

STATE OF HAWAII—DEPARTMENT OF TAXATION  
**Tax on Accumulation Distribution  
of Trusts**

**2021**



N405\_I 2021A 01 VID01

➤ Attach to beneficiary's tax return.

Name(s) as shown on return		Social Security Number
Name and mailing address of trust		Federal Employer I.D. No.
Type of Trust: <input type="checkbox"/> Domestic <input type="checkbox"/> Foreign	Beneficiary's date of birth	Enter number of trusts from which you received accumulation distributions in this tax year (see General Instructions)..... ➤

**Part I Average Income and Determination of Computation Years**

1	Amount of current distribution that is considered distributed in earlier tax years. (From Schedule J (Form N-40), line 31 column (a).).....	1				
2	Distributions of income accumulated before you were born or reached age 21. ....	2				
3	Line 1 minus line 2. ....	3				
4	Taxes imposed on the trust on amounts from line 3. (From Schedule J (Form N-40), line 31 column (b).).....	4				
5	Total (add lines 3 and 4). ....	5				
6	Tax-exempt interest included on line 5. (From Schedule J (Form N-40), line 31 column (c)) .....	6				
7	Taxable part of line 5 (Line 5 minus line 6). ....	7				
8	Number of trust's earlier tax years in which amounts on line 7 are considered distributed. ....	8				
9	Average annual amount considered distributed (divide line 3 by line 8). ....	9				
10	Multiply line 9 by .25 (25%). ....	10				
11	Number of earlier tax years to be taken into account (see Instructions). ....	11				
12	Average amount for recomputing tax (divide line 7 by line 11). Enter here and in each column on line 15.....	12				
13	Enter your taxable income before this distribution for the 5 immediately preceding tax years (see Instructions). ....	2020	2019	2018	2017	2016

**Part II Computation of Tax Attributable to the Accumulation Distribution**

	(a) _____	(b) _____	(c) _____
14	Enter the amounts from line 13, eliminating the highest and lowest taxable income years. ....	14	
15	Enter amount from line 12 in each column.....	15	
16	Recomputed taxable income (add lines 14 and 15). ....	16	
17	Income tax on amounts on line 16 (see Instructions).....	17	
18	Income tax before credits on amounts on line 14.....	18	
19	Additional tax before credits (line 17 minus line 18, but not less than zero). ....	19	
20	Tax credit adjustment (see Instructions).....	20	
21	Line 19 minus line 20. ....	21	
22	Add amounts on line 21, columns (a), (b), and (c) and enter here.....	22	
23	Divide the amount on line 22 by 3. ....	23	
24	Multiply the amount on line 23 by the number of years on line 11. ....	24	
25	Enter the amount from line 4. ....	25	
26	Partial tax (line 24 minus line 25). If less than zero, enter zero. Enter here and as indicated in the Instructions. ....	26	

## General Instructions

(Section references are to the Internal Revenue Code.)

For tax years beginning after August 5, 1997, the tax on accumulation distributions from trusts does not apply to most domestic trusts. The tax applies to foreign trusts, certain domestic trusts that were once foreign trusts, and certain domestic trusts created before March 1, 1984. For more information, see section 665(c).

### Purpose of Form

The beneficiary of a trust that accumulated, instead of distributing, its income currently uses Form N-405 to figure the partial tax under section 667. The fiduciary notifies the beneficiary of an "accumulation distribution" by completing Part IV of Schedule J (Form N-40).

If you received a distribution for this tax year from a trust that accumulated its income instead of distributing it to you each year (and the trust paid taxes on that income), you must complete Form N-405 to compute any additional tax liability. The trustee must give you a completed Part IV of Schedule J (Form N-40) so you can complete this form.

If you received accumulation distributions from more than one trust during the current tax year, prepare a separate Form N-405 for each trust from which you received an accumulation distribution. You can arrange the distributions in any order you want them considered to have been made.

### Definitions

**Undistributed Net Income (UNI).**— Undistributed net income is the distributable net income (DNI) of the trust for any tax year less: (1) the amount of income required to be distributed currently and any other amounts properly paid or credited or required to be distributed to beneficiaries in the tax year; and (2) the taxes imposed on the trust attributable to such DNI.

