Department of the Treasury
Internal Revenue Service

Instructions for Form 5227

Split-Interest Trust Information Return

Section references are to the Internal Revenue Code unless otherwise noted.

What's New

Act Section 1201(b) of the Pension Protection Act of 2006 made changes that affect split-interest trusts for 2007. The changes are reflected in the substantially revised 2007 Form 5227. Now, split-interest trusts no longer have to file Form 1041-A. Form 5227 now meets the requirements of Section 6034 and continues to meet the requirements of Regulations section 53.6011-1(d) and, for charitable remainder trusts, Regulations section 1.6012-3(a). Form 5227 is now open to public inspection as a result of the change. New Schedule A, which is part of Form 5227, is not open for public inspection and contains information that is specific to private beneficiaries. Major changes to the form include the following.

- Part I, Income and Deductions, is revised and now all trusts must complete Part I through Section D.
- Part III from the prior year is revised and moved to new Schedule A.
- Part III-A is new to Form 5227 and is a revised version of Form 1041-A, Part III.
- Part III-B is new to Form 5227 and is a revised version of Form 1041-A, Part II.
- Part V-B is revised and provides an easier format to figure the required distribution for different charitable remainder unitrusts.
- New Schedule A expands on the old Part II, Accumulation Schedule, reflects distribution information of private beneficiaries, and asks for information about the donor and the assets donated.

Section 1201(b) of the Pension Protection Act also revised penalty amounts for failure to file and expanded penalty application to include failure to file complete and correct returns. Also, an increased penalty amount is imposed on trustees who are required to file the return and knowingly fail to file the return. See *Penalty for Failure To File Timely, Completely, or Correctly*, on page 3 for more information.

Photographs of Missing Children

The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in instructions on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

General Instructions

Purpose of Form

Use Form 5227 to:

- Report the financial activities of a split-interest trust.
- Provide certain information regarding charitable deductions and distributions of or from a split-interest trust.
- Determine if the trust is treated (for Chapter 42 excise tax purposes) as a private foundation and subject to certain excise taxes under Chapter 42.

Form 5227 is open to public inspection.

Use Schedule A of Form 5227 to report:

- Accumulations of income for charitable remainder trusts,
- Distributions to non-charitable beneficiaries, and
- Information about donors and assets contributed during the year.

Schedule A of Form 5227 is not open for public inspection.

Who Must File

All charitable remainder trusts described in section 664 must file Form 5227. All pooled income funds described in section 642(c)(5) and all other trusts such as charitable lead trusts that meet the definition of a split-interest trust under section 4947(a)(2) must file Form 5227 unless the *Exception* (below) applies.

Exception. Generally, a split-interest trust created before May 27, 1969, is not required to file Form 5227. However, if any amounts were transferred to the trust after May 26, 1969, for which a deduction was allowed under any of the sections listed under section 4947(a)(2), Form 5227 must be filed for the year of the transfer and all subsequent years regardless of whether additional transfers are made in subsequent years.

If all transfers of corpus to the trust occurred before May 27, 1969, then the trust is not required to file Form 5227.

If a trust was created before May 27, 1969, and any amount was transferred to the trust after May 26, 1969, for which **no** deduction was allowed under any of the sections listed under section 4947(a)(2), then the trust is not required to file Form 5227.

Note. Regulations section 1.6012-3(a)(6) references Form 1041-B. Form 5227 replaces Form 1041-B. Regulations section 1.6034-1(c) references Form 1041-A. Form 5227 replaces Form 1041-A for split-interest trusts. Also, any trust that is not required to file Form 5227 but is allowed a deduction under section 642(c), must file Form 1041-A.

Which Parts To Complete

Certain Parts in the return only apply to a particular type of trust (such as a charitable remainder trust). Parts (or lines) that only apply to a particular type of trust are appropriately labeled. If a Part does not reference any particular type of trust, then the Part may be applicable to all split-interest trusts. However, charitable remainder trusts and charitable lead trusts whose charitable interests involve only war veterans' posts or cemeteries (as described in sections 170(c)(3) and 170(c)(5)) do not have to complete Parts VI-A and VI-B.

Definitions

Split-interest trust. A *split-interest trust* is a trust that:

- Is not exempt from tax under section 501(a);
- Has some unexpired interests that are devoted to purposes other than religious, charitable, or similar purposes described in section 170(c)(2)(B); and
- Has amounts transferred in trust after May 26, 1969, for which a deduction was allowed under one of the sections listed in section 4947(a)(2).

A split-interest trust is subject to many of the same requirements and restrictions that are imposed on private foundations.

Split-interest trusts are usually one of the following types:

- Charitable Remainder Trusts described in section 664,
- Pooled Income Funds described in section 642(c)(5), and
- Charitable Lead Trusts which are trusts that make payments for charitable purposes, have at least one noncharitable beneficiary entitled to a remainder interest, and claimed a deduction under one of the sections listed under section 4947(a)(2).

Recipient. A *recipient* is a beneficiary who receives the possession or beneficial enjoyment of the unitrust or annuity amount.

Foundation manager. A *foundation manager* is an officer, director, or trustee (or an individual who has powers or responsibilities similar to those of officers, directors, or trustees). In the case of any act or failure to act, the term foundation manager may also include an employee of the trust who has the authority to act.

Disqualified person. A *disqualified person* is:

1. A substantial contributor;
2. A foundation manager;
3. A person who owns more than 20% of a corporation, partnership, trust, or unincorporated enterprise, which is itself a substantial contributor;
4. A member of the family of an individual in the first three categories; or
5. A corporation, partnership, trust, or estate in which persons described in (1), (2), (3), or (4) above own a total beneficial interest of more than 35%.
6. For purposes of section 4943 (excess business holdings), a disqualified person also includes:

   a. A private foundation which is effectively controlled (directly or indirectly) by the same persons who control the trust in question, or

   b. A private foundation substantially all of the contributions to which were made (directly or indirectly) by the same person or persons described in (1), (2), or (3) above, or members of their families, within the meaning of section 4946(d), who made (directly or indirectly) substantially all of the contributions to the trust in question.
7. For purposes of section 4941 (self-dealing), a disqualified person also includes certain government officials. (See section 4946(c) and the related regulations.)

Phone Help

If you have questions and/or need help completing this form, please call 1-877-829-5500. This toll-free telephone service is available Monday through Friday.

Additional Information

For additional information on private foundations and foundation managers, visit *www.irs.gov/charities/foundations/index.html*.

Other Forms You May Have To File

You may also be required to file one or more of the following forms.

