State Income Taxation of Non-Grantor Trusts: An Important Area for Tax Planning

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Understand how to minimize the impact of state income taxes on a trust and its beneficiaries in this article from the *Journal Of Financial Planning.*

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Non-grantor trusts[1] have become a staple item in many clients' estate plans. While financial planners have traditionally focused on the estate and gift tax planning associated with the creation of such trusts, the income taxation of trusts and beneficiaries of trusts (sometimes referred to as "fiduciary income taxation") has not garnered as much attention.

As is the case with individual and business entities, U.S. domestic non-grantor trusts and their beneficiaries are subject to the federal income tax under the Internal Revenue Code (IRC) and, depending upon the residency of the trust, state income taxation as well. While the rules associated with fiduciary income taxation are uniform with regard to federal income tax, whether a trust and its beneficiaries are subject to state income taxation will depend upon individual state law, which is not uniform in its application and scope.