

**Sec. 12-716(a)-1. Allocating the Connecticut fiduciary adjustment among trust or estate and its beneficiaries**

(a) **General.** Ordinarily, the Connecticut fiduciary adjustment is allocated among a trust or estate and its beneficiaries in proportion to their respective shares of the distributable net income, as defined in the Internal Revenue Code, of the trust or estate.

(1) The allocation of the Connecticut fiduciary adjustment is unaffected by (A) whether a trust or estate is a resident, and (B) whether any or all of the beneficiaries are residents. A beneficiary, in computing Connecticut adjusted gross income, shall add to or subtract from, as the case may be, federal adjusted gross income such beneficiary's share of the fiduciary adjustment.

(2) Allocation of the fiduciary adjustment according to the general rule stated in subdivision (1) of this subsection is illustrated by the following example:

*Example:* The Connecticut fiduciary adjustment of an estate is \$1,000. The estate has federal distributable net income of \$5,000, out of which it distributes \$3,000 to B, a resident beneficiary, and \$1,500 to C, a nonresident beneficiary. B's share is 60% of federal distributable net income, and so 60% of the fiduciary adjustment (\$600) is allocated to him and shall be added to his federal adjusted gross income in determining his Connecticut adjusted gross income. C's share of the distributable net income is 30%, and so 30% of the Connecticut fiduciary adjustment (\$300) is allocated to her. Ten percent of the distributable net income was not distributed by the estate to any beneficiary, and so 10% of the fiduciary adjustment (\$100) is allocated to the estate and shall be added to the federal taxable income of the estate in determining its Connecticut taxable income.

(b) Special rule where trust or estate has no distributable net income. If the distributable net income of a trust or estate for the taxable year is zero or less than zero, the share of each beneficiary in the Connecticut fiduciary adjustment is in proportion to such beneficiary's share of the income of the trust or estate for the taxable year, determined under local law or the governing instrument, which is required to be distributed currently, plus any other amounts which are properly paid or credited or required to be distributed during the taxable year. Any balance of the fiduciary adjustment not allocable to any beneficiary is allocated to the trust or estate.

*Example 1:* A trust has income, for trust accounting purposes, of \$10,000, and its Connecticut fiduciary adjustment is \$5,000. Certain expenses paid by the trustee are chargeable to principal under the terms of the trust instrument but are nevertheless deductible for federal income tax purposes and have the effect of reducing distributable net income to zero.

The trust instrument requires that \$4,000 of income be distributed to D. An additional \$3,000 is paid to D pursuant to the discretionary authority of the trustee, and the remaining \$3,000 of income is accumulated by the trust. D's \$7,000 share is 70% of the total income for trust accounting purposes, so that 70% of the fiduciary adjustment (\$3,500) is allocated to her. If she is a resident, D shall add this amount to her federal adjusted gross income in determining Connecticut adjusted gross income. The remaining \$1,500 is the trust's share in the fiduciary adjustment, which shall be added to the federal taxable income of the trust in determining its Connecticut taxable income.

*Example 2:* The facts are the same as in Example 1, except that the fiduciary adjustment

is a negative figure of (\$5,000). In computing her Connecticut adjusted gross income, D may therefore subtract \$3,500, which is her share in the fiduciary adjustment, from her federal adjusted gross income, and the trust may subtract \$1,500, its share of the fiduciary adjustment, from its federal taxable income.

(c) While this section pertains to Section 12-716(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)