

Instructions for Form 1041 and Schedules A, B, G, J, and K-1

U.S. Income Tax Return for Estates and Trusts

2024

Volume 4 of 5



Department of the Treasury
Internal Revenue Service

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Exception. Check “No” if either of the following applies to the estate or trust.

- The combined value of the accounts was \$10,000 or less during the whole year.
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.

If you checked “Yes” for Question 3, electronically file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), with the Department of the Treasury using FinCEN's BSA E-Filing System. Because FinCEN Form 114 isn't a tax form, don't file it with Form 1041. Go to [FinCEN.gov](https://www.fincen.gov) for more information.



*If you are required to file FinCEN Form 114 but don't, you may have to pay a penalty of up to \$10,000 (or **CAUTION** more in some cases).*

Question 4

The estate or trust may be required to file Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts, if:

- It directly or indirectly transferred property or money to a foreign trust—for this purpose, any U.S. person who created a foreign trust is considered a transferor;
- It is treated as the owner of any part of the assets of a foreign trust under the grantor trust rules; or
- It received a distribution from a foreign trust.



An owner of a foreign trust must ensure that the trust files an annual information return on Form 3520-A.

Question 5

An estate or trust claiming an interest deduction for qualified residence interest (as defined in section 163(h)(3)) on seller-provided financing must include on an attachment to the 2024 Form 1041 the name, address, and TIN of the person to whom the interest was paid or accrued (that is, the seller).

If the estate or trust received or accrued such interest, it must provide identical information on the person liable for such interest (that is, the buyer). This information doesn't need to be reported if it duplicates information already reported on Form 1098.

Question 6

To make the section 663(b) election to treat any amount paid or credited to a beneficiary within 65 days following the close of the tax year as being paid or credited on the last day of that tax year, check the box.

This election can be made by the fiduciary of a complex trust or the executor of a decedent's estate.

For the election to be valid, you must file Form 1041 by the due date (including extensions). Once made, the election is irrevocable.

Question 7

To make the section 643(e)(3) election to recognize gain on property distributed in kind, check the box and see the Instructions for Schedule D (Form 1041).

Question 9

Generally, a beneficiary is a skip person if the beneficiary is in a generation that is 2 or more generations below the generation of the transferor to the trust.

To determine if a beneficiary that is a trust is a skip person, and for exceptions to the general rules, see the definition of a skip person in the instructions for Schedule R of Form 706.

Question 10

A domestic trust that is a specified domestic entity must file Form 8938 along with Form 1041 for the tax year. Form 8938 must be filed each year the value of the trust's specified foreign financial assets meets or exceeds the reporting threshold. A trust exceeds the threshold amount if the total value of the specified foreign financial assets is more than \$50,000 on the last day of the tax year or more than \$75,000 at any time during the tax year. For more information on domestic trusts that are specified domestic entities, the filing threshold, and the types of foreign financial assets that must be reported, see the Instructions for Form 8938.

A domestic trust that is required to file Form 8938 along with Form 1041 for the tax year must check “Yes” to Question 10.

Question 11a

A distribution of S corporation stock by an estate or trust that results in a change of ownership for federal income tax purposes is a triggering event described in Regulations section 1.965-7(c)(3). If the estate or trust transfers less than all of its shares of stock of the S corporation, the transfer will be a triggering event only with respect to the portion of the estate’s or trust’s section 965(i) net tax liability that is properly allocable to the transferred shares. If the person who received the distribution of S corporation stock is an eligible section 965(i) transferee, the estate or trust may enter into a transfer agreement with the eligible section 965(i) transferee to prevent the assessment of the estate’s or trust’s section 965(i) net tax

liability in the tax year that includes the triggering event.

The estate or trust must report in Part IV, column (g), of Form 965-A the transfer out of the section 965 tax liability properly allocable to S corporation shares for which the estate or trust entered into a transfer agreement with an eligible section 965(i) transferee. See the Instructions for Form 965-A for additional information.



The transfer agreement must be filed within 30 days of the triggering event. See Form 965-D, Transfer Agreement Under Section 965(i)(2), and the related instructions for additional information.

Question 11b

If the estate or trust distributed S corporation shares and the estate or trust did not enter into a timely transfer agreement for all shares transferred during the tax year, the transfer of shares not covered by a transfer agreement is a triggering event.

See *Triggering event under section 965(i)*, earlier.

The estate or trust may file a consent agreement under section 965(i)(4)(D) to make the election under section 965(h) to pay in installments the triggered section 965(i) net tax liability. See Form 965-E, Consent Agreement Under Section 965(i)(4)(D), and the related instructions for how to file the consent agreement. See *Triggered deferred S corporation-related net 965 tax liability* under *Part I* in the Instructions for Form 965-A for how to make the installment election.



The due date of the original Form 965-E is within 30 days of the triggering event.



The due date of the election to pay in installments is the due date of the return for the tax year, including extensions.

The actual payment of the first installment is due no later than the due date of the return for the tax year without extensions, even if the election is made on a return filed by the extended due date.

Question 12

Check "Yes" if the estate or trust entered into a transfer agreement as an eligible 965(i) transferee.

If, during the tax year, the estate or trust entered into a transfer agreement as an eligible 965(i) transferee, the estate or trust must report the transfer in of that liability on Part IV of Form 965-A. See the Instructions for Form 965-A for additional information.

Question 13

Digital assets are any digital representations of value that are recorded on a cryptographically secured distributed ledger or any similar technology. For example, digital assets include non-fungible tokens (NFTs) and virtual currencies, such as cryptocurrencies and stablecoins. If a particular asset has the characteristics of a digital asset, it will be treated as a digital asset for federal income tax purposes.

Check “Yes” next to the question on digital assets if at any time during 2024, you (a) received (as a reward, award, or payment for property or services); or (b) sold, exchanged, or otherwise disposed of a digital asset (or any financial interest in any digital asset). For example, check “Yes” if at any time during 2024 you:

- Received digital assets as payment for property or services provided;

- Received digital assets as a result of a reward or award;
- Received new digital assets as a result of mining, staking, and similar activities;
- Received digital assets as a result of a hard fork;
- Disposed of digital assets in exchange for property or services;
- Disposed of a digital asset in exchange or trade for another digital asset;
- Sold a digital asset; or
- Otherwise disposed of any other financial interest in a digital asset.

You have a financial interest in a digital asset if you are the owner of record of a digital asset, or have an ownership stake in an account that holds one or more digital assets, including the rights and obligations to acquire a financial interest, or you own a wallet that holds digital assets.

The following actions or transactions in 2024, alone, generally don't require you to check "Yes."

