

Additional Tax on Unearned Income
Estates and Trusts

Chapter 44 of the Laws of 1988 amended the Tax Law concerning the computation of the additional tax on unearned income for an estate or trust. This change, explained below, is retroactive and applies to taxable years beginning in 1987 and 1988. An estate or trust that is affected by this change and has already filed its 1987 return may file an amended return to claim a refund.

Chapter 44 added a new subparagraph (B) to Section 601(d)(7) of the Tax Law. This change allows an estate or trust to reduce its unearned income by the shares of unearned income distributed to its beneficiaries. The beneficiaries' shares of the unearned income are to be computed in the same manner that shares of the New York fiduciary adjustment are determined under Section 619.

This reduction does not affect the computation of the New York adjusted gross income of an estate or trust for purposes of the imposition of the tax on unearned income.

The example on page 2 illustrates the computation of the tax on unearned income for an estate or trust under the new law.

Computation of Unearned Income

Dividends	\$17,500
Interest	12,500
Capital Gain (allocated to corpus)	15,000
Income in Respect of a Decedent	<u>17,500</u>
Total Gross Income	\$62,500
Add: Non New York Bond Interest	<u>2,500</u>
*Total	\$65,000
Less: U.S. Bond Interest	<u>7,500</u>
New York Adjusted Gross Income	\$57,500
Less: Capital Gain	15,000
Less: Earned Income	
Income in Respect of a Decedent	<u>17,500</u>
Unearned Income	\$25,000
Beneficiaries' Shares of Unearned Income (\$25,000 x 50%)	<u>12,500</u>
Taxable Unearned Income to Fiduciary	\$12,500

Computation of Tax on Unearned Income

Tax Year - 1987

\$12,500 x 3% x	<u>Lesser of \$100,000 or (\$57,500 - \$50,000)</u> \$100,000
\$12,500 x 3% x	<u>Lesser of \$100,000 or \$7,500</u> \$100,000
\$12,500 x 3% x	\$ <u>7,500</u> \$100,000
\$12,500 x 3% x	7.5%
\$12,500 x .225% =	\$28.13

*Federal Distributable Net Income is (\$65,000 - \$15,000) \$50,000, of which 50% (\$25,000) was distributed to the beneficiaries.

Cross Reference:

New York State's Tax Reform and Reduction Act of
1987 Additional Tax on Unearned Income

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