

Section 1291 PFIC Example #1

Work problem by hand without using 1291 PFIC workbook

Facts:

Taxpayer purchased 10 Units ABC Fund on 12/31/2000 for \$25,000. On 12/31/2007 the taxpayer sold the fund for \$65,000. The highest ordinary rate in each year is; 2001: 39.1%, 2002: 38.6%, 2003 through 2007: 35%. Assume 2004 is a leap year. The OVDI period is 2003 through 2010.

1. What is the ordinary income and deferred tax reportable in 2007? (Do not compute interest)
2. How is the ordinary income portion reported on Form 1040?
3. How is the deferred tax and interest reported on Form 1040?

Section 1291 PFIC Example #2
Work problem using PFIC workbook

Facts:

The taxpayer is part of the 2012 OVDI program; disclosure period is 2004 through 2011.
The taxpayer had the following PFIC transactions occur.

- Purchased 10 units of ABC Fund on 03/01/2000 for \$10,000
- Purchased 15 units of XYZ Fund on 04/22/2001 for \$45,000
- Sold 10 units of ABC Fund on 11/15/2005 for \$18,000
- Purchased 30 units of LMN Fund on 11/18/2005 for \$30,000
- Purchased 10 units CDE Fund on 12/30/2005 for \$15,000
- Sold 10 units CDE fund on 04/15/2007 for \$10,000
- Sold 5 units of XYZ Fund on 06/02/2007 for \$25,000

1. Determine the tax consequences of the above transaction
2. Are there any capital losses? If yes, how are they treated?

MTM PFIC Example #1
Work problem by hand without using PFIC workbook

Facts:

The taxpayer is part of the 2012 OVDI program; disclosure period is 2004 through 2011.
The taxpayer has disclosed ownership in PFIC and has elected the AMTM treatment under FAQ 10. The following PFIC transactions occurred.

- Purchased 20 units of ABC Fund on 1/1/2000 for \$35,000
- Sold the fund on 6/30/2007 for \$50,000
- The FMV of the fund at year end is 12/31/2004: \$42,000, 12/31/2005: \$33,000, 12/31/2006: \$44,000

1. Determine the Adjusted Basis, Realized Gain/Loss, Unreversed Inclusions, Recognized Gain/Loss, and Capital Gain/Loss for each year.

2. Calculate the MTM Tax for each year?

3. Calculate the MTM Interest.

MTM PFIC Example #2

Work problem by hand without using PFIC workbook

Facts: Assume the same facts as #1 above except the taxpayer sold 5 units on 06/30/2005 for \$7,000. The remaining 15 units were sold on 12/31/2007 for \$30,000. FMV at year end remain unchanged for this example.

1. Determine the Adjusted Basis, Realized Gain/Loss, Unreversed Inclusions, Recognized Gain/Loss, and Capital Gain/Loss for each year.
2. Calculate the MTM Tax for each year?
3. Calculate the MTM Interest.

MTM PFIC Example #3

Work problem using the MTM PFIC Workbook

Facts: The taxpayer is part of the 2012 OVDI program; disclosure period is 2003 through 2010. The taxpayer has disclosed ownership in PFIC and has elected the AMTM treatment under FAQ 10. The following PFIC transactions occurred.

- Taxpayer purchased 20 units of ABC Fund on 03/31/2002 for \$11,716. The fund had a FMV of \$16,378 on 12/31/2003. The entire fund was sold on 04/30/2004 for \$18,004.
 - Taxpayer purchased 30 units of LMN Fund on 04/15/2003 for \$21,070. The fund had a FMV of \$19,013 on 12/31/2003, \$23,406 on 12/31/2004, \$14,631 on 12/31/2005, and \$15,748 on 12/31/2006. The taxpayer sold 10 units of the fund on 10/22/2005 for \$11,064. The remaining 20 units were sold on 07/21/2007 for \$18,478.
 - The taxpayer purchased 15 units of XYZ Fund on 01/01/2002 for \$18,452. The fund had a FMV of \$27,631 on 12/31/2003, \$33,841 on 12/31/2004, \$36,755 on 12/31/2005, \$31,930 on 12/31/2006, \$40,014 on 12/31/2007, \$19,488 on 12/31/2008. The entire fund was sold on 12/31/2009 for \$22,609.
1. Compute the MTM income, MTM tax and MTM interest for each year.
 2. Is the MTM interest amount what you would expect? Why or why not?

