

ONESOURCE[®] TRUST TAX

Net Investment Income Tax

TAX & ACCOUNTING

© 2009 Thomson Reuters/ONESOURCE. All Rights Reserved.



THOMSON REUTERS

Proprietary Materials

No use of these Proprietary materials is permitted without the express written consent of or license from ©1999-2014, Thomson Reuters/ONESOURCE. Altering, copying, distributing, or reproducing any of these proprietary materials in any manner is expressly prohibited.

Software License Agreement

The right to use the software product described in this workbook is specifically conditioned upon your execution of and compliance with the Tax License Agreement with ©1999-2014, Thomson Reuters/ONESOURCE.

All contents copyright ©1999-2014, Thomson Reuters/ONESOURCE.

Net Investment Income (NII) Tax - General Comments

This document provides information regarding how the system computes (for 1041 processed accounts) Form 8960 and income amounts reported to beneficiaries as well as the Section 1411 adjustment. This document does not address how Section 1411 will impact 5227 processed accounts.

The Form 8960 will be computed for most trusts and estates. It will **not** be computed for grantor trusts, perpetual care trusts, or 1041-QFTs computed on a composite basis (system does not have necessary data to compute NII tax for a 1041-QFT filed on a composite basis).

The Form 8960 will be printed and filed with the Form 1041 on non-final accounts whenever Form 8960, line 21 (net investment income tax for estates and trusts) is greater than zero.

If the CIF Print option below is selected, then the Form 8960 (and supporting detail) will print in the 'Miscellaneous' section of the print file for non-final accounts wherein the form was not required to be filed with the Form 1041.

Print	Print Form 8960 in the Miscellaneous section of the tax return if it is not required to be filed with Form 1041	No	No
-------	-----------------------------------------------------------------------------------------------------------------	----	----

Input has been provided specifically for Form 8960 and can be accessed from the Tax Review-Tax and Credits, Alternative Minimum Tax and Other Taxes/Credits as seen below. It includes overrides for many line items which are otherwise automatically computed as well as input for lines for which the system does not attempt to compute.

Net Investment Income Tax (Part I)	Annuities from nonqualified plans (Override)	
Net Investment Income Tax (Part I)	Adjustment for income or loss derived in the ordinary course of a non-section 1411 trade or business	
Net Investment Income Tax (Part I)	Net gain or loss from disposition of property that is not subject to net investment income tax	
Net Investment Income Tax (Part I)	Adjustment from disposition of partnership interest or S corporation stock	
Net Investment Income Tax (Part I)	Changes to investment income for certain CFCs and PFICs	
Net Investment Income Tax (Part I)	Other modifications to investment income (Override)	
Net Investment Income Tax (Part I)	Portion of state tax refund to be treated as net investment income (Override)	
Net Investment Income Tax (Part II)	Investment interest expenses (Override)	
Net Investment Income Tax (Part II)	State income tax (Override)	
Net Investment Income Tax (Part II)	Miscellaneous investment expenses (Override)	
Net Investment Income Tax (Part II)	Additional modifications	
Net Investment Income Tax (Part III)	Deductions for distributions of net investment income and deductions under section 642(c) (Override)	
Net Investment Income Tax (Part III)	Undistributed net investment income - (Override)	
Net Investment Income Tax (Part III)	Adjusted Gross Income - (Override)	

Line by Line Analysis of Form 8960

Section 6013(g) election – This box (election to treat nonresident alien individual as resident of the United States) does not appear applicable to trusts/estates. The system will never 'X' the box.

Regulations section 1.1411-10(g) election – This box (election with respect to controlled foreign corporations and qualified electing funds) will only be checked if the user checks the corresponding input field on the Form 8960 input.

Part I - Investment Income

Line 1 Taxable interest - This carries from line 1 of Form 1041. No override field is available.

Line 2 Ordinary dividends - This carries from line 2 of Form 1041. No override field is available.

Line 3 Annuities from nonqualified plans - Tax code (**tax code 44**) was created for this line item. Transactions from this tax code are reported as 'Other Income' on line 8 of the 1041. An override field exists for this line item.

Line 4a Rental real estate, royalties, partnerships, S corporations, trusts - This is carried from line 5 (Schedule E) of Form 1041. This amount can be negative. No override field is available.

Line 4b Adjustment for net income or loss derived in the ordinary course of a non-section 1411 trade or business

This field is populated with income from line 5 (Schedule E) relating to activities wherein there was 'material participation'. Income (loss) from activities which were set up as portfolio or passive would NOT appear on this line. This amount can be negative. An override field exists for this line item.

Line 4c – This is computed. No override field is available.

Line 5a Net gain or loss from disposition of property - This line is the sum of Form 1041, lines 4 and 7. No override field is available.

Line 5b Net gain or loss from disposition of property that is not subject to net investment income tax – This field is not computed. An input field exists for this line item.

Line 5c Adjustment from disposition of partnership interest or S corporation - This field is not computed. An input field exists for this line item.

Line 5d – This is computed. No override field is available.

Note Line 5d can result in a net loss as §1.411-4(f)(4)(ii), Example 2 indicates:

Example (2)

(i) In Year 1, T, a non-grantor trust, incurs a capital loss of \$5,000 on the sale of publicly traded stocks. In addition, T receives \$17,000 of interest and dividend income. T has no capital losses carried over from a preceding year.

(ii) For purposes of chapter 1, T includes the \$17,000 of interest and dividends and only \$3,000 of the capital loss in the computation of adjusted gross income. The remaining \$2,000 capital loss is carried over to Year 2.

(iii) For purposes of calculating net investment income, T includes the \$17,000 of interest and dividends in net investment income. Pursuant to paragraph (d) of this section, T takes into account the \$3,000 capital loss allowed by chapter 1. T's losses (\$3,000) exceed T's gains (\$0). Therefore, T's net gain under paragraph (d) of this section is zero. However, T is allowed a deduction under paragraph (f)(4)(i) of this section for \$3,000 (the amount of losses that were allowable under chapter 1 in excess of the amounts taken into account in computing net gain). T's net investment income in Year 1 is \$14,000.

Line 6 Changes to investment income for certain CFCs and PFICs – This field is not computed. An input field exists for this line item.

Line 7 Other modifications to investment income – This line includes the following:

- **Other income from K-1s not included on Schedule E** – This includes amounts entered on the 'Other portfolio income' and 'Guaranteed payments to partners' lines on the K-1 input.
- **Adjustments for distributions from Estates and Trusts** - The system aggregates the total of all Section 1411 adjustments entered on 'Other Estate or Trust' K-1 screens. If it is indicated that the trust/estate has 'material participation' in the K-1 asset, then the K-1 adjustment will be ignored since income (loss) (other than interest/dividends) from such asset would have already been excluded from NII on line 4b.
- **Undistributed net investment income of S Corporation portion of ESBT** – The system automatically generates a separate ESBT worksheet to compute NII for the S Corporation portion of an ESBT.
- **Business/farm income to be included in Section 1411 net investment income** – Any business/farm income coded as 'portfolio' will automatically be included in NII and will carry to this line.
- **Substitute Payments (Interest and Dividends)** – Beginning for 2014, any substitute payments – interest (tax code 95) and substitute payments – dividends (tax code 96) will be included on this line.
- **State refund includible in NII** – Beginning for 2014, a computation will be made to determine the portion of state refund applicable to NII. This computation can be overridden.

An override field exists for line 7.

If the override field has not been used and any of the above items exist, detail for the line 7 computation will be provided on a statement.

Determination of Portion of State Refund Allocable to NII

For 2014, the system first computes the portion (pre tax benefit) of state refund allocable to NII by multiplying the allowed state refund included in other income on Form 1041, line 8 by a ratio. This ratio is equal to prior year undistributed NII (Form 8960, line 18c from prior year return) divided by prior year federal taxable income before exemption.

Note: Beginning in 2015, the system will utilize a different ratio to compute the portion (pre tax benefit) of state refund allocable to NII. The numerator in this ratio will be the portion of state tax included on the prior year Form 8960, line 9b. The denominator in this ratio will be the total state taxes reported on Form 1041, line 11. Since the Form 8960, line 9b from the 2013 return was not saved at time of the 2013 compute, this particular allocation is not possible for 2014 processing.

If the CIF selection has been made to consider the tax benefit rule in determination of state refund to be included on Form 1041, line 8, then the system will make a further check. If the prior year return resulted in a surtax, then the previously determined refund allocable to NII will be fully includible on line 7. If not, (given the tax benefit option has been selected), none of the state refund will be included in NII.

Line 8 – This is computed. No override field is available.

Part II - Investment Expenses Allocable to Investment Income and Modifications

Form 8960 instructions indicate that investment expenses incurred which are directly connected to the production of investment income are deductible in determining net investment income. The Form 8960 instructions also list a number of expenses which are not deductible in calculating net investment income, most notably the charitable deduction and deductions for real estate taxes on non-rental property. Deductions (those not listed above, for example *fiduciary fees, attorney and tax preparation fees) which are allocable to both net investment income and excluded income are subject to a reasonable method allocation.

* Final §1411 regulations issued in December, 2013 indicate that amounts paid or incurred by the fiduciary of an estate or trust on account of administration expenses, including fiduciaries' fees and expenses of litigation, which are ordinary and necessary in connection with the performance of the duties of administration are to be allocated between net investment income and excluded income.

Reasonable method allocation The Form 8960 instructions indicate *'If an estate or trust allocates expenses for regular tax purposes under Regulations section 1.652(b)-3(b) or 1.641(c)-1(h), any deviation from that allocation may not be a reasonable allocation method for NIIT purposes.'*

A Treasury teleconference with one of the regulation coauthors emphasized this point (that the expense allocation must follow the §652 allocation) when we broached the possibility of using a different methodology for purposes of allocation of expenses on Form 8960 (in effect decoupling the expense allocation from that which was utilized for purposes of §652).

As a result of the final regulations, Form 8960 instructions, and discussions with Treasury, the system default is to now compute expenses reported on the Form 8960, Part II as follows:

- **Investment expenses** – Investment expense allowed as a deduction on Form 1041 will be included in full on line 9a (investment interest expense) and line 9c (allowable miscellaneous itemized deductions subject to 2% AGI floor which are considered investment expense).
- **Expenses specifically not allowed as a deduction against NII** – Non-rental real estate taxes will not appear on Part II.
- **Other expenses** – Only the portion of remaining expense allocated against NII under §652(b)-3(b) (allocation of deductions with regard to computation of DNI).will appear on Part II. Lines 9b (state tax) and line 10.

The system will generate a detail statement that shows the §652(b)-3(b) allocation and how amounts were derived on Form 8960, Part II. If expenses/losses allocated under §652(b)-3(b) (with exception to excluded amounts such as tax code 33) exceed income however, this portion of the statement will not be generated.

Change to System Default

For 2014, the system default is to print 100% of investment expenses on Form 8960, lines 9a and 9c. This is markedly different than the 2013 system default which was to print on Form 8960, lines 9a and 9c only the portion of investment expense which was allocated against NII under §652(b)-3(b).

New CIF Compute – Federal Option

A CIF option has been created for 2014 which if selected, will revert back to the 2013 system default. If selected, then only the portion of investment expenses allocated to NII under §652(b)-3(b) will be included on Form 8960, lines 9a and 9c.

Line 9a Investment interest expense – This is a computed amount.

- The system default is to include all investment interest expense reported on line 10 of Form 1041.
- If the aforementioned CIF option selection has been made, then only the portion of investment interest expense reported on line 10 of Form 1041 allocated to NII under §652(b)-3(b) will be included on Form 8960, line 9a.

An override field exists for this line item.

Line 9b State income taxes - This is a computed amount and represents the portion of state income tax reported on line 11 of Form 1041 which was allocated to NII under §652(b)-3(b).

An override field exists for this line item.

Line 9c, Miscellaneous investment expenses – This is a computed amount.

- The system default is to include 100% of investment expenses which appear as allowable miscellaneous itemized deductions subject to 2% AGI reported on line 15c of Form 1041.
- If the aforementioned CIF option selection has been made, then only the portion of investment expenses which appear as allowable miscellaneous itemized deductions subject to 2% AGI reported on line 15c of Form 1041 allocated to NII under §652(b)-3(b) will be included on Form 8960, line 9c.

*Investment expenses – Excess deductions passed from other trusts/estates are subject to 2% AGI rules and appear on line 15c of Form 1041. They are not considered investment expenses. Any portion of excess deductions allowed after the 2% AGI floor limitation which is allocable to NII is reported on line 10 of Form 8960.

Line 9d – This is computed. No override field is available.

Line 10 Additional modifications – This is a computed amount and represents the portion of expenses on line 16 of Form 1041 (excluding those expenses already reported on Form 8960, line 9) subject to allocation which were allocated to NII under §652(b)-3(b).

Exceptions

- Real estate taxes on non-rental property and deductions for charitable contribution will not appear on this line.
- New for 2014:
 - Estate's share of the estate tax is included on line 10.
 - Portion (deducted on line 15c of Form 1041) of excess deductions passed from other trusts/estates which was *allocable to NII (as determined by K-1 input) will be included on line 10.
 - Portion (deducted on line 15c of Form 1041) of excess deductions passed from other trusts/estates which was NOT allocable to NII (remainder) will NOT be included on line 10.

