



June 27, 2006
Pennsylvania Personal Income Tax
No. PIT-06-011
Estate Income; No Distribution Deduction

ISSUE

If Taxpayer is an estate and receives taxable income from another estate, is Taxpayer subject to Pennsylvania Personal Income Tax when instead of distributing it to its sole beneficiary the income is used to pay Class 3 and Class 6 welfare claims?

CONCLUSION

Yes. Income that an estate receives from another estate is subject to Pennsylvania Personal Income Tax if the estate uses it to pay the decedent's debts, and it is not distributed to a beneficiary.

FACTS

An estate distributed taxable income using a 2005 PA Schedule L. Taxpayer did not distribute any of its residue to the sole beneficiary because all of the residue was paid to the Commonwealth of Pennsylvania on account of Class 3 and Class 6 welfare claims.

DISCUSSION

Section 305 of the Tax Reform Code of 1971 provides that the income of a beneficiary of an estate "shall consist of that part of the income or gains received by the estate ...for its taxable year ending within or with the beneficiary's taxable year which, under the governing instrument and applicable state law, is required to be distributed currently or is in fact paid or credited to said beneficiary." 72 P.S. § 7305. This section also provides that the income or gains of an estate which have not been distributed or credited to the beneficiaries are taxable to the estate.

Since Taxpayer's fiduciary was required to pay the expenses and debts of Taxpayer and these costs equaled or exceeded the residue of Taxpayer, no income was available for distribution to Taxpayer's beneficiary. Thus, the income received by Taxpayer was retained by Taxpayer and should be reported as "Estate or Trust Income" on Taxpayer's PA-41. Since Taxpayer did not distribute any income to its beneficiary, Taxpayer has no distribution deduction; and its taxable income equals the total amount received from the other estate.