



# Instructions for Form 3520

## Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts

Section references are to the Internal Revenue Code unless otherwise noted.

### General Instructions

#### Future Developments

For the latest information about developments related to Form 3520 and its instructions, such as legislation enacted after they were published, go to [www.irs.gov/form3520](http://www.irs.gov/form3520).

#### Purpose of Form

U.S. persons (and executors of estates of U.S. decedents) file Form 3520 to report:

- Certain transactions with foreign trusts,
- Ownership of foreign trusts under the rules of sections 671 through 679, and
- Receipt of certain large gifts or bequests from certain foreign persons.

A separate Form 3520 must be filed for transactions with **each** foreign trust.

#### Who Must File

File Form 3520 if any one or more of the following applies.

1. You are the responsible party for reporting a reportable event that occurred during the current tax year, or you transferred property (including cash) to a foreign trust in exchange for an obligation. Responsible party, reportable event, and qualified obligation are defined later.

Complete the identifying information on page 1 of the form and the relevant portions of Part I. See the instructions for Part I.

2. You are a U.S. person who, during the current tax year, is treated as the owner of any part of the assets of a foreign trust under the rules of sections 671 through 679.

Complete the identifying information on page 1 of the form and Part II. See the instructions for Part II.

**Note.** You are required to complete Part II even if there have been no transactions involving the trust during the tax year.

3. You are a U.S. person who received (directly or indirectly) a distribution from a foreign grantor or nongrantor trust (including the uncompensated use of trust property) during the current tax year **or** you (or a U.S. person related to you) received a loan (including an extension of credit) from a foreign trust that could be treated as a distribution to a U.S. person.

Complete the identifying information on page 1 of the form and Part III. See the instructions for Part III.

4. You are a U.S. person who, during the current tax year, received either:

- More than \$100,000 from a nonresident alien individual or a foreign estate (including foreign persons related to that nonresident alien individual or foreign estate) that you treated as gifts or bequests; or
- More than \$15,671 from foreign corporations or foreign partnerships (including foreign persons related to such foreign corporations or foreign partnerships) that you treated as gifts.

Complete the identifying information on page 1 of the form and Part IV. See the instructions for Part IV.

**Note.** You may also be required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR).

#### Exceptions To Filing

Form 3520 does not have to be filed to report the following transactions.

- Transfers to foreign trusts described in sections 402(b), 404(a)(4), or 404A.
- Most fair market value (FMV) transfers by a U.S. person to a foreign trust. However, some FMV transfers must nevertheless be reported on Form 3520 (e.g., transfers in exchange for obligations that are treated as qualified obligations, transfers of appreciated property to a foreign trust for which the U.S. transferor does not immediately recognize all of the gain on the property transferred, transfers involving a U.S. transferor that is related to the foreign trust). See section III of Notice 97-34, 1997-25 I.R.B. 22.
- Transfers to foreign trusts that have a current determination letter from the IRS recognizing their status as exempt from income taxation under section 501(c)(3).
- Transfers to, ownership of, and distributions from a Canadian registered retirement savings plan (RRSP), a Canadian registered retirement income fund (RRIF), or any other Canadian retirement plan that is within the meaning of section 3 of Rev. Proc. 2014-55. See Rev. Proc. 2014-55, 2014-44 I.R.B. 753, available at [www.irs.gov/irb/2014-44\\_IRB/ar10.html](http://www.irs.gov/irb/2014-44_IRB/ar10.html).
- Deemed transfers from domestic trusts that become foreign trusts to the extent the trust is treated as owned by a foreign person, after application of section 672(f).
- Distributions from foreign trusts that are taxable as compensation for services rendered (within the meaning of section 672(f)(2)(B) and its regulations), so long as the recipient reports the distribution as compensation income on its applicable federal income tax return.
- Distributions from foreign trusts to domestic trusts that have a current determination letter from the IRS recognizing their status as exempt from income taxation under section 501(c)(3).

## Joint Returns

Two transferors or grantors of the same foreign trust, or two U.S. beneficiaries of the same foreign trust, may file a joint Form 3520, but only if they file a joint income tax return.

## Additional Reporting Information

For more information on foreign trust reporting, including abusive foreign trust schemes, go to the IRS website at IRS.gov.

## When and Where To File

In general, Form 3520 is due on the date your income tax return is due, including extensions. In the case of a Form 3520 filed with respect to a U.S. decedent, Form 3520 is due on the date that Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return, is due (including extensions), or would be due if the estate were required to file a return.

Send Form 3520 to the Internal Revenue Service Center, P.O. Box 409101, Ogden, UT 84409.

Form 3520 must have all required attachments to be considered complete.

**Note.** If a complete Form 3520 is not filed by the due date, including extensions, the time for assessment of any tax imposed with respect to any event or period to which the information required to be reported in Parts I through III of such Form 3520 relates, will not expire before the date that is 3 years after the date on which the required information is reported. See section 6501(c)(8).

## Who Must Sign

If the return is filed by:

- An individual or a fiduciary, it must be signed and dated by that individual or fiduciary;
- A partnership, it must be signed and dated by a general partner or limited liability company member; or
- A corporation, it must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other corporate officer (such as a tax officer) who is authorized to sign.

The paid preparer must complete the required preparer information at the bottom of page 6 of Form 3520 and must be sure to:

- Sign the return in the space provided for the preparer's signature, and
- Give a copy of the return to the filer.

## Inconsistent Treatment of Items

The U.S. beneficiary and U.S. owner's tax return must be consistent with the Form 3520-A, Annual Information Return of Foreign Trust With a U.S. Owner, filed by the foreign trust unless you report the inconsistency to the IRS. If you are treating items on your tax return differently from the way the foreign trust treated them on its return, file Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR). See Form 8082 for more details.

## Penalties

**Section 6677.** A penalty applies if Form 3520 is not timely filed or if the information is incomplete or incorrect (see below for an exception if there is reasonable cause). Generally, the initial penalty is equal to the greater of \$10,000 or the following (as applicable):

- 35% of the gross value of any property transferred to a foreign trust for failure by a U.S. transferor to report the creation of or transfer to a foreign trust.
- 35% of the gross value of the distributions received from a foreign trust for failure by a U.S. person to report receipt of the distribution.
- 5% of the gross value of the portion of the foreign trust's assets treated as owned by a U.S. person under the grantor trust rules (sections 671 through 679) for failure by the U.S. person to report the U.S. owner information. Such U.S. person is subject to an additional separate 5% penalty (or \$10,000 if greater), if the foreign trust (a) fails to file a timely Form 3520-A or (b) does not furnish all of the information required by section 6048(b) or includes incorrect information. See section 6677(a) through (c) and the Instructions for Form 3520-A.

Additional penalties will be imposed if the noncompliance continues for more than 90 days after the IRS mails a notice of failure to comply with the required reporting. For more information, see section 6677.

**Reasonable cause.** No penalties will be imposed if the taxpayer can demonstrate that the failure to comply was due to reasonable cause and not willful neglect.

**Note.** The fact that a foreign country would impose penalties for disclosing the required information is not reasonable cause. Similarly, reluctance on the part of a foreign fiduciary or provisions in the trust instrument that prevent the disclosure of required information is not reasonable cause. See section 6677(d) for additional information.

**Section 6039F.** In the case of a failure to report foreign gifts described in section 6039F, a penalty equal to 5% of the amount of such foreign gifts applies for each month for which the failure to report continues (not to exceed a total of 25%). No penalty will be imposed if the taxpayer can demonstrate that the failure to comply was due to reasonable cause and not willful neglect. See section 6039F for additional information.