*When excess deductions are reported on a trust/estate Schedule K-1, the portion of such allocable to NII is supposed to be reported as well. This amount should be entered on the available Schedule K-1 input. If excess deductions are entered, but no corresponding entry is made for excess deductions allocable to NII, the system will assume that all the excess deductions are allocable to NII.

An override field exists for this line item.

Line 11 Total deductions and modifications – This is computed. No override field is available.

§652(b) Expense Allocation Statement Changes/Example

2014 Forward Changes

For 2014, a number of changes have been made to the presentation of the §652(b) expense allocation which appears as a Form 8960 statement.

Order of Income Print – The order in which the income items appear on this statement has been changed. In past years, the order the income order on this statement basically followed the order in which such income appeared on the face of the 1041 (interest, dividends, etc.). Starting in 2014, the order is based on the order in which expenses are to be offset. If for example, the CIF expense allocation option is to offset expenses against reduced rate income last (the most common option), then highest taxed income categories will appear first (at the top).

‘Maximum Tax Rate’ column – When either of the ‘reduced rate income’ last expense allocation options is selected, then a column will appear entitled ‘Maximum Tax Rate’. Next to each income category will print the maximum tax rate at which such income could be taxed.

Treatment of Expenses Specifically Excluded from NII for purposes of §1411 (tax code 33 non-rental real estate taxes) –

2013 §652(b) Expense Allocation Treatment - This expense was allocated amongst the various income categories (for §652(b) purposes) in exactly the same manner as other expenses

2014 Forward §652(b) Expense Allocation Treatment – **The system default has not changed. The system default is to treat this expense like other expenses for purpose of this allocation.**

New CIF Option Available for 2014 Processing

A Compute – Federal CIF option has been added which allows this expense to first be offset non-NII to the extent possible. If such expenses exceed non-NII income, only the excess will be offset against NII income.

CIF Option Details

- A number of clients requested this treatment during the 2013 tax season but given the complexity of the change we were not able to implement until 2014. In many, if not most instances (for example if there is no non-NII income), this change in treatment will not impact amounts reported on the Form 8960 or Schedule K-1(s).
- Allocating expenses disallowed for NII purposes against non-NII income first (to the extent possible) maximizes the chance that all such expense will be allocated to non-NII for §652(b) purposes.
- Whenever non-NII specific expenses exist in the account (and there is NII income), the Form 8960 statement (and K-1 counterpart statements) will show multiple expense allocations. For example, the Form 8960 statement will typically be 1 page if there is no non-NII or NII specific expense. If non-NII specific expense exists in the account, then a 2nd page will typically be generated with 2 separate expense allocations, 1 for the non-NII specific expense and 1 for the remaining expenses. The expense allocation which appears on the 1st page will show all income/expenses (it will combine information from the 2 expense allocations detailed on the 2nd page).

Non-NII Expense which has been Offset against NII for §652(b) purposes - As was the case in 2013, any non-NII specific expense offset against NII income for §652(b) purposes will be excluded from appearing on Part II of Form 8960. This portion of such expense will end up appearing on the Form 8960 as undistributed NII (even if all DNI has been distributed).

Treatment of Expenses Specifically Allowed to be Deducted in full against NII for purposes of §1411 (this includes investment interest expense and most allowable deductions subject to the 2% AGI floor) –

2013 §652(b) Expense Allocation Treatment - These expenses were allocated amongst the various income categories (for §652(b) purposes) in exactly the same manner as other expenses

2014 Forward §652(b) Expense Allocation Treatment – – **The system default has not changed. The system default is to treat these expenses like other expenses for purpose of this allocation.**

NII Expense which has been Offset against non-NII for §652(b) purposes - Any NII specific expense which is offset against non-NII income for §652(b) purposes will still be included on Part II of Form 8960. This portion of such expense will end up reducing undistributed NII on Form 8960.

Treatment of Passive/Non-Passive Activity Losses

2013 Treatment – Net overall passive loss and net overall non-passive loss from activities were treated as individual expense items. They were offset against income in exactly the same manner as other expenses

2014 Forward Treatment – Net overall passive loss will be treated as a NII specific deduction and will be offset against NII income first with any excess being offset against non-NII income for §652(b) purposes. Net overall non-passive loss will be treated as a non-NII specific deduction and will be offset against non-NII income first with any excess being offset against NII income for §652(b) purposes. No adjustment is necessary on Form 8960

Treatment of ‘Adjustment to DNI’ Entry

Use of the ‘Adjustment to DNI’ field is highly discouraged and should only be used as a last resort. Since the system does not know to what type of income/expense the adjustment applies, it is treated as an ‘other income’ item for §652(b) purposes (this has always been the case).

2013 Treatment – This entry was treated as non-NII income.

2014 Forward Treatment – This entry will be treated as NII income (client request).

Expense Allocation Statement Example

In this example, there is \$23,000 of gross net investment income (included in DNI) and \$1,000 of non-net investment income (included in DNI). Expenses of \$8,000 are to be offset against income subject to the lowest marginal rate of income last (based on CIF Compute-Federal selection).

The first part of the statement indicates shows the §652(b) expense allocation. Expenses are offset against highest taxed income first as indicated by the column entitled 'Maximum Tax Rate'. As a result, a total of \$7,000 (\$3,000 against other interest and \$4,000 against qualified dividends) of expense was offset against net investment income available to be distributed.

In the section titled 'Deduction Description, the portion of each expense allocated between NII and non-NII is determined. For example, the portion of state income taxes allocable to NII is determined by multiplying the total state income tax by a ratio equal to total expenses allocated to NII divided by total expenses ($2,625 = 3,000 \times 7,000/8,000$).

The last section entitled 'Part II, Expenses Allocable to Investment Income' clarifies where these numbers flow on the Form 8960.

Form 8960 - Net Investment Income (Section 1411) Detail

Allocation of Deductions

Income Description	Maximum Tax Rate	Gross	Deductions	Net
Other Interest (NII)	43.4	3,000.	3,000.	
Other Income (Non-NII)	39.6	1,000.	1,000.	
Qualified Other Dividends (NII)	23.8	20,000.	4,000.	16,000.
Totals		24,000.	8,000.	16,000.

Expense Allocation Methodology:

Unless indicated otherwise, expenses have been offset against income subject to the lowest marginal tax rate last.

Deduction Description (Line references below refer to Form 8960)	Gross	Allocable to Sect 1411 NII	Not Alloc to Sect 1411 NII
State Income Taxes (Line 9b)	3,000.	2,625.	375.
Fiduciary Fees (Line 10)	5,000.	4,375.	625.
Total Deductions	8,000.	7,000.	1,000.

Part II, Expenses Allocable to Investment Income

Line 9b - State income tax	2,625.
Line 10 - Additional modifications	4,375.
Total deductions and modifications	7,000.

Part III Tax Computation

Line 12 Net investment income – This is computed. The system will limit the amount computed to zero per the form instructions. No override field is available.

Lines 13 – 17 – These line items will not be completed by the system since they only pertain to Individuals, not trusts and estates.

Line 18a Net investment income – This is computed. No override field is available.

Line 18b Deductions for distributions of net investment income – This is computed. This amount includes the net investment income included in the distribution to beneficiaries which is deductible by the estate or trust under section 651 or 661 as well as that under section 652(c). The portion of Form 1041, line 13 (charitable deduction) allocable to NII is also included on this line. An override field exists for this line item.

The following is true for accounts wherein there is no charitable deduction and overrides have not been utilized:

- The amount of the deduction for net investment income distributed to beneficiaries should equal the sum of net investment income reported to the beneficiaries on their respective Schedules K-1 (Form 1041). This amount (we do not support estate/trusts that have interest in CFC/PFICs) will always be the **same** (if all income is NII) or **less** than the distribution deduction reported on Form 1041, Schedule B.
- For accounts that have non-NII income and wherein all beneficiaries are either individuals, trusts or estates, then the sum of all Section 1411 adjustments reported on Schedules K-1, line 14, code H plus the amount reported on Form 8960, line 18b should reconcile to the distribution deduction reported on Form 1041, Schedule B.
- To determine how each beneficiary's share of NII was computed, the Schedule K-1 Detail of Income and Deductions statement can be generated using the CIF print option shown below:

Print	Income and deductions detail of K-1 amounts (Irrevocable trusts)	No	Print behind the Schedule K-1
-------	------------------------------------------------------------------	----	-------------------------------

Line 18c Undistributed net investment income – This is computed. No override field is available.

Line 19a Adjusted gross income – This is computed. A statement is generated which indicates how AGI was computed. For ESBT accounts, a separate statement is generated which provides detail for the S Corporation portion of the ESBT AGI computation. An override field exists for this line item.

Line 19b Highest tax bracket for estates and trusts for the year – This is computed. No override field is available. For 2014, this is \$12,150.

Line 19c – This is computed. No override field is available.

Line 20 – This is computed. No override field is available.

Line 21 Net investment income tax for estates and trusts – This is computed. No override field is available.

Allocation of Expenses under §652(b)-3(b)

This allocation is determined by the user's CIF Compute-Federal options 'Method offsetting expenses against classes of income – 1041 irrevocable accounts only' selection and to a lesser degree by the CIF Compute-Federal option options 'Method offsetting expenses against distributed gains – Irrevocable accounts only' selection.

Compute - Federal	Method of offsetting expenses against classes of income - 1041 (irrevocable accounts only)	No	None, offset prorata among all classes of income
Compute - Federal	Reallocate expenses to income with highest withholding rate on Form 1042-S	No	Offset against net passive income last Offset against U.S. Government Interest last Offset against foreign income last
Compute - Federal	Method of offsetting expenses against distributed gains - Irrevocable accounts only	No	Offset against lowest marginal tax rate income last Offset against lowest marginal tax rate income last and U.S. Government Interest next to last

Compute - Federal	Method of offsetting expenses against distributed gains - Irrevocable accounts only	No	Do not offset expenses against distributed gains
Compute - Federal	Method of offsetting expenses against classes of income - 5227 accounts	No	Only offset excess expenses against distributed gains Offset expenses against distributed gains similar to other classes of income

Offsetting expenses against the lowest marginal tax rate income last (by far the most common selection) maximizes the amount of reduced rate income (typically qualified dividends) which is reported to the beneficiaries.

For most 1041 accounts, there are only 3 tiers of income with respect to this selection:

- **NII income NOT subject to reduced rates** – This income is potentially subject to a marginal rate of 43.4% (39.6% + 3.8% surtax). This includes corporate/foreign/U.S. Gov't interest as well as nonqualified dividends. It also includes distributed short-term gains (if CIF Compute-Federal option selection is to offset expenses against distributed gains), passive and portfolio coded income/ordinary gains, annuities from nonqualified plans (tax code 44) and any state refund allocable to NII.
- **Non-NII income NOT subject to reduced rates** - This income is potentially subject to a marginal rate of 39.6%. This would include state refund not allocated to NII and qualified IRA distributions. It would also include income from activities in which the trust/estate had 'material participation' and for which is being reported on line 5, 'Other portfolio and nonbusiness income' of the beneficiary's Schedule K-1).
- **NII income subject to reduced rates** – This income is potentially subject to a marginal rate of 23.8% (20% + 3.8% surtax). This would include qualified dividends and long-term gains distributed (if CIF Compute-Federal option selection is to offset expenses against distributed gains). Currently, the system considers all gains to be net investment income.

As noted above, expenses are offset against the highest tax income tier first with expenses offset last against the lowest income tier.

Reduced Rate Income Last (Most common selection)

1	43.4%	NII Income Subject to Regular Tax Rates
2	39.6%	Non-NII Income Subject to Regular Tax Rates
3	31.8%	NII 28% Rate Gains (Expenses are only offset if applicable CIF option selection has been made)
4	28.8%	NII 25% Rate Gains (Expenses are only offset if applicable CIF option selection has been made)
5	28%	Non-NII 28% Rate Gains (Expenses are only offset if applicable CIF option selection has been made)
6	25%	Non-NII 25% Rate Gains (Expenses are only offset if applicable CIF option selection has been made)
7	23.8%	NII Reduced Rate Income (Includes LT gains only if applicable CIF option selection has been made)
8	20.0%	Non-NII Reduced Rate Income (Includes LT gains only if applicable CIF option selection has been made)

Reduced Rate Income Last, U.S. Government Interest (USGI) Next to Last

1	43.4%	NII Income Subject to Regular Tax Rates (Non – USGI)
2	43.4%	NII Income Subject to Regular Tax Rates (USGI)
3	39.6%	Non-NII Income Subject to Regular Tax Rates (Non – USGI)
4	39.6%	Non-NII Income Subject to Regular Tax Rates (USGI) (this type of income cannot be generated in OSTT)
5	31.8%	NII 28% Rate Gains (Expenses are only offset if applicable CIF option selection has been made)
6	28.8%	NII 25% Rate Gains (Expenses are only offset if applicable CIF option selection has been made)
7	28%	Non-NII 28% Rate Gains (Expenses are only offset if applicable CIF option selection has been made)
8	25%	Non-NII 25% Rate Gains (Expenses are only offset if applicable CIF option selection has been made)
9	23.8%	NII Reduced Rate Income (Includes LT gains only if applicable CIF selection was made) (Non – USGI)
10	23.8%	NII Reduced Rate Income (Includes LT gains only if applicable CIF selection was made) (USGI)
11	20.0%	Non-NII Reduced Rate Income (Includes LT gains only if applicable CIF selection was made) (Non – USGI)
12	20.0%	Non-NII Reduced Rate Income (Includes LT gains only if applicable CIF selection was made) (USGI)

U.S. Government Interest Last (maximizes USGI distributed)

1	Non- U.S. Government interest
2	U.S. Government interest

Notes:

- USGI for the above purposes includes USGI reported as dividends.
- All USGI is considered NII in the OSTT system.
- Use of either of USGI last allocation options is discouraged since for most states the net USGI as determined by the §652(b) allocation is not the same as the USGI fiduciary adjustment which would otherwise be computed in the state program(s).

