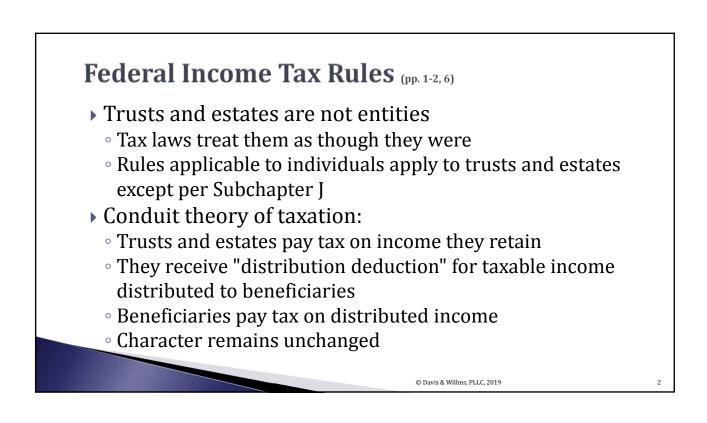
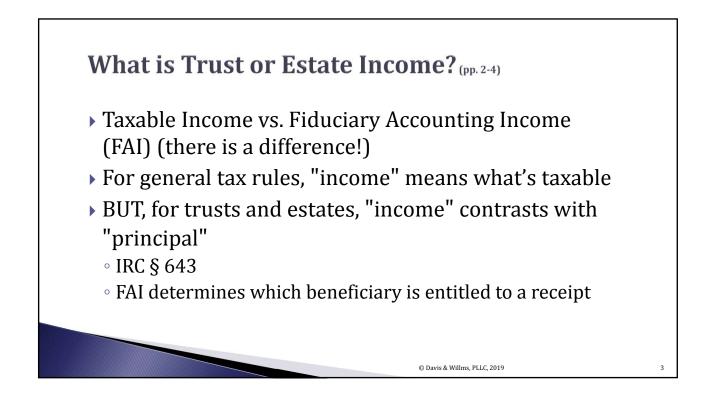
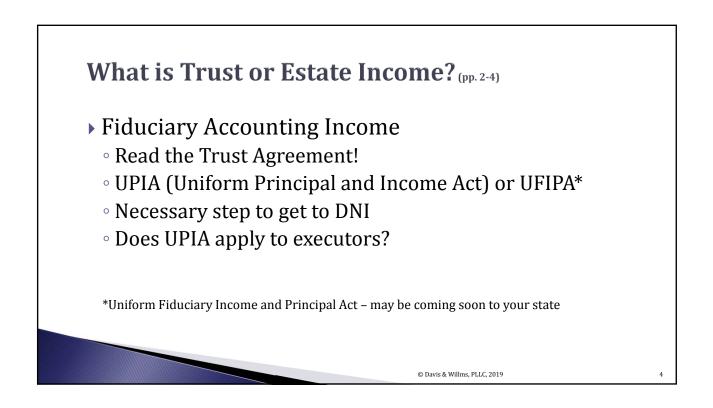
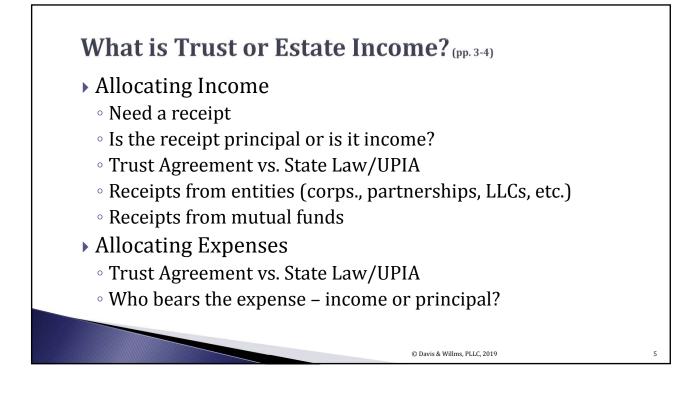
TEN THINGS EVERY ESTATE PLANNER NEEDS TO KNOW ABOUT SUBCHAPTER J

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"Fairness" in Determining Income (pp. 4-5)

- Power to Adjust
 - Not the same as allocating principal and income
 - Allows re-allocation IF:
 - Prudent investor rule applies
 - Amount distributed referenced as income (vs. principal)
 - Prescribed allocation is not "fair and reasonable to all"
 - Does it apply to executors?
- Equitable Adjustments
 - To adjust economic or tax effects between income and remainder beneficiaries resulting from fiduciary actions