**Section 6662(j).** Penalties may be imposed under section 6662(j) for undisclosed foreign financial asset understatements. No penalty will be imposed with respect to any portion of an underpayment if the taxpayer can demonstrate that the failure to comply was due to reasonable cause with respect to such portion of the underpayment and the taxpayer acted in good faith with respect to such portion of the underpayment. See section 6662(j) and section 6664(c) for additional information.

## Definitions

### Distribution

A distribution for section 6048(c) reporting purposes is any gratuitous transfer of money or other property from a trust, whether or not the trust is treated as a grantor trust

under the grantor trust rules of sections 671 through 679, and without regard to whether the recipient is designated as a beneficiary by the terms of the trust. A distribution includes the receipt of trust corpus and the receipt of a gift or bequest described in section 663(a).

A distribution also includes constructive transfers from a trust. For example, if charges you make on a credit card are paid by a foreign trust or guaranteed or secured by the assets of a foreign trust, the amount charged will be treated as a distribution to you by the foreign trust. Similarly, if you write checks on a foreign trust's bank account, the amount will be treated as a distribution. Also, if you receive a payment from a foreign trust in exchange for property transferred to the trust or services rendered to the trust, and the FMV of the payment you received exceeds the FMV of the property transferred or services rendered, the excess will be treated as a distribution to you. See section V of Notice 97-34, 1997-25 I.R.B. 22.

**Examples:**

1. If you sell stock with an FMV of \$100 to a foreign trust and receive \$150 in exchange, you have received a distribution of \$50.
2. If you receive \$100 from the trust for services performed by you for the trust, and the services have an FMV of \$20, you have received a distribution of \$80.

If you are a grantor or beneficiary of a foreign trust and you (or a U.S. person related to you) directly or indirectly received a loan of cash or marketable securities from a foreign trust, or you (or a U.S. person related to you) used any property owned by a foreign trust without paying FMV within a reasonable amount of time, the amount of such loan or the FMV of the use of trust property will be treated as a distribution for reporting purposes. For this purpose, a loan by an unrelated third party that is guaranteed by a foreign trust is generally treated as a loan from the trust. See section V(A) of Notice 97-34, 1997-25 I.R.B. 22.

## Foreign Trust and Domestic Trust

A foreign trust is any trust other than a domestic trust.

A domestic trust is any trust if:

1. A court within the United States is able to exercise primary supervision over the administration of the trust, and
2. One or more U.S. persons have the authority to control all substantial decisions of the trust.

## Grantor

A grantor includes any person who creates a trust or directly or indirectly makes a gratuitous transfer of cash or other property to a trust. A grantor includes any person treated as the owner of any part of a foreign trust's assets under sections 671 through 679, excluding section 678.

**Note.** If a partnership or corporation makes a gratuitous transfer to a trust, the partners or shareholders are generally treated as the grantors of the trust, unless the partnership or corporation made the transfer for a business purpose of the partnership or corporation.

If a trust makes a gratuitous transfer to another trust, the grantor of the transferor trust is treated as the grantor of the transferee trust, except that if a person with a

general power of appointment over the transferor trust exercises that power in favor of another trust, such person is treated as the grantor of the transferee trust, even if the grantor of the transferor trust is treated as the owner of the transferor trust.

## Grantor Trust

A grantor trust is any trust to the extent that the assets of the trust are treated as owned by a person other than the trust. See the grantor trust rules in sections 671 through 679. A part of the trust may be treated as a grantor trust to the extent that only a portion of the trust assets are owned by a person other than the trust.

**Note.** Under the HIRE Act, effective after March 18, 2010, if a foreign trust directly or indirectly loans cash or marketable securities to a U.S. person who does not repay the loan at a market rate of interest, or allows a U.S. person to use trust property without paying FMV within a reasonable period of time, the trust will be treated as having a U.S. beneficiary, and is therefore treated as a grantor trust under the grantor trust rules.

## Gratuitous Transfer

A gratuitous transfer to a foreign trust is any transfer to the trust other than (a) a transfer for FMV; or (b) a distribution to the trust with respect to an interest held by the trust (i) in an entity other than a trust (e.g., a corporation or a partnership), or (ii) in an investment trust described in Regulations section 301.7701-4(c), a liquidating trust described in Regulations section 301.7701-4(d), or an environmental remediation trust described in Regulations section 301.7701-4(e).

A transfer of property to a trust may be considered a gratuitous transfer without regard to whether the transfer is a gift for gift tax purposes. See chapter 12 of Subtitle B of the Code (i.e., sections 2501 through 2524).

For purposes of this determination, if a U.S. person contributes property to a trust in exchange for any type of interest in the trust, such interest in the trust will be disregarded in determining whether FMV has been received. In addition, a U.S. person will not be treated as making a transfer for FMV merely because the transferor is deemed to recognize gain on the transaction.

If you transfer property to a foreign trust in exchange for an obligation of the trust (or an obligation of a person related to the trust), it will be a gratuitous transfer unless the obligation is a qualified obligation. Obligation and qualified obligation are defined later.

## Gross Reportable Amount

Gross reportable amount is:

- The gross value of property involved in the creation of a foreign trust or the transfer of property to a foreign trust (including a transfer by reason of death);
- The gross value of any portion of a foreign trust treated as owned by a U.S. person under the rules of sections 671 through 679 or any part of a foreign trust that is included in the gross estate of a U.S. citizen or resident;
- The gross value of the assets in a trust at the time the trust becomes a foreign trust, if the trust was a domestic trust to which a U.S. citizen or resident had previously

transferred property, and provided that such U.S. citizen or resident is alive at the time the trust becomes a foreign trust (see section 679(a)(5)); or

- The gross amount of distributions received from a foreign trust.

### **Gross Value**

Gross value is the value of property as determined under section 2512 and its regulations, without regard to any prohibitions or restrictions on a person's interest in the property. See section VII of Notice 97-34. Although formal appraisals are not generally required, you should keep contemporaneous records of how you arrived at your good faith estimate.

### **Guarantee**

A guarantee:

- Includes any arrangement under which a person, directly or indirectly, assures, on a conditional or unconditional basis, the payment of another's obligation;
- Encompasses any form of credit support, and includes a commitment to make a capital contribution to the debtor or otherwise maintain its financial viability; or
- Includes an arrangement reflected in a "comfort letter," regardless of whether the arrangement gives rise to a legally enforceable obligation. If an arrangement is contingent upon the occurrence of an event, in determining whether the arrangement is a guarantee, you must assume that the event has occurred.

### **Nongrantor Trust**

A nongrantor trust is any trust to the extent that the assets of the trust are not treated as owned by a person other than the trust. Thus, a nongrantor trust is treated as a taxable entity. A trust may be treated as a nongrantor trust with respect to only a portion of the trust assets. See *Grantor Trust*, earlier.

### **Obligation**

An obligation includes any bond, note, debenture, certificate, bill receivable, account receivable, note receivable, open account, or other evidence of indebtedness, and, to the extent not previously described, any annuity contract.

### **Owner**

An owner of a foreign trust is the person that is treated as owning any of the assets of a foreign trust under the rules of sections 671 through 679.

### **Property**

Property means any property, whether tangible or intangible, including cash.

