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.¹ 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.

1. 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.

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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 defined² as the taxable income of the estate modified as follows:

- No deduction is allowed for distributions to beneficiaries.
- The \$600 personal exemption³ 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 deduction⁴ is limited by its DNI. The total amount of income subject to tax at the beneficiary level⁵ 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.⁶ 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.⁷ 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.

Taxable Income	Тах	% 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

Income Tax Rate Schedule for Estates and Trust (2004)

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.

- ^{2.} IRC §643(a)
- ^{3.} IRC §642(b)
- ^{4.} IRC §651(b)
- ^{5.} IRC §652(a)
- ^{6.} IRC §663(b)
- ^{7.} 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
		\$18,000

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	(\$ 709)	(\$ 508)	(\$ 733)	(\$1,950)	
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	\$4,369	\$1,118	\$3,514	\$ 9,000	

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)).

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:

$\label{eq:total} \mbox{Total distribution} = \frac{\mbox{Actual distribution} \times \mbox{Allocated DNI to taxable income}}{\mbox{Total DNI}}$

Each beneficiary calculates taxable income as follows:

\$3,000 × (\$14,058 ÷ \$16,050) = \$2,628

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

For Example 6

E	10		t of the Treasury—Internal Revenue Service	۵۰	n		
Form	10	41 u.s.	ncome Tax Return for Estates and Trusts	003	5 омв	No. 1545-	0092
A	Гуре о	f entity (see instr.):	For calendar year 2003 or fiscal year beginning Nov 29 , 2003, and end	<u> </u>	Oct 31		04
√ (Decede	ent's estate	Name of estate or trust (If a grantor type trust, see page 12 of the instructions.)	C Er	mployer ident	ification n	umber
	Simple	trust	ESTATE OF TERRY THARP		01 5556		
	Comple	ex trust		D Da	ate entity crea		
	Qualifie	ed disability trust	Name and title of fiduciary		11/29		
_		S portion only)	ROBERT THARP, EXECUTOR		onexempt cha terest trusts, d		
		r type trust	Number, street, and room or suite no. (If a P.O. box, see page 12 of the instructions.)	bc	oxes (see pag		
		ptcy estate-Ch. 7	1320 GLENN COVE	ins	structions):		
		ptcy estate–Ch. 11 income fund	City or town, state, and ZIP code		escribed in s	ection 494	7(a)(1)
		r of Schedules K-1	BLOOMINGTON F Check		lot a private f		
á	attache	ed (see	applicable V Initial return L Final return Amended return		escribed in s	ection 494	/(a)(2)
			boxes: Change in fiduciary's name Change in fiduciary's address e page 13 of the instructions): Bought Sold Date:				
<u>G</u> F	1				1	8,500	
	1	Interest income		. 1		7,000	<u> </u>
	2a	lotal ordinary of	lividends	• 7777		7,000	<u> </u>
	b		s allocable to: (1) Beneficiaries 3,925 (2) Estate or trust 3,075		3		
Ĕ	3		ne or (loss) (attach Schedule C or C-EZ (Form 1040))	· –	1		<u> </u>
ncome	4	1 0	(loss) (attach Schedule D (Form 1041))				<u> </u>
<u>_</u>	6		, partnerships, other estates and trusts, etc. (attach Schedule E (Form 1040)) r (loss) (attach Schedule F (Form 1040))				<u> </u>
	0		r (loss) (attach Form 4797)		-		<u> </u>
	8		List type and amount		3		
	9		Combine lines 1, 2a, and 3 through 8	ģ	9	15,500	
-	10		if Form 4952 is attached ► □	1	0		
	11			1	1		
	12			1	2		
	13		uction (from Schedule A, line 7)	1	3		
ns	14		untant, and return preparer fees		4	1,292	
Deductions	15a		ns not subject to the 2% floor (attach schedule)		5a	150	
n	b	Allowable misc	ellaneous itemized deductions subject to the 2% floor.	. –	5b		<u> </u>
bed	16	Total. Add line	s 10 through 15b	. 1		1,442	<u> </u>
	17	Adjusted total in	come or (loss). Subtract line 16 from line 9. Enter here and on Schedule B, line 1 🕨			14,058	<u> </u>
	18		tion deduction (from Schedule B, line 15) (attach Schedules K-1 (Form 1041))		8	7,883	<u> </u>
	19		ction (including certain generation-skipping taxes) (attach computation)	. –	9		<u> </u>
	20 21	Exemption .	ng Add lings 10 through 20	. 2		600	<u> </u>
			ns. Add lines 18 through 20		2	8,483 5,575	<u> </u>
	22		e. Subtract line 21 from line 17. If a loss, see page 18 of the instructions	·		<u>5,575</u> 896	<u> </u>
	23 24		Schedule G, line 7)			030	<u> </u>
Its			003 estimated tax payments and amount applied from 2002 return				<u> </u>
yments	C C			24			
۲.			xtension of time to file: Form 2758 Form 8736 Form 8800		1d		
Pa			tax withheld. If any is from Form(s) 1099, check \blacktriangleright	24	1e		
and			f Form 2439		1h		
(a	25		s. Add lines 24c through 24e, and 24h		5		
Тах	26		penalty (see page 19 of the instructions)	1	6		
	27	Tax due. If line	25 is smaller than the total of lines 23 and 26, enter amount owed	2	7	896	
	28		If line 25 is larger than the total of lines 23 and 26, enter amount overpaid	2	8		
	29		28 to be: a Credited to 2004 estimated tax ► ; b Refunded ►		9		<u> </u>
c:			Iry, I declare that I have examined this return, including accompanying schedules and statements, and to the Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledg		my knowledge	and belief, it	t is true,
Si				l	May the IRS		
пе	re	Signature of fidual	ary or officer representing fiduciary Date EIN of fiduciary if a financial institu	ution	with the prep (see instr.)?	arer shown	below
			Date Ein of inductary in a infancial institut		Preparer's SS		
Pai	d	Preparer's signature	Check if		i icparel S SS		
Pre	parer		self-employed	<u> </u>			
Use	e Only		mployed),	10 (١		
For	Danc				/	m 1041	(2002)
FUL	rape	work Reduction	Act Notice, see the separate instructions. Cat. No. 11370H		FOr	1041	(2003)

For Example 6

-	1041 (2003)		Page 2
Sch	Charitable Deduction. Do not complete for a simple trust or a pooled inc		
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)		
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	5	
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	Charitable deduction. Subtract line 6 from line 5. Enter here and on page 1, line 13	7	
Sch	nedule B Income Distribution Deduction		I.
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	6	
-	loss as a positive number	7	16.050
7 8	Distributable net income (DNI) . Combine lines 1 through 6. If zero or less, enter -0		10,000
0	If a complex trust, enter accounting income for the tax year as determined under the governing instrument and applicable local law		
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 Sol	Income distribution deduction. Enter the smaller of line 13 or line 14 here and on page 1, line 18 redule G Tax Computation (see page 21 of the instructions)	15	7,883
-			
11			
	b Tax on lump-sum distributions (attach Form 4972)		
	d Total. Add lines 1a through 1c	1d	896
2a	Foreign tax credit (attach Form 1116)		
	Other nonbusiness credits (attach schedule)		
	General business credit. Enter here and check which forms are attached:		
	□ Form 3800 □ Forms (specify) ►		
d	Credit for prior year minimum tax (attach Form 8801)		
3	Total credits. Add lines 2a through 2d	3	000
4	Subtract line 3 from line 1d. If zero or less, enter -0-	4	896
5	Recapture taxes. Check if from: Form 4255 Form 8611	6	
6 7	Total tax. 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	n of expen	ses 🗸
	Enter the amount of tax-exempt interest income and exempt-interest dividends ► \$	2,5	500
2	Did the estate or trust receive all or any part of the earnings (salary, wages, and other comper		
	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		
	over a bank, securities, or other financial account in a foreign country?		V/////////////////////////////////////
	See page 23 of the instructions for exceptions and filing requirements for Form TD F 90-22.1.		
	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, o		
-	a foreign trust? If "Yes," the estate or trust may have to file Form 3520. See page 24 of the ins		
5	Did the estate or trust receive, or pay, any qualified residence interest on seller-provided finan 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		
7	To make a section 643(e)(3) election, attach Schedule D (Form 1041), and check here (see page		
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

• Departm	n 1041) ent of the Treasury	beginning Nov 29 , 2	003, e	2003, or fiscal year nding Oct 31	, 20 04	2003
	Revenue Service of trust or decede	Complete a separate	Sched	lule K-1 for each ben	eficiary.	
	TE OF TERRY					Amended K-1
enefi	iciary's identifyin	g number ► 010-99-5656		Estate's or trust's	EIN ► 01 555666	
		ress, and ZIP code		Fiduciary's name, a	ddress, and ZIP code	-
ROBI	ERT THARP			ROBERT THARP,	EXECUTOR	
	GLENN COVE			1320 GLENN COV		
BLOO	DMINGTON	IN 47402		BLOOMINGTON	IN 47402	
		(a) Allocable share item	1	(b) Amount	(c) Calendar year 2003 F the amounts in co	
			1	1,457	Form 1040, line 8a	
	Qualified divider		2a	1,171	Form 1040, line 9b	
		vidends	2b	1,171	Form 1040, line 9a	
3a	Net short-term of	capital gain (entire year)	3a		Schedule D, line 5, co	.,
		capital gain (post 5/5/2003)	3b 4a		Schedule D, line 5, col	
	5	apital gain (entire year)	4a 4b		Schedule D, line 12, c	()
		apital gain (post 5/5/2003)	4D 4C		Schedule D, line 12, co	(0)
		gain	40 4d		Line 5 of the worksheet fo Line 11 of the worksheet fo	
			4e		Line 4 of the worksheet fo	
5a /	Annuities, royal	ties, and other nonpassive income pportioned deductions	5a		Schedule E, Part III, co	blumn (f)
			5b) Include on the app	licable line of the
			5c		Include on the app appropriate tax for	
			5d			
6a [·]	Trade or business,	rental real estate, and other rental income portioned deductions (see instructions) .	6a		Schedule E, Part III	
bl	Depreciation .		6b		Include on the app	licable line of the
сI	Depletion		6c		appropriate tax for	
d /	Amortization .		6d		J	
7	Income for minir	mum tax purposes	7	2,628		
8 I	Income for regul	ar tax purposes (add lines 1, 2b, 3a,				
o 1	4a, 5a, and 6a) Adjustment for minir	num tay numacas (subtract line 9 from line 7)	8	2,628	Form (251 line 14	
	•	num tax purposes (subtract line 8 from line 7)	9	0	Form 6251, line 14	
0	Estate tax dedu	uction (including certain generation- r taxes)	10		Schedule A, line 27	
1 1	Foreign taxes	· · · · · · · · · · · · · · · · · · ·	11		Form 1040, line 44 or S	chedule A line 8
		d tax preference items (itemize):				,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
	•	preciation	12a)	
			12b		Include on the app	licable
	Amortization .		12c			
d	Exclusion items		12d		2004 Form 8801	
3	Deductions in the	final year of trust or decedent's estate:	<i>\/////</i>			
al	Excess deduction	ons on termination (see instructions)	13a		Schedule A, line 22	
b S	Short-term capi	tal loss carryover	13b	()	Schedule D, line 5, col	umns (f) and (g)
				, .	Sch. D, line 12, col. (f); line 5	
	U	al loss carryover	13c)	line 20; and line 16 of the wk	sht. for Sch. D, line 19
		(NOL) carryover for regular tax purposes	13d	()	Form 1040, line 21	_
	5	r minimum tax purposes	13e		See the instructions for	
			13f		<pre>Include on the app of the appropriate t</pre>	
g	<u></u>		13g			
	Other (itemize):		14a	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	Form 1040 line (2	
	5	imated taxes credited to you	14a 14b	372	Form 1040, line 62	
	Tax-exempt inte	rest NCOME (SECTION 163(D))	14D	2,628	Form 1040, line 8b	
			14C	2,020	Include on the app	
ч.			L'HU		of the appropriate	tax form

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 $70\frac{1}{2}$. 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.

