2002

See instructions on pages 2 through 4.

1

2

3a

3b

3c

4 Number of QFTs included on this return

5

☐ ☐ ☐ ☐ ☐

Income

1a

b Tax-exempt interest. Do not include on line 1a 1b

2

3

4

Deductions

5

6

7

8

9

10

11

12

Tax and Payments

13 ☐ ☐ Schedule D (Form 1041) ☐

14 Credits (see instructions). Specify the credits claimed

15

Tax due. If line 16 is smaller than line 15, enter amount owed 17

Overpayment. If line 16 is larger than line 15, enter amount overpaid

Amount of line 18 to be: a Credited to 2003 estimated tax b Refunded

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than trustee) is based on all information of which preparer has any knowledge.

Signature of trustee or officer representing trustee

Date

May the IRS discuss this return with the preparer shown below (see page 3)? ☐ Yes ☐ No

Paid Preparer's Use Only

Preparer's signature

Date

Check if self-employed ☐

Preparer's SSN or PTIN

Firm's name (or yours if self-employed), address, and ZIP code

EIN

Phone no. ( )

General Instructions

Section references are to the Internal Revenue Code.

Purpose of Form

The trustee of a trust that has elected to be taxed as a qualified funeral trust (QFT) files Form 1041-QFT to report the income, deductions, gains, losses, etc., and income tax liability of the QFT. The trustee can use the form to file for a single QFT or for multiple QFTs having the same trustee, following the rules discussed under Composite Return on this page.

Pre-need funeral trusts that do not qualify as QFTs should see the instructions for Form 1041, U.S. Income Tax Return for Estates and Trusts, for their filing requirements.

Qualified Funeral Trust

A QFT is a domestic trust that meets all of the following requirements:

It arose as a result of a contract with a person engaged in the trade or business of providing funeral or burial services or property to provide such services.

The sole purpose of the trust is to hold, invest, and reinvest funds in the trust and to use those funds solely to pay for funeral or burial services or property to provide such services for the benefit of the beneficiaries of the trust.

The only beneficiaries are individuals for whom such services or property are to be provided at their death under the contracts described above.

The aggregate contributions to the trust on behalf of any single beneficiary do not exceed the Contribution Limit and are made by or for the beneficiaries' benefit.

The trustee makes or previously had made the election to treat the trust as a QFT.

The trust would have been treated as owned by the purchasers of the contracts under the grantor trust provisions of the Code if the QFT election had not been made.

Note: *A trust that is not treated as owned by the purchaser solely because of the death of an individual will be treated as meeting this requirement during the 60-day period beginning on the date of that individual's death.*

If a QFT has multiple beneficiaries, each beneficiary's separate interest under a contract is treated as a separate QFT for the purpose of figuring the tax and filing this return. Each beneficiary's share of the trust's income is determined in accordance with the beneficiary's interest in the trust. A beneficiary's interest in a trust may be determined under any reasonable method.

Whenever these instructions refer to a trust or QFT, it includes such separate interests that are treated as separate QFTs.

Contribution Limit

How to determine your contribution limit. The contribution limit is determined by the year the purchaser entered into the contract for funeral or burial goods and services and does not change over the life of the trust. Use the table below to determine the contribution limit for each QFT.

For contracts entered into in . . .	your contribution limit is . . .
1998 and before	$7,000
1999	7,100
2000	7,200
2001	7,500
2002	7,700

How to determine if a trust meets the contribution limit. A trust meets the contribution limit if:

Existing contributions do not exceed the contribution limit and

The trust, over its life, does not expect to receive future contributions that exceed the contribution limit.

Projections for future contributions are based on:

Existing contributions,

Applicable state law trust contribution requirements, and

Any expected contributions in excess of state law requirements.

When to determine if the trust meets the contribution limit. Make the determination at the inception of the trust and again if the projected amount for future contributions changes.

Losing QFT status. A trust loses its QFT status at the time it exceeds or is projected to exceed its contribution limit.

Multiple beneficiaries. If a QFT has multiple beneficiaries, the contribution limit applies separately to each beneficiary. Each beneficiary's share of the total contributions to a trust is determined by the beneficiary's interest in the trust. A beneficiary's interest in a trust may be determined under any reasonable method.

