

IN THE HOUSE OF REPRESENTATIVES

HOUSE BILL NO. 142

BY REVENUE AND TAXATION COMMITTEE

AN ACT

1 RELATING TO THE UNIFORM PRINCIPAL AND INCOME ACT; AMENDING SECTION  
2 68-10-409, IDAHO CODE, TO REVISE A DEFINITION, TO DEFINE A TERM, TO  
3 CLARIFY LANGUAGE, TO REMOVE A REQUIREMENT FOR AN ALLOCATION  
4 TO INCOME NECESSARY TO OBTAIN THE MARITAL DEDUCTION, TO  
5 PROVIDE FOR ALLOCATION OF A PAYMENT MADE FROM A SEPARATE  
6 FUND TO QUALIFY FOR THE MARITAL DEDUCTION UNDER THE INTERNAL  
7 REVENUE CODE, TO PROVIDE FOR NONAPPLICATION, TO PROVIDE TRUSTEE  
8 DUTIES WITH REGARD TO INTERNAL INCOME AND ALLOCATION OF A  
9 SEPARATE FUND AND TO PROVIDE FOR DETERMINATION OF INTERNAL  
10 INCOME OF A SEPARATE FUND; AND AMENDING SECTION 68-10-505,  
11 IDAHO CODE, TO REVISE REQUIREMENTS FOR PAYMENT OF A TAX ON  
12 THE TRUST'S SHARE OF AN ENTITY'S TAXABLE INCOME AND TO REVISE  
13 REQUIREMENTS FOR AN ADJUSTMENT TO INCOME OR PRINCIPAL DUE TO  
14 A TAX DEDUCTION RECEIVED BY A TRUST FOR PAYMENTS MADE TO A  
15 BENEFICIARY.  
16

17 Be It Enacted by the Legislature of the State of Idaho:

18 SECTION 1. That Section 68-10-409, Idaho Code, be, and the same is hereby amended  
19 to read as follows:

20 68-10-409. DEFERRED COMPENSATION, ANNUITIES, AND SIMILAR  
21 PAYMENTS. (a) In this section:

22 (1) "~~p~~Payment" means a payment that a trustee may receive over a fixed number of  
23 years or during the life of one (1) or more individuals because of services rendered or  
24 property transferred to the payer in exchange for future payments. The term includes a  
25 payment made in money or property from the payer's general assets or from a separate  
26 fund created by the payer, ~~including~~. For purposes of subsections (d), (e), (f) and (g) of  
27 this section, the term also includes any payment from any separate fund, regardless of the  
28 reason for the payment.

29 (2) "Separate fund" includes a private or commercial annuity, an individual retirement  
30 account, and a pension, profit-sharing, stock-bonus or stock-ownership plan.

31 (b) To the extent that a payment is characterized as interest, ~~or~~ a dividend or a payment  
32 made in lieu of interest or a dividend, a trustee shall allocate ~~it~~ the payment to income. The  
33 trustee shall allocate to principal the balance of the payment and any other payment received  
34 in the same accounting period that is not characterized as interest, a dividend or an equivalent  
35 payment.

36 (c) If no part of a payment is characterized as interest, a dividend or an equivalent  
37 payment, and all or part of the payment is required to be made, a trustee shall allocate to  
38 income ten percent (10%) of the part that is required to be made during the accounting period

1 and the balance to principal. If no part of a payment is required to be made or the payment  
 2 received is the entire amount to which the trustee is entitled, the trustee shall allocate the entire  
 3 payment to principal. For purposes of this subsection, a payment is not "required to be made"  
 4 to the extent that it is made because the trustee exercises a right of withdrawal.

