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Letter Ruling 95-6: MA Tax Consequences of Liquidation of a MA Corporate Trust

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May 9, 1995

You request a ruling on behalf of the trustees of ***** Trust (hereinafter the "Trust") concerning the Massachusetts tax consequences of the proposed distribution of Trust property in complete liquidation to its shareholder beneficiaries.

The Trustees request the following rulings:

1. The distribution of the assets of the Trust to its shareholder beneficiaries in complete liquidation of the Trust will not result in recognition of gain or loss to the Trust for Massachusetts income tax purposes.
2. The shareholder beneficiaries will not recognize gain or loss for Massachusetts tax purposes on the receipt of Trust property in complete liquidation to the extent that gain or loss is recognized for federal purposes.

We have ruled that, for Massachusetts tax purposes, the Trust will not recognize gain or loss on the distribution of property in complete liquidation and that the shareholder beneficiaries will not recognize gain or loss on the distribution of property in complete liquidation, until the shareholder beneficiaries sell or otherwise dispose of the property.

I. FACTS

The Trust is a Massachusetts business trust.^[1] For Massachusetts tax purposes, the Trust is a corporate trust, pursuant to G.L. c. 62, § 1(j), and, as such, is taxable as a corporate trust pursuant to G.L. c. 62, § 8. Its only assets consist of essentially unimproved real property in Massachusetts. The Trust has never engaged in any business activity, has never acquired property other than the land originally contributed to it, and has not sold any of the land originally contributed to it. The Trust has no accumulated earnings and profits.

The four trustees are also the shareholder beneficiaries. At the present time, only one of the

shareholder beneficiaries is a resident of Massachusetts. The trustees intend to terminate the Trust and to distribute the assets of the Trust to the shareholder beneficiaries in complete liquidation of the Trust.

In Letter Ruling TR 31 2096 93, dated December 16, 1993, the Internal Revenue Service ruled that the Trust would be treated as a partnership for federal tax purposes.

II. DISCUSSION

1. The Trust will not recognize any gain or loss for Massachusetts tax purposes on the distribution of property in complete liquidation.

For Massachusetts tax purposes, the Trust is a corporate trust, and, as such, is subject to the taxes imposed under Chapter 62 of the General Laws (taxation of incomes). G. L. c. 62, § 8(a). In Massachusetts, a corporate trust is treated as if it were a "resident natural person" for purposes of determining its tax liabilities. Id. Therefore, the analysis for determining the tax consequences of the Trust's distribution of property in complete liquidation begins with "Massachusetts gross income," which is federal gross income, with modifications not here relevant. G.L. c. 62, § 2(a).

The Trust does not have any federal gross income, and, thus, its does not have any "Massachusetts gross income." For federal tax purposes, the Trust is classified as a partnership. A partnership, as such, is not subject to income tax imposed by subtitle A of the Internal Revenue Code. I.R.C. § 701. The result of the federal rule is that the Trust is not subject to taxation for Massachusetts tax purposes, and, therefore, it is not required to recognize any gain or loss on the distribution of property in complete liquidation to its shareholder beneficiaries.

2. The shareholder beneficiaries will not recognize gain or loss for Massachusetts tax purposes on the distribution of the Trust property in complete liquidation until the shareholder beneficiaries sell or otherwise dispose of the distributed property.

Like the Trust, the analysis for determining the tax consequences of the Trust's distribution of property in complete liquidation as it applies to the shareholder beneficiaries begins with "Massachusetts gross income," which is federal gross income, with modifications not here relevant. G.L. c. 62, § 2(a).

The shareholder beneficiaries of the Trust must recognize any gain or loss from the distribution of Trust property in complete liquidation for Massachusetts tax purposes to the extent any gain or loss is recognized for federal tax purposes. For federal tax purposes, partners, and not the partnership, are liable for income tax in their separate or individual capacities. I.R.C. 701. Generally, no gain is recognized by a partner on the distribution of partnership property, including money, except to the extent that the amount of money distributed exceeds the adjusted basis of the partner's interest in the partnership immediately before the distribution. I.R.C. 731; Treas. Reg. § 1.731-1.

The Trust intends to distribute only Trust property in complete liquidation. For federal tax purposes, the federal gross income of the shareholder beneficiaries is zero since no gain or loss will be recognized on the distribution of property in complete liquidation. See id. As a consequence, the "Massachusetts gross income" is also zero, and therefore, no gain or loss is recognized on the distribution of property in complete liquidation for Massachusetts tax purposes. However, for Massachusetts tax purposes, if the property is ever sold, gain or loss must be recognized by the shareholder beneficiaries, whether or not residents of Massachusetts. See G.L. c.62, § 2(a); Treas. Reg. § 1.731-1.

Very truly yours,

/s/Mitchell Adams

Mitchell Adams

Commissioner of Revenue

MA:HMP:jd

LR 95 6

[\[1\]](#) You have represented that the Trust is a Massachusetts business trust. For the purposes of this ruling, we assume, without deciding, the correctness of this representation.