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This information was correct when originally published. It has not been updated for any subsequent law changes.

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.⁸

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.

^{8.} 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.⁹ 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.

This information was correct when originally published. It has not been updated for any subsequent law changes.

^{9.} 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.

For Example 10

Form	10	Л 1	t of the Treasury—Internal Revenue Service ncome Tax Return for Estates and Trusts	20	03	OMB No	. 1545-0092
_	Type of	entity (see instr.):	For calendar year 2003 or fiscal year beginning Jul 18 , 2003, and	endin	a .	Jun 30	, 20 04
•	Deceder	nt's estate	Name of estate or trust (If a grantor type trust, see page 12 of the instructions.)				ation number
_	Simple 1		ESTATE OF ALBERT ANDERSON		6	6 959595	1
	Comple	x trust	ESTATE OF ALBERT ANDERSON	C	Date	entity created	
	Qualified	d disability trust	Name and title of fiduciary			7/18/03	3
	ESBT (S	S portion only)	BECKY ANDERSON DAVIES	E			ble and split-
	Grantor	type trust	Number, street, and room or suite no. (If a P.O. box, see page 12 of the instructions.)			st trusts, che s (see page 1)	ck applicable 3 of the
		otcy estate-Ch. 7	100 WEST BUSINESS ROUTE 20			ctions):	
		otcy estate-Ch. 11	City or town, state, and ZIP code		Desc	cribed in secti	ion 4947(a)(1)
_		income fund	ROCKFORD, IL 60200	[_	a private four	
	Number attacheo instructi		F Check applicable boxes: □ Change in fiduciary's name □ Change in fiduciary's addres	s [Desc	cribed in sect	ion 4947(a)(2)
G F	ooled n	nortgage account (se	e page 13 of the instructions): Bought Sold Date:				
	1	Interest income			1		
	2a		ividends		2a		
	b	Qualified dividend	allocable to: (1) Beneficiaries				
e	3	Business incon	e or (loss) (attach Schedule C or C-EZ (Form 1040))		3	-25	5,000
Bo	4	Capital gain or	(loss) (attach Schedule D (Form 1041))		4		
ncome	5	Rents, royalties	partnerships, other estates and trusts, etc. (attach Schedule E (Form 104	0))	5		
_	6		r (loss) (attach Schedule F (Form 1040))		6		
	7		r (loss) (attach Form 4797)		7		
	8		ist type and amount		8		
	9		Combine lines 1, 2a, and 3 through 8		9	-2	5,000
	10		if Form 4952 is attached 🕨 🗌		10		
	11				11	,	
	12	Fiduciary fees			12		3,000
	13		Iction (from Schedule A, line 7)		13		
ũ	14		ntant, and return preparer fees		14		
Ĕ	15a		ns not subject to the 2% floor (attach schedule)		15a 15b		<u> </u>
Deductions			ellaneous itemized deductions subject to the 2% floor		150	-	3.000
)e	16		10 through 15b		16		3.000
_	17	5	ome or (loss). Subtract line 16 from line 9. Enter here and on Schedule B, line 1		17	-20	0
	18		tion deduction (from Schedule B, line 15) (attach Schedules K-1 (Form 10		19		
	19 20	Estate tax dedu Exemption	ction (including certain generation-skipping taxes) (attach computation)	• •	20		600
	20		ns. Add lines 18 through 20	. •	20		600
_	22		 Subtract line 21 from line 17. If a loss, see page 18 of the instruct 		22	-28	3,600
	22		Schedule G, line 7)		23	-2.	0
_	23		D03 estimated tax payments and amount applied from 2002 return	• •	24a		
		Contractions: a 2	bus estimated tax payments and automit applied from 2002 feture.	· · ·	12.00		

For Example 10

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c Depletion 5c appropriate tax form d Amortization 5d appropriate tax form 6a Trade or business, rental real estate, and other rental income before directly apportioned deductions (see instructions) 6a Schedule E, Part III b Depreciation 6c b Include on the applicable line of the appropriate tax form c Depletion 6d b b Include on the applicable line of the appropriate tax form d Amortization 6d 6c b Include on the applicable line of the appropriate tax form 7 Income for minimum tax purposes 7 6d form for form form form 8 Income for regular tax purposes (add lines 1, 2b, 3a, 4a, 5a, and 6a) 8 form for form forminum tax purposes (subtract line 8 from line 7) form for form for form form form for form for form form 9 Adjustment for minimum tax purposes (subtract line 8 from line 7) form for form for form form form for form for form form form for form for form for form form 10 Estate tax deduction (including certain generation-skipping transfer taxes) form form form form form form form form
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6a Trade or business, rental real estate, and other rental income before directly apportioned deductions (see instructions). 6a Schedule E, Part III b Depreciation
b Depreciation 6b c Depletion 6c d Amortization 6d 7 Income for minimum tax purposes 7 8 Income for regular tax purposes (add lines 1, 2b, 3a, 4a, 5a, and 6a) 8 9 Adjustment for minimum tax purposes (subtract line 8 from line 7) 9 9 Adjustment for minimum tax purposes (subtract line 8 from line 7) 9 10 Estate tax deduction (including certain generation-skipping transfer taxes) 10 11 Foreign taxes 11 2 Adjustments and tax preference items (itemize): 12 a Accelerated depreciation 12b 12 Include on the applicable Include on the applicable
c Depletion Include on the applicable line of the appropriate tax form d Amortization 6d 7 Income for minimum tax purposes 7 8 Income for regular tax purposes (add lines 1, 2b, 3a, 4a, 5a, and 6a) 8 9 Adjustment for minimum tax purposes (subtract line 8 from line 7) 9 Form 6251, line 14 5 10 Estate tax deduction (including certain generation-skipping transfer taxes) 10 11 Foreign taxes 11 12 Adjustments and tax preference items (itemize): 12a a Accelerated depreciation 12b
c Depletion appropriate tax form d Amortization 6d 7 Income for minimum tax purposes 7 8 Income for regular tax purposes (add lines 1, 2b, 3a, 4a, 5a, and 6a) 8 9 Adjustment for minimum tax purposes (subtract line 8 from line 7) 9 10 Estate tax deduction (including certain generation-skipping transfer taxes) 10 11 Foreign taxes 10 12 Adjustments and tax preference items (itemize): 12a a Accelerated depreciation 12b
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9 Adjustment for minimum tax purposes (subtract line 8 from line 7) 9 Form 6251, line 14 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): 12a a Accelerated depreciation 12b b Depletion Linclude on the applicable
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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): 12a Include on the applicable b Depletion 12b Include of Form 6251
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 Depletion 12b Include on the applicable Include of Form 6251
a Accelerated depreciation 1 12a Include on the applicable b Depletion 12b Include on the applicable
b Depletion
b Depletion
a 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 3,000 Schedule A, line 22
c Long-term capital loss carryover
d Net operating loss (NOL) carryover for regular tax purposes 13d (25,000) Form 1040, line 21
e NOL carryover for minimum tax purposes
f 13f Include on the applicable line
g 13g J of the appropriate tax form
14 Other (itemize):
a Payments of estimated taxes credited to you 14a Form 1040, line 62
b Tax-exempt interest
c 14c Include on the applicable line
d (of the appropriate tax form
e 14e J 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.¹⁰ 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.¹¹

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.

^{10.} IRC §167(d)

^{11.} IRC §§1014(a)(1) and (b)(1)

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

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:

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.¹²

^{12.} IRC §469(i)(4)

For Example 11

Form	10	Л П	nt of the Treasury—Internal Revenue Service	0()3	OMB No. 1545	-0092
A	Type of	entity (see instr.):	For calendar year 2003 or fiscal year beginning Aug 2 , 2003, and end	ing	J		0 04
V (Decede	nt's estate	Name of estate or trust (If a grantor type trust, see page 12 of the instructions.)	С	Employ	er identification	number
	Simple	trust	ESTATE OF HARLEY DOOLITTLE		02	9975445	
	Comple	x trust		D	Date en	tity created	
		d disability trust				08/02/03	
		S portion only)	FIRST NATIONAL BANK, ADMINISTRATOR	Е		mpt charitable an trusts, check app	
		type trust	Number, street, and room or suite no. (If a P.O. box, see page 12 of the instructions.) 10 PUBLIC SQUARE			see page 13 of th	
		otcy estate-Ch. 7 otcy estate-Ch. 11	City or town, state, and ZIP code				
		income fund	CHAMPAIGN IL 61820	H		bed in section 494 private foundation	
		of Schedules K-1	F Check applicable Initial return Final return Amended return			bed in section 494	
	attacheo nstructi	d (see ions) ► 2	applicable Initial return I Final return Amended return boxes: Change in fiduciary's name Change in fiduciary's address				
GΡ	ooled n	nortgage account (se	ee page 13 of the instructions): Bought Sold Date:				
	1	Interest income	3	.	1		
	2a	Total ordinary of	lividends		2a		
	b		s allocable to: (1) Beneficiaries				
ne	3		ne or (loss) (attach Schedule C or C-EZ (Form 1040))		3		
Income	4		(loss) (attach Schedule D (Form 1041))	· ŀ	4 5	398,700	+
Ĕ	5		, partnerships, other estates and trusts, etc. (attach Schedule E (Form 1040))	ŀ	6	330,700	+
	67		rr (loss) (attach Schedule F (Form 1040))		7		
	8	50	List type and amount		8		
	9		Combine lines 1, 2a, and 3 through 8		9	398,700	1
	10	Interest. Check	if Form 4952 is attached ► 🗌	.	10		
	11	Taxes		.	11		
	12	Fiduciary fees		.	12		
	13		uction (from Schedule A, line 7)	.	13		
suc	14		untant, and return preparer fees		14		
Deductions	15a		ns not subject to the 2% floor (attach schedule)		15a 15b		
np			ellaneous itemized deductions subject to the 2% floor.		16		
De	16 17		s 10 through 15b		17	398,700	
	18		ition deduction (from Schedule B, line 15) (attach Schedules K-1 (Form 1041))		18	398,700	,
	19		uction (including certain generation-skipping taxes) (attach computation)		19		
	20	Exemption .		. L	20	600	1
	21	Total deduction	ns. Add lines 18 through 20	•	21	399,300	
	22		e. Subtract line 21 from line 17. If a loss, see page 18 of the instructions		22	-600	
	23		Schedule G, line 7)		23 24a	0	
ts	24	-	003 estimated tax payments and amount applied from 2002 return		24a 24b		+
ments	b		payments allocated to beneficiaries (from Form 1041-T) . . . 4b from line 24a 	· F	24c		+
	d		extension of time to file: \Box Form 2758 \Box Form 8736 \Box Form 8800	•	24d		-
Pay			e tax withheld. If any is from Form(s) 1099, check ► □	. [24e		
and			f Form 2439; g Form 4136	•	24h		
×	25	Total payment	s. Add lines 24c through 24e, and 24h	•	25		
Тах	26		penalty (see page 19 of the instructions)	.	26		
	27		25 is smaller than the total of lines 23 and 26, enter amount owed	I	27	0	
	28 29		If line 25 is larger than the total of lines 23 and 26, enter amount overpaid 28 to be: a Credited to 2004 estimated tax ► ; b Refunded ►	F	28 29		+
		Under penalties of perj	ury, I declare that I have examined this return, including accompanying schedules and statements, and to the	best		owledge and belief,	it is true,
Sig	yn∣'	correct, and complete.	Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledg	e.			
He	re				with	the IRS discuss this the preparer shown	h below
		Signature of fiduci	ary or officer representing fiduciary Date EIN of fiduciary if a financial instit	utior	'_ _	instr.)? Yes	
Pai	d	Preparer's	Date Check if	_	Prep	arer's SSN or PTIN	l
	parer'	's Firm's name (self-employed	1 🗌			
	Only	yours if self-e	mployed),		(<u> </u>	
–	Der -	address, and	•	IU.	() Farm 1041	(0000)
For	Paper	work Reduction	Act Notice, see the separate instructions. Cat. No. 11370H			Form 1041	(2003)

