

Estate / Trust Engagement Letter

Thank you for using Tucson Tax Team for your tax preparation needs. Clear communication is key to a successful business relationship. The purpose of this letter is to make sure we both have the same understanding of the services we are providing.



Our responsibilities: Our responsibility is to accurately prepare your Federal and State Estate or Trust Income tax returns. We will complete these returns using the information you provide to us. Although we may ask for explanation regarding certain items, we will not be auditing or verifying any information. If we encounter a situation in which the tax laws are unclear, we will advise you of it and use our professional judgment as to the correct handling of the situation.

Your responsibilities: Your responsibility is to provide us with all the information needed to prepare the return. As Trustee or Fiduciary you are required to keep receipts and other documents that substantiate the amounts that you are claiming on this return. These may be necessary to prove the accuracy of the information on your return to a taxing authority. We recommend you keep tax receipts for a minimum of 4 years.

You are ultimately responsible for what is claimed on the fiduciary tax return, so you should review the return carefully before signing it. We will be happy to give you any explanation you need. If you receive a notice from a taxing authority claiming that the Estate/Trust owes additional taxes, please contact our office before you reply or make any payments. These notices are often incorrect. Because there are strict time frames in which to respond, please contact our office as soon as you receive any such notice. See **General Fiduciary Responsibilities** (below) for more information.

Confidentiality: Information you provide will be kept confidential, but it is not protected from the IRS or the state. We cannot disregard the implications of any information you provide in the process of preparing the return.

Fees and deadlines: Our fees are based upon our fee schedule and complexity of the tax return. Providing us with complete and organized information is the best way to reduce your tax preparation costs. Unless other arrangements have been made in advance, we require full payment of your preparation fees before we file your returns.

Your returns are subject to review by taxing authorities. Should an examination occur, we will be available to represent you at an additional fee. If any interest or penalties are assessed, they will be your responsibility.

We cannot guaranty the completion of your tax return unless all information is received within ten days of the filing deadline. If all information is not received by that time we reserve the right to file an extension on your behalf.

General Fiduciary Responsibilities

Fiscal Responsibility As a trustee, you stand in a “fiduciary” role with respect to the beneficiaries of the trust, both the current beneficiaries and any “remaindermen” named to receive trust assets upon the death of those entitled to income or principal now. As a fiduciary, you will be held to a very high standard, meaning that you must pay even more attention to the trust investments and disbursements than you would for your own accounts. You will need a Certificate of Trust or a letter of appointment showing you are the Trustee or Executor of the Trust/Estate.

The Trust Terms Read the Trust itself carefully, both now and when any questions arise. The Trust is your road map and you must follow its directions, whether about when or how to distribute income and principal or what reports you need to make to beneficiaries.

Accounting One of your jobs as Trustee is to keep track of all income to, distributions from, and expenditures by the Trust. Generally, you must give an account of this information to the beneficiaries on an annual basis, though you need to check the terms of the Trust to be sure. In any case you must use reasonable care in your bookkeeping so proper and correct tax returns can be filed annually.

Fees Trustees are entitled to reasonable fees for their services. Often the Trust terms will spell out the amount of Trustee fees. Otherwise the fees must be reasonable based on the amount of work needed to properly maintain the Trust. The Trust must file form 1099M for any Trustee that earns over \$600.00 during the calendar year. The Trustee must report this income on their personal tax return in the year received.

Disbursements Depending on the Trust documents none, some, or all of the Trust income must be distributed on an annual basis to the beneficiaries. It is your responsibility to know what income must be distributed and to make sure it is timely completed. Income not distributed is taxed at the Trust’s tax level and is usually a higher tax rate than if the money is distributed and reported on the beneficiaries’ personal tax return. A form W-9 should be obtained from each beneficiary before the first distribution is made.

Taxes A tax return must be filed by an Estate or Trust if gross income is over \$600.00 during the year. If money is distributed to beneficiaries, they will receive a Sch K-1 that shows income/expenses during the year for their personal tax return.

An Estate tax return is due if an individual’s estate is greater than \$12,060,000 for 2022.

Capital Losses Capital losses may not be used by the Estate/Trust until the final year. The unused capital losses can be “distributed” to beneficiaries in the final year to be used on their personal tax returns.

Form 56 You should file form 56 to notify the IRS of your fiduciary relationship. Tucson Tax Team can prepare this form for you.

Section 644 Election As Trustee, you may make an election by the due date of the initial return to treat a living Trust as an Estate. Estates must be closed within 2 years of date of death. An Estate may use either a calendar year or fiscal year tax return which can result in overall tax savings.

Accounting Period If you have an Estate, you can elect in the initial year to either have a calendar or fiscal year accounting period. Example: Taxpayer dies on 7/4/2022. The Trustee may elect to choose a calendar year: 7/4/2023 to 12/31/2023. 1/1/2024 – 12/31/2024 or they may choose a fiscal year: 7/4/2023 to 6/30/2024, 7/1/2024- 6/30/2025.

Timing Proper timing of income, expenses, disbursements and even accounting periods can save the Trust and its beneficiaries tax dollars. For small estates that can be closed within 12 months, filing a fiscal year return allows the Estate to file only one tax return. Depending on when income is received, paying Estate or Trust expenses can reduce the taxable income to either the Trust or Beneficiaries. Tucson Tax Team, LLC can help you make decisions regarding Elections and Timing.

Closing Estate Before an Estate may be closed all legal requirements must be met and all assets (see note below) must be distributed to beneficiaries. Before the final distribution of estate assets, an accounting of the Estate should be sent to the beneficiaries for their signature and approval. Your Trust documents will tell you if this accounting needs to be a formal accounting or can be informal.

Note: A slush fund in a non-income bearing account should be kept to pay final expenses (tax return fees, taxes, etc.) and held until the statute of limitations on any tax returns (usually 3 years) is met. The remaining slush fund money is then distributed to beneficiaries. The amount of funds held in a slush fund is determined by the size of the estate and expected expenses and liabilities.

If this letter is in agreement with your understanding of this engagement, please sign below.

Signature

Date

Print Name of Fiduciary

Print Name of Trust / Estate