**Accumulation Distribution.**—An accumulation distribution is the excess of amounts properly paid, credited, or required to be distributed (other than income required to be distributed currently) over the DNI of the trust reduced by the amount of income required to be distributed currently.

Generally, except for tax-exempt interest, the distribution loses its character upon distribution to the beneficiary. See section 667(d) for special rules for foreign trusts.

## Specific Instructions

### Part I—Average Income and Determination of Computation Years

**Line 1.**—For a nonresident individual or foreign corporation, include only the part of the accumulation distribution that is attributable to Hawaii sources or is effectively connected with a trade or business carried on in Hawaii.

**Line 2.**—Enter any amount from line 1 that represents UNI of a domestic trust accumulated before you were born or reached age 21. However, if the multiple trust rule applies, see the instructions for line 4.

**Line 4.—Multiple Trust Rule.** If you received accumulation distributions from two or more other trusts that were considered to have been made in any of the earlier tax years in which the current accumulation distribution is considered to have been made, do not include on line 4 the taxes attributable to the current accumulation distribution considered to have been distributed in the same earlier tax year(s).

For this special rule only count as trusts those trusts for which the sum of this accumulation distribution and any earlier accumulation distributions from the trust which are considered under section 666(a) to have been distributed in the same earlier tax year, is \$1,000 or more.

**Foreign trust.**—If the trust is a foreign trust, see section 665(d)(2).

**Line 8.**—You can determine the number of years in which the UNI is deemed to have been distributed by counting the "throwback years" for which there are entries on line 26 through 30 of Part IV of Schedule J (Form N-40). These throwback rules apply even if you would not have been entitled to receive a distribution in the earlier tax year if the distribution had actually been made then.

**Note:** *There can be more than five "throwback years."*

**Line 11.**—From the number of years entered on line 8, subtract any year in which the distribution from column (a), Part IV of Schedule J (Form N-40) is less than the amount on line 10 of Form N-405. If the distribution for each throwback year is more than line 10, then enter the same number on line 11 as you entered on line 8.

**Line 13.**—Enter your taxable incomes for years 2016 - 2020, even if less than five years of the trust had accumulated income after you became 21. Use the taxable income as reported, amended by you, or as changed by the Hawaii Department of Taxation. Include in the taxable

income amounts considered distributed in that year as a result of prior accumulation distributions whether from the same or another trust, and whether made in an earlier year or the current year.

If your taxable income as adjusted is less than zero, enter zero.

### Part II—Computation of Tax Attributable to the Accumulation Distribution

In the column header above line 14, enter the taxable income YEAR that applies to the information contained for lines 14 through 23 of that column.

**Line 17.**—Figure the income tax on the income on line 16 using the tax rates in effect for your particular earlier tax year shown in each of the three columns. You may use the Tax Table or Tax Rate Schedules. The Tax Rate Schedules and appropriate prior year forms can be obtained from any taxation district office.

**Line 18.**—Enter your income tax as originally reported, corrected, or amended, before reduction for any credits for your particular earlier year shown in each of the three columns.

**Line 20.**—Nonrefundable credits that are limited to tax liability may be changed because of an accumulation distribution. If the total allowable credits for any of the three computation years increases, enter the increase on line 20. However, do not treat as an increase the part of the credit that was allowable as a carryforward credit in the current or any preceding year other than the computation year.

To refigure these credits, you must consider the changes to the tax before credits for each of the three computation years due to previous accumulation distributions.

Attach the proper form for any credit you refigure. The amount determined for items on this line is limited to tax law provisions in effect in those years involved.

**Line 26.**—Attach this form to the current income tax return being filed by the beneficiary and add the amount (if greater than zero) on line 26 to the total tax liability (before any tax credits) on the current income tax return of the beneficiary.

If Hawaii estate taxes or Hawaii generation-skipping transfer taxes apply to the accumulation distribution, reduce the partial tax proportionately for those taxes. See section 667(b)(6), for the computation and adjust the numerator and denominator accordingly for Hawaii taxes paid.