For Example 11

SC	HEDULE E Supplemental Income and Loss					074								
(Fo	rm 1040)		-	rental real est								26	02	
Depa	rtment of the Treasury al Revenue Service (99)	Attach to Form		porations, est						1040	N	Attachme Sequenc		3
	e(s) shown on return	P Attach to Form	1040 (- 3		200113	101 3				cial secu		
	TATE OF HARLE	Y DOOLITTLE									029		5445	
Part I Income or Loss From Rental Real Estate and Royalties Note. If you are in the business or Schedule C or C-EZ (see page E-2). Report farm rental income or loss from Form 4835 on page 2, I										ersonal p	propert	y, use		
1		nd location of each					1		ch rental real esta				Yes	No
Α	VARIOUS RENT	AL PROPERTIES		· · · · · ·					on line 1, did you					,
	ILLINOIS, WISC	ONSIN, AND FLOF	RIDA						during the tax yea ses for more than					✓
В								• 14 c	days or					1
_									6 of the total day rental value?	's rer	ited at	t B		•
С							(age E-3.)			с		✓
						Pro	pertie	es				Tota	ls	
Inc	ome:			А			В		С		(Add	columns	A, B, a	nd C.)
3	Rents received.		3	728000							3	72	8000	
_4	Royalties receive	d	4								4			
	penses:		_	15000										
	Advertising		5	15000										
6	Auto and travel (0 7											
7	Cleaning and ma	intenance	8											
9			9	46000										
10	Legal and other		10	4500										
11	Management fee		11	72800										
12	Mortgage interes	st paid to banks,												
		4)	12								12			
13	Other interest .		13	30000										
14	Repairs		14 15	30000										
15 16	Supplies		16	86000										
17	Taxes		17	75000										
18	Other (list) ▶													
			18											
			10	329300							10		0000	
19	Add lines 5 throu	0	19	329300							19	32	9300	
20	Depreciation expe (see page E-4).		20	0							20		0	
	Total expenses. Ac	dd lines 19 and 20	21	329300										
22	Income or (loss)													
	estate or roya Subtract line 21 f													
	or line 4 (royalties	s). If the result is												
	a (loss), see page if you must file F		22	398700										
23	Deductible rental													
	Caution. Your re	ental real estate												
	loss on line 22 ma													
	page E-4 to find file Form 8582													
	professionals mu	ist complete line	22	(、	,		,	(、 、				
	43 on page 2 .		23)	\)	1)	24	20	8700	
		sitive amounts show				,			or total lassas he		24 25	<u></u>	8700)
25 26	, i i i i i i i i i i i i i i i i i i i	Ity losses from line 2 estate and royalty										`		/
20		II, IV, and line 40 or												
		herwise, include thi									26	39	8700	
For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11344L							Sch	nedule	E (Form	n 1040)	2003			

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

ESTATE OF HARLEY DOOLITTLE Depreciation Report Regular Tax 02-9975445

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

Depreciation Report Regular Tax

ActivitySch E	VARIOUS	RENTAL F	ROPERTIES	-2003		
Description	Real	Leased	AMT Cost	AMT Life	AMT Depr	AMT Adj
			AMT Basis	Listed	Mthd	Prior
4 FAMILY APT.			125,000	27.5	3,920	0
BLDG.			112,500	SL		
16 UNIT APT.			450,000	27.5	14,114	0
COMPLEX			405,000	SL		
WAREHOUSE			650,000	39	14,375	0
BUILDING			585,000	SL		
CONDO			480,000	27.5	15,055	0
FLORIDA			432,000	SL		
WALGREENS			2,100,000	39	46,442	0
BLDG			1,890,000	SL		
Total			3,805,000	1	93,906	0

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This information was correct when originally published. It has not been updated for any subsequent law changes.

For Example 11

• Depart	rm 1041) tment of the Treasury al Revenue Service	for the caler beginning Aug 2 ► Complete a separa	, 2003, e			2003
	e of trust or dece					Amended K-1
EST	TATE OF HARL	EY DOOLITTLE				Final K-1
	eficiary's identify	•		Estate's or trust's		5
Bene	eficiary's name, ad	ddress, and ZIP code		-	ddress, and ZIP code	
		DOOLITTLE TRUST			BANK, ADMINISTRAT	DR
	ST NATIONAL			10 PUBLIC SQUA		
101	PUBLIC SQUAF	RE, CHAMPAIGN IL 61801		CHAMPAIGN	IL 6180	-
		(a) Allocable share item		(b) Amount	(c) Calendar year 2003 F the amounts in c	
1	Interest		. 1		Form 1040, line 8a	
2a	Qualified divid				Form 1040, line 9b	
		dividends			Form 1040, line 9a	
3a	Net short-term	n capital gain (entire year) .	. <u>3a</u>		Schedule D, line 5, co	lumn (f)
b		n capital gain (post 5/5/2003)			Schedule D, line 5, co	lumn (g)
4a	Net long-term	capital gain (entire year)			Schedule D, line 12, c	olumn (f)
b		capital gain (post 5/5/2003)			Schedule D, line 12, c	olumn (g)
С	Qualified 5-yea	argain	. <u>4c</u>		Line 5 of the worksheet for	
d	Unrecaptured	section 1250 gain	. 4d		Line 11 of the worksheet 1	
е	28% rate gain	<u> </u>	. 4e		Line 4 of the worksheet for	r Schedule D, line 20
5a		alties, and other nonpassive income				
		apportioned deductions			Schedule E, Part III, c	Diumn (f)
					Include on the app	licable line of the
					appropriate tax for	
d	Amortization .		. <u>5d</u>		J	
6a	Trade or busines	s, rental real estate, and other rental income				
	5	pportioned deductions (see instructions)		265,800	Schedule E, Part III	
				62,604	Include on the app	licable line of the
c d	Depletion		. <u>6c</u>		appropriate tax for	m
		<u></u>		265,800		
7		nimum tax purposes	•	203,000		
8	Income for reg	ular tax purposes (add lines 1, 2b, 3a	, 8	265,800		
9	Adjustment for mi) nimum tax purposes (subtract line 8 from line 7) 9	0	Form 6251, line 14	
	*		, -	-		
0	skinning trans	duction (including certain generation fer taxes)	10		Schedule A, line 27	
1	Foreign taxes	· · · · · · · · · · · · · · · · · · ·	. 11		Form 1040, line 44 or S	chedule A, line 8
2		nd tax preference items (itemize):				
		epreciation		0	1	
					Include on the app	
			12c		line of Form 6251	
		S	. 12d		2004 Form 8801	
3		ne final year of trust or decedent's estate	:			
		tions on termination (see instructions)			Schedule A, line 22	
		pital loss carryover	101	()	Schedule D, line 5, co	lumns (f) and (a)
~			-		Sch. D, line 12, col. (f); line 5	
с	Long-term car	bital loss carryover	13c	()	line 20; and line 16 of the wk	
d		ss (NOL) carryover for regular tax purposes		()	Form 1040, line 21	, , , , , ,
e		for minimum tax purposes			See the instructions for	r Form 6251, line 2
f	5		400] Include on the app	licable line
g			13g		∫ of the appropriate	
4	Other (itemize)	:				
	, ,	stimated taxes credited to you .	140		Form 1040, line 62	
		terest			Form 1040, line 8b	
-						liaabla lir -
С					Include on the app	nicaple line
			14d		of the appropriate	

For Example 11

epartme	n 1041) ent of the Treasury Revenue Service	for the calend beginning Aug 2 ► Complete a separate	2003, e		, 20 04 eficiary.	2003
	of trust or deced					Amended K-1
-	-					Final K-1
	ciary's identifyi	<u> </u>		Estate's or trust's		5
	5	dress, and ZIP code		-	ddress, and ZIP code	
	SHA DOOLITT				BANK, ADMINISTRATO	DR
	F NATIONAL E	E, CHAMPAIGN IL 61801		10 PUBLIC SQUA	HE IL 61801	
UFC	JEIC SQUAN					
		(a) Allocable share item		(b) Amount	(c) Calendar year 2003 For the amounts in co	
1	nterest		1		Form 1040, line 8a	
2a (Qualified divide	nds	2a		Form 1040, line 9b	
		lividends	2b		Form 1040, line 9a	
		capital gain (entire year)	3a		Schedule D, line 5, col	.,
		capital gain (post 5/5/2003)	3b		Schedule D, line 5, col	107
	•	capital gain (entire year)	4a		Schedule D, line 12, c	.,
		capital gain (post 5/5/2003)	4b		Schedule D, line 12, co	
c (Qualified 5-yea	r gain	4c		Line 5 of the worksheet for	
dl	Jnrecaptured s	section 1250 gain	4d		Line 11 of the worksheet f	
e 2	28% rate gain	<u> </u>	4e		Line 4 of the worksheet for	r Schedule D, line 20
		Ities, and other nonpassive income			Cohodulo E Dort III. or	luman (f)
		apportioned deductions	5a 5b		Schedule E, Part III, co	
					Include on the app	
			5c 5d		appropriate tax for	m
			50)	
		s, rental real estate, and other rental income	6a	132,900	Schedule E, Part III	
		oportioned deductions (see instructions) .	6b	31,302		
с [Depreciation .		6C	51,502	Include on the app	
d /	Amortization	· · · · · · · · · · · · · · · · · · ·	6d		appropriate tax for	m
		imum tax purposes	7	132,900		
		lar tax purposes (add lines 1, 2b, 3a,				
2	1a, 5a, and 6a)		8	132,900		
) /	Adjustment for min	imum tax purposes (subtract line 8 from line 7)	9	0	Form 6251, line 14	
) E	Estate tax ded	uction (including certain generation-				
5	skipping transfe	er taxes)	10		Schedule A, line 27	
l F	oreign taxes		11		Form 1040, line 44 or S	
		nd tax preference items (itemize):				
a /	Accelerated de	preciation	12a	0	Include on the app	licable
b [Depletion		12b		line of Form 6251	lioubio
	Amortization .		12c		J 2004 Form 0001	
		<u> </u>	12d		2004 Form 8801	
		e final year of trust or decedent's estate:	120			,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
		ons on termination (see instructions)	13a	(Schedule A, line 22	10
bS	snort-term cap	ital loss carryover	13b)	Schedule D, line 5, col	() ()
- '	ong torre -		13c	(Sch. D, line 12, col. (f); line 5	
	. .	ital loss carryover	13C		line 20; and line 16 of the wk	stit. for SCN. D, line 19
		s (NOL) carryover for regular tax purposes	13u)	Form 1040, line 21	
	2	or minimum tax purposes	13e		See the instructions for Include on the app	
g .			13g		of the appropriate t	ax form
	Othor (itomize)					
	Other (itemize):		14a	~//////////////////////////////////////	Form 1040, line 62	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
		stimated taxes credited to you	14a			
	•	erest	14c		Form 1040, line 8b	
			140		Include on the app	
ч.			1170	1	of the appropriate	ov form

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.¹³ 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.¹⁴ 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.¹⁵

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.