Foreign Income Last (maximizes foreign income distributed)

1	Non-foreign income
2	Foreign income

Passive Income Last (maximizes passive income distributed)

1	Non-passive income
2	Passive income

Non-Resident Aliens (Form 1042-S)

For non-resident aliens getting a Form 1042-S in the recipient packet, an alternate expense allocation option is available as well which offsets expenses first income subject to the highest withholding. There are a potential of 21 tiers (since 21 withholding rates) with this methodology. Note that this allocation is beneficiary specific and as such does not impact Form 8960, Part II.

For 2014 forward, if the alternate expense allocation is selected for non-resident aliens, it will not only affect the Form 1042-S computation but also the Schedule K-1(s) for such recipients.

Schedule K-1

The 1041 Schedule K-1 on line 14 (Other Information) has a code entitled 'Code H. Adjustment for section 1411 net investment income or deductions'. The Schedule K-1 instructions indicate the 'amount is the beneficiary's adjustment for IRC section 1411 net investment income or deductions' and indicates to enter the amount on line 7 of the Form 8960'.

This amount represents the portion of non-net investment income which was taxed to the beneficiary on his/her Schedule K-1. The Schedule K-1 Income and Deductions statement breaks out (under 'Net' column) any non-net investment income which was taxed to the beneficiary.

Note: If expenses offset all of the non-net investment income as a result of offsetting expenses to reduced rate income last, then such income will not appear on the Schedule K-1 and thus there will be no amount reported for line 14, Code H.

An amount is reported on Schedule K-1, Other Information, Code H only if an adjustment was computed. The line item prints **only** if the beneficiary is an individual, trust or estate.

This amount can be overridden on a beneficiary by beneficiary basis by using the K-1 Override functionality.

Excess Deductions (1041) – For 2014, a statement will be generated behind the Schedule K-1 which indicates the portion of the excess deduction (must be excess deductions reported on the K-1) which is allocable to NII.

This amount can be overridden on a beneficiary by beneficiary basis by using the K-1 Override functionality.

Additional Notes

Electing Small Business Trust (ESBT)

- **Undistributed NII** – NII (all of which would be undistributed) for S Corporation income will be included on line 7 (with a 'See Stmt' reference) per form instructions.
- **AGI** – AGI (which is already computed for ESBT 2% AGI floor computation) for S Corporation income will be included on line 19a (with a 'See Stmt' reference).
- A separate worksheet will generate which illustrates the computation of both undistributed NII and AGI with regard to S corporation income
- Override fields exist for both line 7 (Additional modifications) and 19a (AGI) in the event a user disagrees with the ESBT computations

'Phantom' Income – Since the Adjusted Gross Income (AGI) computation does not allow taxes as a deduction yet does allow the distribution deduction reported on 1041, Schedule B as a deduction, it is quite common that 'phantom' income is included in AGI. For example, a simple trust with qualified dividends of \$10,000 and state income taxes of \$2,000 may have taxable income of -300, yet AGI of \$1,700 even though all DNI was distributed.

Final Year Return – The Form 8960 will never be generated for final year accounts.

Example 1

Simple trust with accounting income of \$15,000, one beneficiary
Expense Allocation Option - Expenses offset against reduced rate income last

\$10,000 Qualified dividends
\$50,000 LT Gain
\$7,500 Other income (IRA distributions)
\$400 State income taxes
\$3,000 Fiduciary fees
\$2,022 Deductions subject to 2% AGI floor (after limitation, only \$1,000 allowed on face of 1041 as a deduction)

§652(b) Allocation of Expenses – Statement 3 shows the §652(b) allocation of expense. All expenses, including the allowable deductions subject to 2% AGI floor are pooled together and offset against the highest taxed income first. Since other income (the IRA distributions) are taxable to the recipient at a higher rate (potentially 39.6%), expenses offset this class of income first.

Schedule K-1 Section 1411 Adjustment – Since non-NII income was reported on the Schedule K-1 (\$3,100 was reported on line 5), then a Section 1411 adjustment appears on line 14, Code H of \$-3,100. The distribution deduction on line 15 of Schedule B of \$13,100 plus the \$-3,100 adjustment equals \$10,000 (line 18b of Form 8960).

System Default

With the system default, **all** investment expenses (including deductions subject to 2% AGI floor reported on 1041, line 15c) are fully allowed on Form 8960, Part II.

Impact on Undistributed NII

- 100% of the 1041, line 15c amount was allowed on Form 8960 in arriving at 'Net investment income' reported on Form 8960, line 18a.
- Only NII distributed (under §652(b)) is included in determination of 'Deduction for distribution of net investment income' on Form 8960, line 18b. Any portion of Form 1041, line 15c offset against non-NII would NOT be included in this amount.
- Undistributed net investment income reported as such on Form 8960, line 18c will end up being reduced by the portion of investment expense which was offset against non-NII income.

In this account, taxable income before exemption is equal to the amount of undistributed gains (\$50,000). Undistributed NII on the other hand equals \$49,000 (\$50,000 less the portion of investment expense which was offset against non-NII for §652(b) purposes.

Form 8960 Investment Expense CIF option selected

If the option is selected to report on Form 8960, Part II only the portion of investment expense actually allocated to NII for §652(b) purposes, then in the above example Form 8960, line 9c is left blank and undistributed NII is equal to \$50,000 (same as taxable income before exemption).

Since the §652(b) allocation is not altered, Schedule K-1 results are identical.

Example 2

Complex \$100 trust, one beneficiary receiving \$40,000

Expense Allocation Option - Expenses offset against reduced rate income last

\$11,000 Qualified dividends
\$6,666 Interest income
\$10,000 LT Gain
\$5,000 Other income (state refund)
\$400 State income taxes
\$4,600 Real estate taxes on non-rental property (tax code 33)
\$4,000 Fiduciary fees

\$10,000 Prior year undistributed NII
\$15,000 Prior year taxable income before exemption
\$380 Prior year surtax

State Refund NII Allocation - This example includes state refund includible in other income of \$5,000. Of this, \$3,333 is considered attributable to NII and the remainder, \$1,667 to non-NII. See Statement 1.

Real Estate Taxes (Non-Rental Property) – These are not allowed as a deduction on Form 8960, Part II.

System Default

With the system default, real estate taxes on non-rental property (tax code 33) are treated like other expenses with respect to the §652(b) expense allocation.

Impact on Undistributed NII

- Real estate taxes on non-rental property are not allowed as a deduction on Part II of Form 8960.
- Only NII distributed (under §652(b)) is included in determination of 'Deduction for distribution of net investment income' on Form 8960, line 18b. Any portion of real estate taxes on non-rental property offset against NII will reduce this amount.
- Undistributed net investment income reported as such on Form 8960, line 18c will end up being increased by the portion of real estate taxes on non-rental property which was offset against NII income.

In this account, taxable income before exemption is equal to the amount of undistributed gains (\$10,000). Undistributed NII on the other hand equals \$14,600 (\$10,000 plus the portion of real estate tax on non-rental property which was offset against NII for §652(b) purposes.

Schedule K-1 Section 1411 Adjustment – Since no expenses were offset against non-NII income (that portion of state refund which was not considered NII), then the Section 1411 adjustment (Line 14, Code H) equals -1,667, the inverse of the non-NII income reported on the Schedule K-1.

Alternate §652(b) Expense Allocation for Real Estate Tax on Non-Rental Property Expense CIF option selected

If the option is selected to offset these expenses first to non-NII to the extent possible with any excess offset against NII, the system treats these expenses as non-NII specific expenses for purposes of the §652(b) expense allocation.

Whenever there are non-NII specific expenses, additional allocation detail is generated. Statement 3 indicates the non-NII specific expense and shows how it was allocated against the various income classes. Note how the non-NII specific expense is first allocated against non-NII income, even though this income is potentially taxed at a lower rate than NII interest income. Immediately below on the same statement is detail which indicates how the remaining expenses were allocated. The expense allocation shown on statement 1 combines the results of the allocations on statement 3.

In the 'Deduction Description' section under the 'Allocable to Sect 1411' column of Statement 1, it is indicated that \$2,933 of non-rental real estate taxes were offset against NII for §652(b) purposes. Unlike other expenses, the portion of these expenses which were offset against NII for §652(b) purposes is NOT carried to Part II of the Form 8960 as these type expenses are specifically disallowed from being offset against NII for purposes of the surtax computation.

Selection of this option basically minimizes the increase in undistributed net investment income which can occur when a portion of these expense have been offset against NII income. Alternately selection of this option can reduce the amount of lower taxed income being distributed to beneficiaries

Schedule K-1 Section 1411 Adjustment – Since all of the non-NII income (that portion of state refund which was not considered NII) was offset by deductions, then no Section 1411 adjustment (Line 14, Code H) appears on the Schedule K-1 and all income reported on the K-1 is NII. As such, the distribution deduction which appears on line 15 of Schedule B is the same as that which appears on line 18b of Form 8960.

A Check all that apply:		For calendar year 2014 or fiscal year beginning _____, 2014, and ending _____, 20	
<input type="checkbox"/> Decedent's estate <input checked="" type="checkbox"/> Simple trust <input type="checkbox"/> Complex trust <input type="checkbox"/> Qualified disability trust <input type="checkbox"/> ESBT (S portion only) <input type="checkbox"/> Grantor type trust <input type="checkbox"/> Bankruptcy estate - Ch. 7 <input type="checkbox"/> Bankruptcy estate - Ch. 11 <input type="checkbox"/> Pooled income fund	Name of estate or trust (If a grantor type trust, see the instructions.) FORM 8960 TRUST - EXAMPLE 1 (SYSTEM DEFAULT - 100% INV EXP TO 8960)		C Employer identification number 21-1234567
	Name and title of fiduciary ABC BANK		D Date entity created E Nonexempt charitable and split-interest trusts, check applicable box(es), see instructions. <input type="checkbox"/> Described in sec. 4947(a)(1). Check here if not a private foundation <input type="checkbox"/> Described in sec. 4947(a)(2)
	Number, street, and room or suite no. (If a P.O. box, see the instructions.) ABC ADDRESS		
	City or town, state or province, country, and ZIP or foreign postal code MCKINNEY, TX 75069		
	B Number of Schedules K-1 attached (see instructions) 1		F Check applicable boxes: <input type="checkbox"/> Initial return <input type="checkbox"/> Change in trust's name <input type="checkbox"/> Final return <input type="checkbox"/> Change in fiduciary <input type="checkbox"/> Amended return <input type="checkbox"/> Change in fiduciary's name <input type="checkbox"/> Net operating loss carryback <input type="checkbox"/> Change in fiduciary's address
G Check here if the estate or filing trust made a section 645 election <input type="checkbox"/> Trust TIN <input type="checkbox"/>			

Income	1	Interest income	1	
	2a	Total ordinary dividends	2a	10,000.
	b	Qualified dividends allocable to: (1) Beneficiaries <u>10,000.</u> (2) Estate or trust <u>NONE</u>		
	3	Business income or (loss). Attach Schedule C or C-EZ (Form 1040)	3	
	4	Capital gain or (loss). Attach Schedule D (Form 1041)	4	50,000.
	5	Rents, royalties, partnerships, other estates and trusts, etc. Attach Schedule E (Form 1040)	5	
	6	Farm income or (loss). Attach Schedule F (Form 1040)	6	
	7	Ordinary gain or (loss). Attach Form 4797	7	
	8	Other income. List type and amount <u>SEE STATEMENT 1</u>	8	7,500.
	9	Total income. Combine lines 1, 2a, and 3 through 8	9	67,500.
Deductions	10	Interest. Check if Form 4952 is attached <input type="checkbox"/>	10	
	11	Taxes	11	400.
	12	Fiduciary fees	12	3,000.
	13	Charitable deduction (from Schedule A, line 7)	13	
	14	Attorney, accountant, and return preparer fees	14	
	15a	Other deductions not subject to the 2% floor (attach schedule)	15a	
	b	Net operating loss deduction (see instructions)	15b	
	c	Allowable miscellaneous itemized deductions subject to the 2% floor	15c	1,000.
	16	Add lines 10 through 15c	16	4,400.
	17	Adjusted total income or (loss). Subtract line 16 from line 9	17	63,100.
	18	Income distribution deduction (from Schedule B, line 15). Attach Schedules K-1 (Form 1041)	18	13,100.
Tax and Payments	19	Estate tax deduction including certain generation-skipping taxes (attach computation)	19	
	20	Exemption	20	300.
	21	Add lines 18 through 20	21	13,400.
	22	Taxable income. Subtract line 21 from line 17. If a loss, see instructions	22	49,700.
	23	Total tax (from Schedule G, line 7)	23	10,438.
	24a	Payments: a 2014 estimated tax payments and amount applied from 2013 return	24a	
	b	Estimated tax payments allocated to beneficiaries (from Form 1041-T)	24b	
	c	Subtract line 24b from line 24a	24c	
	d	Tax paid with Form 7004 (see instructions)	24d	
	e	Federal income tax withheld. If any is from Form(s) 1099, check <input type="checkbox"/> Other payments: f Form 2439 _____; g Form 4136 _____; Total	24e 24h	
	25	Total payments. Add lines 24c through 24e, and 24h	25	
26	Estimated tax penalty (see instructions)	26		
27	Tax due. If line 25 is smaller than the total of lines 23 and 26, enter amount owed	27	10,438.	
28	Overpayment. If line 25 is larger than the total of lines 23 and 26, enter amount overpaid	28		
29	Amount of line 28 to be: a Credited to 2015 estimated tax ; b Refunded	29		

Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		
	Signature of fiduciary or officer representing fiduciary _____	Date _____	EIN of fiduciary if a financial institution _____
	May the IRS discuss this return with the preparer shown below (see instr.)? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name	Firm's EIN			
	Firm's address	Phone no.			

