

Internal Revenue Service, Treasury

§ 1.666(c)-1A

in 1974, the beneficiary is required to include a total of \$139,000 in his income for 1974. The balance of \$11,000 is deemed to represent a distribution of corpus.

(ii) *Taxable years beginning after December 31, 1968, and before January 1, 1970.* Accumulation distributions made in taxable years of the trust beginning after December 31, 1968, and before January 1, 1970, are allocated to prior years according to § 1.666(a)-1.

(3) *Foreign trusts created by non-U.S. persons.* To the extent that a foreign trust is a foreign trust created by a person other than a U.S. person, an accumulation distribution is included in the beneficiary's income for the year paid, credited, or required to be distributed to the extent provided under paragraph (b) of this section.

(d) *Reduction of undistributed net income for prior accumulation distributions.* For the purposes of allocating to any preceding taxable year an accumulation distribution of the taxable year, the undistributed net income of such preceding taxable year is reduced by the amount from such year deemed distributed in any accumulation distribution of undistributed net income made in any taxable year intervening between such preceding taxable year and the taxable year. Accordingly, for example, if a trust has undistributed net income for 1974 and makes accumulation distributions during the taxable years 1978 and 1979, in determining that part of the 1979 accumulation distribution that is thrown back to 1974 the undistributed net income for 1974 is first reduced by the amount of the undistributed net income for 1974 deemed distributed in the 1978 accumulation distribution.

(e) *Rule when no undistributed net income.* If, before the application of the provisions of subpart D to an accumulation distribution for the taxable year, there is no undistributed net income for a preceding taxable year, then no portion of the accumulation distribution is undistributed net income deemed distributed on the last day of such preceding taxable year. Thus, if an accumulation distribution is made during the taxable year 1975 from a trust whose earliest preceding taxable year is taxable year 1970, and the trust had no undistributed net income for

1970, then no portion of the 1975 accumulation distribution is undistributed net income deemed distributed on the last day of 1970.

[T.D. 7204, 37 FR 17143, Aug. 25, 1972]

§ 1.666(b)-1A Total taxes deemed distributed.

(a) If an accumulation distribution is deemed under § 1.666(a)-1A to be distributed on the last day of a preceding taxable year and the amount is not less than the undistributed net income for such preceding taxable year, then an additional amount equal to the "taxes imposed on the trust attributable to the undistributed net income" (as defined in § 1.665(d)-1A(b)) for such preceding taxable year is also deemed distributed under section 661(a)(2). For example, a trust has undistributed net income of \$8,000 for the taxable year 1974. The taxes imposed on the trust attributable to the undistributed net income are \$3,032. During the taxable year 1977, an accumulation distribution of \$8,000 is made to the beneficiary, which is deemed under § 1.666(a)-1A to have been distributed on the last day of 1974. The 1977 accumulation distribution is not less than the 1974 undistributed net income. Accordingly, the taxes of \$3,032 imposed on the trust attributable to the undistributed net income for 1974 are also deemed to have been distributed on the last day of 1974. Thus, a total of \$11,032 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 net income of any preceding taxable year and the taxes imposed on the trust for such preceding taxable year attributable to such undistributed net income are computed after taking into account any accumulation distributions of taxable years intervening between such preceding taxable year and the taxable year. See paragraph (d) of § 1.666(a)-1A.

[T.D. 7204, 37 FR 17145, Aug. 25, 1972]

§ 1.666(c)-1A Pro rata portion of taxes deemed distributed.

(a) If an accumulation distribution is deemed under § 1.666(a)-1A to be distributed on the last day of a preceding taxable year and the amount is less than

§ 1.666(c)-2A

the undistributed net income for such preceding taxable year, then an additional amount is also deemed distributed under section 661(a)(2). The additional amount is equal to the “taxes imposed on the trust attributable to the undistributed net income” (as defined in § 1.665(a)-1A(b)) for such preceding taxable year, multiplied by a fraction, the numerator of which is the amount of the accumulation distribution allocated to such preceding taxable year and the denominator of which is the undistributed net income for such preceding taxable year. See paragraph (b) of example 1 and paragraphs (c) and (f) of example 2 in § 1.666(c)-2A for illustrations of this paragraph.

(b) For the purpose of paragraph (a) of this section, the undistributed net income of any preceding taxable year and the taxes imposed on the trust for such preceding taxable year attributable to such undistributed net income are computed after taking into account any accumulation distributions of any taxable years intervening between such preceding taxable year and the taxable year. See paragraph (d) of § 1.666(a)-1A and paragraph (c) of example 1 and paragraphs (e) and (h) of example 2 in § 1.666(c)-2A.

[T.D. 7204, 37 FR 17145, Aug. 25, 1972]

§ 1.666(c)-2A Illustration of the provisions of section 666 (a), (b), and (c).

The application of the provisions of §§ 1.666(a)-1A, 1.666(b)-1A, and 1.666(c)-1A may be illustrated by the following examples:

Example 1. (a) A trust created on January 1, 1974, makes accumulation distributions as follows:

1979	\$7,000
1980	26,000

For 1974 through 1978, the undistributed portion of distributable net income, taxes imposed on the trust attributable to the undistributed net income, and undistributed net income are as follows:

Year	Undistributed portion of distributable net income	Taxes imposed on the trust attributable to the undistributed net income	Undistributed net income
1974	\$12,100	\$3,400	\$8,700
1975	16,100	5,200	10,900
1976	6,100	1,360	4,740
1977	None	None	None

Year	Undistributed portion of distributable net income	Taxes imposed on the trust attributable to the undistributed net income	Undistributed net income
1978	10,100	2,640	7,460

The trust has no undistributed capital gain.

(b) Since the entire amount of the accumulation distribution for 1979 (\$7,000) is less than the undistributed net income for 1974 (\$8,700), an additional amount of \$2,736 (7,000/8,700×\$3,400) is deemed distributed under section 666(c).

(c) In allocating the accumulation distribution for 1980, the amount of undistributed net income for 1974 will reflect the accumulation distribution for 1979. The undistributed net income for 1974 will then be \$1,700 and the taxes imposed on the trust for 1974 will be \$664, determined as follows:

Undistributed net income as of the close of 1974	\$8,700
Less: Accumulation distribution (1979)	7,000
Balance (undistributed net income as of the close of 1979)	1,700

Taxes imposed on the trust attributable to the undistributed net income as of the close of 1979 (1,700/8,700×\$3,400)	664
---	-----

(d) The accumulation distribution of \$26,000 for 1980 is deemed to have been made on the last day of the preceding taxable years of the trust to the extent of \$24,800, the total of the undistributed net income for such years, as shown in the tabulation below. In addition, \$9,864, the total taxes imposed on the trust attributable to the undistributed net income for such years is also deemed to have been distributed on the last day of such years, as shown below:

Year	Undistributed net income	Taxes imposed on the trust
1974	\$1,700	\$664
1975	10,900	5,200
1976	4,740	1,360
1977	None	None
1978	7,460	2,640
1979	None	None

Example 2. (a) Under the terms of a trust instrument, the trustee has discretion to accumulate or distribute the income to X and to invade corpus for the benefit of X. The entire income of the trust is from royalties. Both X and the trust report on the calendar year basis. All of the income for 1974 was accumulated. The distributable net income of the trust for the taxable year 1974 is \$20,100 and the income taxes paid by the trust for 1974 attributable to the undistributed net income are \$7,260. All of the income for 1975 and 1976 was distributed and in addition the trustee made accumulation distributions within the meaning of section 665(b) of \$5,420 for each year.

(b) The undistributed net income of the trust determined under section 665(a) as of