

## Chapter 3: Estate

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Corrections were made to this workbook through January of 2005. No subsequent modifications were made.

“The only things certain in life are death and taxes.” When a taxpayer dies, the taxation process continues in various combinations such as the estate tax imposed on the decedent’s assets and the income tax on the earnings of the decedent’s assets. Income tax reporting raises a number of issues:

- Which entity is required to report the income?
- What is the character of the income?
- When is the income reported?

Form 1041, *U.S. Income Tax Return for Estates and Trusts*, is required to report income earned by the decedent’s estate. The estate income could be taxed in full at the fiduciary level, or not at all if it is timely distributed to the beneficiaries. The fiduciary estate tax return could serve as a conduit, much like a partnership Form 1065 that gathers the income and reflects income distributions to beneficiaries on Form 1041, Schedule K-1, *Beneficiary’s Share of Income, Deductions, Credits, etc.* The type of the taxable income is reported to the beneficiary on his Form 1041, Schedule K-1.

**Example 1.** Joan Jones, a widowed taxpayer, died on April 12, 2004. Her income for 2004 included interest and dividends of \$14,000 earned up to and including her date of death, social security payments of \$6,800, and IRA distributions of \$8,000. Following her death, her estate continues to receive interest and dividends in the amount of \$40,000 during the remainder of 2004 and the first three months of 2005. In addition, the balance of \$41,500 in her IRA was collected by the estate in a lump sum payment.

Two tax returns must be filed for Joan. Her final Form 1040 is filed for the period January 1, 2004, to April 12, 2004, and a fiduciary tax return (Form 1041) is necessary for the period beginning April 13, 2004, and ending no later than March 31, 2005. The fiduciary tax return must include all income for the period included in the estate filing. Income earned during the period of estate administration can either be taxed in total at the fiduciary level, or it can be timely distributed to the beneficiaries, who are responsible for the income tax.

### INHERITANCE PROCEEDS

#### INCOME IN RESPECT OF A DECEDENT

Inheritance is not taxed unless it represents Income in Respect of a Decedent (IRD) property.<sup>1</sup> IRD property represents those assets that would have produced taxable income during the decedent’s lifetime. IRD assets also include income interest from U.S. savings bonds received from a decedent. The decedent must have used the cash basis method of accounting for the interest, installment obligations, and retirement accounts.

<sup>1</sup>. IRC §102

## TAXABLE INCOME ON INHERITED ASSETS

Although the inheritance is not taxable, income earned on inherited assets is subject to income tax. A distribution to a beneficiary from an estate must be allocated between income and inheritance in order to determine the proper amount of income to include on the beneficiary's personal income tax return. Generally, the distribution is first treated as income, to the extent of the income earned during the period of the estate's tax year, and any excess distribution is a nontaxable inheritance.

**Example 2.** Ron Jankoski's great-aunt in Arizona died in early 2004. Ron is the sole beneficiary. The estate includes \$180,000 in certificates of deposit and \$140,000 of Altria common stock. Dividends and interest earned during the first year of the estate totaled \$14,500. Ron received a \$50,000 partial distribution during 2004. The tax treatment of Ron's initial distribution represents \$14,500 in income, and the balance of \$35,500 is a tax-free inheritance. Ron will receive a Form 1041, Schedule K-1 detailing the amount of income to report on his personal tax return.

**Specific bequests** are generally not taxable to the person receiving such property from an estate. Transfers to satisfy a specific bequest of money or property are not distributable net income (DNI) to a beneficiary.

**Example 3.** Rhonda Simpson's will specifies a \$10,000 cash distribution to her housekeeper, Carla Tinkers. It also specifies a \$25,000 cash distribution to her pool hygienic engineer, Franco Fletch. The cash distributions to each of these individuals are not taxable to the recipients and are not a distribution deduction from the estate.

## NONPROBATE ASSETS

Probate is a legal process that requires the Court to ensure that the decedent's will is valid and all debts of the estate are paid. Assets are not subject to probate if they are scheduled to pass to a survivor under a contract or by operation of property law rather than through the decedent's will. After the probate process, assets are distributed in accordance with the wishes of the deceased taxpayer. Examples of nonprobate assets include:

- Retirement Plans (IRAs, 401(k) plans, etc.) if the estate is not the beneficiary,
- Life insurance proceeds, if the estate is not the beneficiary,
- Real estate owned by joint tenants with rights of survivorship,
- Joint bank accounts with rights of survivorship,
- Any assets that would pass to the surviving spouse under the statutory right of the surviving spouse — dower or curtesy,
- Grantor trust assets, and
- Assets that are payable on death (POD), transfers on death (TOD).

Since the nonprobate assets are not treated as part of the estate for income tax purposes, these assets do not constitute DNI to the new owner of the inherited property. Any income received from these nonprobate assets is taxed directly to the new owner of the asset.

**Example 4.** Claude Cummings, who was killed in an auto accident, owned an insurance policy in the amount \$200,000 for accidental death. His spouse, Renee, was named as beneficiary. She received \$201,500 (\$200,000 face amount of policy and \$1,500 interest) directly from the insurance company. For income tax purposes, the \$200,000 represents a nontaxable inheritance, and the \$1,500 is interest income to Renee. Therefore, this income is not included on Form 1041.

Nonprobate assets are included in the total gross estate of the decedent and must be reported on Form 706, *United States Estate (and Generation-Skipping Transfer) Tax Return*, if it is necessary to file.

## DISTRIBUTABLE NET INCOME

In 1997 the law that governs distributable net income (DNI) changed to allow executors additional time to calculate the income earned during the year, and to make timely distributions to beneficiaries the following year. Distributions must occur within 65 days following the end of a tax year.

DNI is defined<sup>2</sup> as the taxable income of the estate modified as follows:

- No deduction is allowed for distributions to beneficiaries.
- The \$600 personal exemption<sup>3</sup> is not allowed.
- Capital gains and losses are not included to the extent such gains and losses are allocated to the corpus (retained by the estate) and are not distributed to the beneficiaries.
- Any tax-exempt interest income, reduced by the disallowed deductions, is included.

An understanding of the concept of DNI is critical for claiming the deduction on Form 1041 and for taxing of the income of distributions made to beneficiaries. The amount of the estate's distribution deduction<sup>4</sup> is limited by its DNI. The total amount of income subject to tax at the beneficiary level<sup>5</sup> is also limited by the DNI. The fiduciary of an estate can now elect to treat any distribution to a beneficiary, within 65 days following the end of a tax year of the estate, as being distributed in the prior year.<sup>6</sup> The prohibitively high tax rates at the fiduciary level (35% rate for taxable income in excess of \$9,550 in 2004) encourages the estate to make distributions to beneficiaries when possible.

DNI now becomes the reference point for measuring the amount of taxable income deductible by the estate, or if retained by the trust, the amount that would be taxable to the trust. DNI also is the measure for the amount of taxable income passed through to the beneficiaries and determines the character of the income taxable to the beneficiaries.<sup>7</sup> With the current more favorable rate available for dividend distributions, it is important for an estate administrator to clearly note the qualified dividends on Form 1041, Schedule K-1 sent to income beneficiaries.

### Income Tax Rate Schedule for Estates and Trust (2004)

Taxable Income	Tax	% on Excess	Amount
\$ 0–\$1,950	\$ 0.00	15%	\$ 0
1,950– 4,600	292.50	25%	1,950
4,600– 7,000	955.00	28%	4,600
7,000– 9,550	1,627.00	33%	7,000
9,550– above	2,468.50	35%	9,550

**Observation.** The highest tax rate of 35% begins at \$9,550 of taxable income. Whenever possible, distributions should be made to beneficiaries on a timely basis in order to benefit from the DNI deduction. The beneficiaries cannot be taxed at a rate higher than 35%, and they usually have a much lower personal income tax rate.

<sup>2</sup>. IRC §643(a)

<sup>3</sup>. IRC §642(b)

<sup>4</sup>. IRC §651(b)

<sup>5</sup>. IRC §652(a)

<sup>6</sup>. IRC §663(b)

<sup>7</sup>. Treas. Reg. §1.643(a)-0

## TAXABLE YEAR OF AN ESTATE

Estates can either use a calendar year or a fiscal year. The first tax year begins on the day after the date of death. The tax year must end on the last day of a month and the first tax year can be no longer than 12 months. The availability of choosing a fiscal year provides planning opportunities for an estate executor. He can control the flow of income into the estate, and distributions to the beneficiaries.

**Example 5.** Minnie Dollhaus died on June 10, 2004. Her estate received \$16,000 of interest income on August 31, 2004, and another \$30,000 of mutual fund dividends in December of 2004. The estate has no deductions except the \$600 personal exemption deduction.

**Option 1.** The executor might consider ending the initial estate tax year on August 31, 2004 and making an income distribution to the beneficiaries of \$10,800. If the beneficiaries are in a 25% tax bracket or higher, it is prudent to retain \$5,200 of the interest income as taxable income in the estate. The \$5,200 less the estate exemption of \$600 yields a \$4,600 taxable income and \$955 of tax. This is less than the amount the beneficiaries would have to pay on the same amount. The distribution to the beneficiaries in the amount of \$10,800 is taxed at their respective individual tax rates. The \$30,000 dividend distribution can be distributed to the beneficiaries in December 2004, but not taxed until the second fiscal year. This distribution is reported by filing Form 1041 for the second tax year ending on August 31, 2005.

**Option 2.** The executor may choose to end the first year of the estate on May 31, 2005 in order to push all earnings of the estate into the next calendar year. This delays the tax bill for a full calendar year for the estate (if not all income is distributed) and for the income distributions to the beneficiaries. The additional time gives the executor an opportunity to pay any accumulated expenses of the estate and claim them as a deduction against income earned by the estate.

**Observation.** Often changes in individual tax rates influence the timing of income distribution to beneficiaries. For example, if income tax rates are scheduled to drop in the following year, it is prudent to shift as much income into the lower tax rate tax year. Also, the individual income tax affairs of the beneficiary should be considered, since an anticipated high rate tax year might dictate an earlier year distribution of taxable income from the estate.

## ALLOCATION OF INTEREST AND DIVIDEND INCOME

Interest and dividend income received by an estate requires an allocation between the estate and beneficiaries. This allocation is even more important with the new 5%/15% tax rate on qualified dividends. If the estate receives tax-exempt interest, the estate expenses must be allocated between taxable and tax-exempt income. DNI is first determined for each type of income. Then, an allocation is made for the lesser of:

- DNI, or
- The amounts actually distributed to the beneficiaries.

This results in the actual DNI deduction for the estate.

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**Example 6.** Terry Tharp died on November 29, 2003. His will directed that his assets be divided among his three children — Robert, Donald, and Sissy. The following assets were in his estate:

	Principal	Income
Certificate of deposit, First National Bank	\$200,000	\$ 8,500
Tax-exempt bond, City of East Brunswick, NJ	50,000	2,500
5,000 shares, Southern Co.	150,000	7,000
		<u>\$18,000</u>

The estate had attorney administration expenses of \$1,500, an annual payment of \$300 to the trust company for managing the tax-exempt bond, and an annual brokerage fee to Morgan Stanley of \$150 for the custodial account.

All income and expense were incurred and paid during the fiscal year ending October 31, 2004, and the estate elected to close out its first taxable year on October 31, 2004. Each beneficiary received a \$3,000 distribution in 2004. The table below illustrates the calculation of the taxable income to each beneficiary:

	Taxable Interest	Tax-exempt Interest	Dividends	Totals	Allocation Method
Income	\$8,500	\$2,500	\$7,000	\$18,000	Direct
Less Deductions					
Legal	709	208	583	1,500	Pro rata
Trust fee		300		300	Direct
Broker fee			150	150	Direct
Total deductions	<u>(\$ 709)</u>	<u>(\$ 508)</u>	<u>(\$ 733)</u>	<u>(\$1,950)</u>	
DNI	\$7,791	\$1,992	\$6,267	\$16,050	
Distributions					
Robert	\$1,457	\$ 372	\$1,171	\$ 3,000	Pro rata
Donald	1,456	373	1,171	3,000	Pro rata
Sissy	1,456	373	1,172	3,000	Pro rata
Total distributions	<u>\$4,369</u>	<u>\$1,118</u>	<u>\$3,514</u>	<u>\$ 9,000</u>	

**Observation.** The \$2,628 (\$3,000 - \$372) may be allocated to any taxable category of income. It may be beneficial during this period of lower capital gain/dividend rates to allocate more to dividends and less to other taxable income.

The gross tax-exempt income of \$2,500 received by the estate represents 13.8889% of the total gross income (\$18,000). The estate cannot deduct \$208 of the attorney bills since this is the portion of the expense allocated to tax-exempt interest income ( $\$1,500 \times .138889$ ). For the estate, the total allowable deduction for administrative costs is \$1,442 (\$150 broker fee + (\$1,500 attorney fee - \$208)).

# 2004 Workbook

Since the amount distributed to each beneficiary is less than the estate's DNI, the taxable income of each beneficiary is limited to the portion of the distributions allocable to taxable income. This amount is determined by the following formula:

$$\text{Total distribution} = \frac{\text{Actual distribution} \times \text{Allocated DNI to taxable income}}{\text{Total DNI}}$$

Each beneficiary calculates taxable income as follows:

$$\text{\$3,000} \times (\text{\$14,058} \div \text{\$16,050}) = \text{\$2,628}$$

This agrees with the taxable interest income of \$1,457 and dividend income of \$1,171.

# 2004 Workbook

## For Example 6

Form	<b>1041</b>	Department of the Treasury—Internal Revenue Service <b>U.S. Income Tax Return for Estates and Trusts</b>	<b>2003</b>	OMB No. 1545-0092
<b>A</b> Type of entity (see instr.): <input checked="" type="checkbox"/> Decedent's estate <input 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		For calendar year 2003 or fiscal year beginning <b>Nov 29</b> , 2003, and ending <b>Oct 31</b> , 20 <b>04</b> <b>C</b> Employer identification number <div style="border: 1px solid black; padding: 2px; display: inline-block;"><b>01 : 5556666</b></div> <b>D</b> Date entity created <div style="border: 1px solid black; padding: 2px; display: inline-block;"><b>11/29/03</b></div> <b>E</b> Nonexempt charitable and split-interest trusts, check applicable boxes (see page 13 of the instructions): <input type="checkbox"/> Described in section 4947(a)(1) <input type="checkbox"/> Not a private foundation <input type="checkbox"/> Described in section 4947(a)(2)		
<b>B</b> Number of Schedules K-1 attached (see instructions) <b>3</b> <b>F</b> Check applicable boxes: <input checked="" type="checkbox"/> Initial return <input type="checkbox"/> Final return <input type="checkbox"/> Amended return <input type="checkbox"/> Change in fiduciary's name <input type="checkbox"/> Change in fiduciary's address		Name of estate or trust (If a grantor type trust, see page 12 of the instructions.) <div style="border: 1px solid black; padding: 2px;"><b>ESTATE OF TERRY THARP</b></div> Name and title of fiduciary <div style="border: 1px solid black; padding: 2px;"><b>ROBERT THARP, EXECUTOR</b></div> Number, street, and room or suite no. (If a P.O. box, see page 12 of the instructions.) <div style="border: 1px solid black; padding: 2px;"><b>1320 GLENN COVE</b></div> City or town, state, and ZIP code <div style="border: 1px solid black; padding: 2px;"><b>BLOOMINGTON</b></div>		
<b>G</b> Pooled mortgage account (see page 13 of the instructions): <input type="checkbox"/> Bought <input type="checkbox"/> Sold   Date:				
<b>Income</b>	<b>1</b> Interest income . . . . .		<b>1</b>	<b>8,500</b>
	<b>2a</b> Total ordinary dividends . . . . .		<b>2a</b>	<b>7,000</b>
	<b>b</b> Qualified dividends allocable to: (1) Beneficiaries <b>3,925</b> . . . . . (2) Estate or trust <b>3,075</b> . . . . .			
	<b>3</b> Business income or (loss) (attach Schedule C or C-EZ (Form 1040)) . . . . .		<b>3</b>	
	<b>4</b> Capital gain or (loss) (attach Schedule D (Form 1041)) . . . . .		<b>4</b>	
	<b>5</b> Rents, royalties, partnerships, other estates and trusts, etc. (attach Schedule E (Form 1040)) . . . . .		<b>5</b>	
	<b>6</b> Farm income or (loss) (attach Schedule F (Form 1040)) . . . . .		<b>6</b>	
	<b>7</b> Ordinary gain or (loss) (attach Form 4797) . . . . .		<b>7</b>	
	<b>8</b> Other income. List type and amount . . . . .		<b>8</b>	
<b>9</b> <b>Total income.</b> Combine lines 1, 2a, and 3 through 8 . . . . .		<b>9</b>	<b>15,500</b>	
<b>Deductions</b>	<b>10</b> Interest. Check if Form 4952 is attached <input type="checkbox"/> . . . . .		<b>10</b>	
	<b>11</b> Taxes . . . . .		<b>11</b>	
	<b>12</b> Fiduciary fees . . . . .		<b>12</b>	
	<b>13</b> Charitable deduction (from Schedule A, line 7) . . . . .		<b>13</b>	
	<b>14</b> Attorney, accountant, and return preparer fees . . . . .		<b>14</b>	<b>1,292</b>
	<b>15a</b> Other deductions <b>not</b> subject to the 2% floor (attach schedule) . . . . .		<b>15a</b>	<b>150</b>
	<b>b</b> Allowable miscellaneous itemized deductions subject to the 2% floor. . . . .		<b>15b</b>	
	<b>16</b> <b>Total.</b> Add lines 10 through 15b . . . . .		<b>16</b>	<b>1,442</b>
	<b>17</b> Adjusted total income or (loss). Subtract line 16 from line 9. Enter here and on Schedule B, line 1 <b>▶</b> . . . . .		<b>17</b>	<b>14,058</b>
	<b>18</b> Income distribution deduction (from Schedule B, line 15) (attach Schedules K-1 (Form 1041)) . . . . .		<b>18</b>	<b>7,883</b>
	<b>19</b> Estate tax deduction (including certain generation-skipping taxes) (attach computation) . . . . .		<b>19</b>	
<b>20</b> Exemption . . . . .		<b>20</b>	<b>600</b>	
<b>21</b> <b>Total deductions.</b> Add lines 18 through 20 . . . . .		<b>21</b>	<b>8,483</b>	
<b>Tax and Payments</b>	<b>22</b> Taxable income. Subtract line 21 from line 17. If a loss, see page 18 of the instructions . . . . .		<b>22</b>	<b>5,575</b>
	<b>23</b> <b>Total tax</b> (from Schedule G, line 7) . . . . .		<b>23</b>	<b>896</b>
	<b>24</b> <b>Payments:</b> a 2003 estimated tax payments and amount applied from 2002 return . . . . .		<b>24a</b>	
	<b>b</b> Estimated tax payments allocated to beneficiaries (from Form 1041-T) . . . . .		<b>24b</b>	
	<b>c</b> Subtract line 24b from line 24a . . . . .		<b>24c</b>	
	<b>d</b> Tax paid with extension of time to file: <input type="checkbox"/> Form 2758 <input type="checkbox"/> Form 8736 <input type="checkbox"/> Form 8800 . . . . .		<b>24d</b>	
	<b>e</b> Federal income tax withheld. If any is from Form(s) 1099, check <input type="checkbox"/> . . . . .		<b>24e</b>	
	Other payments: <b>f</b> Form 2439 . . . . . ; <b>g</b> Form 4136 . . . . . ; <b>Total</b> <b>▶</b> . . . . .		<b>24h</b>	
	<b>25</b> <b>Total payments.</b> Add lines 24c through 24e, and 24h . . . . .		<b>25</b>	
	<b>26</b> Estimated tax penalty (see page 19 of the instructions) . . . . .		<b>26</b>	
<b>27</b> <b>Tax due.</b> If line 25 is smaller than the total of lines 23 and 26, enter amount owed . . . . .		<b>27</b>	<b>896</b>	
<b>28</b> <b>Overpayment.</b> If line 25 is larger than the total of lines 23 and 26, enter amount overpaid . . . . .		<b>28</b>		
<b>29</b> Amount of line 28 to be: <b>a</b> Credited to 2004 estimated tax <b>▶</b> . . . . . ; <b>b</b> Refunded <b>▶</b> . . . . .		<b>29</b>		
<b>Sign Here</b> 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.				
<b>Paid Preparer's Use Only</b> Preparer's signature: <div style="border: 1px solid black; width: 150px; height: 20px; display: inline-block;"></div> Firm's name (or yours if self-employed), address, and ZIP code: <div style="border: 1px solid black; width: 250px; height: 20px; display: inline-block;"></div>		Date: <div style="border: 1px solid black; width: 80px; height: 20px; display: inline-block;"></div> EIN of fiduciary if a financial institution: <div style="border: 1px solid black; width: 120px; height: 20px; display: inline-block;"></div>	Check if self-employed <input type="checkbox"/> Preparer's SSN or PTIN: <div style="border: 1px solid black; width: 100px; height: 20px; display: inline-block;"></div> EIN: <div style="border: 1px solid black; width: 100px; height: 20px; display: inline-block;"></div> Phone no. (   ) : <div style="border: 1px solid black; width: 100px; height: 20px; display: inline-block;"></div>	

