AICPA & CIMA

Worldwide leaders in public and management accounting

2021 Estate and Trust Income Tax Return Checklist

Form 1041 (Short)

Client name and number ______________________

Prepared by ____________ Date ________ Reviewed by ____________ Date ________

100) General	Yes/ Done	No/ N/A
▶ 101) Obtain a signed engagement letter from the fiduciary.	☐	☐
▶ 102) Consider asking the fiduciary to execute Form 2848, *Power of Attorney and Declaration of Representative*.	☐	☐
▶ 103) If this is the first or final return for the estate or trust, or if changes in relationships have been made, consider whether Form 56, *Notice Concerning Fiduciary Relationship*, should be filed to notify the IRS of the creation or termination of a fiduciary relationship.	☐	☐
▶ 104) For an estate, determine the estate's name (check Form SS-4), address, tax identification number (TIN), date of decedent's death, tax year and the name and title of the fiduciary. Determine if Form 8822-B, *Change of Address or Responsible Party – Business*, has been or should be filed.	☐	☐
▶ 105) Ask the fiduciary to provide any correspondence related to the decedent, to or from the IRS or state tax authority, including any adjustments made to prior returns that could affect later returns.	☐	☐
▶ 106) Review the prior year's return including all supporting forms and schedules.	☐	☐
▶ 107) Review the proforma or organizer for accuracy.	☐	☐
▶ 108) Consider federal and state e-filing requirements.	☐	☐
▶ 109) If this is the first return for the estate, consider whether a fiscal tax year should be adopted.	☐	☐
▶ 110) If this is the first return for the estate, allocate items of income, deductions and credits between the decedent's final return and the estate's return.	☐	☐
▶ 111) If the taxpayer is a trust:		
1. Determine the trust's name (check Form SS-4), address, TIN, date the trust was created/funded, type (simple, complex or grantor) and the name of the trustee(s).	☐	☐

	Yes/ Done	No/ N/A
2. Determine whether the type of the trust has changed from a previously filed return.	☐	☐
3. For a trust that is treated as owned by one or more grantors or other persons, consider using an alternate method of reporting instead of filing Form 1041.	☐	☐
4. Determine the date the trust terminates, if known.	☐	☐
5. Determine the trust's accounting income under the governing instrument and local law.	☐	☐
6. Determine the characterization of trust distributions (bequest, income or principal distributions).	☐	☐
▶ 112) Obtain and review an executed copy of the decedent's will or the trust instrument (including any amendments).	☐	☐
▶ 113) Determine how the income of the estate or trust is allocated among the estate or trust and the beneficiaries. Review dates of transactions from reporting documents to determine inclusion of income/deductions on the proper return.	☐	☐
▶ 114) If it is the first year of an estate:		
1. Determine whether there is a qualified revocable trust for which an election may be made to treat the trust as part of the estate.	☐	☐
2. If necessary, prepare a reconciliation as an attachment to Form 1041/Form 1040 for any income that has been reported on an individual's or estate's TIN, but should be reported by the trust.	☐	☐
▶ 115) If the trust is a beneficiary of an estate, obtain Form 8971, *Information Regarding Beneficiaries Acquiring Property From a Decedent*, for basis notification purposes. Note that Form 8971 excludes cash distributions.	☐	☐
▶ 116) Obtain each beneficiary's name, TIN, address, date of birth and state of residency.	☐	☐
▶ 117) Determine the basis of all assets received by (contributed to) the estate or trust.	☐	☐
▶ 118) Determine state filing requirements for the trust. Consider the following: residency of beneficiaries, where the trust was formed, residency of the trustee and where the trust is governed/administered.	☐	☐

