

# Trust and Estate Final Year Excess Deductions

In the Final Return that is filed by an Estate or Trust (Form 1041), certain items that normally may not be reported on the Schedule K-1 (Form 1041) Beneficiary's Share of Income, Deductions, Credits, etc., are reported to the beneficiaries for inclusion on their tax returns. Specifically, certain "excess deductions", "capital loss carryovers" and "Net Operating Loss (NOL) carryovers" are reported to the beneficiaries on the final Schedule K-1 (Form 1041).

These Final Year Deductions are reported in Box 11 on the Schedule K-1 (Form 1041), and each deduction is discussed further below.

Excess Deductions occur only upon termination of the entity during the last tax year of the trust or decedent's estate, when the total deductions (excluding the charitable deductions, the exemption available to the entity, and NOL's) are greater than the gross income for the entity for the year. These include legal fees, accounting fees, fiduciary fees, and other administrative costs. Excess deductions are reported in Box 11 of the Schedule K-1 (Form 1041) with a code of A.

A beneficiary of a trust or estate is allowed any **Unused Capital Loss Carryover(s)**, that remain upon termination of a trust or estate. The amount of the capital loss carryover that can be reported to beneficiaries is still subject to the trust or estate's reporting on the Final Return (Form 1041) of any amount of the current year's capital loss (or capital loss carryover) that is permitted in that tax year. **If the trust or estate's capital losses including any carryover capital losses exceed their capital gains on the final tax return, the excess capital loss up to the annual limit of \$3000 is deducted on the Final Tax Return (Form 1041).**

Any remaining capital loss will be the Unused Capital Loss Carryover and reported to the beneficiaries. Any Short-Term Capital Loss Carryover is reported in Box 11 on the Schedule K-1 (Form 1041), with a code of B,

and any Long-Term Capital Loss Carryover is reported in Box 11 on the Schedule K-1 (Form 1041), with a code of C.

Upon termination of a trust or estate, a beneficiary may deduct any **Net Operating Loss (NOL)** if the carryover would be allowable to the trust or estate in a later year. Any NOL Carryover for regular tax is reported in Box 11 on the Schedule K-1 (Form 1041), with a code of D, and any NOL Carryover for Alternative Minimum Tax purpose is reported in Box 11 on the Schedule K-1 (Form 1041), with a code of E. For additional information see Publication 536 - Net Operating Losses (NOL's) for Individuals, Estates or Trusts.