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11370H

Form **1041** (2003)

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# 2004 Workbook

## For Example 6

Form 1041 (2003)

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### 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 page 20)	1	
2	Tax-exempt income allocable to charitable contributions (see page 20 of the 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 page 20 of the instructions)	6	
7	<b>Charitable deduction.</b> 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 page 20 of the instructions)	1	14,058
2	Adjusted tax-exempt interest	2	1,992
3	Total net gain from Schedule D (Form 1041), line 16a, column (1) (see page 20 of the instructions)	3	
4	Enter amount from Schedule A, line 4 (reduced by any allocable section 1202 exclusion)	4	
5	Capital gains for the tax year included on Schedule A, line 1 (see page 21 of the 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	
7	<b>Distributable net income (DNI).</b> Combine lines 1 through 6. If zero or less, enter -0-	7	16,050
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	9,000
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 page 21 of the instructions	11	9,000
12	Enter the amount of tax-exempt income included on line 11	12	1,117
13	Tentative income distribution deduction. Subtract line 12 from line 11	13	7,883
14	Tentative income distribution deduction. Subtract line 2 from line 7. If zero or less, enter -0-	14	14,058
15	<b>Income distribution deduction.</b> Enter the smaller of line 13 or line 14 here and on page 1, line 18	15	7,883

### Schedule G Tax Computation (see page 21 of the instructions)

1	<b>Tax:</b> a Tax on taxable income (see page 21 of the instructions)	1a	896	
	b Tax on lump-sum distributions (attach Form 4972)	1b		
	c Alternative minimum tax (from Schedule I, line 56)	1c	0	
	d <b>Total.</b> Add lines 1a through 1c	1d		896
2a	Foreign tax credit (attach Form 1116)	2a		
b	Other nonbusiness credits (attach schedule)	2b		
c	General business credit. Enter here and check which forms are attached: <input type="checkbox"/> Form 3800 <input type="checkbox"/> Forms (specify) ▶	2c		
d	Credit for prior year minimum tax (attach Form 8801)	2d		
3	<b>Total credits.</b> Add lines 2a through 2d	3		
4	Subtract line 3 from line 1d. If zero or less, enter -0-	4		896
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	<b>Total tax.</b> Add lines 4 through 6. Enter here and on page 1, line 23	7		896

### 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 ▶ \$ 2,500	✓	
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?		✓
3 At any time during calendar year 2003, 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 page 23 of the instructions for exceptions and filing requirements for Form TD F 90-22.1. If "Yes," enter the name of the foreign country ▶		✓
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 page 24 of the instructions		✓
5 Did the estate or trust receive, or pay, any qualified residence interest on seller-provided financing? If "Yes," see page 24 for required attachment		✓
6 If this is an estate or a complex trust making the section 663(b) election, check here (see page 24)		
7 To make a section 643(e)(3) election, attach Schedule D (Form 1041), and check here (see page 24)		
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 page 24 of the instructions		✓

Form **1041** (2003)



## For Example 6

### SCHEDULE K-1 (Form 1041)

Department of the Treasury  
Internal Revenue Service

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

for the calendar year 2003, or fiscal year  
beginning **Nov 29**, 2003, ending **Oct 31**, 20 **04**  
▶ Complete a separate Schedule K-1 for each beneficiary.

OMB No. 1545-0092

**2003**

Name of trust or decedent's estate

**ESTATE OF TERRY THARP**

☐ Amended K-1  
☐ Final K-1

Beneficiary's identifying number ▶

**010-99-5656**

Estate's or trust's EIN ▶

**01 : 5556666**

Beneficiary's name, address, and ZIP code

**ROBERT THARP  
1320 GLENN COVE  
BLOOMINGTON IN 47402**

Fiduciary's name, address, and ZIP code

**ROBERT THARP, EXECUTOR  
1320 GLENN COVE  
BLOOMINGTON IN 47402**

(a) Allocable share item	(b) Amount	(c) Calendar year 2003 Form 1040 filers enter the amounts in column (b) on:
<b>1</b> Interest . . . . .	<b>1</b> <b>1,457</b>	Form 1040, line 8a
<b>2a</b> Qualified dividends . . . . .	<b>2a</b> <b>1,171</b>	Form 1040, line 9b
<b>b</b> Total ordinary dividends . . . . .	<b>2b</b> <b>1,171</b>	Form 1040, line 9a
<b>3a</b> Net short-term capital gain (entire year) . . . . .	<b>3a</b>	Schedule D, line 5, column (f)
<b>b</b> Net short-term capital gain (post 5/5/2003) . . . . .	<b>3b</b>	Schedule D, line 5, column (g)
<b>4a</b> Net long-term capital gain (entire year) . . . . .	<b>4a</b>	Schedule D, line 12, column (f)
<b>b</b> Net long-term capital gain (post 5/5/2003) . . . . .	<b>4b</b>	Schedule D, line 12, column (g)
<b>c</b> Qualified 5-year gain . . . . .	<b>4c</b>	Line 5 of the worksheet for Schedule D, line 35
<b>d</b> Unrecaptured section 1250 gain . . . . .	<b>4d</b>	Line 11 of the worksheet for Schedule D, line 19
<b>e</b> 28% rate gain . . . . .	<b>4e</b>	Line 4 of the worksheet for Schedule D, line 20
<b>5a</b> Annuities, royalties, and other nonpassive income before directly apportioned deductions . . . . .	<b>5a</b>	Schedule E, Part III, column (f)
<b>b</b> Depreciation . . . . .	<b>5b</b>	} Include on the applicable line of the appropriate tax form
<b>c</b> Depletion . . . . .	<b>5c</b>	
<b>d</b> Amortization . . . . .	<b>5d</b>	
<b>6a</b> Trade or business, rental real estate, and other rental income before directly apportioned deductions (see instructions) . . . . .	<b>6a</b>	Schedule E, Part III
<b>b</b> Depreciation . . . . .	<b>6b</b>	} Include on the applicable line of the appropriate tax form
<b>c</b> Depletion . . . . .	<b>6c</b>	
<b>d</b> Amortization . . . . .	<b>6d</b>	
<b>7</b> Income for minimum tax purposes . . . . .	<b>7</b> <b>2,628</b>	
<b>8</b> Income for regular tax purposes (add lines 1, 2b, 3a, 4a, 5a, and 6a) . . . . .	<b>8</b> <b>2,628</b>	
<b>9</b> Adjustment for minimum tax purposes (subtract line 8 from line 7) . . . . .	<b>9</b> <b>0</b>	Form 6251, line 14
<b>10</b> Estate tax deduction (including certain generation-skipping transfer taxes) . . . . .	<b>10</b>	Schedule A, line 27
<b>11</b> Foreign taxes . . . . .	<b>11</b>	Form 1040, line 44 or Schedule A, line 8
<b>12</b> Adjustments and tax preference items (itemize):		
<b>a</b> Accelerated depreciation . . . . .	<b>12a</b>	} Include on the applicable line of Form 6251
<b>b</b> Depletion . . . . .	<b>12b</b>	
<b>c</b> Amortization . . . . .	<b>12c</b>	
<b>d</b> Exclusion items . . . . .	<b>12d</b>	2004 Form 8801
<b>13</b> Deductions in the final year of trust or decedent's estate:		
<b>a</b> Excess deductions on termination (see instructions) . . . . .	<b>13a</b>	Schedule A, line 22
<b>b</b> Short-term capital loss carryover . . . . .	<b>13b</b> ( )	Schedule D, line 5, columns (f) and (g)
<b>c</b> Long-term capital loss carryover . . . . .	<b>13c</b> ( )	Sch. D, line 12, col. (f); line 5 of the wksht. for Sch. D, line 20; and line 16 of the wksht. for Sch. D, line 19
<b>d</b> Net operating loss (NOL) carryover for regular tax purposes . . . . .	<b>13d</b> ( )	Form 1040, line 21
<b>e</b> NOL carryover for minimum tax purposes . . . . .	<b>13e</b>	See the instructions for Form 6251, line 27
<b>f</b> . . . . .	<b>13f</b>	} Include on the applicable line of the appropriate tax form
<b>g</b> . . . . .	<b>13g</b>	
<b>14</b> Other (itemize):		
<b>a</b> Payments of estimated taxes credited to you . . . . .	<b>14a</b>	Form 1040, line 62
<b>b</b> Tax-exempt interest . . . . .	<b>14b</b> <b>372</b>	Form 1040, line 8b
<b>c</b> <b>INVESTMENT INCOME (SECTION 163(D))</b> . . . . .	<b>14c</b> <b>2,628</b>	} Include on the applicable line of the appropriate tax form
<b>d</b> . . . . .	<b>14d</b>	
<b>e</b> . . . . .	<b>14e</b>	

For Paperwork Reduction Act Notice, see the Instructions for Form 1041.

Cat. No. 11380D

Schedule K-1 (Form 1041) 2003

## IMPACT OF VARIOUS ASSETS ON ESTATES

### INDIVIDUAL RETIREMENT ACCOUNTS

For many taxpayers, their personal residence and their Individual Retirement Account (IRA) balance comprise the majority of assets in their estate. The balance in a traditional IRA account is IRD property, which requires the beneficiary to recognize the income tax liability on receipt of the cash distribution.

The first step in properly planning for the tax consequences of an inherited IRA is to consider the income tax impact on the beneficiary.

For wealthy taxpayers with appreciated stock and an IRA, assets could be split between a charity and the taxpayer's children. It is more tax advantageous to make the charity the beneficiary of the IRA and to make the heirs the beneficiaries of the securities. Since the estate exclusion of \$1.5 million (2004–2005) shields estate tax exposure for the securities, and the securities receive a stepped-up basis at the beneficiary level, it is more desirable for the heirs to receive the securities.

Since the distribution to the charity results in an estate tax distribution, the taxable estate is decreased by the amount given to the charity. In 2004 and 2005, the deceased can have an estate of \$1.5 million with no federal estate tax. Because the charity is not subject to income tax, no income tax is due on the IRA account. Since the stock account receives a stepped-up basis to FMV, the heirs will not be subject to income tax unless they sell the stock for more than FMV on date of death.

For married taxpayers, the spouse is typically the primary beneficiary of an IRA account. The spouse has more flexibility than other beneficiaries because she can either elect to treat the IRA as an inherited IRA, or roll over the inherited IRA into her account and delay taxation until the required minimum distribution (RMD) age of 70½. As an alternative, the spouse may elect to start distributions from the inherited IRA by December 31 of the year following the death of the IRA owner.

If an individual(s) other than the spouse is named as a designated beneficiary, the RMD rules generally provide for a longer period, effective in 2001, to take annual distributions and pay income tax on the distribution.

### LIVING TRUSTS

Often taxpayers are encouraged to establish living trusts to reduce income taxes, estate taxes and probate costs. The living trust does nothing to reduce individual income taxes, and only reduces potential estate taxes if properly structured. A living trust is a grantor trust. The title of the assets transferred into the living trust is held in the trust's name. If the grantor of the trust is the same as the trustee, a separate Form 1041 is not required to be filed annually. The earnings from the assets in the living trust are reported on the individual income tax return of the grantor.

A revocable living trust, also known as an inter vivos trust, is created while the taxpayer is alive through a formal written document. The taxpayer has complete control of the assets transferred into the trust, since the living trust is "revocable." Within the trust document, the taxpayer can provide direction on the disposition of her assets at death, and perhaps provide for a bypass trust or qualified terminable interest property (QTIP) trust to be established. A trust is not a substitution for a will. A will is still necessary. However, the will, in conjunction with a living trust, can be very short and straightforward, addressing any taxpayer-owned assets not held in the living trust at date of death. At the taxpayer's death, the living trust becomes an irrevocable trust which requires the trust administrator to obtain an employer identification number and file Forms 1041 for the trust.

Assets within the living trust avoid the probate process, which often can be both costly and time consuming. If a taxpayer has out-of-state holdings, such as a condo in Florida or ranch property in Wyoming, it is often wise to hold such assets within a living trust. If out-of-state property is held in the taxpayer's name, it will be necessary to go through the probate process in the respective states at the taxpayer's death.

A personal residence, titled in a grantor trust, receives the same tax benefits as if the asset was held in the individual's name.

**Example 7.** Rodney Rogers is a widower. He transferred all his assets into a revocable living trust several years ago. Included in the transfer of assets was his personal residence of 30 years. In 2004, his tax basis in the home was \$86,000, and he sells the residence for \$246,000. Even though the property sale is from the Rodney Rogers Trust, there is no gain or loss to the taxpayer since the total gain of under \$250,000 meets the exclusion requirements.<sup>8</sup>

Personal residences held in an irrevocable living trust do not enjoy the §121 exclusion. Consideration should be given to establishing a qualified personal residence trust (QPRT). A homeowner can transfer his personal residence into the trust, and the owner of the home can continue to live in his home rent free during the term of the trust.

The QPRT allows for the §121 exclusion by the owner who can continue to deduct mortgage interest and real estate taxes. Probate is avoided and the home may pass tax-free to the beneficiaries. If the owner lives for the time period specified in the trust, the FMV of the residence is excluded from his estate. However, if the owner dies during the term of the QPRT, the FMV of the residence is included in the decedent's estate.

Living trusts offer taxpayers an opportunity for estate planning. Often, a taxpayer places all of his assets into a living trust during his lifetime and provides that a bypass (credit shelter) trust be established at his death with assets equal to the estate exclusion amount (\$1.5 million in 2004–2005). Upon the first spouse's death, the bypass (credit shelter) trust is funded with assets from the grantor trust and income from the bypass trust is provided for the lifetime of the surviving spouse. Upon the surviving spouse's death, the assets will then "bypass" her estate and transfer directly to the beneficiaries (usually the children) named in the original bypass trust document. The surviving spouse cannot change the beneficiaries after the death of the first spouse.

Care must be taken in the wording of the trust document in order to appropriately respond to the increasing amount of the estate exclusion (\$2 million in 2006–2008, \$3.5 million in 2009) may create an unintended result. If the bypass trust receives all of the grantor trust assets upon the grantor's death, it can defeat its intended purpose by not transferring anything directly to the surviving spouse or to the decedent's children at the time of death.

As previously mentioned, the 2004 estate exclusion amount is \$1.5 million. A taxpayer with an estate of \$1.8 million who provides for a bypass (credit shelter) trust equal to the estate exclusion amount with the balance to his spouse, may actually desire more assets to go directly to his spouse than the \$300,000 that the trust document allows. For example, if the taxpayer wanted \$500,000 to go to his spouse, he would need to specify that the bypass trust would only be funded at \$1.3 million.

**Note.** Taxpayers are encouraged to periodically review their trust documents and make the necessary changes consistent with the present tax law.

A taxpayer's living trust may also provide for the funding of a QTIP trust at his death. This gives the grantor control of the trust and ensures that assets in the QTIP ultimately pass to his children, possibly from an earlier marriage, while the income from the trust is distributed and taxed to his surviving spouse for the remainder of her life. A QTIP qualifies for the marital deduction on Form 706 and will be an asset of the spouse's estate when she dies.

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<sup>8</sup> IRC §121

**Example 8.** Wilbur Conkright properly established a living trust to hold title to all of his assets consisting of rental properties, cash, and securities. His gross estate on his date of death on September 5, 2004 was \$4 million. His trust document provided that a credit shelter trust (or bypass trust) be funded at his death equal to the “exemption equivalent” and the balance of his assets be used to fund a QTIP trust with the income to be distributed to his widow, and the assets in the QTIP eventually to pass equally to six children from four prior marriages. Mr. Conkright made no prior taxable gifts and the entire \$1.5 million exemption amount was available to shelter the marital trust’s \$1.5 million passing to the credit shelter trust. The property passing to the QTIP trust qualifies under IRC §2056 for the marital deduction, so no estate tax is owed. However, two separate fiduciary tax returns are required. A separate Form 1041 and Schedule K-1 is prepared for both the credit shelter and the QTIP trust.