Comments/explanations

200) Income	Yes/ Done	No/ N/A
Interest/dividends/gain or loss on property		
▶ 201) Request all Forms 1099 received by the taxpayer.	☐	☐
▶ 202) Compare sources and amounts of interest/dividend income with prior year returns (including individual returns, as applicable).	☐	☐
▶ 203) Determine whether any dividends received were paid by a domestic corporation on stock held by the taxpayer for the requisite holding period to be considered “qualified dividends.”	☐	☐
▶ 204) For estates, determine whether dividends reported on the decedent’s Forms 1099-DIV include dividends earned after the date of death that should be reported on the estate’s return.	☐	☐
▶ 205) Obtain the Closing Disclosure document for any purchases or sales of real property.	☐	☐
▶ 206) Were there any sales of tangible property in the taxable year? If so, determine the sales price, the cost basis, the amount of accumulated depreciation taken in prior years, including any depreciation recapture, and the holding period.	☐	☐
▶ 207) Were any shares of stock or other securities disposed of during the taxable year? If so, obtain the following: name of the issuer, number of shares (stock) or maturity date (bonds), date acquired, selling price and basis.	☐	☐
▶ 208) Were any assets other than securities disposed of during the taxable year? If so, obtain the following information: description; date acquired; date sold; whether personal use, rental or business use; selling price and basis.	☐	☐
▶ 209) If the property sold or exchanged was acquired by gift and the trust’s basis is determined by using the donor’s basis, determine the donor’s holding period.	☐	☐
▶ 210) Determine whether any property acquired from a decedent was sold within 12 months after the decedent’s death. If so, consider Sec. 1014(e).	☐	☐
Business income		
▶ 211) Determine whether the estate or trust operated a trade or business and, if so, obtain the following: employer identification number, business name, principal business, business address, accounting method and inventory method (if any). Consider state nexus issues related to the trade or business.	☐	☐
▶ 212) Did the trust or estate participate in the activity on a regular, substantial and continuous basis?	☐	☐
▶ 213) Calculate the qualified business income (QBI), W-2 wages, unadjusted basis of qualified property, qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership income for purposes of the Sec. 199A deduction. Consider any Sec. 199A carryovers.	☐	☐
▶ 214) Did the operating business receive funds from the Paycheck Protection Program (PPP) during the taxable year? If so, was any of the loan considered forgiven in 2021?	☐	☐

	Yes/ Done	No/ N/A
Rental income		
▶ 215) For each rental property, obtain a description of the type and location of the property and the total rent received. Also obtain expense amounts for advertising, auto and travel, cleaning and maintenance, commissions, insurance, legal and professional fees, management fees, repairs, supplies, taxes, utilities, wages and salaries, condo or co-op fees and other deductible expenses.	☐	☐
▶ 216) Obtain the following data regarding capital assets (including capital improvements) purchased in the taxable year for use as, or with respect to, rental properties: (1) description of asset, (2) percentage of use in non-rental activities, (3) date use began in the rental activity, (4) cost and (5) description of and cost of trade-in, if any. If the property was originally purchased in the taxable year, obtain the Closing Disclosure document.	☐	☐
▶ 217) If the return is for a decedent's estate, determine whether the decedent was actively participating in the activity in the year of death.	☐	☐
Pass-through income or loss		
▶ 218) Request all Schedules K-1 received by the estate or trust.	☐	☐
▶ 219) Determine the estate's or trust's basis with respect to each Schedule K-1 source.	☐	☐
▶ 220) With respect to each trade or business activity for which a Schedule K-1 is received, determine if the estate or trust is a limited partner, or if the estate or trust materially participated in the activity.	☐	☐
▶ 221) Determine if there are any partnership/LLC or S corporation losses in excess of basis carryforwards, at-risk loss carryforwards, passive losses or credit carryforwards to the taxable year.	☐	☐
▶ 222) Did the estate or trust own any publicly traded partnership interests? If so, determine whether there are any loss carryforwards.	☐	☐
▶ 223) Did the estate or trust receive a repayment of any shareholder loans from an S corporation in the taxable year? If so, determine the basis of the loan and whether the loan was documented.	☐	☐
▶ 224) Did the estate or trust have any unreimbursed partnership expenses? If so, determine if these are deductible and whether these amounts reduce self-employment.	☐	☐
▶ 225) Determine if any items related to the Sec. 199A deduction appear on Schedules K-1 received from any pass-through entity.	☐	☐
Miscellaneous income		
▶ 226) Did the estate or trust receive, sell, exchange or otherwise dispose of any financial interest in any virtual currency/cryptocurrency (e.g., Bitcoin, Ethereum, Ripple) in 2021? If so, determine the reportable amount realized.	☐	☐
▶ 227) Did the estate or trust receive any refunds of state or local taxes in the taxable year? Consider the tax benefit rule to determine whether a refund is taxable income?	☐	☐

