thrown back first to the earliest preceding tax year in which there is undistributed net income (UNI). Then, it is thrown back beginning with the next earliest year to any remaining preceding tax years of the trust. The portion of the accumulation distribution allocated to the earliest preceding tax year is the amount of the UNI for that year.

The portion of the accumulation distribution allocated to any remaining preceding tax year is the amount by which the accumulation distribution is larger than the total of the UNI for all earlier preceding tax years.

A tax year of a trust during which the trust was a simple trust for the entire year isn't a preceding tax year unless (a) during that year, the trust received outside income; or (b) the trustee didn't distribute all of the trust's income that was required to be distributed currently for that year. In this case, UNI for that year must not be more than the greater of the outside income or income not distributed during that year.

The term "outside income" means amounts that are included in the DNI of the trust for that year but that aren't "income" of the trust as defined in Regulations section 1.643(b)-1. Some examples of outside income are (a) income taxable to the trust under section 691, (b) unrealized accounts receivable that

were assigned to the trust, and (c) distributions from another trust that include the DNI or UNI of the other trust.

Line 16—Tax-Exempt Interest Included on Line 13

For each throwback year, divide line 15 by line 6 and multiply the result by the following.

Throwback year(s)	Amount from line
1969–1977.....	Form 1041, Schedule C, line 2(a)
1978–1979.....	Form 1041, line 58(a)
1980.....	Form 1041, line 57(a)
1981–1982.....	Form 1041, line 55(a)
1983–2024.....	Form 1041, Schedule B, line 2

Part III—Taxes Imposed on Undistributed Net Income

For the regular tax computation, if there is a capital gain, complete lines 18 through 25 for each throwback year. If the trustee elected the alternative tax on capital gains, complete lines 26 through 31 instead of lines 18 through 25 for each applicable year. If there is no capital gain for any year, or there is a capital loss for every year, enter on Part II, line 9, the amount of the tax for each year identified in the instruction for line 18 and don't complete Part III. If the trust received an accumulation distribution from another trust, see Regulations section 1.665(b)-1A.

Note: The alternative tax on capital gains was repealed for tax years beginning after December 31, 1978. The maximum rate on net capital gain for 1981, 1987, and 1991 through 2024 isn't an alternative tax for this purpose.

Line 18—Regular Tax

Enter the applicable amounts as follows.

Throwback year(s)	Amount from line
1969–1976.....	Form 1041, page 1, line 24
1977.....	Form 1041, page 1, line 26
1978–1979.....	Form 1041, line 27
1980–1984.....	Form 1041, line 26c
1985–1986.....	Form 1041, line 25c
1987.....	Form 1041, line 22c
1988–2024.....	Form 1041, Schedule G, line 1a

Line 19—Trust’s Share of Net Short-Term Gain

For each throwback year, enter the smaller of the capital gain from the two lines indicated.

If there is a capital loss or a zero on either or both of the two lines indicated, enter zero on line 19.

Throwback year(s)	Amount from line
1969–1970.....	Schedule D, line 10, column 2; or Schedule D, line 12, column 2
1971–1978.....	Schedule D, line 14, column 2, or Schedule D, line 16, column 2
1979.....	Schedule D, line 18, column (b); or Schedule D, line 20, column (b)
1980–1981.....	Schedule D, line 14, column (b); or Schedule D, line 16, column (b)

1982.....	Schedule D, line 16, column (b); or Schedule D, line 18, column (b)
1983–1996.....	Schedule D, line 15, column (b); or Schedule D, line 17, column (b)
1997–2002.....	Schedule D, line 14, column (2); or Schedule D, line 16, column (2)
2003.....	Schedule D, line 14a, column (2); or Schedule D, line 16a, column (2)
2004–2012.....	Schedule D, line 13, column (2); or Schedule D, line 15, column (2)

2013–2024.....	Schedule D, line 17, column (2); or Schedule D, line 19, column (2)
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Line 20—Trust’s Share of Net Long-Term Gain

Enter the applicable amounts as follows.

Throwback year(s)	Amount from line
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1969–1970.....	50% of Schedule D, line 13(e)
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1971–1977.....	50% of Schedule D, line 17(e)
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1978.....	Schedule D, line 17(e) or line 31, whichever is applicable, less Form 1041, line 23
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1979.....	Schedule D, line 25 or line 27, whichever is
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applicable, less Form
1041, line 23

1980–1981..... Schedule D, line 21, less
Schedule D, line 22

1982..... Schedule D, line 23, less
Schedule D, line 24

1983–1986..... Schedule D, line 22, less
Schedule D, line 23

1987–1996..... Schedule D, the smaller
of any gain on line 16 or
line 17, column (b)

1997–2001..... Schedule D, the smaller
of any gain on line 15c
or line 16, column (2)

2002..... Schedule D, the smaller
of any gain on line 15a
or line 16, column (2)

2003.....	Schedule D, the smaller of any gain on line 15a or line 16a, column (2)
2004–2012.....	Schedule D, the smaller of any gain on line 14a or line 15, column (2)
2013–2024.....	Schedule D, the smaller of any gain on line 18a or line 19, column (2)

Line 22—Taxable Income

Enter the applicable amounts as follows.