At Mr. Conkright’s widow’s death, the assets in the credit shelter trust are distributed outright to the six children, and the assets in the QTIP trust become part of her gross estate. The remaining QTIP assets, after applicable estate taxes and administrative costs, are distributed according to the terms of the trust.

**Note.** For more details on QTIP trusts, see pages 280–281 in the *2003 University of Illinois Federal Tax Workbook*.

## DEDUCTIONS FROM THE ESTATE

### DEDUCTIONS FOR BENEFICIARIES WHEN ESTATE IS TERMINATED

During the course of estate administration, beneficiaries do not generally claim losses or deductions in excess of income from an estate. An exception is for depreciation or depletion allocations in excess of income. Upon termination of an estate, the beneficiaries can utilize excess deductions from the final year of an estate and net operating loss and capital loss carryovers.<sup>9</sup> With the exception of the final year of an estate, negative numbers are never reflected on a Form 1041, Schedule K-1.

#### Allocation of Excess Deductions

IRC §642(h) provides for the allocation of excess deductions in the final tax year of an estate. Such excess deductions are allocated to beneficiaries succeeding to the property in an estate. Allocation of excess deductions in the estate’s final tax year is to beneficiaries who receive:

- The residual of the estate,
- A statutory fractional share of the estate such as a surviving spouse, or
- A specific bequest that cannot be fully paid because there are not sufficient assets in the estate.

**Example 9.** The will of Adrienne Lucas provided for a specific bequest of \$500,000 to her daughter, Barbara, and a residual bequest to her cousin Amy. The gross estate before the deductions is \$520,000. After \$35,000 administrative expenses, her estate can only pay Barbara \$485,000 to satisfy her bequest. Amy receives no distribution. In the final year, the estate reports \$35,000 in excess deductions.

Barbara receives the deduction for \$15,000 (\$500,000 – \$485,000) since her specific bequest per the will was short by that amount. The balance of the excess deductions, \$20,000 (\$35,000 – \$15,000) in the final year goes to Amy as the residual beneficiary. If Barbara had received the full \$500,000 as stated in the will, the entire \$35,000 in excess deductions would have flowed to Amy’s tax return.

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<sup>9</sup> IRC §§642(h)(1) and (2)

**Note.** Timing is very important for payment of administrative expenses because excess deductions can only be transferred to the beneficiaries in the final year. Excess deductions during years prior to the final return are lost and cannot be carried forward.

## Net Operating Losses

Beneficiaries can utilize an estate's unused net operating loss (NOL) as a carry forward net operating loss on their personal income tax return. The estate NOL is available for distribution in the final year of the estate, and the beneficiaries can only carry forward the NOL for the remaining years left in the estate carryforward period.

**Example 10.** The administrator for the Estate of Albert Anderson, CPA, is preparing the final fiduciary tax return. During the tax year ending June 30, 2004, the estate collected \$40,000 in accounting fees from Mr. Anderson's business and incurred \$65,000 in business expenses. The estate also paid \$3,000 in legal fees for estate administration. Mr. Anderson's only heir is his daughter Becky.

The following Form 1041 and Form 1041, Schedule K-1 reflect the proper tax treatment of the deductions available to Becky on the termination of the estate. The full \$25,000 (\$65,000 – \$40,000) is a net operating loss and the \$3,000 in legal fees represents excess deductions on termination of the estate. The excess deduction amount is a Schedule A, miscellaneous itemized deduction for Becky.

**Note.** The excess deduction is subject to the 2% AGI limitation.

# 2004 Workbook

## For Example 10

Form <b>1041</b>		Department of the Treasury—Internal Revenue Service		<b>2003</b>		OMB No. 1545-0092	
<b>U.S. Income Tax Return for Estates and Trusts</b>							
<b>A</b> Type of entity (see instr.):		For calendar year 2003 or fiscal year beginning <b>Jul 18</b> , 2003, and ending <b>Jun 30</b> , 20 <b>04</b>					
<input checked="" type="checkbox"/> Decedent's estate		Name of estate or trust (If a grantor type trust, see page 12 of the instructions.)		<b>C</b> Employer identification number			
<input type="checkbox"/> Simple trust		<b>ESTATE OF ALBERT ANDERSON</b>		<b>66 : 9595951</b>			
<input type="checkbox"/> Complex trust		Name and title of fiduciary		<b>D</b> Date entity created			
<input type="checkbox"/> Qualified disability trust		<b>BECKY ANDERSON DAVIES</b>		<b>7/18/03</b>			
<input type="checkbox"/> ESBT (S portion only)		Number, street, and room or suite no. (If a P.O. box, see page 12 of the instructions.)		<b>E</b> Nonexempt charitable and split-interest trusts, check applicable boxes (see page 13 of the instructions):			
<input type="checkbox"/> Grantor type trust		<b>100 WEST BUSINESS ROUTE 20</b>		<input type="checkbox"/> Described in section 4947(a)(1)			
<input type="checkbox"/> Bankruptcy estate—Ch. 7		City or town, state, and ZIP code		<input type="checkbox"/> Not a private foundation			
<input type="checkbox"/> Bankruptcy estate—Ch. 11		<b>ROCKFORD, IL 60200</b>		<input type="checkbox"/> Described in section 4947(a)(2)			
<input type="checkbox"/> Pooled income fund							
<b>B</b> Number of Schedules K-1 attached (see instructions) ▶ <b>1</b>		<b>F</b> Check applicable boxes:					
		<input checked="" type="checkbox"/> Initial return <input checked="" type="checkbox"/> Final return <input type="checkbox"/> Amended return					
		<input type="checkbox"/> Change in fiduciary's name <input type="checkbox"/> Change in fiduciary's address					
<b>G</b> Pooled mortgage account (see page 13 of the instructions): <input type="checkbox"/> Bought <input type="checkbox"/> Sold Date:							
<b>Income</b>	<b>1</b> Interest income . . . . .	<b>1</b>					
	<b>2a</b> Total ordinary dividends . . . . .	<b>2a</b>					
	<b>b</b> Qualified dividends allocable to: (1) Beneficiaries . . . . . (2) Estate or trust . . . . .						
	<b>3</b> Business income or (loss) (attach Schedule C or C-EZ (Form 1040)) . . . . .	<b>3</b>	<b>-25,000</b>				
	<b>4</b> Capital gain or (loss) (attach Schedule D (Form 1041)) . . . . .	<b>4</b>					
	<b>5</b> Rents, royalties, partnerships, other estates and trusts, etc. (attach Schedule E (Form 1040)) . . . . .	<b>5</b>					
	<b>6</b> Farm income or (loss) (attach Schedule F (Form 1040)) . . . . .	<b>6</b>					
	<b>7</b> Ordinary gain or (loss) (attach Form 4797) . . . . .	<b>7</b>					
	<b>8</b> Other income. List type and amount . . . . .	<b>8</b>					
<b>9</b> <b>Total income.</b> Combine lines 1, 2a, and 3 through 8 . . . . . ▶	<b>9</b>	<b>-25,000</b>					
<b>Deductions</b>	<b>10</b> Interest. Check if Form 4952 is attached ▶ <input type="checkbox"/> . . . . .	<b>10</b>					
	<b>11</b> Taxes . . . . .	<b>11</b>					
	<b>12</b> Fiduciary fees . . . . .	<b>12</b>	<b>3,000</b>				
	<b>13</b> Charitable deduction (from Schedule A, line 7) . . . . .	<b>13</b>					
	<b>14</b> Attorney, accountant, and return preparer fees . . . . .	<b>14</b>					
	<b>15a</b> Other deductions <b>not</b> subject to the 2% floor (attach schedule) . . . . .	<b>15a</b>					
	<b>b</b> Allowable miscellaneous itemized deductions subject to the 2% floor. . . . .	<b>15b</b>					
	<b>16</b> <b>Total.</b> Add lines 10 through 15b . . . . .	<b>16</b>	<b>3,000</b>				
	<b>17</b> Adjusted total income or (loss). Subtract line 16 from line 9. Enter here and on Schedule B, line 1 ▶	<b>17</b>	<b>-28,000</b>				
	<b>18</b> Income distribution deduction (from Schedule B, line 15) (attach Schedules K-1 (Form 1041)) . . . . .	<b>18</b>	<b>0</b>				
	<b>19</b> Estate tax deduction (including certain generation-skipping taxes) (attach computation) . . . . .	<b>19</b>					
<b>20</b> Exemption . . . . .	<b>20</b>	<b>600</b>					
<b>21</b> <b>Total deductions.</b> Add lines 18 through 20 . . . . . ▶	<b>21</b>	<b>600</b>					
<b>22</b> Taxable income. Subtract line 21 from line 17. If a loss, see page 18 of the instructions . . . . .	<b>22</b>	<b>-28,600</b>					
<b>23</b> <b>Total tax</b> (from Schedule G, line 7) . . . . .	<b>23</b>	<b>0</b>					
<b>24a</b> <b>Payments:</b> a 2003 estimated tax payments and amount applied from 2002 return . . . . .	<b>24a</b>						



## For Example 10

### SCHEDULE K-1 (Form 1041)

Department of the Treasury  
Internal Revenue Service

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

for the calendar year 2003, or fiscal year  
beginning **Jul 18**, 2003, ending **Jun 30**, 20 **04**  
▶ Complete a separate Schedule K-1 for each beneficiary.

OMB No. 1545-0092

**2003**

Name of trust or decedent's estate

**ESTATE OF ALBERT ANDERSON**

☐ Amended K-1  
☒ Final K-1

Beneficiary's identifying number ▶

**277-72-2727**

Estate's or trust's EIN ▶

**01-5556666**

Beneficiary's name, address, and ZIP code

**BECKY ANDERSON DAVIES  
100 WEST BUSINESS ROUTE 20  
ROCKFORD IL 60200**

Fiduciary's name, address, and ZIP code

**ESTATE OF ALBERT ANDERSON  
100 WEST BUSINESS ROUTE 20  
ROCKFORD IL 60200**

(a) Allocable share item	(b) Amount	(c) Calendar year 2003 Form 1040 filers enter the amounts in column (b) on:
<b>1</b> Interest . . . . .	<b>1</b>	Form 1040, line 8a
<b>2a</b> Qualified dividends . . . . .	<b>2a</b>	Form 1040, line 9b
<b>b</b> Total ordinary dividends . . . . .	<b>2b</b>	Form 1040, line 9a
<b>3a</b> Net short-term capital gain (entire year) . . . . .	<b>3a</b>	Schedule D, line 5, column (f)
<b>b</b> Net short-term capital gain (post 5/5/2003) . . . . .	<b>3b</b>	Schedule D, line 5, column (g)
<b>4a</b> Net long-term capital gain (entire year) . . . . .	<b>4a</b>	Schedule D, line 12, column (f)
<b>b</b> Net long-term capital gain (post 5/5/2003) . . . . .	<b>4b</b>	Schedule D, line 12, column (g)
<b>c</b> Qualified 5-year gain . . . . .	<b>4c</b>	Line 5 of the worksheet for Schedule D, line 35
<b>d</b> Unrecaptured section 1250 gain . . . . .	<b>4d</b>	Line 11 of the worksheet for Schedule D, line 19
<b>e</b> 28% rate gain . . . . .	<b>4e</b>	Line 4 of the worksheet for Schedule D, line 20
<b>5a</b> Annuities, royalties, and other nonpassive income before directly apportioned deductions . . . . .	<b>5a</b>	Schedule E, Part III, column (f)
<b>b</b> Depreciation . . . . .	<b>5b</b>	} Include on the applicable line of the appropriate tax form
<b>c</b> Depletion . . . . .	<b>5c</b>	
<b>d</b> Amortization . . . . .	<b>5d</b>	
<b>6a</b> Trade or business, rental real estate, and other rental income before directly apportioned deductions (see instructions) . . . . .	<b>6a</b>	
<b>b</b> Depreciation . . . . .	<b>6b</b>	} Include on the applicable line of the appropriate tax form
<b>c</b> Depletion . . . . .	<b>6c</b>	
<b>d</b> Amortization . . . . .	<b>6d</b>	
<b>7</b> Income for minimum tax purposes . . . . .	<b>7</b>	
<b>8</b> Income for regular tax purposes (add lines 1, 2b, 3a, 4a, 5a, and 6a) . . . . .	<b>8</b>	
<b>9</b> Adjustment for minimum tax purposes (subtract line 8 from line 7)	<b>9</b>	Form 6251, line 14
<b>10</b> Estate tax deduction (including certain generation-skipping transfer taxes) . . . . .	<b>10</b>	Schedule A, line 27
<b>11</b> Foreign taxes . . . . .	<b>11</b>	Form 1040, line 44 or Schedule A, line 8
<b>12</b> Adjustments and tax preference items (itemize):		
<b>a</b> Accelerated depreciation . . . . .	<b>12a</b>	} Include on the applicable line of Form 6251
<b>b</b> Depletion . . . . .	<b>12b</b>	
<b>c</b> Amortization . . . . .	<b>12c</b>	
<b>d</b> Exclusion items . . . . .	<b>12d</b>	
<b>13</b> Deductions in the final year of trust or decedent's estate:		
<b>a</b> Excess deductions on termination (see instructions)	<b>13a</b> <b>3,000</b>	Schedule A, line 22
<b>b</b> Short-term capital loss carryover . . . . .	<b>13b</b> ( )	Schedule D, line 5, columns (f) and (g)
<b>c</b> Long-term capital loss carryover . . . . .	<b>13c</b> ( )	Sch. D, line 12, col. (f); line 5 of the wksht. for Sch. D, line 20; and line 16 of the wksht. for Sch. D, line 19
<b>d</b> Net operating loss (NOL) carryover for regular tax purposes	<b>13d</b> <b>25,000</b>	Form 1040, line 21
<b>e</b> NOL carryover for minimum tax purposes . . . . .	<b>13e</b>	See the instructions for Form 6251, line 27
<b>f</b> . . . . .	<b>13f</b>	} Include on the applicable line of the appropriate tax form
<b>g</b> . . . . .	<b>13g</b>	
<b>14</b> Other (itemize):		
<b>a</b> Payments of estimated taxes credited to you . . . . .	<b>14a</b>	Form 1040, line 62
<b>b</b> Tax-exempt interest . . . . .	<b>14b</b>	Form 1040, line 8b
<b>c</b> . . . . .	<b>14c</b>	} Include on the applicable line of the appropriate tax form
<b>d</b> . . . . .	<b>14d</b>	
<b>e</b> . . . . .	<b>14e</b>	

For Paperwork Reduction Act Notice, see the Instructions for Form 1041.

Cat. No. 11380D

Schedule K-1 (Form 1041) 2003



## Capital Losses of the Estate

The estate carries forward capital losses not utilized in years prior to the final year. Beneficiaries can claim, on their respective personal income tax returns, unused capital losses in the final year of the estate. Capital losses retain the same character (long-term or short-term) as they had in the estate. Capital losses are entered on the beneficiary's Schedule K-1 on lines 13b and 13c.

## DEPRECIATION

Depreciation (and depletion) is an exception item for a deduction flowing from an estate that a beneficiary can receive during the ongoing period of estate administration. The depreciation deduction must be allocated between the entity and the beneficiaries according to the allocation of estate income.<sup>10</sup> Since the deduction for depreciation is not limited to estate income, the depreciation deduction can be claimed even if the deduction exceeds income.

Real and personal property assets of the estate can be “stepped-up” to a fair market value (FMV) basis at date of death. An estate asset might be an apartment complex that was fully depreciated during the decedent's lifetime but receives a stepped-up basis to FMV at date of death. This restarts the depreciation process. The beneficiary's basis is determined using the estate's stepped-up basis, and adjusting it by any gain or loss recognized by the estate as a result of a distribution.<sup>11</sup>

**Observation.** If rental real estate is received from an estate, the basis in the hands of the beneficiary will be the FMV of the real estate at date of death less depreciation claimed by the estate. In the case of estate property jointly owned with the spouse, the basis step-up is limited to 50% of the FMV of the estate asset, unless it is community property or the pre-1977 qualified joint interest law applies.

**Example 11.** Harley Doolittle was a successful contractor during his lifetime, and amassed a small fortune in rental real estate. Mr. Doolittle was an active and material participant in his rental real estate activities. He died on August 2, 2003 as a result of a fall while doing a roof repair on one his rental properties. His wife, Mary Ann, predeceased him.

The will of Mr. Doolittle created two testamentary trusts upon his death. The first trust provides annual income for his twin adult sons, John and James. The second trust provides for his developmentally disabled adult daughter, Marsha, who lives at home. Two-thirds of the estate passes to the first trust for the benefit of his twin sons, and the remaining one-third passes to the “special needs” trust for his daughter. The two trusts are the beneficiaries of the estate, and the estate income is distributed annually to the decedent's trusts.

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<sup>10</sup> IRC §167(d)

<sup>11</sup> IRC §§1014(a)(1) and (b)(1)

# 2004 Workbook

All cash in the estate is applied to estate taxes and administrative costs. The remaining assets in the estate consist of the following unencumbered real estate:

Property	Decedent's Adjusted Basis	Appraised FMV
4 family apt. bldg.	\$ 10,000	\$ 125,000
16 unit apt. complex	80,000	450,000
4000 sq. ft. warehouse	200,000	650,000
Rental condo Ft. Myers, FL	110,000	480,000
320 acres farm land, IL	600,000	1,120,000
Walgreen's real estate, WI	900,000	2,100,000
Total	\$1,900,000	\$4,925,000

The step-up in basis of the decedent's assets from \$1,900,000 to \$4,925,000 not only benefits the beneficiaries of the estate if the inherited property is later sold, but also allows the heirs a "fresh" valuation to claim depreciation. All rental real estate, with the exception of the farm ground and the portion of remaining rental real estate with an amount allocated for land costs, can be depreciated over 27.5 years for the residential real estate and 39 years for the nonresidential (commercial) properties.