- Holding a digital asset in a wallet or account.
- Transferring a digital asset from one wallet or account you own or control to another wallet or account that you own or control.
- Purchasing digital assets using U.S. or other real currency, including through the use of electronic platforms such as PayPal and Venmo.

Do not leave the question unanswered. You must answer "Yes" or "No" by checking the appropriate box. For more information, go to [IRS.gov/VirtualCurrencyFAQs](https://www.irs.gov/VirtualCurrencyFAQs).

How to report digital asset transactions.

If, in 2024, you disposed of any digital asset, which you held as a capital asset, through a sale, trade, exchange, payment,

or other transfer, check “Yes” and use Form 8949 to calculate your capital gain or loss and report that gain or loss on Schedule D (Form 1041).

If you received any digital asset as compensation for services or disposed of any digital asset that you held for sale to customers in a trade or business, you must report the income as you would report other income of the same type.

Question 14

If the deemed owner of a grantor portion of the ESBT is a nonresident alien, the items of income, deduction, and credit from that grantor portion must be reallocated to the S portion. See *Schedule G, Part I, line 4, Tax on the ESBT Portion of the Trust*, earlier, for how to figure the tax on the S portion of the trust.

Question 15

The S portion of the ESBT must take into account the qualified items of income, gain, deduction, and loss and other items from any S corporation owned by the ESBT, and any qualified items of income, gain, deduction, and loss and other items reallocated to the S portion. See *Question 14*, earlier. For purposes of determining whether the taxable income of an ESBT exceeds the threshold amount, the S portion and the non-S portion of an ESBT are treated as a single trust. See Regulations section 1.199A-6(d)(3)(vi).

Schedule J (Form 1041)— Accumulation Distribution for Certain Complex Trusts

General Instructions

Use Schedule J (Form 1041) to report an accumulation distribution for a domestic complex trust that was:

- Previously treated at any time as a foreign trust (unless an exception is provided in future regulations); or
- Created before March 1, 1984, unless that trust would not be aggregated with other trusts under the rules of section 643(f) if that section applied to the trust.

An accumulation distribution is the excess of amounts properly paid, credited, or required to be distributed (other than income required to be distributed currently) over the DNI of the trust reduced by income required to be distributed currently.

To have an accumulation distribution, the distribution must exceed the accounting income of the trust.

Specific Instructions

Part I—Accumulation Distribution in 2024

Line 1—Distribution Under Section 661(a)(2)

Enter the amount from Form 1041, Schedule B, line 10, for 2024. This is the amount properly paid, credited, or required to be distributed other than the amount of income for the current tax year required to be distributed currently.

Line 2—Distributable Net Income

Enter the amount from Form 1041, Schedule B, line 7, for 2024. This is the amount of DNI for the current tax year determined under section 643(a).

Line 3—Distribution Under Section 661(a)(1)

Enter the amount from Form 1041, Schedule B, line 9, for 2024.

This is the amount of income for the current tax year required to be distributed currently.

Line 5—Accumulation Distribution

If line 11 of Form 1041, Schedule B, is more than line 8 of Form 1041, Schedule B, complete the rest of Schedule J and file it with Form 1041, unless the trust has no previously accumulated income.

Generally, amounts accumulated before a beneficiary reaches age 21 may be excluded by the beneficiary. See sections 665 and 667(c) for exceptions relating to multiple trusts. The trustee reports to the IRS the total amount of the accumulation distribution before any reduction for income accumulated before the beneficiary reaches age 21.

If the multiple trust rules don't apply, the beneficiary claims the exclusion when filing Form 4970, as you may not be aware that the beneficiary may be a beneficiary of other trusts with other trustees.

For examples of accumulation distributions that include payments from one trust to another trust, and amounts distributed for a dependent's support, see Regulations section 1.665(b)-1A(b).

Part II—Ordinary Income Accumulation Distribution

Enter the applicable year at the top of each column for each throwback year.

Line 6—DNI for Earlier Years

Enter the applicable amounts as follows.

Throwback year(s)	Amount from line
	Form 1041, Schedule C, line 5
1969–1977.....	
1978–1979.....	Form 1041, line 61
1980.....	Form 1041, line 60
1981–1982.....	Form 1041, line 58

	Form 1041, Schedule B, line 9
1983–1996.....	

	Form 1041, Schedule B, line 7
1997–2023.....	

For information about throwback years, see the instructions for line 13. For purposes of line 6, in figuring the DNI of the trust for a throwback year, subtract any estate tax deduction for IRD if the income is includible in figuring the DNI of the trust for that year.

Line 7—Distributions Made During Earlier Years

Enter the applicable amounts as follows.

Throwback year(s)

Amount from line

	Form 1041, Schedule C, line 8
1969–1977.....	
1978.....	Form 1041, line 64

1979.....	Form 1041, line 65
1980.....	Form 1041, line 64
1981–1982.....	Form 1041, line 62
1983–1996.....	Form 1041, Schedule B, line 13
1997–2023.....	Form 1041, Schedule B, line 11

Line 11—Prior Accumulation Distribution Thrown Back to Any Throwback Year

Enter the amount of prior accumulation distributions thrown back to the throwback years. Don't enter distributions excluded under section 663(a)(1) for gifts, bequests, etc.

Line 13—Throwback Years

Allocate the amount on line 5 that is an accumulation distribution to the earliest applicable year first, but don't allocate more than the amount on line 12 for any throwback

year. An accumulation distribution is thrown back first to the earliest preceding tax year in which there is undistributed net income (UNI). Then, it is thrown back beginning with the next earliest year to any remaining preceding tax years of the trust. The portion of the accumulation distribution allocated to the earliest preceding tax year is the amount of the UNI for that year.

The portion of the accumulation distribution allocated to any remaining preceding tax year is the amount by which the accumulation distribution is larger than the total of the UNI for all earlier preceding tax years.

A tax year of a trust during which the trust was a simple trust for the entire year isn't a preceding tax year unless (a) during that year, the trust received outside income; or (b) the trustee didn't distribute all of the trust's income that was required to be distributed currently for that year.

In this case, UNI for that year must not be more than the greater of the outside income or income not distributed during that year.

The term “outside income” means amounts that are included in the DNI of the trust for that year but that aren't “income” of the trust as defined in Regulations section 1.643(b)-1. Some examples of outside income are (a) income taxable to the trust under section 691, (b) unrealized accounts receivable that were assigned to the trust, and (c) distributions from another trust that include the DNI or UNI of the other trust.

Line 16—Tax-Exempt Interest Included on Line 13

Throwback year(s)	Amount from line
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1969–1977 . . .	Form 1041, Schedule C, line 2(a)
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1978–1979 . . .	Form 1041, line 58(a)
1980	Form 1041, line 57(a)
1981–1982 . . .	Form 1041, line 55(a)
1983–2023 . . .	Form 1041, Schedule B, line 2

For each throwback year, divide line 15 by line 6 and multiply the result by the following.

