Batten Down the Hatches and Protect the Hen House…
Keeping the Government Foxes (IRS) at Bay

Orman R. Wilson, CPA
October 20, 2016
You are a timber owner:
– How did you become one?
– What are you doing with it now?

Are you required to file a tax return?

What’s new for individuals, trusts, estates and gifts?
You Are Now A Timber Owner

• Have you recently:
  – Purchased your first timber tract?
  – Been gifted an interest in a timber tract?
  – Inherited an interest in a timber tract?

• Are you wondering what you need to do next?
So You Purchased a Timber Tract?

- **Adjusted basis equals total cost of the acquisition:**
  - Land
  - Timber
  - Capital improvements
    - Hunting lodge
    - Utility shed
    - Lake
    - Trees planted

- **Adjusted basis is reduced annually for:**
  - Depreciation (buildings, bridges, culverts, etc.)
  - Depletion (harvested trees)
  - Amortization (reforestation)
So You Were Gifted a Timber Tract?

• **Your basis equals the donor’s basis:**
  – Provided the FMV of the gifted tract is greater than the donor’s basis on the date of the gift
  – Typical scenario

• **If FMV of the gift is less than the donor’s basis:**
  – Your basis equals the FMV on the date of the gift
  – Prevents gifting and immediate use of the loss
So You Inherited a Timber Tract?

- **Your basis is the FMV of the tract at date of death:**
  - Unless the alternate valuation date is used
  - Only available if a federal estate tax return is filed
  - “Step-Up Basis”

- **Special Use Valuation:**
  - §2032A election – on federal estate tax returns
  - 10-year limitation associated with this election
Once You Have Established Your Basis

Allocate basis to various components:

- Land
- Timber
- Structures
- Other
Purchase of Timber Tract

- Timber tract (100 acres) $116,000
- Boundaries surveyed $1,000
- Title search & closing costs $800
- Timber cruise $1,500

Total acquisition cost $119,300
Timber Cruise of Forest Land

90 acres with 1,000 cords of pine pulpwood
10 acres with pre-merchantable trees

FMV of PPW ($26/cord) $26,000
FMV of P-MT ($200/acre) 2,000
FMV of Bare Land 80,000

Total FMV of Acquisition $108,000
## Allocation of Original Basis

<table>
<thead>
<tr>
<th></th>
<th>FMV</th>
<th>% of FMV</th>
<th>Original Cost Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Land</strong></td>
<td>$80,000</td>
<td>74.08%</td>
<td>$88,377</td>
</tr>
<tr>
<td><strong>Pre-merchantable timber</strong></td>
<td>2,000</td>
<td>1.85%</td>
<td>2,207</td>
</tr>
<tr>
<td><strong>Pine pulpwood</strong></td>
<td>26,000</td>
<td>24.07%</td>
<td>28,716</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$108,000</td>
<td>100.00%</td>
<td>$119,300</td>
</tr>
</tbody>
</table>
Valuable Resources Needed

- Attorney
- Appraiser
- Forester
- CPA
Do You Have A Forest Management Plan?

**WHY IS THIS IMPORTANT?**

Clearly indicates you have a profit motive for your forest operation.

**WHY IS THIS IMPORTANT?**

The use of your forest land determines the type of owner.
What Type of Forest Owner Are You?

Four Classifications:
(In Order of Most Favorable Tax Treatment)

- Timber as a Business
- Timber as an Investment
- Timber as a Hobby
- Timber as a Personal Asset
Issues To Consider

• Timber Business or Investor?
• Section 631(b) Elections
  • Lump-sum sale
  • Retained economic interest sale
Investment vs. Business

• An investor generally holds property and hires others to manage the property for them
  • Think of someone that hires a stockbroker to manage their stock portfolio

• A timber owner in the trade or business of owning timber actively participates in the management of the timberlands themselves
  • Keep accurate records of dates and activities performed
  • Final decision maker on all major decisions regarding timber management issues
Accurate records?

Invoices, contracts, receipts, cancelled checks, and maps that validate forest land holdings & operations:

- Documents related to current expenses should be retained for three (3) years after the tax return is filed.
- Documents related to acquisition of land and timber should be held for the entire period of ownership, plus a minimum of three (3) years after disposition.