Section 1291 PFIC Example #1 Answer

1. The gain on the sale is \$40,000. The number of days held is 2,556.

Calculation of Deferred Tax

2001: $\$5,712 \times 39.1\% = \$2,233$

2002: $\$5,712 \times 38.6\% = \$2,205$

2003: $\$5,712 \times 35.0\% = \$1,999$

2004: $\$5,728 \times 35.0\% = \$2,005$

2005: $\$5,712 \times 35.0\% = \$1,999$

2006: $\$5,712 \times 35.0\% = \$1,999$

Ordinary Income

2007: \$5,712

2. Ordinary income is reported on the other income line on page 1 of Form 1040.
3. PFIC tax is a write in item on the total tax line of Form 1040. The PFIC interest is reported as a footnote on Form 1040

Section 1291 PFIC Example #2 Answer

1. 2005

Deferred Tax - \$2,533

Deferred Interest - \$469

Ordinary Income - \$1,224

2007

Deferred Tax - \$3,365

Deferred Interest - \$889

Ordinary Income - \$685

2. Yes there is a capital loss generated by the sale of CDE Fund in 2007. The loss of \$5,000 is reported as a long term capital loss.

MTM PFIC Example #1 Answer

- 1.

Year	Adjusted Basis	Sale or MTM Price	Realized Gain/Loss	Unreversed Inclusions	Recognized Gain/Loss	Adj Basis for Next Yr	Capital Loss
2004	\$35,000	\$42,000	\$7,000	\$7,000	\$7,000	\$42,000	\$0
2005	\$42,000	\$33,000	(\$9,000)	\$0	(\$7,000)	\$35,000	\$0
2006	\$35,000	\$44,000	\$9,000	\$9,000	\$9,000	\$44,000	\$0
2007	\$44,000	\$50,000	\$6,000	\$15,000	\$6,000	\$0	\$0

2. 2004 - \$1,400
2005 - (\$1,400)
2006 - \$1,800
2007 - \$1,200
3. 2004 - \$98

MTM PFIC Example #2 Answer

1.

5 Units Purchased on 1/1/2000

Year	Adjusted Basis	Sale or MTM Price	Realized Gain/Loss	Unreversed Inclusions	Recognized Gain/Loss	Adj Basis for Next Yr	Capital Loss
2004	\$8,750	\$10,500	\$1,750	\$1,750	\$1,750	\$10,500	\$0
2005	\$10,500	\$7,000	(\$3,500)	\$0	(\$1,750)	\$0	(\$1,750)

15 Units purchased on 1/1/200

Year	Adjusted Basis	Sale or MTM Price	Realized Gain/Loss	Unreversed Inclusions	Recognized Gain/Loss	Adj Basis for Next Yr	Capital Loss
2004	\$26,250	\$31,500	\$5,250	\$5,250	\$5,250	\$31,500	\$0
2005	\$31,500	\$33,000	\$1,500	\$6,750	\$1,500	\$33,000	\$0
2006	\$33,000	\$44,000	\$11,000	\$17,750	\$11,000	\$44,000	\$0
2007	\$44,000	\$30,000	(\$14,000)	\$3,750	(\$14,000)	\$0	\$0

2. 2004 - \$1,400
2005 - (\$50)
2006 - \$2,200
2007 - (\$2,800)
3. 2004 - \$98

MTM PFIC Example #2 Answer

1. See MTM PFIC Workbook
2. The interest is not 7% of the total MTM tax because LMN fund was purchased during the initial year.