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^{13.} IRC §6654(1)(2)(A)

^{14.} IRC §643(g)

^{15.} 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.

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

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

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.

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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.

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

əv. Au partme	706 ugust 2003) ent of the Treasury Revenue Service	Estate of a citizen or resident of f To be filed for decedents dying after For Paperwork Reduction Ac	r) Tax Return the United States (see separa December 31, 2002, and befor the Notice, see the separate in	ite instructions). bre January 1, 20)04.	OMB No. 1545-0015			
_ 1a		name and middle initial (and maiden name, if any)			2 Deced	lent's Social Security N			
	WAYNE A		TENBROOK		98	8 65 4321			
38	ZIP code, or for	(domicile) at time of death (county, state, and eign country) SPRINGFIELD, IL 62974	3b Year domicile established 4 1953	Date of birth 02/20/53	5 Date o	f death 02/26/03			
68		or (see page 3 of the instructions) B TENBROOK	6b Executor's address (number route; city, town, or post of	fice; state; and ZIF		ent or suite no. or rural			
60	Executor's soci 987 6	al security number (see page 3 of the instructions) 4321	10 COUNTRY CLUB SPRINGFIELD, IL 62						
		ion of court where will was probated or estate ad N COUNTY(IL) FIFTH JUDICIAL COUF				7b Case numbe P-03-420			
5 5	If decedent die	d testate, check here 🕨 🗹 and attach a ce	rtified copy of the will. 9 If	Form 4768 is at	tached, c	heck here 🕨 🗌			
10	If Schedule R	-1 is attached, check here 🕨 🗌							
1	Total gross es	state less exclusion (from Part 5, Recapitula	tion, page 3, item 12)		1	3,605,400			
2	•	e deductions (from Part 5, Recapitulation, p			2	2,555,400			
3					3	1,050,000			
4	Adjusted taxa	ble estate (subtract line 2 from line 1)							
5	Add lines 3 a	5	1,050,000						
e		on the amount on line 5 from Table A on pa	6	366,300					
7	taxes by the d	ift tax payable with respect to gifts made by the decedent after December 31, 1976. Include gift by the decedent's spouse for such spouse's share of split gifts (section 2513) only if the decedent e donor of these gifts and they are includible in the decedent's gross estate (see instructions)							
8	Gross estate	tax (subtract line 7 from line 6)		·	8	366,300			
9	Maximum uni	fied credit (applicable credit amount) agains	t estate tax . 9	345,800					
10000000000000000000000000000000000000	•	unified credit (applicable credit amount). (The state of \$6,000. See page 5 of the instructions.)	· / / 0 /						
11	Allowable unit	ied credit (applicable credit amount) (subtra	ct line 10 from line 9)		11	345,800			
2 12	2 Subtract line	11 from line 8 (but do not enter less than ze	ero)		12	20,500			
5 13 	the credit by	e death taxes (cannot exceed line 12). Attac using the amount on line 3 less \$60,000. Se unt here from Table B ►	e Table B in the instructions	, .	13	18,000			
					14	2,500			
		13 from line 12				2,000			
15	computation)	deral gift taxes on pre-1977 gifts (section							
16	Form(s) 706-0	ign death taxes (from Schedule(s) P). (Attac E.)							
17		on prior transfers (from Schedule Q).		I					
18		es 15, 16, and 17)			18	2,500			
19					19	2,300			
20		ipping transfer taxes (from Schedule R, Par	· · · · · ·		20	2 500			
21		taxes (add lines 19 and 20)			21	2,500			
22	1	s. Explain in an attached statement							
23		Treasury bonds redeemed in payment of e		I					
24		es 22 and 23).	(10		24	0.500			
25	 Balance que (or overpayment) (subtract line 24 from line	21)		25	2,500			

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

Cat. No. 20548R

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							
4a	BARBARA B TENBROOK	4b Social security number 987 : 65 : 432	1	4c Amount received (see page 10 of the instructions) 2,422,900				
	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)							
	PFALTUS	369-55-3690	FRIEN		50,000			

under section		etum? m res,	onp off	
	1.12			

Part 5—Recapitulation

Item number	Gross estate		Alternate value		Value at date of d	leath
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	
ltem number	Deductions		Amount			
13	Schedule J-Funeral Expenses and Expenses Incurred in Administering Property Sub	iect 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 o			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			23	2,555,400	

Page 3

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

Form 706 (Rev. 8-2003)

Estate of: WAYNE A TENBROOK

ESta		
	SCHEDULE M—Bequests, etc., to Surviving Spouse	
	tion To Deduct Qualified Terminable Interest Property Under Section 2056(b)(7). If a trust (or other prope	rty) meets the
requ	irements of qualified terminable interest property under section 2056(b)(7), and	
а.	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
exclu	uded from the election, the executor shall be deemed to have made an election to have such trust (or other	property)
treat	ed as qualified terminable interest property under section 2056(b)(7).	
lf I	ess than the entire value of the trust (or other property) that the executor has included in the gross estate is	entered as a
dedu	iction on Schedule M, the executor shall be considered to have made an election only as to a fraction of the	trust (or other
prop	erty). The numerator of this fraction is equal to the amount of the trust (or other property) deducted on Sche	dule M. The
denc	minator is equal to the total value of the trust (or other property).	
Elec	tion To Deduct Qualified Domestic Trust Property Under Section 2056A. If a trust meets the requirements	s of a qualified
dom	estic trust under section 2056A(a) and this return is filed no later than 1 year after the time prescribed by law	v (including
exter	nsions) 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,	
	unless the executor specifically identifies the trust to be excluded from the election, the executor shall be de	eemed to have
	e an election to have the entire trust treated as qualified domestic trust property.	
		Yes No
1	Did any property page to the surviving appund as a result of a qualified disclaimer?	
	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).	
2a	In what country was the surviving spouse born? USA	
	What is the surviving spouse's date of birth? 02/25/56	
	Is the surviving spouse a U.S. citizen?	2c ✓
	If the surviving spouse is a naturalized citizen, when did the surviving spouse acquire citizenship?	
е	If the surviving spouse is not a U.S. citizen, of what country is the surviving spouse a citizen?	
3	Election Out of QTIP Treatment of Annuities—Do you elect under section 2056(b)(7)(C)(ii) not 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)	3 🗸
lten numb		Amount
		205 400
1	BALANCE OF JOINTLY OWNED PROPERTY WITH SPOUSE PER SCHEDULE E	385,400
2	IRA AND 401K BALANCE SCHEDULE I	523,000
3	LIFE INSURANCE PROCEEDS SCHEDULE D	500,000
4	50% INTEREST IN 24 UNIT APT BLD SCHEDULE E	300,000
5	NOTES AND SALARY RECEIVABLE SCHEDULE C	380,000
6	TULSA OK TAX EXEMPT BOND SCHEDULE B	100,000
7	US TREAS. NOTE	200,000
		•
8	CASH FROM SAFETY DEP BX	34,500
	Total from continuation schedules (or additional sheets) attached to this schedule	
4	Total amount of property interests listed on Schedule M	2,422,900
5-	Federal estate taxes payable out of property interests listed on Schedule M 5a	
-		
b		
С	Federal and state GST taxes payable out of property interests listed on	
	Schedule M	<u>,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,</u>
-	Add items 5a, b, and c	
6	Net amount of property interests listed on Schedule M (subtract 5d from 4). Also enter on Part 5,	2,422,900
	Recapitulation, page 3, at item 20	
(IT m	ore space is needed, attach the continuation schedule from the end of this package or additional sheets of t	ne same size.)

(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

This information was correct when originally published. It has not been updated for any subsequent law changes.

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.

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

Form	10	Л П	t of the Treasury—Internal Revenue Service ncome Tax Return for Estates and Trusts 2	00	3 OMB NO. 1	545-0092
A 1	ype of	entity (see instr.):	For calendar year 2003 or fiscal year beginning 02/27 , 2003, and end	ing	12/31 ,	20 03
	Deceder	nt's estate	Name of estate or trust (If a grantor type trust, see page 12 of the instructions.)	СE	mployer identificati	ion number
	Simple	trust	WAYNE TENDDOOK TESTAMENTADY TOUST		37 1200000	
\mathbf{V}	, Comple:	x trust	WAYNE TENBROOK TESTAMENTARY TRUST	D D	ate entity created	
	Qualified	d disability trust	Name and title of fiduciary		02/26/03	
E	ESBT (S	S portion only)	OLD COUNTRY NATIONAL BANK, ADMINISTRATOR		lonexempt charitable	
	Grantor	type trust	Number, street, and room or suite no. (If a P.O. box, see page 12 of the instructions.)		iterest trusts, check oxes (see page 13 o	
E	Bankrup	otcy estate-Ch. 7	100 SOUTH GRAND		structions):	
L E	Bankrup	otcy estate-Ch. 11	City or town, state, and ZIP code		Described in section	4947(a)(1)
		income fund	SPRINGFIELD IL 62793		Not a private founda	
ii	ittacheo nstructi	ions) ▶ 2	F Check applicable boxes: ☑ Initial return ☐ Final return ☐ Amended return Change in fiduciary's name ☐ Change in fiduciary's address		Described in section	4947(a)(2)
G P	ooled n	nortgage account (se	e page 13 of the instructions): Bought Sold Date:			
Income		Total ordinary of Qualified dividend Business incom Capital gain or Rents, royalties Farm income of Ordinary gain of Other income.	ividends		1 2a 6,2 3 4 15,0 5 6 7 8 9 21,2	
	10	Interest. Check	if Form 4952 is attached ► 🗌	. 1	10	
	11	Taxes			11	
	12			. [1	12	
	13		uction (from Schedule A, line 7)	. 💵	13	
ns	14	Attorney, accou	Intant, and return preparer fees	. [1	14	
Deductions	15a	Other deductio	ns not subject to the 2% floor (attach schedule)	· –	5a	
Inc	b	Allowable misc	ellaneous itemized deductions subject to the 2% floor	· –	5b	
)ed	16		5 10 through 15b	· –	16	
	17	,	ome or (loss). Subtract line 16 from line 9. Enter here and on Schedule B, line 1		17 21,2	
	18		tion deduction (from Schedule B, line 15) (attach Schedules K-1 (Form 1041)		- /	280
	19		ction (including certain generation-skipping taxes) (attach computation)	• –	19 20 1	100
	20 21	Exemption .			-	380
					22 14,9	
	22		e. Subtract line 21 from line 17. If a loss, see page 18 of the instructions	' –)45
	23		Schedule G, line 7)	· –	4a	/+5
Its	24 h		003 estimated tax payments and amount applied from 2002 return	· –	4b	
ments	b		b from line 24a	. –	4c	
			xtension of time to file: \Box Form 2758 \Box Form 8736 \Box Form 8800	. –	4d	
and Pay	a e		tax withheld. If any is from Form(s) 1099, check \blacktriangleright		4e	
рс			Form 2439; q Form 4136; Total ▶		4h	
aı	25	1.2	s. Add lines 24c through 24e, and 24h		25	
Тах	26		penalty (see page 19 of the instructions)	. [2	26	0
•	27		25 is smaller than the total of lines 23 and 26, enter amount owed .	. [2	27 2,0)45
	28		If line 25 is larger than the total of lines 23 and 26, enter amount overpaid		28	
	29		8 to be: a Credited to 2004 estimated tax ► ; b Refunded ►		29	
<u> </u>		Under penalties of perju	ry, I declare that I have examined this return, including accompanying schedules and statements, and to the Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge	best of	my knowledge and be	elief, it is true,
Sig	JII	correct, and complete.	שביטמומנוטון טן ארקאמופו נטנוופו נוזמוז נמגאמאפון וא טמצפט טוז מון ווווטודוזמנוטון טן איזוכוז אופאמופו has any knowledg	с.	May the IRS discuss	this roturn
He	re		▶		with the preparer sh	nown below
		Signature of fiduci	ary or officer representing fiduciary Date EIN of fiduciary if a financial instit	ution		'es 🗌 No
Pai	d	Preparer's	Date Check if		Preparer's SSN or F	PTIN
	parer'	signature	self-employed	ı 🗌		
	Only	Tim Shame (
	Sing	address, and		no. ()	
For	Paper	work Reduction	Act Notice, see the separate instructions. Cat. No. 11370H		Form 10	041 (2003)