### **Qualified Obligation**

A qualified obligation, for purposes of this form, is any obligation only if:

1. The obligation is reduced to writing by an express written agreement;
2. The term of the obligation does not exceed 5 years (including options to renew and rollovers);

3. All payments on the obligation are denominated in U.S. dollars;

4. The yield to maturity of the obligation is not less than 100% of the applicable federal rate under section 1274(d) for the day on which the obligation is issued and not greater than 130% of the applicable federal rate;

5. The U.S. person agrees to extend the period for assessment of any income or transfer tax attributable to the transfer and any consequential income tax changes for each year that the obligation is outstanding, to a date not earlier than 3 years after the maturity date of the obligation, unless the maturity date of the obligation does not extend beyond the end of the U.S. person's tax year and is paid within such period (this is done on Part I, Schedule A, line 12, and Part III, line 26, as applicable); and

6. The U.S. person reports the status of the obligation, including principal and interest payments, on Part I, Schedule C, line 19, and Part III, line 28, as applicable, for each year that the obligation is outstanding.

### **Related Person**

A related person generally includes any person who is related to you for purposes of sections 267 and 707(b). This includes, but is not limited to:

- A member of your family—your brothers and sisters, half-brothers and half-sisters, spouse, ancestors (parents, grandparents, etc.), lineal descendants (children, grandchildren, etc.), and the spouses of any of these persons; or
- A corporation in which you, directly or indirectly, own more than 50% in value of the outstanding stock.

See section 643(i)(2)(B) and the regulations under sections 267 and 707(b).

**Person related to a foreign trust.** A person is related to a foreign trust if such person, without regard to the transfer at issue, is a grantor of the trust, a beneficiary of the trust, or is related to any grantor or beneficiary of the trust. See the definition of related person above.

### **Reportable Event**

A reportable event includes the following.

1. The creation of a foreign trust by a U.S. person.
2. The transfer of any money or property, directly or indirectly, to a foreign trust by a U.S. person, including a transfer by reason of death. This includes transfers that are deemed to have occurred under sections 679(a)(4) and (5).
3. The death of a citizen or resident of the United States if:
  - The decedent was treated as the owner of any portion of a foreign trust under the rules of sections 671 through 679, or
  - Any portion of a foreign trust was included in the gross estate of the decedent.

### **Responsible Party**

Responsible party means:

- The grantor in the case of the creation of an inter vivos trust;

- The transferor, in the case of a reportable event (defined above) other than a transfer by reason of death; or
- The executor of the decedent's estate in any other case (whether or not the executor is a U.S. person).

## U.S. Agent

A U.S. agent is a U.S. person (defined later) that has a binding contract with a foreign trust that allows the U.S. person to act as the trust's authorized U.S. agent in applying sections 7602, 7603, and 7604 with respect to:

- Any request by the IRS to examine records or produce testimony related to the proper U.S. tax treatment of amounts distributed, or required to be taken into account under the rules of sections 671 through 679, with respect to a foreign trust; or
- Any summons by the IRS for such records or testimony.

A U.S. grantor, a U.S. beneficiary, or a domestic corporation controlled by the grantor or beneficiary may act as a U.S. agent. However, you may not treat the foreign trust as having a U.S. agent unless you enter the name, address, and taxpayer identification number (TIN) of the U.S. agent on lines 3a through 3g on page 1 of the form. See *Identification numbers*, later.

If the person identified as the U.S. agent does not produce records or testimony when requested or summoned by the IRS, the IRS may redetermine the tax consequences of your transactions with the trust and impose appropriate penalties under section 6677.

The agency relationship must be established by the time the U.S. person files Form 3520 for the relevant tax year and must continue as long as the statute of limitations remains open for the relevant tax year. If the agent's responsibility as an agent of the trust is terminated for any reason (e.g., agent's resignation, agent's liquidation, or agent's death), see section IV(B) of Notice 97-34.

In order to authorize a U.S. person to act as an agent for purposes of section 6048(b)(2) or for purposes of section 6048(c)(2)(A), the trust and the agent must enter into a binding agreement substantially in the format reflected under *AUTHORIZATION OF AGENT* in the Instructions for Form 3520-A, amended as required. Attach a copy of the authorization to Form 3520.

## U.S. Beneficiary

A U.S. beneficiary generally includes any U.S. person that could possibly benefit (directly or indirectly) from the trust (including an amended trust) at any time, whether or not the person is named in the trust instrument as a beneficiary and whether or not the person can receive a distribution from the trust in the current year. In addition, a U.S. beneficiary includes:

- A foreign corporation that is a controlled foreign corporation (as defined in section 957(a)),
- A foreign partnership if a U.S. person is a partner of the partnership, and
- A foreign estate or trust if the estate or trust has a U.S. beneficiary.

**Foreign trust treated as having a U.S. beneficiary.** In general, a foreign trust will be treated as having a U.S.

beneficiary unless the terms of the trust instrument specifically prohibit any distribution of income or corpus to a U.S. person at any time, even after the death of the U.S. transferor or any event terminating the trust, and the trust cannot be amended or revised to allow such a distribution. For these purposes, an amount will be treated as accumulated for the benefit of a U.S. person even if the U.S. person's interest in the trust is contingent on a future event and regardless of whether anything is actually distributed to a U.S. person during that tax year.

**Special rule in case of discretion to identify beneficiaries.** For purposes of the general rule described earlier, if any person has the discretion of making a distribution from the trust to, or for the benefit of, any person, the trust will be treated as having a beneficiary who is a U.S. person unless the terms of the trust specifically identify the class of persons to whom such distributions may be made, and none of those persons are U.S. persons during the tax year.

**Certain agreements and understandings treated as terms of the trust.** For purposes of the general rule described earlier, if any U.S. person who directly or indirectly transfers property to the trust is directly or indirectly involved in any agreement or understanding (whether written, oral, or otherwise) that may result in the income or corpus of the trust being paid or accumulated to or for the benefit of a U.S. person, such agreement or understanding will be treated as a term of the trust.

**Certain loans or uncompensated use of trust property.** If a foreign trust is not already treated as having a U.S. beneficiary under the rules described earlier and above, the trust will be treated as having a U.S. beneficiary if, after March 18, 2010, either:

- The foreign trust loans cash or marketable securities directly or indirectly to a U.S. person and the U.S. person does not repay the loan at a market rate of interest within a reasonable period of time; or
- A U.S. person, directly or indirectly, uses property that is owned by the foreign trust and does not pay FMV of the use of such property within a reasonable period of time.

**Presumption that foreign trust has U.S. beneficiary.** For transfers of property after March 18, 2010, if a U.S. person directly or indirectly transfers property to a foreign trust (other than a deferred compensation or charitable trust described in section 6048(a)(3)(B)(ii)), the IRS may treat such trust as having a U.S. beneficiary for purposes of applying section 679(d) to such transfer if the IRS requests information with respect to the transfer and the U.S. person fails to demonstrate to the satisfaction of the IRS that no portion of the income or corpus of the trust may ever be paid to or accumulated for the benefit of a U.S. person.

## U.S. Person

A U.S. person is:

- A citizen or resident alien of the United States (see Pub. 519, U.S. Tax Guide for Aliens, for guidance on determining resident alien status),
- A domestic partnership,
- A domestic corporation,
- Any estate (other than a foreign estate, within the meaning of section 7701(a)(31)(A)), and
- Any domestic trust (defined earlier).