NOTE: No statute for fraudulent returns!
Forest Landowner’s Journal

• Used to record forest management information and activities

• Chronological business diary that contains details of each business transaction:
  • Description
  • Purpose
  • Date
  • Dollar Amounts
Forest Landowner’s Journal Example

6/1/14  Temporary Capital Account 1,500
Cash 1,500
E.Z. Cruiser, consultant for forest land appraisal report

6/2/14  Temporary Capital Account 800
Cash 800
Dewey, Cheatum & Howe, attorney for title search and closing costs

6/14/14 Temporary Capital Account 116,000
Cash 16,000
Mortgage Note Payable 100,000
Purchase of Evergreen Farm
Timber Business vs. Timber Investment

WHAT IS THE BIG DEAL?
Fiscal Cliff Scare of 2012

New top tax bracket added:

- The December 2012 fiscal cliff legislation added a new top tax bracket of 39.6% for single taxpayers (income greater than $406,750) and for married taxpayers filing jointly (income greater than $457,600).

<table>
<thead>
<tr>
<th>2012 Rates</th>
<th>Current Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>33%</td>
<td>33%</td>
</tr>
<tr>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>35%</td>
<td>39.6%</td>
</tr>
</tbody>
</table>
Capital Gains and Qualified Dividends

The same legislation also made changes to the tax rates for capital gains:

• **20%** tax rate for net capital gains otherwise taxable at ordinary tax rate less than 39.6%

• **15%** tax rate for net capital gains otherwise taxable at ordinary tax rate of 39.6%

• **0%** tax rate for net capital gains otherwise taxable at ordinary tax rate less than 25%
Capital Gains and Qualified Dividends

Potential changes for 2015:

• No more capital gains tax rates

• All gains from sale of timber will be taxed as ordinary income
Timber Business vs. Timber Investment

The Affordable Care Act
(Obama Care)

WHAT’S THE BIG DEAL?
Net Investment Income | Subject to Medicare Tax

- The Affordable Care Act subjects investment income to the Medicare tax for the first time in the history of Social Security.

- Effective January 1, 2013, new §1411 (a)(1) imposed a 3.8% Medicare tax on the lesser of “net investment income” OR the excess of modified adjusted gross income.

- $250,000 (+) - MFJ return
- $125,000 (+) - MFS return
- $200,000 - Single taxpayers
## 2014 Tax Rates

<table>
<thead>
<tr>
<th>Medicare Tax on…</th>
<th>Employer (2012 law)</th>
<th>Employee (2014 law)</th>
<th>2014 Add’l Contribution Individual or Trust</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earned income &gt; $250,000 *</td>
<td>1.45%</td>
<td>1.45%</td>
<td>.90%</td>
<td>3.80%</td>
</tr>
<tr>
<td>Individuals - Lesser of Net Investment Income or AGI over $250,000 *</td>
<td>0.00%</td>
<td>0.00%</td>
<td>3.80%</td>
<td>3.80%</td>
</tr>
<tr>
<td>Trusts and Estates – Lesser of Net Investment Income or AGI over $12,150 (top trust bracket)</td>
<td>0.00%</td>
<td>0.00%</td>
<td>3.80%</td>
<td>3.80%</td>
</tr>
</tbody>
</table>

* Greater than
- $250,000 married filing a joint return,
- $125,000 married filing a separate return, and
- $200,000 single taxpayers
Net Investment Income

"Net investment income" includes gross income from:

- Interest
- Dividends
- Annuities
- Royalties
- Rents
- Income from passive activities (which may be a trade or business)
- Income from trading financial instruments and commodities (which may be a trade or business)
- Disposition of property (other than income derived from any trade or business to which the tax does not apply)
How Does The ACA Affect Timber Gains?

Depends upon whether the timber activity is a trade or business or an investment

- Gains from timber held for investment are clearly investment income
- Timber sold under IRC §631(b) qualifies as sale of trade or business property reportable on Form 4797 and is not subject to NII Tax

*Note: Treasury is continuing to release new, and in some cases, corrected regulations.
Time to Replant?