Since Mr. Doolittle met the active participation requirements to qualify for the \$25,000 exception for rental real estate from the passive loss rules, his estate qualifies for the \$25,000 exception for any tax year ending less than two years after his death.<sup>12</sup>

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<sup>12</sup> IRC §469(i)(4)

# 2004 Workbook

## For Example 11

Form	<b>1041</b>	Department of the Treasury—Internal Revenue Service <b>U.S. Income Tax Return for Estates and Trusts</b>	<b>2003</b>	OMB No. 1545-0092
<b>A</b> Type of entity (see instr.): <input checked="" type="checkbox"/> Decedent's estate <input 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		For calendar year 2003 or fiscal year beginning <b>Aug 2</b> , 2003, and ending <b>Jul 31</b> , 20 <b>04</b> <b>C</b> Employer identification number <b>02 : 9975445</b> <b>D</b> Date entity created <b>08/02/03</b> <b>E</b> Nonexempt charitable and split-interest trusts, check applicable boxes (see page 13 of the instructions): <input type="checkbox"/> Described in section 4947(a)(1) <input type="checkbox"/> Not a private foundation <input type="checkbox"/> Described in section 4947(a)(2)		
<b>B</b> Number of Schedules K-1 attached (see instructions) <b>2</b>		<b>F</b> Check applicable boxes: <input checked="" type="checkbox"/> Initial return <input type="checkbox"/> Final return <input type="checkbox"/> Amended return <input type="checkbox"/> Change in fiduciary's name <input type="checkbox"/> Change in fiduciary's address		
<b>G</b> Pooled mortgage account (see page 13 of the instructions): <input type="checkbox"/> Bought <input type="checkbox"/> Sold    Date:				
<b>Income</b>	<b>1</b> Interest income . . . . .	<b>1</b>		
	<b>2a</b> Total ordinary dividends . . . . .	<b>2a</b>		
	<b>b</b> Qualified dividends allocable to: (1) Beneficiaries . . . . . (2) Estate or trust . . . . .			
	<b>3</b> Business income or (loss) (attach Schedule C or C-EZ (Form 1040)) . . . . .	<b>3</b>		
	<b>4</b> Capital gain or (loss) (attach Schedule D (Form 1041)) . . . . .	<b>4</b>		
	<b>5</b> Rents, royalties, partnerships, other estates and trusts, etc. (attach Schedule E (Form 1040)) . . . . .	<b>5</b>	<b>398,700</b>	
	<b>6</b> Farm income or (loss) (attach Schedule F (Form 1040)) . . . . .	<b>6</b>		
	<b>7</b> Ordinary gain or (loss) (attach Form 4797) . . . . .	<b>7</b>		
	<b>8</b> Other income. List type and amount . . . . .	<b>8</b>		
<b>9</b> <b>Total income.</b> Combine lines 1, 2a, and 3 through 8 . . . . .	<b>9</b>	<b>398,700</b>		
<b>Deductions</b>	<b>10</b> Interest. Check if Form 4952 is attached <input type="checkbox"/> . . . . .	<b>10</b>		
	<b>11</b> Taxes . . . . .	<b>11</b>		
	<b>12</b> Fiduciary fees . . . . .	<b>12</b>		
	<b>13</b> Charitable deduction (from Schedule A, line 7) . . . . .	<b>13</b>		
	<b>14</b> Attorney, accountant, and return preparer fees . . . . .	<b>14</b>		
	<b>15a</b> Other deductions <b>not</b> subject to the 2% floor (attach schedule) . . . . .	<b>15a</b>		
	<b>b</b> Allowable miscellaneous itemized deductions subject to the 2% floor. . . . .	<b>15b</b>		
	<b>16</b> <b>Total.</b> Add lines 10 through 15b . . . . .	<b>16</b>		
	<b>17</b> Adjusted total income or (loss). Subtract line 16 from line 9. Enter here and on Schedule B, line 1 <b>▶</b> . . . . .	<b>17</b>	<b>398,700</b>	
	<b>18</b> Income distribution deduction (from Schedule B, line 15) (attach Schedules K-1 (Form 1041)) . . . . .	<b>18</b>	<b>398,700</b>	
	<b>19</b> Estate tax deduction (including certain generation-skipping taxes) (attach computation) . . . . .	<b>19</b>		
<b>20</b> Exemption . . . . .	<b>20</b>	<b>600</b>		
<b>21</b> <b>Total deductions.</b> Add lines 18 through 20 . . . . .	<b>21</b>	<b>399,300</b>		
<b>Tax and Payments</b>	<b>22</b> Taxable income. Subtract line 21 from line 17. If a loss, see page 18 of the instructions . . . . .	<b>22</b>	<b>-600</b>	
	<b>23</b> <b>Total tax</b> (from Schedule G, line 7) . . . . .	<b>23</b>	<b>0</b>	
	<b>24</b> <b>Payments:</b> a 2003 estimated tax payments and amount applied from 2002 return . . . . .	<b>24a</b>		
	<b>b</b> Estimated tax payments allocated to beneficiaries (from Form 1041-T) . . . . .	<b>24b</b>		
	<b>c</b> Subtract line 24b from line 24a . . . . .	<b>24c</b>		
	<b>d</b> Tax paid with extension of time to file: <input type="checkbox"/> Form 2758 <input type="checkbox"/> Form 8736 <input type="checkbox"/> Form 8800 . . . . .	<b>24d</b>		
	<b>e</b> Federal income tax withheld. If any is from Form(s) 1099, check <input type="checkbox"/> . . . . .	<b>24e</b>		
	Other payments: <b>f</b> Form 2439 . . . . . ; <b>g</b> Form 4136 . . . . . ; <b>Total</b> <b>▶</b> . . . . .	<b>24h</b>		
	<b>25</b> <b>Total payments.</b> Add lines 24c through 24e, and 24h . . . . .	<b>25</b>		
	<b>26</b> Estimated tax penalty (see page 19 of the instructions) . . . . .	<b>26</b>		
<b>27</b> <b>Tax due.</b> If line 25 is smaller than the total of lines 23 and 26, enter amount owed . . . . .	<b>27</b>	<b>0</b>		
<b>28</b> <b>Overpayment.</b> If line 25 is larger than the total of lines 23 and 26, enter amount overpaid . . . . .	<b>28</b>			
<b>29</b> Amount of line 28 to be: <b>a</b> Credited to 2004 estimated tax <b>▶</b> ; <b>b</b> Refunded <b>▶</b> . . . . .	<b>29</b>			
<b>Sign Here</b> 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 _____		
<b>Paid Preparer's Use Only</b> Preparer's signature _____ Date _____ Check if self-employed <input type="checkbox"/> Preparer's SSN or PTIN _____		Firm's name (or yours if self-employed), address, and ZIP code _____ EIN _____ Phone no. ( ) _____		

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11370H

Form **1041** (2003)

# 2004 Workbook

## For Example 11

### SCHEDULE E (Form 1040)

Department of the Treasury  
Internal Revenue Service (99)

### Supplemental Income and Loss

(From rental real estate, royalties, partnerships,  
S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0074

**2003**

Attachment  
Sequence No. **13**

Name(s) shown on return

**ESTATE OF HARLEY DOOLITTLE**

Your social security number

**029 97 5445**

**Part I** **Income or Loss From Rental Real Estate and Royalties** Note. If you are in the business of renting personal property, use Schedule C or C-EZ (see page E-2). Report farm rental income or loss from Form 4835 on page 2, line 40.

1	Show the kind and location of each rental real estate property:	2	For each rental real estate property listed on line 1, did you or your family use it during the tax year for personal purposes for more than the greater of:	Yes	No
A	<b>VARIOUS RENTAL PROPERTIES</b>				
	<b>ILLINOIS, WISCONSIN, AND FLORIDA</b>				
B			• 14 days or		✓
			• 10% of the total days rented at fair rental value?		✓
C			(See page E-3.)		✓

Income:		Properties				Totals (Add columns A, B, and C.)	
		A	B	C			
3	Rents received . . . . .	3	728000				3 728000
4	Royalties received . . . . .	4					4
<b>Expenses:</b>							
5	Advertising . . . . .	5	15000				
6	Auto and travel (see page E-4) . . . . .	6					
7	Cleaning and maintenance . . . . .	7					
8	Commissions . . . . .	8					
9	Insurance . . . . .	9	46000				
10	Legal and other professional fees . . . . .	10	4500				
11	Management fees . . . . .	11	72800				
12	Mortgage interest paid to banks, etc. (see page E-4) . . . . .	12					12
13	Other interest . . . . .	13					
14	Repairs . . . . .	14	30000				
15	Supplies . . . . .	15					
16	Taxes . . . . .	16	86000				
17	Utilities . . . . .	17	75000				
18	Other (list) ▶ . . . . .	18					
19	Add lines 5 through 18 . . . . .	19	329300				19 329300
20	Depreciation expense or depletion (see page E-4) . . . . .	20	0				20 0
21	Total expenses. Add lines 19 and 20 . . . . .	21	329300				
22	Income or (loss) from rental real estate or royalty properties. Subtract line 21 from line 3 (rents) or line 4 (royalties). If the result is a (loss), see page E-4 to find out if you must file Form 6198. . . . .	22	398700				
23	Deductible rental real estate loss. Caution. Your rental real estate loss on line 22 may be limited. See page E-4 to find out if you must file Form 8582. Real estate professionals must complete line 43 on page 2 . . . . .	23	( ) ( ) ( )				
24	Income. Add positive amounts shown on line 22. Do not include any losses . . . . .	24	398700				24 398700
25	Losses. Add royalty losses from line 22 and rental real estate losses from line 23. Enter total losses here . . . . .	25	( )				25 ( )
26	Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Form 1040, line 17. Otherwise, include this amount in the total on line 41 on page 2 . . . . .	26	398700				26 398700

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 11344L

Schedule E (Form 1040) 2003

3

# 2004 Workbook

## For Example 11 — Estate of Harley Doolittle, Form 1041 Depreciation Schedule

ESTATE OF HARLEY DOOLITTLE  
Depreciation Report  
Regular Tax

02-9975445

Activity.....Schedule E VARIOUS RENTAL PROPERTIES -2003

Description	In Service	Cost	Land	Bus %	Type	Class	Conv	Depr
	Disposed	Basis		Listed	Mthd	Life	Year	Prior
4 FAMILY APT. BLDG.	8/2/2003	125,000	12,500	100	MACRS	R	MM	3,920
		112,500			SL	27.5	1	
16 UNIT APT. COMPLEX	8/2/2003	450,000	45,000	100	MACRS	R	MM	14,114
		405,000			SL	27.5	1	
WAREHOUSE BUILDING	8/2/2003	650,000	65,000	100	MACRS	NR	MM	14,375
		585,000			SL	39	1	
CONDO FLORIDA	8/2/2003	480,000	48,000	100	MACRS	R	MM	15,055
		432,000			SL	27.5	1	
WALGREENS BLDG	8/2/2003	2,100,000	210,000	100	MACRS	NR	MM	46,442
		1,890,000			SL	39	1	
Total		<u>3,805,000</u>	<u>380,500</u>					<u>93,906</u>
		<u>3,424,500</u>						

Depreciation Report  
Regular Tax

Activity.....Sch E VARIOUS RENTAL PROPERTIES -2003

Description	Real	Leased	AMT Cost	AMT Life	AMT Depr	AMT Adj
			AMT Basis	Listed	Mthd	Prior
4 FAMILY APT. BLDG.			125,000	27.5	3,920	0
			112,500	SL		
16 UNIT APT. COMPLEX			450,000	27.5	14,114	0
			405,000	SL		
WAREHOUSE BUILDING			650,000	39	14,375	0
			585,000	SL		
CONDO FLORIDA			480,000	27.5	15,055	0
			432,000	SL		
WALGREENS BLDG			2,100,000	39	46,442	0
			1,890,000	SL		
Total			<u>3,805,000</u>		<u>93,906</u>	<u>0</u>
			<u>3,424,500</u>			

## For Example 11

<b>SCHEDULE K-1</b> <b>(Form 1041)</b>  <small>Department of the Treasury Internal Revenue Service</small>	<b>Beneficiary's Share of Income, Deductions, Credits, etc.</b> for the calendar year 2003, or fiscal year beginning <b>Aug 2</b> , 2003, ending <b>Jul 31</b> , 20 <b>04</b> ▶ Complete a separate Schedule K-1 for each beneficiary.	OMB No. 1545-0092  <span style="font-size: 2em; font-weight: bold;">2003</span>
Name of trust or decedent's estate <b>ESTATE OF HARLEY DOOLITTLE</b>		<input type="checkbox"/> Amended K-1 <input type="checkbox"/> Final K-1
Beneficiary's identifying number ▶ <b>02-45566541</b>		Estate's or trust's EIN ▶ <b>02-9975445</b>
Beneficiary's name, address, and ZIP code <b>JOHN AND JAMES DOOLITTLE TRUST</b> <b>FIRST NATIONAL BANK</b> <b>10 PUBLIC SQUARE, CHAMPAIGN IL 61801</b>		Fiduciary's name, address, and ZIP code <b>FIRST NATIONAL BANK, ADMINISTRATOR</b> <b>10 PUBLIC SQUARE</b> <b>CHAMPAIGN IL 61801</b>
(a) Allocable share item	(b) Amount	(c) Calendar year 2003 Form 1040 filers enter the amounts in column (b) on:
<b>1</b> Interest . . . . .	<b>1</b>	Form 1040, line 8a
<b>2a</b> Qualified dividends . . . . .	<b>2a</b>	Form 1040, line 9b
<b>b</b> Total ordinary dividends . . . . .	<b>2b</b>	Form 1040, line 9a
<b>3a</b> Net short-term capital gain (entire year) . . . . .	<b>3a</b>	Schedule D, line 5, column (f)
<b>b</b> Net short-term capital gain (post 5/5/2003) . . . . .	<b>3b</b>	Schedule D, line 5, column (g)
<b>4a</b> Net long-term capital gain (entire year) . . . . .	<b>4a</b>	Schedule D, line 12, column (f)
<b>b</b> Net long-term capital gain (post 5/5/2003) . . . . .	<b>4b</b>	Schedule D, line 12, column (g)
<b>c</b> Qualified 5-year gain . . . . .	<b>4c</b>	Line 5 of the worksheet for Schedule D, line 35
<b>d</b> Unrecaptured section 1250 gain . . . . .	<b>4d</b>	Line 11 of the worksheet for Schedule D, line 19
<b>e</b> 28% rate gain . . . . .	<b>4e</b>	Line 4 of the worksheet for Schedule D, line 20
<b>5a</b> Annuities, royalties, and other nonpassive income before directly apportioned deductions . . . . .	<b>5a</b>	Schedule E, Part III, column (f)
<b>b</b> Depreciation . . . . .	<b>5b</b>	} Include on the applicable line of the appropriate tax form
<b>c</b> Depletion . . . . .	<b>5c</b>	
<b>d</b> Amortization . . . . .	<b>5d</b>	
<b>6a</b> Trade or business, rental real estate, and other rental income before directly apportioned deductions (see instructions) . . . . .	<b>6a</b> <b>265,800</b>	
<b>b</b> Depreciation . . . . .	<b>6b</b> <b>62,604</b>	} Include on the applicable line of the appropriate tax form
<b>c</b> Depletion . . . . .	<b>6c</b>	
<b>d</b> Amortization . . . . .	<b>6d</b>	
<b>7</b> Income for minimum tax purposes . . . . .	<b>7</b> <b>265,800</b>	
<b>8</b> Income for regular tax purposes (add lines 1, 2b, 3a, 4a, 5a, and 6a) . . . . .	<b>8</b> <b>265,800</b>	
<b>9</b> Adjustment for minimum tax purposes (subtract line 8 from line 7) . . . . .	<b>9</b> <b>0</b>	Form 6251, line 14
<b>10</b> Estate tax deduction (including certain generation-skipping transfer taxes) . . . . .	<b>10</b>	Schedule A, line 27
<b>11</b> Foreign taxes . . . . .	<b>11</b>	Form 1040, line 44 or Schedule A, line 8
<b>12</b> Adjustments and tax preference items (itemize):		
<b>a</b> Accelerated depreciation . . . . .	<b>12a</b> <b>0</b>	} Include on the applicable line of Form 6251
<b>b</b> Depletion . . . . .	<b>12b</b>	
<b>c</b> Amortization . . . . .	<b>12c</b>	
<b>d</b> Exclusion items . . . . .	<b>12d</b>	
<b>13</b> Deductions in the final year of trust or decedent's estate:		
<b>a</b> Excess deductions on termination (see instructions)	<b>13a</b>	Schedule A, line 22
<b>b</b> Short-term capital loss carryover . . . . .	<b>13b</b> ( )	Schedule D, line 5, columns (f) and (g)
<b>c</b> Long-term capital loss carryover . . . . .	<b>13c</b> ( )	Sch. D, line 12, col. (f); line 5 of the wsht. for Sch. D, line 20; and line 16 of the wsht. for Sch. D, line 19
<b>d</b> Net operating loss (NOL) carryover for regular tax purposes	<b>13d</b> ( )	Form 1040, line 21
<b>e</b> NOL carryover for minimum tax purposes . . . . .	<b>13e</b>	See the instructions for Form 6251, line 27
<b>f</b> . . . . .	<b>13f</b>	} Include on the applicable line of the appropriate tax form
<b>g</b> . . . . .	<b>13g</b>	
<b>14</b> Other (itemize):		
<b>a</b> Payments of estimated taxes credited to you . . . . .	<b>14a</b>	Form 1040, line 62
<b>b</b> Tax-exempt interest . . . . .	<b>14b</b>	Form 1040, line 8b
<b>c</b> . . . . .	<b>14c</b>	} Include on the applicable line of the appropriate tax form
<b>d</b> . . . . .	<b>14d</b>	
<b>e</b> . . . . .	<b>14e</b>	

For Paperwork Reduction Act Notice, see the Instructions for Form 1041.