- Form 56, Notice Concerning Fiduciary Relationship.
- Form 1041, U.S. Income Tax Return for Estates and Trusts.
- Form 1041-ES, Estimated Income Tax for Estates and Trusts.
- Form 4720, Return of Certain Excise Taxes Under Chapters 41 and 42 of the Internal Revenue Code.
- Form 8275, Disclosure Statement. Use this form to disclose items or positions (except those contrary to a regulation—see Form 8275-R, below) that are not otherwise adequately disclosed on the tax return. The disclosure is made to avoid parts of the accuracy-related penalty for disregard of rules or substantial understatement of tax. Form 8275 is also used for disclosures relating to preparer penalties for understatements due to unrealistic positions or for willful or reckless conduct.
- Form 8275-R, Regulation Disclosure Statement. Use this form to disclose any item on a tax return for which a position has been taken that is contrary to Treasury regulations.
- Form 8822, Change of Address.
- Form 8868, Application for Extension of Time To File an Exempt Organization Return.
- Form 8870, Information Return for Transfers Associated With Certain Personal Benefit Contracts.

You can order forms and publications by calling 1-800-TAX-FORM (1-800-829-3676). You can also get most forms and publications at your local IRS office or online at *www.irs.gov*.

Period To Be Covered by Return

File Form 5227 for each calendar year. This revision of the form is for the 2007 calendar year.

Accounting Methods

Trust income must be computed using the method of accounting regularly used in keeping the trust's books and records. Generally, permissible methods include the cash method, the accrual method, or any other method authorized by the Internal Revenue Code. The method used must clearly reflect income.

Unless otherwise allowed by law, the trust may not change the accounting method used to report income (for income as a whole or for any material item) without first getting consent on Form 3115, Application for Change in Accounting Method. See Pub. 538, Accounting Periods and Methods, for more details.

When To File

File Form 5227 for calendar year 2007 by April 15, 2008.

Extension of Time To File. Use Form 8868 to request an automatic 3-month extension of time to file. The request for an automatic extension must be filed by the due date of the return. After receiving an automatic 3-month extension, you can also use Form 8868 to apply for an additional (not automatic) 3-month extension. The request for an additional 3-month extension must be filed by the extended due date of the return.

Where To File

File Form 5227 at the following address:

Department of the Treasury
Internal Revenue Service Center
Ogden, UT 84201-0027

Private delivery services (PDSs). In addition to the United States mail, exempt organizations can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. These private delivery services include only the following.

- DHL Express (DHL): DHL Same Day Service, DHL Next Day 10:30 am, DHL Next Day 12:00 pm, DHL Next Day 3:00 pm, and DHL 2nd Day Service.
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day, FedEx International Priority, and FedEx International First.
- United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M., UPS Worldwide Express Plus, and UPS Worldwide Express.

The private delivery service can tell you how to get written proof of the mailing date.

Penalty for Failure To File Timely, Completely, or Correctly

The failure to file penalty under section 6652(c)(2)(C) is imposed on a split-interest trust unless the failure is due to reasonable cause. The penalty is imposed on the trust for failure to:

- Timely file a return,
- File a complete return, or
- Furnish correct information.

The penalty is $20 for each day the failure continues with a maximum of $10,000 for any one return. However, if the trust has gross income greater than $250,000, the penalty is $100 for each day the failure continues with a maximum of $50,000 for any one return.

The IRS may make a written demand that the delinquent return be filed or information be furnished specifying a time to comply with the demand. If the trustee fails to comply with the demand by the specified date, the trustee will be charged a penalty of $10 for each day the failure continues with a maximum of $5,000 for any one return.

If the trustee required to file the return knowingly fails to file the return, the same penalty that is imposed on the trust will also be imposed on such trustee. Also, penalties for filing a false or fraudulent return apply.

Trust Instrument

When you file the first return for a charitable remainder annuity trust or unitrust, or charitable lead annuity or unitrust, include:

1. A copy of the trust instrument, and
2. A written declaration under penalties of perjury that it is a true and complete copy.

For sample forms of trusts that meet the requirements of a charitable remainder unitrust, see Rev. Procs. 2005-52 through 2005-59, 2005-2 C.B. 326, 339, 353, 367, 383, 392, 402, and 412.

For sample forms of a trust that meet the requirements of a charitable remainder annuity trust, see Rev. Procs. 2003-53 through 2003-60, 2003-2 C.B. 230, 236, 242, 249, 257, 262, 268, and 274.

For sample forms of trusts that meet the requirements of an *inter vivos* grantor or nongrantor charitable lead annuity trust, see Rev. Proc. 2007-45, 2007-29 I.R.B. 89. For a sample form of a trust that meets the requirements of a testamentary charitable lead annuity trust, see Rev. Proc. 2007-46, 2007-29 I.R.B. 102.

Rounding Off to Whole Dollars

You may round off cents to whole dollars on your return and schedules. If you do round dollars, you must round all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, $1.39 becomes $1 and $2.50 becomes $3.

If you have to add two or more amounts to figure the amount to enter on a line, include cents when adding the amounts and round off only the total.

Attachments

If you need more space, attach separate sheets showing the same information in the same order as on the printed form. Show the totals on the printed form.

Enter the trust's name and employer identification number on each sheet. Also, use sheets that are the same size as the forms and indicate clearly the line of the printed form to which the information relates.

Specific Instructions

Identification Area

If you received a Form 5227 from the IRS with a peel-off label, attach the label to the name and address area of the return. If the name or address on the label is wrong, draw a line through the incorrect portion and enter the correct information.

If you did not receive a peel-off label, complete the information called for at the top of the form as it appears on Form SS-4, Application for Employer Identification Number.

Address

Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and the trustee has a P.O. box, show the box number instead.

If you receive mail for the trust in care of a third party (such as an accountant or an attorney), enter on the street address line "C/O" followed by the third party's name and street address or P.O. box.

A. Employer Identification Number (EIN)

Every trust that completes this return must have an employer identification number (EIN). You can use one of the following methods to apply for an EIN.

- Online – Click on the EIN link at *www.irs.gov/businesses/small*. The EIN is issued immediately once the application information is validated.
- By telephone at 1-800-829-4933 from 7:00 a.m. to 10:00 p.m. in the trustee's local time zone.
- By mailing or faxing Form SS-4, Application for Employer Identification Number.

Note. The online application process is not yet available for trusts with addresses in foreign countries or Puerto Rico.

B. Type of Entity

Charitable lead trust. This is a trust that pays a fixed annuity or unitrust amount to a charitable organization for a fixed number of years. Upon termination of the payments, the remainder interest is transferred to a noncharitable beneficiary.

Charitable remainder annuity trust. This is a trust under section 664(d)(1) that pays a fixed dollar amount (not less than 5% but not more than 50% of the initial net fair market value of all property placed in trust), at least annually, to one or more beneficiaries, at least one of which is not a charitable organization, for life, or for a specified number of years (not to exceed 20). Upon termination of the payments, the remainder interest (valued at 10% or more) is transferred to a charitable organization described in section 170(c), or qualified employer securities are transferred to an employee stock ownership plan.

