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LIST OF SUBSTANTIVE CHANGES AND ADDITIONS

PPC's 1041 Deskbook

Twenty-ninth Edition (October 2020)

Highlights of this Edition

The following are some of the important new features of the 2020 Edition of *PPC's 1041 Deskbook*:

- **Final Regulations on Miscellaneous Itemized Deductions.** The IRS issued final regulations clarifying expenses that are deductible under IRC Secs. 67 and 642. The new regulations also formally adopt the treatment of the deductibility of certain expenses and provide guidance on how to allocate and report excess deductions among beneficiaries of an estate or trust. This edition discusses these regulations and how to report the excess deductions (Key Issues 13A, 13C, and 24D).
- **New NOL Carryback/Carryforward Rules under the CARES Act.** The CARES Act modified and delayed the application of certain NOL carryback/carryforward rules under TCJA, which eliminated the NOL carrybacks (except for certain farm losses) and limited the offset of taxable income of up to 80% only. The CARES Act allows for certain NOLs to be carried back five years, and a deduction of up to 100% (as opposed to 80%) of taxable income. This edition also includes a new example and a new table explaining these rules under the CARES Act (Key Issue 14B and Table T311).

In addition to these featured items, your *Deskbook* includes the following update items.

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 1 Filing Matters	1. Added additional information about the Form 1041-A filing requirements.	1B
	2. Cautioned about filing Form 1041 electronically when there is tax due.	1I
CHAPTER 2 Accounting Periods and Methods	1. Added a practice tip about the IRS's announcement allowing taxpayers to fax the duplicate copy of Form 3115 for automatic accounting method changes instead of having to mail a paper copy.	2C
CHAPTER 3 Investment, Retirement, and Miscellaneous Income	1. Added a discussion on Roth 401(k), and qualified and nonqualified distributions from the account.	3G
CHAPTER 8 Depreciation and Depletion	1. Added a law change alert to discuss the technical correction under the CARES Act for qualified improvement property that was inadvertently excluded from the definition of assets eligible for a shorter depreciation recovery period under TCJA.	8G

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 10 Interest and Taxes	1. Added a new topic on the safe harbor for state and local tax credits for contributions made to state charitable funds. The IRS issued guidance requiring taxpayers to reduce charitable deductions for any tax credits received from the state unless the taxpayer meets the safe harbor conditions.	10F
CHAPTER 11 Charitable Contributions	1. Added a new example to include additional facts where a charity is a residuary beneficiary of an estate, and to clarify that there is no change in the charitable contribution deduction amount when the estate also incurred and paid other expenses.	11D
	2. Added a law change alert for the increase in AGI limitation to 100% for cash contributions during 2020 to 50% charities under the CARES Act.	11G
CHAPTER 13 Other Deductions	1. Added information about final regulations that clarify what is deductible in arriving at AGI and how to treat excess deductions upon termination.	13A
	2. Added a preparation pointer discussing the non-deductibility of tax preparation fees paid by the beneficiary when the trust holds non-liquid assets and has no cash to pay for it.	13A
	3. Expanded the discussion on direct and indirect expenses to include examples of each of the two expense categories.	13G
	4. Included an example of how to complete Form 8995 for a trust or estate and added a completed Form 8995 to the illustration.	13H and Illustration 13-7
CHAPTER 14 Net Operating Losses	1. Added information about a fax number to which taxpayers may submit Form 1045.	14C
	2. Included information about the extended due date for filing the election to forgo the NOL carryback for tax years beginning in 2018 and 2019.	14C
CHAPTER 16 Fiduciary Accounting Income	1. Added a discussion of allocating charges to income and principal according to the 1962 Act.	16C
	2. Included a discussion of when depreciation may not be charged against principal when determining fiduciary accounting income.	16C
CHAPTER 21 Tax Computations	1. Added a discussion on bond credits that allow a federal income tax credit, instead of receiving interest, to the holder of a qualified tax credit bond.	21D
CHAPTER 23 Tax Payments	1. Added a practice tip to clarify the discussion that a prior year's overpayments that resulted from withholding are treated as estimated tax payments for the current year. Therefore, any amount from this estimated tax payment can be allocated to the beneficiary.	23H
CHAPTER 24 Termination of Trusts and Estates	1. Added information about the modification of NOL carryforwards resulting from the CARES Act.	24C
	2. Clarified who bears the economic burden of loss with an additional example allocating carryover losses among beneficiaries.	24D
	3. Included new guidance for excess deductions on termination from recently released regulations under IRC Sec. 642(h).	24D

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 25 Split-interest Charitable Trusts	1. Added a preparation pointer listing other forms that should be attached to Form 5227 depending on the types of reported income.	25A
	2. Added an observation explaining why it is not advisable to contribute to an installment note to a charitable remainder trust as the deferred gain may be triggered.	25A
CHAPTER 27 Foreign Trusts	1. Added a new topic on the exceptions for filing Forms 3520 and 3520-A.	27H
	2. Added a law change alert for filing requirements for certain tax-favored foreign trusts and guidance on requesting an abatement of penalties for failure to comply with the information reporting requirements.	27H
	QUICK REFERENCE BINDER	
QUICK REFERENCE TABLES	1. Clarified the filing requirements for foreign grantor and non-grantor trusts.	T302
	2. Expanded the summary comparison of the Uniform Principal and Income Acts and the Uniform Fiduciary Principal and Income Act.	T310
CHECKLISTS	1. Added an issue to consider if any contributions were made to state charitable funds where safe harbor rules apply.	C102 & C103
	2. Added an issue to consider if a bond tax credit is claimed, the required Form 8912 has been completed, and the form is attached with the tax return.	C102 & C103

