

Pennsylvania Amends Tax Treatment of Grantor Trusts as of January 1, 2025

Starting January 1, 2025, the individual who is the grantor of a trust that qualifies as a grantor trust under Sections 671 through 679 of the Internal Revenue Code will himself or herself be subject to Pennsylvania Personal Income Tax (PIT) on the income of the trust, whether or not the grantor trust is revocable or irrevocable and whether or not the income is accumulated or distributed or distributable to the beneficiaries.¹ The new law takes effect on February 14, 2024, and is applicable to tax years beginning on or after January 1, 2025. This legislation finally conforms Pennsylvania's PIT to federal tax law, which disregards the grantor trust and holds the grantor responsible for federal income tax imposed on the trust income.

This legislation is a huge win for Pennsylvania taxpayers and is the result of years of political negotiations. Conformity to federal income tax treatment of grantor trusts eases the compliance burden on grantor trusts of filing PIT returns and remitting PIT due on the trust income. Prior to this amendment, only revocable trusts were disregarded for PIT purposes, and irrevocable grantor trusts were the actual taxpayers required to file PIT returns and pay PIT on the trust income. Further, where a grantor trust has taxable income from multi-state sources, such that the grantor thereof is subject to personal income tax in Pennsylvania and other states on the trust income, a Pennsylvania resident grantor may now be entitled without qualification to a credit against Pennsylvania PIT for income taxes paid by the grantor to other states on the trust income once the legislation takes effect. Currently, the issue of entitlement to such resident credits is highly contested.

Before this legislation, Pennsylvania imposed a state personal income tax directly on grantor trusts that were irrevocable. As such, for tax years commencing prior to January 1, 2025, beneficiaries of irrevocable grantor trusts are still subject to Pennsylvania PIT on income required to be distributed currently or actually distributed or credited to them, and the grantor trust is subject to Pennsylvania PIT on the remainder.

¹Act of December 14, 2023, P.L. ____, No. 64 (S.B. 815).



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