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

~				~~
7	Charitable demonstrate line of the second of page, line 13	7	-	
		1	21,280	
1	Adjusted total income (see page 20 of the instructions)	2	21,200	<u> </u>
2	Adjusted tax-exempt interest	3		<u> </u>
3	Total net gain from Schedule D (Form 1041), line 16a, column (1) (see page 20 of the instructions)	4		<u> </u>
4	Enter amount from Schedule A, line 4 (reduced by any allocable section 1202 exclusion).	5		<u> </u>
5	Capital gains for the tax year included on Schedule A, line 1 (see page 21 of the instructions)			<u> </u>
6	Enter any gain from page 1, line 4, as a negative number. If page 1, line 4, is a loss, enter the	6	-15,000	
7	loss as a positive number	7	6,280	<u> </u>
8	· · · · · · · · · · · · · · · · · · ·			
0	If a complex trust, enter accounting income for the tax year as determined under the governing instrument and applicable local law 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	Income distribution deduction. Enter the smaller of line 13 or line 14 here and on page 1, line 18	15	6,280	
Scl	hedule G Tax Computation (see page 21 of the instructions)			
11	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 Total. Add lines 1a through 1c	1d	2,045	<u> </u>
	Foreign tax credit (attach Form 1116)			
b	Other nonbusiness credits (attach schedule)			
С	General business credit. Enter here and check which forms are attached:			
	□ Form 3800 □ Forms (specify) ►			
d	Credit for prior year minimum tax (attach Form 8801)			
3	Total credits. Add lines 2a through 2d	3	2.045	<u> </u>
4	Subtract line 3 from line 1d. If zero or less, enter -0-	4	2,045	<u> </u>
5	Recapture taxes. Check if from: Form 4255 Form 8611,	6		<u> </u>
6 7	Household employment taxes. Attach Schedule H (Form 1040)	7	2.045	<u> </u>
-	Other Information		Yes	No
1	Did the estate or trust receive tax-exempt income? If "Yes," attach a computation of the allocation	of ovpor		V
	Enter the amount of tax-exempt interest income and exempt-interest dividends ► \$		V//////	
2	Did the estate or trust receive all or any part of the earnings (salary, wages, and other compens		(///////	
2	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 ot			
	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		<i>\//////</i>	
	the name of the foreign country ►			<i>\\\\\\</i>
4	During the tax year, did the estate or trust receive a distribution from, or was it the grantor of, or	transfero	r to,	~
-	a foreign trust? If "Yes," the estate or trust may have to file Form 3520. See page 24 of the instr			Ľ
5	Did the estate or trust receive, or pay, any qualified residence interest on seller-provided financia			~
-	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 2	24) 🖬		
7	To make a section 643(e)(3) election, attach Schedule D (Form 1041), and check here (see page			
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 cl			<i>\/////.</i>
_9	Are any present or future trust beneficiaries skip persons? See page 24 of the instructions			~

Form 1041 (2003)

Form 1041, Part II, Schedule D and K-1 Wayne A. Tenbrook Testamentary Trust

Carting - Term Capital Gains and Losses – Assets Held More Than One Year One Year Of Description of the entry even (of the entry even) (of Odesription (0, es), of the entry even) (of the entry even) (of the entry even) (of Odesripti	\sim	here and on	me 14a	below	\sim	~~~	\sim	\sim	5b		Amad Million	
(a) Decemption of property (b) Date sold Early (c)	Par				s and Losse	s—Asse	ts He	d More Tha		ne Year		<u> </u>
1000 WALMART INHERIT 12/15/03 575,000 560,000 15,000 15,000 WALMOR HORE HOT SHRINGS AR INHERIT 10/31/03 125,000 125,000 0 0 0 7 Long-term capital gain or (loss) from partnerships. S corporations, and other estates or trusts 7	6 (a) Description of p	roperty	(b) Date acquired	(c) Date sold			(e) Cost or othe	r basis	(f) Gain or (Loss) for the entire year	or (loss)*	-
Image: construction of the construc					12/15/03	575,0	00	560,000				Ī
B Net long-term gain or loos from partnerships, S corporations, and other estates or trusts 8 9 Capital gain distributions 10 10 10 10 Gain from Form 4797, Part I 10 10 11 1	VACA	TION HOME HOT SP	RINGS AR	INHERIT	10/31/03	125,0	00	125,000		0	0	
B Net long-term gain or loos from partnerships, S corporations, and other estates or trusts 8 9 Capital gain distributions 10 10 10 10 Gain from Form 4797, Part I 10 10 11 1												
B Net long-term gain or loos) from partnerships. S corporations, and other estates or trusts 8 1 B Capital gain distributions 10 10 10 Capital gain distributions 10 10 10 11 Long-term capital loss carryover. Futer the amount, if any, from line 14 of the 2002 Capital Loss Carryover Worksheet 11												
B Net long-term gain or loos) from partnerships. S corporations, and other estates or trusts 8 1 B Capital gain distributions 10 10 10 Capital gain distributions 10 10 10 11 Long-term capital loss carryover. Futer the amount, if any, from line 14 of the 2002 Capital Loss Carryover Worksheet 11												
B Net long-term gain or loos) from partnerships. S corporations, and other estates or trusts 8 1 B Capital gain distributions 10 10 10 Capital gain distributions 10 10 10 11 Long-term capital loss carryover. Futer the amount, if any, from line 14 of the 2002 Capital Loss Carryover Worksheet 11												
estates or trusts 8 9 Capital gain distributions 10 Gain from Form 4797, Part 1 11 Long-term capital loss carryover, Enter the amount, if any, from line 14 of the 2002 Capital Loss Carryover Worksheet 12 Combine lines 6 through 10 in column (g) 13 15,000 14 Long-term gain or (loss). Combine lines 6 through 11 in column (f). Ener here and on line 15a below 17 Include in col. (g) all gains and losses from col. (f) from sales, exchanges, or conversions (including instaliment payments received) after May 5, 2003. However, do not include gain atributable to unrecaptured section 1250 gain or 28% rate gain or loss (see instr.). 14a Net long-term gain (loss). (for the entire year) 14a b(1) Net long-term gain (loss). (for the entire year) 15a 15a 15,000 15,000 15a 15,000 15,000 15a 15,000 15,000 15a 15,000 15,000 16a 15,000 15,000 15,000 16a 15,000 15,000 15,000 16b 15,000 15,000 15,000 16,000 16a 15,000 15,000 15,000 1	7	Long-term ca	pital gain	or (loss) from	Forms 2439, 46	684, 6252,	6781, a	and 8824 .	7			<u> </u>
9 Capital gain distributions 9 10 Gain from Form 4797, Part I. 10 11 Long-term capital loss carryover Worksheet 11 12 Combine lines 6 through 10 in column (g) 11 13 Net long-term gain or (loss), Combine lines 6 through 11 in column (f). Enter here and on line 15a below 13 14 Long-term gain or (loss), Combine lines 6 through 11 in column (f). Enter here and on line 15a below 13 16 Caution: Read the instructors before completing this part. (Beneficianics) (2) Estate's (3) Total 14 Net short-term gain or (loss) (for the entrie year) 14a 14b 15a 15.000 15.000 15a Net long-term gain (post-May 5, 2003) 14b 15b 15.000 15.000 15a Net long-term gain (post-May 5, 2003) 15b 15.000 15.000 15.000 15a Total ords, or the gain or (loss), Combine lines 14 and 15a.> 15a 15.000 15.000 15.000 15.000 15a Total net gain or (loss), Combine lines 14 and 15a.> 15a 15.000 15.000 15.000 15.000 15.000 15.000 15.000 15.000 <	8	0	0	· ,	1 1 1		ations,	and other	8			
10 Gain from Form 4797, Part I 10 10 11 Long-term capital loss Carryover. Knicksheet 10 11 12 12 Combine lines 6 through 10 in column (g) 11 12 11 12 13 Net long-term gain or (loss). Combine lines 6 through 11 in column (g). 13 15,000 11 12 15,000 16 Caution: Read the instructions before completing this part. 13 15,000 15 15 16 11 12 15,000 15 15 16 15,000 16 16 15,000 16 15,000 16 16 16 15 16 15 16 15 16 16 16 15 16 15 16 15 16 15 16 15 16 15 16 15 16 15 16 15 16 15 16 15 16 <td>9</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>9</td> <td></td> <td></td> <td></td>	9								9			
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2002 Capital Loss Carryovér Worksheet 11 12 12 12 12 Combine lines 6 through 10 in column (g) 11 12 15,000 13 Net long-term gain or (loss). Combine lines 6 through 11 in column (n). Enter 13 15,000 17 10 10 10 12 17 11 12 15,000 18 15,000 12 15,000 19 11 10 12 15,000 10 10 10 10 12 15,000 11 12 12 15,000 12 15,000 11 12 10 10 10 10 10 11 12 10	11	Long-term ca	apital los	s carryover. Er	nter the amour	nt, if any, i	from lin	e 14 of the				X/////
13 Net long-term gain or (loss). Combine lines 6 through 11 in column (l). Enter 13 15,000 11 13 15,000 13 15,000 11 13 15,000 13 15,000 11 11 120 gain or 28% rate gain or loss (see instr.). 13 15,000 11 11 120 gain or 28% rate gain or loss (see instr.). 11 11 12 Caution: Read the instructions before completing this part. (1) Beneficiaries' or trust's (3) Total 13 Net long-term gain or (loss) (for the entire year) 14a 14a 14 14a 14a 14a 14a 150 15a 15,000 15,000 15,000 15a 15,000 15,000 15,000 15,000 15a 150 15,000 15,000 15,000 15a 150 15,000 15,000 15,000 16a 150 15,000 15,000 15,000 15,000 16a 15,000 15,000 15,000 15,000 16b 16a 15,000 15,000 15,000 16b <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>11</td> <td>(</td> <td>)</td> <td>X//////</td>									11	()	X//////
here and on line 15a below 13 15,000 *include in col. (g) all gains and losses from col. (f) from sales, exchanges, or conversions (including installment payments received) after May 5, 2003. However, do not include gain attributable to unrecaptured section 1250 gain or 28% rate gain or loss (see instr). PartIII Summary of Parts I and II Caution: Read the instructions before completing this part. (see page 33) Hat Net short-term gain (post-May 5, 2003) 144a b(1) Net short-term loss (post-May 5, 2003) 1402 b(2) Net short-term loss (post-May 5, 2003) 15b c Qualified 5-year gain 15c d Unrecaptured section 1250 gain (see line 18 of the worksheet on page 34) 15c 16a 15.000 15.000 15b 15d 15.000 16a 15.000 15.000 16b 15.000 15.000 16a 15.000 15.000 16a 15.000 15.000 16b 15.000 15.000 16a 16a, column (3), is a net gain or floss, comblete Part IV. If ine 16a, column (3), is a net gain or floss, complete Part IV. and the Capital Loss Carryover Worksheet, as necessary. For Paperwork Reduction Act Notice, see the Instructions for Form 10	12	Combine line	s 6 thro	ugh 10 in colu	mn (g)				12		15,000	
Tinclude in col. (g) all gains and losses from col. (f) from sales, exchanges, or conversions (including installment payments received) after May 5, 2003. However, do not include gain attributable to unrecaptured section 1250 gain or 28% rate gain or loss (see instr.). PartIII Caution: Read the instructions before completing this part. (1) Beneficiaries' (2) Estate's (2) Net short-term gain (post-May 5, 2003) 14a 14a 14b(1) 15a 15,000 15b 15,000 15a 15,000 15b 15,000 15c 15,000 15d 15,000 15	13											
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Summary of Parts I and II Caution: Read the instructions before completing this part. (1) Beneficiaries' (2) Estate's or trust's (2) Estate's or trust's (3) Total 14a (1) Beneficiaries' (2) Estate's or trust's (3) Total 14a (1) Beneficiaries' or trust's (2) Estate's or trust's (3) Total 14a (1) Beneficiaries' or trust's (2) Estate's or trust's (3) Total 14a (1) Beneficiaries' or trust's (2) Estate's or trust's (3) Total 14a (1) Beneficiaries' or trust's (3) Total (3) Total 15b (1) Beneficiaries' or trust's (1) Beneficiaries' or trust's (2) Estate's or trust's (3) Total 15c (1) Beneficiaries' (2) Net short-term gain (loss) (for the entire year) (1) Beneficiaries' (1) Beneficiary's Combine lines 14a and 15a. (1) Estate's (1) Estate's complete Part IV and 15b. If zero or less, enter -0- Note: If line 16a, column (3), is a net gain, enter the gain on Form 1041, line 4. If lines 15a and 15a, column (2), are net gains, go to Part V, and do not complete Part IV. If line 16a, column (3), is a net loss, complete Part IV and the Capital Loss Carryover Worksheet, as necessary. For Paperwork Reduction Act Notice, see the Instructions for Form 1041. Cat. No. 11376V Schedule D (Form 1041) 2003 SCHEDULE K-1 (Form 1041) Beneficiary's Share of Income, Deductions, Credits, etc For the calendar yea												after
Caution: Read the instructions before completing this part. (see page 33) or trust's (s) Iotal 14a Net short-term gain or (loss) (for the entire year) 14a 14a 14a 14a b(1) Net short-term loss (post-May 5, 2003) 14b(1) 14b(1) 14b(1) 14b(1) b(2) Net short-term loss (post-May 5, 2003) 15a 15,000 15,000 15,000 b Net long-term gain or (loss) (for the entire year) 15a 15,000 15,000 15,000 b Net long-term gain or (loss), Combine lines 14a and 15a 15c 15d 15,000 15,000 15a 15b, column (3), is a net and net ret dgain or (loss), Combine lines 14b(2) and 15b. If zero or less, enter -0. 16a 15,000 15,000 15,000 Note: If ine 16a, column (3), is a net and no nor Form 1041. Cat. No. 11376V Schedule D (Form 1041) 2003 For Paperwork Reduction Act Notice, see the Instructions for Form 1041. Cat. No. 11376V Schedule D (Form 1041) 2003 SCHEDULE K-1 Beneficiary's Share of Income, Deductions, Credits, etc. OMB No. 1545-0092 20 0 3 Note: If ine 16a, column (3), is a net and no. 20, or fiscal year 20.03, or fiscal year 20.03. Column (1)						unrecapti	ured se				ss (see instr.).	
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b() Net short-term loss (post-May 5, 2003) 1 15a Net long-term gain or (loss) (for the entire year) 1 b Net long-term gain (post-May 5, 2003) 15b 15a Net long-term gain (post-May 5, 2003) 15b b Net long-term gain (post-May 5, 2003) 15c c Qualified 5-year gain 15c d Unrecaptured section 1250 gain (see line 18 of the worksheet on page 34) 15c e 28% rate gain or (loss). 15a and 15a. b Combine lines 14b(2) and 15b. If zero or less, enter -0- 16a Note: If line 16a, column (3), is a net gain, enter the gain on Form 1041, line 4. If lines 15a and 15a. Column (2), are net gains, go to Part V, and the Capital Loss Carryover Worksheet, as necessary. For Paperwork Reduction Act Notice, see the Instructions for Form 1041. Cat. No. 11376V Schedule D (Form 1041) 2003 SCHEDULE K-1 (Form 1041) Beneficiary's Share of Income, Deductions, Credits, etc. for the calendar year 2003, or fiscal year beginning			•		,							
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Note King-term gain (post) (sold)		.,		· ·	,						15.000	
C Qualified 5-year gain 15c d Unrecaptured section 1250 gain (see line 18 of the worksheet on page 34) 15c e 28% rate gain or (loss). 15d 16a Total net gain or (loss). 15c b Combine lines 14b(2) and 15b. If zero or less, enter -0- Note: If line 16a, column (3), is a net gain, enter the gain on Form 1041, line 4. If lines 15a and 16a, column (2), are net gains, go to Part V, and do not complete Part IV. If line 16a, column (3), is a net loss, complete Part IV and the Capital Loss Carryover Worksheet, as necessary. For Paperwork Reduction Act Notice, see the Instructions for Form 1041. Cat. No. 11376V Schedule D (Form 1041) 2003 SCHEDULE K-1 (Form 1041) Beneficiary's Share of Income, Deductions, Credits, etc. OMB No. 1545-0092 For Paperwork Reduction Act Notice, see the Instructions for Form 1041. Cat. No. 11376V Schedule D (Form 1041) 2003 SCHEDULE K-1 (Form 1041) Beneficiary's Share of Income, Deductions, Credits, etc. OMB No. 1545-0092 If the reasure of trust or decedent's estate beginning 02/27 20.03 Name of trust or decedent's estate Beneficiary's identifying number ▶ 987-65-4321 Estate's or trust's EIN ▶ 37 i 1200000 Beneficiary's identifying number ▶ 987-65-4321 Estate's or trust's EIN ▶ 37 i 1200000 Beneficiary's ide		-	-		· ·					, , , , , , , , , , , , , , , , , , , ,		
d Unrecaptured section 1250 gain (see line 18 of the worksheet on page 34) 15d is 28% rate gain or (loss)		0	<u> </u>	2						10,000		
e 28% rate gain or (loss). 1150 150 150 15000 15,000 15,000 16a Total net gain or (loss). Combine lines 14a and 15a. ▶ 15a 15a 15.000 15,000 15,000 Note: If line 15a, column (3), is a net gain, enter the gain on Form 1041. If lines 15a and 15a, column (2), are net gains, go to Part V, and do not complete Part IV. If line 16a, column (3), is a net loss, complete Part IV and the Capital Loss Carryover Worksheet, as necessary. Schedule D (Form 1041) 100 For Paperwork Reduction Act Notice, see the Instructions for Form 1041. Interest service Cat. No. 11376V Schedule D (Form 1041) 2003 SCHEDULE K-1 (Form 1041) Beneficiary's Share of Income, Deductions, Credits, etc. for the calendar year 2003, or fiscal year beginning		-	-									\vdash
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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.