Charitable remainder unitrust. This is a trust under section 664(d)(2) similar to a charitable remainder annuity trust, except that it pays, at least annually, a fixed percentage (not less than 5% but not more than 50%) of the net fair market value of the trust's assets.

Pooled income fund. This is a trust under section 642(c)(5) created and maintained by a charitable organization described in section 170(b)(1)(A)(i)-(vi). Donors to the fund receive a lifetime income interest and the charitable organization receives the remainder interest.

D. Gross Income

Enter the trust's gross income for the tax year. Gross income is all income from whatever source derived, including:

- Interest,
- Dividends,
- Rents (such as the amount on line 3 of Schedule E (Form 1040)),
- Royalties (such as the amount on line 4 of Schedule E (Form 1040)),
- Gross income derived from business (such as the amount on line 7 of Schedule C (Form 1041)), and
- Gains (not losses) derived from dealings in property (figured on each transaction).

E. Initial Return, Final Return, Amended Return; or Change of Name or Address

Initial return. Check this box if this is the initial return for the split-interest trust. Charitable remainder trusts also must complete line 92 and attach a copy of the trust instrument.

Final return. Check this box if this is a final return because the trust has terminated. If the trust or beneficiary's interest in the trust has terminated, check the "Final K-1" box at the top of the Schedule K-1 (Form 1041).

For charitable remainder trusts. If you check the final return box, be sure to complete line 31 and answer "Yes" on line 94b.

Amended return. If you are filing an amended 2007 Form 5227, check the "Amended return" box. Complete the entire return and correct the appropriate lines with the new information. On an attachment, explain the reason for the changes and identify the lines and amounts being changed.

For charitable remainder trusts. If the amended return results in a change to income, or a change in distribution of any income or other information provided to a beneficiary, an amended Schedule K-1 (Form 1041) must be filed with the amended Form 5227 and a copy given to each recipient. Check the "Amended K-1" box at the top of the Schedule K-1 (Form 1041).

Change of name or address. If there has been a change in the trustee's name or address from the one used on the prior year's return (including a change to an "in care of" name and address), check the appropriate box(es).

If the address shown on Form 5227 changes after you file the form (including a change to an "in care of" name and address), file Form 8822 to notify the IRS of the change.

G. Unrelated Business Taxable Income (Section 664 trusts only)

If a charitable remainder trust has any unrelated business taxable income (within the meaning of section 512 and related regulations) for 2007, the trust is liable for a tax under section 664(c)(2) which is treated as a Chapter 42 excise tax. The amount of the excise tax is equal to the amount of the trust's unrelated business taxable income. If the trust has any unrelated business taxable income, answer "Yes" to item **G** and file Form 4720, in addition to Form 5227, to report the trust's unrelated business taxable income and the tax due.

Part I. Income and Deductions

Section A—Ordinary Income

Report the trust's ordinary income on lines 1 through 7.

Line 1. Interest income. Report all taxable interest income that was received by the trust. Examples of taxable interest include interest from:

- Accounts (including certificates of deposit and money market accounts) with banks, credit unions, and thrifts;
- Notes, loans, and mortgages;
- U.S. Treasury bills, notes, and bonds;
- U.S. savings bonds;
- Original issue discount; and
- Income received as a regular interest holder of a Real Estate Mortgage Investment Conduit (REMIC).

For taxable bonds acquired after December 31, 1987, amortizable bond premium is treated as an offset to the interest income instead of as a separate interest deduction. See Pub. 550, Investment Income and Expenses.

Line 2a. Ordinary dividends. Enter on line 2a the total of all ordinary dividends, including the qualified dividends reported on line 2b.

Line 2b. Qualified dividends. Report on this line all qualified dividends received by the trust. In general, a qualified dividend is a dividend received during the tax year from (a) a domestic corporation or (b) a qualified foreign corporation. A qualified dividend does not include any dividend from a corporation if the corporation is (or was) exempt from income tax under section 501 or 521 for the corporation's current or preceding tax year during which the distribution was made.

Generally, these dividends are reported to the trust in box 1b of Form(s) 1099-DIV, Dividends and Distributions.

Qualified dividends are treated as a separate class of ordinary income for purposes of ordering distributions. See *Ordering Rules for Ordinary Income* on page 12 for more information on distributions. See Pub. 550 for additional information on qualified dividends, including holding period requirements.

Line 3. Business income or (loss). If the trust operated a business, report the income and expenses on Schedule C, Profit or Loss From Business (or Schedule C-EZ, Net Profit From Business) of Form 1040. See the instructions for *G. Unrelated Business Taxable Income (Section 664 Trusts Only)* on page 4. Enter the net profit or loss from Schedule C or C-EZ on line 3.

Line 4. Rents, royalties, partnerships, other estates and trusts, etc. Use Schedule E (Form 1040), Supplemental Income and Loss, to report the trust's income or losses from rents, royalties, partnerships, S corporations, other estates and trusts, and REMICs. Enter the net profit or loss from Schedule E on line 4. See the Instructions for Schedule E (Form 1040) for reporting requirements. If the trust received a Schedule K-1 from a partnership, S corporation, or other flow-through entity, use the corresponding lines on Form 5227 to report the interest, dividends, capital gains, etc., from the flow-through entity.

Line 5. Farm income or (loss). If the trust operated a farm, use Schedule F (Form 1040), Profit or Loss From Farming, to report farm income and expenses. Enter the net profit or loss from Schedule F on line 5.

Note. If the trust has farm rental income and expenses based on crops or livestock produced by a tenant, report the income and expenses on Schedule E (Form 1040) and include it on line 4. Do **not** use Form 4835, Farm Rental Income and Expenses, or Schedule F (Form 1040) to report such income and expenses and do **not** include the net profit or (loss) from such income and expenses on line 6.

Line 6. Ordinary gain or (loss). Enter from Form 4797, Sales of Business Property, the gain or loss from the sale or exchange of property other than capital assets and also from involuntary conversions (other than casualty or theft). For more information, see the Instructions for Form 4797.

Line 7. Other income. List any other item and its amount that is includable in gross income but not included in lines 1 through 6 (or Section B) on the dashed line to the left of the entry space. If more space is needed, attach a schedule. Enter the total of these items in the entry space to the right.

Section B—Capital Gains (Losses)

Use Schedule D (Form 1041), Capital Gains and Losses, as directed below. You may use Schedule D-1 (Form 1041), Continuation Sheet for Schedule D (Form 1041), to report additional gains and losses. Lines 11 and 12 only apply to a charitable remainder trust (section 664 trust).

Line 9. Total short-term capital gain or (loss). Complete lines 1a through 3 and line 5 of the 2007 Schedule D (Form 1041). Do not make an entry on line 4 of Schedule D (Form 1041). Enter the amount from line 5 of the Schedule D (Form 1041) on line 9.

Line 10. Total long-term capital gain or (loss). Complete lines 6a through 10 and line 12 of the 2007 Schedule D (Form 1041). Do not make an entry on line 11 of Schedule D (Form 1041). Enter the amount from line 12 of Schedule D (Form 1041) on line 10.

