

Section 1291 Excess Distribution Calculations for PFIC Tax and Interest Reporting

TUESDAY, JUNE 19, 2018, 1:00-2:50 pm Eastern

IMPORTANT INFORMATION FOR THE LIVE PROGRAM

This program is approved for 2 CPE credit hours. To earn credit you must:

- **Participate in the program on your own computer connection (no sharing)** - if you need to register additional people, please call customer service at 1-800-926-7926 ext.1 (or 404-881-1141 ext. 1). Strafford accepts American Express, Visa, MasterCard, Discover.
- Listen on-line via your computer speakers.
- Respond to five prompts during the program plus a single verification code.
- To earn full credit, you must remain connected for the entire program.

WHO TO CONTACT DURING THE LIVE EVENT

For Additional Registrations:

-Call Strafford Customer Service 1-800-926-7926 x1 (or 404-881-1141 x1)

For Assistance During the Live Program:

-On the web, use the chat box at the bottom left of the screen

If you get disconnected during the program, you can simply log in using your original instructions and PIN.

Information Summary

Acquisition Date	1/1/2015
# of Shares	6
Distribution 6/30/2015	6 shs * \$10,000 = \$60,000
Distribution 6/30/2016	6 shs * \$10,000 = \$60,000
Distribution 6/30/2017	6 shs * \$30,000 = \$180,000

Step #1 - Determine nonexcess distributions

Distribution 6/30/2015	\$ 60,000	
Distribution 6/30/2016	\$ 60,000	
Total Prior Year Distributions (A)	\$ 120,000	- Form 8621, Part V, Line 15b
# of Tax Years in Holding Period (B)	2	
Average Distributions (C = A ÷ B)	\$ 60,000	- Form 8621, Part V, Line 15c
Nonexcess distribution (C x 125%)* **	\$ 75,000	- Form 8621, Part V, Line 15d

***Assumption of current year earnings and profits means the nonexcess distribution should be treated as an ordinary dividend in the current year.

Step #2 - Determine excess distributions

Current year distribution (6/30/2017)	\$ 180,000	- Form 8621, Part V, Line 15a
Nonexcess distribution determined in Step #1	\$ (75,000)	
Excess Distribution	\$ 105,000	- Form 8621, Part V, Line 15e & Form 8621, Part I, Line 5(a)

Step #3 - Allocate excess distribution across holding period

Excess distribution calculated in Step #2	\$ 105,000	
2015 days in holding period (acquired 1/1/2015)	365	
2016 days in holding period	366	
2017 days in holding period (dividend date 6/30/2017)	181	
Total days in holding period	912	
Excess distribution on a per-day basis	\$ 115.13	
2015 excess distribution	\$ 42,022	
2016 excess distribution	\$ 42,138	
2017 excess distribution***	\$ 20,840	- Form 8621, Part V, Line 16b
	\$ 105,000	

***Excess distribution allocated to current year is treated as ordinary income.

Step #4 - Calculate deferred tax & interest on excess distributions allocated to prior years

2015 excess distribution allocated in Step #3	\$ 42,022	
Highest Tax Rate	39.60%	
Deferred tax	\$ 16,641	
Interest - 4/18/2016 to 4/17/2018	\$ 1,391	
2016 excess distribution allocated in Step #3	\$ 42,138	
Highest tax rate	39.60%	
Deferred tax	\$ 16,687	
Interest - 4/17/2017 to 4/17/2018	\$ 689	
Total deferred tax	\$ 33,328	- Form 8621, Part V, Line 16c
Total interest	\$ 2,080	- Form 8621, Part V, Line 16f

Summary of Form 8621 Information & Associated Tax Consequences

Ordinary dividends from nonexcess distribution	\$ 75,000
Other income from current year excess distribution	\$ 20,840
Ordinary income recognized on tax return	\$ 95,840
2017 tax rate (ignores NIIT)	39.6%
Tax due on ordinary income recognition	\$ 37,953
Deferred tax	\$ 33,328
Interest on deferred tax	\$ 2,080
Total tax and interest due with 2017 tax return	\$ 73,361