Schedule A Charitable Deduction. Do not complete for a simple trust or a pooled income fund.

1	Amounts paid or permanently set aside for charitable purposes from gross income (see instructions)	1	
2	Tax-exempt income allocable to charitable contributions (see instructions)	2	
3	Subtract line 2 from line 1	3	
4	Capital gains for the tax year allocated to corpus and paid or permanently set aside for charitable purposes	4	
5	Add lines 3 and 4	5	
6	Section 1202 exclusion allocable to capital gains paid or permanently set aside for charitable purposes (see instructions)	6	
7	Charitable deduction. Subtract line 6 from line 5. Enter here and on page 1, line 13	7	

Schedule B Income Distribution Deduction

1	Adjusted total income (see instructions)	1	63,100.
2	Adjusted tax-exempt interest	2	NONE
3	Total net gain from Schedule D (Form 1041), line 19, column (1) (see instructions)	3	
4	Enter amount from Schedule A, line 4 (minus any allocable section 1202 exclusion)	4	
5	Capital gains for the tax year included on Schedule A, line 1 (see instructions)	5	
6	Enter any gain from page 1, line 4, as a negative number. If page 1, line 4, is a loss, enter the loss as a positive number	6	-50,000.
7	Distributable net income. Combine lines 1 through 6. If zero or less, enter -0-	7	13,100.
8	If a complex trust, enter accounting income for the tax year as determined under the governing instrument and applicable local law	8	
9	Income required to be distributed currently	9	14,600.
10	Other amounts paid, credited, or otherwise required to be distributed	10	
11	Total distributions. Add lines 9 and 10. If greater than line 8, see instructions	11	14,600.
12	Enter the amount of tax-exempt income included on line 11	12	NONE
13	Tentative income distribution deduction. Subtract line 12 from line 11	13	14,600.
14	Tentative income distribution deduction. Subtract line 2 from line 7. If zero or less, enter -0-	14	13,100.
15	Income distribution deduction. Enter the smaller of line 13 or line 14 here and on page 1, line 18	15	13,100.

Schedule G Tax Computation (see instructions)

1	Tax: a Tax on taxable income (see instructions)	1a	8,958.	
	b Tax on lump-sum distributions. Attach Form 4972	1b		
	c Alternative minimum tax (from Schedule I (Form 1041), line 56)	1c	NONE	
	d Total. Add lines 1a through 1c	1d	8,958.	
2a	Foreign tax credit. Attach Form 1116	2a		
	b General business credit. Attach Form 3800	2b		
	c Credit for prior year minimum tax. Attach Form 8801	2c		
	d Bond credits. Attach Form 8912	2d		
	e Total credits. Add lines 2a through 2d	2e		
3	Subtract line 2e from line 1d. If zero or less, enter -0-	3	8,958.	
4	Net investment income tax from Form 8960, line 21	4	1,480.	
5	Recapture taxes. Check if from: <input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611	5		
6	Household employment taxes. Attach Schedule H (Form 1040)	6		
7	Total tax. Add lines 3 through 6. Enter here and on page 1, line 23	7	10,438.	

Other Information

	Yes	No
1 Did the estate or trust receive tax-exempt income? If "Yes," attach a computation of the allocation of expenses. Enter the amount of tax-exempt interest income and exempt-interest dividends \$		X
2 Did the estate or trust receive all or any part of the earnings (salary, wages, and other compensation) of any individual by reason of a contract assignment or similar arrangement?		X
3 At any time during calendar year 2014, did the estate or trust have an interest in or a signature or other authority over a bank, securities, or other financial account in a foreign country? See the instructions for exceptions and filing requirements for FinCEN Form 114. If "Yes," enter the name of the foreign country		X
4 During the tax year, did the estate or trust receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the estate or trust may have to file Form 3520. See instructions		X
5 Did the estate or trust receive, or pay, any qualified residence interest on seller-provided financing? If "Yes," see the instructions for required attachment		X
6 If this is an estate or a complex trust making the section 663(b) election, check here (see instructions)		
7 To make a section 643(e)(3) election, attach Schedule D (Form 1041), and check here (see instructions)		
8 If the decedent's estate has been open for more than 2 years, attach an explanation for the delay in closing the estate, and check here		
9 Are any present or future trust beneficiaries skip persons? See instructions		X

**Net Investment Income Tax-
Individuals, Estates, and Trusts**

▶ Attach to your tax return.

▶ Information about Form 8960 and its separate instructions is at www.irs.gov/form8960.

Name(s) shown on your tax return

FORM 8960 TRUST - EXAMPLE 1

(SYSTEM DEFAULT - 100% INV EXP TO 8960)

Your social security number or EIN

21-1234567

Part I Investment Income

- ☐ Section 6013(g) election (see instructions)
- ☐ Section 6013(h) election (see instructions)
- ☐ Regulations section 1.1411-10(g) election (see instructions)

1	Taxable interest (see instructions)	1	
2	Ordinary dividends (see instructions).	2	10,000.
3	Annuities (see instructions).	3	
4 a	Rental real estate, royalties, partnerships, S corporations, trusts, etc. (see instructions).	4a	
b	Adjustment for net income or loss derived in the ordinary course of a non-section 1411 trade or business (see instructions)	4b	
c	Combine lines 4a and 4b.	4c	
5 a	Net gain or loss from disposition of property (see instructions).	5a	50,000.
b	Net gain or loss from disposition of property that is not subject to net investment income tax (see instructions)	5b	
c	Adjustment from disposition of partnership interest or S corporation stock (see instructions)	5c	
d	Combine lines 5a through 5c.	5d	50,000.
6	Adjustments to investment income for certain CFCs and PFICs (see instructions)	6	
7	Other modifications to investment income (see instructions)	7	
8	Total investment income. Combine lines 1, 2, 3, 4c, 5d, 6, and 7	8	60,000.

Part II Investment Expenses Allocable to Investment Income and Modifications

9 a	Investment interest expenses (see instructions).	9a	
b	State, local, and foreign income tax (see instructions).	9b	
c	Miscellaneous investment expenses (see instructions) . STMT. 3.	9c	1,000.
d	Add lines 9a, 9b, and 9c	9d	1,000.
10	Additional modifications (see instructions)	10	
11	Total deductions and modifications. Add lines 9d and 10	11	1,000.

Part III Tax Computation

12	Net investment income. Subtract Part II, line 11 from Part I, line 8. Individuals complete lines 13-17. Estates and trusts complete lines 18a-21. If zero or less, enter -0-	12	59,000.
Individuals:			
13	Modified adjusted gross income (see instructions)	13	
14	Threshold based on filing status (see instructions)	14	
15	Subtract line 14 from line 13. If zero or less, enter -0-	15	
16	Enter the smaller of line 12 or line 15	16	
17	Net investment income tax for individuals. Multiply line 16 by 3.8% (.038). Enter here and include on your tax return (see instructions)	17	
Estates and Trusts:			
18 a	Net investment income (line 12 above)	18a	59,000.
b	Deductions for distributions of net investment income and deductions under section 642(c) (see instructions)	18b	10,000.
c	Undistributed net investment income. Subtract line 18b from 18a (see instructions). If zero or less, enter -0-	18c	49,000.
19 a	Adjusted gross income (see instructions) STMT. 3.	19a	51,100.
b	Highest tax bracket for estates and trusts for the year (see instructions).	19b	12,150.
c	Subtract line 19b from line 19a. If zero or less, enter -0-	19c	38,950.
20	Enter the smaller of line 18c or line 19c.	20	38,950.
21	Net investment income tax for estates and trusts. Multiply line 20 by 3.8% (.038). Enter here and include on your tax return (see instructions).	21	1,480.

For Paperwork Reduction Act Notice, see your tax return instructions.

Form **8960** (2014)

Schedule K-1
(Form 1041)

Department of the Treasury
Internal Revenue Service

2014

For calendar year 2014,
or tax year beginning _____, 2014,
and ending _____, 20 _____

Beneficiary's Share of Income, Deductions,
Credits, etc.

► See back of form and instructions.

Part I Information About the Estate or Trust

A Estate's or trust's employer identification number

21-1234567

B Estate's or trust's name

FORM 8960 TRUST - EXAMPLE 1
(SYSTEM DEFAULT - 100% INV EXP TO 8960)

C Fiduciary's name, address, city, state, and ZIP code

ABC BANK
ABC ADDRESS
MCKINNEY, TX 75069

D ☐ Check if Form 1041-T was filed and enter the date it was filed

E ☐ Check if this is the final Form 1041 for the estate or trust

Part II Information About the Beneficiary

F Beneficiary's identifying number

222-11-3333

G Beneficiary's name, address, city, state, and ZIP code

CHAMP DUGGMAN

H ☒ Domestic beneficiary ☐ Foreign beneficiary

☐ Final K-1

☐ Amended K-1

661113
OMB No. 1545-0092

Part III Beneficiary's Share of Current Year Income,
Deductions, Credits, and Other Items

1	Interest income	11	Final year deductions
2a	Ordinary dividends 10,000.		
2b	Qualified dividends 10,000.		
3	Net short-term capital gain		
4a	Net long-term capital gain		
4b	28% rate gain	12	Alternative minimum tax adjustment
4c	Unrecaptured section 1250 gain	A	1,400.
5	Other portfolio and nonbusiness income 3,100.	J	1,400.
6	Ordinary business income		
7	Net rental real estate income	13	Credits and credit recapture
8	Other rental income		
9	Directly apportioned deductions		
		14	Other information
		H	-3,100.
10	Estate tax deduction		

*See attached statement for additional information.

Note. A statement must be attached showing the beneficiary's share of income and directly apportioned deductions from each business, rental real estate, and other rental activity.

For IRS Use Only

Form 8960 - Net Investment Income (Section 1411) Detail**Allocation of Deductions**

Income Description	Maximum Tax Rate	Gross	Deductions	Net
Other Income (Non-NII)	39.6	7,500.	4,400.	3,100.
Qualified Other Dividends (NII)	23.8	10,000.		10,000.
Totals		17,500.	4,400.	13,100.

Expense Allocation Methodology:

Unless indicated otherwise, expenses have been offset against income subject to the lowest marginal tax rate last.

Deduction Description (Line references below refer to Form 8960)	Gross	Allocable to Sect 1411 NII	Not Alloc to Sect 1411 NII
State Income Taxes (Line 9b)	400.		400.
Fiduciary Fees (Line 10)	3,000.		3,000.
Other Deductions Subject to 2% AGI Floor (Line 9c)	1,000.		1,000.
Total Deductions	4,400.		4,400.

Form 8960, Part II, Expenses Allocable to Investment Income

Line 9C - Miscellaneous investment expenses	1,000.
Total deductions and modifications	1,000.

Miscellaneous investment expenses are required to be included on Part II of Form 8960. This includes any portion of deductions subject to 2% AGI floor which were allocated against non-NII income for purposes of Section 652(b).

Adjusted Gross Income (Line 19a)

1. Total income	67,500.
Less:	
2. Fiduciary fees	3,000.
3. Attorney, accountant, and return preparer fees	
4. Other deductions not subject to 2% AGI floor	
5. Income distribution deduction	13,100.
6. Exemption	300.
7. Adjusted Gross Income	51,100.

