Selected Issues Concerning The State Income Taxation Of Nonresident Trusts And Estates

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STATE & LOCAL TAXES

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Trusts have played a significant role in serving affluent families for centuries, and the basic federal statutory landscape for taxing trusts and their beneficiaries has remained relatively intact for about the past 50 years. However, the state income taxation of trusts has become an increasingly complicated and challenging task for trustees and their tax advisers in carrying out their responsibilities to both trust settlors and beneficiaries.

Some of these challenges are simply inherent in the nature of trusts. For example, at least two aspects of trusts make them distinctive from other taxpayers. First, for income tax purposes, trusts operate as flowthrough entities to the extent that current distributions are made to beneficiaries and as separate taxpayers with regard to undistributed amounts retained at the trust level. Second, a lack of integration exists between the two principal conventions governing the operations of trusts: fiduciary accounting and income taxation.

Other challenges have arisen due to changes in societal and marketplace conditions. Financial markets have dramatically evolved, and there are more investment products and strategies available than ever before. Trust portfolios have moved from traditional "stock and bond" allocations to investments in real estate, private equity, venture capital, and hedge funds. This migration toward more sophisticated investment holdings has increased the complexity of federal and state income taxation and related tax return preparation. Simple investment statements and Forms 1099 have been replaced with complicated Schedules K-1, many of which include pages of supplemental state tax information.

Coincidentally, and particularly noticeable over the past five years, the federal tax compliance environment for taxpayers (including trusts) has become increasingly complex, mainly as a direct result of legislative and regulatory actions taken to address the use of tax shelters, improve disclosures of foreign holdings, and increase overall transparency. Not to be outdone, many states have initiated their own reporting requirements as well.

Finally, the aftermath of the recent financial crisis has left many states with a significant budget shortfall. Consequently, many states are now ramping up efforts to increase tax revenue by enacting new legislation mandating higher taxes or increasing enforcement and collection efforts. Many trustees have noticed increased correspondence and assessments from state tax authorities, particularly as it relates to nonresident state tax compliance.

The convergence of these factors has resulted in the perfect storm for trustees and their tax advisers: Never before has there been as much complexity combined with the heightened risk associated with potential noncompliance. This column attempts to identify, although may not necessarily resolve, selected state income tax issues for nonresident trusts that are a direct result of these recent challenges.

Settlors, Trustees, Beneficiaries

To provide a background for the discussion that follows, this column begins with a brief overview of certain terms particular to the world of trusts and estates. A trust is an arrangement under which one person (the settlor or grantor) transfers title to specific property to another (the trustee or fiduciary), who agrees to hold or manage the property for the benefit of a third person (the beneficiary).[1] The beneficiary may receive income or principal distributions from the trust. Income for this purpose is trust accounting income (sometimes called fiduciary income), which is determined under the terms of the trust agreement and applicable local law.[2] Trust accounting income is a separate concept from taxable income.[3]

In the case of an estate, the decedent is the person who died and thereby created the estate; the executor or personal representative is the person (or organization) responsible for administering the estate; and the beneficiary or heir is the person who will inherit assets from the estate.

Because the income tax treatment of trusts and estates is generally consistent, this column will use the term "trust" to refer to both trusts and estates, unless otherwise noted. In addition, it is not uncommon for government forms and instructions to refer to the trust itself as the fiduciary, and that reference has been used in certain examples that follow.

State Income Taxation of Nonresident Trusts

Similar to the taxation of resident individuals, most states tax a resident trust on all its income and tax a nonresident trust on income sourced to that state. Much has been written about the various state rules for determining when a trust is a resident trust. This column will not specifically review those issues but will instead focus on selected topics relevant to nonresident trusts, including (1) the allocation of state-sourced income between the trust and beneficiaries, (2) passive activity loss rules, (3) net operating loss rules, (4) "throwback" rules, (5) grantor trusts, (6) reportable transaction disclosure requirements, and (7) estimated state tax payments and withholding.

Allocation of State-Sourced Income Between Trust and Beneficiaries

The federal income tax deduction for distributions to beneficiaries makes trusts unique taxpayers.[4] Depending upon the terms of the governing instrument and/or the trustee's actions, trust income may be taxed to:

- The trust on its income tax return (Form 1041, U.S. Income Tax Return for Estates and Trusts);
- The beneficiary on his or her personal income tax return (Form 1040, U.S. Individual Income Tax Return); or
- Some combination of both.

