



AN ACT CONFORMING MONTANA LAW TO THE 2008 AMENDMENTS TO THE UNIFORM PRINCIPAL AND INCOME ACT; CHANGING THE MARITAL DEDUCTION REQUIREMENTS TO ALLOW A TRUST TO QUALIFY FOR THE FEDERAL MARITAL DEDUCTION REQUIREMENTS; PROVIDING FOR THE ALLOCATION OF TAXABLE INCOME FOR THE DETERMINATION OF TAXES ON UNDISTRIBUTED ENTITY TAXABLE INCOME; PROVIDING A TRANSITION PROVISION; AMENDING SECTIONS 72-34-441 AND 72-34-452, MCA; AND PROVIDING A DELAYED EFFECTIVE DATE.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 72-34-441, MCA, is amended to read:

"72-34-441. Payments characterized as interest or dividend -- allocation to income -- allocation of other payments -- excess allocation to income in order to obtain estate tax marital deduction. (1) In this section:

(a) ~~"payment"~~ "Payment" means a payment that a trustee may receive over a fixed number of years or during the life of one or more individuals because of services rendered or property transferred to the payer in exchange for future payments. The term includes a payment made in money or property from the payer's general assets or from a separate fund created by the payer; ~~including.~~ For purposes of subsections (4), (5), (6), and (7), the term also includes any payment from any separate fund, regardless of the reason for the payment.

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

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

(3) If no part of a payment is characterized as interest, a dividend, or an equivalent payment and all or part of the payment is required to be made, a trustee shall allocate to income 10% of the part that is required to

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

~~—— (4) If, to obtain an estate tax marital deduction for a trust, a trustee allocates more of a payment to income than provided by this section, the trustee shall allocate to income the additional amount necessary to obtain the marital deduction.~~

(4) Except as otherwise provided in subsection (5), subsections (6) and (7) apply and subsections (2) and (3) do not apply in determining the allocation of a payment made from a separate fund to:

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

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

(5) Subsections (4), (6), and (7) do not apply if and to the extent that the series of payments would, without the application of subsection (4), qualify for the marital deduction under section 2056(b)(7)(C) of the Internal Revenue Code, 26 U.S.C. 2056(b)(7)(C), as amended.

(6) A trustee shall determine the internal income of each separate fund for the accounting period as if the separate fund were a trust subject to this part. Upon request of the surviving spouse, the trustee shall demand that the person administering the separate fund distribute the internal income to the trust. The trustee shall allocate a payment from the separate fund to income to the extent of the internal income of the separate fund and distribute that amount to the surviving spouse. The trustee shall allocate the balance of the payment to principal. Upon request of the surviving spouse, the trustee shall allocate principal to income to the extent the internal income of the separate fund exceeds payments made from the separate fund to the trust during the accounting period.

(7) If a trustee cannot determine the internal income of a separate fund but can determine the value of the separate fund, the internal income of the separate fund is deemed to equal 3% of the fund's value, according to the most recent statement of value preceding the beginning of the accounting period. If the trustee can determine neither the internal income of the separate fund nor the fund's value, the internal income of the fund is deemed to equal the product of the interest rate and the present value of the expected future payments, as

determined under section 7520 of the Internal Revenue Code, 26 U.S.C. 7520, as amended, for the month preceding the accounting period for which the computation is made.

~~(5)(8)~~ This section does not apply to payments to which 72-34-442 applies."

Section 2. Section 72-34-452, MCA, is amended to read:

"72-34-452. Payment of taxes. (1) A tax required to be paid by a trustee based on receipts allocated to income must be paid from income.

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

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

(a) from income to the extent that receipts from the entity are allocated only to income;

(b) from principal to the extent that ~~both of the following apply:~~

~~—— (i) receipts from the entity are allocated only to principal; and~~

~~—— (ii) the trust's share of the entity's taxable income exceeds the total receipts described in subsection (3)(a) and subsection (3)(b)(i);~~

(c) proportionately from principal and income to the extent that receipts from the entity are allocated to both income and principal; and

(d) from principal to the extent that the tax exceeds the total receipts from the entity.

~~(4) For purposes of this section, receipts allocated to principal or income must be reduced by the amount distributed to a beneficiary from principal or income for which the trust receives a deduction in calculating the tax. After applying subsections (1) through (3), the trustee shall adjust income or principal receipts to the extent that the trust's taxes are reduced because the trust receives a deduction for payments made to a beneficiary.~~

Section 3. Transitional matters. Section 72-34-441, as amended by [section 1], applies to a trust described in 72-34-441(4) on and after the following dates:

(1) if the trust is not funded as of [the effective date of section 1], the date of the decedent's death;

(2) if the trust is initially funded in the calendar year beginning January 1, 2012, the date of the decedent's death; or

(3) if the trust is not described in subsection (1) or (2), January 1, 2012.

Section 4. Effective date. [This act] is effective January 1, 2012.

- END -

I hereby certify that the within bill,
SB 0333, originated in the Senate.

Secretary of the Senate

President of the Senate

Signed this _____ day
of _____, 2011.

Speaker of the House

Signed this _____ day
of _____, 2011.

SENATE BILL NO. 333

INTRODUCED BY J. SHOCKLEY

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