Form 1041, Estate of Wayne A. Tenbrook

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17 Adjusted total income of (loss), subtract line 16 irom line 9, Enter here and on Schedule 8, line 1 > 18 18 18 59,445 18 Income distribution deduction (from Schedule B, line 15) (attach Schedules K-1 (Form 1041)) 19 20 6000 21 Total deductions. Add lines 18 through 20	Ę				• ⊢			
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20 Exemption 20 600 21 Total deductions. Add lines 18 through 20 >>>>>>>>>>>>>>>>>>>>>>>>>>>>>>		-				19		
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get b Estimated tax payments allocated to beneficiaries (from tappind inform tappind informatappind informata		23	Total tax (from	Schedule G, line 7)	. L	23	3,320	
d Tax paid with extension of time to file: Form 2758 Form 8736 Form 8800 e Federal income tax withheld. If any is from Form(s) 1099, check ▶	Ś	24	Payments: a 2	003 estimated tax payments and amount applied from 2002 return	. –			
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Other payments: f Form 2439 ; g Form 4136 ; Total > 25 Total payments. Add lines 24c through 24e, and 24h > > 26 Estimated tax penalty (see page 19 of the instructions) > > 26 27 Tax due. If line 25 is smaller than the total of lines 23 and 26, enter amount owerd 27 3,320 28 29 28 29 29 Vinder 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. May the IRS discuss this return with the preparer shown below (see instr.)? Signature of fiduciary or officer representing fiduciary Date Check if self-employed in the self-employeed in t	ay							
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21 Indicate. In the 26 its shidler that the total of times 23 and 26, enter amount overgaid 28 Overpayment. If line 25 is larger than the total of lines 23 and 26, enter amount overgaid 29 Amount of line 28 to be: a Credited to 2004 estimated tax ▶ ; b Refunded ▶ 29 Under penalties of perjuy, 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 Image: Signature of fiduciary or officer representing fiduciary Date Paid Preparer's signature Preparer's Image: Date Vise Only EIN Preparer's Use Only EIN	Ļ				• -		3 3 9 9	<u> </u>
29 Amount of line 28 to be: a Credited to 2004 estimated tax ▶ ; b Refunded ▶ 29 Sign 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. May the lRS discuss this return, with the preparer has any knowledge. Here > > >					. –		3,320	<u> </u>
Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge. Here Image: signature of fiduciary or officer representing fiduciary is based on all information of which preparer has any knowledge. Paid Preparer's signature Date Check if self-employed Preparer's SSN or PTIN Firm's name (or yours if self-employed), address, and ZIP code EIN EIN Yes Output				o i i				<u> </u>
Sign Here correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge. May the IRS discuss this return With the preparer shown below (see instr.)? Paid Preparer's Use Only Preparer's signature Preparer's signature Date Check if self-employed Preparer's SSN or PTIN Paid Preparer's Use Only Firm's name (or yours if self-employed), address, and ZIP code EIN EIN 9		_					nd belief. it	i is true
Here May the IRS discuss this return with the preparer shown below (see instr.)? Yes No Paid Preparer's signature Date EIN of fiduciary if a financial institution Preparer's SSN or PTIN Preparer's Use Only Firm's name (or yours if self-employed), address, and ZIP code EIN EIN EIN	Sic		correct, and complete.	Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledg	e.	.,		
Signature of fiduciary or officer representing fiduciary Date EIN of fiduciary if a financial institution [see instr.]? Y es No Paid Preparer's signature Preparer's signature Date Check if self-employed Preparer's SSN or PTIN Firm's name (or yours if self-employed), address, and ZIP code EIN EIN								
Preparer's Check if self-employed Preparer's Firm's name (or yours if self-employed), address, and ZIP code			Signature of fiduc		ution	(see instr.)?		
Preparer's Signature Signature Vise Only Firm's name (or yours if self-employed), address, and ZIP code EIN	Dai	1	Prenarer's	Date		Preparer's SSN	N or PTIN	
Use Only yours if self-employed), address, and ZIP code Phone no. ()			signature		H 🗌			
address, and ZIP code Phone no. ()						·		
For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11370H Form 1041 (2003)	Use	Unly			10.	()		
	For	Paper	work Reduction	Act Notice, see the separate instructions. Cat. No. 11370H		Form	1041	(2003)