This potential shifting of the liability for the tax payment is accomplished by the trust's distributing income to its beneficiaries and the allowance of an income distribution deduction (IDD).[5] Most states follow federal tax treatment and allow the trust an IDD. Likewise, most states tax beneficiaries on the income associated with the IDD. In many states, the adoption of the federal system is built in because the state uses federal adjusted gross income or federal taxable income as the starting point for the state tax calculation.

However, most states tax nonresident trusts and nonresident beneficiaries only on the income sourced to the state. Most states also allow a nonresident trust an IDD in computing taxable income. California Code Regs. Section 17742 is fairly typical and provides a simple illustration.

> *B* is the executor of the estate of *A*, who was a nonresident of [California] at the time of death. All the beneficiaries are likewise nonresidents. During the year 1980, the gross income of the estate from all sources amounted to $100,000, $50,000 of which was derived from real and personal property located, and from business transacted, in this state. The losses, depreciation, and depletion sustained with respect to the property in California, and the taxes, licenses, expenses, and bad debts, etc., properly deductible from the California income amounted to $40,000. Thus, the income from California sources, prior to deducting amounts distributed to beneficiaries, amounted to $10,000. Of this amount, $6,000 was distributed to beneficiaries during the year pursuant to a partial distribution of the estate. The remaining $4,000 is the [California] net income of the estate.[6]

When a nonresident trust has income and losses from several different states, it can become difficult to determine how much of the income sourced to the state has been distributed to the beneficiaries. In the situation in the example below, if neither the trust nor its beneficiary is considered a resident of California, Illinois, or New York, who pays the New York and Illinois tax on the income sourced to those states, and to what extent?

> ***Example:*** Trust *T* is invested in three partnerships; each operates in a different state. Partnership *A* reports $10,000 of New York-source ordinary income. Partnership *B* reports $15,000 of California-source ordinary loss. Partnership *C* reports $7,000 of Illinois-source ordinary income. *C*, an Illinois partnership, distributes $12,000 of cash to a nonresident trust. *A* (New York) and *B* (California) do not make any distributions. *T* distributes $10,500 in cash to the beneficiary. *T* has $500 of federal distributable net income (DNI). As reflected on the federal Schedule K-1, the beneficiary receives $500 of ordinary income from *T*. See Exhibit 1.

In most states, there is little or no guidance for determining the trust's share of the state-sourced income when that income exceeds the federal income. Illinois is an example of one such state. The Illinois Schedule NR is used to compute a nonresident trust's Illinois income.[7] Amounts from Form 1041 are reported in column A, the trust's share of column A is reported in column B, and the Illinois portion of the trust's share is reported in
column C.

In the example, the ordinary income and loss are netted; $2,000 is reported on Form 1041, line 5, and is then reported on the Illinois Schedule NR, column A, line 6a. The trust's share of the $2,000 is $1,500 ($2,000 of total income less the $500 that was distributable to the beneficiary), which is reported in column B, line 6b. The instructions to the form do not provide clear guidance to determine the Illinois-source amount to be reported in column C, line 6c. Under the heading "Column C, Illinois Portion" the instructions state, "Write the portion of Column B, Fiduciary's share, that is taxed by Illinois." However, it is not safe to assume that column C, the Illinois-source column, cannot exceed the amounts in columns A or B. See Exhibit 2.

The Schedule NR instructions direct the taxpayer to "[w]rite the amount of net gain or loss you [the trust] received from partnerships or subchapter S corporations as directed by Illinois Schedule K-1-P," Partner's or Shareholder's Share of Income, Deductions, Credits, and Recapture. The K-1-P instructions simply say to "[i]nclude your fiduciary's share of this total amount on your Schedule NR, Step 3, Line 6, Column C." The instructions do not explain how the fiduciary's share or the beneficiary's share are determined for Illinois tax purposes. Likewise, the instructions for completing Schedule K-1-T, Beneficiary's Share of Income and Deductions, which is used to report to the beneficiary his or her share of Illinois income and deductions, are no more helpful: "If you [the trust] are a beneficiary of another trust or estate, a partner in a partnership, or a shareholder in an S corporation, you need to complete a pro forma Schedule K-1-T that identifies each beneficiary's share of your share of items received from that entity." The instructions do not provide any additional guidance as to how the trust should do this.