Information Summary

Acquisition Date	1/1/2015
# of Shares	6
Distribution 6/30/2015	6 shs * \$10,000 = \$60,000
Distribution 6/30/2016	6 shs * \$10,000 = \$60,000
Distribution 1/31/2017	6 shs * \$7,500 = \$45,000
Distribution 7/31/2017	6 shs * \$22,500 = \$135,000

Step #1 - Determine nonexcess distributions

Distribution 6/30/2015	\$ 60,000	
Distribution 6/30/2016	\$ 60,000	
Total Prior Year Distributions (A)	\$ 120,000	- Form 8621, Part V, Line 15b
# of Tax Years in Holding Period (B)	2	
Average Distributions (C = A ÷ B)	\$ 60,000	- Form 8621, Part V, Line 15c
Nonexcess distribution (C x 125%)*	\$ 75,000	- Form 8621, Part V, Line 15d

***Assumption of current year earnings and profits means the nonexcess distribution should be treated as an ordinary dividend in the current year.

Step #2 - Determine excess distributions

Current year distribution (1/31/2017)	\$ 45,000	
Current year distribution (7/31/2017)	\$ 135,000	
Total current year distributions	\$ 180,000	- Form 8621, Part V, Line 15a
Nonexcess distribution determined in Step #1	\$ (75,000)	
Excess Distribution	\$ 105,000	- Form 8621, Part V, Line 15e & Form 8621, Part I, Line 5(a)

Step #3 - Allocate excess distribution pro-rata to current year distribution dates based upon current year distributions

Total excess distribution	\$ 105,000		
		<u>Pro-rata %</u>	<u>Allocation</u>
Distribution 1/31/2017	\$ 45,000	25.00%	\$ 26,250
Distribution 7/31/2017	\$ 135,000	75.00%	\$ 78,750
Total current year distributions	\$ 180,000	100.00%	\$ 105,000

Step #4 - Allocate excess distribution across holding period

	<u>Distribution</u> <u>1/31/2017</u>	<u>Distribution</u> <u>7/31/2017</u>	<u>Total</u>
Excess distribution allocated in Step #3	\$ 26,250	\$ 78,750	\$ 105,000
2015 days in holding period	365	365	
2016 days in holding period	366	366	
2017 days in holding period	31	212	
Total days in holding period	<u>762</u>	<u>943</u>	
Excess distribution on a per-day basis	\$ 34.45	\$ 83.51	
2015 excess distribution	\$ 12,574	\$ 30,481	\$ 43,055
2016 excess distribution	\$ 12,609	\$ 30,565	\$ 43,174
2017 excess distribution***	\$ 1,067	\$ 17,704	\$ 18,771 - Form 8621, Part V, Line 16b
	\$ 26,250	\$ 78,750	\$ 105,000

***Excess distribution allocated to current year is treated as ordinary income.

Step #5 - Calculate deferred tax & interest on excess distributions allocated to prior years

	<u>Total</u>	
2015 excess distribution computed in Step #4	\$ 43,055	
Highest Tax Rate	39.60%	
Deferred tax	\$ 17,050	
Interest - 4/18/2016 to 4/17/2018	\$ 1,425	
2016 excess distribution computed in Step #4	\$ 43,174	
Highest tax rate	39.60%	
Deferred tax	\$ 17,097	
Interest - 4/17/2017 to 4/17/2018	\$ 706	
Total deferred tax	\$ 34,147	- Form 8621, Part V, Line 16c
Total interest	\$ 2,131	- Form 8621, Part V, Line 16f

Summary of Tax Consequences:

	<u>Total</u>
Ordinary dividends from nonexcess distribution	\$ 75,000
Other income from current year excess distribution	\$ 18,771
Ordinary income recognized on tax return	\$ 93,771
2017 tax rate (ignores NIIT)	39.60%
Tax due on ordinary income recognition	\$ 37,133
Deferred tax	\$ 34,147
Interest on deferred tax	\$ 2,131
Total tax and interest due with 2017 tax return	\$ 73,411

Step #1 - Segregate information by lot based upon date acquired

	Block #1	Block #2
Acquisition Date	1/1/2015	1/1/2016
# of Shares	2	4
Distribution 6/30/2015	2 shs * \$10,000 = \$20,000	N/A
Distribution 6/30/2016	2 shs * \$10,000 = \$20,000	4 shs * \$10,000 = \$40,000
Distribution 6/30/2017	2 shs * \$30,000 = \$60,000	4 shs * \$30,000 = \$120,000