## U.S. Transferor

A U.S. transferor is any U.S. person who:

1. Creates or settles a foreign trust;
2. Directly or indirectly transfers money or property to a foreign trust. This includes deemed transfers under section 679(a)(4) or section 679(a)(5);
3. Makes a sale to a foreign trust if the sale was at other than arm's-length terms or was to a related foreign trust, or makes (or guarantees) a loan to a related foreign trust; or
4. Is the executor of the estate of a U.S. person and:
  - a. The decedent made a testamentary transfer (a transfer by reason of death) to a foreign trust;
  - b. Immediately prior to death, the decedent was treated as the owner of any portion of a foreign trust under the rules of sections 671 through 679; or
  - c. Any portion of a foreign trust's assets were included in the estate of the decedent.

Generally, the person defined as the transferor is the responsible party (defined earlier) who must ensure that required information be provided or pay appropriate penalties.

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## Specific Instructions

### Period Covered

File the 2016 return for calendar year 2016 and fiscal years that begin in 2016 and end in 2017. For a fiscal year, fill in the tax year in the space at the top of the form.

### Item A—Initial Return, Initial Return on Extension, Final Return, Amended Return

**Initial return.** If this is the initial return you are filing concerning the foreign trust identified, check the “Initial return” box.

**Initial return on extension.** If this is the initial return you are filing concerning the foreign trust identified and you have filed an extension with respect to your income tax return, check the “Initial return (extension filed)” box.

**Final return.** If no further returns for transactions with the foreign trust are required, check the “Final return” box.

**Example.** If you annually filed Form 3520 and completed Part II because you were the owner of the trust for U.S. income tax purposes and the trust has terminated within the tax year, that year's return would be a final return with respect to that foreign trust.

**Amended return.** If this Form 3520 is filed to amend a Form 3520 that you previously filed, check the “Amended return” box.

### Item C—Excepted Specified Foreign Financial Assets Reported

Check the box in Item C only if the Form 3520 filer also files Form 8938, Statement of Specified Foreign Financial Assets, for the tax year and includes this form in the total

number of Forms 3520 reported on line 1 of Part IV, Excepted Specified Foreign Financial Assets, of Form 8938. For more information, see the Instructions for Form 8938, generally, and in particular, *Duplicative Reporting* and the specific instructions for Part IV, Excepted Specified Foreign Financial Assets.

## Identifying Information

**Identification numbers.** Use social security numbers or individual taxpayer identification numbers to identify individuals. Use employer identification numbers (EINs) to identify estates, trusts, partnerships, and corporations.



*Do not enter a preparer tax identification number (PTIN) in any entry space on Form 3520 other than the entry space for “PTIN” at the bottom of page 6 of the form.*

**Address.** Include the room, suite, or other unit number after the street address. If the post office does not deliver mail to the street address and the U.S. person has a P.O. box, show the box number instead.

**Foreign address.** Do **not** abbreviate the country name.

**Line 1a.** This line identifies the person that is filing Form 3520. If you and your spouse are both making transfers to the same trust and you file joint returns, you may file only one Form 3520. Put the names and taxpayer identification numbers in the same order as they appear on your Form 1040, U.S. Individual Income Tax Return.

**Line 1j.** Generally, enter the name of the Service Center where you file your income tax return in the entry space provided on line 1j on page 1 of the form.

However, if you are an executor filing a Form 3520 with respect to a U.S. decedent, provide both the name of the Service Center where the decedent's final income tax return will be filed, and the name of the Service Center where Form 706 will be filed, if applicable. Please enter the information as follows. First enter the name of the Service Center where the decedent's final income tax return will be filed. Then, if applicable, enter the name of the Service Center where Form 706 is filed, followed by “(estate tax return).”

**Note.** If your income tax return is filed electronically, enter “e-filed” in lieu of the name of the Service Center.

**Line 1k.** If you filed for an extension of time to file your income tax return, check the box on line 1k. Also, enter the tax form number of the original tax return that will be filed with the IRS.

**Example.** You file Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return, to extend the time to file your individual income tax return, Form 1040. Enter “1040” on the entry line.

**Line 2b(2).** A reference ID number is required on line 2b(2) only in cases where the foreign trust has no EIN. However, filers are permitted to enter both an EIN on line 2b(1) and a reference ID number on line 2b(2). If applicable, enter the reference ID number (defined below) you have assigned to the foreign trust.

For Form 3520 purposes, a “reference ID number” with respect to the foreign trust is a number established with respect to the foreign trust by or on behalf of the U.S. person that is engaged in a transaction with such foreign trust with respect to which Form 3520 reporting is required. There is no need to apply to the IRS to request a reference ID number or for permission to use such number. This number is used to uniquely identify the foreign trust in order to keep track of the trust from tax year to tax year only on Form 3520 (and on any other form that is attached to or associated with Form 3520, including the Form 3520-A in the case of a U.S. owner of the foreign trust) and should not be used with respect to the foreign trust on other IRS forms. The reference ID number must meet the requirements set forth below.

**Note.** A reference ID number should only be provided with respect to the foreign trust if you are completing Part I, II, or III of the form. The reference ID number is not necessary if you are completing Part IV of the form.

**Requirements.** The reference ID number must be alphanumeric (defined below) and no special characters are permitted. The length of a given reference ID number is limited to 50 characters.

For these purposes, the term “alphanumeric” means the entry can be alphabetical, numeric, or any combination of the two.

The same reference ID number must be used consistently from tax year to tax year with respect to a given foreign trust. If for any reason a reference ID number is not being used (for example, the foreign trust is terminated and no longer exists), the reference ID number used for that foreign trust cannot be used again for another foreign trust for purposes of Form 3520 reporting.

There are some situations that warrant correlation of a new reference ID number with a previous reference ID number when assigning a new reference ID number to a foreign trust.

For example, in the case of a trust that has received assets from another trust, a Form 3520 filer must use a reference ID number for the receiving trust which correlates the previous reference ID number for the distributing trust with the new reference ID number assigned to the receiving foreign trust.

You must correlate the reference ID numbers as follows: New reference ID number, Old reference ID number. If there is more than one old reference ID number, you must enter a space between each such number. As indicated above, the length of a given reference ID number is limited to 50 characters and each number must be alphanumeric and no special characters are permitted.

**Note.** This correlation requirement applies only to the first year the new reference ID number is used.

**Lines 4a through 4f.** If you are the executor of the estate of a U.S. citizen or resident, you must provide information about the decedent on lines 4a through 4e. You must also check the applicable box on line 4f to indicate which of the following applies: the U.S. decedent made a transfer to a foreign trust by reason of death, the U.S. decedent was treated as the owner of a portion of a foreign trust

immediately prior to death, or the estate of the U.S. decedent included assets of a foreign trust.

## Part I—Transfers by U.S. Persons to a Foreign Trust During the Current Tax Year

Complete Part I for information on a reportable event (defined earlier).

**Note.** Although the basic reporting requirements for Form 3520 are contained in section 6048 (and are clarified by Notice 97-34), the reporting requirements have been clarified by the regulations under sections 679 and 684. Accordingly, the regulations under sections 679 and 684 should be referred to for additional clarification for transfers that are required to be reported in Part I of Form 3520.

**Line 5a.** Enter the name of the trust creator. If you are the trust creator, enter "Same as line 1a" on line 5a. If you are not the trust creator, enter the name of the person who created or originally settled the foreign trust.

**Lines 5b and 5c.** Enter the address and identification number, if any, of the trust creator. See *Identifying Information*, earlier, for specific information regarding the entering of addresses and identification numbers on Form 3520. If you are the trust creator, enter "Same as lines 1c, 1e, 1f, 1g, and 1h" on line 5b, and enter "Same as line 1b" on line 5c.

**Lines 6a and 6b.** Enter the applicable two-letter country code from the list at [www.irs.gov/countrycodes](http://www.irs.gov/countrycodes).

