

total taxable amount reported by the plan as a result of the deemed distribution plus the 2000 actual distribution is \$26,000 and the plan's records show that the participant's tax basis is \$16,000. As of January 1, 2002, the plan decides to apply Q&A-19 of this section to the loan. Accordingly, it reduces the participant's tax basis by the initial default amount of \$20,000, so that the participant's remaining tax basis in the plan is reduced from \$16,000 to zero. However, because the \$20,000 initial default amount exceeds \$16,000, the plan records a loan transition amount of \$4,000 (\$20,000 minus \$16,000). Thereafter, the amount of the outstanding loan, other than the \$4,000 loan transition amount, is not treated as part of the account balance for purposes of section 72. The participant attains age 59½ in the year 2003 and receives a distribution of the full account balance under the plan consisting of \$60,000 in cash and the loan receivable. At that time, the plan's records reflect an offset of the loan amount against the loan receivable in the participant's account and a distribution of \$60,000 in cash.

(i) In accordance with paragraph (c)(2)(iv) of this Q&A-22, the plan must report in Box 1 of Form 1099-R a gross distribution of \$64,000 and in Box 2 of Form 1099-R a taxable amount for the participant for the year 2003 equal to \$64,000 (the sum of the \$60,000 paid in the year 2003 plus \$4,000 as the loan transition amount).

(d) *Effective date for Q&A-19(b)(2) and Q&A-20.* Q&A-19(b)(2) and Q&A-20 of this section apply to assignments, pledges, and loans made on or after January 1, 2004.

[T.D. 8894, 65 FR 46591, July 31, 2000, as amended by T.D. 9021, 67 FR 71824, Dec. 3, 2002; 68 FR 9532, 9535, Feb. 28, 2003; T.D. 9169, 69 FR 78153, Dec. 29, 2004; T.D. 9294, 71 FR 61883, Oct. 20, 2006]

§ 1.73-1 Services of child.

(a) Compensation for personal services of a child shall, regardless of the provisions of State law relating to who is entitled to the earnings of the child, and regardless of whether the income is in fact received by the child, be deemed to be the gross income of the child and not the gross income of the parent of the child. Such compensation, therefore, shall be included in the gross income of the child and shall be reflected in the return rendered by or for such child. The income of a minor child is not required to be included in the gross income of the parent for income tax purposes. For requirements for making

the return by such child, or for such child by his guardian, or other person charged with the care of his person or property, see section 6012.

(b) In the determination of taxable income or adjusted gross income, as the case may be, all expenditures made by the parent or the child attributable to amounts which are includible in the gross income of the child and not of the parent solely by reason of section 73 are deemed to have been paid or incurred by the child. In such determination, the child is entitled to take deductions not only for expenditures made on his behalf by his parent which would be commonly considered as business expenses, but also for other expenditures such as charitable contributions made by the parent in the name of the child and out of the child's earnings.

(c) For purposes of section 73, the term "parent" includes any individual who is entitled to the services of the child by reason of having parental rights and duties in respect of the child. See section 6201(c) and the regulations in Part 301 of this chapter (Procedure and Administration) for assessment of tax against the parent in certain cases.

§ 1.74-1 Prizes and awards.

(a) *Inclusion in gross income.* (1) Section 74(a) requires the inclusion in gross income of all amounts received as prizes and awards, unless such prizes or awards qualify as an exclusion from gross income under subsection (b), or unless such prize or award is a scholarship or fellowship grant excluded from gross income by section 117. Prizes and awards which are includible in gross income include (but are not limited to) amounts received from radio and television giveaway shows, door prizes, and awards in contests of all types, as well as any prizes and awards from an employer to an employee in recognition of some achievement in connection with his employment.

(2) If the prize or award is not made in money but is made in goods or services, the fair market value of the goods or services is the amount to be included in income.

(b) *Exclusion from gross income.* Section 74(b) provides an exclusion from