Related trustees and the contribution limit. A beneficiary's share of contributions made to all trusts that have trustees that are related persons will be aggregated for purposes of testing the contribution limit. Trustees will be considered related if:

The relationship is described in section 267 or 707(b),

The persons are treated as a single employer under subsection (a) or (b) of section 52, or

The Secretary determines that treating the persons as related is necessary to prevent avoidance of this section.

Making the Election

The trustee makes the election to treat a trust as a QFT by filing Form 1041-QFT by the due date (including extensions).

You may elect QFT status for a trust's first eligible year or for any subsequent year. Once made, the election may not be revoked without the consent of the IRS.

Composite Return

A trustee may file a single, composite Form 1041-QFT for some or all QFTs of which he or she is the trustee, including QFTs that had a short tax year.

You must attach a schedule to a composite Form 1041-QFT that includes the following information for each QFT (or separate interest treated as a separate QFT):

The name of the owner or the beneficiary. If you list the name of the owner and that trust has more than one beneficiary, you must separate the trust into shares held by the separate beneficiaries;

The type and gross amount of each type of income earned by the QFT for the tax year. For capital gains, identify separately the amount of net short-term capital gain, net long-term capital gain, 28% rate gain, qualified 5-year gain, and unrecaptured section 1250 gain;

The type and amount of each deduction and credit allocable to the QFT;

The tax and payments made for each QFT; and

The termination date for each QFT that was terminated during the year.

TIP *To avoid unnecessary correspondence, if this is the first year the trustee is filing a Form 1041-QFT for any trust(s),* ***and*** *a Form 1041 was filed for that trust(s) for the 2001 tax year, provide a separate schedule with the trust's employer identification number and a brief explanation that the trust(s) is being switched from Form 1041 to Form 1041-QFT.*

When To File

For calendar year QFTs, file Form 1041-QFT on or before April 15, 2003. The due date for a composite return is also April 15, 2003, even if the return includes QFTs that terminated during the year. If you are filing for a short year, file Form 1041-QFT by the 15th day of the 4th month following the close of the short year. If the due date falls on a Saturday, Sunday, or a legal holiday, file by the next business day.

Private Delivery Services

You can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/paying" rules for tax returns and payments. The most recent list of designated private delivery services was published by the IRS in September 2002. The list includes only the following:

Airborne Express (Airborne): Overnight Air Express Service, Next Afternoon Service, Second Day Service.

DHL Worldwide Express (DHL): DHL "Same Day" Service, DHL USA Overnight.

Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day, FedEx International Priority, FedEx International First.

United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M., UPS Worldwide Express Plus, UPS Worldwide Express.

The private delivery service can tell you how to get written proof of the mailing date.

Extension of Time To File

Use Form 8736, Application for Automatic Extension of Time To File U.S. Return for a Partnership, REMIC, or for Certain Trusts, to request an automatic 3-month extension of time to file.

If more time is needed, file Form 8800, Application for Additional Extension of Time To File U.S. Return for a Partnership, REMIC, or for Certain Trusts, for an additional extension of up to 3 months. To obtain this additional extension of time to file, you must show reasonable cause for the additional time you are requesting. You must file Form 8800 by the extended due date for Form 1041-QFT.

An extension of time to file a return does not extend the time to pay the tax.

Where To File

File all Forms 1041-QFT with the Internal Revenue Service Center, Cincinnati, OH 45999.

Who Must Sign

Trustee

The trustee, or an authorized representative, must sign Form 1041-QFT.

Paid Preparer

Generally, anyone who is paid to prepare a tax return must sign the return and fill in the other blanks in the Paid Preparer's Use Only area of the return. The person required to sign the return must complete the required preparer information and:

Sign it in the space provided for the preparer's signature and

Give you a copy of the return in addition to the copy to be filed with the IRS.

Paid Preparer Authorization

If the trustee wants to allow the IRS to discuss the QFT's 2002 tax return with the paid preparer who signed it, check the "Yes" box in the signature area of the return. This authorization applies only to the individual whose signature appears in the "Paid Preparer's Use Only" section of the QFT's return. It does not apply to the firm, if any, shown in that section.

If the "Yes" box is checked, the trustee is authorizing the IRS to call the paid preparer to answer any questions that may arise during the processing of the QFT's return. The trustee is also authorizing the paid preparer to:

Give the IRS any information that is missing from the QFT's return,

Call the IRS for information about the processing of the QFT's return or the status of its refund or payment(s), and

Respond to certain IRS notices that the trustee has shared with the preparer about math errors, offsets, and return preparation. The notices will not be sent to the preparer.

