N.C. DEP'T OF REVENUE V. KIMBERLEY RICE KAESTNER 1992 FAMILY TRUST

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Case Summary, SCOTUS, Tax, Trusts

North Carolina

Corey Michelle Timpson

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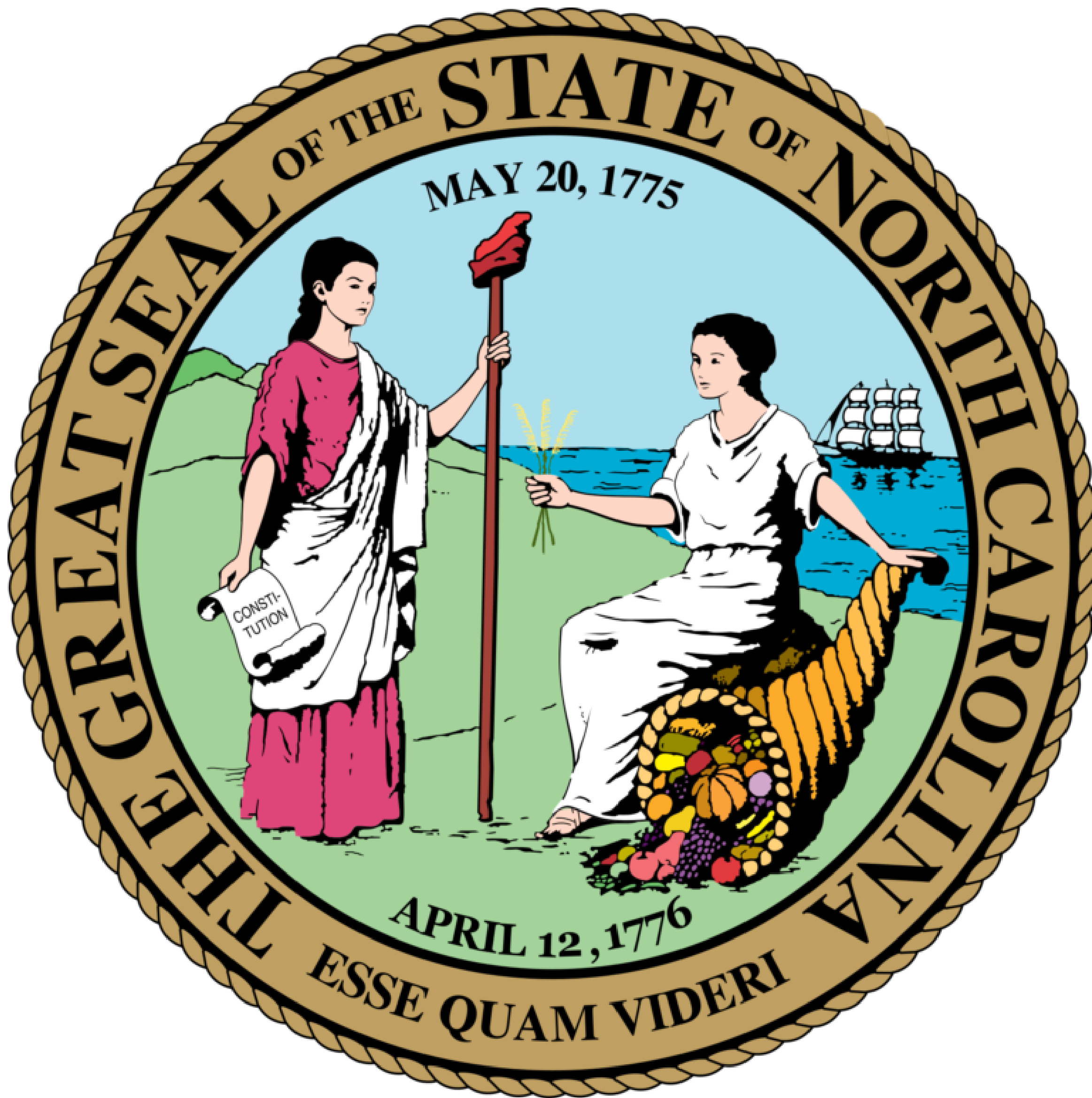

Official seal of North Carolina (Source).

ABSTRACT

Case Name: N.C. Dep't of Revenue v. Kimberley Rice Kaestner 1992 Family Trust, 139 S. Ct. 2213 (2019).
Jurisdiction: Supreme Court of the United States.
Plaintiff/Counter-Claim Defendant: Trustee of the Kimberley Rice Kaestner 1992 FamilyTrust.
Defendant/Counter-Claim Plaintiff: North Carolina Department of Revenue.
Concepts: Taxation of Trusts.
Nature of Case: Whether a State can tax a trust income for the benefit of a North Carolina resident when no income was, or could have been, received by the trust and when no connection to the Trust existed outside of the beneficiary's residence in North Carolina.