Part III—Taxes Imposed on Undistributed Net Income

For the regular tax computation, if there is a capital gain, complete lines 18 through 25 for each throwback year. If the trustee elected the alternative tax on capital gains, complete lines 26 through 31 instead of lines 18 through 25 for each applicable year. If there is no capital gain for any year, or there is a capital loss for every year, enter on Part II, line 9, the amount of the tax for each year identified in the instruction for line 18 and don't complete Part III. If the trust received

an accumulation distribution from another trust, see Regulations section 1.665(b)-1A.

Note. The alternative tax on capital gains was repealed for tax years beginning after December 31, 1978. The maximum rate on net capital gain for 1981, 1987, and 1991 through 2023 isn't an alternative tax for this purpose.

Line 18—Regular Tax

Enter the applicable amounts as follows.

Throwback year(s)

Amount from line

1969–1976.....	Form 1041, page 1, line 24
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1977.....	Form 1041, page 1, line 26
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1978–1979.....	Form 1041, line 27
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1980–1984.....	Form 1041, line 26c
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1985–1986.....	Form 1041, line 25c
1987.....	Form 1041, line 22c
1988–2023.....	Form 1041, Schedule G, line 1a

Line 19—Trust's Share of Net Short-Term Gain

For each throwback year, enter the smaller of the capital gain from the two lines indicated. If there is a capital loss or a zero on either or both of the two lines indicated, enter zero on line 19.

Throwback year(s)	Amount from line
1969–1970.....	Schedule D, line 10, column 2, or Schedule D, line 12, column 2
1971–1978.....	Schedule D, line 14, column 2, or Schedule D, line 16, column 2

1979.....	Schedule D, line 18, column (b), or Schedule D, line 20, column (b)
1980–1981.....	Schedule D, line 14, column (b), or Schedule D, line 16, column (b)
1982.....	Schedule D, line 16, column (b), or Schedule D, line 18, column (b)
1983–1996.....	Schedule D, line 15, column (b), or Schedule D, line 17, column (b)
1997–2002.....	Schedule D, line 14, column (2), or Schedule D, line 16, column (2)
2003.....	Schedule D, line 14a, column (2), or Schedule D, line 16a, column (2)

	Schedule D, line 13, column (2), or Schedule
2004–2012.....	D, line 15, column (2)
	Schedule D, line 17, column (2), or Schedule
2013–2023.....	D, line 19, column (2)

Line 20—Trust's Share of Net Long-Term Gain

Enter the applicable amounts as follows.

Throwback year(s)	Amount from line
1969–1970....	50% of Schedule D, line 13(e)
1971– 1977.....	50% of Schedule D, line 17(e)
1978.....	Schedule D, line 17(e) or line 31, whichever is applicable, less Form 1041, line 23

1979.....	Schedule D, line 25 or line 27, whichever is applicable, less Form 1041, line 23
1980–1981...	Schedule D, line 21, less Schedule D, line 22
1982.....	Schedule D, line 23, less Schedule D, line 24
1983–1986...	Schedule D, line 22, less Schedule D, line 23
1987–1996....	Schedule D, the smaller of any gain on line 16 or line 17, column (b)
1997–2001.....	Schedule D, the smaller of any gain on line 15c or line 16, column (2)
2002.....	Schedule D, the smaller of any gain on line 15a or line 16, column (2)

	Schedule D, the smaller of any gain on line 15a or line
2003.....	16a, column (2)

	Schedule D, the smaller of any gain on line 14a or line
2004–2012....	15, column (2)

	Schedule D, the smaller of any gain on line 18a or line
2013–2023....	19, column (2)

Line 22—Taxable Income

Enter the applicable amounts as follows.

Throwback year(s)

Amount from line

	Form 1041, page 1, line 23
1969–1976.....	

	Form 1041, page 1, line 25
1977.....	

	Form 1041, line 26
1978–1979.....	

1980–1984.....	Form 1041, line 25
1985–1986.....	Form 1041, line 24
1987.....	Form 1041, line 21
1988–1996.....	Form 1041, line 22
1997.....	Form 1041, line 23
1998–2018.....	Form 1041, line 22
2019–2023.....	Form 1041, line 23

Line 26—Tax on Income Other Than Long-Term Capital Gain

Enter the applicable amounts as follows.

Throwback year(s) Amount from line

Throwback year(s)	Amount from line
1969.....	Schedule D, line 20
1970.....	Schedule D, line 19
1971.....	Schedule D, line 50

1972–1975.....	Schedule D, line 48
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1976–1978.....	Schedule D, line 27
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Line 27—Trust's Share of Net Short-Term Gain

If there is a loss on any of the following lines, enter zero on line 27 for the applicable throwback year. Otherwise, enter the applicable amounts as follows.

Throwback year(s)	Amount from line
	Schedule D,
1969–1970.....	line 10, column 2
	Schedule D,
1971–1978.....	line 14, column 2

Line 28—Trust's Share of Taxable Income Less Section 1202 Deduction

Enter the applicable amounts as follows.

Throwback

year(s)	Amount from line
1969.....	Schedule D, line 19
1970.....	Schedule D, line 18
1971.....	Schedule D, line 38
1972–1975....	Schedule D, line 39
1976–1978....	Schedule D, line 21

Part IV—Allocation to Beneficiary

Complete Part IV for each beneficiary. If the accumulation distribution is allocated to more than one beneficiary, attach an additional copy of Schedule J with Part IV completed for each additional beneficiary. Give each beneficiary a copy of their respective Part IV information.

If more than 5 throwback years are involved, use another Schedule J, completing Parts II and III for each additional throwback year.

If the beneficiary is a nonresident alien individual or a foreign corporation, see section 667(e) about retaining the character of the amounts distributed to determine the amount of the U.S. withholding tax.

The beneficiary uses Form 4970 to figure the tax on the distribution. The beneficiary also uses Form 4970 for the section 667(b)(6) tax adjustment if an accumulation distribution is subject to estate or GST tax. This is because the trustee can't be the estate or GST tax return filer.

Schedule K-1 (Form 1041)— Beneficiary's Share of Income, Deductions, Credits, etc.

General Instructions

Use Schedule K-1 (Form 1041) to report the beneficiary's share of income, deductions, and credits from a trust or a decedent's estate.



Grantor type trusts don't use Schedule K-1 (Form 1041) to report the income, deductions, or credits of the grantor (or other person treated as owner). See Grantor Type Trusts, earlier.