For section 664 trust only. Line 10 is the total of all classes (described below) of long-term capital gain. The following is a summary of the classes:

- **28% long-term capital gain class.** This class consists of collectibles gains and losses and the taxable gain (but not more than the section 1202 exclusion) on the sale or exchange of qualified small business stock. Enter these gains or losses on line 12.
- **Section 1250 long-term capital gain class.** This class consists of unrecaptured section 1250 gain (generally the part of real estate capital gain attributable to depreciation) on sales, exchanges, etc. of assets held more than one year. Undistributed, unrecaptured section 1250 gain on sales, exchanges, etc. after May 6, 1997, is included in this class. Enter this gain on line 11.
- **All other long-term capital gain class.** This class consists of all other gains or losses from sales, exchanges, and conversions (including installment payments received) of assets held more than 12 months.

Section C—Nontaxable Income

In this section, include other income that is not included in Section A or B. This section includes income excluded under Subtitle A, Chapter 1, Subchapter B, Part III of the Internal Revenue Code, such as interest on state and municipal bonds.

Section D—Deductions

For Section 664 Trusts

Include all allowable deductions and any expense that would be allowable but for the fact that it must be allocated to tax-exempt income. No deduction is ever allowed for:

- The personal exemption under section 642(b),
- Charitable contributions under section 642(c),
- Net operating losses under section 642(d),
- Income distribution deductions under section 661,
- Capital loss carryforwards under section 1212,
- Federal income taxes, or
- Federal excise taxes under Chapter 42.

Any expense that is not deductible in determining taxable income (or not otherwise deductible but for the fact that it must be allocated to nontaxable income) must be allocated to corpus.

Attached schedule. List any other allowable deduction (or any expense that would be an allowable deduction but for the fact that it must be allocated to tax-exempt income) that is not included on lines 17 through 20 and the amount of the deduction. Total the amounts listed and enter the total on line 21.

For Split-Interest Trusts Other Than Section 664 Trusts

Include all expenses attributable to gross income that are deductible for the tax year.

Attached schedule. List any other deductible expense that is attributable to the gross income of the trust and is not included on lines 17 through 20 and line 23 and show the amount of the deduction. Total the amounts listed and enter the total on line 21.

Line 23. Charitable Deduction

Enter the amount of any charitable deduction or other deduction taken under section 642(c) for the tax year.

Section E—Deductions Allocable to Income Categories (Section 664 trust only)

Deductions are allocated as follows.

1. Allowable deductions directly attributable to one or more classes of income items (that is, interest, dividends, or rents) or corpus are allocated to such income classes or corpus.
2. Allowable deductions not allocated under (1) above are allocated on the basis of gross income after directly attributable deductions, to the extent of such income.
3. Deductions not allocated under either (1) or (2) above may be allocated in any manner.

Add the deductions that were allocated to all the classes of income items within each category and enter the amount on the appropriate line. (Note: Any deduction allocated to corpus is not shown on any line in Section E.)

For a discussion on the allocation of deductions to tax-exempt income, see *Allocation of Deductions for Tax-Exempt Income* in the Instructions for Form 1041.

Part II. Schedule of Distributable Income (Section 664 trust only)

Report the income (both current and cumulative undistributed income) of the trust for purposes of determining the character of distributions in three categories:

1. Ordinary income,
2. Capital gains and losses, and
3. Nontaxable income.

A loss in any one of the three categories may not be used to reduce a gain in any other category. For example, a capital loss may not be used to reduce ordinary income. However, a loss in any one category may be used to reduce undistributed gain for earlier years within that same category, and any excess may be carried forward to reduce gain in future years within that same category.

For information on recordkeeping for long-term capital gains or ordinary income, see the worksheets on pages 14 and 15.

Part III-A. Distributions of Principal for Charitable Purposes

Line 31. Provide the information requested for columns A through C and enter the amount on the line to the right. In column C, list in sufficient detail each class of activity for amounts paid out of principal to the same payee for charitable purposes.

Example. "Cash payments to buy library material" or "Grant, paid in cash, to equip the chemistry lab at Magnolia University."

Do **not** merely enter the category (that is, religious, charitable, scientific, literary, or educational). The purpose of the deduction must be entered as shown in the examples above.

Part III-B. Accumulated Income Set Aside and Income Distributions for Charitable Purposes

Complete Part III-B if any of the following apply.

- The trust claimed a deduction in a prior year under section 642(c) for an amount permanently set aside and at the beginning of the year the set aside amount was not fully distributed.
- The trust claimed a deduction during the year under section 642(c) whether the amount was set aside or paid.
- The trust made payment for charitable purposes during the year but claimed the section 642(c) deduction in the prior year.

Line 35. Provide the information requested for columns A through C and enter the amount on the line to the right. In column C, list in sufficient detail each class of activity to the same payee for charitable purposes for amounts distributed in which a section 642(c) deduction was claimed.

Do **not** merely enter the category (that is, religious, charitable, scientific, literary, or educational). The purpose of the deduction must be entered as shown in the examples in Part III-A above.

Part IV. Balance Sheet

Complete the balance sheet using the accounting method the trust uses in keeping its books and records. All filers must complete columns (a) and (b). Also, all charitable remainder unitrusts must complete column (c).

Enter the end-of-year book value where space is provided to the left of column (a) to report receivables and the related allowance for doubtful accounts or depreciable assets and accumulated depreciation. Enter the net amounts in column (b).

Column (c)

In computing the net fair market value (FMV) of the unitrust's assets, take into account all assets and liabilities without regard to whether particular items are taken into account in determining the income of the trust. The net FMV of the trust's assets may be determined on any one date during the tax year of the trust, or by taking the average of valuations made on more than one date during the tax year of the trust, as long as the same valuation date or dates and valuation methods are used each year. See Regulations section 1.664-3.

Line 38. Cash—non-interest-bearing. Enter the amount of cash on deposit in checking accounts, deposits in transit, change funds, petty cash funds, or any other non-interest-bearing account. Do not include advances to employees or officers or refundable deposits paid to suppliers or others.

Line 39. Savings and temporary cash investments. Enter the total of cash in savings or other interest-bearing accounts and temporary cash investments, such as money market funds, commercial paper, certificates of deposit, U.S. Treasury bills, or other governmental obligations that mature in less than one year.

Line 40. Accounts receivable. Enter the total accounts receivable (reduced by the corresponding allowance for doubtful accounts) that arose from the sale of goods and/or the performance of services. Claims against vendors or refundable deposits with suppliers or others may be reported here if not significant in amount. (Otherwise, report them on line 49, Other assets.) Any receivables due from officers, directors, trustees, foundation managers, or other disqualified persons must be reported on line 41. Receivables (including loans and advances) due from other employees should be reported on line 49.

