

Life Cycle of Assets as They Go From the Final 1040/540 of the Deceased Possibly Through a 1041/541 or 1041/541s to Their Final Destination on the Beneficiary's 1040/540.

- We will discuss how title is held affects the destination of the asset and its related income.
- We will discuss how to divide income so it will be recognized on the proper income tax return.
- We will see that “after death” tax planning can result in less tax.
- We will have a better understanding of how the assets earn money and how this earnings is taxed.

You will prepare the final 1040/540 for the deceased. You will also prepare at least one 1040/540 for the beneficiary. You will also do as many 1041/541s as needed. Utilize as many elections as advantageous. All returns are timely filed.

Basic information about the clients:

Deceased Taxpayer: Ima D. Client, died 9-30-06.

Ima's social security number : 555-11-2222.

Ima's son: David B. Client 565-22-3333.

Ima had a trust and a pour over will. David, beneficiary of both.

David is named as trustee of the trust. Ima's brother Sam

Broother is named as executor of the will.

You have gotten new EINs from the IRS. The trust number is

20-1123456. The number for the estate is 20-1136899.

All of Ima's assets are distributed by 6-30-07.

Ima's Assets:

Two pensions paying to Ima during her lifetime –

General Assembly, single life, her basis in it on 12/31/05 -

\$14,000 using \$1,000 of basis per month –

Earnings\$4,000 per month, federal withholding –

\$1,200/month, California withholding - \$200/month

Hoosing Co., 20 pay guarantee with son David, her basis in

This pension on 12/31/05 was \$10,000 using \$200 per

Month, earnings \$3,000/month, FedWH \$80/mo,

CA WH \$40/month.

Savings account “in trust for” David – earning \$100/mon.
\$20,000 Series **HH US Savings Bonds** paying \$500 in June & Dec.
“in trust for” brother Sam’s daughter Amanda.
\$40,000 face amount (principal \$12,000 on date of Ima’s death) on
Series **EE Savings Bonds** with accruing interest at \$1000/
month. Payable on death (POD) to David. Ima has never
recognized this accruing interest. David cashed these in
1/31/07.

Stocks:

50 shares Coca-Cola that Ima purchased for \$100 per share on
1/4/00. 9/29/06 \$64 high, \$62, low. 10/2 \$66 high, \$62 low
In joint tenancy with David.
Dividends payable: \$20/Jan, April, July, Oct.
David sells these for \$80/share on 2/10/07.
100 shares ATT in her name only, purchase on 1/4/00,
29th high \$42, low \$40, 10/2 high \$42, low \$36.
Dividends \$10/ Jan, April, July, Oct.
Sold 2/10/07 for \$32.

Duplex: Ima lives in half with David, rents other half.

Ima receives \$1500/mon rent on the duplex.
Insurance - \$1200 due in March,
RE taxes spring \$500, \$505 fall,
Mortgage \$800/month interest,
Depreciation is straight line \$400/month.
Duplex is appraised at date of death –
\$660,000 building, \$200,000 land.
The duplex is in Ima’s trust.

Inheritance from Uncle George’s will. George died 9/28/06.

Savings account \$40,000
200 ATT distributed to her assets on 1/1/07 valued at \$40 on
The date of distribution. Sold 2/10/07 with above.
K-1 with excess deductions only.

Ima’s expenses:

Attorney - \$5,000, Death Certificates - \$74, Sam’s Fee - \$1,000
Tax Preparation for final \$500, 1041/541s - \$800.
Left over medical starting from 2005 when she became fatally ill.
\$3000 in 2005, \$35,000 in 2006. David paid all bills by 6/15/07.

*Although not part of the tax return preparation –
What San Diego County Departments should receive a filing
From Sam or David?*