Who Must File

The fiduciary (or one of the joint fiduciaries) must file Schedule K-1. A copy of each beneficiary's Schedule K-1 is attached to the Form 1041 filed with the IRS, and each beneficiary is given a copy of their respective Schedule K-1. One copy of each Schedule K-1 must be retained for the fiduciary's records.

Beneficiary's Identifying Number

As a payer of income, you are required to request and provide a proper identifying number for each recipient of income. Enter the beneficiary's number on the respective Schedule K-1 when you file Form 1041.

Individuals and business recipients are responsible for giving you their TINs upon request. You may use Form W-9 to request the beneficiary's identifying number.

Penalty. You may be charged a \$50 penalty for each failure to provide a required TIN, unless reasonable cause is established for not providing it. Explain any reasonable cause in a signed affidavit and attach it to this return.

Truncating recipient's identification number on beneficiary's statement. The estate or trust can truncate a beneficiary's identifying number on the Schedule K-1 the estate or trust sends to the beneficiary. Truncation isn't allowed on the Schedule K-1 the estate or trust files with the IRS.

Also, the estate or trust can't truncate its own identification number on any form.

To truncate, where allowed, replace the first five digits of the nine-digit number with asterisks (*) or Xs (for example, an SSN xxx-xx-xxxx would appear as ***-**-xxxx or XXX-XX-xxxx). For more information, see Regulations section 301.6109-4.

Substitute Forms

You don't need IRS approval to use a substitute Schedule K-1 if it is an exact copy of the IRS schedule. The boxes must use the same numbers and titles and must be in the same order and format as on the comparable IRS Schedule K-1. The substitute schedule must include the OMB number and the six-digit form ID code in the upper right-hand corner of the schedule.

You must provide each beneficiary with the Instructions for Schedule K-1 (Form 1041) for a Beneficiary Filing Form 1040 or 1040-SR, or other prepared specific instructions for each item reported on the beneficiary's Schedule K-1.

Inclusion of Amounts in Beneficiaries' Income

Simple trust. The beneficiary of a simple trust must include in their gross income the amount of the income required to be distributed currently, whether or not distributed, or if the income required to be distributed currently to all beneficiaries exceeds the DNI, their proportionate share of the DNI. The determination of whether trust income is required to be distributed currently depends on the terms of the trust instrument and applicable local law. See Regulations section 1.652(c)-4 for a comprehensive example.

Estates and complex trusts. The beneficiary of a decedent's estate or complex trust must include in their gross income the sum of:

1. The amount of the income required to be distributed currently, or if the income required to be distributed currently to all beneficiaries exceeds the DNI (figured without taking into account the charitable deduction), their proportionate share of the DNI (as so figured); and
2. All other amounts properly paid, credited, or required to be distributed, or if the sum of the income required to be distributed currently and other amounts properly paid, credited, or required to be distributed to all beneficiaries exceeds the DNI, their proportionate share of the excess of DNI over the income required to be distributed currently.

See Regulations section 1.662(c)-4 for a comprehensive example.

For complex trusts that have more than one beneficiary, and if different beneficiaries have substantially separate and independent shares, their shares are treated as separate trusts for the sole purpose of determining the amount of DNI allocable to the respective beneficiaries. A similar rule applies to treat substantially separate and independent shares of different beneficiaries of an estate as separate estates. For examples of the application of the separate share rule, see the regulations under section 663(c).

Gifts and bequests. Don't include in the beneficiary's income any gifts or bequests of a specific sum of money or of specific property under the terms of the governing instrument that are paid or credited in three installments or less.

Amounts that can be paid or credited only from income of the estate or trust don't qualify as a gift or bequest of a specific sum of money.

Past years. Don't include in the beneficiary's income any amounts deducted on Form 1041 for an earlier year that were credited or required to be distributed in that earlier year.

Character of income. The beneficiary's income is considered to have the same proportion of each class of items entering into the computation of DNI that the total of each class has to the DNI (for example, half dividends and half interest if the income of the estate or trust is half dividends and half interest).

Allocation of deductions. Generally, items of deduction that enter into the computation of DNI are allocated among the items of income to the extent such allocation isn't inconsistent with the rules set out in section

469 and its regulations, relating to passive activity loss limitations, in the following order.

First, all deductions directly attributable to a specific class of income are deducted from that income. For example, rental expenses, to the extent allowable, are deducted from rental income.

Second, deductions that aren't directly attributable to a specific class of income may generally be allocated to any class of income, as long as a reasonable portion is allocated to any tax-exempt income. Deductions considered not directly attributable to a specific class of income under this rule include fiduciary fees, and state income and personal property taxes. The charitable deduction, however, must be ratably apportioned among each class of income included in DNI.

Finally, any excess deductions that are directly attributable to a class of income may be allocated to another class of income.

However, in no case can excess deductions from a passive activity be allocated to income from a nonpassive activity, or to portfolio income earned by the estate or trust. Excess deductions attributable to tax-exempt income can't offset any other class of income.

In no case can deductions be allocated to an item of income that isn't included in the computation of DNI, or attributable to corpus.

You can't show any negative amounts for any class of income shown in boxes 1 through 8 of Schedule K-1. However, for the final year of the estate or trust, certain deductions or losses can be passed through to the beneficiary(ies). See the instructions for box 11 for more information on these deductions and losses. Also, the beneficiary's share of depreciation and depletion is apportioned separately. These deductions may be allocated to the beneficiary(ies) in amounts greater than their income.

See Depreciation, Depletion, and Amortization, earlier, and Rev. Rul. 74-530, 1974-2 C.B. 188.

Beneficiary's Tax Year

The beneficiary's income from the estate or trust must be included in the beneficiary's tax year during which the tax year of the estate or trust ends. See Pub. 559 for more information, including the effect of the death of a beneficiary during the tax year of the estate or trust.

General Reporting Information

If the return is for a fiscal year or a short tax year, fill in the tax year space at the top of each Schedule K-1. On each Schedule K-1, enter the information about the estate or trust and the beneficiary in Parts I and II (items A through H). In Part III, enter the beneficiary's share of each item of income, deduction, credit, and any other information the beneficiary needs to file their income tax return.

Codes. In box 9 and boxes 11 through 14, identify each item by entering a code in the column to the left of the entry space for the dollar amount. These codes are identified in these instructions and on the back of the Schedule K-1.

Attached statements. Enter an asterisk (*) after the code, if any, in the column to the left of the dollar amount entry space for each item for which you have attached a statement providing additional information. For those informational items that can't be reported as a single dollar amount, enter the code and asterisk (*) in the left-hand column and enter "STMT" in the entry space to the right to indicate that the information is provided on an attached statement. More than one attached statement can be placed on the same sheet of paper and should be identified in alphanumeric order by box number followed by the letter code (if any).

For example: "Box 9, Code A—Depreciation" (followed by the information the beneficiary needs).