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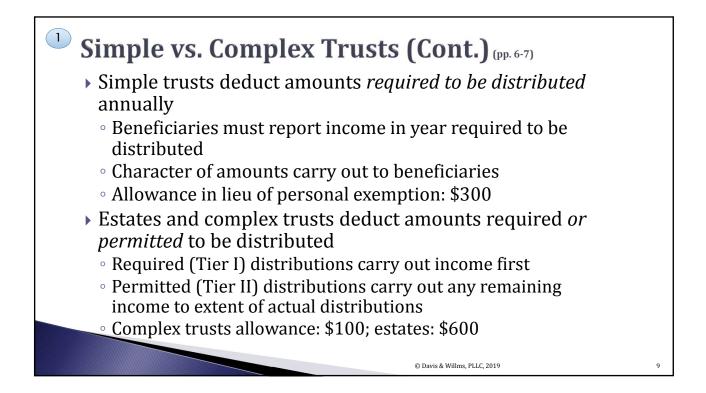
Top Ten Things About Subchapter J (pp. 6-23)

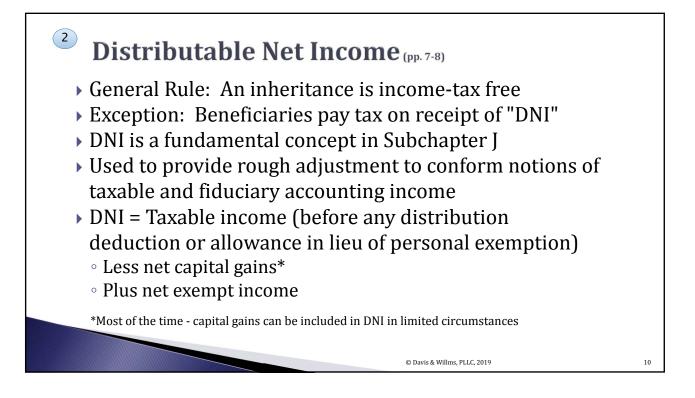
- 1. Simple vs. complex trusts, and estates
- 2. The carry-out of "distributable net income"
- 3. The charitable deduction
- 4. The deductibility of interest on deferred gifts
- 5. The treatment of trust and estate net losses
- 6. Recognition of gain by estates and trusts when appreciated assets are distributed
- 7. Recognition of gain by beneficiaries from unauthorized non-pro rata distributions of assets
- 8. Income in respect of a decedent (IRD)
- 9. The deductibility of administration expenses for income vs. estate tax purposes

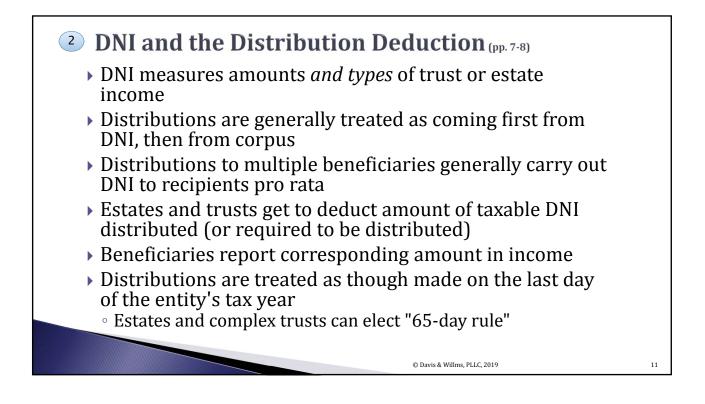
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10. The grantor trust rules

Simple vs. Complex Trust (pp.67) Simple trust: Must be required to distribute all (fiduciary accounting) income at least annually No distributions to charities No current distributions in excess of income Fusts that are not simple are complex Estates are taxed like complex trusts







² DNI – Example 2 (p. 8) • A and B are beneficiaries of \$1,000,000 estate • Executor distributes \$200,000 to A, \$50,000 to B During same year, estate earns income of \$100,000: • A must report income of \$80,000 • \$100,000 x (\$200,000/\$250,000) • B must report income of \$20,000 * \$100,000 x (\$50,000/\$250,000) • Estate gets a distribution deduction of \$100,000 • If distributions were \$50,000 to A and \$25,000 to B: • A would report income of \$50,000 • B would report income of \$25,000 • Estate would receive \$75,000 distribution deduction • Estate would report remaining \$25,000 as income on estate's income tax return 12

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