

(2) An income tax or any other tax that is imposed upon the fiduciary or a beneficiary as a result of a transaction involving or a distribution from the estate or trust; or

(3) [The] SUBJECT TO SUBSECTION (B) OF THIS SECTION, THE ownership by an estate or trust of an interest in an entity whose taxable income, whether or not distributed, is includable in the taxable income of the estate, trust, or a beneficiary.

(B) A TRUSTEE SHALL MAKE AN ADJUSTMENT FROM PRINCIPAL TO INCOME TO COMPENSATE AN INCOME BENEFICIARY FOR TAXES PAID OR PAYABLE BY THE INCOME BENEFICIARY IN RESPECT OF THE TAXABLE INCOME OF AN ENTITY THAT IS TAXABLE TO THE INCOME BENEFICIARY BUT THAT IS DISTRIBUTED TO THE TRUSTEE AND ALLOCATED TO PRINCIPAL.

[(b)](C) (1) If the amount of an estate tax marital deduction or charitable contribution deduction is reduced because a fiduciary deducts an amount paid from principal for income tax purposes instead of deducting it for estate tax purposes, and as a result estate taxes paid from principal are increased and income taxes paid by an estate, trust, or beneficiary are decreased, each estate, trust, or beneficiary that benefits from the decrease in income tax shall reimburse the principal from which the increase in estate tax is paid.

(2) The total reimbursement must equal the increase in the estate tax to the extent that the principal used to pay the increase would have qualified for a marital deduction or charitable contribution deduction but for the payment.

(3) The proportionate share of the reimbursement for each estate, trust, or beneficiary whose income taxes are reduced must be the same as its proportionate share of the total decrease in income tax. An estate or trust shall reimburse principal from income.

SECTION 2. AND BE IT FURTHER ENACTED, That this Act applies to each trust or decedent's estate existing on or after the effective date of this Act.

SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect October 1, 2002.

May 16, 2002

The Honorable Casper R. Taylor, Jr.  
Speaker of the House  
State House  
Annapolis MD 21401

Dear Mr. Speaker:

In accordance with Article II, Section 17 of the Maryland Constitution, I have today vetoed House Bill 888 - Commercial Law - Uniform Commercial Code - Secured Transactions - Scope.

This bill exempts from the payment rights that must be assignable under Title 9 of