Too few entry spaces on Schedule K-1? If the estate or trust has more coded items than the number of spaces in box 9 or boxes 11 through 14, don't enter a code or dollar amount in the last entry space of the box. In the last entry space, enter an asterisk (*) in the left column and enter "STMT" in the entry space to the right. Report the additional items on an attached statement and provide the box number, code, description, and dollar amount or information for each additional item. For example: "Box 13, Code H—Biofuel Producer Credit, \$500.00."

Specific Instructions Part I. Information About the Estate or Trust

On each Schedule K-1, enter the name, address, and identifying number of the estate or trust. Also, enter the name and address of the fiduciary.

Item D

If the fiduciary of a trust or decedent's estate filed Form 1041-T, you must check this box and enter the date it was filed.

Item E

If this is the final year of the estate or trust, you must check this box.

Note. If this is the final K-1 for the beneficiary, check the "Final K-1" box at the top of Schedule K-1.

Part II. Information About the Beneficiary

Complete a Schedule K-1 for each beneficiary. On each Schedule K-1, enter the beneficiary's name, address, and identifying number.

Item H

Check the "Foreign beneficiary" box if the beneficiary is a nonresident alien individual, a foreign corporation, or a foreign estate or

trust. Otherwise, check the "Domestic beneficiary" box.

Part III. Beneficiary's Share of Current Year Income, Deductions, Credits, and Other Items

Box 1—Interest

Enter the beneficiary's share of the taxable interest income minus allocable deductions.

Box 2a—Total Ordinary Dividends

Enter the beneficiary's share of ordinary dividends minus allocable deductions.

Box 2b—Total Qualified Dividends

Enter the beneficiary's share of qualified dividends minus allocable deductions.

Box 3—Net Short-Term Capital Gain

Enter the beneficiary's share of the net short-term capital gain from Schedule D (Form 1041), line 17, column (1), minus allocable deductions. Don't enter a loss in box 3.

If, for the final year of the estate or trust, there is a capital loss carryover, enter in box 11, code C, the beneficiary's share of short-term capital loss carryover. However, if the beneficiary is a corporation, enter in box 11, code C, the beneficiary's share of all short- and long-term capital loss carryovers as a single item. See section 642(h) and related regulations for more information.

Boxes 4a Through 4c—Net Long-Term Capital Gain

Enter the beneficiary's share of the net long-term capital gain from Schedule D (Form 1041), lines 18a through 18c, column (1), minus allocable deductions.

Don't enter a loss in boxes 4a through 4c. If, for the final year of the estate or trust, there is a capital loss carryover, enter in box 11, code D, the beneficiary's share of the long-term capital loss carryover.

(If the beneficiary is a corporation, see the instructions for box 3.) See section 642(h) and related regulations for more information.

Gains or losses from the complete or partial disposition of a rental, rental real estate, or a trade or business activity that is a passive activity must be shown on an attachment to Schedule K-1.

Box 5—Other Portfolio and Nonbusiness Income

Enter the beneficiary's share of annuities, royalties, or any other income, minus allocable deductions (other than directly apportionable deductions), that isn't subject to any passive activity loss limitation rules at the beneficiary level. Use boxes 6 through 8 to report income items subject to the passive activity rules at the beneficiary's level.

Boxes 6 Through 8—Ordinary Business Income, Rental Real Estate, and Other Rental Income

Enter the beneficiary's share of trade or business, rental real estate, and other rental income, minus allocable deductions (other than directly apportionable deductions). To assist the beneficiary in figuring any applicable passive activity loss limitations, also attach a separate schedule showing the beneficiary's share of income derived from each trade or business, rental real estate, and other rental activity.

Box 9—Directly Apportioned Deductions



The limitations on passive activity losses and credits under section 469 apply to estates and trusts. Estates and trusts that distribute income to beneficiaries are allowed to apportion depreciation, depletion, and amortization deductions to the beneficiaries.

These deductions are referred to as "directly apportionable deductions."

Rules for treating a beneficiary's income and directly apportionable deductions from an estate or trust and other rules for applying the passive loss and credit limitations to beneficiaries of estates and trusts haven't yet been issued.

Any directly apportionable deduction, such as depreciation, is treated by the beneficiary as having been incurred in the same activity as incurred by the estate or trust. However, the character of such deduction may be determined as if the beneficiary incurred the deduction directly.

To assist the beneficiary in figuring any applicable passive activity loss limitations, also attach a separate schedule showing the beneficiary's share of directly apportionable deductions derived from each trade or business, rental real estate, and other rental activity.

Enter the beneficiary's share of directly apportioned deductions using codes A through C.

Depreciation (code A). Enter the beneficiary's share of the depreciation deductions directly apportioned to each activity reported in boxes 5 through 8. See *Depreciation, Depletion, and Amortization*, earlier, for a discussion of how the depreciation deduction is apportioned between the beneficiaries and the estate or trust. Report any AMT adjustment or tax preference item attributable to depreciation separately in box 12, using code G.

Note. An estate or trust can't make an election under section 179 to expense certain depreciable business assets.

Depletion (code B). Enter the beneficiary's share of the depletion deduction under section 611 directly apportioned to each activity reported in boxes 5 through 8.

See Depreciation, Depletion, and Amortization, earlier, for a discussion of how the depletion deduction is apportioned between the beneficiaries and the estate or trust. Report any tax preference item attributable to depletion separately in box 12, using code H.

Amortization (code C). Itemize the beneficiary's share of the amortization deductions directly apportioned to each activity reported in boxes 5 through 8. Apportion the amortization deductions between the estate or trust and the beneficiaries in the same way that the depreciation and depletion deductions are divided. Report any AMT adjustment attributable to amortization separately in box 12, using code I.

Box 10—Estate Tax Deduction (Including Certain Generation-Skipping Transfer Taxes)

If the distribution deduction consists of any IRD, and the estate or trust was allowed a deduction under section 691(c) for the estate tax paid attributable to such income (see the line 19 instructions), then the beneficiary is allowed an estate tax deduction in proportion to their share of the distribution that consists of such income. For an example of the computation, see Regulations section 1.691(c)-2. Figure the computation on a separate sheet and attach it to the return.

Box 11, Code A—Excess Deductions on Termination—Section 67(e) Expenses

If this is the final return of the estate or trust, and there are excess deductions on termination (see the instructions for line 23), enter the beneficiary's share of excess deductions for section 67(e) expenses

(amounts allowed in arriving at AGI) in box 11, using code A. See [Final Regulations - TD9918](#) for examples of allowable excess deductions on termination of an estate or trust.

Note. The beneficiary may deduct the excess deductions shown in box 11, code A, as an adjustment to income on Schedule 1 (Form 1040), Part II, line 24k.

