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Instructions for Form 1041-QFT

(Rev. December 2023)

U.S. Income Tax Return for Qualified Funeral Trusts

General Instructions

Section references are to the Internal Revenue Code.

What's New

Tax rate schedule for trusts and estates. The tax rates have changed for 2023. See *Line 12—Tax*, later.

Future Developments

For the latest information about developments related to Form 1041-QFT and its instructions, such as legislation enacted after they were published, go to www.irs.gov/Form1041QFT.

Reminders

Global intangible low-taxed income. The Tax Cuts and Jobs Act of 2017 (TCJA) (P.L. 115-97) requires a U.S. shareholder of any controlled foreign corporation to include in gross income its global intangible low-taxed income (GILTI). For more information, see the instructions for line 4, *Other Income*, later.

Miscellaneous itemized deductions subject to the 2% floor. Expenses that qualify as miscellaneous itemized deductions subject to the 2% floor are no longer deductible.

Net investment income tax (NIIT). Is a 3.8% tax on the lesser of an estate's or trust's undistributed net investment income or the excess of the estate's or trust's adjusted gross income over a specified threshold amount. NIIT may need to be included when figuring estimated tax. In addition, there are special rules when figuring NIIT for a composite return. See *Composite Return*, later.

Purpose of Form

The trustee of a trust that has elected to be taxed as a qualified funeral trust (QFT) files Form 1041-QFT to report the income, deductions, gains, losses, and tax liability of the QFT. The trustee can use the form to report information for a single QFT or for multiple QFTs having the same trustee. If filing Form 1041-QFT for multiple QFTs, please see the rules discussed under *Composite Return*, later.

Pre-need funeral trusts that don't qualify as QFTs should see the Instructions for Form 1041, U.S. Income Tax Return for Estates and Trusts, for their filing requirements.

Qualified Funeral Trust

A QFT is a domestic trust that meets all of the following requirements.

- The trust arose as a result of a contract with a person engaged in the trade or business of providing funeral or burial services or property to provide such services.
- The sole purpose of the trust is to hold, invest, and reinvest funds in the trust and to use those funds solely to pay for funeral or burial services or property to provide such services for the benefit of the beneficiaries of the trust.

- The only beneficiaries of the trust are individuals for whom such services or property are to be provided at their death under the contracts described above.
- The only contributions to the trust are contributions by or for such beneficiaries' benefit.
- The trustee makes or previously had made the election to treat the trust as a QFT.
- The trust would have been treated as owned by the purchasers of the contracts under the grantor trust provisions of the Code if the QFT election hadn't been made.

Note. A trust that isn't treated as owned by the purchaser solely because of the death of an individual will be treated as meeting this requirement during the 60-day period beginning on the date of that individual's death.

If a QFT has multiple beneficiaries, each beneficiary's separate interest under a contract is treated as a separate QFT for the purpose of figuring the tax and filing this return. Each beneficiary's share of the trust's income is determined in accordance with the beneficiary's interest in the trust. A beneficiary's interest in a trust may be determined under any reasonable method.

Whenever these instructions refer to a trust or QFT, it includes such separate interests that are treated as separate QFTs.

Making the Election

The trustee makes the election to treat a trust as a QFT by filing Form 1041-QFT for the trust by the due date (including extensions).

You may elect QFT status for a trust's first eligible year or for any subsequent year. Once made, the election can't be revoked without the consent of the IRS.

Composite Return

A trustee may file a single, composite Form 1041-QFT for some or all QFTs of which he or she is the trustee, including QFTs that had a short tax year.

You must attach a statement to a composite Form 1041-QFT that includes the following information for each QFT (or separate interest treated as a separate QFT).

- The name of the owner or the beneficiary. If you list the name of the owner and that trust has more than one beneficiary, you must separate the trust into shares held by the separate beneficiaries.
- The type and gross amount of each type of income earned by the QFT for the tax year. For capital gains, identify separately the amount of (a) net short-term capital gain, (b) net long-term capital gain, (c) 28% rate gain, and (d) unrecaptured section 1250 gain.
- The type and amount of each deduction and credit allocable to the QFT.
- The tax and payments made for each QFT.
- The termination date for each QFT that was terminated during the year.

