

Fiduciary Income Panel, Tax Years 2002 Through 2006

by Lisa Schreiber Rosenmerkel and Joseph Newcomb

This article will examine a panel composed of simple and complex trusts for which a Form 1041, *United States Income Tax Return for Estates and Trusts*, was filed for every tax year from 2002 to 2006. The panel will allow for the examination of fluctuations of income reported and deductions claimed for a constant population over the 5-year period.

Form 1041, *United States Income Tax Return for Estates and Trusts*, is filed annually by fiduciaries of decedent estates, bankruptcy estates, and domestic trusts. Often called the fiduciary tax return, Form 1041 is used to report income and deductions. Additionally, it is used to report details of distributions to beneficiaries and the tax liability of the entity.¹

A fiduciary is an individual, group of individuals, or entity, such as a bank, charged with holding, investing, and distributing the assets of an estate or trust. Fiduciaries of trusts are often referred to as “trustees.” Each has a legal responsibility to both manage the property of the estate or trust and to ensure that all transactions, including distributions, conform to requirements outlined in estate or trust documents, as well as applicable laws. Fiduciaries must coordinate the preparation, verification, and submission of all required State and Federal tax forms and legal documents. They must also ensure any fiduciary income tax liability is paid from the assets of the estate or trust. In exchange for their services, fiduciaries often receive a fee.

A domestic trust is an arrangement in which a trustee assumes control of property, also known as the trust corpus, in order to safeguard it for designated beneficiaries.² The grantor of the trust is the individual who owns and then transfers the assets that make up the trust corpus. A trust is created by a trust instrument, such as a will or trust document.

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In either case, the trust instrument usually specifies the term of the trust, designates the trustee as well as the beneficiaries, outlines trustee responsibilities, and provides parameters for managing assets and distributing income to the beneficiaries. The trust instrument also specifies the assets to be transferred to the trust, which usually comprise the contents of the trust. However, assets may also be contributed to the trust at a later date, which commonly occurs when an existing trust is funded by a will.

There are numerous types of trusts that are required to file a Form 1041. The types of trusts are differentiated by the distribution requirements delineated in the trust instrument, as well as by the degree of control retained by the grantor. Simple trusts are required to distribute all income, but are not permitted to distribute from corpus or make charitable contributions. If a trust fails to meet one or more of the conditions to be a simple trust, it is deemed a complex trust.

Tax Law

Domestic trusts with any taxable income or with gross income equal to or exceeding \$600 must file a fiduciary income tax return.³ Additionally, all trusts with a nonresident alien as a beneficiary are required to file a Form 1041.⁴ The filing thresholds for trusts remained constant for each of Tax Years 2002 through 2006.

Income and Deductions

The fiduciary income tax return is divided into three main parts: income, deductions, and tax and payments. Reported total income is divided into eight classifications: interest income; ordinary dividends; business income; capital gains; income from rents, royalties, partnerships, other estates, and trusts; farm income; ordinary gain; and other. Other income includes income in respect of a decedent and distributions from pensions, annuities, and retirement plans as claimed on Form 1099-R.⁵ Portions of income

¹ Form 1041 also collects information not directly related to tax calculations, including the formal name of the trust or estate, as well as the fiduciary and preparer's names and contact information. The employer identification number (or the taxpayer identification number) is a permanent nine-digit number that identifies the entity for reporting purposes.

² According to the instructions for Form 1041, a trust is defined as domestic when “a U.S. court is able to exercise primary supervision over the trust” and “one or more U.S. persons have the authority to control all substantial decisions of the trust.”

³ The Internal Revenue Code defines gross income as “all income from whatever source derived,” including (but not limited to) compensation for services, gross income derived from business, gains derived from dealings in property, interest, rents, royalties, dividends, and annuities. Gross income, unlike total income, does not include losses of any kind.

⁴ A nonresident alien is an individual who is neither a resident nor a citizen of the United States.