5 ~~(d) If, to obtain an estate tax marital deduction for a trust, a trustee must allocate more~~  
 6 ~~of a payment to income than provided for by this section, the trustee shall allocate to income~~  
 7 ~~the additional amount necessary to obtain the marital deduction. Except as otherwise provided in~~  
 8 subsection (e) of this section, subsections (f) and (g) of this section apply, and subsections (b)  
 9 and (c) of this section do not apply, in determining the allocation of a payment made from a  
 10 separate fund to:

11 (1) A trust to which an election to qualify for a marital deduction under section  
 12 2056(b)(7) of the Internal Revenue Code of 1986, as amended, 26 U.S.C. section  
 13 2056(b)(7), as amended, has been made; or

14 (2) A trust that qualifies for the marital deduction under section 2056(b)(5) of the  
 15 Internal Revenue Code of 1986, as amended, 26 U.S.C. section 2056(b)(5), as amended.

16 (e) Subsections (d), (f) and (g) of this section do not apply if and to the extent that the  
 17 series of payments would, without the application of subsection (d) of this section, qualify for  
 18 the marital deduction under section 2056(b)(7)(C) of the Internal Revenue Code of 1986, as  
 19 amended, 26 U.S.C. section 2056(b)(7)(C), as amended.

20 (f) A trustee shall determine the internal income of each separate fund for the accounting  
 21 period as if the separate fund were a trust subject to this act. Upon request of the surviving  
 22 spouse, the trustee shall demand that the person administering the separate fund distribute the  
 23 internal income to the trust. The trustee shall allocate a payment from the separate fund to  
 24 income to the extent of the internal income of the separate fund and distribute that amount to  
 25 the surviving spouse. The trustee shall allocate the balance of the payment to principal. Upon  
 26 request of the surviving spouse, the trustee shall allocate principal to income to the extent the  
 27 internal income of the separate fund exceeds payments made from the separate fund to the trust  
 28 during the accounting period.

29 (g) If a trustee cannot determine the internal income of a separate fund but can determine  
 30 the value of the separate fund, the internal income of the separate fund is deemed to equal four  
 31 percent (4%) of the fund's value, according to the most recent statement of value preceding  
 32 the beginning of the accounting period. If the trustee can determine neither the internal  
 33 income of the separate fund nor the fund's value, the internal income of the fund is deemed to  
 34 equal the product of the interest rate and the present value of the expected future payments,  
 35 as determined under section 7520 of the Internal Revenue Code of 1986, as amended, 26  
 36 U.S.C. section 7520, as amended, for the month preceding the accounting period for which the  
 37 computation is made.

38 (h) This section does not apply to a payments to which section 68-10-410, Idaho Code,  
 39 applies.

40 SECTION 2. That Section 68-10-505, Idaho Code, be, and the same is hereby amended  
 41 to read as follows:

42 68-10-505. INCOME TAXES. (a) A tax required to be paid by a trustee based on  
 43 receipts allocated to income must be paid from income.

44 (b) A tax required to be paid by a trustee based on receipts allocated to principal must be  
 45 paid from principal, even if the tax is called an income tax by the taxing authority.

1 (c) A tax required to be paid by a trustee on the trust's share of an entity's taxable  
2 income must be paid ~~proportionately~~:

3 (1) From income to the extent that receipts from the entity are allocated only to income;  
4 ~~and~~

5 (2) From principal to the extent that:

6 ~~(A) Receipts from the entity are allocated only to principal; and~~

7 ~~(B) The trust's share of the entity's taxable income exceeds the total receipts~~  
8 ~~described in paragraphs (1) and (2)(A) of this subsection.~~

9 (3) Proportionately from principal and income to the extent that receipts from the entity  
10 are allocated to both income and principal; and

11 (4) From principal to the extent that the tax exceeds the total receipts from the entity.

12 ~~(d) For purposes of this section, receipts allocated to principal or income must be~~  
13 ~~reduced by the amount distributed to a beneficiary from principal or income for which the trust~~  
14 ~~receives a deduction in calculating the tax. After applying subsections (a) through (c) of this~~  
15 ~~section, the trustee shall adjust income or principal receipts to the extent that the trust's taxes~~  
16 ~~are reduced because the trust receives a deduction for payments made to a beneficiary.~~