Cat. No. 11380D

Schedule K-1 (Form 1041) 2003

# 2004 Workbook

## For Example 11

<b>SCHEDULE K-1</b> <b>(Form 1041)</b>  <small>Department of the Treasury Internal Revenue Service</small>	<b>Beneficiary's Share of Income, Deductions, Credits, etc.</b> for the calendar year 2003, or fiscal year beginning <b>Aug 2</b> , 2003, ending <b>Jul 31</b> , 20 <b>04</b> <b>► Complete a separate Schedule K-1 for each beneficiary.</b>	OMB No. 1545-0092  <div style="font-size: 2em; font-weight: bold;">2003</div>
Name of trust or decedent's estate <b>ESTATE OF HARLEY DOOLITTLE</b>		<input type="checkbox"/> Amended K-1 <input type="checkbox"/> Final K-1
Beneficiary's identifying number ► <b>02-8887777</b>		Estate's or trust's EIN ► <b>02-9975445</b>
Beneficiary's name, address, and ZIP code <b>MARSHA DOOLITTLE TRUST</b> <b>FIRST NATIONAL BANK</b> <b>10 PUBLIC SQUARE, CHAMPAIGN IL 61801</b>		Fiduciary's name, address, and ZIP code <b>FIRST NATIONAL BANK, ADMINISTRATOR</b> <b>10 PUBLIC SQUARE</b> <b>CHAMPAIGN IL 61801</b>
(a) Allocable share item	(b) Amount	(c) Calendar year 2003 Form 1040 filers enter the amounts in column (b) on:
<b>1</b> Interest . . . . .	<b>1</b>	Form 1040, line 8a
<b>2a</b> Qualified dividends . . . . .	<b>2a</b>	Form 1040, line 9b
<b>b</b> Total ordinary dividends . . . . .	<b>2b</b>	Form 1040, line 9a
<b>3a</b> Net short-term capital gain (entire year) . . . . .	<b>3a</b>	Schedule D, line 5, column (f)
<b>b</b> Net short-term capital gain (post 5/5/2003) . . . . .	<b>3b</b>	Schedule D, line 5, column (g)
<b>4a</b> Net long-term capital gain (entire year) . . . . .	<b>4a</b>	Schedule D, line 12, column (f)
<b>b</b> Net long-term capital gain (post 5/5/2003) . . . . .	<b>4b</b>	Schedule D, line 12, column (g)
<b>c</b> Qualified 5-year gain . . . . .	<b>4c</b>	Line 5 of the worksheet for Schedule D, line 35
<b>d</b> Unrecaptured section 1250 gain . . . . .	<b>4d</b>	Line 11 of the worksheet for Schedule D, line 19
<b>e</b> 28% rate gain . . . . .	<b>4e</b>	Line 4 of the worksheet for Schedule D, line 20
<b>5a</b> Annuities, royalties, and other nonpassive income before directly apportioned deductions . . . . .	<b>5a</b>	Schedule E, Part III, column (f)
<b>b</b> Depreciation . . . . .	<b>5b</b>	} Include on the applicable line of the appropriate tax form
<b>c</b> Depletion . . . . .	<b>5c</b>	
<b>d</b> Amortization . . . . .	<b>5d</b>	
<b>6a</b> Trade or business, rental real estate, and other rental income before directly apportioned deductions (see instructions) . . . . .	<b>6a</b> <b>132,900</b>	
<b>b</b> Depreciation . . . . .	<b>6b</b> <b>31,302</b>	} Include on the applicable line of the appropriate tax form
<b>c</b> Depletion . . . . .	<b>6c</b>	
<b>d</b> Amortization . . . . .	<b>6d</b>	
<b>7</b> Income for minimum tax purposes . . . . .	<b>7</b> <b>132,900</b>	
<b>8</b> Income for regular tax purposes (add lines 1, 2b, 3a, 4a, 5a, and 6a) . . . . .	<b>8</b> <b>132,900</b>	
<b>9</b> Adjustment for minimum tax purposes (subtract line 8 from line 7)	<b>9</b> <b>0</b>	
<b>10</b> Estate tax deduction (including certain generation-skipping transfer taxes) . . . . .	<b>10</b>	Schedule A, line 27
<b>11</b> Foreign taxes . . . . .	<b>11</b>	Form 1040, line 44 or Schedule A, line 8
<b>12</b> Adjustments and tax preference items (itemize):		
<b>a</b> Accelerated depreciation . . . . .	<b>12a</b> <b>0</b>	
<b>b</b> Depletion . . . . .	<b>12b</b>	
<b>c</b> Amortization . . . . .	<b>12c</b>	
<b>d</b> Exclusion items . . . . .	<b>12d</b>	
<b>13</b> Deductions in the final year of trust or decedent's estate:		
<b>a</b> Excess deductions on termination (see instructions)	<b>13a</b>	
<b>b</b> Short-term capital loss carryover . . . . .	<b>13b</b> ( )	
<b>c</b> Long-term capital loss carryover . . . . .	<b>13c</b> ( )	
<b>d</b> Net operating loss (NOL) carryover for regular tax purposes	<b>13d</b> ( )	
<b>e</b> NOL carryover for minimum tax purposes . . . . .	<b>13e</b>	
<b>f</b> . . . . .	<b>13f</b>	
<b>g</b> . . . . .	<b>13g</b>	
<b>14</b> Other (itemize):		
<b>a</b> Payments of estimated taxes credited to you . . . . .	<b>14a</b>	
<b>b</b> Tax-exempt interest . . . . .	<b>14b</b>	
<b>c</b> . . . . .	<b>14c</b>	
<b>d</b> . . . . .	<b>14d</b>	
<b>e</b> . . . . .	<b>14e</b>	

For Paperwork Reduction Act Notice, see the Instructions for Form 1041.

Cat. No. 11380D

Schedule K-1 (Form 1041) 2003



## ESTATE TAXATION

### ESTIMATED TAXES REQUIRED BY TRUSTS

An estate is exempt from the requirement of paying estimated income taxes on its earnings for the first two years.<sup>13</sup> Testamentary trusts, which receive the residue of the decedent's estate and are responsible for the payments of debts, taxes, and administrative expenses, also receive a two-year reprieve from paying estate taxes. Most trusts that are "will substitutes" qualify for the same two-year exception for making estimated tax payments.

**Observation.** If a trust pays estimated taxes, the trustee can elect to have any portion of the payments treated as an estimated tax payment of a beneficiary.<sup>14</sup> The election is made by filing Form 1041-T within 65 days following the end of the trust's tax year. The payment is considered to be made by the beneficiary on January 15 following the trust's tax year, and as being received by the trust on the last day of the trust's taxable year.

### INSTALLMENT OBLIGATIONS

If an estate includes an installment obligation that was the decedent's property, the remaining gain from the collection of this installment obligation is reflected as income to the estate, and can be taxed at the beneficiary level if an income distribution is made. The estate uses the same gross profit ratio as the decedent used to determine reportable gain. The basis of the installment obligation is **not** adjusted to date of death value since this note receivable represents IRD income.<sup>15</sup>

**Example 12.** Jerry Bailey was collecting monthly payments on a bond for deed transaction resulting from the sale of ranch land at the time of his death. Mr. Bailey had sold the property for \$1 million and had a cost basis of \$600,000 in this acreage. His gain of \$400,000 represented a 40% gross profit. Before he died, Mr. Bailey had collected two annual payments of \$100,000 with interest, and his estate and beneficiaries will collect the remaining \$800,000 on this note.

The initial year of the estate included a \$148,000 payment under this contract. The payment consisted of \$48,000 in interest, and \$100,000 in principal. The installment obligation generates taxable income to the estate of the full \$48,000 interest and a \$40,000 long-term capital gain (40% gross profit × \$100,000 principal). If the installment contract was distributed to an estate beneficiary in satisfaction of a specific bequest, the estate does not recognize gain or loss at the time of the distribution, and the beneficiary recognizes gain when the remaining payments from the bond for deed contract are received. If the beneficiary of the estate and the buyer of the contract are the same person, a distribution to the beneficiary triggers a full recognition of gain at the estate level.

<sup>13</sup> IRC §6654(l)(2)(A)

<sup>14</sup> IRC §643(g)

<sup>15</sup> IRC §691(a)(4)

## COMPREHENSIVE PROBLEM

**Note.** The following problem is very detailed. With the information given, there may be more than one solution based on assumptions the practitioner makes. The problem is presented to illustrate specific items, rather than to be a working example.

Wayne A. Tenbrook died on February 26, 2003, at age 50. His wife, Barbara, and two children, Larry and Jim Tenbrook, survive him. Mr. Tenbrook's will provided that a trust be established at his death. The trust is a bypass (credit shelter) trust equal to the "exemption equivalent," and the remainder of his assets are to pass to his wife after consideration of specific bequests. The income earned from the bypass trust is required to be distributed to his wife on a quarterly basis, and the assets in this trust pass to his children at the death of Barbara. The Old Country National Bank serves as administrator for the bypass (credit shelter) trust.

Based upon the facts, it is necessary to prepare the following four forms:

1. Form 1040 for Wayne and Barbara Tenbrook
2. Form 1041 for the bypass (credit shelter) trust
3. Form 706 for the Estate of Wayne Tenbrook
4. Form 1041 for the Estate of Wayne Tenbrook

Barbara was named the executor of the estate, and hires an attorney to probate the estate.

Mr. Tenbrook was employed as a Master Brewmaster at a nationwide brewery. He earned wages of \$40,000 (less 401(k) contribution of \$3,200) at his date of death, and his estate received another \$20,000 of salary on March 1, 2003. No federal or state income tax was withheld on checks received after his death.

The balance in Mr. Tenbrook's 401(k) account at date of death was \$468,000. The decedent also had an IRA account of \$55,000. Mrs. Tenbrook rolled the proceeds over into her own IRA.

Mr. Tenbrook had a \$500,000 life insurance policy, and Barbara was his beneficiary. Two months after his death, the insurance company issued a \$502,400 check to Barbara.

The decedent owned the following stocks and bonds in his name at date of death.

Securities	Cost	FMV	Income 1/1- 2/26	Income After 2/26
1,000 Ameren UE	\$ 29,000	\$ 46,000	\$ 660	\$1,980
10,000 Microsoft	46,000	250,000	800	1,600
1,000 Enron	60,000	50	0	0
10,000 Wal-Mart	38,000	560,000	900	2,700
\$100M Tulsa OK	100,000	100,000	2,500	2,500
\$200M U.S. Treas.	200,000	200,000	2,500	2,500

At the time of his death, Mr. and Mrs. Tenbrook jointly owned a \$100,000 Certificate of Deposit (CD) at the bank and a checking account with a \$14,000 balance. The CD paid \$1,250 in interest quarterly, with the first 2003 payment on March 5.

Mr. Tenbrook was an avid collector of beer memorabilia (beer cans and advertising materials), and bought and sold items with other collectors using eBay. He kept copious records and reported a self-employed profit over the past four years. His net self-employment income, using the cash basis of accounting, to date of death was \$4,800. After his death, the estate received an additional \$2,000. The inventory of items on hand at his death was \$18,000.

The decedent owned a 24-unit apartment building in joint tenancy with right of survivorship with his close friend, Flip Faltus. The two individuals acquired the rental complex in 1991 for \$480,000. The FMV at his death was \$600,000. Land costs were considered to be 10% of both the cost and appraised value. The rental income for 2003 was \$160,000 and rental expenses before depreciation were \$126,000. Rental income earned prior to his death was \$27,000 and expenses were \$12,000.

Mr. and Mrs. Tenbrook jointly owned property of autos and household furnishings with an appraised value of \$60,000 on February 26, 2003.

An IRS \$7,800 refund for overpaid 2002 income taxes was received by the estate on June 8, 2003.

Expenses that were itemized deductions for the taxpayers during 2003 included Missouri tax withholding of \$3,200, Missouri personal property tax of \$508, real estate taxes of \$6,000, and charitable contributions of \$4,500.

Estate expenses were \$8,200 for funeral and related costs, \$15,000 for attorney fees, \$1,800 for accountant fees, and \$1,500 for appraiser fees.

Barbara Tenbrook was the executor of the estate. She complied with the terms of the will, and made separate bequests of \$100,000 to the church and \$50,000 to her husband's close friend, Flip Faltus. After estate expenses, including estate taxes, the credit shelter trust was funded in the amount of \$1 million.

During the course of estate administration, Barbara located a vacation home owned by her late husband at Hot Springs Village in Arkansas. Barbara had no prior knowledge of this property, and later determined that it may have been occupied by the decedent's mistress. Barbara immediately sold the property for its FMV of \$125,000. In hindsight, Barbara now realized that Wal-Mart did not have a shareholder meeting every two weeks as her late husband had represented.

Mr. Tenbrook sold a large parcel of inherited farmland for \$380,000 in November 2002. He received a down payment of \$20,000, and the installment contract required annual payments of \$60,000 per year plus 6% interest on the unpaid balance. The first payment on this contract was due November 1, 2003. The FMV of the property when inherited from his mother 10 years ago was \$228,000. The decedent's gross profit on this sale was 40%.

The personal residence of the taxpayers was jointly owned, and the FMV at date of death was \$330,000. Real estate taxes due in 2003 of \$6,000 had not been paid as of the date of death.

Mr. and Mrs. Tenbrook jointly owned the following stocks and bonds at the disclosed FMV:

1,000 Dow Chemical	\$50,000
500 Washington Mutual	20,000
1,500 Southern Company	42,000
1,000 Coca Cola	45,000
1,000 IBM	92,000
\$10,000 City of St Louis Bd	10,000

Barbara was aware of the fact that her late husband kept a large amount of cash in a safety deposit box at the local bank. Mr. Tenbrook always claimed he made this money playing poker during his tour of duty with the U.S. Navy. The cash in the safety deposit box was \$218,000.

The estate sold the 10,000 shares of Wal-Mart on December 15, 2003 for \$57.50 per share for a total of \$575,000. No other securities were sold.

Fiduciary fees by the Old Country National Bank for managing the credit shelter trust were \$10,800 for 2003.

**Note.** Some assets not relevant to the issues presented in this problem have been omitted from the above discussion.

# 2004 Workbook

## Form 706, page 1, Estate of Wayne A. Tenbrook

Form <b>706</b> (Rev. August 2003)  Department of the Treasury Internal Revenue Service	<b>United States Estate (and Generation-Skipping Transfer) Tax Return</b>  Estate of a citizen or resident of the United States (see separate instructions). To be filed for decedents dying after December 31, 2002, and before January 1, 2004. For Paperwork Reduction Act Notice, see the separate instructions.	OMB No. 1545-0015
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<b>Part 1.—Decedent and Executor</b>	<b>1a</b> Decedent's first name and middle initial (and maiden name, if any) <b>WAYNE A</b>	<b>1b</b> Decedent's last name <b>TENBROOK</b>	<b>2</b> Decedent's Social Security No. <b>988 : 65 : 4321</b>	
	<b>3a</b> Legal residence (domicile) at time of death (county, state, and ZIP code, or foreign country) <b>SPRINGFIELD, IL 62974</b>	<b>3b</b> Year domicile established <b>1953</b>	<b>4</b> Date of birth <b>02/20/53</b>	<b>5</b> Date of death <b>02/26/03</b>
	<b>6a</b> Name of executor (see page 3 of the instructions) <b>BARBARA B TENBROOK</b>		<b>6b</b> Executor's address (number and street including apartment or suite no. or rural route; city, town, or post office; state; and ZIP code) <b>10 COUNTRY CLUB PLACE SPRINGFIELD, IL 62974</b>	
	<b>6c</b> Executor's social security number (see page 3 of the instructions) <b>987 : 65 : 4321</b>			
	<b>7a</b> Name and location of court where will was probated or estate administered <b>SANGAMON COUNTY(IL) FIFTH JUDICIAL COURT</b>			<b>7b</b> Case number <b>P-03-420</b>
	<b>8</b> If decedent died testate, check here <input checked="" type="checkbox"/> and attach a certified copy of the will.		<b>9</b> If Form 4768 is attached, check here <input type="checkbox"/>	
	<b>10</b> If Schedule R-1 is attached, check here <input type="checkbox"/>			

<b>Part 2.—Tax Computation</b>	<b>1</b> Total gross estate less exclusion (from Part 5, Recapitulation, page 3, item 12) . . . . .	<b>1</b>	<b>3,605,400</b>	
	<b>2</b> Total allowable deductions (from Part 5, Recapitulation, page 3, item 23) . . . . .	<b>2</b>	<b>2,555,400</b>	
	<b>3</b> Taxable estate (subtract line 2 from line 1) . . . . .	<b>3</b>	<b>1,050,000</b>	
	<b>4</b> Adjusted taxable gifts (total taxable gifts (within the meaning of section 2503) made by the decedent after December 31, 1976, other than gifts that are includible in decedent's gross estate (section 2001(b)))	<b>4</b>		
	<b>5</b> Add lines 3 and 4 . . . . .	<b>5</b>	<b>1,050,000</b>	
	<b>6</b> Tentative tax on the amount on line 5 from Table A on page 4 of the instructions . . . . .	<b>6</b>	<b>366,300</b>	
	<b>7</b> Total gift tax payable with respect to gifts made by the decedent after December 31, 1976. Include gift taxes by the decedent's spouse for such spouse's share of split gifts (section 2513) only if the decedent was the donor of these gifts and they are includible in the decedent's gross estate (see instructions)	<b>7</b>		
	<b>8</b> Gross estate tax (subtract line 7 from line 6) . . . . .	<b>8</b>	<b>366,300</b>	
	<b>9</b> Maximum unified credit (applicable credit amount) against estate tax . . . . .	<b>9</b>	<b>345,800</b>	
	<b>10</b> Adjustment to unified credit (applicable credit amount). (This adjustment may not exceed \$6,000. See page 5 of the instructions.) . . . . .	<b>10</b>		
	<b>11</b> Allowable unified credit (applicable credit amount) (subtract line 10 from line 9) . . . . .	<b>11</b>	<b>345,800</b>	
	<b>12</b> Subtract line 11 from line 8 (but do not enter less than zero). . . . .	<b>12</b>	<b>20,500</b>	
	<b>13</b> Credit for state death taxes (cannot exceed line 12). <b>Attach credit evidence</b> (see instructions). Figure the credit by using the amount on line 3 less \$60,000. See Table B in the instructions. Enter the amount here from Table B <b>36,000</b> x .50 . . . . .	<b>13</b>	<b>18,000</b>	
	<b>14</b> Subtract line 13 from line 12 . . . . .	<b>14</b>	<b>2,500</b>	
	<b>15</b> Credit for Federal gift taxes on pre-1977 gifts (section 2012) (attach computation) . . . . .	<b>15</b>		
	<b>16</b> Credit for foreign death taxes (from Schedule(s) P). (Attach Form(s) 706-CE.) . . . . .	<b>16</b>		
	<b>17</b> Credit for tax on prior transfers (from Schedule Q) . . . . .	<b>17</b>		
	<b>18</b> Total (add lines 15, 16, and 17) . . . . .	<b>18</b>		
	<b>19</b> Net estate tax (subtract line 18 from line 14) . . . . .	<b>19</b>	<b>2,500</b>	
	<b>20</b> Generation-skipping transfer taxes (from Schedule R, Part 2, line 10) . . . . .	<b>20</b>		
	<b>21</b> Total transfer taxes (add lines 19 and 20) . . . . .	<b>21</b>	<b>2,500</b>	
	<b>22</b> Prior payments. Explain in an attached statement . . . . .	<b>22</b>		
	<b>23</b> United States Treasury bonds redeemed in payment of estate tax . . . . .	<b>23</b>		
	<b>24</b> Total (add lines 22 and 23) . . . . .	<b>24</b>		
	<b>25</b> Balance due (or overpayment) (subtract line 24 from line 21). . . . .	<b>25</b>	<b>2,500</b>	

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 the executor is based on all information of which preparer has any knowledge.

