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BILL



ANALYSIS

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House Bill 5154 (as reported without amendment)

Sponsor: Representative John Walsh

House Committee: Tax Policy

Senate Committee: Finance

CONTENT

The bill would amend the Uniform Principal and Income Act (which governs the way in which receipts and expenditures of a trust or estate must be allocated between principal and income) to do the following:

- Rewrite a provision that requires a trustee to allocate to income an additional amount of payments from a retirement fund, in order to obtain an estate tax marital deduction for the trust.
- Require a trustee, after allocating payments between income and principal when paying the trust's share of an entity's taxable income, to adjust receipts to the extent the trust's taxes were reduced because the trust received a deduction for payments made to a beneficiary.

Section 409 governs the allocation of a payment between income and principal in situations involving a series of payments received by a trust because of services rendered or property transferred to the payer, including payments from a separate fund created by the payer, such as an annuity, individual retirement account, or pension plan.

If a trustee must allocate more of a payment to income than provided for in this section, in order to obtain an estate tax marital deduction for the trust, the trustee is required to allocate the additional amount necessary. The bill would delete this requirement, and would add new requirements for a trustee in determining the allocation of a payment made from a separate fund to either a trust to which an election to qualify for a marital deduction under the Internal Revenue Code had been made, or a trust that qualified for that deduction.

Section 505 requires a trustee to pay from income or from principal a tax based on receipts allocated to income or allocated to principal, respectively. If the tax is on the trust's share of an entity's taxable income, the trustee must pay the tax as prescribed in this section. The bill would establish different requirements regarding the allocation of the tax to income or principal. The bill would require the trustee, after applying the required allocations, to adjust income or principal receipts to the extent that the trust's taxes were reduced because the trust received a deduction for payments to a beneficiary.

MCL 555.809 et al.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

Date Completed: 6-8-12

Fiscal Analyst: Dan O'Connor