A Check all that apply:		For calendar year 2014 or fiscal year beginning , 2014, and ending , 20	
<input type="checkbox"/>	Decedent's estate	Name of estate or trust (If a grantor type trust, see the instructions.)	C Employer identification number
<input checked="" type="checkbox"/>	Simple trust	FORM 8960 TRUST - EXAMPLE 1 (CIF 8960 INVESTMENT EXPENSE OPTION SELECTED)	21-1234567
<input type="checkbox"/>	Complex trust	Name and title of fiduciary	D Date entity created
<input type="checkbox"/>	Qualified disability trust	ABC BANK	
<input type="checkbox"/>	ESBT (S portion only)	Number, street, and room or suite no. (If a P.O. box, see the instructions.)	E Nonexempt charitable and split-interest trusts, check applicable box(es), see instructions.
<input type="checkbox"/>	Grantor type trust	ABC ADDRESS	<input type="checkbox"/> Described in sec. 4947(a)(1). Check here
<input type="checkbox"/>	Bankruptcy estate-Ch. 7	City or town, state or province, country, and ZIP or foreign postal code	<input type="checkbox"/> if not a private foundation . . . <input type="checkbox"/>
<input type="checkbox"/>	Bankruptcy estate-Ch. 11	MCKINNEY, TX 75069	<input type="checkbox"/> Described in sec. 4947(a)(2)
<input type="checkbox"/>	Pooled income fund		
B Number of Schedules K-1 attached (see instructions) 1		F Check applicable boxes:	G Net operating loss carryback
		Initial return	Change in fiduciary's name
		Change in trust's name	Change in fiduciary's address
		Final return	
		Change in fiduciary	
		Amended return	
		Change in fiduciary's name	
G Check here if the estate or filing trust made a section 645 election <input type="checkbox"/>		Trust TIN <input type="checkbox"/>	

Income	1	Interest income	1	
	2a	Total ordinary dividends . . . SEE STATEMENT 1	2a	10,000.
	b	Qualified dividends allocable to: (1) Beneficiaries 10,000. (2) Estate or trust NONE		
	3	Business income or (loss). Attach Schedule C or C-EZ (Form 1040)	3	
	4	Capital gain or (loss). Attach Schedule D (Form 1041)	4	50,000.
	5	Rents, royalties, partnerships, other estates and trusts, etc. Attach Schedule E (Form 1040)	5	
	6	Farm income or (loss). Attach Schedule F (Form 1040)	6	
	7	Ordinary gain or (loss). Attach Form 4797	7	
	8	Other income. List type and amount SEE STATEMENT 1	8	7,500.
	9	Total income. Combine lines 1, 2a, and 3 through 8	9	67,500.
Deductions	10	Interest. Check if Form 4952 is attached <input type="checkbox"/>	10	
	11	Taxes	11	400.
	12	Fiduciary fees	12	3,000.
	13	Charitable deduction (from Schedule A, line 7)	13	
	14	Attorney, accountant, and return preparer fees	14	
	15a	Other deductions not subject to the 2% floor (attach schedule)	15a	
	b	Net operating loss deduction (see instructions)	15b	
	c	Allowable miscellaneous itemized deductions subject to the 2% floor	15c	1,000.
	16	Add lines 10 through 15c	16	4,400.
	17	Adjusted total income or (loss). Subtract line 16 from line 9	17	63,100.
	18	Income distribution deduction (from Schedule B, line 15). Attach Schedules K-1 (Form 1041)	18	13,100.
Tax and Payments	19	Estate tax deduction including certain generation-skipping taxes (attach computation)	19	
	20	Exemption	20	300.
	21	Add lines 18 through 20	21	13,400.
	22	Taxable income. Subtract line 21 from line 17. If a loss, see instructions	22	49,700.
	23	Total tax (from Schedule G, line 7)	23	10,438.
	24a	Payments: a 2014 estimated tax payments and amount applied from 2013 return	24a	
	b	Estimated tax payments allocated to beneficiaries (from Form 1041-T)	24b	
	c	Subtract line 24b from line 24a	24c	
	d	Tax paid with Form 7004 (see instructions)	24d	
	e	Federal income tax withheld. If any is from Form(s) 1099, check <input type="checkbox"/>	24e	
	f	Other payments: f Form 2439 ; g Form 4136 ; Total <input type="checkbox"/>	24h	
25	Total payments. Add lines 24c through 24e, and 24h	25		
26	Estimated tax penalty (see instructions)	26		
27	Tax due. If line 25 is smaller than the total of lines 23 and 26, enter amount owed	27	10,438.	
28	Overpayment. If line 25 is larger than the total of lines 23 and 26, enter amount overpaid	28		
29	Amount of line 28 to be: a Credited to 2015 estimated tax ; b Refunded	29		

Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.					
	Signature of fiduciary or officer representing fiduciary	Date	EIN of fiduciary if a financial institution			
	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td colspan="2">May the IRS discuss this return with the preparer shown below (see instr.)?</td> </tr> <tr> <td style="text-align: center;">Yes <input type="checkbox"/></td> <td style="text-align: center;">No <input checked="" type="checkbox"/></td> </tr> </table>			May the IRS discuss this return with the preparer shown below (see instr.)?		Yes <input type="checkbox"/>
May the IRS discuss this return with the preparer shown below (see instr.)?						
Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>					
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date			
	Firm's name	Firm's EIN				
	Firm's address	Phone no.				

Schedule A Charitable Deduction. Do not complete for a simple trust or a pooled income fund.

1	Amounts paid or permanently set aside for charitable purposes from gross income (see instructions)	1	
2	Tax-exempt income allocable to charitable contributions (see instructions)	2	
3	Subtract line 2 from line 1	3	
4	Capital gains for the tax year allocated to corpus and paid or permanently set aside for charitable purposes	4	
5	Add lines 3 and 4	5	
6	Section 1202 exclusion allocable to capital gains paid or permanently set aside for charitable purposes (see instructions)	6	
7	Charitable deduction. Subtract line 6 from line 5. Enter here and on page 1, line 13	7	

Schedule B Income Distribution Deduction

1	Adjusted total income (see instructions)	1	63,100.
2	Adjusted tax-exempt interest	2	NONE
3	Total net gain from Schedule D (Form 1041), line 19, column (1) (see instructions)	3	
4	Enter amount from Schedule A, line 4 (minus any allocable section 1202 exclusion)	4	
5	Capital gains for the tax year included on Schedule A, line 1 (see instructions)	5	
6	Enter any gain from page 1, line 4, as a negative number. If page 1, line 4, is a loss, enter the loss as a positive number	6	-50,000.
7	Distributable net income. Combine lines 1 through 6. If zero or less, enter -0-	7	13,100.
8	If a complex trust, enter accounting income for the tax year as determined under the governing instrument and applicable local law	8	
9	Income required to be distributed currently	9	14,600.
10	Other amounts paid, credited, or otherwise required to be distributed	10	
11	Total distributions. Add lines 9 and 10. If greater than line 8, see instructions	11	14,600.
12	Enter the amount of tax-exempt income included on line 11	12	NONE
13	Tentative income distribution deduction. Subtract line 12 from line 11	13	14,600.
14	Tentative income distribution deduction. Subtract line 2 from line 7. If zero or less, enter -0-	14	13,100.
15	Income distribution deduction. Enter the smaller of line 13 or line 14 here and on page 1, line 18	15	13,100.

Schedule G Tax Computation (see instructions)

1	Tax: a Tax on taxable income (see instructions)	1a	8,958.	
	b Tax on lump-sum distributions. Attach Form 4972	1b		
	c Alternative minimum tax (from Schedule I (Form 1041), line 56)	1c	NONE	
	d Total. Add lines 1a through 1c	1d	8,958.	
2a	Foreign tax credit. Attach Form 1116	2a		
	b General business credit. Attach Form 3800	2b		
	c Credit for prior year minimum tax. Attach Form 8801	2c		
	d Bond credits. Attach Form 8912	2d		
	e Total credits. Add lines 2a through 2d	2e		
3	Subtract line 2e from line 1d. If zero or less, enter -0-	3	8,958.	
4	Net investment income tax from Form 8960, line 21	4	1,480.	
5	Recapture taxes. Check if from: <input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611	5		
6	Household employment taxes. Attach Schedule H (Form 1040)	6		
7	Total tax. Add lines 3 through 6. Enter here and on page 1, line 23	7	10,438.	

Other Information

	Yes	No
1 Did the estate or trust receive tax-exempt income? If "Yes," attach a computation of the allocation of expenses. Enter the amount of tax-exempt interest income and exempt-interest dividends ► \$		X
2 Did the estate or trust receive all or any part of the earnings (salary, wages, and other compensation) of any individual by reason of a contract assignment or similar arrangement?		X
3 At any time during calendar year 2014, did the estate or trust have an interest in or a signature or other authority over a bank, securities, or other financial account in a foreign country? See the instructions for exceptions and filing requirements for FinCEN Form 114. If "Yes," enter the name of the foreign country ►		X
4 During the tax year, did the estate or trust receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the estate or trust may have to file Form 3520. See instructions		X
5 Did the estate or trust receive, or pay, any qualified residence interest on seller-provided financing? If "Yes," see the instructions for required attachment		X
6 If this is an estate or a complex trust making the section 663(b) election, check here (see instructions) ► <input type="checkbox"/>		
7 To make a section 643(e)(3) election, attach Schedule D (Form 1041), and check here (see instructions) ► <input type="checkbox"/>		
8 If the decedent's estate has been open for more than 2 years, attach an explanation for the delay in closing the estate, and check here ► <input type="checkbox"/>		
9 Are any present or future trust beneficiaries skip persons? See instructions		X

**Net Investment Income Tax-
Individuals, Estates, and Trusts**

▶ Attach to your tax return.

▶ Information about Form 8960 and its separate instructions is at www.irs.gov/form8960.

Name(s) shown on your tax return

FORM 8960 TRUST - EXAMPLE 1

(CIF 8960 INVESTMENT EXPENSE OPTION SELECTED)

Your social security number or EIN

21-1234567

Part I Investment Income

- ☐ Section 6013(g) election (see instructions)
- ☐ Section 6013(h) election (see instructions)
- ☐ Regulations section 1.1411-10(g) election (see instructions)

1	Taxable interest (see instructions)	1	
2	Ordinary dividends (see instructions).	2	10,000.
3	Annuities (see instructions).	3	
4 a	Rental real estate, royalties, partnerships, S corporations, trusts, etc. (see instructions).	4a	
b	Adjustment for net income or loss derived in the ordinary course of a non-section 1411 trade or business (see instructions)	4b	
c	Combine lines 4a and 4b.	4c	
5 a	Net gain or loss from disposition of property (see instructions).	5a	50,000.
b	Net gain or loss from disposition of property that is not subject to net investment income tax (see instructions)	5b	
c	Adjustment from disposition of partnership interest or S corporation stock (see instructions)	5c	
d	Combine lines 5a through 5c.	5d	50,000.
6	Adjustments to investment income for certain CFCs and PFICs (see instructions)	6	
7	Other modifications to investment income (see instructions)	7	
8	Total investment income. Combine lines 1, 2, 3, 4c, 5d, 6, and 7	8	60,000.

Part II Investment Expenses Allocable to Investment Income and Modifications

9 a	Investment interest expenses (see instructions).	9a	
b	State, local, and foreign income tax (see instructions).	9b	
c	Miscellaneous investment expenses (see instructions)	9c	
d	Add lines 9a, 9b, and 9c	9d	
10	Additional modifications (see instructions)	10	
11	Total deductions and modifications. Add lines 9d and 10	11	

Part III Tax Computation

12	Net investment income. Subtract Part II, line 11 from Part I, line 8. Individuals complete lines 13-17. Estates and trusts complete lines 18a-21. If zero or less, enter -0-	12	60,000.
Individuals:			
13	Modified adjusted gross income (see instructions)	13	
14	Threshold based on filing status (see instructions)	14	
15	Subtract line 14 from line 13. If zero or less, enter -0-	15	
16	Enter the smaller of line 12 or line 15	16	
17	Net investment income tax for individuals. Multiply line 16 by 3.8% (.038). Enter here and include on your tax return (see instructions)	17	
Estates and Trusts:			
18 a	Net investment income (line 12 above)	18a	60,000.
b	Deductions for distributions of net investment income and deductions under section 642(c) (see instructions)	18b	10,000.
c	Undistributed net investment income. Subtract line 18b from 18a (see instructions). If zero or less, enter -0-	18c	50,000.
19 a	Adjusted gross income (see instructions) STMT. 3.	19a	51,100.
b	Highest tax bracket for estates and trusts for the year (see instructions).	19b	12,150.
c	Subtract line 19b from line 19a. If zero or less, enter -0-	19c	38,950.
20	Enter the smaller of line 18c or line 19c.	20	38,950.
21	Net investment income tax for estates and trusts. Multiply line 20 by 3.8% (.038). Enter here and include on your tax return (see instructions).	21	1,480.