Signature(s) of executor(s)	Date
Signature of preparer other than executor	Address (and ZIP code)
	Date

Cat. No. 20548R

# 2004 Workbook

## Form 706, page 2, Estate of Wayne A. Tenbrook

### Part 4—General Information (Note: Please attach the necessary supplemental documents. You must attach the death certificate.) (See instructions on page 10.)

1 Death certificate number and issuing authority (attach a copy of the death certificate to this return).  
**100-R SANGAMON COUNTY(IL) 2003-161**

2 Decedent's business or occupation. If retired, check here ☐ and state decedent's former business or occupation.  
**MASTER BREWMASTER**

3 Marital status of the decedent at time of death:  
☒ Married  
 Widow or widower—Name, SSN, and date of death of deceased spouse ☐  
 Single  
 Legally separated  
 Divorced—Date divorce decree became final ☐

4a Surviving spouse's name <b>BARBARA B TENBROOK</b>	4b Social security number <b>987 : 65 : 4321</b>	4c Amount received (see page 10 of the instructions) <b>2,422,900</b>
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5 Individuals (other than the surviving spouse), trusts, or other estates who receive benefits from the estate (do not include charitable beneficiaries shown in Schedule O) (see instructions). For Privacy Act Notice (applicable to individual beneficiaries only), see the Instructions for Form 1040.

Name of individual, trust, or estate receiving \$5,000 or more	Identifying number	Relationship to decedent	Amount (see instructions)
<b>FLIP FALTUS</b>	<b>369-55-3690</b>	<b>FRIEND</b>	<b>50,000</b>

### Part 5—Recapitulation

Item number	Gross estate	Alternate value	Value at date of death
1	Schedule A—Real Estate . . . . .	1	125,000
2	Schedule B—Stocks and Bonds . . . . .	2	1,156,000
3	Schedule C—Mortgages, Notes, and Cash . . . . .	3	380,000
4	Schedule D—Insurance on the Decedent's Life (attach Form(s) 712) . . . . .	4	500,000
5	Schedule E—Jointly Owned Property (attach Form(s) 712 for life insurance) . . . . .	5	685,400
6	Schedule F—Other Miscellaneous Property (attach Form(s) 712 for life insurance) . . . . .	6	236,000
7	Schedule G—Transfers During Decedent's Life (att. Form(s) 712 for life insurance) . . . . .	7	0
8	Schedule H—Powers of Appointment . . . . .	8	0
9	Schedule I—Annuities . . . . .	9	523,000
10	Total gross estate (add items 1 through 9). . . . .	10	3,605,400
11	Schedule U—Qualified Conservation Easement Exclusion . . . . .	11	0
12	Total gross estate less exclusion (subtract item 11 from item 10). Enter here and on line 1 of Part 2—Tax Computation . . . . .	12	3,605,400

Item number	Deductions	Amount
13	Schedule J—Funeral Expenses and Expenses Incurred in Administering Property Subject to Claims . . . . .	13 26,500
14	Schedule K—Debts of the Decedent . . . . .	14 6,000
15	Schedule K—Mortgages and Liens . . . . .	15
16	Total of items 13 through 15 . . . . .	16 32,500
17	Allowable amount of deductions from item 16 (see the instructions for item 17 of the Recapitulation) . . . . .	17 32,500
18	Schedule L—Net Losses During Administration . . . . .	18 0
19	Schedule L—Expenses Incurred in Administering Property Not Subject to Claims . . . . .	19 0
20	Schedule M—Bequests, etc., to Surviving Spouse . . . . .	20 2,422,900
21	Schedule O—Charitable, Public, and Similar Gifts and Bequests . . . . .	21 100,000
22	Schedule T—Qualified Family-Owned Business Interest Deduction . . . . .	22
23	Total allowable deductions (add items 17 through 22). Enter here and on line 2 of the Tax Computation . . . . .	23 2,555,400

Page 3

## Form 706, page 3, Estate of Wayne A. Tenbrook

Form 706 (Rev. 8-2003)

Estate of: **WAYNE A TENBROOK**

### SCHEDULE M—Bequests, etc., to Surviving Spouse

**Election To Deduct Qualified Terminable Interest Property Under Section 2056(b)(7).** If a trust (or other property) meets the requirements of qualified terminable interest property under section 2056(b)(7), and

a. The trust or other property is listed on Schedule M, and

b. The value of the trust (or other property) is entered in whole or in part as a deduction on Schedule M, then unless the executor specifically identifies the trust (all or a fractional portion or percentage) or other property to be excluded from the election, the executor shall be deemed to have made an election to have such trust (or other property) treated as qualified terminable interest property under section 2056(b)(7).

If less than the entire value of the trust (or other property) that the executor has included in the gross estate is entered as a deduction on Schedule M, the executor shall be considered to have made an election only as to a fraction of the trust (or other property). The numerator of this fraction is equal to the amount of the trust (or other property) deducted on Schedule M. The denominator is equal to the total value of the trust (or other property).

**Election To Deduct Qualified Domestic Trust Property Under Section 2056A.** If a trust meets the requirements of a qualified domestic trust under section 2056A(a) and this return is filed no later than 1 year after the time prescribed by law (including extensions) for filing the return, and

a. The entire value of a trust or trust property is listed on Schedule M, and

b. The entire value of the trust or trust property is entered as a deduction on Schedule M, then unless the executor specifically identifies the trust to be excluded from the election, the executor shall be deemed to have made an election to have the entire trust treated as qualified domestic trust property.

	Yes	No
<b>1</b> Did any property pass to the surviving spouse as a result of a qualified disclaimer? . . . . . If "Yes," attach a copy of the written disclaimer required by section 2518(b).		✓
<b>2a</b> In what country was the surviving spouse born? <u>USA</u>		
<b>b</b> What is the surviving spouse's date of birth? <u>02/25/56</u>		
<b>c</b> Is the surviving spouse a U.S. citizen? . . . . .	✓	
<b>d</b> If the surviving spouse is a naturalized citizen, when did the surviving spouse acquire citizenship? . . . . .		
<b>e</b> If the surviving spouse is not a U.S. citizen, of what country is the surviving spouse a citizen? . . . . .		
<b>3 Election Out of QTIP Treatment of Annuities</b> —Do you elect under section 2056(b)(7)(C)(ii) <b>not</b> to treat as qualified terminable interest property any joint and survivor annuities that are included in the gross estate and would otherwise be treated as qualified terminable interest property under section 2056(b)(7)(C)? (see instructions) . . . . .		✓

Item number	Description of property interests passing to surviving spouse	Amount
<b>1</b>	<b>BALANCE OF JOINTLY OWNED PROPERTY WITH SPOUSE PER SCHEDULE E</b>	<b>385,400</b>
<b>2</b>	<b>IRA AND 401K BALANCE SCHEDULE I</b>	<b>523,000</b>
<b>3</b>	<b>LIFE INSURANCE PROCEEDS SCHEDULE D</b>	<b>500,000</b>
<b>4</b>	<b>50% INTEREST IN 24 UNIT APT BLD SCHEDULE E</b>	<b>300,000</b>
<b>5</b>	<b>NOTES AND SALARY RECEIVABLE SCHEDULE C</b>	<b>380,000</b>
<b>6</b>	<b>TULSA OK TAX EXEMPT BOND SCHEDULE B</b>	<b>100,000</b>
<b>7</b>	<b>US TREAS. NOTE</b>	<b>200,000</b>
<b>8</b>	<b>CASH FROM SAFETY DEP BX</b>	<b>34,500</b>
Total from continuation schedules (or additional sheets) attached to this schedule . . . . .		
<b>4</b>	<b>Total amount of property interests listed on Schedule M . . . . .</b>	<b>2,422,900</b>
<b>5a</b>	Federal estate taxes payable out of property interests listed on Schedule M . . . . .	
<b>b</b>	Other death taxes payable out of property interests listed on Schedule M . . . . .	
<b>c</b>	Federal and state GST taxes payable out of property interests listed on Schedule M . . . . .	
<b>d</b>	Add items 5a, b, and c . . . . .	<b>5d</b>
<b>6</b>	Net amount of property interests listed on Schedule M (subtract 5d from 4). Also enter on Part 5, Recapitulation, page 3, at item 20 . . . . .	<b>2,422,900</b>

(If more space is needed, attach the continuation schedule from the end of this package or additional sheets of the same size.)  
(See the instructions on the reverse side.)

Schedule M—Page 27



## FORM 706 PREPARATION

The executor, with advice from her attorney, elected to take the legal and accounting fees on the Form 706 instead of the fiduciary income tax return for the estate. If the estate had not incurred a tax liability, the administrative costs could have been deducted on the fiduciary income tax return.

Primarily, those assets offering potential appreciation funded the credit shelter trust. Assets used for the \$1 million credit shelter trust included the vacation home in Arkansas, 1,000 shares of Ameren UE, 10,000 shares of Microsoft, 10,000 shares of Wal-Mart, and \$19,000. The balance of assets either not jointly owned with spouse, or the spouse not a named beneficiary, go into the estate fiduciary return first. After the estate is closed, these assets are transferred to the spouse.

The payment to Illinois is \$20,500, which is the lesser of federal tax liability (\$20,500) or the state tax death credit under 2001 law (\$36,000). In the example this is \$20,500. The total Illinois and federal estate tax liability is therefore \$23,000 or (\$20,500 + \$2,500).

Form 706 is due on November 26, 2003, nine months from date of death.

The executor considered the use of alternate valuation (valuing the assets at fair market value on August 26, 2003). She did not use it since the overall asset values actually increased during the six-month period. In addition, the taxable estate of \$1,050,000 would not have been affected by writing down the allowable step-up in basis of the assets in the estate.

Barbara elected to timely roll over her late husband's IRA account and 401(k) balance into her IRA.



# 2004 Workbook

## Form 1041, page 1, Wayne A. Tenbrook Testamentary Trust

Form	1041	Department of the Treasury—Internal Revenue Service <b>U.S. Income Tax Return for Estates and Trusts</b>	2003	OMB No. 1545-0092
<b>A</b> Type of entity (see instr.): <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		For calendar year 2003 or fiscal year beginning <b>02/27</b> , 2003, and ending <b>12/31</b> , 20 <b>03</b> <b>C</b> Employer identification number <div style="border: 1px solid black; padding: 2px; display: inline-block;"><b>37 : 1200000</b></div> <b>D</b> Date entity created <div style="border: 1px solid black; padding: 2px; display: inline-block;"><b>02/26/03</b></div> <b>E</b> Nonexempt charitable and split-interest trusts, check applicable boxes (see page 13 of the instructions): <input type="checkbox"/> Described in section 4947(a)(1) <input type="checkbox"/> Not a private foundation <input type="checkbox"/> Described in section 4947(a)(2)		
<b>B</b> Number of Schedules K-1 attached (see instructions) <b>2</b>		<b>F</b> Check applicable boxes: <input checked="" type="checkbox"/> Initial return <input type="checkbox"/> Final return <input type="checkbox"/> Amended return <input type="checkbox"/> Change in fiduciary's name <input type="checkbox"/> Change in fiduciary's address		
<b>G</b> Pooled mortgage account (see page 13 of the instructions): <input type="checkbox"/> Bought <input type="checkbox"/> Sold    Date:				
Income	<b>1</b> Interest income	<b>1</b>		
	<b>2a</b> Total ordinary dividends	<b>2a</b>	<b>6,280</b>	
	<b>b</b> Qualified dividends allocable to: (1) Beneficiaries (2) Estate or trust			
	<b>3</b> Business income or (loss) (attach Schedule C or C-EZ (Form 1040))	<b>3</b>		
	<b>4</b> Capital gain or (loss) (attach Schedule D (Form 1041))	<b>4</b>	<b>15,000</b>	
	<b>5</b> Rents, royalties, partnerships, other estates and trusts, etc. (attach Schedule E (Form 1040))	<b>5</b>		
	<b>6</b> Farm income or (loss) (attach Schedule F (Form 1040))	<b>6</b>		
	<b>7</b> Ordinary gain or (loss) (attach Form 4797)	<b>7</b>		
	<b>8</b> Other income. List type and amount	<b>8</b>		
<b>9</b> Total income. Combine lines 1, 2a, and 3 through 8	<b>9</b>	<b>21,280</b>		
Deductions	<b>10</b> Interest. Check if Form 4952 is attached <input type="checkbox"/>	<b>10</b>		
	<b>11</b> Taxes	<b>11</b>		
	<b>12</b> Fiduciary fees	<b>12</b>		
	<b>13</b> Charitable deduction (from Schedule A, line 7)	<b>13</b>		
	<b>14</b> Attorney, accountant, and return preparer fees	<b>14</b>		
	<b>15a</b> Other deductions not subject to the 2% floor (attach schedule)	<b>15a</b>		
	<b>b</b> Allowable miscellaneous itemized deductions subject to the 2% floor	<b>15b</b>		
	<b>16</b> Total. Add lines 10 through 15b	<b>16</b>		
	<b>17</b> Adjusted total income or (loss). Subtract line 16 from line 9. Enter here and on Schedule B, line 1	<b>17</b>	<b>21,280</b>	
	<b>18</b> Income distribution deduction (from Schedule B, line 15) (attach Schedules K-1 (Form 1041))	<b>18</b>	<b>6,280</b>	
	<b>19</b> Estate tax deduction (including certain generation-skipping taxes) (attach computation)	<b>19</b>		
<b>20</b> Exemption	<b>20</b>	<b>100</b>		
<b>21</b> Total deductions. Add lines 18 through 20	<b>21</b>	<b>6,380</b>		
Tax and Payments	<b>22</b> Taxable income. Subtract line 21 from line 17. If a loss, see page 18 of the instructions	<b>22</b>	<b>14,900</b>	
	<b>23</b> Total tax (from Schedule G, line 7)	<b>23</b>	<b>2,045</b>	
	<b>24</b> Payments: a 2003 estimated tax payments and amount applied from 2002 return	<b>24a</b>		
	<b>b</b> Estimated tax payments allocated to beneficiaries (from Form 1041-T)	<b>24b</b>		
	<b>c</b> Subtract line 24b from line 24a	<b>24c</b>		
	<b>d</b> Tax paid with extension of time to file: <input type="checkbox"/> Form 2758 <input type="checkbox"/> Form 8736 <input type="checkbox"/> Form 8800	<b>24d</b>		
	<b>e</b> Federal income tax withheld. If any is from Form(s) 1099, check <input type="checkbox"/>	<b>24e</b>		
	Other payments: f Form 2439 ; g Form 4136 ; Total	<b>24h</b>		
	<b>25</b> Total payments. Add lines 24c through 24e, and 24h	<b>25</b>		
	<b>26</b> Estimated tax penalty (see page 19 of the instructions)	<b>26</b>	<b>0</b>	
<b>27</b> Tax due. If line 25 is smaller than the total of lines 23 and 26, enter amount owed	<b>27</b>	<b>2,045</b>		
<b>28</b> Overpayment. If line 25 is larger than the total of lines 23 and 26, enter amount overpaid	<b>28</b>			
<b>29</b> Amount of line 28 to be: a Credited to 2004 estimated tax ; b Refunded	<b>29</b>			
<b>Sign Here</b> 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's Use Only	Preparer's signature _____ Date _____		Check if self-employed <input type="checkbox"/> Preparer's SSN or PTIN _____	
	Firm's name (or yours if self-employed), address, and ZIP code _____		EIN _____ Phone no. ( ) _____	

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11370H

Form 1041 (2003)

# 2004 Workbook

## Form 1041, page 2, Wayne A. Tenbrook Testamentary Trust

7 Charitable deduction. Subtract line 6 from line 5. Enter here and on page 1, line 13 . . . . .		7	
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Schedule B Income Distribution Deduction			
1	Adjusted total income (see page 20 of the instructions) . . . . .	1	21,280
2	Adjusted tax-exempt interest . . . . .	2	
3	Total net gain from Schedule D (Form 1041), line 16a, column (1) (see page 20 of the instructions) . . . . .	3	
4	Enter amount from Schedule A, line 4 (reduced by any allocable section 1202 exclusion) . . . . .	4	
5	Capital gains for the tax year included on Schedule A, line 1 (see page 21 of the 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	-15,000
7	<b>Distributable net income (DNI).</b> Combine lines 1 through 6. If zero or less, enter -0- . . . . .	7	6,280
8	If a complex trust, enter accounting income for the tax year as determined under the governing instrument and applicable local law . . . . .	8	6,280
9	Income required to be distributed currently . . . . .	9	6,280
10	Other amounts paid, credited, or otherwise required to be distributed . . . . .	10	6,280
11	Total distributions. Add lines 9 and 10. If greater than line 8, see page 21 of the instructions . . . . .	11	12,560
12	Enter the amount of tax-exempt income included on line 11 . . . . .	12	
13	Tentative income distribution deduction. Subtract line 12 from line 11 . . . . .	13	12,560
14	Tentative income distribution deduction. Subtract line 2 from line 7. If zero or less, enter -0- . . . . .	14	6,280
15	<b>Income distribution deduction.</b> Enter the smaller of line 13 or line 14 here and on page 1, line 18 . . . . .	15	6,280

  

Schedule G Tax Computation (see page 21 of the instructions)			
1	Tax: a Tax on taxable income (see page 21 of the instructions) . . . . .	1a	2,045
	b Tax on lump-sum distributions (attach Form 4972) . . . . .	1b	
	c Alternative minimum tax (from Schedule I, line 56) . . . . .	1c	0
	d <b>Total.</b> Add lines 1a through 1c . . . . .	1d	2,045
2a	Foreign tax credit (attach Form 1116) . . . . .	2a	
b	Other nonbusiness credits (attach schedule) . . . . .	2b	
c	General business credit. Enter here and check which forms are attached: <input type="checkbox"/> Form 3800 <input type="checkbox"/> Forms (specify) ▶ . . . . .	2c	
d	Credit for prior year minimum tax (attach Form 8801) . . . . .	2d	
3	<b>Total credits.</b> Add lines 2a through 2d . . . . .	3	
4	Subtract line 3 from line 1d. If zero or less, enter -0- . . . . .	4	2,045
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	<b>Total tax.</b> Add lines 4 through 6. Enter here and on page 1, line 23 . . . . .	7	2,045

  

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 ▶ \$ . . . . .	✓	
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? . . . . .	✓	
3	At any time during calendar year 2003, 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 page 23 of the instructions for exceptions and filing requirements for Form TD F 90-22.1. If "Yes," enter the name of the foreign country ▶ . . . . .	✓	
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 page 24 of the instructions . . . . .	✓	
5	Did the estate or trust receive, or pay, any qualified residence interest on seller-provided financing? If "Yes," see page 24 for required attachment . . . . .	✓	
6	If this is an estate or a complex trust making the section 663(b) election, check here (see page 24) . . . . . ▶ <input type="checkbox"/>		✓
7	To make a section 643(e)(3) election, attach Schedule D (Form 1041), and check here (see page 24) . . . . . ▶ <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 page 24 of the instructions . . . . .		✓

Form 1041 (2003)

3



## **FORM 1041 TESTAMENTARY TRUST PREPARATION**

The trust income is limited to dividend income from the specific assets within the trust. This income is transmitted to Barbara Tenbrook on Form 1041, Schedule K-1 so she can report it on her personal income tax return.

