How are receipts of short term capital gain distributions from mutual funds and REITS allocated between principal and income?

In allocating receipts of **short term capital gain distributions** from mutual funds and REITs, you must consider the following:

1. Reference pages 8002-8003 of the book entitled "Fiduciary Accounting Answer Book," (2013 edition), Q8:5 addresses this question directly.

2. TEdec Fiduciary Accounting System allows you to record receipts of short term capital gains from mutual funds and REITS as accruing to Accounting Income or Accounting Principal. To properly record these short term distributions (dividend), you must look at your state P&I Act, which relates to UPIA Sec. 401.

For TEdec Users, all you have to do is go to the **entity (trust or estate) MasterFile –> P&I folder, and complete question #1.** For FL, CA and NY, and for jurisdictions that have adopted the UPIA 2008 edition, Sec. 401 without modification, the answers are provided for you. Once Question #1 is properly answered, TEdec will properly record for you the receipts of short term capital gain distributions (dividends) from Mutual Funds and REITS. ***TEdec takes the "guess work" out of data entry!***

For a further analysis:

3. **For NY and CA users**, if the MF –> P&I Folder is properly completed, TEdec will record receipts of short term capital gain distributions (dividends) from mutual funds and REIT's as accruing to Accounting Income and not Accounting Principal/Capital, for the following reasons:

3.1 NY & CA adopted the UPIA rule. Therefore, we can look to the UPIA for clarification on this matter.

3.2 NY EPTL Sec. 11-A-4.1 (c) states, "A trustee shall allocate the following receipts from an entity to principal:
(4) money received from an entity that is a regulated investment company or a real estate investment trust, if the money distributed is a capital gain dividend for federal income tax purposes."

3.3 UPIA section 401 says the same thing as NY EPTL Sec. 11-A-4.1 (c) , and CA Article 5, Section 16350 (4).

3.4 The comments to the NY statute are not helpful in this regard.

3.5 The comments to the UPIA section 401 are very helpful, and in particular comment #2 speaks directly to capital gain dividends issue::

"Under the Internal Revenue Code and the Income Tax Regulations, a "capital gain dividend" from a mutual fund or real estate investment trust is the excess of the fund's or trust's net long-term capital gain over its net short-term capital loss. As a result, a capital gain dividend does not include any net short-term capital gain, and cash received by a trust because of a net short-term capital gain is income under the Act.

3.6 See Federal Tax Guide, paragraph 19,205.20 re: capital gain distributions from mutual funds and REITS to the same effect.

Compliments of: TEdec Support, TEdec Systems, Inc. (716) 938-9137 support@tedec.com