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

SC	HEDULE E	Sun	plemental l	ncome	and	Loss		OMB No.	1545-00	074
(Fo	10.00	From	rental real estate	, royalties	, partne	erships,		20	03	
Depa	rtment of the Treasury	S cor	porations, estate	s, trusts,	REMIC	s, etc.)		Attachm	ent	
		1040 (or Form 1041. 🕨	See Instruc	ctions for	r Schedule E (Form		Sequence r social secu		
	e(s) shown on return TATE OF WAYNE TENBROOK						You	37 50		
Pa	rt I Income or Loss From Rent	al Rea	al Estate and Roy	alties No	te. If you	are in the business	of rentin	g personal	propert	y, use
	Schedule C or C-EZ (see page									
1	Show the kind and location of each			erty:		each rental real esta			Yes	No
A	50% INTEREST IN APARTMENT C	OMPL	EX			ed on line 1, did you it during the tax yea		sonal		~
_	McLean Co. IL					poses for more than				
В						4 days or				~
_						0% of the total day air rental value?	s rente	dat <u>B</u>		
С						e page E-3.)		c		~
				Pro	perties			Tota	als	
Inc	ome:		A		В	С	(Add columns		nd C.)
3	Rents received	3	133,000				3	13	3,000	
4	Royalties received	4					4			
Exp	penses:									
5	Advertising	5								
	Auto and travel (see page E-4) .	6								
7	Cleaning and maintenance	7								
	Commissions	8								
9	Insurance	9								
10	Legal and other professional fees	10		+						
11	Management fees	<u> </u>						///		
12	Mortgage interest paid to banks,	12					12	,		
12	etc. (see page E-4)	13						-		
	Repairs	14								
15	Supplies	15								
16		16								
17	Utilities	17								
18	Other (list)									
	RENTAL EXPENSES		114,000							
		18								
		10	114,000				1	11	4,000	
	Add lines 5 through 18	19	114,000			+ +		,	.,	
20	Depreciation expense or depletion (see page E-4)	20	o				20	b	o	
21	Total expenses. Add lines 19 and 20	21	114,000							
	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							
	aductible rental real estate loss.			\perp					_	-

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

	IEDULE K-1	Beneficiary's Share of Ind	com	e, Deductions	s, Credits, etc.	OMB No. 1545-0092
(⊦or	m 1041)			2003, or fiscal year		- - - - -
Depart	ment of the Treasury	beginning			, ₂₀ 03	2003
Interna	Revenue Service	Complete a separate	Sched	lule K-1 for each ben	eficiary.	
	e of trust or dece	dent's estate I E TENBROOK				Amended K-1
					EIN ► 37 50000	Final K-1
	ficiary's identify	ing number ► 987-65-4321 Idress, and ZIP code		Estate's or trust's	ddress, and ZIP code	
	RBARA B TENE				ATIONAL BANK, ADMII	
	OUNTRY CLU			100 SOUTH GRAN		NISTRATOR
	RINGFIELD	IL 62794		SPRINGFIELD	IL 62973	
		(a) Allocable share item		(b) Amount	(c) Calendar year 2003 F	orm 1040 filers enter
			1	(b) Amount	the amounts in c	olumn (b) on:
1			1	24,677	Form 1040, line 8a	
2a	Qualified divide	ends	2a		Form 1040, line 9b	
	,	dividends	2b		Form 1040, line 9a	
		capital gain (entire year)	3a		Schedule D, line 5, co	.,
		capital gain (post 5/5/2003)	3b 4a		Schedule D, line 5, co	
		capital gain (entire year)	4b		Schedule D, line 12, c	17
		capital gain (post 5/5/2003)	4c		Schedule D, line 12, c Line 5 of the worksheet fo	(0)
d d	Unrecaptured	section 1250 gain	4d		Line 11 of the worksheet f	
e	28% rate gain		4e		Line 4 of the worksheet fo	
		alties, and other nonpassive income				
ou		apportioned deductions	5a	18,656	Schedule E, Part III, co	olumn (f)
b	Depreciation .		5b		Include on the app	licable line of the
С	Depletion		5c		appropriate tax for	
d	Amortization .		5d		J '' '	
6a		s, rental real estate, and other rental income	1.	10 110	Cabadula E. Dart III	
		pportioned deductions (see instructions) .	6a	16,112 8,591	Schedule E, Part III	
b	Depreciation .		6b 6C	0,591	Include on the app	
d	Amortization .	· · · · · · · · · · · · · · ·	6d		appropriate tax for	m
7		nimum tax purposes	7	59,445		
8		ular tax purposes (add lines 1, 2b, 3a,				
	4a, 5a, and 6a)		8	59,445		
9	Adjustment for mi	nimum tax purposes (subtract line 8 from line 7)	9	0	Form 6251, line 14	
10		duction (including certain generation-	10			
11		er taxes)	10 11		Schedule A, line 27 Form 1040, line 44 or S	chadula A lina 9
11						,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
12	-	nd tax preference items (itemize):	12a	0		///////////////////////////////////////
			12b		Include on the app	licable
	Amortization .		12c		line of Form 6251	
		S	12d		2004 Form 8801	
13		he final year of trust or decedent's estate:				
а	Excess deduct	ions on termination (see instructions)	13a		Schedule A, line 22	
b	Short-term cap	bital loss carryover	13b	()	Schedule D, line 5, col	umns (f) and (g)
				, .	Sch. D, line 12, col. (f); line 5	of the wksht. for Sch. D,
		ital loss carryover	13c	()	line 20; and line 16 of the wk	sht. for Sch. D, line 19
		ss (NOL) carryover for regular tax purposes	13d	()	Form 1040, line 21	E (054 H 07
e f	-	for minimum tax purposes	13e 13f		See the instructions for	
f g			13g		<pre>Include on the app I for the appropriate</pre>	
<u> </u>	Other (itemize)					
		stimated taxes credited to you	14a		Form 1040, line 62	
b	Tax-exempt in	terest	14b	2,355	Form 1040, line 8b	
c	INVESTMENT	INCOME (SECTION 163(D))	14c	24,677		Readela Rosa
d			14d		Include on the app of the appropriate	
e			14e]	
For F	Paperwork Redu	ction Act Notice, see the Instructions for F	orm 1	041. 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.

Form 1040 for Wayne and Barbara Tenbrook

Label (See instructions on page 19.) For the year Jan. 1-Dec. 31, 2003, or other tax year beginning or page 19.) , 200, ending , 200, ending , 200, ending , 200, ending , 200 OMB No. 1545-0074 Use the IRS label. Otherwise, please print or type: If a joint return, spouse's first name and initial BARBARA B Last name TENBROOK Your social security number 988 ± 65 ± 4321 Home address (number and street). If you have a P.O. box, see page 19. 10 COUNTRY CLUB PLACE Apt. no. 10 COUNTRY CLUB PLACE Important! Your must enter your SSN(s) above. 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? Yes No Yes ⊆ Filing Status one box. 1 ⊆ Single 2 ☑ Married filing separately. Enter spouse's SSN above and full name here. ► 4 ⊆ Head of household (with qualifying person). (See page 20 this child's name here. ► 6a ☑ Yourseff. If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a 5 ⊆ Qualifying widow(er) with dependent child. (See page this child's name here. ► 6a ☑ Yourseff. If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a So ot boxes checked on 6a and 6b No. of children			EASED WAYNE A TENBROOK 02/2								
Label See mixtuctors on page 19) For the year and hold Wark E A	1040				03	(99) IRS Use	Onlv—Do no	ot write or	staple in this space.		
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Gross Income 25 Student loan interest deduction (see page 21) 25 25 Student loan interest deduction (see page 31) 26 26 26 Tuition and fees deduction (see page 32) 26 27 27 Moving expenses. Attach Form 3903 27 28 28 One-half of self-employment tax. Attach Schedule SE 28 339 29 Self-employed health insurance deduction (see page 33) 30 30 30 Self-employed SEP, SIMPLE, and qualified plans 31 30 31 Penalty on early withdrawal of savings 31 32a 32a Allimory paid Recipient's SSN ▶ 32a 32a	Adjusted							-\/////			
Income 26 Tuition and fees deduction (see page 32) 26 26 Tuition and fees deduction (see page 32) 27 26 27 Moving expenses. Attach Form 3903 27 28 28 One-half of self-employment tax. Attach Schedule SE 28 339 29 Self-employed health insurance deduction (see page 33) 30 29 30 Self-employed SEP, SIMPLE, and qualified plans 30 30 31 Penatty on early withdrawal of savings 31 32a 33 Add lines 23 through 32a 33a 33a								-\/////			
27 Moving expenses. Attach Form 3903 27 28 One-half of self-employment tax. Attach Schedule SE 28 339 29 Self-employed health insurance deduction (see page 33) 30 29 30 Self-employed SEP, SIMPLE, and qualified plans 30 30 31 Penalty on early withdrawal of savings 31 32a 33 Add lines 23 through 32a 33 33				0 .							
28 One-half of self-employment tax. Attach Schedule SE 28 339 29 Self-employed health insurance deduction (see page 33) 29 29 30 Self-employed SEP, SIMPLE, and qualified plans 30 30 31 Penalty on early withdrawal of savings 31 31 32a Alimony paid b Recipient's SSN ▶ 32a 33 Add lines 23 through 32a 33											
29 Self-employed health insurance deduction (see page 33) 30 Self-employed SEP, SIMPLE, and qualified plans 31 Penalty on early withdrawal of savings 32a Alimony paid b Recipient's SSN ▶ 33 Add lines 23 through 32a						8	339				
31 Penalty on early withdrawal of savings 31 32a Alimony paid b Recipient's SSN ▶ 33 Add lines 23 through 32a 33						9					
31 Alimony paid b Recipient's SSN ▶ 32a 33 Add lines 23 through 32a 33		30	Self-employed SEP, SIMPLE, and qualif	ied plans	•						
33 Add lines 23 through 32a		31	Penalty on early withdrawal of savings		•			-\/////			
34 Subudot nine 35 nonn nine 22. This is your dujusted gross income									116 900		
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 77. Cat. No. 11320B Form 1040 (20	For Disclosure D						►	34	-		