	Yes/ Done	No/ N/A
▶ 228) Determine the amount of tax-exempt interest income received by the estate or trust (this amount must be disclosed under “Other Information” on page two of the return).	☐	☐

Comments/explanations

---

300) Deductions	Yes/ Done	No/ N/A
Interest expense		
▶ 301) If the proceeds of a loan were used for more than one purpose, determine the proper allocation of interest expense to qualified residence interest, other personal interest, passive interest, investment interest, business interest, tax-exempt interest, etc.	☐	☐
▶ 302) Consider any investment interest carryforward to the taxable year.	☐	☐
▶ 303) Consider the election to treat qualified dividends and net short-term capital gains as investment income.	☐	☐
▶ 304) Verify that personal interest, including interest paid on revolving charge accounts; personal notes for money borrowed from a bank, credit union or another person; installment notes on personal property; and taxes (except interest on certain deferred estate tax payments) is not deducted.	☐	☐
▶ 305) Determine the amount, if any, of interest expense incurred to purchase or carry obligations generating tax-exempt income.	☐	☐
Taxes		
▶ 306) Obtain the amounts paid by the estate or trust for state and local income taxes, real estate taxes and personal property taxes. Note that the limitations on state and local tax deductions apply to trusts. In the case of a non-grantor trust, consider having situs moved to a low-tax (or no-tax) jurisdiction.	☐	☐
▶ 307) Obtain the amounts paid by the estate or trust for any state and local taxes regarding a trade or business, or for the production or collection of income, or the management, maintenance or conservation of property held to produce income.	☐	☐
▶ 308) Verify that all fiduciary fees, attorney, accountant and return preparer fees, and other deductions not subject to the 2% floor on miscellaneous itemized deductions, are properly deducted. Note that the repeal of miscellaneous itemized deductions does not affect deductions unique to trusts that are allowed under Sec. 67(e), such as administration costs.	☐	☐
▶ 309) If the estate or trust has tax-exempt income, compute the allocation of fiduciary fees and other indirect expenses between taxable and tax-exempt income (this computation must be attached to the return).	☐	☐
▶ 310) Determine the net investment income and allowable deductions which should be subject to the Sec. 1411 3.8% net investment income tax.	☐	☐

	Yes/ Done	No/ N/A
Charitable contributions		
▶ 311) Verify that all charitable contributions were made under the terms of the will or trust instrument and were made from gross income.	☐	☐
▶ 312) If the estate or trust had tax-exempt income, determine the portion of the tax-exempt income allocable to the charitable deduction.	☐	☐
▶ 313) For complex trusts, complete Form 1041-A, *U.S. Information Return Trust Accumulation of Charitable Amounts*, as necessary.	☐	☐
▶ 314) For contributions in excess of $250, inquire if written acknowledgments from the donee organizations were obtained.	☐	☐
▶ 315) For all cash contributions, make sure the estate or trust maintains a bank record or a receipt, letter or other written communication from the donee organization indicating the name of the organization, the date of the contribution and the amount of the contribution.	☐	☐
▶ 316) Did the estate or trust make any property contributions to charitable organizations in 2021? If so, request the necessary information and prepare Form 8283, *Noncash Charitable Contributions*, as necessary. Attach a signed page two of Form 8283 and the appraisal, if required.	☐	☐
Income distribution deduction		
▶ 317) Compute the distributable net income (DNI) on Schedule B of Form 1041.	☐	☐
▶ 318) If the return is for a complex trust or for an estate and amounts were paid or credited to a beneficiary within the first 65 days after the close of the entity's tax year for which you are preparing the return, consider whether the election should be made to "push-back" distribution and treat all or a portion of these amounts as paid or credited on the last day of the tax year.	☐	☐
▶ 319) Determine whether the estate or trust is entitled to deduct estate tax (including generation-skipping tax) attributable to income in respect of a decedent and, if so, compute each beneficiary's share of the deduction.	☐	☐
▶ 320) Note that if there is no DNI, any items related to the Sec. 199A deduction are allocated to the estate or trust.	☐	☐
Other deductions and losses		
▶ 321) For nonbusiness bad debts and worthless investments (other than traded securities), obtain a description, the date it became worthless, evidence of worthlessness, the date acquired and the amount.	☐	☐
▶ 322) Determine the proper allocation of depreciation, depletion and amortization deductions, including depreciation recapture, if applicable. Consider changes in depreciation provisions made under the Tax Cuts and Jobs Act.	☐	☐
▶ 323) Did the estate or trust own any qualified improvement property? If so, note that such property is considered retroactively to be 15-year property under MACRS and 20-year property under ADS (CARES Act). Consider whether 2018 and 2019 tax returns should be amended and/or if an accounting method change is necessary.	☐	☐
▶ 324) If the return is for the final year of the estate or trust, compute the unused losses and excess deductions to be transferred to the beneficiaries.	☐	☐