For Paperwork Reduction Act Notice, see your tax return instructions.

Form **8960** (2014)

Schedule K-1
(Form 1041)

Department of the Treasury
Internal Revenue Service

2014

For calendar year 2014,
or tax year beginning _____, 2014,
and ending _____, 20 _____

Beneficiary's Share of Income, Deductions,
Credits, etc.

► See back of form and instructions.

Part I Information About the Estate or Trust

A Estate's or trust's employer identification number

21-1234567

B Estate's or trust's name

FORM 8960 TRUST - EXAMPLE 1
(CIF 8960 INVESTMENT EXPENSE OPTION SELECTED)

C Fiduciary's name, address, city, state, and ZIP code

ABC BANK
ABC ADDRESS
MCKINNEY, TX 75069

D ☐ Check if Form 1041-T was filed and enter the date it was filed

E ☐ Check if this is the final Form 1041 for the estate or trust

Part II Information About the Beneficiary

F Beneficiary's identifying number

222-11-3333

G Beneficiary's name, address, city, state, and ZIP code

CHAMP DUGGMAN

H ☒ Domestic beneficiary ☐ Foreign beneficiary

☐ Final K-1

☐ Amended K-1

661113
OMB No. 1545-0092

Part III Beneficiary's Share of Current Year Income,
Deductions, Credits, and Other Items

1	Interest income	11	Final year deductions
2a	Ordinary dividends 10,000.		
2b	Qualified dividends 10,000.		
3	Net short-term capital gain		
4a	Net long-term capital gain		
4b	28% rate gain	12	Alternative minimum tax adjustment
4c	Unrecaptured section 1250 gain	A	1,400.
5	Other portfolio and nonbusiness income 3,100.	J	1,400.
6	Ordinary business income		
7	Net rental real estate income	13	Credits and credit recapture
8	Other rental income		
9	Directly apportioned deductions		
		14	Other information
		H	-3,100.
10	Estate tax deduction		

*See attached statement for additional information.

Note. A statement must be attached showing the beneficiary's share of income and directly apportioned deductions from each business, rental real estate, and other rental activity.

For IRS Use Only

Form 8960 - Net Investment Income (Section 1411) Detail**Allocation of Deductions**

Income Description -----	Maximum Tax Rate	Gross -----	Deductions -----	Net -----
Other Income (Non-NII)	39.6	7,500.	4,400.	3,100.
Qualified Other Dividends (NII)	23.8	10,000.		10,000.
Totals		17,500.	4,400.	13,100.
		=====	=====	=====

Expense Allocation Methodology:

Unless indicated otherwise, expenses have been offset against income subject to the lowest marginal tax rate last.

Deduction Description (Line references below refer to Form 8960) -----	Gross -----	Allocable to Sect 1411 NII -----	Not Alloc to Sect 1411 NII -----
State Income Taxes (Line 9b)	400.		400.
Fiduciary Fees (Line 10)	3,000.		3,000.
Other Deductions Subject to 2% AGI Floor (Line 9c)	1,000.		1,000.
Total Deductions	4,400.		4,400.
	=====	=====	=====

Adjusted Gross Income (Line 19a)

1. Total income	67,500.
Less:	
2. Fiduciary fees	3,000.
3. Attorney, accountant, and return preparer fees	
4. Other deductions not subject to 2% AGI floor	
5. Income distribution deduction	13,100.
6. Exemption	300.
7. Adjusted Gross Income	51,100.

A Check all that apply:		For calendar year 2014 or fiscal year beginning , 2014, and ending , 20	
<input type="checkbox"/> Decedent's estate	Name of estate or trust (If a grantor type trust, see the instructions.)		C Employer identification number
<input type="checkbox"/> Simple trust	FORM 8960 TRUST - EXAMPLE 2 (SYSTEM DEFAULT - TAX CODE 33)		21-1234567
<input checked="" type="checkbox"/> Complex trust	Name and title of fiduciary		D Date entity created
<input type="checkbox"/> Qualified disability trust	ABC BANK		
<input type="checkbox"/> ESBT (S portion only)	Number, street, and room or suite no. (If a P.O. box, see the instructions.)		E Nonexempt charitable and split-interest trusts, check applicable box(es), see instructions.
<input type="checkbox"/> Grantor type trust	ABC ADDRESS		<input type="checkbox"/> Described in sec. 4947(a)(1). Check here
<input type="checkbox"/> Bankruptcy estate-Ch. 7	City or town, state or province, country, and ZIP or foreign postal code		<input type="checkbox"/> if not a private foundation . . . <input type="checkbox"/>
<input type="checkbox"/> Bankruptcy estate-Ch. 11	MCKINNEY, TX 75069		<input type="checkbox"/> Described in sec. 4947(a)(2)
<input type="checkbox"/> Pooled income fund			
B Number of Schedules K-1 attached (see instructions) 1	F Check applicable boxes:	Initial return	Final return
		Change in trust's name	Change in fiduciary
			Amended return
			Change in fiduciary's name
			Net operating loss carryback
			Change in fiduciary's address
G Check here if the estate or filing trust made a section 645 election <input type="checkbox"/>		Trust TIN <input type="checkbox"/>	

Income	1	Interest income	1	6,666.
	2a	Total ordinary dividends	2a	11,000.
	b	Qualified dividends allocable to: (1) Beneficiaries 11,000. (2) Estate or trust NONE		
	3	Business income or (loss). Attach Schedule C or C-EZ (Form 1040)	3	
	4	Capital gain or (loss). Attach Schedule D (Form 1041)	4	10,000.
	5	Rents, royalties, partnerships, other estates and trusts, etc. Attach Schedule E (Form 1040)	5	
	6	Farm income or (loss). Attach Schedule F (Form 1040)	6	
	7	Ordinary gain or (loss). Attach Form 4797	7	
	8	Other income. List type and amount	8	5,000.
9	Total income. Combine lines 1, 2a, and 3 through 8	9	32,666.	
Deductions	10	Interest. Check if Form 4952 is attached <input type="checkbox"/>	10	
	11	Taxes	11	5,000.
	12	Fiduciary fees	12	4,000.
	13	Charitable deduction (from Schedule A, line 7)	13	
	14	Attorney, accountant, and return preparer fees	14	
	15a	Other deductions not subject to the 2% floor (attach schedule)	15a	
	b	Net operating loss deduction (see instructions)	15b	
	c	Allowable miscellaneous itemized deductions subject to the 2% floor	15c	
	16	Add lines 10 through 15c	16	9,000.
	17	Adjusted total income or (loss). Subtract line 16 from line 9	17	23,666.
	18	Income distribution deduction (from Schedule B, line 15). Attach Schedules K-1 (Form 1041)	18	13,666.
19	Estate tax deduction including certain generation-skipping taxes (attach computation)	19		
20	Exemption	20	100.	
21	Add lines 18 through 20	21	13,766.	
Tax and Payments	22	Taxable income. Subtract line 21 from line 17. If a loss, see instructions	22	9,900.
	23	Total tax (from Schedule G, line 7)	23	1,215.
	24	Payments: a 2014 estimated tax payments and amount applied from 2013 return	24a	
	b	Estimated tax payments allocated to beneficiaries (from Form 1041-T)	24b	
	c	Subtract line 24b from line 24a	24c	
	d	Tax paid with Form 7004 (see instructions)	24d	
	e	Federal income tax withheld. If any is from Form(s) 1099, check <input type="checkbox"/>	24e	
	Other payments: f Form 2439 ; g Form 4136 ; Total	24h		
	25	Total payments. Add lines 24c through 24e, and 24h	25	
26	Estimated tax penalty (see instructions)	26		
27	Tax due. If line 25 is smaller than the total of lines 23 and 26, enter amount owed	27	1,215.	
28	Overpayment. If line 25 is larger than the total of lines 23 and 26, enter amount overpaid	28		
29	Amount of line 28 to be: a Credited to 2015 estimated tax ; b Refunded	29		

Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		
	Signature of fiduciary or officer representing fiduciary	Date	EIN of fiduciary if a financial institution
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date
	Firm's name	Firm's EIN	
	Firm's address	Phone no.	
	Check <input type="checkbox"/> if self-employed	PTIN	

Schedule A Charitable Deduction. Do not complete for a simple trust or a pooled income fund.

1	Amounts paid or permanently set aside for charitable purposes from gross income (see instructions)	1	
2	Tax-exempt income allocable to charitable contributions (see instructions)	2	
3	Subtract line 2 from line 1	3	
4	Capital gains for the tax year allocated to corpus and paid or permanently set aside for charitable purposes	4	
5	Add lines 3 and 4	5	
6	Section 1202 exclusion allocable to capital gains paid or permanently set aside for charitable purposes (see instructions)	6	
7	Charitable deduction. Subtract line 6 from line 5. Enter here and on page 1, line 13	7	

Schedule B Income Distribution Deduction

1	Adjusted total income (see instructions)	1	23,666.
2	Adjusted tax-exempt interest	2	NONE
3	Total net gain from Schedule D (Form 1041), line 19, column (1) (see instructions)	3	
4	Enter amount from Schedule A, line 4 (minus any allocable section 1202 exclusion)	4	
5	Capital gains for the tax year included on Schedule A, line 1 (see instructions)	5	
6	Enter any gain from page 1, line 4, as a negative number. If page 1, line 4, is a loss, enter the loss as a positive number	6	-10,000.
7	Distributable net income. Combine lines 1 through 6. If zero or less, enter -0-	7	13,666.
8	If a complex trust, enter accounting income for the tax year as determined under the governing instrument and applicable local law	8	13,666.
9	Income required to be distributed currently	9	
10	Other amounts paid, credited, or otherwise required to be distributed	10	40,000.
11	Total distributions. Add lines 9 and 10. If greater than line 8, see instructions	11	40,000.
12	Enter the amount of tax-exempt income included on line 11	12	NONE
13	Tentative income distribution deduction. Subtract line 12 from line 11	13	40,000.
14	Tentative income distribution deduction. Subtract line 2 from line 7. If zero or less, enter -0-	14	13,666.
15	Income distribution deduction. Enter the smaller of line 13 or line 14 here and on page 1, line 18	15	13,666.

Schedule G Tax Computation (see instructions)

1	Tax: a Tax on taxable income (see instructions)	1a	1,110.	
	b Tax on lump-sum distributions. Attach Form 4972	1b		
	c Alternative minimum tax (from Schedule I (Form 1041), line 56)	1c	NONE	
	d Total. Add lines 1a through 1c	1d	1,110.	
2a	Foreign tax credit. Attach Form 1116	2a		
b	General business credit. Attach Form 3800	2b		
c	Credit for prior year minimum tax. Attach Form 8801	2c		
d	Bond credits. Attach Form 8912	2d		
e	Total credits. Add lines 2a through 2d	2e		
3	Subtract line 2e from line 1d. If zero or less, enter -0-	3	1,110.	
4	Net investment income tax from Form 8960, line 21	4	105.	
5	Recapture taxes. Check if from: <input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611	5		
6	Household employment taxes. Attach Schedule H (Form 1040)	6		
7	Total tax. Add lines 3 through 6. Enter here and on page 1, line 23	7	1,215.	

Other Information

	Yes	No
1 Did the estate or trust receive tax-exempt income? If "Yes," attach a computation of the allocation of expenses. Enter the amount of tax-exempt interest income and exempt-interest dividends ▶ \$		X
2 Did the estate or trust receive all or any part of the earnings (salary, wages, and other compensation) of any individual by reason of a contract assignment or similar arrangement?		X
3 At any time during calendar year 2014, did the estate or trust have an interest in or a signature or other authority over a bank, securities, or other financial account in a foreign country? See the instructions for exceptions and filing requirements for FinCEN Form 114. If "Yes," enter the name of the foreign country ▶		X
4 During the tax year, did the estate or trust receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the estate or trust may have to file Form 3520. See instructions		X
5 Did the estate or trust receive, or pay, any qualified residence interest on seller-provided financing? If "Yes," see the instructions for required attachment		X
6 If this is an estate or a complex trust making the section 663(b) election, check here (see instructions) ▶ <input type="checkbox"/>		
7 To make a section 643(e)(3) election, attach Schedule D (Form 1041), and check here (see instructions) ▶ <input type="checkbox"/>		
8 If the decedent's estate has been open for more than 2 years, attach an explanation for the delay in closing the estate, and check here ▶ <input type="checkbox"/>		
9 Are any present or future trust beneficiaries skip persons? See instructions		X

Form **8960**Department of the Treasury
Internal Revenue Service (99)**Net Investment Income Tax-
Individuals, Estates, and Trusts**

▶ Attach to your tax return.

▶ Information about Form 8960 and its separate instructions is at www.irs.gov/form8960.