New York provides more guidance on how the New York-source income should be divided between the trust and the beneficiary. In most situations, that income is allocated based on the percentage of federal DNI going to the trust and each beneficiary.[8] Using this method in the example, all the New York income is allocated to the beneficiary because the beneficiary received all the $500 federal DNI. In situations where the trust has no federal DNI, the New York income is allocated based on the percentage of trust income under local law or the trust agreement.[9] The New York law and regulations also provide for alternative methods when these allocation methods result in "inequity which is substantial both in amount and in relation to the amount of the [New York] modifications."[10]

Finally, Fiduciary Allocation Form IT-205-A says, "do not complete Form IT-205-A if none of the income distributable to the nonresident beneficiaries is derived from New York State sources, even if other income is distributable to those beneficiaries."[11] This was not the case in the example because there was $10,000 of distributable income from *A*, the New York partnership, even though it did not distribute any cash. However, this provision would apply in situations where the New York income was a type of income that was not distributable to the beneficiary (e.g., income from an S corporation when the trust has made an electing small business trust election).[12]

To further complicate matters, some states may have special rules that alter or disallow the IDD. For example, California disallows the IDD for amounts taxable to nonresident beneficiaries if the estate fails to obtain a tax clearance certificate from the Franchise Tax Board.[13] In addition, rules related to certain types of income or loss, such as passive activity losses (PALs) and net operating losses (NOLs), can complicate the calculations even more.

PAL Rules

As separate taxpayers, trusts are subject to the federal PAL rules.[14] Generally, passive losses can only offset passive income, with any net passive loss disallowed and carried forward at the trust level. To the extent that the trust has passive income in a subsequent tax year, such passive income would offset passive loss carryovers first and only the net amount included in DNI, which then could be passed to beneficiaries. As an extension to the example, if all three partnerships were considered passive and the trust had a $5,000 PAL carryover into the year, that carryover would offset the net passive income from the partnerships, resulting in no DNI. Thus, no income would be distributable and taxable to the beneficiary on his or her Schedule K-1. Further, where the trustee and/or trust employees materially participate in the operations of the activity (e.g., partnership generating the loss), the PAL rules may not apply.[15]

Most states adopt the federal PAL rules but provide little guidance as to how nonresident trusts and nonresident beneficiaries should apply these rules. In many states, the federal PAL rules are built in because the state uses federal adjusted gross income or federal taxable income as the starting point for the state tax calculation. There are also states that do not adopt the PAL rules or have their own system for limiting losses (e.g., Pennsylvania[16] and New Jersey[17]). In the states that adopt the federal PAL rules, there are different methods for applying those rules to nonresidents. Some states, such as New York, require the nonresident taxpayer to apply the PAL rules to the state-sourced income as if that were the only income (i.e., these states apply the state sourcing rules first and then apply the PAL rules to the state-sourced income).[18] Other states, such as Illinois, look to determine which items of income or loss included in federal adjusted gross income are sourced to their state (i.e., they apply the PAL rules first and then the state sourcing rules).[19] Under either method, applying the PAL rules to nonresident trusts adds an extra layer of complication and traps for unwary taxpayers.

NOL Rules

For federal income tax purposes, trusts follow individual taxpayer rules and can generate an NOL if business deductions exceed income in a given tax year. Trusts are allowed to carry back an NOL for 2 years (by filing either Form 1045, Application for Tentative Refund, or an amended Form 1041) or, alternatively, carry forward an NOL (by election) for up to 20 years by including the loss on the subsequent year's tax return.[20]

The treatment varies by state and does not necessarily match that for federal purposes. Some states allow NOLs to be carried back following the federal rules, whereas other states, such as Illinois[21] and Kansas,[22] only allow losses to be carried forward. In some states, such as Illinois, the NOL rules for trusts may be different from the NOL rules for individuals.[23] Several states require the existence of a federal NOL in order to have a state NOL (i.e., a nonresident with a loss in the state does not have a state NOL unless it has a loss from all sources on its federal return).

In any event, most states require the taxpayer to file in the loss year in order to preserve the NOL. Yet many of those same states lack tax forms or instructions to calculate a nonresident trust NOL. This lack of guidance often leaves taxpayers to their own devices, with logic as a guide, to prepare schedules documenting the NOL.

The unique five-year NOL carryback election available for tax years 2008 and 2009 enacted as part of the American Recovery and Reinvestment Act of 2009[24] further complicated the situation. Some states matched the federal carryback election period, but most states did not. Although the special election no longer applies for tax years after 2009, Congress has set a precedent, and there could be an extended NOL period again in the future.

In summary, taxpayers should pay attention to state-sourced NOLs, consider filing in loss years, and not miss an election deadline by assuming the states will follow the federal treatment.

