



Important Information for Beneficiaries and Grantors of Exempt Resident Trusts

The Tax Law and the Administrative Code of the City of New York have been amended to require New York resident beneficiaries or grantors of exempt New York resident trusts to include certain distributions and income in their New York adjusted gross income for tax years beginning on or after January 1, 2014. However, these law changes will not apply to specific actions that take place before June 1, 2014. This memorandum explains those exceptions.

Chapter 59 of the Laws of 2014 (Part I) amended various provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of trusts. These provisions took effect on March 31, 2014, and apply to tax years beginning on or after January 1, 2014. However, certain provisions of the new law do not apply to specific actions that take place before June 1, 2014.

- Accumulation distributions made to New York resident beneficiaries by resident trusts exempt under the provisions of section 605(b)(3)(D) of the Tax Law will not be required to be included in the beneficiaries' New York adjusted gross income (NYAGI) if the distributions are made before June 1, 2014. However, *incomplete gift non-grantor trusts* are not subject to this provision.
- The income of an *incomplete gift non-grantor trust* will not be required to be included in the grantor's or beneficiaries' NYAGI if the trust is terminated and all assets are distributed before June 1, 2014.

Incomplete gift non-grantor trust means a resident trust that meets the following conditions:

- the trust does not qualify as a grantor trust under sections 671 through 679 of the Internal Revenue Code (IRC), and
- the grantor's transfer of assets to the trust is treated as an incomplete gift under section 2511 of the IRC and the regulations applicable to that section.

(Tax Law sections 612(b)(40) and 612(b)(41) and Administrative Code of the City of New York sections 11-1712(b)(36) and 11-1712(b)(37))

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