



2018 Estate and trust income tax return checklist

Form 1041 (short)

Client name and number _____

Prepared by _____ Date _____ Reviewed by _____ Date _____

100) General	Yes/ Done	No/ N/A
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- ▶ 101) Obtain a signed engagement letter from the fiduciary.

- ▶ 102) Consider asking the fiduciary to execute Form 2848, *Power of Attorney and Declaration of Representative*.

- ▶ 103) Ask the fiduciary to provide any correspondence related to the decedent, to or from the IRS or state tax authority, including any adjustments made to prior returns that could affect later returns.

- ▶ 104) Review the prior year return including all supporting forms and schedules.

- ▶ 105) Review the proforma or organizer for accuracy.

- ▶ 106) Consider federal and state e-filing requirements.

- ▶ 107) For an estate, determine the estate's name (check Form SS-4), address, tax identification number (TIN), date of decedent's death, tax year and the name and title of the fiduciary.

- ▶ 108) If this is the first return for the estate, consider whether a fiscal tax year should be adopted.

- ▶ 109) If this is the first return for an estate, allocate items of income, deduction and credits between the decedent's final return and the estate's return.

- ▶ 110) If the taxpayer is a trust:
 - 1) Determine the trust's name (check Form SS-4), address, TIN, date the trust was created/funded, type (simple, complex or grantor), and the name of the trustee(s).
 - 2) For a trust that is treated as owned by one or more grantors or other persons, consider using an alternate method of reporting instead of filing Form 1041.
 - 3) Determine the date the trust terminates.

Yes/ No/
Done N/A

4) Determine the trust's accounting income under the governing instrument and local law.

5) Determine the characterization of trust distributions (bequest, income or principal distributions).

▶ 111) If this is the first or final return for the estate or trust, consider whether Form 56, *Notice Concerning Fiduciary Relationship*, should be filed to notify the IRS of the creation or termination of a fiduciary relationship.

▶ 112) Obtain and review an executed copy of the decedent's will or the trust instrument (including any amendments).

▶ 113) Determine how the income of the estate or trust is allocated among the estate or trust and the beneficiaries.

▶ 114) If it is the first year of an estate:

1) Determine whether there is a qualified revocable trust for which an election may be made to treat the trust as part of the estate.

2) If necessary, prepare a reconciliation as an attachment to the Form 1041/Form 1040 for any income that has been reported to an individual's TIN or estate's TIN, but should be reported to the trust.

▶ 115) If the trust is a beneficiary of an estate, obtain Form 8971, *Information Regarding Beneficiaries Acquiring Property From a Decedent*, for basis notification purposes. Note that Form 8971 excludes cash distributions.

▶ 116) Obtain each beneficiary's name, TIN, address and date of birth.

▶ 117) Determine the basis of all assets received by (contributed to) the estate or trust.

▶ 118) Determine state filing requirements for the trust; consider the following: residency of beneficiaries, where the trust is formed, residency of the trustee, and where the trust is governed/administered.

Comments/explanations

200) Income

Yes/
Done No/
N/A

Interest/dividends

- ▶ 201) Request all Forms 1099-INT, 1099-OID and 1099-DIV received by the taxpayer.
- ▶ 202) Compare sources and amounts of interest/dividend income with prior year returns (including the individual return as applicable).
- ▶ 203) For estates, determine whether interest/dividend income reported on Forms 1099-INT includes interest/dividends earned after the date of death that should be reported on the estate's return.
- ▶ 204) Determine whether any dividends received were paid by a domestic corporation on stock held by the taxpayer for the requisite holding period to be considered "qualified dividends."

Business income

- ▶ 205) Determine whether the estate or trust operated a trade or business and, if so, obtain the following: employer identification number, business name, principal business, business address, accounting method and inventory method (if any).
- ▶ 206) Calculate the qualified business income (QBI), W-2 wages, unadjusted basis of qualified property, qualified real estate investment trust (REIT) dividends, and qualified publicly traded partnership income for purposes of the Sec. 199A deduction.

