

[admin](#) - Wed, 2/12/2014 - 14:17

The deduction for a gift to most pooled income funds must be computed using the fund's highest yearly rate of return of the past three years. The fund must have three or more taxable years of experience for this rule to apply. Deduction calculations for gifts to young funds that have less than three taxable years of experience use a rate mandated by the IRS.

You compute the yearly rate of return of a pooled fund in a particular year as described in Treas. Regs. 1.642-6(c)(2) and 1.642-6(c)(3). This calculation requires the fund's valuation on all determination dates during the year and its distribution for each period during the year. The determination dates must include the first day of the year and cannot be more than 3 months apart.

The yearly rate of return calculation is complicated. An example will help.

Example

You want to compute the yearly rate of return of your High Yield Fund in 1998. The fund was valued monthly during the year. The valuations were:

Date	Value
1/1/1998	\$1,000,000.00
2/1/1998	\$1,010,000.00
3/1/1998	\$1,010,000.00
4/1/1998	\$1,020,000.00
5/1/1998	\$1,010,000.00

6/1/1998	\$1,000,000.00
7/1/1998	\$1,020,000.00
8/1/1998	\$1,030,000.00
9/1/1998	\$990,000.00
10/1/1998	\$1,000,000.00
11/1/1998	\$1,000,000.00
12/1/1998	\$990,000.00

The fund also made four distributions during the year:

Date	Income
3/31/1998	21,549.95
6/30/1998	21,549.95
9/30/1998	21,549.95
12/31/1998	28,561.16

The Computation

Step 1

Compute the average of all the valuations of the fund during the year:

Date	Value
1/1/1998	\$1,000,000.00
2/1/1998	\$1,010,000.00
3/1/1998	\$1,010,000.00
4/1/1998	\$1,020,000.00
5/1/1998	\$1,010,000.00
6/1/1998	\$1,000,000.00
7/1/1998	\$1,020,000.00
8/1/1998	\$1,030,000.00
9/1/1998	\$990,000.00
10/1/1998	\$1,000,000.00
11/1/1998	\$1,000,000.00
12/1/1998	\$990,000.00
Average	\$1,006,666.67

Step 2

Compute the income and corrective term adjustment:

Payment Period	Income	Adj. %	Adj. Inc.
After End of 4th Quarter & Last Week of 4th Quarter	28,561.16	0%	0.00
Balance of 4th Quarter & Last Week of 3rd Quarter	21,549.95	25%	5,387.49
Balance of 3rd Quarter & Last Week of 2nd Quarter	21,549.95	50%	10,774.98
Balance of 2nd Quarter & Last Week of 1st Quarter	21,549.95	75%	16,162.47
Balance of 1st Quarter	0.00	100%	0.00
Total	\$93,211.01		\$32,324.94

Step 3

Compute the fund's yearly rate of return:

Yearly rate of return = total income / (average valuation - adjusted income)

Therefore, the High Yield Fund's yearly rate of return equals:

$$\$93,211.01 / (\$1,006,666.67 - \$32,324.94) = .09567$$

Expressed as a percentage, the yearly rate of return of the High Yield Fund for 1998 is 9.567%. If this is the fund's highest yearly rate of return for 1996, 1997, and 1998, deduction calculations for gifts made to the fund in 1999 will use 9.567% as the valuation rate.

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