⁵ Income in respect of a decedent is income earned but not received by the decedent as of the date of death, and therefore not included on the decedent's final individual income tax return. The decedent's right to receive the income is subject to estate tax, and the income, when received, is taxable to the estate or other recipient. A deduction for the estate tax attributable to the item is allowed on Form 1041. For more information, see Treasury Regulation 1.691(a) or Bittker; Clark; and McCouch (2005), *Federal Estate and Gift Taxation*, Thomson/West, St. Paul, Minnesota, p. 188.

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from a single source might be reported as several entries. For example, income from financial investments is principally divided between interest income, ordinary dividends, and capital gains.

Trusts may deduct certain expenses from total income for the purpose of determining taxable income. Interest payable on debts incurred by a trust is deductible, as are amounts paid for State and local taxes, and taxes paid on generation-skipping transfers. Fees paid to fiduciaries, as well as those paid to attorneys, accountants, and return preparers, are also deductible. A deduction is allowed for donations made to qualified charities. The value of a trust's income that was previously included in a decedent's estate and taxed under the estate tax is also permitted as a deduction. Expenses related to the production or collections of income, for example, investment advisory fees, are deductible as allowable miscellaneous deductions.⁶

Other allowable deductions include bond premiums, losses due to casualty and theft, net operating losses, and the entity's share of amortization, depreciation, and depletion not claimed elsewhere. There is also a standard fiduciary exemption that may be claimed by certain types of trusts. For each of Tax Years 2002 through 2006, simple and complex trusts were allowed a \$300 and \$100 exemption, respectively.

Taxation

The taxable income of an entity that files Form 1041 is generally equal to the value of the total income less total deductions. Schedule G of the return is used to calculate the income tax by applying the appropriate tax rate to the taxable income. Tax rates are graduated based on the taxable income of the entity. For Tax Year 2002, the tax rates range from 15.0 percent for entities with taxable income less than \$1,851 to 38.6 percent for those portions of taxable income greater than \$9,200 (Figure A).

The tax rates for Tax Year 2003 through Tax Year 2006 range from 15.0 percent for entities with taxable income less than \$1,901, to 35.0 percent for portions of taxable income of greater than \$9,350. The income threshold for the highest tax bracket is

Figure A

Form 1041 Trust and Estate Tax Rate Schedule, Tax Years 2002–2006

Taxable income bracket [1]	Tax Year 2002	Tax Years 2003–2006
	Percent	Percent
Less than \$1,850	15.0	15.0
\$1,850, under \$4,400	27.0	25.0
\$4,400, under \$6,750	30.0	28.0
\$6,750, under \$9,200	35.0	33.0
\$9,200 or more	38.6	35.0

[1] The taxable income brackets presented here are for Tax Year 2002. Tax brackets are indexed for inflation, and, therefore, change each year.

NOTE: Form 1041 is entitled U.S. Income Tax Return for Estates and Trusts.

far lower for trusts and estates than for individual income tax, reported on Form 1040, *U.S. Individual Income Tax Return*, in all tax years. The calculated amount is then added to any additional taxes, including alternative minimum, recapture, and household employment taxes, to determine the preliminary tax liability. The preliminary tax liability may then be reduced by the value of applicable credits, such as general business credits, resulting in the final total tax liability of the entity.⁷

Significant Tax Law Changes

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) included a tax rate reduction for Tax Year 2006. The legislation called for the 27-percent rate to be lowered to 25 percent, the 30-percent rate to be lowered to 28 percent, the 35-percent rate to be lowered to 33 percent, and the 38.6-percent rate to be lowered to 35 percent.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) accelerated the tax rate reductions specified in EGTRRA to take effect for Tax Year 2003.⁸ (Figure A) Additionally, JGTRRA lowered the maximum tax rate for most long-term capital gains from 20 percent to 15 percent through 2008.