Gain or loss on property

- ▶ 207) Obtain any Forms 1099-B and/or 1099-S received by the taxpayer.
- ▶ 208) Obtain the Closing Disclosure document (formerly known as the HUD-1) for any purchases or sales of real property.
- ▶ 209) Were there any sales of tangible property in the taxable year? If so, determine the sales price, the cost basis, the amount of accumulated depreciation taken in prior years and the holding period.
- ▶ 210) Were any shares of stock or other securities disposed of during the taxable year? If so, obtain the following: name of the issuer, number of shares (stock) or maturity date (bonds), date acquired, selling price and basis. Consider wash sale rules.
- ▶ 211) Were any assets other than securities disposed of during the taxable year? If so, obtain the following information: description, date acquired, date sold, whether personal use, rental or business use, selling price and basis.
- ▶ 212) If the property sold or exchanged was acquired by gift and the trust's basis is determined by using the donor's basis, determine the donor's holding period.
- ▶ 213) Determine whether any property acquired from a decedent was sold within 12 months after the decedent's death. If so, consider Sec. 1014(e).
- ▶ 214) If the estate or trust received a lump-sum distribution from a qualified employee benefit plan, examine Form 1099-R to determine if any portion of the distribution qualifies for long-term capital gain treatment.

Rental income

- ▶ 215) For each rental property, obtain a description of the type and location of the property and the total rent received. Also, obtain expense amounts for advertising, auto and travel, cleaning and maintenance, commissions, insurance, legal and professional fees, management fees, repairs, supplies, taxes, utilities, wages and salaries, condo or coop fees and other deductible expenses.
- ▶ 216) Obtain the following data regarding capital assets (including capital improvements) purchased in the taxable year for use as, or with respect to, rental properties: (i) description of asset, (ii) percentage of use in non-rental activities, (iii) date use began in the rental activity, (iv) cost and (v) description of and cost of trade-in, if any. If the property was originally purchased in the taxable year, obtain the Closing Disclosure document.
- ▶ 217) Determine whether the estate or trust in the taxable year: (i) converted any capital asset purchased in prior years from rental to non-rental use or (ii) increased the percentage of non-rental use of a capital asset used both for rental and non-rental use.
- ▶ 218) If the return is for a decedent's estate, determine whether the decedent was actively participating in the activity in the year of death.

Pass-through income or loss

- ▶ 219) Request all Schedules K-1 received by the estate or trust.
- ▶ 220) Determine the estate or trust's basis with respect to each K-1 source.
- ▶ 221) With respect to each trade or business activity for which a Schedule K-1 is received, determine if the estate or trust is a limited partner, or if the estate or trust materially participated in the activity.
- ▶ 222) Determine if there are any partnership or S corporation losses in excess of basis carryforwards, at-risk loss carryforwards, passive losses or credit carryforwards to the taxable year.
- ▶ 223) Did the estate or trust have any unreimbursed partnership expenses? If so, determine if these are deductible and whether these amounts reduce self-employment.
- ▶ 224) Determine if any items related to the Sec. 199A deduction appear on Schedules K-1 received from any pass-through entity.

Miscellaneous income

- ▶ 225) Request all Forms 1099 received by the estate or trust.
- ▶ 226) Did the estate or trust receive any refunds of state or local taxes in the taxable year?
- ▶ 227) Was the estate or trust relieved of any debt obligation in the taxable year other than by means of payment?

Yes/ No/
Done N/A

▶ 228) For estates, determine whether the estate received any salary, bonuses, commissions or other compensation for services of a cash-basis decedent which must be included in the estate's return.

▶ 229) Determine the amount of tax-exempt interest income received by the estate or trust (this amount must be disclosed under "Other Information" on page two of the return).

Comments/explanations

300) Deductions

Yes/ No/
Done N/A

Interest expense

▶ 301) If the proceeds of a loan were used for more than one purpose, determine the proper allocation of interest expense to qualified residence interest, other personal interest, passive interest, investment interest, business interest, tax-exempt interest, etc.

▶ 302) Consider any investment interest carryforward to the taxable year.

▶ 303) Consider the election to treat qualified dividends and net long-term capital gains as investment income.

Taxes

▶ 304) Obtain the amounts paid by the estate or trust for state and local income taxes, real estate taxes and personal property taxes. Note that the limitations on state and local tax deductions apply to trusts. In the case of a non-grantor trust, consider having situs moved to a low-tax (or no-tax) jurisdiction.

▶ 305) Obtain the amounts paid by the estate or trust for any state and local taxes regarding a trade or business, or for the production or collection of income, or the management, maintenance or conservation of property held for the production of income.

▶ 306) Verify that all fiduciary fees, attorney, accountant and return preparer fees, and other deductions not subject to the 2% floor on miscellaneous itemized deductions are properly deducted. Note that the repeal of miscellaneous itemized deductions does not affect deductions unique to trusts that are allowed under Sec. 67(e), such as administration costs.