- Reforestation expense election
  - $10,000 per year per SIP (Single Identifiable Property)
  - Excess over $10,000 amortized over 84 months

- Expenses that qualify:
  - Site preparation
  - Seed or seedlings
  - Labor and equipment rental
  - Depreciation on your equipment
Other Reforestation Issues

• Generally consider all expenses within two years of planting

• Cost sharing program payments can be used to reduce reforestation expense in lieu of reporting as taxable income

• Alabama does not currently allow deduction for reforestation expenses

• Important to maintain records of these costs by tract
Federal Form T (Timber)

<table>
<thead>
<tr>
<th>Part</th>
<th>Description</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3</th>
<th>Column 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Name of block and title of account</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Location of property (by legal subdivision or map survey)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3a</td>
<td>Name and address of seller or person from whom property was acquired</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Amount paid:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. In cash</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. In interest-bearing notes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>c. In non-interest-bearing notes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5a</td>
<td>Amount of other consideration</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Explain the nature of other consideration and how you determined the</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>amount shown on line 5a.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Legal expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Cruising, surveying, and other acquisition expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Total cost or other basis of property. Add lines 4a through 7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Allocation of total cost or other basis on books:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. Forested land</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Other unimproved land</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>c. Improved land (describe)</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>d. Merchantable timber. Estimate the quantity of merchantable timber present</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>on the acquisition date (see Regulations section 1.611-3(a)). Details of</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>the timber estimate, made for purposes of the acquisition, should</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>be available if your return is examined.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>e. Premerchantable timber. Make an allocation here only if it is a factor</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>in the total cost or value of the land.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>f. Improvements (list separately)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>g. Mineral rights</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>h. Total cost or other basis name amount as line 8. Add lines 6a through 8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Not Quite The Same

TAX AVOIDANCE

VS.

TAX EVASION
Are you required to file?

<table>
<thead>
<tr>
<th>IF you filing status is...</th>
<th>AND at the end of 2013 you were...</th>
<th>THEN file a return if your gross income was at least...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>...under 65</td>
<td>$10,150</td>
</tr>
<tr>
<td></td>
<td>...65 or older</td>
<td>$11,700</td>
</tr>
<tr>
<td>Married filing jointly</td>
<td>...under 65 (both spouses)</td>
<td>$20,300</td>
</tr>
<tr>
<td></td>
<td>...65 or older (one spouse)</td>
<td>$21,500</td>
</tr>
<tr>
<td></td>
<td>...65 or older (both spouses)</td>
<td>$22,700</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>...any age</td>
<td>$3,950</td>
</tr>
<tr>
<td>Head of household</td>
<td>...under 65</td>
<td>$13,050</td>
</tr>
<tr>
<td></td>
<td>...65 or older</td>
<td>$14,600</td>
</tr>
<tr>
<td>Qualifying widower</td>
<td>...under 65</td>
<td>$16,350</td>
</tr>
<tr>
<td></td>
<td>...65 or older</td>
<td>$17,550</td>
</tr>
</tbody>
</table>
Should you file anyway?

- Even if you do not otherwise have to file a return, you should file one to get a refund of any federal income tax withheld.

- You should also file if you are eligible for any of the following credits:
  - Earned income credit
  - Additional child tax credit
  - American opportunity credit
  - Credit for federal tax on fuels
  - Health coverage tax credit
2014 Tax Returns

- Highest tax rate 39.6%

- Health care coverage
  - Provided by employer
  - Purchased through company
  - Purchased through exchange
The maximum tax rate of 15% on net capital gain and qualified dividends has increased to 20% for some taxpayers.

(Remember the discussion to tax all capital gain as ordinary income beginning in 2015)
Beginning in 2013, a 0.9% Additional Medicare Tax applies to Medicare wages, railroad retirement (RRTA) compensation, and self-employment income that are more than:

- $125,000 if married filing separately,
- $250,000 if married filing jointly, or
- $200,000 if single, head of household, or qualifying widow(er)
Beginning in 2013, you may be subject to Net Investment Income Tax (NIIT). The NIIT is 3.8% of the smaller of (a) your net investment income or (b) the excess of your modified adjusted gross income over:

- $125,000 if married filing separately,
- $250,000 if married filing jointly, or
- $200,000 if single or head of household
What is NII?