Note. When calculating NIT for a composite return, treat each beneficiary's interest in each QFT (within the meaning of section 685) as a separate trust.

When To File

File Form 1041-QFT by April 15, 2023. The due date for a composite return is also April 15, 2023, even if the return includes QFTs that terminated during the year. If you are filing for a short year, file Form 1041-QFT by the 15th day of the 4th month following the close of the short year. If the due date falls on a Saturday, Sunday, or a legal holiday, file by the next business day.

Private Delivery Services (PDSs)

You can use certain PDSs designated by the IRS to meet the "timely mailing as timely filing" rule for tax returns. Go to www.irs.gov/PDS for the current list of designated services.

The PDSs can tell you how to get written proof of the mailing date.

For the IRS mailing address to use if you're using a PDS, go to www.irs.gov/PDSStreetAddresses.



PDSs can't deliver items to P.O. boxes. You must use the U.S. Postal Service to mail any item to an IRS P.O. box address.

Extension of Time To File

Use Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns, to get an extension of time to file. An extension of time to file a return doesn't extend the time to pay the tax.

Where To File

File Form 1041-QFT at the following address.

Department of Treasury
Internal Revenue Service
Kansas City, MO 64999

Who Must Sign

Trustee

The trustee, or an authorized representative, must sign Form 1041-QFT.

Paid Preparer

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

- Complete the required preparer information,
- Sign it in the space provided for the preparer's signature, and
- Give you a copy of the return in addition to the copy to be filed with the IRS.

Anyone who is paid to prepare the trust's return must enter their PTIN in the *Paid Preparer Use Only* section. The PTIN entered must have been issued after September 27, 2010. For information, see Form W-12, IRS Paid Preparer Tax Identification Number (PTIN) Application and Renewal.

Paid Preparer Authorization

If the trustee wants to allow the IRS to discuss the QFT's 2022 tax return with the paid preparer who signed it, check the "Yes" box in the signature area of the return. This authorization applies only to the individual whose signature appears in the Paid Preparer Use Only section of the QFT's return. It doesn't apply to the firm, if any, shown in that section.

If the "Yes" box is checked, the trustee is authorizing the IRS to call the paid preparer to answer any questions that may arise during the processing of the QFT's return. The trustee is also authorizing the paid preparer to:

- Give the IRS any information that's missing from the QFT's return;
- Call the IRS for information about the processing of the QFT's return or the status of its refund or payment(s); and
- Respond to certain IRS notices that the trustee has shared with the preparer about math errors, offsets, and return preparation.

The trustee isn't authorizing the paid preparer to receive any refund check, bind the QFT to anything (including any additional tax liability), or otherwise represent the QFT before the IRS.

The authorization will automatically end no later than the due date (without regard to extensions) for filing the QFT's 2022 tax return. If the trustee wants to expand the paid preparer's authorization or revoke the authorization before it ends, see Pub. 947, Practice Before the IRS and Power of Attorney.

Accounting Methods

Figure taxable income using the method of accounting regularly used in keeping the QFT's books and records. Generally, permissible methods include the cash method, the accrual method, or any other method authorized by the Internal Revenue Code. In all cases, the method used must clearly reflect income.

Generally, the QFT may change its accounting method (for income as a whole or for any material item) only by getting consent on Form 3115, Application for Change in Accounting Method. For more information, see Pub. 538, Accounting Periods and Methods

Accounting Period

All QFTs must use a calendar year as their accounting period.

Rounding Off to Whole Dollars

You must round off cents to whole dollars on your return and statements. If you do round to whole dollars, you must round all amounts.

Estimated Tax

Generally, a QFT must pay estimated income tax for 2023 if it expects to owe, after subtracting withholding and credits, at least \$1,000 in tax. Estimated tax liability is figured for the individual QFT, and not for a composite return taken as a whole. For details and exceptions, see Form 1041-ES, Estimated Income Tax for Estates and Trusts.