Step #2 - Determine nonexcess distributions

	Block #1	Block #2	Total	
Distribution 6/30/2015	\$ 20,000			
Distribution 6/30/2016	\$ 20,000	\$ 40,000		
Total Prior Year Distributions (A)	\$ 40,000	\$ 40,000	\$ 80,000	- Form 8621, Part V, Line 15b
# of Tax Years in Holding Period (B)	2	1		
Average Distributions (C = A ÷ B)	\$ 20,000	\$ 40,000	\$ 60,000	- Form 8621, Part V, Line 15c
Nonexcess distribution (C x 125%)**	\$ 25,000	\$ 50,000	\$ 75,000	- Form 8621, Part V, Line 15d

***Assumption of current year earnings and profits means the nonexcess distribution for each block of shares should be treated as an ordinary dividend in the current year.

Step #3 - Determine excess distributions

	Block #1	Block #2	
Current year distribution (6/30/2017)	\$ 60,000	\$ 120,000	- Form 8621, Part V, Line 15a
Nonexcess distribution determined in Step #2	\$ (25,000)	\$ (50,000)	
Excess Distribution	\$ 35,000	\$ 70,000	- Form 8621, Part V, Line 15e & Form 8621, Part I, Line 5(a)

Step #4 - Allocate excess distribution across holding period

	Block #1	Block #2	Total	
Excess distribution calculated in Step #3	\$ 35,000	\$ 70,000	\$ 105,000	
2015 days in holding period	365			
2016 days in holding period	366	366		
2017 days in holding period	181	181		
Total days in holding period	912	547		
Excess distribution on a per-day basis	\$ 38.38	\$ 127.97		
2015 excess distribution	\$ 14,009		\$ 14,009	
2016 excess distribution	\$ 14,047	\$ 46,837	\$ 60,884	
2017 excess distribution***	\$ 6,944	\$ 23,163	\$ 30,107	- Form 8621, Part V, Line 16b
	\$ 35,000	\$ 70,000	\$ 105,000	

***Excess distribution allocated to current year is treated as ordinary income.

Step #5 - Calculate deferred tax & interest on excess distributions allocated to prior years

	Total	
2015 excess distribution computed in Step #4	\$ 14,009	
Highest Tax Rate	39.60%	
Deferred tax	\$ 5,548	
Interest - 4/18/2016 to 4/17/2018	\$ 464	
2016 excess distribution computed in Step #4	\$ 60,884	
Highest tax rate	39.60%	
Deferred tax	\$ 24,110	
Interest - 4/17/2017 to 4/17/2018	\$ 996	
Total deferred tax	\$ 29,658	- Form 8621, Part V, Line 16c
Total interest	\$ 1,460	- Form 8621, Part V, Line 16f

Summary of Tax Consequences:

	Total
Ordinary dividends from nonexcess distribution	\$ 75,000
Other income from current year excess distribution	\$ 30,107
Ordinary income recognized on tax return	\$ 105,107
2017 tax rate (ignores NIIT)	39.60%
Tax due on ordinary income recognition	\$ 41,622
Deferred tax	\$ 29,658
Interest on deferred tax	\$ 1,460
Total tax and interest due with 2017 tax return	\$ 72,740

Step #1 - Segregate information by lot based upon date acquired

	Block #1	Block #2
Acquisition Date	1/1/2015	1/1/2016
# of Shares	2	4
Distribution 6/30/2015	2 shs * \$10,000 = \$20,000	N/A
Distribution 6/30/2016	2 shs * \$10,000 = \$20,000	4 shs * \$10,000 = \$40,000
Distribution 1/31/2017	2 shs * \$7,500 = \$15,000	4 shs * \$7,500 = \$30,000
Distribution 7/31/2017	2 shs * \$22,500 = \$45,000	4 shs * \$22,500 = \$90,000

Step #2 - Determine nonexcess distributions

	Block #1	Block #2	Total	
Distribution 6/30/2015	\$ 20,000			
Distribution 6/30/2016	\$ 20,000	\$ 40,000		
Total Prior Year Distributions (A)	\$ 40,000	\$ 40,000	\$ 80,000	- Form 8621, Part V, Line 15b
# of Tax Years in Holding Period (B)	2	1		
Average Distributions (C = A ÷ B)	\$ 20,000	\$ 40,000	\$ 60,000	- Form 8621, Part V, Line 15c
Nonexcess distribution (C x 125%)***	\$ 25,000	\$ 50,000	\$ 75,000	- Form 8621, Part V, Line 15d

***Assumption of current year earnings and profits means the nonexcess distribution for each block of shares should be treated as an ordinary dividend in the current year.