Accumulation Distributions: The Federal Throwback Rule

Historically, federal accumulated distribution rules were designed to prevent the accumulation of trust income by a complex trust[25] over several years, with distributions to the beneficiary in later years in which the beneficiary is in a lower income tax bracket. These rules served to carry back (or throw back) distributions in excess of the net income in the distribution year, taxing the beneficiary as if the distributions had been made in the year of accumulation to the extent of the previously accumulated DNI. The objective was to provide that the total of the taxes paid at the trust and beneficiary levels was roughly equivalent to the tax that would have been paid had all DNI been distributed in the year in which it was earned by the trust.

For federal income tax purposes, these throwback rules are now ancient history for virtually all domestic trusts. The Taxpayer Relief Act of 1997[26] removed the accumulation distribution throwback provisions for all domestic trusts for distributions in tax years beginning after August 5, 1997, except as applied to multiple trusts defined in Sec. 643(f).[27] Why? When the Tax Reform Act of 1986[28] reduced individual income tax rates and collapsed the marginal tax brackets, the benefit of allocating income between the trust and the beneficiary was reduced significantly. In fact, a trust that accumulated income typically paid more tax given the steep marginal income tax brackets for trusts.

In some states, such as California, concepts similar to the throwback rule are alive and well as states seek to tax resident beneficiaries on distributed taxable income on which the trust has not paid tax to their state. The California throwback rule requires a beneficiary who is a California resident to pay tax on income if the trust did not pay the tax.[29] That rule also applies when the trust is a nonresident trust, eliminating much of the advantage of arguing that a California beneficiary is a contingent beneficiary.[30] The California law states, "If no taxes have been paid on the current or accumulated income of the trust because the resident beneficiary's interest in the trust was contingent such income shall be taxable to the beneficiary when distributed or distributable to him or her."[31] Under certain circumstances, the California throwback rule can even apply if both the trust and the beneficiary are nonresidents at the time of the distribution. The California law states, "In the event that a person is a resident beneficiary during the period of accumulation, and leaves [California] within 12 months prior to the date of distribution of accumulated income and returns to [California] within 12 months after distribution, it shall be presumed that the beneficiary continued to be a resident of [California] throughout the time of the distribution."[32] These throwback rules may reduce potential planning opportunities but may also create additional complications and traps for unwary trustees, beneficiaries, and their respective advisers.

Grantor Trusts

A grantor trust is a trust in which the settlor or someone other than the settlor is treated as the owner of either a portion of or the entire trust, as determined by the application of the grantor trust rules.[33] For federal income tax purposes, a wholly grantor trust is disregarded as a separate taxpayer, and all items of income, deduction, and credits are taxed to the owner.[34]

Most states follow the federal treatment of grantor trusts. However, there are some states that do not. For example, Pennsylvania requires grantor trusts (other than revocable trusts) to file Form PA-41, Pennsylvania Fiduciary Income Tax Return, and pay tax on Pennsylvania-source income not distributed to a beneficiary.[35] This treatment can result in unexpected situations, such as a grantor retained annuity trust (GRAT) with Pennsylvania-source income owing tax in Pennsylvania, independent of the grantor trust rules taxing all trust attributes to the grantor for federal income tax purposes.

Reportable Transaction Disclosure Requirements

A reportable transaction is one that may have characteristics of a tax avoidance transaction and therefore requires additional federal reporting. Treasury regulations and instructions for Form 8886, Reportable Transaction Disclosure Statement, list various transactions that require additional disclosure.[36] The federal government can assess penalties for failure to disclose a reportable transaction, so many taxpayers have opted for a "safe, not sorry" approach to disclosure. The owner of a flowthrough entity could be viewed as "participating" in a reportable transaction as a result of its flowthrough entity "participating" in the transaction.[37] As a result, trusts invested in sophisticated investment vehicles are faced with complex, time-consuming, and potentially duplicative disclosures at the trust level and possibly at the beneficiary level as well.

Currently nine states (California, Colorado, Illinois, Minnesota, New York, Oregon, Utah, West Virginia, and Wisconsin) have enacted legislation requiring taxpayers to disclose their participation in reportable transactions. Such disclosure generally involves attaching federal disclosure forms (Form 8886) to state income tax returns and in some cases mailing such forms to a separate state address. Some states, including California and New York, have also identified state-specific reportable transactions that taxpayers must report (i.e., transactions that are not federal reportable transactions but must be reported for state purposes).