**Lines 7, 8, and 10.** If you are reporting multiple transfers to a single foreign trust and the answers to lines 7, 8, or 10 are different for various transfers, complete a separate line for each transfer on duplicate copies of the relevant pages of the form.

**Line 7a.** If “Yes,” you must comply with the reporting requirements that would apply to a direct transfer to that other person. For example, if that other person is a foreign partnership, you must comply with the reporting requirements for transfers to foreign partnerships. See Form 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships.

**Line 8.** If the transfer was a completed gift (see Regulations section 25.2511-2), you may have to file Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return. If the transfer was a bequest, you may have to file Form 706.

**Line 9.** See *U.S. Beneficiary*, earlier.

**Line 10.** If you are treated as the owner of any portion of the foreign trust under the rules of sections 671 through 679, answer “Yes” to this question and complete Part II.

## Schedule A—Obligations of a Related Trust

**Line 11a.** The FMV of an obligation of the trust (or an obligation of another person related to the trust) that you receive in exchange for the transferred property equals zero, unless the obligation meets the requirements of a qualified obligation. See *Obligation, Qualified Obligation, and Person related to a foreign trust*, earlier.

**Lines 12 and 26.** If you answered "Yes" to the question on line 11b (line 25, column (e)) with respect to any obligation, you generally must answer "Yes" to the question on line 12 (line 26). By so doing, you agree to extend the period of assessment of any income or transfer tax attributable to the transfer and any consequential income tax changes for each year that the obligation is outstanding to a date 3 years after the maturity date of the obligation. You have the right to refuse to extend the period of assessment. **Publication 1035, *Extending the Tax Assessment Period***, provides a more detailed explanation of your rights and the consequences of the choices you may make. When executed and filed, this form will be deemed to be agreed upon and executed by the IRS for purposes of Regulations section 301.6501(c)-1(d).

**Note.** If you answer "No" to the question on line 12 (line 26), you generally may not treat an obligation as a qualified obligation on line 11b (line 25, column (e)). The one exception to this is if the maturity date of the obligation does not extend beyond the end of your tax year for which you are reporting and such obligation is paid within that tax year.

### **Schedule B—Gratuitous Transfers**

Complete the applicable portions of Schedule B with respect to all reportable events (defined earlier) that took place during the current tax year.

#### **Line 13.**

- In your column (b) description, indicate whether the property is tangible or intangible.
- You may aggregate transfers of cash during the year on a single line of line 13.
- If there is not enough space on the form, please attach a statement.
- For transfers reported on statements, you must enter "Statement" on one of the lines in column (b), and enter the total amount of transfers reported on the statement on line 13, columns (c), (d), (e), (f), (h), and (i).

**Note.** Penalties may be imposed for failure to report all required information. See *Penalties*, earlier.

**Line 13, column (d).** Enter the U.S. adjusted basis of the property transferred.

**Line 13, column (e).** Only include gain that is immediately recognized at the time of the transfer.

**Note.** Any transfer of appreciated assets by a U.S. person to a foreign nongrantor trust is treated as a sale or exchange and the transferor must recognize as a gain the excess of the FMV of the transferred property over its adjusted basis. This rule applies to a domestic trust that becomes a foreign trust, provided that the foreign trust is not a grantor trust. The domestic trust is treated as having transferred all of its assets to the foreign trust immediately prior to becoming a foreign trust. Although the gain is not recognized on Form 3520, it must be reported on the appropriate form or schedule of the transferor's income tax return. See section 684. The transfer of assets, however, is reported on Part I of this Form 3520.

**Line 13, column (f).** Generally, if the reported transaction is a sale, you should report the gain on the appropriate form or schedule of your income tax return.

**Line 15.** Enter the name, address, whether the person is a U.S. beneficiary (defined earlier), and taxpayer identification number, if any, of all reportable beneficiaries. Include specified beneficiaries, classes of discretionary beneficiaries, and names or classes of any beneficiaries that could be named as additional beneficiaries. If there is not enough space on the form, attach a statement.

**Line 17.** Enter the name, address, and taxpayer identification number, if any, of any person, other than those listed on line 16, that has significant powers over the trust (e.g., "protectors," "enforcers," any person that must approve trustee decisions or otherwise direct trustees, any person with a power of appointment, any person with powers to remove or appoint trustees, etc.). Include a description of each person's powers. If there is not enough space, attach a statement.

**Line 18.** If you checked "No" on line 3 (or you did not complete lines 3a through 3g) attach the following.

- A summary of the terms of the trust that includes a summary of any oral agreements or understandings you have with the trustee, whether or not legally enforceable.
- A copy of all trust documents (and any revisions), including the trust instrument, any memoranda of wishes prepared by the trustees summarizing the settlor's wishes, any letter of wishes prepared by the settlor summarizing his or her wishes, and any similar documents.
- A copy of the trust's financial statements, including a balance sheet and an income statement similar to those shown on Form 3520-A. These financial statements must reasonably reflect the trust's accumulated income under U.S. income tax principles. For example, the statements must not treat capital gains as additions to trust corpus.

### **Schedule C—Qualified Obligations Outstanding in the Current Tax Year**

**Line 19.** Provide information on the status of outstanding obligations of the related foreign trust (or an obligation of a person related to the foreign trust) that you reported as a qualified obligation in the current tax year. This information is required in order to retain the obligation's status as a qualified obligation. If relevant, attach a statement describing any changes in the terms of the qualified obligation.

If the obligation fails to retain the status of a qualified obligation, you will be treated as having made a gratuitous transfer to the foreign trust, which must be reported on Schedule B, Part I, in the year the obligation fails to meet the criteria for a qualified obligation. See section III(C)(2) of Notice 97-34.

### **Part II—U.S. Owner of a Foreign Trust**

Complete Part II if you are considered the owner of any assets of a foreign trust under the rules of sections 671 through 679 during the tax year. You are required to enter a taxpayer identification number for such foreign trust on line 2b(1) or line 2b(2) on page 1 of the form.



**Note.** You are required to complete Part II even if there have been no transactions involving the trust during the tax year.

**Line 20.** Enter information regarding any person other than yourself who is considered the owner of any portion of the trust under the rules of sections 671 through 679. Also, enter in column (e) the specific Code section that causes that person to be considered an owner for U.S. income tax purposes. See the grantor trust rules under sections 671 through 679.

**Line 21.** In columns (a) and (b), enter the applicable two-letter code from the list at [www.irs.gov/countrycodes](http://www.irs.gov/countrycodes).

**Line 22.** If “Yes,” the copy of the Foreign Grantor Trust Owner Statement (page 3 of Form 3520-A) should show the amount of the foreign trust’s income that is attributable to you for U.S. income tax purposes. See section IV of Notice 97-34.

If “No,” to the best of your ability, complete and attach a substitute Form 3520-A for the foreign trust. Otherwise, you may be liable for a penalty equal to the greater of \$10,000 or 5% of the gross value of the portion of trust assets that you are treated as owning. You may also be subject to an additional separate 5% penalty (or \$10,000 if greater), if the foreign trust: (a) fails to file a timely Form 3520-A or (b) does not furnish all of the information required by section 6048(b) or includes incorrect information. There are additional penalties for continuing failure to file after notice by the IRS. See section 6677(a) through (c). Also see *Penalties*, earlier.