OMB No. 1545-2227

2014Attachment
Sequence No. **72**

Name(s) shown on your tax return

FORM 8960 TRUST - EXAMPLE 2
(SYSTEM DEFAULT - TAX CODE 33)

Your social security number or EIN

21-1234567

Part I Investment Income

- ☐ Section 6013(g) election (see instructions)
- ☐ Section 6013(h) election (see instructions)
- ☐ Regulations section 1.1411-10(g) election (see instructions)

1	Taxable interest (see instructions)	1	6,666.
2	Ordinary dividends (see instructions).	2	11,000.
3	Annuities (see instructions).	3	
4 a	Rental real estate, royalties, partnerships, S corporations, trusts, etc. (see instructions).	4a	
b	Adjustment for net income or loss derived in the ordinary course of a non-section 1411 trade or business (see instructions)	4b	
c	Combine lines 4a and 4b.	4c	
5 a	Net gain or loss from disposition of property (see instructions).	5a	10,000.
b	Net gain or loss from disposition of property that is not subject to net investment income tax (see instructions)	5b	
c	Adjustment from disposition of partnership interest or S corporation stock (see instructions)	5c	
d	Combine lines 5a through 5c.	5d	10,000.
6	Adjustments to investment income for certain CFCs and PFICs (see instructions).	6	
7	Other modifications to investment income (see instructions). STMT. 1.	7	3,333.
8	Total investment income. Combine lines 1, 2, 3, 4c, 5d, 6, and 7	8	30,999.

Part II Investment Expenses Allocable to Investment Income and Modifications

9 a	Investment interest expenses (see instructions).	9a	
b	State, local, and foreign income tax (see instructions). . STMT. 1. . .	9b	400.
c	Miscellaneous investment expenses (see instructions)	9c	
d	Add lines 9a, 9b, and 9c	9d	400.
10	Additional modifications (see instructions) STMT. 1.	10	4,000.
11	Total deductions and modifications. Add lines 9d and 10	11	4,400.

Part III Tax Computation

12	Net investment income. Subtract Part II, line 11 from Part I, line 8. Individuals complete lines 13-17. Estates and trusts complete lines 18a-21. If zero or less, enter -0-	12	26,599.
Individuals:			
13	Modified adjusted gross income (see instructions)	13	
14	Threshold based on filing status (see instructions)	14	
15	Subtract line 14 from line 13. If zero or less, enter -0-	15	
16	Enter the smaller of line 12 or line 15	16	
17	Net investment income tax for individuals. Multiply line 16 by 3.8% (.038). Enter here and include on your tax return (see instructions)	17	
Estates and Trusts:			
18 a	Net investment income (line 12 above)	18a	26,599.
b	Deductions for distributions of net investment income and deductions under section 642(c) (see instructions)	18b	11,999.
c	Undistributed net investment income. Subtract line 18b from 18a (see instructions). If zero or less, enter -0-	18c	14,600.
19 a	Adjusted gross income (see instructions) STMT. 2.	19a	14,900.
b	Highest tax bracket for estates and trusts for the year (see instructions).	19b	12,150.
c	Subtract line 19b from line 19a. If zero or less, enter -0-	19c	2,750.
20	Enter the smaller of line 18c or line 19c.	20	2,750.
21	Net investment income tax for estates and trusts. Multiply line 20 by 3.8% (.038). Enter here and include on your tax return (see instructions).	21	105.

For Paperwork Reduction Act Notice, see your tax return instructions.

Form **8960** (2014)

Schedule K-1
(Form 1041)

Department of the Treasury
Internal Revenue Service

2014

For calendar year 2014,
or tax year beginning _____, 2014,
and ending _____, 20 _____

Beneficiary's Share of Income, Deductions,
Credits, etc.

► See back of form and instructions.

Part I Information About the Estate or Trust

A Estate's or trust's employer identification number

21-1234567

B Estate's or trust's name

FORM 8960 TRUST - EXAMPLE 2
(SYSTEM DEFAULT - TAX CODE 33)

C Fiduciary's name, address, city, state, and ZIP code

ABC BANK
ABC ADDRESS
MCKINNEY, TX 75069

D ☐ Check if Form 1041-T was filed and enter the date it was filed

E ☐ Check if this is the final Form 1041 for the estate or trust

Part II Information About the Beneficiary

F Beneficiary's identifying number

222-11-3333

G Beneficiary's name, address, city, state, and ZIP code

CHAMP DUGGMAN

H ☒ Domestic beneficiary ☐ Foreign beneficiary

☐ Final K-1

☐ Amended K-1

661113
OMB No. 1545-0092

Part III Beneficiary's Share of Current Year Income,
Deductions, Credits, and Other Items

1	Interest income	666.	11	Final year deductions
2a	Ordinary dividends	11,000.		
2b	Qualified dividends	11,000.		
3	Net short-term capital gain			
4a	Net long-term capital gain			
4b	28% rate gain		12	Alternative minimum tax adjustment
4c	Unrecaptured section 1250 gain			
5	Other portfolio and nonbusiness income	2,000.		
6	Ordinary business income			
7	Net rental real estate income		13	Credits and credit recapture
8	Other rental income			
9	Directly apportioned deductions			
			14	Other information
			H	-1,667.
10	Estate tax deduction			

*See attached statement for additional information.

Note. A statement must be attached showing the beneficiary's share of income and directly apportioned deductions from each business, rental real estate, and other rental activity.

For IRS Use Only

Form 8960 - Net Investment Income (Section 1411) Detail**Line 7 - Other Modifications to Investment Income**

State refund includible in net investment income	3,333.

Total other modifications to investment income	3,333.
	=====

State Tax Refund Allocable to Net Investment Income (NII)

State tax refund included in other income	5,000.
-------------------------------------------	--------

Portion of state tax refund allocable to NII =
(Prior year undistributed NII/Prior year federal taxable income before exemption)
x state tax refund included in other income

3,333. = (10,000./15,000.) x 5,000.

Allocation of Deductions

Income Description -----	Maximum Tax Rate	Gross -----	Deductions -----	Net -----
Other Interest (NII)	43.4	6,666.	6,000.	666.
Other Income (NII)	43.4	3,333.	3,000.	333.
Other Income (Non-NII)	39.6	1,667.		1,667.
Qualified Other Dividends (NII)	23.8	11,000.		11,000.
		-----	-----	-----
Totals		22,666.	9,000.	13,666.
		=====	=====	=====

Expense Allocation Methodology:

Unless indicated otherwise, expenses have been offset against income subject to the lowest marginal tax rate last.

Deduction Description (Line references below refer to Form 8960) -----	Gross -----	Allocable to Sect 1411 NII	Not Alloc to Sect 1411 NII
State Income Taxes (Line 9b)	400.	400.	
Real Estate Taxes (Non-rental property)	4,600.	4,600.	
Fiduciary Fees (Line 10)	4,000.	4,000.	
	-----	-----	-----
Total Deductions	9,000.	9,000.	
	=====	=====	=====

Form 8960, Part II, Expenses Allocable to Investment Income

Line 9b - State income tax	400.
Line 10 - Additional modifications	4,000.

Total deductions and modifications	4,400.
	=====

Real estate taxes (non-rental property) are not allowed as a deduction on Part II of Form 8960. This includes any portion of such which was allocated against NII income for purposes of Section 652(b).

Form 8960 - Net Investment Income (Section 1411) Detail**Adjusted Gross Income (Line 19a)**

1. Total income	32,666.
Less:	
2. Fiduciary fees	4,000.
3. Attorney, accountant, and return preparer fees	
4. Other deductions not subject to 2% AGI floor	
5. Income distribution deduction	13,666.
6. Exemption	100.

7. Adjusted Gross Income	14,900.

A Check all that apply:		For calendar year 2014 or fiscal year beginning _____, 2014, and ending _____, 20	
<input type="checkbox"/> Decedent's estate <input type="checkbox"/> Simple trust <input checked="" type="checkbox"/> Complex trust <input type="checkbox"/> Qualified disability trust <input type="checkbox"/> ESBT (S portion only) <input type="checkbox"/> Grantor type trust <input type="checkbox"/> Bankruptcy estate - Ch. 7 <input type="checkbox"/> Bankruptcy estate - Ch. 11 <input type="checkbox"/> Pooled income fund	Name of estate or trust (If a grantor type trust, see the instructions.) FORM 8960 TRUST - EXAMPLE 2 (CIF OPTION TO ALTER TAX CODE 33 EXP ALLOC)		C Employer identification number 21-1234567
	Name and title of fiduciary ABC BANK		D Date entity created
	Number, street, and room or suite no. (If a P.O. box, see the instructions.) ABC ADDRESS		E Nonexempt charitable and split-interest trusts, check applicable box(es), see instructions. <input type="checkbox"/> Described in sec. 4947(a)(1). Check here if not a private foundation <input type="checkbox"/> Described in sec. 4947(a)(2)
	City or town, state or province, country, and ZIP or foreign postal code MCKINNEY, TX 75069		
	B Number of Schedules K-1 attached (see instructions) 1	F Check applicable boxes:	<input type="checkbox"/> Initial return <input type="checkbox"/> Change in trust's name <input type="checkbox"/> Final return <input type="checkbox"/> Change in fiduciary <input type="checkbox"/> Amended return <input type="checkbox"/> Change in fiduciary's name <input type="checkbox"/> Net operating loss carryback <input type="checkbox"/> Change in fiduciary's address
G Check here if the estate or filing trust made a section 645 election <input type="checkbox"/>		Trust TIN <input type="checkbox"/>	

Income	1 Interest income	1	6,666.
	2a Total ordinary dividends	2a	11,000.
	b Qualified dividends allocable to: (1) Beneficiaries 11,000. (2) Estate or trust NONE		
	3 Business income or (loss). Attach Schedule C or C-EZ (Form 1040)	3	
	4 Capital gain or (loss). Attach Schedule D (Form 1041)	4	10,000.
	5 Rents, royalties, partnerships, other estates and trusts, etc. Attach Schedule E (Form 1040)	5	
	6 Farm income or (loss). Attach Schedule F (Form 1040)	6	
	7 Ordinary gain or (loss). Attach Form 4797	7	
	8 Other income. List type and amount	8	5,000.
9 Total income. Combine lines 1, 2a, and 3 through 8	9	32,666.	
Deductions	10 Interest. Check if Form 4952 is attached <input type="checkbox"/>	10	
	11 Taxes	11	5,000.
	12 Fiduciary fees	12	4,000.
	13 Charitable deduction (from Schedule A, line 7)	13	
	14 Attorney, accountant, and return preparer fees	14	
	15a Other deductions not subject to the 2% floor (attach schedule)	15a	
	b Net operating loss deduction (see instructions)	15b	
	c Allowable miscellaneous itemized deductions subject to the 2% floor	15c	
	16 Add lines 10 through 15c	16	9,000.
	17 Adjusted total income or (loss). Subtract line 16 from line 9	17	23,666.
	18 Income distribution deduction (from Schedule B, line 15). Attach Schedules K-1 (Form 1041)	18	13,666.
19 Estate tax deduction including certain generation-skipping taxes (attach computation)	19		
20 Exemption	20	100.	
21 Add lines 18 through 20	21	13,766.	
Tax and Payments	22 Taxable income. Subtract line 21 from line 17. If a loss, see instructions	22	9,900.
	23 Total tax (from Schedule G, line 7)	23	1,215.
	24 Payments: a 2014 estimated tax payments and amount applied from 2013 return	24a	
	b Estimated tax payments allocated to beneficiaries (from Form 1041-T)	24b	
	c Subtract line 24b from line 24a	24c	
	d Tax paid with Form 7004 (see instructions)	24d	
	e Federal income tax withheld. If any is from Form(s) 1099, check <input type="checkbox"/>	24e	
	Other payments: f Form 2439 _____; g Form 4136 _____; Total	24h	
	25 Total payments. Add lines 24c through 24e, and 24h	25	
26 Estimated tax penalty (see instructions)	26		
27 Tax due. If line 25 is smaller than the total of lines 23 and 26, enter amount owed	27	1,215.	
28 Overpayment. If line 25 is larger than the total of lines 23 and 26, enter amount overpaid	28		
29 Amount of line 28 to be: a Credited to 2015 estimated tax; b Refunded	29		

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Sign Here	Signature of fiduciary or officer representing fiduciary _____		Date _____	EIN of fiduciary if a financial institution _____	May the IRS discuss this return with the preparer shown below (see instr.)? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
	Print/Type preparer's name _____		Preparer's signature _____	Date _____	
Paid Preparer Use Only	Firm's name _____		Firm's EIN _____		
	Firm's address _____		Phone no. _____		
	Check <input type="checkbox"/> if self-employed		PTIN _____		

Schedule A Charitable Deduction. Do not complete for a simple trust or a pooled income fund.