The sale of Wal-Mart stock results in a long-term capital gain and the trust pays tax on this gain. Favorable long-term capital gain treatment is afforded for capital assets sold by an estate, even if the holding period is less than one year and one day. No gain or loss results from the sale of the vacation home in Arkansas.

The trustee should consider estimated tax payments in future years if asset sales are anticipated and a capital gain will result.

All dividends received by the trust are “qualified dividends,” and these dividends are also treated as qualified dividends by the beneficiary.

# 2004 Workbook

## Form 1041, Estate of Wayne A. Tenbrook

Form	1041	Department of the Treasury—Internal Revenue Service <b>U.S. Income Tax Return for Estates and Trusts</b>	2003	OMB No. 1545-0092
<b>A</b> Type of entity (see instr.): <input checked="" type="checkbox"/> Decedent's estate <input 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		For calendar year 2003 or fiscal year beginning <b>02/27</b> , 2003, and ending <b>12/31</b> , 20 <b>03</b>		
<b>B</b> Number of Schedules K-1 attached (see instructions) <b>1</b>		<b>C</b> Employer identification number <b>37 : 500000</b>		
		<b>D</b> Date entity created <b>02/26/03</b>		
		<b>E</b> Nonexempt charitable and split-interest trusts, check applicable boxes (see page 13 of the instructions): <input type="checkbox"/> Described in section 4947(a)(1) <input type="checkbox"/> Not a private foundation <input type="checkbox"/> Described in section 4947(a)(2)		
		<b>F</b> Check applicable boxes: <input checked="" type="checkbox"/> Initial return <input type="checkbox"/> Final return <input type="checkbox"/> Amended return <input type="checkbox"/> Change in fiduciary's name <input type="checkbox"/> Change in fiduciary's address		
<b>G</b> Pooled mortgage account (see page 13 of the instructions): <input type="checkbox"/> Bought <input type="checkbox"/> Sold    Date:				
Income	<b>1</b> Interest income . . . . .	<b>1</b>	<b>29,100</b>	
	<b>2a</b> Total ordinary dividends . . . . .	<b>2a</b>		
	<b>b</b> Qualified dividends allocable to: (1) Beneficiaries . . . . . (2) Estate or trust . . . . .			
	<b>3</b> Business income or (loss) (attach Schedule C or C-EZ (Form 1040)) . . . . .	<b>3</b>	<b>2,000</b>	
	<b>4</b> Capital gain or (loss) (attach Schedule D (Form 1041)) . . . . .	<b>4</b>	<b>24,000</b>	
	<b>5</b> Rents, royalties, partnerships, other estates and trusts, etc. (attach Schedule E (Form 1040)) . . . . .	<b>5</b>	<b>19,000</b>	
	<b>6</b> Farm income or (loss) (attach Schedule F (Form 1040)) . . . . .	<b>6</b>		
	<b>7</b> Ordinary gain or (loss) (attach Form 4797) . . . . .	<b>7</b>		
	<b>8</b> Other income. List type and amount <b>SALARY RECEIVED</b> . . . . .	<b>8</b>	<b>20,000</b>	
<b>9 Total income.</b> Combine lines 1, 2a, and 3 through 8 . . . . .		<b>9</b>	<b>94,100</b>	
Deductions	<b>10</b> Interest. Check if Form 4952 is attached <input type="checkbox"/> . . . . .	<b>10</b>		
	<b>11</b> Taxes . . . . .	<b>11</b>		
	<b>12</b> Fiduciary fees . . . . .	<b>12</b>	<b>10,655</b>	
	<b>13</b> Charitable deduction (from Schedule A, line 7) . . . . .	<b>13</b>		
	<b>14</b> Attorney, accountant, and return preparer fees . . . . .	<b>14</b>		
	<b>15a</b> Other deductions <b>not</b> subject to the 2% floor (attach schedule) . . . . .	<b>15a</b>		
	<b>b</b> Allowable miscellaneous itemized deductions subject to the 2% floor . . . . .	<b>15b</b>		
	<b>16 Total.</b> Add lines 10 through 15b . . . . .	<b>16</b>	<b>10,655</b>	
	<b>17</b> Adjusted total income or (loss). Subtract line 16 from line 9. Enter here and on Schedule B, line 1 <b>▶</b> . . . . .	<b>17</b>	<b>83,445</b>	
	<b>18</b> Income distribution deduction (from Schedule B, line 15) (attach Schedules K-1 (Form 1041)) . . . . .	<b>18</b>	<b>59,445</b>	
	<b>19</b> Estate tax deduction (including certain generation-skipping taxes) (attach computation) . . . . .	<b>19</b>		
<b>20</b> Exemption . . . . .	<b>20</b>	<b>600</b>		
<b>21 Total deductions.</b> Add lines 18 through 20 . . . . .		<b>21</b>	<b>60,045</b>	
Tax and Payments	<b>22</b> Taxable income. Subtract line 21 from line 17. If a loss, see page 18 of the instructions . . . . .	<b>22</b>	<b>23,400</b>	
	<b>23 Total tax</b> (from Schedule G, line 7) . . . . .	<b>23</b>	<b>3,320</b>	
	<b>24 Payments:</b> a 2003 estimated tax payments and amount applied from 2002 return . . . . .	<b>24a</b>		
	<b>b</b> Estimated tax payments allocated to beneficiaries (from Form 1041-T) . . . . .	<b>24b</b>		
	<b>c</b> Subtract line 24b from line 24a . . . . .	<b>24c</b>		
	<b>d</b> Tax paid with extension of time to file: <input type="checkbox"/> Form 2758 <input type="checkbox"/> Form 8736 <input type="checkbox"/> Form 8800 . . . . .	<b>24d</b>		
	<b>e</b> Federal income tax withheld. If any is from Form(s) 1099, check <input type="checkbox"/> . . . . .	<b>24e</b>		
	Other payments: <b>f</b> Form 2439 . . . . . ; <b>g</b> Form 4136 . . . . . ; Total <b>▶</b> . . . . .	<b>24h</b>		
	<b>25 Total payments.</b> Add lines 24c through 24e, and 24h . . . . .	<b>25</b>		
	<b>26</b> Estimated tax penalty (see page 19 of the instructions) . . . . .	<b>26</b>		
<b>27 Tax due.</b> If line 25 is smaller than the total of lines 23 and 26, enter amount owed . . . . .	<b>27</b>	<b>3,320</b>		
<b>28 Overpayment.</b> If line 25 is larger than the total of lines 23 and 26, enter amount overpaid . . . . .	<b>28</b>			
<b>29</b> Amount of line 28 to be: <b>a Credited to 2004 estimated tax</b> <b>▶</b> . . . . . ; <b>b Refunded</b> <b>▶</b> . . . . .		<b>29</b>		
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 . . . . .
	<div style="border: 1px solid black; padding: 2px; float: right; font-size: 0.8em;">           May the IRS discuss this return with the preparer shown below (see instr.)?    <input type="checkbox"/> Yes    <input type="checkbox"/> No         </div>			
Paid Preparer's Use Only	Preparer's signature . . . . .		Date . . . . .	Check if self-employed <input type="checkbox"/> Preparer's SSN or PTIN . . . . .
	Firm's name (or yours if self-employed), address, and ZIP code . . . . .		EIN . . . . .	Phone no. ( ) . . . . .

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11370H

Form **1041** (2003)



# 2004 Workbook

## Form 1041, Schedule E, Estate of Wayne A. Tenbrook

### SCHEDULE E (Form 1040)

Department of the Treasury  
Internal Revenue Service (99)

### Supplemental Income and Loss

(From rental real estate, royalties, partnerships,  
S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0074

**2003**

Attachment  
Sequence No. **13**

Name(s) shown on return

**ESTATE OF WAYNE TENBROOK**

Your social security number

**37 : 50 : 0000**

#### Part I Income or Loss From Rental Real Estate and Royalties

**Note.** If you are in the business of renting personal property, use Schedule C or C-EZ (see page E-2). Report farm rental income or loss from Form 4835 on page 2, line 40.

1	Show the kind and location of each rental real estate property:	2	For each rental real estate property listed on line 1, did you or your family use it during the tax year for personal purposes for more than the greater of:	Yes	No
A	50% INTEREST IN APARTMENT COMPLEX McLean Co. IL		• 14 days or • 10% of the total days rented at fair rental value? (See page E-3.)		✓
B					✓
C					✓

Income:	Properties				Totals (Add columns A, B, and C.)
	A	B	C		
3 Rents received . . . . .	3 133,000				3 133,000
4 Royalties received . . . . .	4				4
<b>Expenses:</b>					
5 Advertising . . . . .	5				
6 Auto and travel (see page E-4) . . . . .	6				
7 Cleaning and maintenance . . . . .	7				
8 Commissions . . . . .	8				
9 Insurance . . . . .	9				
10 Legal and other professional fees . . . . .	10				
11 Management fees . . . . .	11				
12 Mortgage interest paid to banks, etc. (see page E-4) . . . . .	12				12
13 Other interest . . . . .	13				
14 Repairs . . . . .	14				
15 Supplies . . . . .	15				
16 Taxes . . . . .	16				
17 Utilities . . . . .	17				
18 Other (list) ▶ RENTAL EXPENSES	18	114,000			
19 Add lines 5 through 18 . . . . .	19	114,000			19 114,000
20 Depreciation expense or depletion (see page E-4) . . . . .	20	0			20 0
21 Total expenses. Add lines 19 and 20 . . . . .	21	114,000			
22 Income or (loss) from rental real estate or royalty properties. Subtract line 21 from line 3 (rents) or line 4 (royalties). If the result is a (loss), see page E-4 to find out if you must file Form 6198 . . . . .	22	19,000			

# 2004 Workbook

## Form 1041, Schedule K-1, Estate of Wayne A. Tenbrook

### SCHEDULE K-1 (Form 1041)

Department of the Treasury  
Internal Revenue Service

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

for the calendar year 2003, or fiscal year  
beginning 02/27, 2003, ending 12/31, 20 03  
▶ Complete a separate Schedule K-1 for each beneficiary.

OMB No. 1545-0092

**2003**

Name of trust or decedent's estate

**ESTATE OF WAYNE TENBROOK**

☐ Amended K-1  
☐ Final K-1

Beneficiary's identifying number ▶ **987-65-4321**

Estate's or trust's EIN ▶ **37 : 500000**

Beneficiary's name, address, and ZIP code

**BARBARA B TENBROOK  
10 COUNTRY CLUB PLACE  
SPRINGFIELD IL 62794**

Fiduciary's name, address, and ZIP code

**OLD COUNTRY NATIONAL BANK, ADMINISTRATOR  
100 SOUTH GRAND  
SPRINGFIELD IL 62973**

(a) Allocable share item		(b) Amount	(c) Calendar year 2003 Form 1040 filers enter the amounts in column (b) on:
1 Interest . . . . .	1	<b>24,677</b>	Form 1040, line 8a
2a Qualified dividends . . . . .	2a		Form 1040, line 9b
b Total ordinary dividends . . . . .	2b		Form 1040, line 9a
3a Net short-term capital gain (entire year) . . . . .	3a		Schedule D, line 5, column (f)
b Net short-term capital gain (post 5/5/2003) . . . . .	3b		Schedule D, line 5, column (g)
4a Net long-term capital gain (entire year) . . . . .	4a		Schedule D, line 12, column (f)
b Net long-term capital gain (post 5/5/2003) . . . . .	4b		Schedule D, line 12, column (g)
c Qualified 5-year gain . . . . .	4c		Line 5 of the worksheet for Schedule D, line 35
d Unrecaptured section 1250 gain . . . . .	4d		Line 11 of the worksheet for Schedule D, line 19
e 28% rate gain . . . . .	4e		Line 4 of the worksheet for Schedule D, line 20
5a Annuities, royalties, and other nonpassive income before directly apportioned deductions . . . . .	5a	<b>18,656</b>	Schedule E, Part III, column (f)
b Depreciation . . . . .	5b		} Include on the applicable line of the appropriate tax form
c Depletion . . . . .	5c		
d Amortization . . . . .	5d		
6a Trade or business, rental real estate, and other rental income before directly apportioned deductions (see instructions) . . . . .	6a	<b>16,112</b>	Schedule E, Part III
b Depreciation . . . . .	6b	<b>8,591</b>	} Include on the applicable line of the appropriate tax form
c Depletion . . . . .	6c		
d Amortization . . . . .	6d		
7 Income for minimum tax purposes . . . . .	7	<b>59,445</b>	
8 Income for regular tax purposes (add lines 1, 2b, 3a, 4a, 5a, and 6a) . . . . .	8	<b>59,445</b>	
9 Adjustment for minimum tax purposes (subtract line 8 from line 7) . . . . .	9	<b>0</b>	
10 Estate tax deduction (including certain generation-skipping transfer taxes) . . . . .	10		Schedule A, line 27
11 Foreign taxes . . . . .	11		Form 1040, line 44 or Schedule A, line 8
12 Adjustments and tax preference items (itemize):			
a Accelerated depreciation . . . . .	12a	<b>0</b>	} Include on the applicable line of Form 6251
b Depletion . . . . .	12b		
c Amortization . . . . .	12c		
d Exclusion items . . . . .	12d		2004 Form 8801
13 Deductions in the final year of trust or decedent's estate:			
a Excess deductions on termination (see instructions) . . . . .	13a		Schedule A, line 22
b Short-term capital loss carryover . . . . .	13b ( )		Schedule D, line 5, columns (f) and (g)
c Long-term capital loss carryover . . . . .	13c ( )		Sch. D, line 12, col. (f); line 5 of the wksht. for Sch. D, line 20; and line 16 of the wksht. for Sch. D, line 19
d Net operating loss (NOL) carryover for regular tax purposes . . . . .	13d ( )		Form 1040, line 21
e NOL carryover for minimum tax purposes . . . . .	13e		See the instructions for Form 6251, line 27
f . . . . .	13f		} Include on the applicable line of the appropriate tax form
g . . . . .	13g		
14 Other (itemize):			
a Payments of estimated taxes credited to you . . . . .	14a		Form 1040, line 62
b Tax-exempt interest . . . . .	14b	<b>2,355</b>	Form 1040, line 8b
c <b>INVESTMENT INCOME (SECTION 163(D))</b> . . . . .	14c	<b>24,677</b>	} Include on the applicable line of the appropriate tax form
d . . . . .	14d		
e . . . . .	14e		

For Paperwork Reduction Act Notice, see the Instructions for Form 1041.

Cat. No. 11380D

Schedule K-1 (Form 1041) 2003



## **PREPARATION OF THE FIDUCIARY RETURN FOR THE ESTATE OF WAYNE A. TENBROOK**

The Form 1041, Schedule K-1 reflects all income earned during the period of estate administration from date of death until the end of the calendar year. Barbara Tenbrook reports this income on her individual tax return.

The capital gain from the installment sale remains with the estate, and the capital gains tax is paid with the Form 1041. The estate benefits from the lower capital gain rate for long-term capital gains realized after May 5, 2003.

The estate is allowed to step-up the basis for the decedent's 50% interest in the rental property to FMV starting on February 27, 2003. The depreciation expense is a separately stated line item on the beneficiary's Schedule K-1.

Tax-exempt interest received by the estate requires a proration of the expenses (taxes and fiduciary fees) since a portion of the expenses relating to the tax-exempt interest is not an allowable deduction. The fiduciary fees were \$10,800. Of these fees, \$10,656 was used as a deduction, and prorated to reduce taxable income to the beneficiary.

The portion of interest income attributable to U.S. Treasury obligations is stated on the Schedule K-1 provided to the beneficiary, since most states allow a deduction for this interest income. The portion of treasury interest to exclude is the same percentage of taxable interest income to the beneficiary divided by total gross interest income of the estate. The U.S. Treasury interest excludable for state purposes is 85% of the \$7,500.