**Line 23.** Enter the FMV of the trust assets that you are treated as owning. Include all assets at FMV as of the end of the tax year. For this purpose, disregard all liabilities. The trust should send you this information in connection with its Form 3520-A. If you did not receive such information (line 9 of the Foreign Grantor Trust Owner Statement) from the trust, complete line 23 to the best of your ability. At a minimum, include the value of all assets that you have transferred to the trust. Also use Form 8082 to notify the IRS that you did not receive a Foreign Grantor Trust Owner Statement. However, filing Form 8082 does not relieve you of any penalties that may be imposed under section 6677. See *Penalties*, earlier.

## **Part III—Distributions to a U.S. Person From a Foreign Trust During the Current Tax Year**

If you received an amount from a foreign trust that would require a report under both Parts III and IV (gifts or bequests) of Form 3520, report the amount only in Part III.

**Line 24.** Report any cash or other property that you received (actually or constructively, directly or indirectly) from a foreign trust during the current tax year, whether or not taxable, unless the amount is a loan to you from the trust that must be reported on line 25. For example, if you are a partner in a partnership that receives a distribution from a foreign trust, you must report your allocable share of such payment as an indirect distribution from the trust.

**Line 24, column (c).** The filer is permitted to enter the basis of the property in the hands of the beneficiary (as determined under section 643(e)(1)), if lower than the

FMV of the property, but only if the taxpayer is not required to complete Schedule A (lines 31 through 38) due to lack of documentation. For these purposes, lack of documentation refers to a situation in which the filer checked “No” on line 29 or 30 because (a) the beneficiary did not receive a Foreign Grantor Trust Beneficiary Statement or a Foreign Nongrantor Trust Beneficiary Statement from the trust, or (b) such statement did not contain all six of the items specified under the instructions for line 29 or 30, later.

**Line 25.** If you, as a U.S. beneficiary, or a U.S. person related to you received a loan of cash or marketable securities, directly or indirectly, from a foreign trust, the amount of such loan will be treated as a reportable distribution, whether or not taxable. For this purpose, a loan to you by an unrelated third party that is guaranteed by a foreign trust is generally treated as a loan from the trust.

**Line 25, column (e).** Answer “Yes” if an obligation given in exchange for the loan is a qualified obligation (defined earlier).

**Line 25, column (f).** The FMV of an obligation is zero unless it is a qualified obligation. Therefore, in the case of obligations that are not qualified obligations, enter “-0-” in column (f).

**Uncompensated use of trust property.** If you, as a U.S. beneficiary, or a U.S. person related to you, directly or indirectly, used any property of a foreign trust, the FMV of such use will be treated as a reportable distribution whether or not taxable. Report the FMV of the uncompensated use of trust property in column (a) and the date of first uncompensated use in column (b); skip columns (c) through (f), and enter the amount from column (a) in column (g).

**Note.** Under the HIRE Act, effective after March 18, 2010, if a foreign trust with a U.S. transferor is not already treated as a grantor trust under the rules of sections 671 through 679, the foreign trust will be treated as having acquired a U.S. beneficiary, and will therefore be treated as a grantor trust, if it makes a loan of cash or marketable securities, directly or indirectly, to a U.S. person or allows a U.S. person, directly or indirectly, to use trust property, and the U.S. person does not repay the loan at a market rate of interest or pay the trust the FMV of the use of the property within a reasonable period of time. Accordingly, the loan or use of trust property will not be treated as a taxable distribution under section 643(i) but will remain reportable on Part III of this Form 3520.

**Line 26.** See *Lines 12 and 26*, earlier.

**Line 27.** Penalties may be imposed for failure to accurately report all distributions received during the current tax year. See *Penalties*, earlier.

**Line 28.** Provide information on the status of any outstanding obligation to the foreign trust that you reported as a qualified obligation in the current tax year. This information is required in order to retain the obligation’s status as a qualified obligation. If relevant, attach a statement describing any changes to the terms of the qualified obligation. If the obligation fails to retain the status of a qualified obligation, you will be treated as

having received a taxable distribution under section 643(i) from the foreign trust. See section V(A) of Notice 97-34.

**Lines 29 and 30.** If any of the six items required for the Foreign Grantor Trust Beneficiary Statement (see *Line 29* below) or for the Foreign Nongrantor Trust Beneficiary Statement (see *Line 30* below) is missing, you must check “No” on line 29 or line 30, as applicable.

Also, if you answer “Yes” to line 29 or line 30, and the foreign trust or U.S. agent does not produce records or testimony when requested or summoned by the IRS, the IRS may redetermine the tax consequences of your transactions with the trust and impose appropriate penalties under section 6677.

**Note.** If the question on line 29 or 30 is not applicable, check the N/A box.

**Line 29.** If “Yes,” attach the Foreign Grantor Trust Beneficiary Statement (page 4 of Form 3520-A) from the foreign trust and do not complete the rest of Part III with respect to the distribution. If a U.S. beneficiary receives a complete Foreign Grantor Trust Beneficiary Statement with respect to a distribution during the tax year, the beneficiary should treat the distribution for income tax purposes as if it came directly from the owner. For example, if the distribution is a gift, the beneficiary should not include the distribution in gross income.

In addition to basic identifying information (i.e., name, address, TIN, etc.) about the foreign trust and its trustee, this statement must contain these items.

1. The first and last day of the tax year of the foreign trust to which this statement applies.
2. An explanation of the facts necessary to establish that the foreign trust should be treated for U.S. tax purposes as owned by another person. (The explanation should identify the Code section that treats the trust as owned by another person.)
3. A statement identifying whether the owner of the trust is an individual, trust, corporation, or partnership.
4. A description of property (including cash) distributed or deemed distributed to the U.S. person during the tax year, and the FMV of the property distributed.
5. A statement that the trust will permit either the IRS or the U.S. beneficiary to inspect and copy the trust's permanent books of account, records, and such other documents that are necessary to establish that the trust should be treated for U.S. tax purposes as owned by another person. This statement is not necessary if the trust has appointed a U.S. agent.
6. A statement as to whether the foreign trust has appointed a U.S. agent (defined earlier). If the trust has a U.S. agent, include the name, address, and taxpayer identification number of the agent.

**Line 30.** If “Yes,” attach the Foreign Nongrantor Trust Beneficiary Statement from the foreign trust. A Foreign Nongrantor Trust Beneficiary Statement must include the following items.

1. An explanation of the appropriate U.S. tax treatment of any distribution or deemed distribution for U.S. tax

purposes, or sufficient information to enable the U.S. beneficiary to establish the appropriate treatment of any distribution or deemed distribution for U.S. tax purposes.

2. A statement identifying whether any grantor of the trust is a partnership or a foreign corporation. If so, attach an explanation of the relevant facts.

3. A statement that the trust will permit either the IRS or the U.S. beneficiary to inspect and copy the trust's permanent books of account, records, and such other documents that are necessary to establish the appropriate treatment of any distribution or deemed distribution for U.S. tax purposes. This statement is not necessary if the trust has appointed a U.S. agent.

4. The Foreign Nongrantor Trust Beneficiary Statement must also include items (1), (4), and (6), as listed in the line 29 instructions above, as well as basic identifying information (e.g., name, address, TIN, etc.) about the foreign trust and its trustee.

### Schedule A—Default Calculation of Trust Distributions

If you answered “Yes” to line 30, you may complete either Schedule A or Schedule B. Generally, however, if you complete Schedule A in the current year (or did so in the prior years), you must continue to complete Schedule A for all future years, even if you are able to answer “Yes” to line 30 in that future year. (The only exception to this consistency rule is that you may use Schedule B in the year that a trust terminates, but only if you are able to answer “Yes” to line 30 in the year of termination.)