Overview of the Panel

This article will examine trends of Form 1041 filings for simple and complex trusts.⁹ The panel includes

⁶ The aggregate of miscellaneous itemized deductions is only deductible to the extent that the aggregate amount of the deduction exceeds 2 percent of the adjusted gross income of the estate or trust.

⁷ However, some types of trusts do not calculate tax liability on Form 1041. For example, bankruptcy estates use Form 1040 to calculate liability, while electing small business trusts (ESBT) use a specialized tax calculation worksheet.

⁸ These tax rate reductions are currently scheduled to expire in 2010.

⁹ Forms 1041 are also filed for qualified disability trusts, electing small business trusts (ESBTs), grantor type trusts, bankruptcy estates, and pooled income funds. However, these entity types were not included in this panel.

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only those entities for which a return was filed for each of Tax Years 2002 to 2006.¹⁰ Of the Tax Year 2002 returns filed for complex and simple trusts, 60.1 percent and 56.4 percent, respectively, are represented in the panel (Figure B). To reduce the effect of inflation, all financial data included in this article are given in 2006 constant dollars.¹¹

Simple Trusts

Simple trusts are defined by three main conditions. First, income from a simple trust may not be distributed to charitable beneficiaries. Second, distributions may not be made from the corpus of a simple trust. Finally, for an entity to be classified as a simple trust, the trust instrument must require the trustee to distribute all of the trust's fiduciary accounting income to beneficiaries. However, the income distribution requirement does not mean that current income must actually be distributed to the beneficiaries during the current tax year.¹² These conditions are evaluated on a yearly basis. If a trust fails to meet any one of the

three conditions, it is considered a complex trust for that tax year.

It is possible for a trust to be considered a simple trust in one tax year and a complex trust the next tax year. For example, in years of partial liquidation or termination, a trust cannot be considered simple because corpus must be distributed. A simple trust may deduct all income required to be distributed currently to beneficiaries, up to the amount of distributable net income. The beneficiaries of a simple trust must include the value of their shares of the required distributions in their gross incomes for Federal income tax purposes for that tax year, regardless of whether or not the distribution was actually made. Additionally, a simple trust is allowed to claim a fiduciary income tax exemption of \$300. The panel contains 413,106 simple trusts.

The majority, 65.5 percent, of simple trust filers reported increased total income over the panel interval (Figure C). Total income for simple trusts was \$15.3 billion in 2002 and grew steadily to \$26.0

Figure B

Fiduciary Panel Composition, by Entity Type

Entity type	Number of Tax Year 2002 returns filed		
	Total	Panel members [1]	Percentage of total
	(1)	(2)	(3)
Simple trusts	732,956	413,106	56.4
Complex trusts	1,174,905	706,555	60.1

[1] Panel members filed returns for each Tax Year 2002 through 2006.

Figure C

Change in Total Income Between Tax Year 2002 and Tax Year 2006, by Entity Type

Change in income	Simple trusts		Complex trusts	
	Number of returns	Percentage of panel	Number of returns	Percentage of panel
	(1)	(2)	(3)	(4)
All returns	413,106	100.0	706,555	100.0
Increase	270,611	65.5	485,873	68.8
Decrease	135,668	32.8	204,415	28.9
No change	6,827	1.7	16,267	2.3

NOTE: The change in total income was calculated based on total income dollar values in 2006 constant dollars.

¹⁰ Only includes those returns which were filed in the calendar year immediately following the applicable tax year. For example, Tax Year 2002 returns filed in 2003 would be included; however, Tax Year 2002 returns filed in 2004 would not be included.

¹¹ Dollar amounts have been adjusted using the chain-type price index method. A base year of 2006 was chosen because the final year's financial activity occurred during Calendar Year 2006.

¹² A trust document may require that the trustee distribute current income periodically but not yearly. There are instances when the trustee is only required to distribute current income when convenient or after income has accumulated beyond a specific dollar amount. For further detail regarding trust distributions, see Internal Revenue Code section 651.