# 2004 Workbook

## Form 1040 for Wayne and Barbara Tenbrook

<b>DECEASED WAYNE A TENBROOK 02/26/2003</b> Department of the Treasury—Internal Revenue Service <b>U.S. Individual Income Tax Return</b> <span style="font-size: 1.5em;">2003</span>		(99) IRS Use Only—Do not write or staple in this space.																																																																			
For the year Jan. 1–Dec. 31, 2003, or other tax year beginning _____, 2003, ending _____, 20		OMB No. 1545-0074																																																																			
<b>Label</b> (See instructions on page 19.)  <b>Use the IRS label.</b> Otherwise, please print or type.	<b>Label</b> (See instructions on page 19.)  <b>Use the IRS label.</b> Otherwise, please print or type.	<b>Important!</b> You must enter your SSN(s) above.																																																																			
	Your first name and initial <b>WAYNE A</b>		Last name <b>TENBROOK</b>																																																																		
	If a joint return, spouse's first name and initial <b>BARBARA B</b>		Last name <b>TENBROOK</b>																																																																		
	Home address (number and street). If you have a P.O. box, see page 19. <b>10 COUNTRY CLUB PLACE</b>		Apt. no.  																																																																		
City, town or post office, state, and ZIP code. If you have a foreign address, see page 19. <b>SPRINGFIELD, IL 62974</b>		Your social security number <b>988 65 4321</b>  Spouse's social security number <b>987 65 4321</b>																																																																			
Presidential Election Campaign (See page 19.)		Note. Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want \$3 to go to this fund? . . . <input type="checkbox"/> Yes <input type="checkbox"/> No																																																																			
<b>Filing Status</b> Check only one box.		1 <input type="checkbox"/> Single 2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. 4 <input type="checkbox"/> Head of household (with qualifying person). (See page 20.) If the qualifying person is a child but not your dependent, enter this child's name here. 5 <input type="checkbox"/> Qualifying widow(er) with dependent child. (See page 20.)																																																																			
<b>Exemptions</b> If more than five dependents, see page 21.		6a <input checked="" type="checkbox"/> Yourself. If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a. b <input checked="" type="checkbox"/> Spouse c <b>Dependents:</b> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>(1) First name</th> <th>Last name</th> <th>(2) Dependent's social security number</th> <th>(3) Dependent's relationship to you</th> <th>(4) <input checked="" type="checkbox"/> If qualifying child for child tax credit (see page 21)</th> </tr> </thead> <tbody> <tr> <td>LARRY R</td> <td>TENBROOK</td> <td>141 41 4144</td> <td>SON</td> <td><input type="checkbox"/></td> </tr> <tr> <td>JIM B</td> <td>TENBROOK</td> <td>282 82 8282</td> <td>SON</td> <td><input type="checkbox"/></td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td><input type="checkbox"/></td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td><input type="checkbox"/></td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td><input type="checkbox"/></td> </tr> </tbody> </table> d Total number of exemptions claimed <span style="float: right; border: 1px solid black; padding: 2px;">4</span>		(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> If qualifying child for child tax credit (see page 21)	LARRY R	TENBROOK	141 41 4144	SON	<input type="checkbox"/>	JIM B	TENBROOK	282 82 8282	SON	<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>																																				
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<b>Income</b> Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.  If you did not get a W-2, see page 22.  Enclose, but do not attach, any payment. Also, please use Form 1040-V.		<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td>7 Wages, salaries, tips, etc. Attach Form(s) W-2</td> <td>7</td> <td>36,800</td> </tr> <tr> <td>8a Taxable interest. Attach Schedule B if required</td> <td>8a</td> <td>34,577</td> </tr> <tr> <td>b Tax-exempt interest. Do not include on line 8a</td> <td>8b</td> <td>4,936</td> </tr> <tr> <td>9a Ordinary dividends. Attach Schedule B if required</td> <td>9a</td> <td>8,640</td> </tr> <tr> <td>b Qualified dividends (see page 23)</td> <td>9b</td> <td>8,640</td> </tr> <tr> <td>10 Taxable refunds, credits, or offsets of state and local income taxes (see page 23)</td> <td>10</td> <td> </td> </tr> <tr> <td>11 Alimony received</td> <td>11</td> <td> </td> </tr> <tr> <td>12 Business income or (loss). Attach Schedule C or C-EZ</td> <td>12</td> <td>4,800</td> </tr> <tr> <td>13a Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/></td> <td>13a</td> <td> </td> </tr> <tr> <td>b If box on 13a is checked, enter post-May 5 capital gain distributions</td> <td>13b</td> <td> </td> </tr> <tr> <td>14 Other gains or (losses). Attach Form 4797</td> <td>14</td> <td> </td> </tr> <tr> <td>15a IRA distributions</td> <td>15a</td> <td>0</td> </tr> <tr> <td>b Taxable amount (see page 25)</td> <td>15b</td> <td>0</td> </tr> <tr> <td>16a Pensions and annuities</td> <td>16a</td> <td>0</td> </tr> <tr> <td>b Taxable amount (see page 25)</td> <td>16b</td> <td>0</td> </tr> <tr> <td>17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E</td> <td>17</td> <td>32,344</td> </tr> <tr> <td>18 Farm income or (loss). Attach Schedule F</td> <td>18</td> <td> </td> </tr> <tr> <td>19 Unemployment compensation</td> <td>19</td> <td> </td> </tr> <tr> <td>20a Social security benefits</td> <td>20a</td> <td> </td> </tr> <tr> <td>b Taxable amount (see page 27)</td> <td>20b</td> <td> </td> </tr> <tr> <td>21 Other income. List type and amount (see page 27)</td> <td>21</td> <td> </td> </tr> <tr> <td>22 Add the amounts in the far right column for lines 7 through 21. This is your total income</td> <td>22</td> <td>117,161</td> </tr> </table>		7 Wages, salaries, tips, etc. Attach Form(s) W-2	7	36,800	8a Taxable interest. Attach Schedule B if required	8a	34,577	b Tax-exempt interest. Do not include on line 8a	8b	4,936	9a Ordinary dividends. Attach Schedule B if required	9a	8,640	b Qualified dividends (see page 23)	9b	8,640	10 Taxable refunds, credits, or offsets of state and local income taxes (see page 23)	10		11 Alimony received	11		12 Business income or (loss). Attach Schedule C or C-EZ	12	4,800	13a Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13a		b If box on 13a is checked, enter post-May 5 capital gain distributions	13b		14 Other gains or (losses). Attach Form 4797	14		15a IRA distributions	15a	0	b Taxable amount (see page 25)	15b	0	16a Pensions and annuities	16a	0	b Taxable amount (see page 25)	16b	0	17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	32,344	18 Farm income or (loss). Attach Schedule F	18		19 Unemployment compensation	19		20a Social security benefits	20a		b Taxable amount (see page 27)	20b		21 Other income. List type and amount (see page 27)	21		22 Add the amounts in the far right column for lines 7 through 21. This is your total income	22	117,161
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For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 77.

Cat. No. 11320B

Form 1040 (2003)



# 2004 Workbook

## Form 1040, Schedule B, Wayne and Barbara Tenbrook

Schedules A&B (Form 1040) 2003

OMB No. 1545-0074 Page **2**

Name(s) shown on Form 1040. Do not enter name and social security number if shown on other side.

**WAYNE A & BARBARA C TENBROOK**

Your social security number

**988 65 4321**

### Schedule B—Interest and Ordinary Dividends

Attachment  
Sequence No. **08**

#### Part I Interest

(See page B-1  
and the  
instructions for  
Form 1040,  
line 8a.)

**Note.** If you  
received a Form  
1099-INT, Form  
1099-OID, or  
substitute  
statement from  
a brokerage firm,  
list the firm's  
name as the  
payer and enter  
the total interest  
shown on that  
form.

- 1** List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see page B-1 and list this interest first. Also, show that buyer's social security number and address ►

**TAXEXEMPT BOND TULSA OK**

**US TREASURY INTEREST**

**OLD COUNTRY NATIONAL BANK**

**GENERAL AMERICAN LIFE INS**

**ESTATE OF WAYNE A TENBROOK**

**SUBTOTAL**

**TAX-EXEMPT INTEREST**

- 2** Add the amounts on line 1 . . . . .
- 3** Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815 . . . . .
- 4** Subtract line 3 from line 2. Enter the result here and on Form 1040, line 8a ►

**Note.** If line 4 is over \$1,500, you must complete Part III.

**Amount**

**2,500**

**2,500**

**5,000**

**2,400**

**24,677**

**37,077**

**-2,500**

**34,577**

**34,577**

#### Part II Ordinary Dividends

(See page B-1  
and the  
instructions for  
Form 1040,  
line 9a.)

**Note.** If you  
received a Form  
1099-DIV or  
substitute  
statement from  
a brokerage firm,  
list the firm's  
name as the  
payer and enter  
the ordinary  
dividends shown  
on that form.

- 5** List name of payer ►
- AMEREN UE**
- MICROSOFT**
- WALMART**
- WAYNE A TENBROOK TESTAMENTARY TRUST**

- 6** Add the amounts on line 5. Enter the total here and on Form 1040, line 9a . ►

**Note.** If line 6 is over \$1,500, you must complete Part III.

**Amount**

**660**

**800**

**900**

**6,280**

**8,640**

#### Part III Foreign Accounts and Trusts

(See  
page B-2.)

You must complete this part if you (a) had over \$1,500 of taxable interest or ordinary dividends; or (b) had a foreign account; or (c) received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

- 7a** At any time during 2003, did you have an interest in or a signature or other authority over a financial account in a foreign country, such as a bank account, securities account, or other financial account? See page B-2 for exceptions and filing requirements for Form TD F 90-22.1 . . . . .

- b** If "Yes," enter the name of the foreign country ►

- 8** During 2003, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See page B-2 . . . . .

**Yes**

**No**

☒

☒

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Schedule B (Form 1040) 2003



# 2004 Workbook

## Form 1040, Schedule E for Wayne and Barbara Tenbrook

Schedule E (Form 1040) 2003

Attachment Sequence No. **13**

Page **2**

Name(s) shown on return. Do not enter name and social security number if shown on other side.

**WAYNE A & BARBARA B TENBROOK**

Your social security number

**988 65 4321**

### Part II Income or Loss From Partnerships and S Corporations

Note. If you report a loss from an at-risk activity for which any amount is not at risk, you must check column (e) on line 28 and attach Form 6198. See page E-1.

**27** Are you reporting losses not allowed in prior years due to the at-risk or basis limitations, passive losses not reported on Form 8582, or unreimbursed partnership expenses? . . . . . ☐ Yes ☒ No  
If you answered "Yes," see page E-5 before completing this section.  
**Caution:** The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

<b>28</b>	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if any amount is not at risk
<b>A</b>					
<b>B</b>					
<b>C</b>					
<b>D</b>					

Passive Income and Loss				Nonpassive Income and Loss			
(f) Passive loss allowed (attach Form 8582 if required)		(g) Passive income from Schedule K-1		(h) Nonpassive loss from Schedule K-1		(i) Section 179 expense deduction from Form 4562	
<b>A</b>							
<b>B</b>							
<b>C</b>							
<b>D</b>							
<b>29a Totals</b>							
<b>b Totals</b>							
<b>30</b> Add columns (g) and (i) of line 29a . . . . .						<b>30</b>	
<b>31</b> Add columns (f), (h), and (i) of line 29b . . . . .						<b>31</b>	( )
<b>32</b> Total partnership and S corporation income or (loss). Combine lines 30 and 31. Enter the result here and include in the total on line 41 below . . . . .						<b>32</b>	

### Part III Income or Loss From Estates and Trusts

<b>33</b>	(a) Name	(b) Employer identification number
<b>A</b>	<b>WAYNE A TENBROOK TESTAMENTARY TRUST</b>	<b>37-1200000</b>
<b>B</b>	<b>ESTATE OF WAYNE A TENBROOK</b>	<b>37-5000000</b>
Passive Income and Loss		Nonpassive Income and Loss
(c) Passive deduction or loss allowed (attach Form 8582 if required)		(d) Passive income from Schedule K-1
		(e) Deduction or loss from Schedule K-1
		(f) Other income from Schedule K-1
<b>A</b>		
<b>B</b>		<b>7,521</b>
<b>34a Totals</b>		<b>7,521</b>
<b>b Totals</b>		
<b>35</b> Add columns (d) and (f) of line 34a . . . . .		<b>35</b> <b>26,177</b>
<b>36</b> Add columns (c) and (e) of line 34b . . . . .		<b>36</b> ( )
<b>37</b> Total estate and trust income or (loss). Combine lines 35 and 36. Enter the result here and include in the total on line 41 below . . . . .		<b>37</b> <b>26,177</b>

### Part IV Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)—Residual Holder

<b>38</b>	(a) Name	(b) Employer identification number	(c) Excess inclusion from Schedules Q, line 2c (see page E-6)	(d) Taxable income (net loss) from Schedules Q, line 1b	(e) Income from Schedules Q, line 3b
<b>39</b>	Combine columns (d) and (e) only. Enter the result here and include in the total on line 41 below				<b>39</b>

### Part V Summary

<b>40</b>	Net farm rental income or (loss) from Form 4835. Also, complete line 42 below . . . . .	<b>40</b>	
<b>41</b>	Total income or (loss). Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Form 1040, line 17 ▶	<b>41</b>	<b>32,344</b>
<b>42</b>	Reconciliation of Farming and Fishing Income. Enter your gross farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), line 15b; Schedule K-1 (Form 1120S), line 23; and Schedule K-1 (Form 1041), line 14 (see page E-6) . . . . .	<b>42</b>	
<b>43</b>	Reconciliation for Real Estate Professionals. If you were a real estate professional (see page E-1), enter the net income or (loss) you reported anywhere on Form 1040 from all rental real estate activities in which you materially participated under the passive activity loss rules . . .	<b>43</b>	



Schedule E (Form 1040) 2003

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## **PREPARATION OF FORM 1040 FOR WAYNE AND BARBARA TENBROOK FOR 2003**

The joint tax return reflects the income earned by the taxpayer up to the date of his death with the Form W-2 from his employer, interest and dividend income, business income on Schedule C, and rental activity for the first two months of the year. It is possible that Forms 1099 may be received in the decedent's name for income already reflected on a respective fiduciary income tax return. In this case, the tax practitioner should record the full amount of the Form 1099 income on the individual form and make a "nominee distribution" to the respective fiduciary income tax return.

Estimated tax payments will be required in future years for Barbara Tenbrook as a result of the large amount of portfolio and passive rental income derived from the estate.

Income from the Estate of Wayne Tenbrook could be deferred until 2004 if the executor chose a fiscal year ending on January 31, 2004.

All capital gains resulting from the sale of estate properties are accounted for by the fiduciary income tax returns in 2003.

Real estate taxes that were claimed as a liability on the decedent's estate tax return (Form 706) can be deducted as an itemized deduction on the personal income tax return.

## APPENDIX

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**SCHEDULE K-1**  
**(Form 1041)**Department of the Treasury  
Internal Revenue Service**Beneficiary's Share of Income, Deductions, Credits, etc.**

for the calendar year 2004, or fiscal year

beginning \_\_\_\_\_, 2004, ending \_\_\_\_\_, 20 \_\_\_\_\_

▶ **Complete a separate Schedule K-1 for each beneficiary.**

OMB No. 1545-0092

**2004**

Name of trust or decedent's estate

☐ Amended K-1  
☐ Final K-1**Beneficiary's identifying number ▶****Estate's or trust's EIN ▶**

Beneficiary's name, address, and ZIP code

Fiduciary's name, address, and ZIP code

(a) Allocable share item	(b) Amount	(c) Calendar year 2004 Form 1040 filers enter the amounts in column (b) on:
<b>1</b> Interest . . . . .	<b>1</b>	Form 1040, line 8a
<b>2a</b> Qualified dividends . . . . .	<b>2a</b>	Form 1040, line 9b
<b>b</b> Total ordinary dividends . . . . .	<b>2b</b>	Form 1040, line 9a
<b>3</b> Net short-term capital gain . . . . .	<b>3</b>	Schedule D, line 5, column (f)
<b>4a</b> Net long-term capital gain . . . . .	<b>4a</b>	Schedule D, line 12, column (f)
<b>b</b> Unrecaptured section 1250 gain . . . . .	<b>4b</b>	Line 11 of the worksheet for Schedule D, line 19
<b>c</b> 28% rate gain . . . . .	<b>4c</b>	Line 4 of the worksheet for Schedule D, line 18
<b>5a</b> Annuities, royalties, and other nonpassive income before directly apportioned deductions . . . . .	<b>5a</b>	Schedule E, Part III, column (f)
<b>b</b> Depreciation . . . . .	<b>5b</b>	} Include on the applicable line of the appropriate tax form
<b>c</b> Depletion . . . . .	<b>5c</b>	
<b>d</b> Amortization . . . . .	<b>5d</b>	
<b>6a</b> Trade or business, rental real estate, and other rental income before directly apportioned deductions (see instructions) . . . . .	<b>6a</b>	Schedule E, Part III
<b>b</b> Depreciation . . . . .	<b>6b</b>	} Include on the applicable line of the appropriate tax form
<b>c</b> Depletion . . . . .	<b>6c</b>	
<b>d</b> Amortization . . . . .	<b>6d</b>	
<b>7</b> Income for minimum tax purposes . . . . .	<b>7</b>	
<b>8</b> Income for regular tax purposes (add lines 1, 2b, 3, 4a, 5a, and 6a) . . . . .	<b>8</b>	
<b>9</b> Adjustment for minimum tax purposes (subtract line 8 from line 7) . . . . .	<b>9</b>	Form 6251, line 14
<b>10</b> Estate tax deduction (including certain generation-skipping transfer taxes) . . . . .	<b>10</b>	Schedule A, line 27
<b>11</b> Foreign taxes . . . . .	<b>11</b>	Form 1040, line 50 or Schedule A, line 8
<b>12</b> Adjustments and tax preference items (itemize):		
<b>a</b> Accelerated depreciation . . . . .	<b>12a</b>	} Include on the applicable line of Form 6251
<b>b</b> Depletion . . . . .	<b>12b</b>	
<b>c</b> Amortization . . . . .	<b>12c</b>	
<b>d</b> Exclusion items . . . . .	<b>12d</b>	2005 Form 8801
<b>13</b> Deductions in the final year of trust or decedent's estate:		
<b>a</b> Excess deductions on termination (see instructions) . . . . .	<b>13a</b>	Schedule A, line 22
<b>b</b> Short-term capital loss carryover. . . . .	<b>13b</b> ( )	Schedule D, line 5, column (f)
<b>c</b> Long-term capital loss carryover. . . . .	<b>13c</b> ( )	Sch. D, line 12, col. (f); line 5 of the wksht. for Sch. D, line 18; and line 16 of the wksht. for Sch. D, line 19
<b>d</b> Net operating loss (NOL) carryover for regular tax purposes . . . . .	<b>13d</b> ( )	Form 1040, line 21
<b>e</b> NOL carryover for minimum tax purposes . . . . .	<b>13e</b>	See the instructions for Form 6251, line 27
<b>f</b> . . . . .	<b>13f</b>	} Include on the applicable line of the appropriate tax form
<b>g</b> . . . . .	<b>13g</b>	
<b>14</b> Other (itemize):		
<b>a</b> Payments of estimated taxes credited to you . . . . .	<b>14a</b>	Form 1040, line 64
<b>b</b> Tax-exempt interest . . . . .	<b>14b</b>	Form 1040, line 8b
<b>c</b> . . . . .	<b>14c</b>	} Include on the applicable line of the appropriate tax form
<b>d</b> . . . . .	<b>14d</b>	
<b>e</b> . . . . .	<b>14e</b>	
<b>f</b> . . . . .	<b>14f</b>	
<b>g</b> . . . . .	<b>14g</b>	
<b>h</b> . . . . .	<b>14h</b>	

For Paperwork Reduction Act Notice, see the Instructions for Form 1041.

Cat. No. 11380D

Schedule K-1 (Form 1041) 2004



# 2004 Workbook