Excess deductions on termination occur only during the last tax year of the trust or decedent's estate when the total deductions (excluding the charitable deduction and exemption) are greater than the gross income during that tax year.

Generally, a deduction based on an NOL carryover isn't available to a beneficiary as an excess deduction. However, if the last tax year of the estate or trust is also the last year in which an NOL carryover may be taken (see section 172(b)),

the NOL carryover is considered an excess deduction on the termination of the estate or trust to the extent it isn't absorbed by the estate or trust during its final tax year. For more information, see Regulations section 1.642(h)-4 for a discussion of the allocation of the carryover among the beneficiaries.

Only the beneficiary of an estate or trust that succeeds to its property is allowed to deduct that entity's excess deductions on termination. A beneficiary who doesn't have enough income in that year to absorb the entire deduction can't carry the balance over to any succeeding year.

Box 11, Code B—Excess Deductions on Termination—Non-Miscellaneous Itemized Deductions

If this is the final return of the estate or trust, and there are excess deductions on termination (see the instructions for line 23),

enter the beneficiary's share of excess deductions for non-miscellaneous itemized deductions in box 11, using code B.

Figure the deductions on a separate sheet and attach it to the return.

An individual beneficiary must be able to itemize deductions in order to claim excess deductions that are non-miscellaneous itemized deductions in determining taxable income.

Note. Section 67(g) suspends miscellaneous itemized deductions subject to the 2% floor for tax years 2018 through 2025. Therefore, miscellaneous itemized deductions are not deductible as excess deductions on termination of an estate or trust. Consult your state taxing authority for information about deducting miscellaneous itemized deductions on your state tax return.

Box 11, Codes C and D—Unused Capital Loss Carryover

Upon termination of the trust or decedent's estate, the beneficiary succeeding to the property is allowed as a deduction any unused capital loss carryover under section 1212. If the estate or trust incurs capital losses in the final year, use the Capital Loss Carryover Worksheet in the Instructions for Schedule D (Form 1041) to figure the amount of capital loss carryover to be allocated to the beneficiary.

Box 11, Codes E and F—NOL Carryover

Upon termination of a trust or decedent's estate, a beneficiary succeeding to its property is allowed to deduct any unused NOL (and any alternative tax NOL) carryover for regular and AMT purposes if the carryover would be allowable to the estate or trust in a later tax year but for the termination. Enter in box 11, using codes E and F, the unused carryover amounts.

Box 12—AMT Items

Adjustment for minimum tax purposes (code A). Enter the beneficiary's share of the adjustment for minimum tax purposes.

To figure the adjustment, subtract the beneficiary's share of the *income distribution deduction* figured on Schedule B, line 15, from the beneficiary's share of the *income distribution deduction on a minimum tax basis* figured on Schedule I (Form 1041), line 42. The difference is the beneficiary's share of the adjustment for minimum tax purposes.

Note. Schedule B, line 15, equals the sum of boxes 1, 2a, 3, 4a, 5, 6, 7, and 8 of all Schedules K-1.

AMT adjustment attributable to qualified dividends, net short-term capital gains, or net long-term capital gains (codes B through D). If any part of the amount reported in box 12, code A, is attributable to qualified dividends (code B),

net short-term capital gain (code C), or net long-term capital gain (code D), enter that part using the applicable code.

AMT adjustment attributable to unrecaptured section 1250 gain or 28% rate gain (codes E and F). Enter the beneficiary's distributive share of any AMT adjustments to the unrecaptured section 1250 gain (code E) or 28% rate gain (code F), whichever is applicable, in box 12.

Accelerated depreciation, depletion, and amortization (codes G through I). Enter any adjustments or tax preference items attributable to accelerated depreciation (code G), depletion (code H), or amortization (code I) that were directly apportioned to the beneficiary. For property placed in service before 1987, report separately the accelerated depreciation of real and leased personal property.

Exclusion items (code J). Enter the beneficiary's share of the adjustment for

minimum tax purposes from box 12, code A, of Schedule K-1 that is attributable to exclusion items (Schedule I (Form 1041), lines 2, 3, 4, 5, and 7).

Box 13—Credits and Credit Recapture

Enter each beneficiary's share of the credits and credit recapture using the applicable codes. Listed below are the credits that can be allocated to the beneficiary(ies). Attach a statement if additional information must be provided to the beneficiary as explained below.

- Credit for estimated taxes (code A).
Payment of estimated tax to be credited to the beneficiary (section 643(g)).



See the instructions for Schedule G, Part II, line 11, before you make an entry to allocate any estimated tax payments to a beneficiary. If the fiduciary doesn't make a valid election,

then the IRS will disallow the estimated tax payment that is reported on Schedule K-1 and claimed on the beneficiary's return.

- Credit for backup withholding (code B).



Income tax withheld on wages can't be distributed to the beneficiary.

- The low-income housing credit (code C). Attach a statement that shows the beneficiary's share of the amount, if any, entered on line 6 of Form 8586, Low-Income Housing Credit, with instructions to report that amount on Form 8586, line 4, or Form 3800, Part III, line 4d, if the beneficiary's only source for the credit is a pass-through entity.
- Advanced manufacturing production credit (code D). Attach a statement showing the amount of the credit the beneficiary must report on line 7 of Form 7207,

with instructions to report the amount directly on Form 3800, Part III, line 1b, if the beneficiary's only source for the credit is a pass-through entity.

- Clean electricity production credit (code E). Attach a statement showing the amount of the credit the beneficiary must report on Form 7211, Part II, line 10. If your only source for the credit is a pass-through entity, such as an estate or trust, you can report the amount directly on Form 3800, Part III, line 1gg.
- Work opportunity credit (code F).
- Credit for small employer health insurance premiums (code G).
- Biofuel producer credit (code H).
- Credit for increasing research activities (code I).

- Renewable electricity production credit (code J). Attach a statement that shows separately the amount of the credit the beneficiary must report on line 14 of Form 8835, including the allocation of the credit for production during the 4-year period beginning on the date the facility was placed in service and for production after that period.
- Empowerment zone employment credit (code K).
- Clean fuel production credit (code L). Attach a statement showing the amount of the credit the beneficiary must report on Form 7218, Part II, line 2. If your only source for the credit is a pass-through entity, such as an estate or trust, you can report the amount directly on Form 3800, Part III, line 1q.
- Orphan drug credit (code M).