Interest and Penalties

Interest

Interest is charged on taxes not paid by the due date, even if an extension of time to file is granted. Interest is also charged on the failure-to-pay penalty, failure-to-file penalty, the accuracy-related penalty, and the fraud penalty. The interest charge is figured at a rate determined under section 6621.

Late Filing of Return

Section 6651 provides for penalties for late filing unless there is a reasonable cause for the delay. The law also provides for penalties for willful attempts to evade payment of tax. The penalty won't be imposed if you can show that the failure to file on time is due to reasonable cause and not due to willful neglect.

If you receive a notice about penalty and interest after you file this return, send us an explanation, and we will determine if you meet reasonable-cause criteria. **Don't** attach an explanation when you file Form 1041-QFT. For more information about penalties for late filing, see *Late Filing of Return* in the Instructions for Form 1041.

Late Payment of Tax

Generally, the penalty for not paying the tax when due is $\frac{1}{2}$ of 1% of the unpaid amount for each month or part of a month that it remains unpaid. The maximum penalty is 25% of the unpaid amount. The penalty applies to any unpaid tax on the return. Any penalty is in addition to interest charges on late payments.

Underpaid Estimate Tax

If the trustee underpaid estimated tax, use Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts, to figure any penalty.



If you include interest or any of these penalties with your payment, identify and enter these amounts in the bottom margin of Form 1041-QFT. Don't include the interest or penalty amount in the balance of tax due on line 19.

Other Penalties

Other penalties can be imposed for negligence, substantial understatement of tax, and fraud. See Pub. 17, Your Federal Income Tax, for details on these penalties.

Final Form 1041

If you have an existing EIN(s) that you previously used for filing Form 1041 and that you won't use again (that is, for QFTs included in a composite return), you should file Form 1041 and check the final return box.

Specific Instructions

Part I – General Information

Line 1 – Name of Trust

Copy the exact name from the Form SS-4, Application for Employer Identification Number, used to apply for the EIN you are using to file Form 1041-QFT.

Line 2 – Employer Identification Number (EIN)

If the QFT isn't filing as part of a composite return, use the EIN of the QFT. If the QFT doesn't have an EIN, it must apply for one. Every trustee that elects to file a composite return must apply for an EIN to be used only for filing Form 1041-QFT. A trustee must use a separate EIN for every Form 1041-QFT it files.

A QFT without an EIN can apply for one in the following ways.

- Online—A QFT can receive an EIN by Internet and use it immediately to file a return. Go to the IRS website at www.irs.gov/EIN and click on "Apply for an EIN Online."
- By mail or fax—Send in a completed Form SS-4. Form SS-4 can be obtained online at www.irs.gov/OrderForms.

Line 3 – Address

Include the suite, room, or other unit number after the street address. If the post office doesn't deliver mail to the street address and you have a P.O. box, show the box number instead of the street address.

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

If you change your address (including a new "in care of" name and address) after filing Form 1041-QFT, use Form 8822-B, Change of Address or Responsible Party — Business, to notify the IRS.

Line 4 – Number of QFTs

If this is a composite return, enter the total number of QFTs (including separate interests treated as separate QFTs) included on the return.

Part II – Tax Computation

Composite Return



If this is a composite return, enter in Part II the totals for all the QFTs included on the return.

Income

Line 2a – Total Ordinary Dividends

Report all ordinary dividends received during the tax year.

Report capital gain distributions on Schedule D (Form 1041), line 13.

Line 2b – Qualified Dividends

Enter on line 2b the amount reported on line 2a that is a qualified dividend. 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 doesn't include any dividend from a corporation if the corporation is (or was) exempt from income tax under section 501 or 521 for the tax year during which the distribution was made, any amount allowed as a deduction under section 591, or any dividend described under section 404(k).

Exception. Some dividends may be reported to the trust as qualified dividends but aren't qualified dividends. See the instructions for line 2b(2) in the 2022 Instructions for Form 1041 for more information.

Line 4 – Other Income

Enter all other types of income not included on line 1a, 2a, or 3. List the type and amount on an attached statement if the QFT(s) has more than one item.

