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Beneficiary's Residency Not Enough for State To Tax Trust, Supreme Court Rules

Tax Planning & Structuring

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The U.S. Supreme Court ruled unanimously today that a trust beneficiary's residence in a state by itself doesn't give the state the right to tax the trust. More specifically, the justices decided that North Carolina couldn't tax trust income that (a) has not been distributed to the resident beneficiary, (b) the resident beneficiary has no right to demand and (c) the resident beneficiary may not receive in the future.

The case involved North Carolina's assessment of an approximately \$1.3 million tax on income earned by the Kimberley Rice Kaestner 1992 Family Trust from 2005-2008. The trust's only connection to the state was the in-state residence of its beneficiaries. The trust paid the tax and sued for a refund. During the period at issue, the trust made no distributions to its beneficiaries and had no physical presence in North Carolina, nor did it make any investments or hold any real property in the state.

The Supreme Court limited its holding to the facts presented in the case and stated that its decision does not address state laws that consider the in-state residency of a beneficiary as one of a combination of factors, that turn on the residency of a settlor or that rely only on the residency of non contingent beneficiaries.

If you'd like to discuss how this case might apply to trusts you have created or of which you or your family members are beneficiaries, please contact a member of Gould & Ratner's [Estate Planning and Wealth Transfer Practice](#). Click [here](#) to read the full Supreme Court decision.