- Net Investment Income means the excess (if any) of:
  - The sum of:
    - Gross income from taxable interest, dividends, annuities, royalties, and rents, other than income derived in the ordinary course of a trade or business; and
    - Net gain (to the extent taken into account in computing taxable income) attributable to the disposition of property other than property used in a trade or business;
  - Over the deductions allowed that are properly allocable to such gross income or net gain.
Key Income Limitations

NII Tax is 3.8% of the smaller of:
(a) your net investment income; or
(b) the excess of your modified adjusted gross income over:

$125,000 (MFS)
$250,000 (MFJ)
$200,000 (Single or HOH)
Charitable Contributions

- Charities
  - Need cash, will take cash
  - Need cash, will take stocks
- Appreciated stock is better
  - Charities can sell the stock and take the cash
- You get FMV as deduction
- You don’t recognize gain
Medical & Dental Expenses

• You can deduct only the part of your medical and dental expenses that is more than 10% of your adjusted gross income (7.5% if either you or your spouse is 65 or older)
Phaseout of Exemptions

• You lose part of the benefit of your exemptions depending on your AGI:
  • Married filing separately  $152,525
  • Single  $254,200
  • Head of household  $279,650
  • Married filing jointly  $305,050
  • Qualifying widower  $305,050
Most people will use:

- Single or Married filing separately $6,200
- MFJ or Qualifying widower $12,400
- Head of household $9,100

**NOTE:** If married filing separately, if one spouse files using itemized deductions, the other spouse cannot use the standard deduction.
Standard Deductions

Remember capital gains discussion: Congress is also considering elimination of all exemptions

1. Mortgage interest
2. Charitable contributions
3. Real estate taxes
Normally, all oil and gas royalties are taxed on 85% of the amount received:

Congress is also considering elimination of percentage depletion.
Example One: Both Retired

<table>
<thead>
<tr>
<th>MARRIED FILING JOINTLY</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Interest</td>
</tr>
<tr>
<td>Dividends</td>
</tr>
<tr>
<td>Retirement</td>
</tr>
<tr>
<td>K-1 (passive income)</td>
</tr>
<tr>
<td>Social security</td>
</tr>
<tr>
<td>Capital gain</td>
</tr>
<tr>
<td>Itemized deductions</td>
</tr>
<tr>
<td>Exemptions</td>
</tr>
<tr>
<td>Total income</td>
</tr>
<tr>
<td>Taxable income*</td>
</tr>
<tr>
<td>Federal tax liability</td>
</tr>
</tbody>
</table>

**Taxable social security limited to $21,250.**

**Personal exemptions increased each year.**
### Example Two: One Working, One Retired

<table>
<thead>
<tr>
<th>MARRIED FILING JOINTLY</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wages</strong></td>
<td>$75,000</td>
<td>$75,000</td>
<td>$75,000</td>
</tr>
<tr>
<td><strong>Interest</strong></td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Dividends</strong></td>
<td>8,000</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td><strong>Retirement</strong></td>
<td>125,000</td>
<td>125,000</td>
<td>125,000</td>
</tr>
<tr>
<td><strong>K-1 (passive income)</strong></td>
<td>75,000</td>
<td>75,000</td>
<td>75,000</td>
</tr>
<tr>
<td><strong>Social security</strong></td>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Capital gain</strong></td>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td>$325,000</td>
<td>$325,000</td>
<td>$325,000</td>
</tr>
<tr>
<td><strong>Itemized deductions</strong></td>
<td>(50,000)</td>
<td>(50,000)</td>
<td>(50,000)</td>
</tr>
<tr>
<td><strong>Exemptions</strong></td>
<td>(7,600)</td>
<td>(7,800)</td>
<td>(7,900)</td>
</tr>
<tr>
<td><strong>Taxable income</strong>*</td>
<td>$264,400</td>
<td>$266,264</td>
<td>$265,715</td>
</tr>
<tr>
<td><strong>Federal tax liability</strong></td>
<td>$59,119</td>
<td>$61,876</td>
<td>$61,286</td>
</tr>
</tbody>
</table>

**Total income**
- $325,000
- $325,000
- $325,000

**Itemized deductions**
- (50,000)
- (50,000)
- (50,000)

**Exemptions**
- (7,600)
- (7,800)
- (7,900)

**Taxable income***
- $264,400
- $266,264
- $265,715

**Federal tax liability**
- $59,119
- $61,876
- $61,286

- Taxable social security limited to $17,000.

