

Advisor Insights

Do we have to pay taxes on a cash distribution from a trust fund? Is it considered wages/income on our tax return forms?



My husband's uncle informed him that there had been a trust fund set up for his mother and aunts and that it was being dispersed. Since my husband's mother passed away 10 years ago, they decided to give half of what would have gone to his mother to him, and half to his sister. We just need to know if we need to set some of the money (\$25,000) aside for taxes or not. Also, is it considered income for next year's taxes? We are in an income bracket that we usually get earned income credit back on our tax returns at tax time, so we don't have much, if any, taxes withheld from my husband's paychecks. We don't want to end up with a huge tax bill and or penalty.

ESTATE PLANNING, TAXES

ANSWERS

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May 2016



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Good news, it sounds like from your question, that the funds will most likely NOT be taxable to you, however there are certain situations where there could be some tax liability to you. In most cases, inherited funds, even from most trusts will pass to you without tax liability, but not all!

To be certain, contact your husband's Uncle, or the tax professional handling the transaction, and ask them if any tax liability will be assumed by your family. This should be a fairly easy question for them to answer and certainly not offensive to ask.

If there is a tax liability owed, you are on the correct track by setting aside funds for this future liability. In either case, it is highly likely the entire amount WILL NOT be taxable, if any at all.

Was this answer helpful?

May 2016



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What a pleasant surprise for your husband to receive some of the family's monies now, albeit 10 years after his mother passed away. You don't mention whether your husband's aunt is still alive or not, yet perhaps her death has prompted the trust disbursement now.

I must admit to my curiosity being tickled that apparently your husband didn't know of his mother and aunt being the beneficiaries of a trust fund. I'm certainly in no position to question anyone's integrity, and you don't mention the family dynamics between your husband and his uncle, yet stranger things have happened that one family member controls the finances, and sometimes to the detriment of other family members. Is this same uncle the husband of the presumed deceased aunt, such that he's now handling the distribution of the trust, since both your husband's mother and aunt are now deceased? Not sure the size of your husband's family OR if there could be other members whom he could casually ask a couple questions of, yet I thought I'd mention it.

Now to answering your question on taxes. Upon dissolution of a trust, the trustee is required to file a FINAL Trust Income Tax return in the year of dissolution, and that tax return will report whether there is any final trust tax due. If so, that would typically be split amongst the ultimate beneficiaries, in this case, your husband and his sister. Normally, however, the trustee has the Final Trust Tax return prepared, and then informs the ultimate beneficiaries of their respective tax burden, if any. I would suspect there is none, and this inherited income is yours to keep without having to pay income tax.

I like your planning mind, however, to set aside monies now, so as not to be surprised next Spring, for any taxes owed on 2016 income. In this case, however, I think you are alright, yet please ask the question of your husband's uncle, who may be the trustee, and/or surely he could ask the CPA preparing the trust tax return for the exact tax treatment on your husband's share. It is your husband's absolute right to know this information now, so you both can plan.

I suggest that you and your husband take the next week to think about and separately write down 3 things you would each like to do with this windfall. Have fun with these options. Then designate a date night for a week or two from now, and bring your respective lists with you and each of you read off all the things/experiences you wrote down, and then the other responds with their list and then you both take another 1-3 weeks to see if you have masterminded any new ideas and then decide which of the 'things'/experiences you will do, and then pull out a calendar to plan the timeline of each and Just Do It! Have FUN, okay?

Was this answer helpful?

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