Throwback year(s)	Amount from line
1969–1976.....	Form 1041, page 1, line 23
1977.....	Form 1041, page 1, line 25
1978–1979.....	Form 1041, line 26
1980–1984.....	Form 1041, line 25

1985–1986.....	Form 1041, line 24
1987.....	Form 1041, line 21
1988–1996.....	Form 1041, line 22
1997.....	Form 1041, line 23
1998–2018.....	Form 1041, line 22
2019–2024.....	Form 1041, line 23

Line 26—Tax on Income Other Than Long-Term Capital Gain

Enter the applicable amounts as follows.

Throwback year(s)	Amount from line
1969.....	Schedule D, line 20
1970.....	Schedule D, line 19
1971.....	Schedule D, line 50
1972–1975.....	Schedule D, line 48
1976–1978.....	Schedule D, line 27

Line 27—Trust's Share of Net Short-Term Gain

If there is a loss on any of the following lines, enter zero on line 27 for the applicable throwback year. Otherwise, enter the applicable amounts as follows.

Throwback year(s)	Amount from line
1969–1970.....	Schedule D, line 10, column 2
1971–1978.....	Schedule D, line 14, column 2

Line 28—Trust's Share of Taxable Income Less Section 1202 Deduction

Enter the applicable amounts as follows.

Throwback year(s)	Amount from line
1969.....	Schedule D, line 19
1970.....	Schedule D, line 18
1971.....	Schedule D, line 38

1972–1975..... Schedule D, line 39

1976–1978..... Schedule D, line 21

Part IV—Allocation to Beneficiary

Complete Part IV for each beneficiary. If the accumulation distribution is allocated to more than one beneficiary, attach an additional copy of Schedule J with Part IV completed for each additional beneficiary. Give each beneficiary a copy of their respective Part IV information. If more than 5 throwback years are involved, use another Schedule J, completing Parts II and III for each additional throwback year.

If the beneficiary is a nonresident alien individual or a foreign corporation, see section 667(e) about retaining the character of the amounts distributed to determine the amount of the U.S. withholding tax.

The beneficiary uses Form 4970 to figure the tax on the distribution.

The beneficiary also uses Form 4970 for the section 667(b)(6) tax adjustment if an accumulation distribution is subject to estate or GST tax. This is because the trustee can't be the estate or GST tax return filer.

Schedule K-1 (Form 1041)— Beneficiary's Share of Income, Deductions, Credits, etc.

General Instructions

Use Schedule K-1 (Form 1041) to report the beneficiary's share of income, deductions, and credits from a trust or a decedent's estate.

Caution: Grantor type trusts don't use Schedule K-1 (Form 1041) to report the income, deductions, or credits of the grantor (or other person treated as owner). See *Grantor Type Trusts*, earlier.

Who Must File

The fiduciary (or one of the joint fiduciaries) must file Schedule K-1. A copy of each

beneficiary's Schedule K-1 is attached to the Form 1041 filed with the IRS, and each beneficiary is given a copy of their respective Schedule K-1. One copy of each Schedule K-1 must be retained for the fiduciary's records.

Beneficiary's Identifying Number

As a payer of income, you are required to request and provide a proper identifying number for each recipient of income. Enter the beneficiary's number on the respective Schedule K-1 when you file Form 1041. Individuals and business recipients are responsible for giving you their TINs upon request. You may use Form W-9 to request the beneficiary's identifying number.

Penalty. You may be charged a \$50 penalty for each failure to provide a required TIN, unless reasonable cause is established for not providing it. Explain any reasonable cause in a signed affidavit and attach it to this return.

Truncating recipient's identification number on beneficiary's statement. The estate or trust can truncate a beneficiary's identifying number on the Schedule K-1 the estate or trust sends to the beneficiary. Truncation isn't allowed on the Schedule K-1 the estate or trust files with the IRS. Also, the estate or trust can't truncate its own identification number on any form.

To truncate, where allowed, replace the first five digits of the nine-digit number with asterisks (*) or Xs (for example, an SSN xxx-xx-xxxx would appear as ***-**-xxxx or XXX-XX-xxxx). For more information, see Regulations section 301.6109-4.