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billion in 2006 (Figure D). Capital gain income comprised the largest share of total income for simple trusts throughout the panel. Capital gains made up 31.2 percent of total income for simple trusts in Tax Year 2002 and increasing percentages in each year through Tax Year 2006. Capital gains increased substantially between Tax Years 2003 to 2004, from \$5.2 billion to \$8.8 billion. This may be due in part to the declining capital gain tax rates provided for in JGTRRA. By the completion of the panel in 2006, capital gains made up 50.4 percent of total income for simple trusts.

Ordinary dividends also accounted for a significant portion of simple trust total income. While the dollar amounts increased steadily over the lifetime of the panel, the percentage of total income made up of ordinary dividends declined slightly. Business and farm income and ordinary gains contributed very little to the income totals, comprising less than 1 percent, combined, in each year of the panel.

Total deductions for simple trusts increased from \$12.3 billion in Tax Year 2002 to \$15.0 billion in Tax Year 2006 (Figure E). Income distributions make up the bulk of the deductions taken by simple trusts

Figure D

Income of Simple Trusts, Tax Years 2002–2006

[All money amounts are in thousands of 2006 constant dollars]

Item	Tax year									
	2002		2003		2004		2005		2006	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total income	15,262,113	100.0	16,089,530	100.0	20,390,848	100.0	22,825,035	100.0	26,031,294	100.0
Interest income	2,254,140	14.8	2,091,484	13.0	1,823,921	8.9	2,000,320	8.8	2,282,283	8.8
Ordinary dividends	4,705,147	30.8	4,960,283	30.8	5,789,228	28.4	5,904,130	25.9	6,460,606	24.8
Business income	57,668	0.4	85,441	0.5	109,509	0.5	140,054	0.6	127,781	0.5
Capital gains (losses)	4,765,971	31.2	5,176,210	32.2	8,831,405	43.3	10,682,536	46.8	13,112,352	50.4
Rent, royalties, partnerships, other estates, and trusts, etc.	3,132,107	20.5	3,463,278	21.5	3,509,365	17.2	3,741,714	16.4	3,646,962	14.0
Farm income (losses)	25,002	0.2	39,401	0.2	42,957	0.2	42,386	0.2	38,195	0.1
Ordinary gains (losses)	-30,833	-0.2	-20,479	-0.1	3,804	[1]	16,335	0.1	36,287	0.1
Other income	352,909	2.3	293,911	1.8	280,659	1.4	297,560	1.3	326,828	1.3

[1] Less than 0.05 percent.

Figure E

Deductions of Simple Trusts, Tax Years 2002–2006

[All money amounts are in thousands of 2006 constant dollars]

Item	Tax year									
	2002		2003		2004		2005		2006	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total deductions	12,298,224	100.0	12,367,453	100.0	13,025,921	100.0	14,087,366	100.0	14,959,984	100.0
Interest	118,253	1.0	121,952	1.0	135,711	1.0	183,427	1.3	229,751	1.5
Taxes	336,866	2.7	270,650	2.2	330,751	2.5	500,796	3.6	544,165	3.6
Fiduciary fees	800,517	6.5	817,814	6.6	856,699	6.6	870,583	6.2	921,375	6.2
Attorney, accountant, and preparer fees	229,050	1.9	251,982	2.0	265,765	2.0	254,003	1.8	234,803	1.6
Other deductions [1]	532,154	4.3	578,747	4.7	729,733	5.6	623,227	4.4	569,171	3.8
Allowable miscellaneous deductions [2]	168,733	1.4	177,998	1.4	198,501	1.5	215,896	1.5	250,935	1.7
Income distributions	9,969,840	81.1	10,008,181	80.9	10,371,919	79.6	11,304,937	80.2	12,076,869	80.7
Estate tax deduction	10,316	0.1	9,971	0.1	9,834	0.1	10,777	0.1	14,595	0.1
Standard exemption	132,495	1.1	130,157	1.1	127,009	1.0	123,720	0.9	118,317	0.8

[1] Other deductions are equal to deductible items not listed elsewhere on Form 1041. These deductions include bond premium(s), casualty and theft losses, domestic production activities, net operating loss deduction, and the estate or trust's share of amortization, depreciation, and depletion not claimed elsewhere.

