



National Association
of Tax Professionals

DO YOU KNOW – 1041

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Presentation Format

Your 1040 Client is sitting in your office and has a 1041 question.....

Do You Know?

Addresses key areas in 1041 Estate Trust

Unless otherwise indicated, when talking about a Will, Probate or Grantor Trust, 1041 can be interchanged



Splitting Income in Year of Death

Grace G dies on July 12, 2011 having the following:

- W-2 income

- Savings account with interest paid monthly

- Rental house rented all 12 months

- Distribution from her Estate takes place on April 5, 2012

What part of her W-2 and interest income goes on her 1041?

Who Pays the Tax?

During the tax year, the Estate of Jay Smith had distributions of \$40,000 to two beneficiaries. The Estate income was \$20,000.

Who reports the income?

How much is reported?

General Rules

Income to beneficiaries is lesser of distributions or income of 1041

Taxable income to 1041 is after the income distributed to beneficiaries

Read the Will or Trust

Estate of Joe B.... He left a \$100,000 Specific Bequest to his church with the remainder of his Estate to be divided equally among Joe's 3 kids. At the DOD, the value of the Estate had fallen to \$110,000. Attorney fees, administrative fees and liabilities were \$18,000.

How much do the beneficiaries get?

Is there a charitable deduction?

Excess Administrative Expenses

First year of an Estate Trust (not the final year), there is \$1,000 of gross taxable income. Administrative fees for attorney's filings, etc are \$3,500.

How do you handle the loss?

How much is the carryover?

NOL - Net Operating Loss

See prior example

Additionally, the Estate had a rental property with a net loss of \$500, including \$100 in attorney's fees for a letter to the tenant.

How is the loss handled?

Specific Bequest

The property is in Ruth's Probate... The will says Jill gets the little store on Hwy 8. The store was sold 3 years before the DOD and the money was put into a mutual fund account in Ruth's name.

Does Jill have the right to the store?

Who has rights to the mutual fund, the Probate or Jill?

Year-End Planning

The decedent of the Estate died on May 11, 2011.

What year end can the client choose?

What if this was a Trust?

Cont...Post-Death Planning

December 31, 2011 year-end, no distributions,
taxable income of \$5,000.

They have a Federal ID #

Administrative expenses of \$10,000

Through April 15, 2011, the Estate made
an additional \$6,000

Continued post-death planning opportunities?



Capital Gain

Have a capital gain of \$5,000 on a 1041 Estate, not in the final year.

Where does the income get reported?

What is the Capital Gain rate for an Estate/Trust?

Capital Loss

Have a capital loss of \$4,000 on 1041 Estate,
not in the final year.

What happens to the loss?

What happens in the final year?

Ownership of Property - Single

Bob B, a single person, passed away. He had the following assets:

CD with POD

Rental house with TOD

Interest bearing checking acct, in his name only

Farm in the revocable/grantor Trust

What income goes on the 1041 Estate return?



Ownership of Property - Married

Sue, a married person, passed away with the following assets:

Jewelry store in joint name with husband

Rental house in a revocable Trust

Partnership interest

What income and/or expenses from these assets go on the 1041?

IRD - Income Respect of Decedent

Bill Lee died and had two investments in identical mutual funds.

One in his name and one in an IRA in his name.

Original investment was \$20,000 each, sold in the Estate for \$50,000 each a few days after death.

How much income does the 1041 report?

Who Pays the Tax?

In the Will/Trust, Sandy G receives a Specific Bequest of \$20,000. Bobby T and Tammy T, beneficiaries, receive a distribution of \$20,000 each.

The 1041 has a taxable income of \$80,000.

Who pays the tax?

What are the Estate and Trust tax rates?

Timing of Distributions

The executor of Dan's 1041 Estate distributed \$20,000 each to two of three beneficiaries on the last day of the tax period.

The third beneficiary did not want the income at that time. The income of the Estate was \$80,000.

Who pays the tax?

What happens in year 2 if there is a \$10,000 profit and distribution of \$20,000 to the third beneficiary?

IRA and Life Insurance

Jack dies on August 11, 2011, leaving \$50,000 in life insurance to his spouse as a named beneficiary.

He also has \$20,000 in an IRA and \$30,000 in his 401K, neither of which have a named beneficiary.

The Estate is distributed on July 2, 2012.

What is reported on the 1041?

Fair Market Value

A client received a distribution of rental property from his uncle's Estate on October 1, 2011.

His uncle died on August 15, 2008.

The FMV at DOD was \$45,000 and FMV on date of transfer was \$63,000.

What is the basis of the asset?

Are there any tax implications?



Personal Residence

A single person dies January 26, 2011.

The personal residence was in the decedents name only.

Cost basis was \$75,000 and FMV was \$165,000 at DOD.

Starting April 1, 2011, the Estate rents the house to a non-related party at FMV.

The house is then sold May 15, 2012 by the Estate.

What would have happened if they had sold the house on March 20, 2011?

What would have happened if one of his kids had moved into the house?



THANK YOU

THANK YOU FOR ATTENDING THIS
SESSION

Don't forget to stop by the NATP booth in the
Expo Hall for a handout related to this session.