- Credit for employer-provided childcare facilities and services (code N).
- Biodiesel, renewable diesel, or sustainable aviation fuels credit (code O).
If the credit includes the small agri-biodiesel credit, attach a statement that shows the beneficiary's share of the small agri-biodiesel credit, the number of gallons claimed for the small agri-biodiesel credit, and the estate's or trust's productive capacity for agri-biodiesel.
- Credit to holders of tax credit bonds (code P).
- Credit for employer differential wage payments (code Q).
- Recapture of credits (code R). On an attached statement to Schedule K-1, provide any information the beneficiary will need to report recapture of credits.
- Credit for production from advanced nuclear power facilities (code S).

Attach a statement showing the amount of the credit the beneficiary must report on Form 7213, Part I, Section 2, line 8.

If your only source for the credit is a pass-through entity, such as an estate or trust, you can report the amount directly on Form 3800, Part III, line 1cc.

- Zero-emission nuclear power production credit (code T). Attach a statement showing the amount of the credit the beneficiary must report on Form 7213, Part II, Section 2, line 12. If your only source for the credit is a pass-through entity, such as an estate or trust, you can report the amount directly on Form 3800, Part III, line 1u.
- Other credits (code ZZ). This code is used to report the beneficiary's share of all other credits.

Box 14—Other Information

Enter the dollar amounts and applicable codes for the items listed under Other information.

Foreign taxes (code B). Enter the beneficiary's allocable share of taxes paid or accrued to a foreign country. Attach a statement reporting the beneficiary's share of foreign tax (paid or accrued) and income by category including interest, dividends, rents and royalties, and other income. See Form 1116 and Pub. 514 for more information.

Qualified rehabilitation expenditures (code C). Provide the beneficiary with a statement of their share of qualified rehabilitation expenditures and other information needed to complete Part VII of Form 3468, Investment Credit.

If there are expenditures and other information from more than one activity, the attached statement will separately identify the expenditures and other information for each property. See the instructions for Form 3468, Part VII, for details.

Note. Expenditures related to rental real estate activities are subject to different passive activity limitation rules than other qualified rehabilitation expenditures. See the Instructions for Form 8582-CR for details.

Basis of energy property (code D).

Provide the beneficiary with a statement with the distributive share of amounts needed to complete Form 3468, Part VI. If there is information for more than one property, the attached statement will separately identify the information for each property.

See the instructions for Form 3468, Part VI, for details.

Foreign trading gross receipts (code G).

Enter the beneficiary's share, if any, of foreign trading gross receipts. See Form 8873 for more information.

NIIT (code H). Use code H to identify the amount of the beneficiary's adjustment for section 1411 NII or deductions. See the Instructions for Form 8960.

An attachment may be provided with the Schedule K-1 informing the beneficiary of the detailed items to be reported on Form 1040 or 1040-SR. See *Net Investment Income Tax (NIIT)*, earlier, for more information on these amounts.

Section 199A information (code I). In the case of a trust or estate, the QBI deduction, also known as the section 199A deduction, is determined at the beneficiary level for the portions of QBI, qualified REIT dividends, and qualified PTP items apportioned to the beneficiaries.

To allow beneficiaries to correctly figure their QBI deduction, the trust or estate must enter an asterisk (*) on each beneficiary's Schedule K-1 next to code I and enter "STMT" in the right column to indicate that the information is provided on an attached statement. Do not add amounts into a single number and report it on Schedule K-1.

The information must be separately identified for each trade or business the trust or estate directly conducts, including specified service trades or businesses (SSTBs). The trust or estate must attach the statement to each Schedule K-1, separately identifying the beneficiary's allocable share of:

1. Qualified items of income, gain, deduction, and loss;
2. W-2 wages;
3. UBIA of qualified property;
4. Qualified PTP items; and

5. Section 199A dividends, also known as qualified REIT dividends.

The trust or estate must make an initial determination of which items are qualified items of income, gain, deduction, and loss at its level and report to each beneficiary their share of all items that may be qualified items at the beneficiary level.

See Determining the trust's or estate's QBI or qualified PTP items, later. The beneficiary must then determine whether each item is includible in QBI.

In addition, the trust or estate must also report on whether any of its trades or businesses are SSTBs and identify on the statement any trades or businesses that are aggregated.

Trusts and estates should use Statement A—QBI Pass-Through Entity Reporting, in these instructions, or a substantially similar statement,

to report each beneficiary's allocable information from each trade or business, including QBI items, W-2 wages, UBIA of qualified property, qualified PTP items, and section 199A dividends by attaching the completed statement(s) to each beneficiary's Schedule K-1. The trust or estate should also use Statement A—QBI Pass-Through Entity Reporting to report each beneficiary's share of QBI items, W-2 wages, UBIA of qualified property, qualified PTP items, and section 199A dividends reported to the trust or estate by another entity.

Note. The estate or trust must report each beneficiary's share of qualified items of income, gain, deduction, and loss from a PTP. The PTP component is not limited by the W-2 wages and UBIA of qualified property limitations. Therefore, neither the PTP nor its owners (including estates and trusts)

are required to report W-2 wages or UBIA of qualified property amounts related to a trade or business operated by a PTP.

Trusts and estates should use Statement B—QBI Pass-Through Entity Aggregation Election(s), in these instructions, or a substantially similar statement, to report aggregated trades or businesses and provide supporting information to beneficiaries on each Schedule K-1.

Trusts and estates should use Statement C—QBI Pass-Through Entity Reporting—Patrons of Specified Agricultural and Horticultural Cooperatives, in these instructions, or a substantially similar statement, to report allocable QBI and W-2 wages allocable to qualified payments from a specified agricultural or horticultural cooperative for each trade or business.

This statement should also be used to report each beneficiary's allocable section 199A(g) deduction reported to the trust or estate by the specified cooperative.

Determining the trust's or estate's qualified trades or businesses. The trust's or estate's qualified trades or businesses include its section 162 trades or businesses, except for SSTBs, or the trade or business of providing services as an employee. A section 162 trade or business generally includes any activity carried on to make a profit and with considerable, regular, and continuous activity. For more information on what qualifies as a trade or business for purposes of section 199A, see the instructions for Form 8995 or 8995-A.

Rental real estate. Rental real estate may constitute a trade or business for purposes of the QBI deduction if the rental real estate:

- Rises to the level of a trade or business under section 162;

- Satisfies the requirements for the rental real estate safe harbor in Rev. Proc. 2019-38, 2019-42 I.R.B. 942; or
- Meets the self-rental exception (that is, the rental or licensing of property to a commonly controlled trade or business conducted by an individual or relevant pass-through entity (RPE)) in Regulations section 1.199A-1(b)(14).

The determination of whether rental real estate constitutes a trade or business for purposes of the QBI deduction is made by the trust or estate. The trust or estate must first make this determination and then only include the allocable share of rental real estate items of income, gain, loss, and deduction on the statement provided to beneficiaries. Rental real estate that does not meet one of the three conditions noted above does not constitute a trade or business for purposes of the QBI deduction and must not

be included in the QBI information provided to beneficiaries.