Line 41. Receivables due from officers, directors, trustees, and other disqualified persons. Enter here (and in an attached schedule described below) all receivables due from officers, directors, trustees, and other disqualified persons and all secured and unsecured loans (including advances) to such persons.

Attached schedule.

1. In the required schedule, report each loan separately, even if more than one loan was made to the same person, or the same terms apply to all loans made.

Salary advances and other advances for personal use and benefit, and receivables subject to special terms or arising from transactions not functionally related to the trust's charitable purposes must be reported as separate loans for each officer, director, etc.

2. Receivables that are subject to the same terms and conditions (including credit limits and rate of interest) as receivables due from the general public and that arose in connection with an activity functionally related to the trust's charitable purposes may be reported as a single total for all the officers, directors, etc. Travel advances made in connection with official business of the trust may also be reported as a single total.

For each outstanding loan or other receivable that must be reported separately, the attached schedule should use a columnar format and show the following information:

- Borrower's name and title,
- Original amount,
- Balance due,
- Date of note,
- Maturity date,
- Repayment terms,
- Interest rate,
- Security provided by the borrower,
- Purpose of the loan, and
- Description and FMV of the consideration furnished by the lender.

The above detail is not required for receivables or travel advances that may be reported as a single total (see instruction (2) above). However, report and identify those totals separately in the attachment.

Line 42. Other notes and loans receivable. Enter the combined total of notes receivable and net loans receivable.

Notes receivable. Enter the amount of all notes receivable not listed on line 41 and not acquired as investments. Attach a schedule similar to that called for in the line 41 instructions. The schedule should also identify the relationship of the borrower to any officer, director, trustee, or other disqualified person.

For a note receivable from any section 501(c)(3) organization, list only the name of the borrower and the balance due on the required schedule.

Loans receivable. Enter the gross amount of loans receivable, less the allowance for doubtful accounts, arising from the normal activities of the trust. An itemized list of these loans is not required, but attach a schedule indicating the total amount of each type of loan outstanding. Report loans to officers, directors, trustees, or other disqualified persons on line 41, and loans to other employees on line 49.

Line 43. Inventories for sale or use. Enter the amount of materials, goods, and supplies purchased or manufactured by the trust and held for sale or use in some future period.

Line 44. Prepaid expenses and deferred charges. Enter the amount of short-term and long-term prepayments of future expenses attributable to one or more future accounting periods. Examples include prepayments of rent, insurance, and pension costs, and expenses incurred in connection with a solicitation campaign to be conducted in a future accounting period.

Lines 45a, b, and c. Investments—U.S. and state government obligations, corporate stock, and corporate bonds. Enter the book value (which may be market value) of these investments. Attach a schedule that lists each security held at the end of the year and shows whether the security is listed at cost (including the value recorded at the time of receipt in the case of donated securities) or end-of-year market value. Do not include amounts shown on line 39. Governmental obligations reported on line 45a are those that mature in 1 year or more. Debt securities of the U.S. Government may be reported as a single total rather than itemized. Obligations of state and municipal governments may also be reported as a lump-sum total. Do not combine U.S. Government obligations with state and municipal obligations on the attached schedule.

Line 46. Investments—land, buildings, and equipment. Enter the book value (cost or other basis less accumulated depreciation) of all land, buildings, and equipment held for investment purposes, such as rental properties. Attach a schedule listing these investment fixed assets held at the end of the year and showing, for each item or category listed, the cost or other basis, accumulated depreciation, and book value.

Line 47. Investments—other. Enter the amount of all other investment holdings not reported on line 45 or line 46. Attach a schedule describing each of these investments held at the end of the year. Show the book value for each and indicate whether the investment is listed at cost or end-of-year market value. Do not include program-related investments. See instructions for line 49.

Line 48. Land, buildings, and equipment. Enter the book value (cost or other basis less accumulated depreciation) of all land, buildings, and equipment owned by the trust and not held for investment. This includes any equipment owned and used by the trust in conducting its charitable activities. Attach a schedule listing these fixed assets held at the end of the year and showing for each item or category listed, the cost or other basis, accumulated depreciation, and book value.

Line 49. Other assets. List and show the book value of each category of assets not reportable on lines 38 through 48. Attach a separate schedule if more space is needed.

One type of asset reportable on line 49 is program-related investments made primarily to accomplish a charitable purpose of the trust rather than to produce income.

Line 50. Total assets. Columns (a) and (b) (and column (c) if a unitrust) must always have an entry, even if it is zero.

Line 51. Accounts payable and accrued expenses. Enter the total accounts payable to suppliers and others, and accrued expenses such as salaries payable, accrued payroll taxes, and interest payable.

Line 52. Deferred revenue. Include revenue that the organization has received but not yet earned as of the balance sheet date under its method of accounting.

Line 53. Loans from officers, directors, trustees, and other disqualified persons. Enter the unpaid balance of loans received from officers, directors, trustees, and other disqualified persons. For loans outstanding at the end of the year, attach a schedule that provides (for each loan) the name and title of the lender and the information specified in the line 41 instructions.

Line 54. Mortgages and other notes payable. Enter the amount of mortgages and other notes payable at the beginning and end of the year. Attach a schedule showing, as of the end of the year, the total amount of all mortgages payable and, for each nonmortgage note payable, the name of the lender and the other information specified in the line 41 instructions. The schedule should also identify the relationship of the lender to any officer, director, trustee, or other disqualified person.

Line 55. Other liabilities. List and show the amount of each liability not reportable on lines 51 through 54. Attach a separate schedule if more space is needed.

Charitable remainder unitrusts must include any unitrust amounts applicable to prior periods that are unpaid but required to be paid as of the valuation date, since such amounts reduce the net FMV of the trust's assets. However, do **not** include any make-up amount for a net income charitable remainder unitrust (NIMCRUT).

Line 56. Total liabilities. Columns (a) and (b) (and column (c) if a unitrust) must always have an entry, even if it is zero.

Line 60. Total liabilities and net assets. Columns (a) and (b) must always have an entry, even if it is zero.

Parts V-A and V-B. Charitable Remainder Trust Information

Line 61b. To figure the total annual annuity amounts for a short tax year, see *Short tax years* below.

Line 65a. Enter the unitrust fixed percentage (which may not be less than 5% or more than 50%).

If there is more than one unitrust recipient, attach a schedule showing the percentage of the total unitrust dollar amount payable to each recipient. The sum of these individual shares should be 100%.

Line 65b. This line must always have an entry, even if it is zero.

Line 66a. Enter the trust's 2007 (fiduciary) accounting income determined under the terms of the governing instrument and applicable local law. Do not include extraordinary dividends or taxable stock dividends that are determined under the governing instrument and applicable local law to be allocable to corpus. See section 643(b) and Regulations sections 1.664-3(a)(1)(i)(b)(3) and 1.643(b)-1 for more information.