Step #3 - Determine excess distributions

	Block #1	Block #2	Total	
Current year distribution (1/31/2017)	\$ 15,000	\$ 30,000	\$ 45,000	
Current year distribution (7/31/2017)	\$ 45,000	\$ 90,000	\$ 135,000	
Total current year distributions	\$ 60,000	\$ 120,000	\$ 180,000	- Form 8621, Part V, Line 15a
Nonexcess distribution determined in Step #2	\$ (25,000)	\$ (50,000)	\$ (75,000)	
Excess Distribution	\$ 35,000	\$ 70,000	\$ 105,000	- Form 8621, Part V, Line 15e & Form 8621, Part I, Line 5(a)

Step #4 - Allocate excess distribution pro-rata to current year distribution datesDistribution Pro-Rata Determination:

	Distributions	Pro-rata %
Distribution 1/31/2017	\$ 45,000	25.00%
Distribution 7/31/2017	\$ 135,000	75.00%
Total current year distributions	\$ 180,000	100.00%

	Excess Dist	Dist 1/31/17	Dist 7/31/17
Block #1 - Excess distribution allocation (%'s above)	\$ 35,000	\$ 8,750	\$ 26,250
Block #2 - Excess distribution allocation (%'s above)	\$ 70,000	\$ 17,500	\$ 52,500
Total excess distribution	\$ 105,000	\$ 26,250	\$ 78,750

Step #5 - Allocate excess distribution across holding period

	Block #1 - 1/1/2015		Block #2 - 1/1/2016		Total
	Distribution 1/31/2017	Distribution 7/31/2017	Distribution 1/31/2017	Distribution 7/31/2017	
Excess distribution calculated in Step #4	\$ 8,750	\$ 26,250	\$ 17,500	\$ 52,500	\$ 105,000
2015 days in holding period	365	365			
2016 days in holding period	366	366	366	366	
2017 days in holding period	31	212	31	212	
Total days in holding period	762	943	397	578	
Excess distribution on a per-day basis	\$ 11.48	\$ 27.84	\$ 44.08	\$ 90.83	
2015 excess distribution	\$ 4,190	\$ 10,162			\$ 14,352
2015 excess distribution	\$ 4,202	\$ 10,189	\$ 16,133	\$ 33,244	\$ 63,768
2017 excess distribution***	\$ 358	\$ 5,899	\$ 1,367	\$ 19,256	\$ 26,880
	\$ 8,750	\$ 26,250	\$ 17,500	\$ 52,500	\$ 105,000

***Excess distribution allocated to current year is treated as ordinary income.

Step #6 - Calculate deferred tax & interest on excess distributions allocated to prior years

	Total	
2015 excess distribution computed in Step #5	\$ 14,352	
Highest Tax Rate	39.60%	
Deferred tax	\$ 5,683	
Interest - 4/18/2016 to 4/17/2018	\$ 475	
2016 excess distribution computed in Step #5	\$ 63,768	
Highest tax rate	39.60%	
Deferred tax	\$ 25,252	
Interest - 4/17/2017 to 4/17/2018	\$ 1,043	
Total deferred tax	\$ 30,935	- Form 8621, Part V, Line 16c
Total interest	\$ 1,518	- Form 8621, Part V, Line 16f

Summary of Tax Consequences:

	Total
Ordinary dividends from nonexcess distribution	\$ 75,000
Other income from current year excess distribution	\$ 26,880
Ordinary income recognized on tax return	\$ 101,880
2017 tax rate (ignores NIIT)	39.60%
Tax due on ordinary income recognition	\$ 40,344
Deferred tax	\$ 30,935
Interest on deferred tax	\$ 1,518
Total tax and interest due with 2017 tax return	\$ 72,797