SSTBs excluded from qualified trades or businesses. SSTBs are generally excluded from the definition of a qualified trade or business. An SSTB is any trade or business providing services in the field of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, investing and investment management, trading or dealing in securities, trust or estate interests, or commodities or any other trade or business where the principal asset is the reputation or skill of one or more of its employees or owners. The term “any trade or business where the principal asset is the reputation or skill of one or more of its employees or owners” means any trade or business that consists of any of the following: (a) a trade or business in which a person receives fees, compensation, or other income for endorsing products or services;

(b) a trade or business in which a person licenses or receives fees, compensation, or other income for the use of an individual's image, likeness, name, signature, voice, or trademark, or any other symbols associated with the individual's identity; or (c) receiving fees, compensation, or other income for appearing at an event or on radio, television, or another media format.

Exception. If the beneficiary's taxable income is equal to or less than the threshold for the reporting 2024 tax year, \$191,950 (\$383,900 if married filing jointly), the QBI from the SSTB may be used by the beneficiary to compute their QBI deduction. If the beneficiary's taxable income is within the phase-in range, the threshold amount plus \$50,000 (\$100,000 if married filing jointly), an applicable percentage of the QBI, W-2 wages, and UBIA of qualified property from an SSTB may be used by the beneficiary to compute their QBI deduction.

Therefore, the statement attached to the Schedule K-1 issued to each beneficiary must identify any items relating to SSTBs.

Aggregation. A trust or estate engaged in more than one trade or business may choose to aggregate multiple trades or businesses into a single trade or business for purposes of section 199A if it meets the following requirements.

1. The same person, or group of persons, either directly or through attribution, owns 50% or more of each trade or business for a majority of the tax year, including the last day of the tax year, and all trades or businesses use the same tax year-end.
2. None of the trades or businesses are SSTBs.
3. The trades or businesses to be aggregated meet at least two of the following three factors.

- a. They provide products, property, or services that are the same or that are customarily offered together.
- b. They share facilities or share significant centralized business elements, such as personnel, accounting, legal, manufacturing, purchasing, human resources, or information technology resources.
- c. They are operated in coordination with, or reliance upon, one or more of the businesses in the aggregated group.

If the trust or estate chooses to aggregate multiple trades or businesses, it must report the aggregation on Statement B, or a substantially similar statement, and attach it to each Schedule K-1. The statement must provide the information necessary to identify each separate trade or business included in

each aggregation, a description of the aggregated trades or businesses, and an explanation of the factors met that allow the aggregation in accordance with Regulations section 1.199A-4. The aggregation statement must be completed each year to show the trust's or estate's trade or business aggregations.

Failure to disclose the aggregations may cause them to be disaggregated.

The trust's or estate's aggregations must be reported consistently for all subsequent years, unless there is a change in facts and circumstances that changes or disqualifies the aggregation. The trust or estate must provide a written explanation for any changes to prior year aggregations that describes the change in facts and circumstances.

If the trust or estate directly or indirectly owns an interest in an RPE that aggregates multiple trades or businesses,

it must attach a copy of the RPE's aggregation to each Schedule K-1. The trust or estate cannot break apart the aggregation of another RPE, but it may add trades or businesses to the aggregation, assuming the requirements above are satisfied.

Determining the trust's or estate's QBI or qualified PTP items. The trust's or estate's items of QBI that must be reported to beneficiaries include the allocated amounts of qualified items of income, gain, deduction, and loss from the trust's or estate's trades or businesses that are effectively connected with the conduct of a trade or business within the United States. This may include, but is not limited to, items such as ordinary business income or (losses), section 1231 gains or (losses), section 179 deductions, and interest from debt-financed distributions.

QBI may also include rental income (losses) or royalty income, if the activity rises to the level of a trade or business;

and gambling gains or (losses), but only if the trust or estate is engaged in the trade or business of gambling. Whether an activity rises to the level of a trade or business must be determined at the entity level and, once made, is binding on beneficiaries.

Qualified PTP items that must be reported to the beneficiaries include the allocated amounts of the trust's or estate's share of qualified items of income, gain, deduction, and loss from a PTP and may also include gain or loss recognized on the disposition of the trust's or estate's partnership interest that is not treated as a capital gain or loss.

However, QBI and qualified PTP items don't include any of the following.

- Items that are treated as capital gain or loss under any provision of the Code.
- Dividends or dividend equivalents, including qualified REIT dividends.

- Interest income (unless received in connection with the trade or business).
- Wage income.
- Income that is not effectively connected with the conduct of a trade or business within the United States (for more information, go to [IRS.gov](https://www.irs.gov) and type in the key word “effectively connected income”).
- Commodities transactions, or foreign currency gains or losses described in section 954(c)(1)(C) or (D).
- Income, loss, or deductions from notional principal contracts under section 954(c)(1)(F).
- Annuities (unless received in connection with the trade or business).
- Guaranteed payments described in section 707(c) received by the entity for services rendered to a partnership.

- Payments described in section 707(a) received by the entity for services rendered to a partnership.

QBI Flowchart

Questions	Yes	No
Is the item effectively connected with the conduct of a trade or business within the United States?	Continue	Stop , this item isn't QBI.
Is the item attributable to a trade or business (this may include section 1231 gain (loss), section 179 deductions, interest from debt-financed distributions, etc.)? Examples of an item not considered attributable to the trade or business at the entity level include gambling income (loss) where the entity isn't engaged in the trade or business of gambling, income (loss) from vacation properties when the entity isn't in that trade or business, activities not engaged in for profit, etc.	Continue	Stop , this item isn't QBI.
Is the item treated as a capital gain or loss under any provision of the Internal Revenue Code or is it a dividend or dividend equivalent?	Stop , this item isn't QBI.	Continue
Is the item interest income other than interest income properly allocable to a trade or business? (Note that interest income attributable to an investment of working capital, reserves, or similar accounts isn't properly allocable to a trade or business.)	Stop , this item isn't QBI.	Continue
Is the item an annuity, other than an annuity received in connection with the trade or business?	Stop , this item isn't QBI.	Continue
Is the item gain or loss from a commodities transaction or foreign currency gain or loss described in section 954(c)(1)(C) or (D)?	Stop , this item isn't QBI.	Continue
Is the item gain or loss from a notional principal contract under section 954(c)(1)(F)?	Stop , this item isn't QBI.	Continue
Is the item of income or loss from a qualified PTP?	This item is a qualified PTP item. Report this item as qualified PTP income or loss, subject to beneficiary-specific determinations, and check the "PTP" box.	This item is QBI. Report this item as QBI subject to beneficiary-specific determinations.

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