The trustee is not authorizing the paid preparer to receive any refund check, bind the QFT to anything (including any additional tax liability), or otherwise represent the QFT before the IRS. If the trustee wants to expand the paid preparer's authorization, see Pub. 947, Practice Before the IRS and Power of Attorney.

The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (without regard to extensions) for filing the QFT's 2003 tax return.

Accounting Methods

Figure taxable income using the method of accounting regularly used in keeping the QFT's books and records. Generally, permissible methods include the cash method, the accrual method, or any other method authorized by the Internal Revenue Code. In all cases, the method used must clearly reflect income.

Generally, the QFT may change its accounting method (for income as a whole or for any material item) only by getting consent on Form 3115, Application for Change in Accounting Method. For more information, see Pub. 538, Accounting Periods and Methods.

Accounting Period

All QFTs must adopt a calendar year, even if the trust was on a fiscal year when it was a grantor trust.

To change the accounting period, get Form 1128, Application To Adopt, Change, or Retain a Tax Year.

Rounding Off to Whole Dollars

You may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop amounts less than 50 cents and increase any amounts from 50 to 99 cents to the next dollar.

Estimated Tax

Generally, a QFT must pay estimated income tax for 2003 if it expects to owe, after subtracting withholding and credits, at least $1,000 in tax. Estimated tax liability is figured for the individual QFT, and not for a composite return taken as a whole. For details and exceptions, see Form 1041-ES, Estimated Income Tax for Estates and Trusts.

Interest and Penalties

Interest

Interest is charged on taxes not paid by the due date, even if an extension of time to file is granted. Interest is also charged on the failure-to-file penalty, the accuracy-related penalty, and the fraud penalty. The interest charge is figured at a rate determined under section 6621.

Late Filing of Return

The law provides a penalty of 5% of the tax due for each month, or part of a month, up to a maximum of 25% of the tax due, for each month the return is not filed. If the return is more than 60 days late, the minimum penalty is the smaller of $100 or the tax due. The penalty will not be imposed if you can show that the failure to file on time was due to reasonable cause. If the failure was due to reasonable cause, attach an explanation to the return.

Late Payment of Tax

Generally, the penalty for not paying the tax when due is $\frac{1}{2}$ of 1% of the unpaid amount for each month or part of a month that it remains unpaid. The maximum penalty is 25% of the unpaid amount. The penalty applies to any unpaid tax on the return. Any penalty is in addition to interest charges on late payments.

Note: *If you include interest or either of these penalties with your payment, identify and enter these amounts in the bottom margin of Form 1041-QFT.* ***Do not*** *include the interest or penalty amount in the balance of tax due on line 17.*

Underpaid Estimated Tax

If the trustee underpaid estimated tax, use Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts, to figure any penalty. Enter the amount of any penalty in the bottom margin of Form 1041-QFT. Do not include it in the balance of tax due on line 17.

Other Penalties

Other penalties can be imposed for negligence, substantial understatement of tax, and fraud. See Pub. 17, Your Federal Income Tax, for details on these penalties.

Final Form 1041

If you have an existing EIN(s) that you previously used for filing Form 1041 and that you will not use again (i.e., for QFTs included in a composite return), you should file Form 1041 and check the final return box.

Specific Instructions

Part I—General Information

Line 1—Name of Trust

Copy the exact name from the Form SS-4 used to apply for the employer identification number you are using to file Form 1041-QFT.

Line 2—Employer Identification Number (EIN)

If the QFT is not filing as part of a composite return, use the EIN of the QFT. If the QFT does not have an EIN, it must apply for one. Every trustee that elects to file a composite return must apply for an EIN to be used only for filing Form 1041-QFT. A trustee must use a separate EIN for every Form 1041-QFT it files.

Use Form SS-4, Application for Employer Identification Number, to apply for an EIN. If the QFT has not received its EIN by the time the return is due, write "Applied for" in the space for the EIN.

Line 3—Address

Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and you have a P.O. box, show the box number instead of the street address.

If you change your address after filing Form 1041-QFT, use Form 8822, Change of Address, to notify the IRS.

