GRANTOR TRUSTS - TAX RETURNS AND REPORTING REQUIREMENTS

- There are three reporting methods for grantor trusts - one regular method and two simplified optional methods (Reg. §1.671-4). Choice of method depends on whether there is one or more than one owner.

- The optional methods do not require the trust to file Form 1041.

- Any trust can file using the regular method [however, if an optional method was used in the prior year, see Reg. §1.671-4(g) for instructions on changing methods].

- If the trust is taxable to a married couple filing a joint return, the trust can use the regular method or either of the optional methods. [Reg. §1.671-4(b)(8)]

- A trust that would otherwise qualify for an optional method must use the regular method in 2011 if the trust filed a Form 1041 in 2010 that was not a final return. The trustee can change to an optional method for 2012 by filing a final Form 1041 in 2011 and writing across the top margin of page 1, “Pursuant to Reg. §1.671-4(g), this is the final Form 1041 for this grantor trust.”

- A trust may not use an optional method if the grantor uses a fiscal year, the grantor is not a U.S. person, or the trust or its assets are located outside the United States. [Reg. §1.671-4(b)(6)]

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<tr>
<th>Filing Method</th>
<th>Instructions: One Grantor or Person Treated as Owner</th>
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| **Regular (Form 1041)** | • Report income (and related deductions and credits) taxable to the grantor on his Form 1040.  
• Report income (and related deductions and credits) taxable to the trust on Form 1041.  
• Attach a statement to Form 1041 reporting the name, Social Security number and address of the grantor or other person treated as owner, along with income, deductions and credits attributable to the grantor or other owner.  
• In the Form 1041 return heading, write the name, Social Security number and address of the owner in parentheses after the name of the trust.  
  **Note:** If a trust is entirely taxable to grantors, only the heading and signature blocks of Form 1041 are completed. No figures are reported on the return because all income and deductions are taxable to the owner. |
| **Form 1099 with Grantor’s TIN** | • Give payers of income the name and Social Security number of the owner and the address of the trust (no trust TIN needed).  
• Report all income (and related deductions and credits) on owner’s Form 1040 as if the trust did not exist.  
  **If the owner is not a trustee, in addition:**  
• The owner provides Form W-9 to the trustee.  
• The trustee gives the owner a statement (1) listing income, payers of income, deductions and credits; (2) informing the owner that the items must be included when figuring taxable income and credits; and (3) giving directions for reporting. |
| **Form 1099 with Trust’s TIN** | • Give payers of income the name, address and TIN of the trust.  
• Issue Forms 1099 from the trust to the owner reporting income and gross proceeds taxable to the owner. Report each type of ordinary income in the aggregate and each item of gross proceeds separately.  
• If the owner is not a trustee, provide a statement (1) listing income, deductions and credits attributable to him or her; (2) informing the owner that the items must be included when figuring taxable income and credits; and (3) giving directions for reporting. |

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| **Regular (Form 1041)** | • Report income (and related deductions and credits) taxable to the grantor on his Form 1040.  
• Report income (and related deductions and credits) taxable to the trust on Form 1041.  
• Attach a statement to Form 1041 reporting the name, Social Security number and address of the grantor(s) or other person(s) treated as owner, along with income, deductions and credits attributable to the grantor(s) or other owner(s).  
• In the Form 1041 return heading, write the name, Social Security number and address of the owner(s) in parentheses after the name of the trust.  
  **Note:** If a trust is entirely taxable to grantors, only the heading and signature blocks of Form 1041 are completed. No figures are reported on the return because all income and deductions are taxable to the owner(s). |
| **Form 1099 with Trust’s TIN** | • Give payers of income the name, address and TIN of the trust.  
• Issue Forms 1099 from the trust reporting income and gross proceeds taxable to the owners. Report each type of ordinary income in the aggregate and each item of gross proceeds separately.  
• If an owner is not a trustee, provide a statement (1) listing income, deductions and credits attributable to him or her; (2) informing the owner that the items must be included when figuring taxable income and credits; and (3) giving directions for reporting. |