**Line 32.** To the best of your knowledge, state the number of years the trust has been in existence as a foreign trust and attach an explanation of your basis for this statement. Consider any portion of a year to be a complete year. If this is the first year that the trust has been a foreign trust, do not complete the rest of Part III (you do not have an accumulation distribution).

**Line 33.** Enter the total amount of distributions that you received during the 3 preceding tax years (or the number of years the trust has been a foreign trust, if less than 3). For example, if a trust distributed \$50 in year 1, \$120 in year 2, and \$150 in year 3, the amount reported on line 33 would be \$320 (\$50 + \$120 + \$150).

**Line 35.** Divide line 34 by 3 (or the number of years the trust has been a foreign trust if fewer than 3). Consider any portion of a year to be a complete year. For example, a foreign trust created on July 1, 2014, would be treated on a 2016 calendar year return as having 2 preceding years (2014 and 2015). In this case, you would calculate the amount on line 35 by dividing line 34 by 2. Do not disregard tax years in which no distributions were made. The IRS will consider your proof of these prior distributions as adequate records to demonstrate that any distribution up to the amount on line 31 is not an accumulation distribution in the current tax year.

**Line 36.** Enter this amount as ordinary income on your tax return. Report this amount on the appropriate schedule of your tax return (e.g., Schedule E (Form 1040), Part III).

**Note.** If there is an amount on line 37, you must also complete line 38 and *Schedule C—Calculation of Interest Charge* to determine the amount of any interest charge you may owe.

**Schedule B—Actual Calculation of Trust Distributions**

You may only use Schedule B if:

- You answered “Yes” to line 30,
- You attach a copy of the Foreign Nongrantor Trust Beneficiary Statement to this return, and
- You have never before used Schedule A for this foreign trust or this foreign trust terminated during the tax year.

**Line 40a.** Enter on line 40a the amount received by you from the foreign trust that is treated as ordinary income of the trust in the current tax year. Ordinary income is all income that is not capital gains. Report this amount on the appropriate schedule of your tax return (e.g., Schedule E (Form 1040), Part III).

**Lines 42a through 42d.** Enter on these lines the applicable amounts received by you from the foreign trust that are treated as capital gain income of the trust in the current tax year. Report these amounts on the appropriate schedule of your tax return (e.g., Schedule D (Form 1040)).

**Line 45.** Enter the foreign trust's aggregate undistributed net income (UNI). For example, assume that a trust was created in 2010 and has made no distributions prior to 2016. Assume the trust's ordinary income was \$0 in 2015, \$60 in 2014, \$124 in 2013, \$87 in 2012, \$54 in 2011, and \$25 in 2010. Thus, for 2016, the trust's UNI would be \$350. If the trust earned \$100 and distributed \$200 during 2016 (so that \$100 was distributed from accumulated earnings), the trust's 2017 aggregate UNI would be \$250 (\$350 + \$100 – \$200).

**Line 46.** Enter the foreign trust's weighted undistributed net income (weighted UNI). The trust's weighted UNI is its accumulated income that has not been distributed, weighted by the years that it has accumulated income. To calculate weighted UNI, multiply the undistributed income from each of the trust's years by the number of years since that year, and then add each year's result. Using the example from line 45, the trust's weighted UNI in 2016 would be \$1,260, calculated as follows.

| Year  | No. of years since that year | UNI from each year | Weighted UNI |
|-------|------------------------------|--------------------|--------------|
| 2015  | 1                            | \$ 0               | \$ 0         |
| 2014  | 2                            | 60                 | 120          |
| 2013  | 3                            | 124                | 372          |
| 2012  | 4                            | 87                 | 348          |
| 2011  | 5                            | 54                 | 270          |
| 2010  | 6                            | 25                 | 150          |
| TOTAL |                              | \$350              | \$1,260      |

To calculate the trust's weighted UNI for the following year (2017), the trust could update this calculation, or the weighted UNI shown on line 46 of the 2016 Form 3520 could simply be updated using the following steps.

1. Begin with the 2016 weighted UNI.
2. Add UNI at the beginning of 2016.
3. Add trust earnings in 2016.
4. Subtract trust distributions in 2016.
5. Subtract weighted trust accumulation distributions in 2016. (Weighted trust accumulation distributions are the trust accumulation distributions in 2016 multiplied by the applicable number of years from 2016.)

Using the example above, the trust's 2017 weighted UNI would be \$1,150, calculated as follows.

|   |         |
|---|---------|
| 2016 weighted UNI   | \$1,260 |
| UNI at beginning of 2016  | + 350   |
| Trust earnings in 2016  | + 100   |
| Trust distributions in 2016                                     | - 200   |
| Weighted trust accumulation distributions in 2016 (\$100 X 3.6) | - 360   |
| 2017 weighted UNI   | \$1,150 |

**Line 47.** Calculate the trust's applicable number of years by dividing line 46 by line 45. This would be the weighted UNI divided by the annual UNI. Using the examples in the instructions for lines 45 and 46, the trust's applicable number of years would be 3.6 in 2016 (1,260/350) and 4.6 in 2017 (1,150/250).

**Note.** Include as many decimal places as there are digits in the UNI on line 45 (e.g., using the example in the instructions for line 45, include three decimal places).

**Schedule C—Calculation of Interest Charge**

Complete Schedule C if you entered an amount on line 37 or line 41a.

**Line 49.** Include the amount from line 48 of this form on line 1 of Form 4970, Tax on Accumulation Distribution of Trusts. Then compute the tax on the total accumulation distribution using lines 1 through 28 of Form 4970. Enter on line 49 the tax from line 28 of Form 4970.

**Note.** Use Form 4970 as a worksheet and attach it to Form 3520.

**Line 51.** Interest accumulates on the tax (line 49) for the period beginning on the date that is the applicable number of years (as rounded on line 50) prior to the applicable date and ending on the applicable date. For purposes of making this interest calculation, the applicable date is the date that is mid-year through the tax year for which reporting is made (e.g., in the case of a 2016 calendar-year taxpayer, the applicable date would be June 30, 2016). Alternatively, if you received only a single distribution during the tax year that is treated as an accumulation distribution, you may use the date of that distribution as the applicable date.

For portions of the interest accumulation period that are prior to 1996 (and after 1976), interest accumulates at a simple rate of 6% annually, without compounding. For portions of the interest accumulation period that are after 1995, interest is compounded daily at the rate imposed on underpayments of tax under section 6621(a)(2). This

compounded interest for periods after 1995 is imposed not only on the tax, but also on the total simple interest attributable to pre-1996 periods.

If you are a 2016 calendar-year taxpayer and you use June 30, 2016, as the applicable date for calculating interest, use the table below to determine the combined interest rate and enter it on line 51. If you are not a 2016 calendar-year taxpayer or you choose to use the actual date of the distribution as the applicable date, calculate the combined interest rate using the above principles and enter it on line 51.