	Yes/ Done	No/ N/A
▶ 325) Determine the estate's or trust's portion of the Sec. 199A deduction. Determine qualified business income (QBI) on a per property basis. Note that the threshold amount of taxable income under which the Form W-2 wage and specified service trade or business limitations do not apply is $164,900 for 2021.	☐	☐

Comments/explanations

400) Credits and tax payments	Yes/ Done	No/ N/A
▶ 401) Determine whether the trust qualifies for any tax credits.	☐	☐
1. If there are available credits, determine if any portion is allocable to beneficiaries.	☐	☐
▶ 402) Complete the alternative minimum tax (AMT) by determining DNI on a minimum tax basis. Note that Schedule I must be completed if the estate or trust takes an income distribution deduction, regardless of whether it is liable for the AMT.	☐	☐
▶ 403) If the estate or trust received a qualifying lump-sum distribution from a qualified employee benefit plan, determine the tax consequences of the distribution to the estate or trust.	☐	☐
▶ 404) Obtain the date and amount of any of the following: 2021 estimated tax payments, payments made with the 2021 extensions, prior-year overpayments credited to 2021 and any back-up withholding.	☐	☐
▶ 405) Determine whether estimated tax payments should be made for 2022.	☐	☐

Comments/explanations

500) International issues	Yes/ Done	No/ N/A
▶ 501) With respect to any income that is earned from a foreign source or U.S. possession, determine the amount of income taxes paid to the foreign country or U.S. possession.	☐	☐
▶ 502) Determine whether the estate or trust (or its more-than-50%-owned corporation) had an interest in a foreign bank account. If so, determine if FinCEN Form 114 is required.	☐	☐
▶ 503) If the estate or trust has foreign activity, consider reviewing other international filing obligations shown in the AICPA Tax Section's Form 1041 long checklist.	☐	☐

Comments/explanations

600) **Professional responsibilities and reminders**	Yes/ Done	No/ N/A
▶ 601) Confirm that you/your firm have met all professional responsibilities as outlined in the AICPA Code of Professional Conduct, AICPA Statements on Standards for Tax Services and federal and state authorities, such as Circular 230. Consider potential conflicts of interest, preparer penalties and reminders to clients about their responsibility for the contents of the tax return.	☐	☐
▶ 602) Determine if requirements for avoiding penalties for improper disclosure or use of taxpayer information by tax return preparers imposed under Sec. 6713 and Sec. 7216 have been met.	☐	☐
▶ 603) Internal processing procedures:		
• Reconcile source documents to the completed return.	☐	☐
• Prepare filing instructions and a transmittal letter.	☐	☐
• Confirm delivery instructions (portal, mail, pickup or delivery).	☐	☐
▶ 604) Provide the taxpayer with complete federal and state returns, including copies of any disclosure consent form(s) and advise the taxpayer to retain copies for at least six years. Return original documents to your client and provide other documents/support, as applicable.	☐	☐

Comments/explanations