

Major Changes to the 2007 Form 1041, U.S. Income Tax Return for Estates and Trusts

The following changes have been made to the 2007 Form 1041.

Page 1

- We deleted the previous line G, page 1, concerning Pooled mortgage accounts, and replaced it with a request to “Check here if the estate or filing trust made a section 645 election” and a checkbox. This is part of the move of the “widely held investment trusts” off the Form 1041 and onto a Form 1099. See T.D. 9241, 2006-7 I.R.B. 427.
- We updated all the years throughout the document.
- We removed the language in line 24f allowing a credit for federal telephone excise tax paid, as the credit is no longer available. We also renumbered line 24g and 24h as 24f and 24g, and changed the total payments line from 24i to 24h.

Page 2

- We removed the abbreviation for distributable net income, DNI, on page 2, as the abbreviation is not used elsewhere on the form.

Page 4

- On line 64, we updated the maximum amount subject to the 5% rate in the Computation Using Maximum Capital Gains Rates. See Rev. Proc. 2006-53, 2006-48 I.R.B. 996.

Major Changes to the 2007 Instructions for Form 1041 and Schedules A, B, D, G, I, J, and K-1, U.S. Income Tax Return for Estates and Trusts

General Changes

- All years, filing dates, and cost-of-living references have been updated. Page references have been updated, but are subject to change pending changes in circulation and review.
- We removed the language in line 24f, and renumbered the remaining lines under line 24, concerning allowing a credit for federal telephone excise tax paid, as the credit is not allowed on the 2007 return.

Specific Changes

Page 1

- Under “What’s New,” we added notes that:
 - Farm rental income and expenses based on crops or livestock produced by a tenant go on line 5 and not on line 6 of Form 1041.
 - Charitable remainder trusts (CRT) under section 664 no longer have to file Forms 1041. Instead if the CRT has any unrelated business taxable income, they must file Form 4720, Return of Certain Excise Taxes Under Chapter 41 and 42 of the Internal Revenue Code. See Pub. L. 109-432, Tax Relief and Health Care Act of 2006, act section 424(a). **(Implan Action #67.00202)**
 - Electing small business trusts (ESBTs) can now deduct interest expense paid or accrued on indebtedness incurred to acquire stock in an S corporation. See Pub. L. 110-28, sec. 8236, IRC 641(c)(2)(C)(iv). **(Implan Action #67.00008)**
- Under “Reminders”, we added a note for widely held fixed investment trusts (WHFITs), reminding them to no longer file Forms 1041. In addition, we gave instructions on how to mark the Form 1041, if it was used.

Page 3

- We added “Revocable Living Trusts” to the definitions section under General Instructions. A tip was added that most individuals (grantors) with these trusts may be able to use Optional Method 1, and that method is generally the easiest method to use.

Page 8

- Under “Pooled Income Funds,” the last two paragraphs, including the note were modified to reflect that pooled income funds:
 - Must file a Form 5227, Split-Interest Trust Information Return, unless all amounts were transferred in trust before May 27, 1969 and no section 642(c) deductions were claimed, and
 - No longer need file Form 1041-A.

- The language under “Electronic Filing” was modified to reflect the new option to electronically sign a electronically filed Form 1041 by using Form 8879-F, IRS *e-file* Signature Authorization for 1041.

Page 11

- Replaced the Form 8264, Application for Registration of a Tax Shelter with Form 8918, Material Advisor Disclosure Statement. See Notice 2007-85, 2007-45 I.R.B. 1, <http://www.irs.gov/irs/article/0,,id=174844,00.html>.

Page 12

- The section, “Additional Information” was moved up to directly follow the section “Other Forms That May Be Required.” The section was also reformatted to promote clarity and ease of the reader’s use.