INTRODUCTION

Joseph Lee Rice III, a resident of New York, set up a trust with his three children as the beneficiaries, governed by New York law, and which gave the trustee sole discretion on the distributions to be made to the beneficiaries.[1] In 1997, one of Rice's daughters, Kimberley Rice Kaestner, moved to North Carolina with her children.[2] While residing in North Carolina, the state attempted to tax the trust despite "the State's only connection to the Trust . . . was the in-state residence of the Trust's beneficiaries."[3] As a result North Carolina Gen. Stat. Ann §§105-160.2, any trust income that benefits a North Carolina resident is taxed by the North Carolina Department of Revenue.[4] With a tax bill of over $1.3 million, the trustee promptly paid and then sued on the grounds that the statute in this scenario violated the Fourteenth Amendment Due Process Clause.[5] The North Carolina Supreme Court ultimately held that the tax was unconstitutional as applied to the Kaestner Trust "because the State lack[ed] the minimum connection with the object of its tax that the Constitution requires."[6] The United States Supreme Court affirmed.[7]

BACKGROUND

The Due Process Clause of the Fourteenth Amendment requires states not engage in conduct that "deprive[s] any person of life, liberty, or property, without due process of law."[8] In order for a state to not violate the Due Process Clause when imposing taxes, the Court first determines whether or not there is a sufficient connection between the property to be taxed and the State, and then determines whether or not the tax is rationally related to the "values connected with the taxing State."[9]

CASE DESCRIPTION

At the time the Kaestner Trust was created, none of the parties, beneficiaries, settlor or trustee were residents of North Carolina until 1997 when Kimberley Kaestner moved to North Carolina.[10] The terms of the trust gave the Trustee sole discretion on distributions, and none of the beneficiaries were permitted to request or demand that a distribution be made.[11] During the time period at issue, Kaestner received no distributions nor did Kaestner have significant communication with the trustee.[12] Additionally, the Trust documents, property and

investments had no contacts with North Carolina other than Kaestner's residence.[13] While the residence of the beneficiary may be relevant in determining whether or not the trust has minimum contacts with the state for the purposes of permitting the state to impose a tax on the trust, the residence of the beneficiary is by no means sufficient standing alone.[14] The Court held that Kaestner's residence in North Carolina alone is insufficient to grant a State power to tax the income of a trust when no income has "been distributed to the beneficiaries where the beneficiaries have no right to demand that income and are uncertain ever to receive it."[15]

CONCLUSION

In conclusion, the Court was tasked with determining what level of connection an out-of-state trust must have to an in-state resident in order to permit the State to tax the trust income. Since the only contact with North Carolina that the Kaestner Trust had was one of the beneficiaries' resided there, without any ability to receive trust income, there are no such minimum contacts with North Carolina to permit the State to tax the income of the trust.

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1. N.C. Dep't of Revenue v. Kimerley Rice Kaestner 1992 Family Trust, 139 S.Ct. 2213, 2218 (2019). ↩
2. *Id.* ↩
3. *Id*. ↩
4. *Id.* at 2219. ↩
5. *Id.* ↩
6. *Id.* at 2217. ↩
7. *Id*. ↩
8. U.S. Const. Amd. XIV § 1. ↩
9. *Kaestner*, 139 S.Ct. at 2220, citing Quill Corp. v. North Dakota, 504 U.S. 298, 306 (1992). ↩
10. *Kaestner,* 139 S.Ct. at 2218. ↩
11. *Id.* ↩
12. *Id.* ↩
13. *Id.* at 2218-19. ↩
14. *Id.* at 2221. ↩
15. *Id.* ↩

Posted by Corey Michelle Timpson

Corey Timpson recently passed the California bar exam and is a practicing attorney in Walnut Creek, doing primarily civil litigation defense work. Ms. Timpson also works on estate planning matters for a limited clientele. She received a Bachelors of Arts in Psychology from the University of California, Los Angeles in 2016, a Juris Doctorate from Golden Gate University School of Law in 2019, and is currently enrolled, full-time, in the Dual Estate Planning and Taxation LLM Program at Golden Gate University School of Law with an expected completion date of December 2020. While in law school Ms. Timpson was the Executive Research Editor of the Golden Gate University Law Review, where her was article published in the Journal's February 2019 Ninth Circuit Survey. Ms. Timpson is interested in taxation and estate planning because it is not only an interesting and always changing area of law, it is also an incredibly important field of law and will always be relevant.

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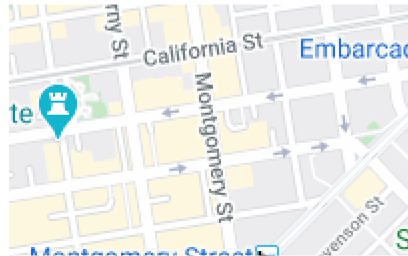

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