[2] Allowable miscellaneous deductions are expenses for the production or collection of income, including investment advisory fees and subscriptions to investment advisory publications.

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throughout the panel period. Income distributions remained very stable and comprised approximately 80.0 percent of total deductions from Tax Year 2002 through Tax Year 2006. Fiduciary fees were the next largest deduction for simple trusts, comprising 6.5 percent in Tax Year 2002 and remaining relatively stable throughout the panel duration. Taxes taken as a deduction by simple trusts remained relatively stable for the panel period. Approximately \$336.9 million in taxes paid were deducted for Tax Year 2002, increasing to \$544.2 million for Tax Year 2006.

Complex Trusts

A complex trust is defined as any trust that does not meet the definition of a simple trust. Therefore, a complex trust must distribute to charitable beneficiaries, distribute amounts from the corpus, and/or retain some current income by directive of the trust instrument. A complex trust receives a deduction for all amounts distributed in the current tax year, as well as the trustee's discretionary distributions, the amount of annuities not paid from current-year income, and property distributed in kind by the trust during the tax year, as long as such distributions are allowed by the trust instrument and State law. The value of the deduction is limited to the distributable net income. Similar to a simple trust, distributions do not have to actually be made available to the beneficiary during the tax year in order for the trust to claim the distribution deduction. Any income that is not distributed by a complex trust will be taxable to the trust.

Beneficiaries must include the value of their shares of the required distributions in their gross incomes on their Form 1040, *U.S. Individual Income Tax Return*, for the appropriate tax year, regardless of whether or not the required distribution was made. A complex trust is entitled to a fiduciary income tax exemption of \$300 if the trust instrument or local law requires all income to be distributed currently, even if the full distribution to the beneficiaries does not occur during that tax year. If the trust is not required to distribute all of its income currently, it is entitled to a \$100 fiduciary income tax exemption. A generation-skipping trust, defined by having beneficiaries that are two or more generations below the grantor's generation, is typically a type of complex trust. There are 706,555 complex trusts included in the panel.

Complex trust filers were more likely than simple trust 1041 filers to report increased total income, with only 28.9 percent of panelists reporting a decline in income (Figure C). Total income from complex trusts increased steadily over the duration of the panel period, from \$27.5 billion in Tax Year 2002 to \$60.0 billion in Tax Year 2006 (Figure F). The pattern of income reported for complex trusts is very similar to that of simple trusts. This similarity is likely the result of structural similarities among the two types of trust.

Capital gains contributed the largest percentage to the income stream in each year between 2002 and 2006. Capital gains reported by complex trusts increased from \$14.6 billion in Tax Year 2003 to \$23.1

Figure F

Income of Complex Trusts, Tax Years 2002–2006

[All money amounts are in thousands of 2006 constant dollars]

Item	Tax year									
	2002		2003		2004		2005		2006	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total Income	27,481,543	100.0	32,506,923	100.0	41,858,460	100.0	47,773,486	100.0	60,035,726	100.0
Interest income	3,779,217	13.8	3,429,422	10.5	3,395,957	8.1	4,095,506	8.6	5,243,724	8.7
Ordinary dividends	6,281,140	22.9	7,616,723	23.4	9,037,885	21.6	9,433,641	19.7	14,345,278	23.9
Business income	29,037	0.1	133,090	0.4	190,480	0.5	273,369	0.6	175,205	0.3
Capital gains (losses)	10,840,437	39.4	14,647,545	45.1	23,113,906	55.2	26,997,887	56.5	33,950,218	56.6
Rent, royalties, partnerships, other estates, and trusts, etc	4,758,341	17.3	5,062,467	15.6	4,618,646	11.0	5,629,818	11.8	5,252,844	8.7
Farm income (losses)	-1,263	[1]	10,228	[1]	19,747	[1]	14,668	[1]	-2,329	[1]
Ordinary gains (losses)	11,132	[1]	-39,225	-0.1	6,151	[1]	9,791	[1]	36,281	0.1
Other income	1,783,502	6.5	1,646,674	5.1	1,475,689	3.5	1,318,807	2.8	1,034,505	1.7

[1] The percentage has an absolute value of less than 0.05.