### Table of Combined Interest Rate Imposed on the Total Accumulation Distribution

Look up the applicable number of years of the foreign trust that you entered on line 50. Read across to find the combined interest rate to enter on line 51. Use this table only if you are a 2016 calendar-year taxpayer and are using June 30, 2016, as the applicable date.

| Applicable number of years of trust (from line 50) | Combined interest rate (enter on line 51) |
|--|---|
| 1  | 0.0331                                    |
| 1.5  | 0.0485                                    |
| 2  | 0.0645                                    |
| 2.5  | 0.0805                                    |
| 3  | 0.0969                                    |
| 3.5  | 0.1134                                    |
| 4  | 0.1303                                    |
| 4.5  | 0.1473                                    |
| 5  | 0.1677                                    |
| 5.5  | 0.1882                                    |
| 6  | 0.2124                                    |
| 6.5  | 0.2367                                    |
| 7  | 0.2618                                    |
| 7.5  | 0.2903                                    |
| 8  | 0.3265                                    |
| 8.5  | 0.3700                                    |
| 9  | 0.4264                                    |
| 9.5  | 0.4841                                    |
| 10   | 0.5452                                    |
| 10.5   | 0.5998                                    |
| 11   | 0.6531                                    |
| 11.5   | 0.6988                                    |
| 12   | 0.7377                                    |
| 12.5   | 0.7770                                    |
| 13   | 0.8177                                    |
| 13.5   | 0.8634                                    |
| 14   | 0.9206                                    |
| 14.5   | 0.9786                                    |
| 15   | 1.0496                                    |
| 15.5   | 1.1378                                    |
| 16   | 1.2368                                    |
| 16.5   | 1.3333                                    |
| 17   | 1.4294                                    |
| 17.5   | 1.5214                                    |
| 18   | 1.6252                                    |
| 18.5   | 1.7382                                    |
| 19   | 1.8652                                    |
| 19.5   | 1.9960                                    |
| 20   | 2.1346                                    |
| 20.5   | 2.2700                                    |
| 21   | 2.3681                                    |
| 21.5   | 2.4662                                    |
| 22   | 2.5643                                    |
| 22.5   | 2.6623                                    |
| 23   | 2.7604                                    |
| 23.5   | 2.8585                                    |
| 24   | 2.9566                                    |
| 24.5   | 3.0547                                    |
| 25   | 3.1528                                    |
| 25.5   | 3.2509                                    |
| 26   | 3.3490                                    |

|      |        |
|------|--------|
| 26.5 | 3.4471 |
| 27   | 3.5452 |
| 27.5 | 3.6433 |
| 28   | 3.7414 |
| 28.5 | 3.8395 |
| 29   | 3.9376 |
| 29.5 | 4.0357 |
| 30   | 4.1338 |
| 30.5 | 4.2319 |
| 31   | 4.3300 |
| 31.5 | 4.4281 |
| 32   | 4.5262 |
| 32.5 | 4.6243 |
| 33   | 4.7224 |
| 33.5 | 4.8205 |
| 34   | 4.9186 |
| 34.5 | 5.0167 |
| 35   | 5.1148 |
| 35.5 | 5.2129 |
| 36   | 5.3110 |
| 36.5 | 5.4091 |
| 37   | 5.5072 |
| 37.5 | 5.6053 |
| 38   | 5.7034 |
| 38.5 | 5.8015 |
| 39   | 5.8996 |
| 39+  | 5.9977 |

(Note. Interest charges began in 1977.)

**Line 53.** Report this amount as additional tax (ADT) on the appropriate line of your income tax return (for example, for Form 1040 filers, include this amount as part of the total for line 62 of your 2016 Form 1040; check box c and enter “ADT” to the left of the line 62 entry space).

## Part IV—U.S. Recipients of Gifts or Bequests Received During the Current Tax Year From Foreign Persons

**Note.** Penalties may be imposed for failure to report gifts that should be reported. See *Penalties*, earlier.

A gift to a U.S. person does not include any amount paid for qualified tuition or medical payments made on behalf of the U.S. person.

If a foreign trust makes a distribution to a U.S. beneficiary, the beneficiary must report the amount as a distribution in Part III, rather than as a gift in Part IV.

Contributions of property by foreign persons to domestic or foreign trusts that have U.S. beneficiaries are not reportable by those beneficiaries in Part IV unless they are treated as receiving the contribution in the year of the transfer (e.g., if the U.S. beneficiary is treated as an owner of that portion of the trust under section 678, then the contribution must be reported by such U.S. beneficiary in Part IV).

A domestic trust that is not treated as owned by another person is required to report the receipt of a contribution to the trust from a foreign person as a gift in Part IV.

A domestic trust that is treated as owned by a foreign person is not required to report the receipt of a contribution to the trust from a foreign person. However, a U.S. beneficiary should report the receipt of a distribution from a domestic trust that is treated as owned by a foreign person as a gift from a foreign person in Part IV, rather than as a distribution to a U.S. beneficiary in Part III.

**Line 54.** To calculate the threshold amount (\$100,000), you must aggregate gifts from different foreign nonresident aliens and foreign estates if you know (or have reason to know) that those persons are related to each other (see *Related Person*, earlier) or one is acting as a nominee or intermediary for the other. For example, if you receive a gift of \$75,000 from nonresident alien individual A and a gift of \$40,000 from nonresident alien individual B, and you know that A and B are related, you must answer “Yes” and complete columns (a) through (c) for each gift.

If you answered “Yes” to the question on line 54 and none of the gifts or bequests received exceeds \$5,000, do not complete columns (a) through (c) of line 54. Instead, enter in column (b) of the first line: “No gifts or bequests exceed \$5,000.”

**Line 55.** Answer “Yes” if you received aggregate amounts in excess of \$15,671 during the current tax year that you treated as gifts from foreign corporations or foreign partnerships (or any foreign persons that you know (or have reason to know) are related to such foreign corporations or foreign partnerships).

For example, if you, a calendar-year taxpayer during 2016, received \$8,000 from foreign corporation X that you treated as a gift, and \$10,000 that you received from nonresident alien A that you treated as a gift, and you know that X is wholly owned by A, you must complete columns (a) through (g) for each gift.

**Note.** Gifts from foreign corporations or foreign partnerships are subject to recharacterization by the IRS under section 672(f)(4).

**Line 56.** If you answered “Yes” to the question on line 56 and the ultimate donor on whose behalf the reporting donor is acting is a foreign corporation or foreign partnership, attach an explanation including the ultimate foreign donor’s name, address, identification number, if any, and status as a corporation or partnership.

If the ultimate donor is a foreign trust, treat the amount received as a distribution from a foreign trust and complete Part III.

### Privacy Act and 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 the 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.

Our authority to ask for information is sections 6001, 6011, and 6012(a) and their regulations, which require you to file a return or statement with us for any tax for which you are liable. Your response is mandatory under these sections. Section 6109 requires you to provide your

identification number. You must fill in all parts of the tax form that apply to you.

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. However, section 6103 allows or requires the Internal Revenue Service to disclose or give the information shown on your tax return to others as described in the Code. For example, we may disclose your tax information to the Department of Justice to enforce the tax laws, both civil and criminal, and to cities, states, the District of Columbia, and U.S. commonwealths or possessions to carry out their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism. Failure to provide this information, or providing false information, may subject you to fines or penalties.

Please keep this notice with your records. It may help you if we ask you for other information. If you have any questions about the rules for filing and giving information, please call or visit any Internal Revenue Service office.

The time needed to complete and file this form and related schedules will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

|   |                 |
|---|-----------------|
| <b>Recordkeeping</b> . . . . .                      | 42 hr., 34 min. |
| <b>Learning about the law or the form</b> . . . . . | 4 hr., 50 min.  |
| <b>Preparing the form</b> . . . . .                 | 6 hr., 40 min.  |
| <b>Sending the form to the IRS</b> . . . . .        | 16 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 send us comments from [www.irs.gov/formspubs](http://www.irs.gov/formspubs). Click on "More Information" and then on "Give us feedback." Or you can send your comments to: Internal Revenue Service, Tax Forms and Publications Division, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send the tax form to this office. Instead, see *When and Where To File*, earlier.

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