▶ 307) If the estate or trust has tax-exempt income, compute the allocation of fiduciary fees and other indirect expenses between taxable and tax-exempt income (this computation must be attached to the return).

▶ 308) If there are any funeral and general administrative expenses, debts secured by property included in the gross estate, or casualty or theft losses that could be deducted for estate tax purposes, obtain a statement and waiver from the estate's personal representative or executor.

▶ 309) Determine the net investment income and allowable deductions which should be subject to the Sec. 1411 3.8% net investment income tax.

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- ▶ 310) If there are any funeral and general administrative expenses, debts secured by property included in the gross estate, or casualty or theft losses that could be deducted for estate tax purposes, obtain a statement and waiver from the estate's personal representative or executor.
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Charitable contributions

- ▶ 311) Verify that all charitable contributions were made under the terms of the will or trust instrument and were made from gross income.

 - ▶ 312) If the estate or trust had tax-exempt income, determine the portion of the tax-exempt income allocable to the charitable deduction.

 - ▶ 313) For complex trusts, complete Form 1041-A, as necessary.

 - ▶ 314) For contributions in excess of \$250, inquire if written acknowledgments from the donee organizations were obtained.

 - ▶ 315) For all cash contributions, make sure the estate or trust maintains a bank record or a receipt, letter or other written communication from the donee organization indicating the name of the organization, the date of the contribution and the amount of the contribution.
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Income distribution deduction

- ▶ 316) Compute the distributable net income (DNI) on Schedule B of Form 1041.

 - ▶ 317) If the return is for a complex trust or for an estate and amounts were paid or credited to a beneficiary within the first 65 days after the close of the entity's tax year for which you are preparing the return, consider whether the election should be made to "push-back" distribution and treat all or a portion of these amounts as paid or credited on the last day of the tax year.

 - ▶ 318) Note that if there is no DNI, any items related to the Sec. 199A deduction are allocated to the estate or trust.
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Other deductions and losses

- ▶ 319) For nonbusiness bad debts and worthless investments (other than traded securities), obtain a description, the date it became worthless, evidence of worthlessness, the date acquired and the amount.

 - ▶ 320) Determine the proper allocation of depreciation, depletion and amortization deductions. Consider changes in depreciation provisions made under the Tax Cuts and Jobs Act.

 - ▶ 321) If the return is for the final year of the estate or trust, compute the unused losses and excess deductions to be transferred to the beneficiaries.

 - ▶ 322) Determine the estate's or trust's portion of the Sec. 199A deduction. Determine qualified business income (QBI) on a per property basis. Note that the threshold amount of taxable income under which the W-2 wage and specified service trade or business limitations do not apply is \$157,500 for 2018.
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Yes/ No/
Done N/A

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- ▶ 323) Determine if the trust or estate has a business loss (including those allocated from pass-through entities) in the amount of \$250,000 or more which is disallowed for the current tax year.
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Comments/explanations

400) Credits and tax payments

Yes/ No/
Done N/A

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- ▶ 401) With respect to any income that is earned from a foreign source or from a U.S. possession, determine the amount of income taxes paid to the foreign country or U.S. possession.
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- ▶ 402) Determine whether the trust qualifies for any tax credits.

1) If there are available credits, determine if any portion is allocable to beneficiaries.

- ▶ 403) Compute the alternative minimum tax (AMT) by determining DNI on a minimum tax basis (note that Schedule I must be completed if the estate or trust takes an income distribution deduction, regardless of whether it is liable for the AMT).
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- ▶ 404) If the estate or trust received a qualifying lump-sum distribution from a qualified employee benefit plan, determine the tax consequences of the distribution to the estate or trust.
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- ▶ 405) Obtain the date and amount of any of the following: 2018 estimated tax payments, payments made with the 2018 extensions, prior-year overpayments credited to 2018 and any back-up withholding.
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- ▶ 406) Determine whether estimated tax payments should be made for 2019.
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Comments/explanations

500) International issues

Yes/ No/
Done N/A

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- 501) Determine whether the estate or trust (or its more-than-50%-owned corporation) had an interest in a foreign bank account. If so, determine if FinCEN Form 114 is required.
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- 502) If the estate or trust has foreign business activity, consider reviewing other international filing obligations shown in the Form 1041 long checklist.
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Comments/explanations

600) Other issues

Yes/ No/
Done N/A

▶ 601) Provide the taxpayer with complete federal and state returns, including copies of any disclosure consent form(s) and advise the taxpayer to retain copies for at least six years.

▶ 602) Prepare filing instructions and a transmittal letter.

Comments/explanations