If you are reporting GILTI, include it on the attached statement. You must also complete and attach Form 8992, Global Intangible Low-Taxed Income (GILTI).

Deductions

Allocation of Deductions for Tax-Exempt Income

Generally, no deduction that would otherwise be allowable is allowed for any expense that is allocable to tax-exempt income, such as interest on state or local bonds.

Exception. State income taxes and business expenses that are allocable to tax-exempt interest are deductible.

Expenses that are directly allocable to tax-exempt income are allocable only to tax-exempt income. A reasonable proportion of expenses indirectly allocable to both tax-exempt income and other income must be allocated to each class of income.

Limitations on Deductions

Generally, the amount a QFT has "at-risk" limits the loss it can deduct in any tax year. Also, section 469 and its regulations generally limit losses from passive activities to the amount of income derived from all passive activities. Similarly, credits from passive activities are generally limited to the tax attributable to such activities.

For details on these and other limitations on deductions, see *Deductions* in the Instructions for Form 1041.

Line 9 – Other Deductions

Attach your own statement, listing by type and amount all allowable deductions.



QFTs aren't allowed a deduction for a personal exemption.

Line 12 – Tax

Tax rate schedule. Unless the instructions that follow for Schedule D or Composite Return apply, figure the tax using the Tax Rate Schedule below. Enter the tax on line 12.

2023 Tax Rate Schedule

| If taxable income is Over— | But not over | Its tax is: | | Of the amount over— |
|----------------------------|--------------|-------------|-----|---------------------|
| \$0 | \$2,900 | | 10% | \$0 |
| 2,900 | 10,550 | \$290 + | 24% | 2,900 |
| 10,500 | 14,450 | 2,126 + | 35% | 10,500 |
| 14,450 | --- | 3,491 + | 37% | 14,450 |

Schedule D. If the QFT had both a net capital gain and any taxable income, or any qualified dividends and any taxable income, complete Part V of Schedule D (Form 1041), and then enter the tax from line 45 of Schedule D on line 12.

Composite return. If this is a composite return, check this box and enter on line 12 the total of the tax figured separately for each QFT using either the 2022 Tax Rate Schedule above or Schedule D (Form 1041).

Line 13 — Credits

Specify the type of credit being claimed and attach any required credit forms. If you are claiming more than one type of credit, attach a statement listing the type and amount of each credit claimed. See the Instructions for Form 1041 for details on the credits that may be claimed.

Line 15 — Net Investment Income Tax

For tax years beginning on or after January 1, 2013, a QFT may be liable for the NIIT enacted under section 1411. To determine if this tax applies, see Form 8960, Net Investment Income Tax—Individuals, Estates, and Trusts, and its instructions.

Line 16 — Total Tax

If the QFT owes any additional taxes (for example, alternative minimum tax, recapture taxes, etc.), include these taxes on line 16. To the left of the entry space, write the type and amount of the tax. Also attach to Form 1041-QFT any forms required to figure these taxes (for example, Schedule I (Form 1041)). See the Instructions for Form 1041 for more details on additional taxes that may apply.

Line 17 — Payments

Include on line 17 any of the following.

- Estimated tax payments made for 2022.
- Tax paid with a request for an extension of time to file.
- Federal income tax withheld (for example, backup withholding).
- Credit for tax paid on undistributed capital gains. Also attach Copy B of Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains.

Line 18 — Elective Payment Election.

Enter the total amount from Form 3800 for the elective payment election.

Line 19 — Tax Due

You must pay the tax in full when the return is filed. Make the check or money order payable to "United States Treasury." Write the EIN from line 2 of the form and "2023 Form 1041-QFT" on the payment. Enclose, but don't attach, the payment with Form 1041-QFT.

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 this 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.

You aren't 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 | 10 hr., 16 min |
| Learning about the law or the form | 2 hr., 40 min |
| Preparing the form | 6 hr., 40 min |
| Copying, assembling, and sending the form to IRS | 1 hr., 4 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 send us comments from www.irs.gov/FormComments. Or you can send your comments to Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Don't send the tax form to this address. Instead, see *Where To File*, earlier.

November 16, 2023