Form 1040, page 2 for Wayne and Barbara Tenbrook

Form 1040 (2003)	W	AYNE A & BARBARA B TENBROOK	988-65-4321	Page 2
Tay and	35	Amount from line 34 (adjusted gross income)	35	116,822
Tax and Credits	36a	Check [You were born before January 2, 1939, Blind.] Total boxes		
Standard)	if: { ☐ Spouse was born before January 2, 1939, ☐ Blind. } checked ► 36a L		
Deduction	b	If you are married filing separately and your spouse itemizes deductions, or		
for—	L	you were a dual-status alien, see page 34 and check here ▶ 36b		14.208
 People who checked any 	37	Itemized deductions (from Schedule A) or your standard deduction (see left margin).		102,614
box on line	38	Subtract line 37 from line 35	. 38	102,014
36a or 36b or who can be	39	If line 35 is \$104,625 or less, multiply \$3,050 by the total number of exemptions claimed o	20	12,200
claimed as a dependent,	40	line 6d. If line 35 is over \$104,625, see the worksheet on page 35	40	90,414
see page 34.	40	Tax (see page 36). Check if any tax is from: $\mathbf{a} \square$ Form(s) 8814 $\mathbf{b} \square$ Form 4972 .		15,360
All others:	42	Alternative minimum tax (see page 38). Attach Form 6251	. 42	
Single or Married filing	43	Add lines 41 and 42	43	15,360
separately,	44	Foreign tax credit. Attach Form 1116 if required 44		
\$4,750	45	Credit for child and dependent care expenses. Attach Form 2441 45		
Married filing jointly or	46	Credit for the elderly or the disabled. Attach Schedule R 46		
Qualifying widow(er),	47	Education credits. Attach Form 8863		
\$9,500	48	Retirement savings contributions credit. Attach Form 8880 . 48		
Head of	49	Child tax credit (see page 40)		
household, \$7,000	50	Adoption credit. Attach Form 8839 50 Credits from: a Form 8396 b Form 8859 51		
	∫51 50			
	52	Other credits. Check applicable box(es): a Form 3800 b Form 8801 c Specify		
	53	Add lines 44 through 52. These are your total credits	53	
	54	Subtract line 53 from line 43. If line 53 is more than line 43, enter -0	·	15,360
	55	Self-employment tax. Attach Schedule SE	. 55	678
Other	56	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137		
Taxes	57	Tax on qualified plans, including IRAs, and other tax-favored accounts. Attach Form 5329 if required	. 57	
	58	Advance earned income credit payments from Form(s) W-2		
	59	Household employment taxes. Attach Schedule H	. 59	
	60	Add lines 54 through 59. This is your total tax	► 60	16,038
Payments	61	Federal income tax withheld from Forms W-2 and 1099 61 8,200 2003 estimated tax narments and amount applied from 2002 return 62		
	62			
If you have a qualifying	63 64			
child, attach Schedule EIC.	65	Excess social security and tier 1 RRTA tax withheld (see page 56) Additional child tax credit. Attach Form 8812		
	66	Amount paid with request for extension to file (see page 56)		
	67	Other payments from: $a \square$ Form 2439 $b \square$ Form 4136 $c \square$ Form 8885 . 67		
	68	Add lines 61 through 67. These are your total payments	► 68	8,200
Refund	69	If line 68 is more than line 60, subtract line 60 from line 68. This is the amount you overpaid	d <u>69</u>	
Direct deposit?	70a	Amount of line 69 you want refunded to you	► 70a	
	► b	Routing number		
and fill in 70b, 70c, and 70d.	► d	Account number		
Amount	71	Amount of line 69 you want applied to your 2004 estimated tax 71 71	72	7,838
You Owe	72 73	Amount you owe. Subtract line 68 from line 60. For details on how to pay, see page 57 Estimated tax penalty (see page 58)		
	De	you want to allow another person to discuss this return with the IRS (see page 58)?	es. Complete the	e followina. 🗌 No
Third Party			-	
Designee	nar			
Sign	Un	der penalties of perjury, I declare that I have examined this return and accompanying schedules and statements	s, and to the best of	my knowledge and
Here		ief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information		, ,
Joint return?			Daytime pri	one number
See page 20. Keep a copy	<u> </u>	ILING AS SURVIVING SPOUSE DECEASED	()	
for your	Sp	ouse's signature. If a joint return, both must sign. Date Spouse's occupation		
records.		HOMEMAKER	Droporori	SSN or DTIN
Paid		parer's Date Check if self-employed		SSN or PTIN
Preparer's		n's name (or EIN	<u> </u>	
Use Only	you	dress, and ZIP code Phone no	;	
	aut			1040 (2002)

Form 1040, Schedule B, Wayne and Barbara Tenbrook

	orm 1040. Do not enter name and social security number if shown on other side.		ur social security numbe
	Schedule B—Interest and Ordinary Dividends		Attachment Sequence No. C
Part I	1 List name of payer. If any interest is from a seller-financed mortgage and the		Amount
Interest	interest first. Also, show that buyer's social security number and address ►		2,500
(See page B-1			2,500
and the nstructions for			5.000
Form 1040,	GENERAL AMERICAN LIFE INS		2,400
ine 8a.)	ESTATE OF WAYNE A TENBROOK		24,677
		1	
Note. If you received a Form			
1099-INT, Form			
1099-OID, or substitute			
statement from			
a brokerage firm, ist the firm's			07.077
name as the payer and enter			37,077
the total interest		2	-2,500 34,577
shown on that form.		2	54,577
	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 ▶ age B-1 TAXEXEMPT BOND TULSA OK (i) US TREASURY INTEREST (i) OLD COUNTRY NATIONAL BANK (ii) ENTATE OF WAYNE A TENBROOK (iii) ENTATE OF WAYNE A TENBROOK (iii) ENTATE OF WAYNE A TENBROOK (iii) ENTATE OF WAYNE A TENBROOK (iiii) SUBTOTAL and enter TAXEXEMPT INTEREST (iii) SUBTOTAL TAXEXEMPT INTEREST TAXEXEMPT INTEREST (iii) SUBTOTAL TAXEXEMPT INTEREST TAXEXEMPT INTEREST (iii) Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815 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. (iii) S Licit name of payer ▶ MicRosoFr WAYNE A TENBROOK TESTAMENTARY TRUST (iii) MicRosoFr WAYNE A TENBROOK TESTAMENTARY TRUST (iif) Add the amounts on line		
	4 Subtract line 3 from line 2. Enter the result here and on Form 1040, line 8a ►	4	34,577
			Amount
Part II			660
Ordinary	MICROSOFT		800
Dividends			900
(See page B-1	WAYNE A TENBROOK TESTAMENTARY TRUST		6,280
and the			
nstructions for Form 1040,			
line 9a.)			
Note. If you received a Form		5	
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.			
	6 Add the amounts on line 5. Enter the total here and on Form 1040, line 9a . ►	6	8,640
			1 1
	You must complete this part if you (a) had over \$1,500 of taxable interest or ordinary divide a foreign account; or (c) received a distribution from, or were a grantor of, or a transferor to,		
Foreign			
Accounts	account in a foreign country, such as a bank account, securities account, or		
and Trusts	account? See page B-2 for exceptions and filing requirements for Form TD F 90-	22.1	
See	b If "Yes," enter the name of the foreign country ►		
bage B-2.)			
	foreign trust? If "Yes," you may have to file Form 3520. See page B-2		🖌

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Schedule B (Form 1040) 2003

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Form 1040, Schedule E for Wayne and Barbara Tenbrook

Sche	edule E (Form 1040) 2003						Attachr	nent Sequence	e No. 13	3		Page 2
	e(s) shown on return. Do not en		cial security nu	mber if showr	n on other side	Э.			Your		security 65 4	
Pa	rt II Income or Lo which any amou										at-risk a	ctivity for
27	Are you reporting losses	s not allowed	in prior yea	ars due to	the at-risk	or ba	asis limitatio	ns, passive	losses	S		
	not reported on Form 8 If you answered "Yes,"		•		•	•			• •	•	Yes	✓ No
	Caution: The IRS comp	1 0				n amo	ounts show	n on Sched	ule(s) I	<-1.		
28		(a) Name			(b) Enter P partnership;	S	(c) Check if foreign	identif	nployer ication		any an	neck if nount is
Δ					for S corpora	ition	partnership	nun	nber		not a	it risk
В												
C												
D	Passive Incom	ne and Loss				Nor	npassive Ir	come and	Loss			
	(f) Passive loss allowed (attach Form 8582 if required)	(g) Pass	ive income		npassive loss Schedule K-1	-	(i) Secti	on 179 expen	se		npassive	
Δ		from SC	hedule K-1	1101112			deduction	n from Form 4	502	Iron	n Schedu	
A B												
С												
D						//////						
	Totals											
	Add columns (g) and (i)	of line 29a							30	///////////////////////////////////////		
31	Add columns (f), (h), and	-							31	()
32	Total partnership and								22			
Pa	rt III Income or Lo					•			32			
33			(a) Na	me					i		Employer ation num	nber
Α	WAYNE A TENBROOK	TESTAMENT	ARY TRUS	т						37-	120000	0
B	ESTATE OF WAYNE A T		and 1 acc				New				500000	0
	(c) Passive deduction or loss	ive Income		Passive incon	ne		(e) Deduction	passive In			income f	from
	(attach Form 8582 if requ			n Schedule K			from Sched				edule K-1	
A											10.0	
<u>B</u>	Tatala				7,521 7,521						18,6 18,6	
	Totals											
	Add columns (d) and (f)	of line 34a .							35		26,1	77
	Add columns (c) and (e)					· .			36	()
37	Total estate and trust include in the total on li		loss). Com	oine lines :	35 and 36.	Ente	r the result	here and	37		26,1	77
Pa	rt IV Income or Lo		eal Estate				Conduits	(REMICs)		sidua	I Holde	
38	(a) Name	(b) Em identificatio		Sched	ss inclusion fro ules Q, line 20 e page E-6)			come (net loss) ules Q, line 1b	5		come fron les Q, line	
	2											
39 Da	Combine columns (d) ar rt V Summary	na (e) only. Er	ner the resu	int nere and	i include in	tne t	lotal on line	4 I Delow	39			
	Net farm rental income	or (loss) from	Form 4835	5 Also, cor	mplete line	42 b	elow		40			
41	Total income or (loss). Cor	. ,							41		32,34	44
42	Reconciliation of Farm	ning and Fis	hing Incom	ne. Enter y	our gross							
	farming and fishing inco											
	K-1 (Form 1065), line 1 Schedule K-1 (Form 10		•			42						
43	Reconciliation for Real			,								///////////////////////////////////////
	professional (see page E	-1), enter the	net income	or (loss) yo	u reported							
	anywhere on Form 104 you materially participat					43						
	,, p		•	A			1	I	Sched	ule E (Form 10)40) 2003
				(4)								-,

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

SCHI (Forn	n 1041)	Beneficiary's Share of In			s, crearis, etc.	OMB No. 1545-009
		tor the calenda beginning	-	2004, or fiscal year	20	2004
	ent of the Treasury Revenue Service	► Complete a separate				
lame	of trust or deced	dent's estate				Amended K-1
						Final K-1
	ciary's identifyi	ng number ► dress, and ZIP code		Estate's or trust's	EIN ►	
enen	ciary s name, au			riduciary s name, ad		
		(a) Allocable share item		(b) Amount	(c) Calendar year 2004 Fo	
					the amounts in co	
			1 2a		Form 1040, line 8a	
		ends	2b		Form 1040, line 9b Form 1040, line 9a	
	,	capital gain	3		Schedule D, line 5, col	umn (f)
		capital gain	4a		Schedule D, line 12, co	.,
		section 1250 gain	4b		Line 11 of the worksheet f	, .
C	28% rate gain		4c		Line 4 of the worksheet fo	r Schedule D, line 1
		alties, and other nonpassive income	5a		Schedule E, Part III, co	lumn (f)
		apportioned deductions	5a)	
			5c		Include on the app appropriate tax for	
			5d			
àa '	Trade or busines	s, rental real estate, and other rental income				
		portioned deductions (see instructions)			Schedule E, Part III	
	•				Include on the app	
					appropriate tax for	m
		imum tax purposes				
		lar tax purposes (add lines 1, 2b, 3, 4a,				
			8			
		imum tax purposes (subtract line 8 from line 7)	9		Form 6251, line 14	
		duction (including certain generation- er taxes)			Schedule A, line 27	
ı i	Foreign taxes				Form 1040, line 50 or S	chedule A, line 8
		nd tax preference items (itemize):				
a	Accelerated de	preciation			Include on the app	licable
	•				line of Form 6251	
					J 2005 Form 8801	
		e final vear of trust or decedent's estate:	120		2000 1 0111 0001	
		ions on termination (see instructions)	13a		Schedule A, line 22	
		vital loss carryover.	13b	()	Schedule D, line 5, col	umn (f)
				,	Sch. D, line 12, col. (f); line 5	
		ital loss carryover	13c 13d		line 18; and line 16 of the wks	sht. for Sch. D, line 19
		s (NOL) carryover for regular tax purposes .	13u)	Form 1040, line 21 See the instructions for	Form 6251 line
-			13f		Include on the appl	,
g			13g		f the appropriate t	
1 (Other (itemize):					
	-	stimated taxes credited to you	14a		Form 1040, line 64	
	-	erest	14b 14c		Form 1040, line 8b	
-			14C			
			14e		Include on the app	licable line
f			14f		of the appropriate	
•			14g			
h			14h		1	

115