In addition, four other states (Connecticut, Missouri, Montana, and Pennsylvania) have administrative tax authority to request reportable transaction information from taxpayers without the adoption of comprehensive state reportable transaction legislation.

Other states may have also administratively required that taxpayers attach Form 8886 to the return, so advisers should give special attention to the applicable state instructions.

Estimated State Tax Payments and Withholding Requirements

For federal income tax purposes, a trustee can elect under Sec. 643(g) to treat any portion of estimated tax payments that the trust has made within the tax year as allocable to the beneficiary.[38] The election deems the payments as made by the beneficiary as of January 15 of the following tax year (i.e., a fourth-quarter estimated tax payment).[39] The election, made by filing Form 1041-T, Allocation of Estimated Tax Payments to Beneficiaries, by the 65th day after the close of the calendar year, gives trustees the ability to match estimated tax payments with the respective allocation of income between the beneficiary and the trust for which the estimated tax payments were made. In the event of an unanticipated distribution that carries out

DNI to a beneficiary, the ability to allocate estimated payments to the beneficiary is especially helpful to a beneficiary who otherwise may be underpaid. The trustee, meanwhile, avoids a free loan to the government, since the trust will receive an IDD for the distribution.

A few states, such as California,[40] New York,[41] and Hawaii,[42] follow the Sec. 643(g) approach, but many others do not. As a result, a beneficiary may receive an allocation of state-sourced income in a state for which no estimated tax payments have been made, subjecting the beneficiary to underpayment and possibly late-payment penalties.

Similarly, many states, such as California,[43] Illinois,[44] and Indiana,[45] now require trusts to withhold on state-sourced income distributable to nonresident beneficiaries. These withholding rules vary from state to state in terms of reporting requirements and when trusts must make the withholding payments to the state. In several states a distribution to the beneficiary can trigger a withholding payment to the state. For example, Indiana requires that a trust pay the withholding to the state by the 30th day of the month following the distribution to the beneficiary.[46] This can create a number of issues for the trust. For example, if the state-sourced income was derived from a passthrough entity, the trustee may not know about the sourced income when making distributions and may inadvertently fail to meet the withholding requirements. Furthermore, as discussed above, determining how much of a distribution is from income sourced to a particular state can be complicated when the trust has income and losses from several states.

Conclusion

This column only briefly reviews some of the state income tax issues for nonresident trusts. There are a number of issues that are not covered, such as credits for taxes paid to other states. However, the issues summarized here highlight how the state income tax rules are evolving and changing as a result of marketplace, legislative, and regulatory activity. Trustees and tax practitioners are well advised to give special attention to state income tax matters for trusts with income and losses sourced to multiple states.

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Footnotes

[1] The beneficiary could be the same person as the settlor in a self-settled trust.

[2] Sec. 643(b).

[3] This column does not address the fundamental aspects of trust accounting income that determine distributable net income (DNI) for federal income tax purposes. We caution readers to consider the trust accounting issues when preparing federal and state income tax returns for trusts. For a reference guide on this topic, consider *Fiduciary/Trust Accounting: A Comprehensive Practice Guide* (AICPA 2008) or *Practice Guide for Fiduciary (Trust) Accounting: A Guide for Accountants Who Perform Fiduciary Accounting Services* (AICPA 2007).

[4] Regs. Secs. 1.651(b)-1 and 1.661(a)-2.

[5] Sec. 661(a).

[6] CA Code Regs. tit. 18, §17742(a).

[7] IL 2010 Form IL-1041, Schedule NR, Nonresident Computation of Fiduciary Income (rev. 12/10).

[8] NY Tax Law §§634(a)(3) and (b).

[9] NY Tax Law §634(b)(1). The phrase "trust income under local law" is not specifically defined in §634 or in NY Comp. Codes R. & Reg. §139.4. However, the phrase is also used in NY Comp. Codes R. & Reg. §119.2(b). Example 1 in §119.2(b) uses "income for trust accounting purposes," indicating that trust income under local law means income for trust accounting purposes.

[10] NY Tax Law §634(b)(2); see NY Comp. Codes R. & Reg. §119.3.

[11] 2010 NY Form IT-205-A, Fiduciary Allocation, p. 1.

[12] Sec. 1361(e).

[13] CA Rev. & Tax. Code §§17735 and 19513.

[14] Sec. 469.

