

be illustrated by the following examples:

*Example 1.* In 1978, trust X made a capital gain distribution to A, a calendar year taxpayer, of which \$3,000 was deemed to have been distributed in 1974. In 1980, trust X makes another capital gain distribution to A, \$10,000 of which is deemed under section 669(a) to have been distributed in 1974. Also in 1980, trust Y makes a capital gain distribution to A, of which \$5,000 is deemed under section 669(a) to have been distributed in 1974. A determines to treat the 1980 distribution from trust Y as having been made prior to the 1980 distribution from trust X. In computing the tax on the 1980 trust Y distribution, A's gross income for 1974 includes (i) the \$3,000 deemed distributed from the 1978 distribution, and (ii) the \$5,000 deemed distributed in 1974 from the 1980 Trust Y capital gain distribution. To compute A's tax under the exact method for 1974 on the \$10,000 from the 1980 trust X capital gain distribution deemed distributed in 1974, A's gross income for 1974 includes (i) the \$10,000, (ii) the \$3,000 previously deemed distributed in 1974 from the 1978 trust X capital gain distribution, and (iii) the \$5,000 deemed distributed in 1974 from the 1980 trust Y capital gain distribution.

*Example 2.* In 1978, trust T makes a capital gain distribution to B, a calendar year taxpayer. Determination of the tax on the distribution under the short-cut method requires the use of B's gross income for 1975, 1976, and 1977. In 1977, B received an accumulation distribution from trust U, of which \$2,000 was deemed to have been distributed in 1975, and \$3,000 in 1976. B's gross income for 1975, for purposes of using the short-cut method to determine the tax from the trust T capital gain distribution, will be deemed to include the \$2,000 deemed distributed in 1975 by trust U, and his gross income for 1976 will be deemed to include the \$3,000 deemed distributed by trust U in 1976.

[T.D. 7204, 37 FR 17155, Aug. 25, 1972]

**§ 1.669(c)-2A Computation of the beneficiary's income and tax for a prior taxable year.**

(a) *Basis for computation.* (1) The beneficiary's income and tax paid for any prior taxable year for which a recomputation is involved under either the exact method or the short-cut method shall be determined by reference to the information required to be furnished by him under § 1.669(c)-3A(a). The gross income, related deductions, and taxes paid for a prior taxable year of the beneficiary as finally determined shall be used for recomputation

purposes. The term *as finally determined* shall have the same meaning for purposes of this section as in § 1.668(b)-3A(a).

(2) If any computations rely on the beneficiary's return for a prior taxable year for which the applicable period of limitations on assessment under section 6501 has expired, and such return shows a mathematical error on its face which resulted in the wrong amount of tax being paid for such year, the determination of both the tax for such year computed with the inclusion of the section 669 amounts in the beneficiary's gross income, and the tax for such year computed without including such amounts in such gross income, shall be based upon the return after the correction of such mathematical errors.

(b) *Effect of allocation of undistributed capital gain on items based on amount of income and with respect to a net operating loss, a charitable contributions carryover, or a capital loss carryover.* (1) In computing the tax for any taxable year under either the exact method or the short-cut method, any item which depends upon the amount of gross income, adjusted gross income, or taxable income shall be recomputed to take into consideration the amount of undistributed capital gain allocated to such year. For example, if \$2,000 of undistributed long-term capital gain is allocated to 1970, adjusted gross income for 1970 is increased from \$5,000 to \$6,000. The allowable 50 percent charitable deduction under section 170(b)(1)(A) is then increased and the amount of the nondeductible medical expenses under section 213 (3 percent of adjusted gross income) is also increased.

(2) In computing the tax attributable to the undistributed capital gain deemed distributed to the beneficiary in any of his prior taxable years under either the exact method or the short-cut method, the effect of amounts of undistributed capital gain on a net operating loss carryback or carryover, a charitable contributions carryover, or a capital loss carryback or carryover, shall be taken into account. In determining the amount of tax attributable to such deemed distribution, a computation shall also be made for any taxable year which is affected by a net

### § 1.669(c)-3A

operating loss carryback or carryover, by a charitable contributions carryover, or by a capital loss carryback or carryover determined by reference to the taxable year to which amounts are allocated under either method and which carryback or carryover is reduced or increased by such amounts so allocated.

[T.D. 7204, 37 FR 17155, Aug. 25, 1972]

#### § 1.669(c)-3A Information requirements with respect to beneficiary.

(a) *Information to be supplied by beneficiary*—(1) *Use of exact method.* The beneficiary must supply the information required by subparagraph (3) of § 1.668(b)-4A(a) for any prior taxable year for which a recomputation is required under either the exact method or the short-cut method. Such information shall be filed with the beneficiary's return for the year in which the tax under section 668(a)(3) is imposed.

(2) *Failure to furnish.* If the beneficiary fails to furnish the information required by this paragraph for any prior year involved in the exact method, he may not use such method and the tax computed under paragraph (c) of § 1.669(b)-1A (the short-cut method) shall be deemed to be the amount of partial tax imposed by section 668(a)(3). See, however, paragraph (b) of this section for an exception to this rule where the short-cut method is not permitted. If he cannot furnish the information required for a prior year involved in the short-cut method, such year will be recomputed on the basis of the best information available.

(b) *Exception.* If, by reason of § 1.669(b)-1A(e), the beneficiary may not compute the partial tax on the capital gain distribution under § 1.669(b)-1A(c) (the short-cut method), the provisions of subparagraph (2) of paragraph (a) of this section shall not apply. In such case, if the beneficiary fails to provide the information required by § 1.668(b)-4A(a)(3) for any prior taxable year, the district director shall, by utilizing whatever information is available to him (including information supplied by the beneficiary), determine the bene-

### 26 CFR Ch. I (4-1-10 Edition)

ficiary's income and related expenses for such prior taxable year.

[T.D. 7204, 37 FR 17156, Aug. 25, 1972]

#### § 1.669(d)-1A Total taxes deemed distributed.

(a) If a capital gain distribution is deemed under § 1.669(a)-1A to be distributed on the last day of a preceding taxable year and the amount is not less than the undistributed capital gain for such preceding taxable year, then an additional amount equal to the "taxes imposed on the trust attributable to the undistributed capital gain" (as defined in § 1.665(d)-1A(c)) for such preceding taxable year is also deemed to have been properly distributed. For example, assume a trust has no distributable net income and has undistributed capital gain of \$18,010 for the taxable year 1974. The taxes imposed on the trust attributable to the undistributed capital gain are \$2,190. During the taxable year 1977, a capital gain distribution of \$18,010 is made to the beneficiary which is deemed under § 1.669(a)-1A to have been distributed on the last day of 1974. The 1977 capital gain distribution is not less than the 1974 undistributed capital gain. Accordingly, taxes of \$2,190 imposed on the trust attributable to the undistributed capital gain for 1974 are also deemed to have been distributed on the last day of 1974. Thus, a total of \$20,200 will be deemed to have been distributed on the last day of 1974.

(b) For the purpose of paragraph (a) of this section, the undistributed capital gain of any preceding taxable year and the taxes imposed on the trust for such preceding taxable year attributable to such undistributed capital gain are computed after taking into account any capital gain distributions of taxable years intervening between such preceding taxable year and the taxable year. See paragraph (c) of § 1.669(a)-1A.

[T.D. 7204, 37 FR 17156, Aug. 25, 1972]

#### § 1.669(e)-1A Pro rata portion of taxes deemed distributed.

(a) If a capital gain distribution is deemed under § 1.669(a)-1A to be distributed on the last day of a preceding taxable year and the amount is less than the undistributed capital gain for such