Page 14—15

- The last paragraph under “Special Filing Instructions for Bankruptcy Estates,” was modified to refer to Notice 2006-83, 2006-40 I.R.B. 596, which provides additional information on methods of allocating Form W-2 wages between a bankruptcy estate and the debtor.
- “Mortgage Pools” in the “Grantor Type Trust” section, was modified to note that for 2007 returns, certificate holders should receive Forms 1099 reflecting the individual’s share of interest income (and other items) from the mortgage pool and they should report this information on their individual tax returns. Certificate holders for mortgage pools for pre-2007 tax returns and WHFITs (not following Regulations section 1.671-5) will continue to be treated as the owner of an undivided interest in the entire trust. Those individuals must continue to report their proportionate share of the mortgage interest and other items of income on their individual tax return.

Page 15—16

- Under Nonexempt Charitable and Split-Interest Trusts, the sections “Other returns that must be filed” was modified:
 - To delete the requirement for split-interest trusts to file a Form 1041-A;
 - To require the fiduciary of all split-interest trusts to file a Form 5227, except for amounts transferred in trust before May 27, 1969, if the trust’ governing instrument requires that all of the trust’s income be distributed currently; and
 - To require section 664 charitable remainder trusts with any unrelated business taxable income to file a Form 4720 reporting the income and paying the tax due. See Pension Protection Act of 2006, ac section 1201(b) and P.L. 109-432, Tax Relief and Health Care Act of 2006, act section 424(a).
- Under G. Pooled Mortgage Account, the entire text was replaced with information concerning making an election under section 645. This is part of the removal of WHFITs from Form 1041 and onto a Form 1099. See T.D. 9241, 2006-7 I.R.B. 427. The section

Page 19 (and last bullet in the "What's New") At the end of the instructions for Line 10--Interest, we added language and a worksheet to compute the qualified mortgage insurance premiums deductions. (P. L. 109-432, Act section 419, action # 67.00200)

645 replacement text was part of a 2003 agreement with counsel to implement T.D. 9032, I.R.B. 2003-7, 471.

- Under "Income," the paragraph concerning the extraterritorial income exclusion was modified to note that the exclusion is not available for transactions after 2006; however, income from certain long-term sales and leases may still qualify for the exclusion. (Implan Action #67.00626)

Page 17

- The line 5 and 6 instructions were amended to provide information about the reporting of farm rental income and expenses based on crops or livestock produced by a tenant on Schedule E (Form 1040). A Caution Icon was added, telling filers to use Schedule E (Form 1040) to report the tenant income and warning them not to use Form 4835, Schedule F (Form 1040), or line 6 Farm Income or (Loss) to report the income. (Technical Advisor)

Page 20

- References to a trust's deductible share of qualified production activities income from certain activities increased for 2007 from 3% to 6%. See IRC section 199(a)(2).

Page 21

- The Exemption Worksheet for Qualified Disability Trusts^{Only} was updated with the 2007 exemption threshold amounts, the current year's exemption amount, and limited exemption for trusts with modified AGI over \$156,400. (Rev. Proc. 2006-53)

Page 23

- The instructions for Schedule A, Charitable Deduction, were modified to notify filers that:
 - that trusts other than split-interest or nonexempt charitable trusts, claiming a charitable deduction must file a Form 1041-A unless the trust is required to distribute currently to the beneficiaries all the income for the year, and
 - pooled income funds and charitable lead trusts must also file a Form 5227.

Page 26—27

- The 2006 tax rate schedules for trusts and estates was replaced with the 2007 rates.
- The paragraph concerning the qualified electric vehicle credit was changed to note that it does not apply to vehicles placed in service after 2006, except in limited circumstances. (Implan Action #67.00684)
- The credits listed under Line 2c, General Business Credit, were reordered reflecting the movement of the Work opportunity credit, the Enhanced oil recovery credit, and the Credit for employer social security and Medicare taxes paid on certain employee tips off the Form 3800 and to a separate requirement to list the credits involved in the blank on line 2c.

Page 36

- The Schedule D instructions were updated under “What’s New” and in the General Instructions. We noted that the Schedule D-1, Continuation Sheet for Schedule D was now available for reporting Schedule D gains and losses not otherwise reportable on Schedule D, due to space constrictions.

