

**§ 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 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
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
<b>Balance (undistributed net income as of the close of 1979) .....</b>	<b>1,700</b>

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