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Taxes on Stocks From Trust Funds

Original post by Michael Evans of Demand Media

The Internal Revenue Service typically taxes trust funds as entities based on their annual income, not the value of individual assets, such as stocks and mutual funds. While stocks held in a trust fund are not taxable, the fund can face tax liability if it earns a profit from the sale of securities. If you inherit a trust fund as part of an estate, you can also face federal estate taxes, depending on the value of the overall estate.

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Capital Gains

When you sell an asset for a profit, such as share of stock, the IRS can require you to pay capital gains taxes. Trust funds, like individuals, can also earn a profit from the sale of assets. Capital gains or losses are determined by the basis of assets. If you buy an asset, its basis is typically the purchase price you paid. However, the basis of an asset in a trust fund might be different from an asset you purchase. If you received your trust fund as a gift, or through an inheritance, the basis of its individual assets will typically be their value on the day you took ownership of the fund.

Stock Taxation

You do not face tax liability when you receive a trust fund, regardless of the types of assets it holds. However, if you sell stocks within the fund for a profit, the fund can owe capital gains taxes. The basis of a share of stock determines whether it earns a profit or incurs a loss when sold. For example, if shares of stock within the trust fund were valued at $25 per share on the day you took control of the fund, and are sold for $30 per share, the fund earns a capital gain of $5 per share.

Trust Fund Tax Filing

The majority of trust funds are considered entities by the IRS, and often require filing a tax return. The owner of the fund, or in certain cases the fund's trustee, must typically file a tax return if the fund earns at least $600 during the tax year. If, for example, you sell shares of stock within the trust fund, and the fund earns a $1,000 profit, you must file a tax return for the fund. If the trust fund falls under the governance of U.S. tax laws, and you are a nonresident alien of the U.S, you must file a tax return for the fund regardless of earnings levels. Undistributed earnings held in trust funds is typically taxed at a higher rate than income earned by individuals.

Estate Taxes

If you receive a trust fund through an inheritance, you can face estate taxes. The IRS only imposes an estate tax on estates valued at $5 million or more for decedents who died during 2010 or later. The estate tax applies to the entire estate, not individual assets. For example, if you inherit a trust fund that holds only $1 million worth of stocks, but the overall estate holds a value of $6 million, you must pay federal estate taxes.

Resources

- IRS: Ten Important Facts About Capital Gains and Losses
- IRS: Publication 551 (07/2011), Basis of Assets

References

- IRS: Topic 409-Capital Gains and Losses
- IRS: Instructions for Form-Who Must File
- IRS: Estate Tax
- IRS: Form 1041-U.S. Income Tax Return for Estates and Trusts
- Turbo Tax: Estates and Trusts

About the Author

Michael Evans was born in Memphis, Tenn. He graduated from The University of Memphis, earning a Bachelor of Arts degree in communication. His primary course of study was photography and film production. He first began writing professionally for iOwn Inc. in 1997, and was published by LensWork Magazine in 2003.

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