Line 67a. This should be the amount from line 53 of the 2006 Form 5227. If not, attach a schedule that supports the balance in the make-up account. Figure the total deficiencies from previous years as follows.

1. Aggregate the unitrust's net asset FMV for each previous year.
2. Multiply (1) above by the unitrust's fixed percentage.
3. From the result in (2), subtract the aggregate trust income that was distributed for previous years.

Line 69. Use this amount to determine future accrued distribution deficiencies.

Short tax years. To figure the annuity amount (line 61b) or the unitrust amount (line 68) for short tax years, multiply the annuity or unitrust amount by the number of days in the trust's tax year, and then divide the result by 365 (or 366 for leap years).

For a unitrust whose governing instrument provides for an income exception, if no valuation date occurs before the end of the trust's tax year, value the trust's assets as of the last day of the trust's tax year.

Parts VI-A and VI-B. Statements Regarding Activities

Answer every question in these sections. If a line does not apply, enter "N/A."

Part VI-A

Line 73. A split-interest trust must have a governing instrument that requires the trust to act or refrain from acting so as not to engage in an act of self-dealing under section 4941 or subject it to the excise taxes under section 4943, 4944, or 4945. The trust may satisfy the requirements either by express language in its governing instrument or by the operation of state law which imposes the above requirements on the trust or treats these requirements as being contained in the governing instrument. If a trust claims it satisfies the requirements of section 508(e) by operation of state law, the provisions of state law must effectively impose the requirements of section 508(e) on the trust.

If, however, the state law does not apply to a governing instrument which contains mandatory directions conflicting with any of its requirements and the trust has such mandatory directions in its governing instrument, then the trust has not satisfied the requirements of section 508(e) by the operation of that state law.

Part VI-B

Complete Part VI-B to determine whether the trust has complied with the applicable Chapter 42 rules relating to private foundations and whether the trust, trustee, disqualified persons, or some combination of these, may be liable for certain foundation excise taxes. These excise taxes include:

- The section 4941 tax on self-dealing between the trust and "disqualified persons,"
- The section 4943 tax on excess business holdings,
- The section 4944 tax on investments that jeopardize the trust's charitable purposes, and
- The section 4945 tax on taxable expenditures.

The split-interest trust pays these taxes on Form 4720. For a detailed explanation of each of these taxes, see the Instructions for Form 4720.

The excise taxes on private foundations do not apply to any amounts:

1. Payable under the terms of the trust to income beneficiaries, unless a deduction was allowed under section 170(f)(2)(B), 2055(e)(2)(B), or 2522(c)(2)(B);
2. In trust for which a charitable contribution deduction was not allowed under any provision of the Code, if the amounts are segregated (as defined in section 4947(a)(3)) from amounts for which a deduction was allowable; or
3. Transferred in trust before May 27, 1969.

Line 75. The activities listed on lines 75a(1) through (6) are considered self-dealing under section 4941 unless one of the exceptions described in sections 4941(d)(2)(D), (E), (F), or (G) applies. You may also access information about self-dealing at *www.irs.gov/charities/foundations/index.html* and click on the link for Life Cycle of a Private Foundation.

The terms "disqualified person" and "foundation manager" are defined on page 2.

Line 75b. If you answered "Yes" to any of the questions in 75a, you should answer "Yes" to 75b unless all of the acts engaged in were "excepted" acts. Excepted acts are described in Regulations sections 53.4941(d)-3 and 4 or appear in Notices published in the Internal Revenue Bulletin, relating to disaster assistance. At the time this form went to print, there were no notices currently in effect relating to disaster assistance for "excepted" acts to self-dealing.

Line 76. Under section 4947(b)(3)(A), a split-interest trust is not subject to the excess business holdings tax (section 4943) or tax on investments that jeopardize the trust's charitable purpose (section 4944) if all the income interest (and none of the remainder interest) of the trust is devoted solely to one or more of the charitable purposes described in section 170(c)(2)(B). In addition, all amounts in the trust for which a charitable contribution deduction was allowed under section 170 (for individual taxpayers) or similar section for personal holding companies, foreign personal holding companies, estates or trusts (including a deduction for estate or gift tax purposes), cannot have a total value of more than 60% of the total FMV of all amounts in the trust.

Under section 4947(b)(3)(B), a split-interest trust is not subject to the section 4943 or 4944 taxes if a deduction was allowed under section 170 (and related provisions for other entities) for amounts payable under the terms of the trust to every remainder beneficiary but not to any income beneficiary.

Line 77. In general, excess business holdings are the amount of stock or other interest in a business enterprise that the trust must dispose of to a person other than a disqualified person in order for the trust's remaining holdings in the enterprise to be permitted holdings.

In general, the combined permitted holdings of a trust and all disqualified persons may not be more than 20% of the voting power (or beneficial or profits interest, in the case of a trust or a partnership) in any business enterprise.

There were grace periods of 15 or 20 years for certain excess business holdings that the trust held on May 26, 1969. These holdings were considered held by disqualified persons rather than the trust during the grace period. The 15-year grace period expired on May 25, 1984. This period applied when a trust and all disqualified persons together held 75% or more (but not more than 95%) interest in a business enterprise. The 20-year grace period expired on May 25, 1989. It applied if the combined holdings were more than 95%.

In general, a *business enterprise* means the active conduct of a trade or business, including any activity that is regularly conducted to produce income from selling goods or performing services, that is an unrelated trade or business under section 513.

The term "business enterprise" does not include:

1. A functionally related business, defined in section 4942(j)(4), or
2. A trade or business if at least 95% of its gross income is derived from passive sources.

See section 4943(d)(3) for additional items that are included in gross income from passive sources.

Line 77a. A private foundation is not treated as having excess business holdings in any enterprise if, together with related foundations, it owns 2% or less of the voting stock and 2% or less in value of all outstanding shares of all classes of stock. A similar exception applies to a beneficial or profits interest in any business enterprise that is a trust or partnership.

Line 78. In general, an investment which jeopardizes any of the charitable purposes of a trust is one in which a foundation manager did not exercise ordinary business care in making the investment to provide for the long- and short-term financial needs of the trust in carrying out its charitable purposes.

For more information on investments which jeopardize charitable purposes, see Regulations section 53.4944-1.

Line 79. Grants by a trust to a public charity are not taxable expenditures if the grants are not earmarked for use for any of the activities described on lines 79a(1) through (5) and there is no oral or written agreement by which the trust may cause the public charity to engage in any such prohibited activity or to select the grant recipient.

Grants made to exempt operating foundations (as defined in section 4940(d)(2)) are not subject to the expenditure responsibility provisions of section 4945. If the trust made grants to such organizations, you do not have to file Form 4720 for those grants. See the section 4945 regulations for more information.