Substitute Forms

You don't need IRS approval to use a substitute Schedule K-1 if it is an exact copy of the IRS schedule. The boxes must use the same numbers and titles and must be in the same order and format as on the comparable IRS Schedule K-1.

The substitute schedule must include the OMB number and the six-digit form ID code in the upper right-hand corner of the schedule.

You must provide each beneficiary with the Instructions for Schedule K-1 (Form 1041) for a Beneficiary Filing Form 1040 or 1040-SR, or other prepared specific instructions for each item reported on the beneficiary's Schedule K-1.

Inclusion of Amounts in Beneficiaries' Income

Simple trust. The beneficiary of a simple trust must include in their gross income the amount of the income required to be distributed currently, whether or not distributed, or if the income required to be distributed currently to all beneficiaries exceeds the DNI, their proportionate share of the DNI. The determination of whether trust income is required to be distributed currently depends on the terms of the trust instrument and applicable local law.

See Regulations section 1.652(c)-4 for a comprehensive example.

Estates and complex trusts. The beneficiary of a decedent's estate or complex trust must include in their gross income the sum of:

1. The amount of the income required to be distributed currently, or if the income required to be distributed currently to all beneficiaries exceeds the DNI (figured without taking into account the charitable deduction), their proportionate share of the DNI (as so figured); and
2. All other amounts properly paid, credited, or required to be distributed, or if the sum of the income required to be distributed currently and other amounts properly paid, credited, or required to be distributed to all beneficiaries exceeds the DNI, their proportionate share of the excess of DNI over the income required to be distributed currently.

See Regulations section 1.662(c)-4 for a comprehensive example.

For complex trusts that have more than one beneficiary, and if different beneficiaries have substantially separate and independent shares, their shares are treated as separate trusts for the sole purpose of determining the amount of DNI allocable to the respective beneficiaries. A similar rule applies to treat substantially separate and independent shares of different beneficiaries of an estate as separate estates. For examples of the application of the separate share rule, see the regulations under section 663(c).

Gifts and bequests. Don't include in the beneficiary's income any gifts or bequests of a specific sum of money or of specific property under the terms of the governing instrument that are paid or credited in three installments or less.

Amounts that can be paid or credited only from income of the estate or trust don't

qualify as a gift or bequest of a specific sum of money.

Past years. Don't include in the beneficiary's income any amounts deducted on Form 1041 for an earlier year that were credited or required to be distributed in that earlier year.

Character of income. The beneficiary's income is considered to have the same proportion of each class of items entering into the computation of DNI that the total of each class has to the DNI (for example, half dividends and half interest if the income of the estate or trust is half dividends and half interest).

Allocation of deductions. Generally, items of deduction that enter into the computation of DNI are allocated among the items of income to the extent such allocation isn't inconsistent with the rules set out in section 469 and its regulations, relating to passive activity loss limitations, in the following order.

First, all deductions directly attributable to a specific class of income are deducted from that income. For example, rental expenses, to the extent allowable, are deducted from rental income.

Second, deductions that aren't directly attributable to a specific class of income may generally be allocated to any class of income, as long as a reasonable portion is allocated to any tax-exempt income. Deductions considered not directly attributable to a specific class of income under this rule include fiduciary fees, and state income and personal property taxes. The charitable deduction, however, must be ratably apportioned among each class of income included in DNI.

Finally, any excess deductions that are directly attributable to a class of income may be allocated to another class of income. However, in no case can excess deductions from a passive activity be allocated to income from a nonpassive activity, or to portfolio

income earned by the estate or trust. Excess deductions attributable to tax-exempt income can't offset any other class of income.

In no case can deductions be allocated to an item of income that isn't included in the computation of DNI, or attributable to corpus.

You can't show any negative amounts for any class of income shown in boxes 1 through 8 of Schedule K-1. However, for the final year of the estate or trust, certain deductions or losses can be passed through to the beneficiary(ies). See the instructions for box 11 for more information on these deductions and losses. Also, the beneficiary's share of depreciation and depletion is apportioned separately. These deductions may be allocated to the beneficiary(ies) in amounts greater than their income. See *Depreciation, Depletion, and Amortization*, earlier; and Rev. Rul. 74-530, 1974-2 C.B. 188.

Beneficiary's Tax Year

The beneficiary's income from the estate or trust must be included in the beneficiary's tax year during which the tax year of the estate or trust ends. See Pub. 559 for more information, including the effect of the death of a beneficiary during the tax year of the estate or trust.

General Reporting Information

If the return is for a fiscal year or a short tax year, fill in the tax year space at the top of each Schedule K-1. On each Schedule K-1, enter the information about the estate or trust and the beneficiary in Parts I and II (items A through H). In Part III, enter the beneficiary's share of each item of income, deduction, credit, and any other information the beneficiary needs to file their income tax return.