Line 4—Number of QFTs

If this is a composite return, enter the total number of QFTs (including separate interests treated as separate QFTs) included on the return.

Part II—Tax Computation

Composite Return

Important: *If this is a composite return, enter in Part II the totals for all the QFTs included on the return.*

Income

Line 2—Ordinary Dividends

Report all ordinary dividends received during the tax year.

Note: *Report capital gain distributions on Schedule D (Form 1041), line 9.*

Line 4—Other Income

Enter all other types of income not included on lines 1a, 2, and 3. List the type and amount on an attached schedule if the QFT(s) has more than one item.

Deductions

Allocation of Deductions for Tax-Exempt Income

Generally, no deduction that would otherwise be allowable is allowed for any expense that is allocable to tax-exempt income, such as interest on state or local bonds.

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 allocable 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.

Limitations on Deductions

Generally, the amount a QFT has "at risk" limits the loss it can deduct in any tax year. Also, section 469 and its regulations 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.

For details on these and other limitations on deductions, see Deductions in the Instructions for Form 1041.

Line 9—Other Deductions Not Subject to the 2% Floor

Attach your own schedule, listing by type and amount, all allowable deductions that are not deductible elsewhere on the form.

Note: *QFTs are **not** allowed a deduction for a personal exemption.*

Line 10—Allowable Miscellaneous Itemized Deductions Subject to the 2% Floor

These deductions are deductible only to the extent that the aggregate amount of such deductions exceeds 2% of adjusted gross income (AGI).

Among the miscellaneous itemized deductions that must be included on line 10 are expenses for the production or collection of income, such as investment advisory fees.

AGI is figured by subtracting from total income on line 5 the total of the administrative costs on lines 7 through 9 to the extent they are costs incurred in the administration of the QFTs that would not have been incurred if the property were not held by the QFTs.

If this is a composite return, you must figure the AGI separately for each QFT using each QFT's share of the amounts on the lines referred to above.

Line 13—Tax

Tax rate schedule. Unless the instructions below for Schedule D or Composite Return apply, figure the tax using the Tax Rate Schedule below. Enter the tax on line 13 and check the "Tax rate schedule" box.

2002 Tax Rate Schedule

If taxable income is: Over—	But not over—	Its tax is:	Of the amount over—
$0	$1,850	15%	$0
1,850	4,400	$277.50 + 27.0%	1,850
4,400	6,750	966.00 + 30.0%	4,400
6,750	9,200	1,671.00 + 35.0%	6,750
9,200	- - -	2,528.50 + 38.6%	9,200

Schedule D. If the QFT had both a net capital gain and any taxable income, complete Part V of Schedule D (Form 1041), enter the tax from line 38 of Schedule D, and check the "Schedule D" box.

Composite return. If this is a composite return, check only this box and enter on line 13 the total of the tax computed separately for each QFT using either the 2002 Tax Rate Schedule or Schedule D (Form 1041).

Line 14—Credits

Specify the type of credit being claimed and attach any required credit forms. If you are claiming more than one type of credit, attach a schedule listing the type and amount of each credit claimed. See the Instructions for Form 1041 for details on the credits that may be claimed.

Line 15—Net Tax

If the QFT owes any additional taxes (e.g., alternative minimum tax, recapture taxes, etc.), include these taxes on line 15. To the left of the entry space, write the type and amount of the tax. Also attach to Form 1041-QFT any forms required to figure these taxes (e.g., Schedule I of Form 1041). See the Instructions for Form 1041 for more details on additional taxes that may apply.

Line 16—Payments

Include on line 16 any:

Estimated tax payments made for 2002.

Tax paid with a request for an extension of time to file.

Federal income tax withheld (e.g., backup withholding).

Credit for tax paid on undistributed capital gains. Also attach Copy B of Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains.

Line 17—Tax Due

You must pay the tax in full when the return is filed. Make the check or money order payable to "United States Treasury." Write the EIN from line 2 of the form and "2002 Form 1041-QFT" on the payment. Enclose, but do not attach, the payment with Form 1041-QFT.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us this information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	9 hr., 19 min.
Learning about the law or the form	1 hr., 54 min.
Preparing the form	4 hr., 55 min.
Copying, assembling, and sending the form to the IRS	48 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. Do not send the tax form to this address. Instead, see Where To File on page 3.