Line 79b. If you answered “Yes” to any of the questions in 79a, you should answer “Yes” to 79b unless all of the transactions engaged in were “excepted” transactions. Excepted transactions are described in Regulations section 53.4945 or appear in Notices published in the Internal Revenue Bulletin, relating to disaster assistance. At the time this form went to print, there were no notices currently in effect relating to disaster assistance for “excepted” transactions to taxable expenditures.

Line 80a. A *personal benefit contract* is, in general, any life insurance, annuity, or endowment contract that benefits, directly or indirectly, a transferor, a transferor’s family member, or a transferor designee that is not an organization described in section 170(c).

Line 80b. Enter the total of all premiums paid by the split-interest trust on any personal benefit contract if the payment of premiums is in connection with a transfer for which a deduction is not allowed under section 170(f)(10)(A). Also, if there is an understanding or expectation that any person will directly or indirectly pay any premium on a personal benefit contract for the transferor, include those premium payments in the amount entered on this line. For more information, see the Instructions for Form 8870.

Part VII. Questionnaire for Charitable Lead Trusts, Pooled Income Funds, and Charitable Remainder Trusts

Section A—All Trusts

All trusts are required to answer questions 81 and 82.

Section B—Charitable Lead Trusts

Line 83. The information on this line is used to determine whether sections 4943 and 4944 apply for 2007.

Line 85. Enter the amount for payments described in sections 170(f)(2)(B), 2055(e)(2)(B), and 2522(c)(2)(B).

Section C—Pooled Income Funds

Line 87. Upon termination of the income interest retained or created by a donor, the trustee is required to sever from the fund an amount equal to the value of the remainder interest in the property upon which the income interest is based. The amount severed from the fund must either be paid to, or retained for the use of, the designated public charity, as provided in the governing instrument. See Regulations section 1.642(c)-5(b)(8) for valuation procedures.

Section D—Charitable Remainder Trusts

Line 91. If a charitable remainder annuity trust or certain charitable remainder unitrusts pay the annuity or unitrust amount after the close of the tax year, and:

1. The payment is made within a reasonable time after the close of the tax year, and
2. To the extent the payment is characterized as corpus from a property distribution (other than cash), the trustee treats any income generated by the distribution as occurring on the last day of the tax year for which the annuity or unitrust amount is due, then, the annuity trust or certain unitrusts will not be deemed to have:

- Engaged in self-dealing (section 4941),
- Unrelated debt-financed income (section 514),
- Received an additional contribution (Regulations section 1.664-2(b) and 1.664-3(b)), or
- Failed to function exclusively as a charitable remainder trust (Regulations section 1.664-1(a)(4)).

See Regulations sections 1.664-2(a)(1) and 1.664-3(a)(1) for more information.

Under Regulations section 1.664-1(d)(5), a distribution of property (other than cash) is treated as a sale by the trust.

Note. You must report income (gain) generated by the property distribution (discussed above) on Part I of Form 5227 for the current tax year.

Trusts created before December 10, 1998. The election in Regulations sections 1.664-2(a)(1)(i)(a)(2) and 1.664-3(a)(1)(i)(g)(2) does not apply to charitable remainder annuity trusts and certain charitable remainder unitrusts whose annuity or unitrust amount is 15% or less.

Line 95. Check the “Yes” box and enter the name of the foreign country if either (1) or (2) on page 11 applies.

1. The trust owns more than 50% of the stock in any corporation that owns one or more foreign bank accounts.

2. At any time during the year, the trust had an interest in or signature or other authority over a bank, securities, or other financial account in a foreign country.

Exception. Check “No” if either of the following applies to the trust:

- The combined value of the accounts was $10,000 or less during the whole year, or
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.

Get Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts, to see if the trust is considered to have an interest in or signature or other authority over a bank, securities, or other financial account in a foreign country. You can get Form TD F 90-22.1 from the IRS website at *www.irs.gov/pub/irs-pdf/f90221.pdf*.

If you checked “Yes” on line 95, file Form TD F 90-22.1 by June 30, 2008, with the Department of the Treasury at the address show on the form. Form TD F 90-22.1 is not a tax return, so do not file it with Form 5227.

CAUTION *If you are required to file Form TD F 90-22.1 but do not, you may have to pay a penalty of up to $10,000 (more in some cases).*

Signature

Form 5227 must be signed by the trustee or by an authorized representative.

If you, as trustee (or an employee or officer of the trust), fill in Form 5227, the Paid Preparer’s space should remain blank. If someone prepares this return without charge, that person should not sign the return.

Generally, anyone who is paid to prepare a tax return must sign the return and fill in the other blanks in the Paid Preparer’s Use Only area of the return.

If you have questions about whether a preparer is required to sign the return, please contact an IRS office.

The person required to sign the return as the preparer must:

- Complete the required preparer information,
- Sign it in the space provided for the preparer’s signature (a facsimile signature is acceptable), and
- Give the trustee a copy of the return in addition to the copy to be filed with the IRS.

Schedule A—Distributions, Assets, and Donor Information

Note. Schedule A is **not** open to public inspection.

Part I. Accumulation Schedule (Section 664 trust only)

Line 2a. Enter the total of all distributions for 2007.

Line 2b. Enter the amount distributed from each income category.

TIP *You may want to read the Part II-A instructions and complete all worksheets (as necessary) before you make an entry on Part II-A of Schedule A.*

Part II-A. Current Distributions Schedule (Section 664 trust only)

You must give each recipient listed in Part II-A a Schedule K-1 (Form 1041) that reflects that recipient’s current distribution. The following rules and worksheets will help you figure the type of income a private beneficiary receives from the trust’s distributions. Also, attach a copy of each Schedule K-1 to Form 5227. See the Specific Instructions for Schedule K-1 (Form 1041) for more information.

Column (b). Beneficiary’s Identifying Number

As a payer of income, the trust is required under section 6109 to request and provide a proper identifying number for each recipient of income. Enter the recipient’s number on the respective Schedule K-1. Individuals and business recipients are responsible for giving you their taxpayer identification numbers upon request. You may use Form W-9, Request for Taxpayer Identification Number and Certification, to request the beneficiary’s identifying number.

Penalty. Under section 6723, the payer is charged a $50 penalty for each failure to provide a required taxpayer identification number, unless reasonable cause is established for not providing it. Explain any reasonable cause in a signed affidavit and attach it to this return.

Substitute Forms

You do not need prior IRS approval for substitute Schedules K-1 if it is an exact copy of the IRS schedule. The boxes must use the same numbers and titles and must be in the same order and format as on the comparable IRS Schedule K-1. The substitute schedule must include the OMB number. You must request IRS approval to use other substitute Schedules K-1. To request approval, write to:

Internal Revenue Service
Attention: Substitute Forms Program Coordinator
SE:W:CAR:MP:T:T:SP, IR-6526
1111 Constitution Avenue, NW
Washington, DC 20224

CAUTION *You may be subject to a penalty if you file a Schedule K-1 that does not conform to the specifications in Pub. 1167, General Rules and Specifications for Substitute Forms and Schedules.*

Inclusion of Amounts in Recipients’ Income

If there are two or more recipients, each will be treated as receiving his or her *pro rata* share of the various classes of income or corpus.