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billion in Tax Year 2004. As with other entity types, this is likely due in part to the changes in capital gain rates that went into effect during that timeframe. Ordinary dividends were also a major income stream for complex trusts, comprising between a low of 19.7 percent in 2005 and a high of 23.9 percent of total income in 2006. Income from rents, royalties, partnerships, and other estates accounted for 17.3 percent of total income for complex trusts in Tax Year 2002, but represented just 8.7 percent of total income by end of the panel period in Tax Year 2006.

Deductions taken by complex trusts also show interesting patterns over the course of the panel period. Total deductions increased steadily, from \$15.2 billion in 2002 to \$20.2 billion in Tax Year 2006 (Figure G). Income distributions formed the largest share of total deductions, with 47.2 percent of the total in Tax Year 2002, 46.2 percent in 2004, and ending the panel period in 2006 with a high of 52.6 percent of total deductions. Deductions for interest and taxes increased gradually over the course of the panel, but never exceed 10 percent of total deductions. Other deductions also comprised a relatively large portion of deductions for complex trusts.¹³ In

2002, other deductions made up 17.0 percent of total deductions for complex trusts but declined steadily over the course of the panel, falling to 10.5 percent of total deductions in Tax Year 2006.

Summary

The creation of this fiduciary panel allows for the examination of fluctuations of income reported and deductions claimed for a constant population over a 5-year period. The majority of trustees of simple and complex trusts reported an overall increase in income between Tax Years 2002 and 2006. The allocation of income across categories was very similar for both simple and complex trusts. However, the deductions of simple trusts were reported to be mostly composed of income distributions, while the deductions of complex trusts were allocated slightly more evenly over the categories.

Future examinations of these data could include an indepth longitudinal examination of the correlation between various classes of income and deductions. Changes in tax liability over the duration of the panel could be studied. Additionally, the panel data could be used to examine the feasibility of pre-

Figure G

Deductions of Complex Trusts, Tax Years 2002–2006

[All money amounts are in thousands of 2006 constant dollars]

Item	Tax year									
	2002		2003		2004		2005		2006	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total deductions	15,185,079	100.0	15,749,685	100.0	17,604,040	100.0	17,985,355	100.0	20,151,998	100.0
Interest	892,410	5.9	846,314	5.4	1,048,647	6.0	1,334,799	7.4	1,665,139	8.3
Taxes	840,004	5.5	823,865	5.2	1,049,558	6.0	1,374,481	7.6	1,487,313	7.4
Fiduciary fees	1,235,003	8.1	1,247,945	7.9	1,312,159	7.5	1,322,394	7.4	1,347,044	6.7
Charitable deductions	1,359,726	9.0	1,245,618	7.9	2,055,223	11.7	1,399,746	7.8	1,604,810	8.0
Attorney, accountant, and preparer fees	468,579	3.1	507,900	3.2	507,028	2.9	545,834	3.0	505,261	2.5
Other deductions [1]	2,586,200	17.0	2,651,558	16.8	2,636,030	15.0	2,489,500	13.8	2,121,709	10.5
Allowable miscellaneous deductions [2]	525,552	3.5	563,084	3.6	778,079	4.4	642,335	3.6	747,009	3.7
Income distributions	7,163,034	47.2	7,761,683	49.3	8,126,525	46.2	8,789,844	48.9	10,592,063	52.6
Estate tax deduction	29,976	0.2	19,110	0.1	10,564	0.1	8,751	[3]	8,118	[3]
Standard exemption	84,595	0.6	82,608	0.5	80,227	0.5	77,670	0.4	73,532	0.4

[1] Other deductions are equal to deductible items not listed elsewhere on Form 1041. These deductions include bond premium(s), casualty and theft losses, domestic production activities, net operating loss deduction, and the estate or trust's share of amortization, depreciation, and depletion not claimed elsewhere.

