

SB 672

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THE STATE SENATE
Monday, February 15, 1999

Senate Bill No. 672
As Amended

SENATE BILL NO. 672 - By: TAYLOR of the Senate and BENSON of the House.

[**property - Oklahoma Uniform Principal and Income Act - effective date**]

BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

SECTION 1. AMENDATORY Section 4, Chapter 115, O.S.L. 1998, as amended by Section 36, Chapter 422, O.S.L. 1998 (60 O.S. Supp. 1998, Section 175.104), is amended to read as follows:

Section 175.104

TRUSTEE'S POWER TO ADJUST

A. A trustee may adjust between principal and income to the extent the trustee considers necessary if the trustee invests and manages trust assets as a prudent investor, the terms of the trust describe the amount that may or must be distributed to a beneficiary by referring to the trust's income, and the trustee determines, after applying the rules in subsection A of Section 175.103 of Title 60 of the Oklahoma Statutes, that the trustee is unable to comply with subsection B of Section 175.103 of Title 60 of the Oklahoma Statutes.

1 B. ~~In~~ When deciding whether and to what extent to exercise the
2 power conferred by subsection A of this section, a trustee shall
3 consider all factors relevant to the trust and its beneficiaries,
4 including the following factors to the extent they are relevant:
5 1. The nature, purpose, and expected duration of the trust;
6 2. The intent of the settlor;
7 3. The identity and circumstances of the beneficiaries;
8 4. The needs for liquidity, regularity of income, and
9 preservation and appreciation of capital;
10 5. The assets held in the trust; the extent to which they
11 consist of financial assets, interests in closely held enterprises,
12 tangible and intangible personal property, or real property; the
13 extent to which an asset is used by a beneficiary; and whether an
14 asset was purchased by the trustee or received from the settlor;
15 6. The net amount allocated to income under the other sections
16 of this act and the increase or decrease in the value of the
17 principal assets, which the trustee may estimate as to assets for
18 which market values are not readily available;
19 7. Whether and to what extent the terms of the trust give the
20 trustee the power to invade principal or accumulate income or
21 prohibit the trustee from invading principal or accumulating income,
22 and the extent to which the trustee has exercised a power from time
23 to time to invade principal or accumulate income;

1 8. The actual and anticipated effect of economic conditions on
2 principal and income and effects of inflation and deflation; and

3 9. The anticipated tax consequences of an adjustment.

4 C. A trustee may not make an adjustment:

5 1. That diminishes the income interest in a trust that requires
6 all of the income to be paid at least annually to a spouse and for
7 which an estate tax or gift tax marital deduction would be allowed,
8 in whole or in part, if the trustee did not have the power to make
9 the adjustment;

10 2. That reduces the actuarial value of the income interest in a
11 trust to which a person transfers property with the intent to
12 qualify for a gift tax exclusion;

13 3. That changes the amount payable to a beneficiary as a fixed
14 annuity or a fixed fraction of the value of the trust assets;

15 4. From any amount that is permanently set aside for charitable
16 purposes under a will or the terms of a trust unless both income and
17 principal are so set aside;

18 5. If possessing or exercising the power to make an adjustment
19 causes an individual to be treated as the owner of all or part of
20 the trust for income tax purposes, and the individual would not be
21 treated as the owner if the trustee did not possess the power to
22 make an adjustment;

1 6. If possessing or exercising the power to make an adjustment
2 causes all or part of the trust assets to be included for estate tax
3 purposes in the estate of an individual who has the power to remove
4 a trustee or appoint a trustee, or both, and the assets would not be
5 included in the estate of the individual if the trustee did not
6 possess the power to make an adjustment;

7 7. If the trustee is a beneficiary of the trust; or

8 8. If the trustee is not a beneficiary, but the adjustment
9 would benefit the trustee directly or indirectly.

10 D. If paragraph 5, 6, 7, or 8 of subsection C of this section
11 applies to a trustee and there is more than one trustee, a cotrustee
12 to whom the provision does not apply may make the adjustment unless
13 the exercise of the power by the remaining trustee or trustees is
14 not permitted by the terms of the trust.

15 E. A trustee may release the entire power conferred by
16 subsection A of this section or may release only the power to adjust
17 from income to principal or the power to adjust from principal to
18 income if the trustee is uncertain about whether possessing or
19 exercising the power will cause a result described in paragraphs 1
20 through 6 or 8 of subsection C of this section or if the trustee
21 determines that possessing or exercising the power will or may
22 deprive the trust of a tax benefit or impose a tax burden not
23 described in subsection C of this section. The release may be

1 permanent or for a specified period, including a period measured by
2 the life of an individual.

3 F. Terms of a trust that limit the power of a trustee to make
4 an adjustment between principal and income do not affect the
5 application of this section unless it is clear from the terms of the
6 trust that the terms are intended to deny the trustee the power of
7 adjustment conferred by subsection A of this section.

8 SECTION 2. This act shall become effective November 1, 1999.

9 COMMITTEE REPORT BY: COMMITTEE ON JUDICIARY, dated 2-9-99 - DO
10 PASS, As Amended and Coauthored.