FINAL BILL REPORT
SB 5057

C 33 L 11
Synopsis as Enacted

Brief Description: Concerning the income tax required to be paid by a trustee.

Sponsors: Senators Pflug, Kline and Harper; by request of Washington State Bar Association.

Senate Committee on Judiciary
House Committee on Judiciary

Background: The Washington Principal and Income Act (WPIA) governs the allocation of receipts and disbursements of a trust. A trust may have different classes of beneficiaries: those that have an interest in the income (income beneficiary) and those that have an interest in the principal (remainder beneficiary). A trustee has a fiduciary duty to both kinds of beneficiaries. If a trust has two or more beneficiaries, the trustee is to act impartially among them and is to take into account the differing interests of the beneficiaries. The WPIA gives a trustee the power to reallocate or adjust receipts of the trust between or among beneficiaries.

When a trust owns an interest in what is known as a pass-through entity for income tax purposes, such as an Limited Liability Corporation (LLC), it must report its share of the entity's taxable income regardless of whether the trust actually receives all of the income. The trustee must allocate the taxes between income and principal. Because the trust's taxes and amounts distributed to a beneficiary are interrelated, the trustee may be required to apply a formula to determine the correct amount to pay to a beneficiary.

Summary: A tax required to be paid by a trustee on the trust's share of an entity's taxable income must be charged:
- to income to the extent that the receipts from the entity are allocated only to income;
- to principal when the receipts from the entity are allocated only to principal;
- proportionately to income and principal when the receipts are allocated to both income and principal; or
- in all other cases, to principal.

Prior to determining whether to charge a tax to the principal or income, a trustee must adjust income or principal receipts by the distributions to a beneficiary for which the trust receives an income tax deduction.

Votes on Final Passage:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Senate	43	2
House	95	0

Effective: July 22, 2011.