[2] Allowable miscellaneous deductions are expenses for the production or collection of income, including investment advisory fees and subscriptions to investment advisory publications.

[3] Less than 0.05 percent.

¹³ Other deductions include bond premium(s), casualty and theft losses, domestic production activities, net operating loss deduction, and the estate or trust's share of amortization, depreciation, and depletion not claimed elsewhere.

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dicting future income and deductions based on previous filings. Comparisons between those entities that were included in the panel and those that were not included due to inconsistent or late filing could also be interesting.

Data Sources and Limitations

This panel includes only those entities for which a return was filed in every calendar year from 2003 to 2007 for the tax year immediately prior to the calendar year. The panel includes simple and complex trusts, as well as decedent estates. All dollar amounts have been converted into 2006 constant dollars to reduce the effect of inflation.

All amounts were recorded prior to any audit or taxpayer correction subsequent to the original filed return, with the exception of tax liability. Tax liability amounts noted in this article are “settlement amounts,” which include any changes made during processing or audit procedures. Therefore, these amounts may differ from the tax liability reported by the taxpayer on Form 1041. The data were extracted from the Internal Revenue Service (IRS) Returns Transaction File (RTF).

Fiduciary income tax returns are processed according to the guidelines presented in the *Internal Revenue Manual for Returns and Documents Analysis for Income Tax Returns for Estate and Trusts*. The resulting data are recorded on the RTF. Tests were run on the data to check for and correct nonsampling errors. Common types of errors found in the processing data included keying errors and incorrect mathematical calculations.

Explanation of Selected Terms

Allowable miscellaneous deductions—Allowable miscellaneous deductions are expenses for the production or collection of income, including investment advisory fees and subscriptions to investment advisory publications. In addition, bond premiums, certain losses and costs, and an estate or trust’s share of amortization, depreciation, and depletion not claimed elsewhere are included.

Corpus—The corpus of a trust consists of the original assets transferred into the trust. Often

referred to as the body of the trust, the corpus may generate income streams.

Distributable net income—Distributable net income is the amount of income available for distributions by the estate or trusts. Distributable net income is calculated by modifying the value of taxable income of the estate or trust. Generally, this modification includes adding the values of the distribution deduction, fiduciary income tax exemption, and tax-exempt interest and subtracting net capital gains. For a more detailed definition, see Internal Revenue Code section 643(a).

Grantor—A grantor is the individual who previously owned and subsequently transferred the assets comprising the corpus into the trust.

Other deductions—Other deductions are equal to deductible items not listed elsewhere on Form 1041. These deductions include bond premium(s), casualty and theft losses, domestic production activities, net operating loss deduction, and the estate or trust’s share of amortization, depreciation, and depletion not claimed elsewhere.

Other payments—Other payments includes credits for taxes paid on undistributed capital gains and credits for Federal taxes on fuels.

Taxable estate or trust—A taxable estate or trust is one that incurs a tax liability after tax credits.

Taxable income—Taxable income is the amount that remains after total deductions are subtracted from gross income (only recorded for values greater than zero).

Total deductions—Total deductions are the aggregate sum of all reported deductions, which includes amounts for interest paid, taxes paid, and fees, charitable contributions, allowable miscellaneous items, income distribution to beneficiaries, and the standard exemption.

Total income (loss)—Total income (loss) is the aggregate sum of all income from an estate or trust including: interest; ordinary dividends; business income (loss); capital gain (loss); rents, royalties, partnership income (loss), and income from other estates and trusts; farm income; ordinary gains (loss); and other income.