[15] *Mattie K. Carter Trust*, 256 F. Supp. 2d 536 (N.D. Tex. 2003). Generally, "passive activity" means any activity involving the conduct of a trade or business in which the taxpayer does not "materially participate" (Sec. 469(c)(1)).

[16] PA Dep't of Rev., *Pennsylvania Personal Income Tax Guide*, ch. 13, p. 3 (2/2/10).

[17] NJ Div. of Taxation, *Bulletin GIT-9S*, question S-5, p. 15 (December 2007; web update December 2010).

[18] NY Tax Law §631(b)(4).

[19] See, e.g., IL Admin. Code tit. 86, §100.2410; IL IT 87-0271-PLR (11/3/87), IT 88-0171-PLR (6/9/88), and IT-88-0170-PLR (6/9/88).

[20] Sec. 172.

[21] 35 IL Comp. Stat. 5/207(a)(3).

[22] KS Stat. Ann. §79-32,143.

[23] 35 IL Comp. Stat. 5/207.

[24] American Recovery and Reinvestment Act of 2009, P. L. 111-5.

[25] A complex trust, by definition, is any trust that does not qualify as a simple trust. A simple trust (1) requires that all income be distributed currently, (2) provides that no amounts be paid, permanently set aside, or used for charitable purposes, and (3) does not distribute any amounts allocated to trust corpus (Sec. 651).

[26] Taxpayer Relief Act of 1997, P.L. 105-34.

[27] Sec. 643(f) trusts are established with substantially the same grantor(s) and the same primary beneficiary (or beneficiaries) and have a principal purpose of tax avoidance (e.g., spreading income over a series of trusts to take advantage of lower marginal tax brackets and multiple personal exemptions).

[28] Tax Reform Act of 1986, P.L. 99-514.

[29] CA Rev. & Tax. Code §17745.

[30] California considers a trust to be a resident trust to the extent that a noncontingent beneficiary is a California resident. As a result, some trusts take the position that a California beneficiary is a contingent beneficiary to avoid California taxation of the trust.

[31] CA Rev. & Tax. Code §17745(b).

[32] CA Rev. & Tax. Code §17745(e).

[33] Secs. 673–679.

[34] Sec. 671.

[35] PA Dep't of Rev., *Pennsylvania Personal Income Tax Guide,* ch. 14, p. 4.

[36] Sec. 6011; Regs. Sec. 1.6011-4.

[37] Regs. Sec. 1.6011-4 (c)(3).

[38] Sec. 643(g).

[39] Sec. 643(g)(1)(b); Notice 87-32, 1987-1 C.B. 477, Q&A-12.

[40] CA Rev. & Tax. Code §17731; see also California Form 541-T, California Allocation of Estimated Tax Payments for Beneficiaries.

[41] NY Tax Law §685; see also New York Form IT-205-T, Allocation of Estimated Tax Payments to Beneficiaries.

[42] See HI Form N-40T, Allocation of Estimated Tax Payments to Beneficiaries.

[43] CA Rev. & Tax. Code §18662.

[44] 35 IL Comp. Stat. 5/709.5.

[45] IN Code §6-3-4-15.

[46] IN Code §6-3-4-15(a)(2).

EditorNotes

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Exhibit 1: Nonresident trust with income and losses from different states

Trust		
New York-source ordinary income (*A* K-1)		$10,000
California-source ordinary loss (*B* K-1)		(15,000)
Illinois-source ordinary income (*C* K-1)		7,000
	Total income of trust	2,000
Attorney and accountant fees		(1,500)
Income distribution deduction		(500)
	Taxable income of trust	$ 0
Beneficiary's federal K-1: Ordinary income		$ 500

Exhibit 2: Illinois Schedule NR

Step 3: Figure the Illinois portion of your federal taxable income

See instructions for Columns A, B and C for each line item.

Check the box if you are making the Business Income Election (see instructions). ☐	A U.S. Form 1041	B Fiduciary's Share	C Illinois Portion
1 Interest income	1a _____ .00	1b _____ .00	1c _____ .00
2 Dividends	2a _____ .00	2b _____ .00	2c _____ .00
3 Business income or loss	3a _____ .00	3b _____ .00	3c _____ .00
4 Gain or loss on sales and exchanges	4a _____ .00	4b _____ .00	4c _____ .00
5 Net rent and royalty income	5a _____ .00	5b _____ .00	5c _____ .00
6 Income from partnerships and subchapter S corps	6a $2,000 .00	6b $1,500 .00	6c ? .00
7 Income from trusts and estates	7a _____ .00	7b _____ .00	7c _____ .00