Page 39

- Just before the specific instructions for Schedule D and D-1, two new paragraphs were added concerning the exclusion from gain from DC zone assets or qualified community assets and how to report any gain from the sale. Specifically, the filers should enter on line 6a, column (a) “DC Zone Asset” or “Qualified Community Asset” and in column (f) enter a loss for the amount of the allowable exclusion.

Page 43—44

- The Schedule D Tax Worksheet instructions were changed to provide that the worksheet should be used only if, in addition to the other requirements, line 14b, col. 2, 14c, col. 2, or Schedule D is more than zero, or both line 2b(1) of Form 1041 and line 4 g of Form 4952 are more than zero.

Page 46--47

- The Schedule K-1 instructions were modified to reflect changes made by T.D. 9350, 2007-38 I.R.B. 607, deleting the requirement that filers put the estate’s or trust’s tax shelter registration number on the Schedules K-1:
 - A paragraph was added to the “What’s New” for the Schedule K-1 instructions, noting that the filer no longer had to enter the estate’s or trust’s tax shelter registration number (Box F previously);
 - We noted that Form 8271, Investor Reporting of Tax Shelter Registration has been made obsolete and deleted the requirement for attaching a copy of the Form 8271;
 - The remaining boxes were relettered to reflect the deletion of the boxes F and G;
 - A paragraph later on the same page concerning Tax Shelter Identification Numbers was deleted; and
 - The specific instructions for boxes F and G deleted.

Page 49

- Under “Other information” an example was added of additional information that a filer may be required to include with any Schedule K-1 for the beneficiaries.

Page 50

- The address of the Tax Products Coordinating Committee was updated with the new room number 6526.

Page 52

- The “Where to File” chart was updated to include “Department of the Treasury” as the first line of all of the addresses, thereby meeting the new requirement for 3 line addresses.

**Major Changes to 2007 Schedule D (Form 1041)
Capital Gains and Losses**

- On page 1, lines 1 and 6 were each divided into 1a and 1b and 6a and 6b, respectively. These changes are being made to accommodate the new Schedule D-1, Continuation Sheet for Schedule D (Form 1041). Lines 1b and 6b will be the new entry lines for any amounts listed on Schedule D-1.
- On page 2, Part V, we added a caution for certain filers, who need to complete the worksheet in the instructions rather than completing Part V. This was added after discussions.
- Otherwise, the dates and COLA amounts were updated throughout the product as needed.

**Major Changes to the 2007 Schedule J (Form 1041)
Accumulation Distribution for Certain Complex Trusts**

We updated the dates throughout the document, but no other changes were made.

**Major Changes to 2007 Schedule K-1 (Form 1041),
Beneficiary's Share of Income, Deductions, Credits, etc.**

- On page 1, under Part I, Information About the Estate or Trust, blocks F and G, concerning Tax Shelter Registration Numbers and whether Form 8271, Investor Reporting of Tax Shelter Registration, is attached, were deleted. The remaining blocks H—J were relettered as F—H. See T.D. 9350, 2007-38 I.R.B. 607.
- On page 2, under credits, due to reordering of the credits on the Form 3800, the codes, and the movement of various credits off the Form 3800 (P.L. 67.00006, Act sec. 8214).
 - The line references for the following credits were updated to conform with the Form 3800 lines: Low-income housing credit Form 3800, line 1d; Welfare-to-work credit Form 3800, line 1b; Credit for increasing research activities Form 3800 line 1c; Indian employment credit Form 3800 line 1g; Orphan Drug Credit Form 3800 line 1h; Credit for employer provided child care and facilities Form 3800, line 1k; Nonconventional source fuel credit Form 3800, line 1p; and the Energy efficient appliance credit Form 3800 line 1r.
 - The Work opportunity credit line reference has been changed to reflect that filers must now file for this credit on Form 5884.
 - The line reference for the Hurricane Katrina Housing Credit changed to reflect changes made to Form 5884-A.
- The only other changes to the form were to the dates, and minor changes caused by the current style guide.