- Includes Net Investment Income Tax of $2,736.

- Itemized deductions limited to $49,340;
  Personal exemptions limited to $6,396.

- Itemized deductions limited to $49,491;
  Personal exemptions limited to $6,794.
**Another Example: One working, one retired**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wages</strong></td>
<td>$ 150,000</td>
<td>$ 150,000</td>
<td>$ 150,000</td>
</tr>
<tr>
<td><strong>Interest</strong></td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Dividends</strong></td>
<td>8,000</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td><strong>Retirement</strong></td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>K-1 (passive income)</strong></td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Social security</strong></td>
<td>25,000</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td><strong>Capital gain</strong></td>
<td>385,000</td>
<td>385,000</td>
<td>385,000</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td>$ 680,000</td>
<td>$ 680,000</td>
<td>$ 680,000</td>
</tr>
<tr>
<td><strong>Itemized deductions</strong></td>
<td>(25,000)</td>
<td>(25,000)</td>
<td>(25,000)</td>
</tr>
<tr>
<td><strong>Exemptions</strong></td>
<td>(7,600)</td>
<td>(7,800)</td>
<td>(7,900)</td>
</tr>
<tr>
<td><strong>Taxable income</strong></td>
<td>$ 643,650</td>
<td>$ 662,538</td>
<td>$ 662,386</td>
</tr>
<tr>
<td><strong>Federal tax liability</strong></td>
<td>$ 128,040</td>
<td>$ 153,967</td>
<td>$ 153,998</td>
</tr>
</tbody>
</table>

- **Taxable social security limited to $21,250**
- **Includes Net Investment Income Tax of $15,390**
- **Itemized deductions also limited to $13,712; Personal exemptions completely phased out.**
- **Itemized deductions also limited to $13,864; Personal exemptions completely phased out.**
Filing Status For Same-Sex Married Couples

Legally:
• Federal – can file married, jointly
• Alabama – each partner must file single
Final Individual Return

- Report interest and dividends on a cash basis
  - Report all 1099-INT/1099-DIV income
  - Back out income reported by estate

- Report partnership income or S corporation income on an accrual basis
  - Individual will receive K-1 through D.O.D.
  - Estate will receive K-1 for remainder
Final Individual Return

• Form 1310 is used if the decedent is due a refund

• Not required if the surviving spouse is filing the return
Gifts

- Exempt amounts for 2014 & 2015:
  - $14,000 (single)
  - $28,000 (married, gift splitting)

- 529 Plans:
  - $70,000 (single)
  - $140,000 (married, gift-splitting)

- Only file one gift tax return
Estate Return

• Due nine months from D.O.D.
  • 2014 Exemption $5,340,000
  • 2015 Exemption $5,430,000
• Automatic 6-month extension
  • To file
  • Not to pay
• Portability (DSUE)
Estate Return

- Funeral expenses deductible
- Attorney fees are deductible
- Accounting fees are deductible
- Medical expenses deductible
  - Can be taken on final 1040
  - If paid within one year of D.O.D.
Gifts & Bequests

• Property received as a gift (from an individual), a bequest (from a decedent) or an inheritance (from a decedent) is not taxable to the recipient.
• Charitable bequests are deductible on the estate return (LW&T).
• Any income (interest, dividends, rental) generated later by the property is taxable.
Fiduciary Return (1041)

- Estates are required to file income tax returns until the estate is closed
- Yearends for fiduciary returns:
  - Calendar yearend
  - Fiscal yearend
Filing Requirements (1041)

- Gross income exceeds $600;
- or
- If at least one K-1 beneficiary is a nonresident alien
Filing Requirements (1041)

- Each beneficiary receives a K-1
- The income reported on the K-1 takes the character of the income inside the estate
  - Interest is interest
  - Dividends are dividends
  - Capital gains stay inside (mostly)
Final Fiduciary Return

• In the final year, losses are passed out to the beneficiaries
  • Excess deductions (Schedule A, 2% Limitation)
  • Capital losses (ST & LT)

NOTE: Only income flows out on the final Alabama K-1; no losses allowed (poof)
“With Thanksgiving around the corner, I thought this would be a good time to review my estate plan.”