

Internal Revenue Service, Treasury

§ 1.667-1

(e) No portion of the 1960 accumulation distribution is deemed made on the last day of 1954 because, as to 1960, 1954 is the sixth preceding taxable year.

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 1954 was accumulated. The distributable net income of the trust for the taxable year 1954 is \$20,100 and the income taxes paid by the trust for 1954 with respect to its distributable net income are \$7,260. All of the income for 1955 and 1956 was distributed and in addition the trustee made accumulation distributions within the meaning of section 665(b) of \$6,420 for each year.

(b) The undistributed net income of the trust determined under section 665(a) as of the close of 1954, is \$12,840, computed as follows:

Distributable net income	\$20,100
Less: Taxes imposed on the trust	7,260
Undistributed net income as of the close of 1954	12,840

(c) The accumulation distribution of \$6,420 made during the taxable year 1955 is deemed under section 666(a) to have been made on December 31, 1954. Since this accumulation distribution is less than the 1954 undistributed net income of \$12,840, a portion of the taxes imposed on the trust for 1954 is also deemed under section 666(c) to have been distributed on December 31, 1954. The total amount deemed to have been distributed to X on December 31, 1954, is \$10,050, computed as follows:

Accumulation distribution	\$6,420
Taxes deemed distributed (6,420/12,840×\$7,260)	3,630
Total	10,050

(d) After the application of the provisions of subpart D (section 665 and following), part I, subchapter J, chapter 1 of the Code, to the accumulation distribution of 1955, the undistributed portion of the distributable net income of the trust for 1954, is \$10,050, and the taxes imposed with respect thereto are \$2,623, computed as follows:

Distributable net income as of the close of 1954	\$20,100
Less: 1955 accumulation distribution and taxes deemed distributed on December 31, 1954 (paragraph (c) of this example)	10,050
Undistributed portion of the 1954 distributable net income adjusted as of the close of 1955	10,050
Less: Personal exemption	100
Balance	9,950
Income taxes on \$9,950	2,623

(e) The undistributed net income of the trust for the taxable year 1954, as adjusted to

give effect to the 1955 accumulation distribution, is \$7,427, computed as follows:

Undistributed portion of distributable net income as of the close of 1955	\$10,050
Less: Income taxes applicable thereto	2,623
Undistributed net income determined as of the close of 1955	7,427

(f) Inasmuch as all of the income of the trust for the taxable year 1955 was distributed to X, the trust had no undistributed net income for that year. Accordingly, the accumulation distribution of \$6,420 made during the taxable year 1956 is, under section 666(a), deemed a distribution to X on December 31, 1954, within the meaning of section 661(a)(2). Since this accumulation distribution is less than the 1954 adjusted undistributed net income of \$7,427, the trust is deemed under section 666(c) also to have distributed on December 31, 1954, a portion of the taxes imposed on the trust for 1954. The total amount deemed to be distributed on December 31, 1954, with respect to the accumulation distribution made in 1956, is \$8,687, computed as follows:

Accumulation distribution	\$6,420
Taxes deemed distributed (6,420/7,427×\$2,623)	2,267
Total	8,687

(g) After the application of the provisions of subpart D to the accumulation distribution of 1956, the undistributed portion of the distributable net income of the trust for 1954, is \$1,363, and the taxes imposed on the trust with respect thereto are \$253, computed as follows:

Undistributed portion of distributable net income as of the close of 1955	\$10,050
Less: 1956 accumulation distribution and taxes deemed distributed on December 31, 1954 (paragraph (f) of this example)	8,687
Undistributed portion of distributable net income as of the close of 1956	1,363
Less: Personal exemption	100
Balance	1,263
Income taxes on \$1,263	253

(h) The undistributed net income of the trust for the taxable year 1954, determined as of the close of the taxable year 1956, is \$1,110 (\$1,363 less \$253).

§ 1.667-1 Denial of refund to trusts.