Amounts distributed by a charitable remainder annuity trust or a charitable remainder unitrust have the following characteristics in the hands of the recipients:

- First, as ordinary income to the extent of ordinary income for the current year and undistributed ordinary income for prior years of the trust. Ordinary income is computed without regard to any net operating loss deductions under section 172. See the *Ordering Rules for Ordinary Income* on page 12.
- Second, as capital gains to the extent of the trust’s undistributed capital gains. Undistributed capital gains of the trust are determined on a cumulative net basis

without regard to any capital loss carrybacks and carryovers. See the *Netting Rules, Ordering Rules for Capital Gains and Losses*, and *Carryover Rules* below for capital gains.

- Third, as nontaxable income to the extent of the trust's nontaxable income for the current year and undistributed nontaxable income for prior years.
- Fourth, as a distribution of trust corpus. For this purpose, *trust corpus* means the net fair market value of the trust assets less the total undistributed income (but not loss) in each of the above categories.

Ordering Rules for Ordinary Income

Ordinary income is composed of two classes for purposes of characterizing and ordering distributions: (a) qualified dividends, and (b) all other ordinary income. If the trust has both classes of ordinary income, distributions are treated as made first from the all other ordinary income class, and second from the qualified dividends class.

Types of Income

If there is more than one type of income in a class, treat an amount distributed from that class as consisting of the same proportion of each type of income that makes up all current and undistributed income for that class.

Example. For 2007, if trust A has interest income and rental income, both are types of income that belong to the all other ordinary income class. If the amount on line 5 of the Ordinary Income Distribution Worksheet is $150 for the All other ordinary income class which consists of $60 of interest and $90 of rent and $100 is distributed to private beneficiaries for 2007, then $40 of the distribution is interest and $60 of the distribution is rent.

Additional Rules for Capital Gains and Losses

Netting Rules

Gains and losses are netted within each class to arrive at a net gain or loss for that class. After you net within a class, the following additional netting rules apply to the capital gains category.

1. Among the long-term capital gain and loss classes:

a. A net loss from the 28% long-term capital gain class reduces net gains in the following order:

- First, gain from the section 1250 long-term capital gain class, then
- Net gain from the all other long-term capital gain class, and finally
- Gain from the qualified 5-year long-term capital gain class.

b. A net loss from the all other long-term capital gain class reduces net gains in the following order:

- First, net gain from the 28% long-term capital gain class, then
- Gain from the section 1250 long-term capital gain class, and finally
- Gain from the qualified 5-year long-term capital gain class.

2. A net short-term capital loss is applied to reduce the net long-term capital gain classes as follows:

- First, net gain from the 28% long-term capital gain class, then
- Gain from the section 1250 long-term capital gain class, then
- Net gain from the all other long-term capital gain class, and finally
- Gain from the qualified 5-year long-term capital gain class.

3. An overall net long-term capital loss reduces any net short-term capital gain.

CAUTION *Though the qualified 5-year gain provision has been repealed for sales and other dispositions after May 5, 2003, these gains remain in a separate class because the 5-year gain provision is scheduled to come back into existence in 2011.*

No additions may be made to this class for dispositions after May 5, 2003, and before 2011, but distributions may continue to be made from this class during that period.

Ordering Rules for Capital Gains and Losses

The following rules apply to undistributed long-term capital gains on assets held more than one year.

If, in any tax year of the trust, the trust has both undistributed short-term capital gain and undistributed long-term capital gain, the short-term capital gain is deemed distributed before any long-term capital gain.

For 2007, any long-term capital gains are deemed to be distributed in the following order:

1. The 28% long-term capital gain class is deemed distributed prior to any other class.
2. The section 1250 long-term capital gain class is deemed distributed prior to the all other long-term capital gain class and the qualified 5-year long-term capital gain class.
3. The all other long-term capital gain class is deemed distributed prior to the qualified 5-year long-term capital gain class.
4. The qualified 5-year long-term capital gain class is deemed distributed last of any class.

Carryover Rules

1. If the trust has capital losses in excess of capital gains for any tax year:

   a. The excess of the net short-term capital loss over the net long-term capital gain for that year is a short-term capital loss carryover to the next tax year.

   b. The excess of the net long-term capital loss over the net short-term capital gain for that year is a long-term capital loss carryover to the next tax year.

2. If the trust has capital gains in excess of capital losses for any tax year:

   a. The excess of the net short-term capital gain over the net long-term capital loss for that year is, to the extent not deemed distributed, a short-term capital gain carryover to the next tax year.

   b. The excess of the net long-term capital gain over the net short-term capital loss for that year is, to the extent not deemed distributed, a long-term capital gain carryover to the next tax year.

Part II-B. Current Distributions
(charitable lead trusts or pooled income funds only)

Line 5. For charitable lead trusts, enter the amount for payments permitted by Regulations sections 1.170A-6, 20.2055-2, and 25.2522(c)-3.

For pooled income funds, enter the amount for payments permitted by Regulations section 1.642(c)-5(b)(7).

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. Section 6109 requires return preparers to provide their identifying numbers on the return.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	71 hr., 16 min.
Learning about the law or the form	19 hr., 47 min.
Preparing the form	40 hr., 25 min.
Copying, assembling, and sending the form to IRS . .	5 hr., 22 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, IR-6526, 1111 Constitution Ave. NW, Washington, DC 20224. Do not send the tax form to this address. Instead, see *Where To File* on page 3.

Capital Gains Distribution Worksheet (*KEEP FOR YOUR RECORDS*)

Use this worksheet to determine the ordering of any capital gains distributions

	Short-term	Long-term			
		28% long-term capital gain class	Section 1250 long-term capital gain class	All other long-term capital gain class	Qualified 5-year long-term capital gain class
1. Prior years undistributed gain or (loss)					
2. Current year net gain or (loss)					
3. Total combined gain or (loss) by class					
4. Adjustments for netting any long-term capital (losses) on line 3					
5. Total					
6. Adjustments for netting any short-term capital gain or (loss) on line 3 (see netting rules on page 12)					
7. Total undistributed gains					
8. 2007 distributions					
9. Carryforward to 2008 (line 7 less line 8)					

Ordinary Income Distribution Worksheet (*KEEP FOR YOUR RECORDS*)

Use this worksheet to determine the ordering of any ordinary income distributions

	All other ordinary income	Qualified dividends
1. Prior years undistributed ordinary income or (loss)		
2. Current year ordinary income or (loss)		
3. Total combined ordinary income or (loss) by class		
4. Adjustments for netting any ordinary (losses) on line 3		
5. Total undistributed ordinary income		
6. 2007 distributions		
7. Carryforward to 2008 (line 5 less line 6)		