

**Who is entitled to income that is accrued
but unpaid before a decedent dies?
(E.g accrued interest on a bond)**

As stated in the “Fiduciary Accounting Answer Book,” Q7:8 on page 7004:

“When a fiduciary (executor or trustee) receives income . . . after a decedent dies, the fiduciary must allocate the items that were due *before* death . . . to principal. [UPIA Sec 302(a)]. But, if the income . . . was due on or after the decedent’s death . . . and is a **periodic payment**, the fiduciary must allocate it to the income of the succeeding interest [UPIA Sec. 302(b)]. These rules do not apply to income on property specifically bequeathed. [UPIA Sec. 201 (1)” *(Emphasis added.)*

The example from the book will help explain this concept:

“Example: 7-4: Sam dies on June 15, 2009 owning \$1,000,000 of U.S. Treasury Securities paying six percent interest semiannually each January 1 and July 1. His entire estate passes into a trust for the benefit of his son Billy. When Sam died, his estate was due \$27,500 of accrued interest from January 1 to June 15, 2009 [(6% x 1,000,000 x (-5.5/12)]. On July 1, when his executor receives the \$30,000 interest payment, it should be allocated **entirely to income** because the payment is periodic and the due date falls after Sam’s death.” *(Emphasis added.)*

This is a **departure from the estate tax rules** that require that accrued income be included on the estate tax return (IRS Fm 706) and be taxed as belonging to the decedent prior to death. It would logically flow from that logic, that the accrued income would be added to principal for fiduciary accounting purposes. **But, that is not the case – where the income is due on or after the date of death and the payment is periodic, the entire amount of the receipt is credited to accounting income.**

Most states have adopted this rule:

For NY users, see EPTL Sec. 11-A-3.2 (a) & (b).

For California users see: California Uniform Principal and Income Act, Chapter 33 of the California Probate Code, Article 4, Section 16346 (a) & (b).

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TEdec Systems, Inc. (716) 938-9137
support@tedec.com