(a) If an amount is deemed under section 666 to be an amount paid, credited, or required to be distributed on the last day of a preceding taxable year, the trust is not allowed a refund or credit of the amount of "taxes imposed on the trust", as defined in § 1.665(d)-1, which would not have been payable for the preceding taxable year had the trust in fact made such distribution on the last day of such year. However,

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such taxes are allowed as a credit under section 668(b) against the tax of the beneficiaries who are treated as having received the distributions in the preceding taxable year. The amount of taxes which may not be refunded or credited to the trust under this paragraph and which are allowed as a credit under section 668(b) against the tax of the beneficiaries, is an amount equal to the excess of:

(1) The taxes imposed on the trust (as defined in section 665(d) and § 1.655(d)-1) for any preceding taxable year (computed without regard to the accumulation distribution for the taxable year) over

(2) The amount of taxes for such preceding taxable year which would be imposed on the undistributed portion of distributable net income of the trust for such preceding taxable year after the application of subpart D (section 665 and following), part I, subchapter J, chapter 1 of the Code, on account of the accumulation distribution determined for the taxable year.

It should be noted that the credit under section 667 is computed by the use of a different ratio from that used for computing the amount of taxes deemed distributed under section 666(c).

(b) Paragraph (a) of this section may be illustrated by the following examples:

Example 1. In 1954, a trust of which A is the sole beneficiary has taxable income of \$20,000 (including capital gains of \$5,100 allocable to corpus less a personal exemption of \$100), on which a tax of \$7,260 is paid.

The undistributed portion of distributable net income is \$15,000, to which \$6,160 of the tax is allocable under section 665. The undistributed net income is therefore \$8,840 (\$15,000 minus \$6,160). In 1955, the trust makes an accumulation distribution of \$8,840. Under section 666(b), the total taxes for 1954 attributable to the undistributed net income are deemed distributed, so \$15,000 is deemed distributed. The amount of the tax which may not be refunded to the trust under section 667 and the credit to which A is entitled under section 668(b) is the excess of \$6,160 over zero, since after the distribution and the application of subpart D there is no remaining undistributed portion of distributable net income for 1954.

Example 2. The same trust as in example 1 of this paragraph distributes \$5,000 in 1955, rather than \$8,840. The amount of the tax

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which may not be refunded to the trust but which is available to A as a credit is \$4,044, computed as follows:

Accumulation distribution in 1955	\$5,000
Taxes deemed distributed under section 666(c) (5,000/8,840×\$6,160)	3,484
Total amount deemed distributed out of the undistributed portion of distributable net income	8,484
Tax attributable to the undistributed portion of distributable net income (\$15,000) before 1955 distribution (see example 1 of this paragraph) ..	6,160
Tax on \$11,516 (taxable income of \$20,000 minus \$8,484, amount deemed distributed)	\$3,216
Tax on \$5,000 (capital gains of \$5,100, less personal exemption of \$100, allocable to corpus)	1,100
Tax attributable to undistributed portion of distributable net income after 1955 distribution	2,116
Refund disallowed to the trust and credit available to A in 1955	4,044

[T.D. 6500, 25 FR 11814, Nov. 26, 1960, as amended by T.D. 6989, 34 FR 741, Jan. 17, 1969]

§ 1.667(a)-1A Denial of refund to trusts.

If an amount is deemed under section 666 or 669 to be an amount paid, credited, or required to be distributed on the last day of a preceding taxable year, the trust is not allowed a refund or credit of the amount of “taxes imposed on the trust”, as defined in § 1.665(d)-1A. However, such taxes imposed on the trust are allowed as a credit under section 667(b) against the tax of certain beneficiaries who are treated as having received the distributions in the preceding taxable year.

[T.D. 7204, 37 FR 17147, Aug. 25, 1972]

§ 1.667(b)-1A Authorization of credit to beneficiary for taxes imposed on the trust.

(a) *Determination of credit*—(1) *In general.* Section 667(b) allows under certain circumstances a credit (without interest) against the tax imposed by subtitle A of the Code on the beneficiary for the taxable year in which the accumulation distribution is required to be included in income under section 668(a). In the case of an accumulation distribution consisting only of undistributed net income, the amount of such credit is the total of the taxes deemed distributed to such beneficiary under section 666 (b) and (c) as a result of such accumulation distribution for