1	Amounts paid or permanently set aside for charitable purposes from gross income (see instructions)	1	
2	Tax-exempt income allocable to charitable contributions (see instructions)	2	
3	Subtract line 2 from line 1	3	
4	Capital gains for the tax year allocated to corpus and paid or permanently set aside for charitable purposes	4	
5	Add lines 3 and 4	5	
6	Section 1202 exclusion allocable to capital gains paid or permanently set aside for charitable purposes (see instructions)	6	
7	Charitable deduction. Subtract line 6 from line 5. Enter here and on page 1, line 13	7	

Schedule B Income Distribution Deduction

1	Adjusted total income (see instructions)	1	23,666.
2	Adjusted tax-exempt interest	2	NONE
3	Total net gain from Schedule D (Form 1041), line 19, column (1) (see instructions)	3	
4	Enter amount from Schedule A, line 4 (minus any allocable section 1202 exclusion)	4	
5	Capital gains for the tax year included on Schedule A, line 1 (see instructions)	5	
6	Enter any gain from page 1, line 4, as a negative number. If page 1, line 4, is a loss, enter the loss as a positive number	6	-10,000.
7	Distributable net income. Combine lines 1 through 6. If zero or less, enter -0-	7	13,666.
8	If a complex trust, enter accounting income for the tax year as determined under the governing instrument and applicable local law	8	13,666.
9	Income required to be distributed currently	9	
10	Other amounts paid, credited, or otherwise required to be distributed	10	40,000.
11	Total distributions. Add lines 9 and 10. If greater than line 8, see instructions	11	40,000.
12	Enter the amount of tax-exempt income included on line 11	12	NONE
13	Tentative income distribution deduction. Subtract line 12 from line 11	13	40,000.
14	Tentative income distribution deduction. Subtract line 2 from line 7. If zero or less, enter -0-	14	13,666.
15	Income distribution deduction. Enter the smaller of line 13 or line 14 here and on page 1, line 18	15	13,666.

Schedule G Tax Computation (see instructions)

1	Tax: a Tax on taxable income (see instructions)	1a	1,110.
	b Tax on lump-sum distributions. Attach Form 4972	1b	
	c Alternative minimum tax (from Schedule I (Form 1041), line 56)	1c	NONE
	d Total. Add lines 1a through 1c	1d	1,110.
2a	Foreign tax credit. Attach Form 1116	2a	
b	General business credit. Attach Form 3800	2b	
c	Credit for prior year minimum tax. Attach Form 8801	2c	
d	Bond credits. Attach Form 8912	2d	
e	Total credits. Add lines 2a through 2d	2e	
3	Subtract line 2e from line 1d. If zero or less, enter -0-	3	1,110.
4	Net investment income tax from Form 8960, line 21	4	105.
5	Recapture taxes. Check if from: <input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611	5	
6	Household employment taxes. Attach Schedule H (Form 1040)	6	
7	Total tax. Add lines 3 through 6. Enter here and on page 1, line 23	7	1,215.

Other Information

	Yes	No
1 Did the estate or trust receive tax-exempt income? If "Yes," attach a computation of the allocation of expenses. Enter the amount of tax-exempt interest income and exempt-interest dividends ▶ \$		X
2 Did the estate or trust receive all or any part of the earnings (salary, wages, and other compensation) of any individual by reason of a contract assignment or similar arrangement?		X
3 At any time during calendar year 2014, did the estate or trust have an interest in or a signature or other authority over a bank, securities, or other financial account in a foreign country? See the instructions for exceptions and filing requirements for FinCEN Form 114. If "Yes," enter the name of the foreign country ▶		X
4 During the tax year, did the estate or trust receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the estate or trust may have to file Form 3520. See instructions		X
5 Did the estate or trust receive, or pay, any qualified residence interest on seller-provided financing? If "Yes," see the instructions for required attachment		X
6 If this is an estate or a complex trust making the section 663(b) election, check here (see instructions) ▶ <input type="checkbox"/>		
7 To make a section 643(e)(3) election, attach Schedule D (Form 1041), and check here (see instructions) ▶ <input type="checkbox"/>		
8 If the decedent's estate has been open for more than 2 years, attach an explanation for the delay in closing the estate, and check here ▶ <input type="checkbox"/>		
9 Are any present or future trust beneficiaries skip persons? See instructions		X

Form **8960**Department of the Treasury
Internal Revenue Service (99)**Net Investment Income Tax-
Individuals, Estates, and Trusts**

▶ Attach to your tax return.

▶ Information about Form 8960 and its separate instructions is at www.irs.gov/form8960.

OMB No. 1545-2227

2014Attachment
Sequence No. **72**

Name(s) shown on your tax return

FORM 8960 TRUST - EXAMPLE 2

(CIF OPTION TO ALTER TAX CODE 33 EXP ALLOC)

Your social security number or EIN

21-1234567

Part I Investment Income

- ☐ Section 6013(g) election (see instructions)
- ☐ Section 6013(h) election (see instructions)
- ☐ Regulations section 1.1411-10(g) election (see instructions)

1	Taxable interest (see instructions)	1	6,666.
2	Ordinary dividends (see instructions).	2	11,000.
3	Annuities (see instructions).	3	
4 a	Rental real estate, royalties, partnerships, S corporations, trusts, etc. (see instructions).	4a	
b	Adjustment for net income or loss derived in the ordinary course of a non-section 1411 trade or business (see instructions)	4b	
c	Combine lines 4a and 4b.	4c	
5 a	Net gain or loss from disposition of property (see instructions).	5a	10,000.
b	Net gain or loss from disposition of property that is not subject to net investment income tax (see instructions)	5b	
c	Adjustment from disposition of partnership interest or S corporation stock (see instructions)	5c	
d	Combine lines 5a through 5c.	5d	10,000.
6	Adjustments to investment income for certain CFCs and PFICs (see instructions).	6	
7	Other modifications to investment income (see instructions). STMT. 1.	7	3,333.
8	Total investment income. Combine lines 1, 2, 3, 4c, 5d, 6, and 7	8	30,999.

Part II Investment Expenses Allocable to Investment Income and Modifications

9 a	Investment interest expenses (see instructions).	9a	
b	State, local, and foreign income tax (see instructions). . STMT. 1.	9b	400.
c	Miscellaneous investment expenses (see instructions)	9c	
d	Add lines 9a, 9b, and 9c	9d	400.
10	Additional modifications (see instructions) STMT. 1.	10	4,000.
11	Total deductions and modifications. Add lines 9d and 10	11	4,400.

Part III Tax Computation

12	Net investment income. Subtract Part II, line 11 from Part I, line 8. Individuals complete lines 13-17. Estates and trusts complete lines 18a-21. If zero or less, enter -0-	12	26,599.
Individuals:			
13	Modified adjusted gross income (see instructions)	13	
14	Threshold based on filing status (see instructions)	14	
15	Subtract line 14 from line 13. If zero or less, enter -0-	15	
16	Enter the smaller of line 12 or line 15	16	
17	Net investment income tax for individuals. Multiply line 16 by 3.8% (.038). Enter here and include on your tax return (see instructions)	17	
Estates and Trusts:			
18 a	Net investment income (line 12 above)	18a	26,599.
b	Deductions for distributions of net investment income and deductions under section 642(c) (see instructions)	18b	13,666.
c	Undistributed net investment income. Subtract line 18b from 18a (see instructions). If zero or less, enter -0-	18c	12,933.
19 a	Adjusted gross income (see instructions) STMT. 2.	19a	14,900.
b	Highest tax bracket for estates and trusts for the year (see instructions).	19b	12,150.
c	Subtract line 19b from line 19a. If zero or less, enter -0-	19c	2,750.
20	Enter the smaller of line 18c or line 19c.	20	2,750.
21	Net investment income tax for estates and trusts. Multiply line 20 by 3.8% (.038). Enter here and include on your tax return (see instructions).	21	105.

For Paperwork Reduction Act Notice, see your tax return instructions.

Form **8960** (2014)

**Schedule K-1
(Form 1041)**

Department of the Treasury
Internal Revenue Service

2014

For calendar year 2014,
or tax year beginning _____, 2014,
and ending _____, 20 _____

**Beneficiary's Share of Income, Deductions,
Credits, etc.**

► See back of form and instructions.

Part I Information About the Estate or Trust

A Estate's or trust's employer identification number

21-1234567

B Estate's or trust's name

FORM 8960 TRUST - EXAMPLE 2
(CIF OPTION TO ALTER TAX CODE 33 EXP ALLOC)

C Fiduciary's name, address, city, state, and ZIP code

ABC BANK
ABC ADDRESS
MCKINNEY, TX 75069

D ☐ Check if Form 1041-T was filed and enter the date it was filed

E ☐ Check if this is the final Form 1041 for the estate or trust

Part II Information About the Beneficiary

F Beneficiary's identifying number

222-11-3333

G Beneficiary's name, address, city, state, and ZIP code

CHAMP DUGGMAN

H ☒ Domestic beneficiary ☐ Foreign beneficiary

☐ Final K-1

☐ Amended K-1

661113
OMB No. 1545-0092

**Part III Beneficiary's Share of Current Year Income,
Deductions, Credits, and Other Items**

1	Interest income	11	Final year deductions
	1,777.		
2a	Ordinary dividends		
	11,000.		
2b	Qualified dividends		
	11,000.		
3	Net short-term capital gain		
4a	Net long-term capital gain		
4b	28% rate gain	12	Alternative minimum tax adjustment
4c	Unrecaptured section 1250 gain		
5	Other portfolio and nonbusiness income		
	889.		
6	Ordinary business income		
7	Net rental real estate income	13	Credits and credit recapture
8	Other rental income		
9	Directly apportioned deductions		
		14	Other information
10	Estate tax deduction		

*See attached statement for additional information.

Note. A statement must be attached showing the beneficiary's share of income and directly apportioned deductions from each business, rental real estate, and other rental activity.

For IRS Use Only

Form 8960 - Net Investment Income (Section 1411) Detail**Line 7 - Other Modifications to Investment Income**

State refund includible in net investment income	3,333.
Total other modifications to investment income	3,333.

State Tax Refund Allocable to Net Investment Income (NII)

State tax refund included in other income	5,000.
-------------------------------------------	--------

Portion of state tax refund allocable to NII =
(Prior year undistributed NII/Prior year federal taxable income before exemption)
x state tax refund included in other income

3,333. = (10,000./15,000.) x 5,000.

Allocation of Deductions (see following statement)

Income Description	Maximum Tax Rate	Gross	Deductions	Net
Other Interest (NII)	43.4	6,666.	4,889.	1,777.
Other Income (NII)	43.4	3,333.	2,444.	889.
Other Income (Non-NII)	39.6	1,667.	1,667.	
Qualified Other Dividends (NII)	23.8	11,000.		11,000.
Totals		22,666.	9,000.	13,666.

Expense Allocation Methodology:

Unless indicated otherwise, expenses have been offset against income subject to the lowest marginal tax rate last.

Deduction Description (Line references below refer to Form 8960)	Gross	Allocable to Sect 1411 NII	Not Alloc to Sect 1411 NII
State Income Taxes (Line 9b)	400.	400.	
Real Estate Taxes (Non-rental property) *	4,600.	2,933.	1,667.
Fiduciary Fees (Line 10)	4,000.	4,000.	
Total Deductions	9,000.	7,333.	1,667.

* These expenses are offset first against Non-NII income to the extent possible.

Form 8960, Part II, Expenses Allocable to Investment Income

Line 9b - State income tax	400.
Line 10 - Additional modifications	4,000.
Total deductions and modifications	4,400.

Real estate taxes (non-rental property) are not allowed as a deduction on Part II of Form 8960. This includes any portion of such which was allocated against NII income for purposes of Section 652(b).

Form 8960 - Net Investment Income (Section 1411) Detail**Adjusted Gross Income (Line 19a)**

1. Total income	32,666.
Less:	
2. Fiduciary fees	4,000.
3. Attorney, accountant, and return preparer fees	
4. Other deductions not subject to 2% AGI floor	
5. Income distribution deduction	13,666.
6. Exemption	100.

7. Adjusted Gross Income	14,900.

Form 8960 - Additional Expense Allocation Detail**Deductions to be Allocated**

Deductions to be Allocated Against Non-NII Income First	4,600.
Other Deductions (Not Specifically Allowed/Disallowed against NII)	4,400.

Total deductions	9,000.
	=====

Deductions which are to be Allocated Against Non-NII Income First

Real estate tax on non-rental property	4,600.

Total deductions to be allocated against Non-NII income first	4,600.
	=====

Allocation of Deductions Against Non-NII Income First

Income Description	Maximum Tax Rate	Gross	Deductions	Gross as Adjusted
-----	-----	-----	-----	-----
Other Income (Non-NII)	39.6	1,667.	1,667.	
Other Interest (NII)	43.4	6,666.	1,955.	4,711.
Other Income (NII)	43.4	3,333.	978.	2,355.
Qualified Other Dividends (NII)	23.8	11,000.		11,000.
		-----	-----	-----
Totals		22,666.	4,600.	18,066.
		=====	=====	=====

Allocation of Remaining Deductions

Income Description	Maximum Tax Rate	Gross as Adjusted	Deductions	Net
-----	-----	-----	-----	-----
Other Interest (NII)	43.4	4,711.	2,934.	1,777.
Other Income (NII)	43.4	2,355.	1,466.	889.
Qualified Other Dividends (NII)	23.8	11,000.		11,000.
		-----	-----	-----
Totals		18,066.	4,400.	13,666.
		=====	=====	=====

Expense Allocation Methodology:

Unless indicated otherwise, expenses have been offset against income subject to the lowest marginal tax rate last.