

CS for SB 981

THE STATE SENATE  
Monday, February 23, 2009

Committee Substitute for  
Senate Bill No. 981

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 981 - By: Mazzei of the Senate and Hickman of the House.

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

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

SECTION 1. AMENDATORY 60 O.S. 2001, Section 175.409, is amended to read as follows:

Section 175.409

DEFERRED COMPENSATION, ANNUITIES, AND SIMILAR PAYMENTS

A. In this section, ~~"payment"~~:

1. "Payment" means a payment that a trustee may receive over a fixed number of years or during the life of one or more individuals because of services rendered or property transferred to the payer in exchange for future payments. The term includes a payment made in money or property from the payer's general assets or from a separate fund created by the payer, ~~including~~. For purposes of subsections D, E, F, and G of this section, the term also includes any payment from any separate fund, regardless of the reason for the payment; and

1        2. "Separate fund" includes a private or commercial annuity, an  
2 individual retirement account, and a pension, profit-sharing, stock-  
3 bonus, or stock-ownership plan.

4        B. To the extent that a payment is characterized as interest or  
5 a dividend or a payment made in lieu of interest or a dividend, a  
6 trustee shall allocate it to income. The trustee shall allocate to  
7 principal the balance of the payment and any other payment received  
8 in the same accounting period that is not characterized as interest,  
9 a dividend, or an equivalent payment.

10       C. If no part of a payment is characterized as interest, a  
11 dividend, or an equivalent payment, and all or part of the payment  
12 is required to be made, a trustee shall allocate to income ten  
13 percent (10%) of the part that is required to be made during the  
14 accounting period and the balance to principal. If no part of a  
15 payment is required to be made or the payment received is the entire  
16 amount to which the trustee is entitled, the trustee shall allocate  
17 the entire payment to principal. For purposes of this subsection, a  
18 payment is not "required to be made" to the extent that it is made  
19 because the trustee exercises a right of withdrawal.

20       D. ~~If, to obtain an estate tax marital deduction for a trust, a~~  
21 ~~trustee must allocate more of a payment to income than provided for~~  
22 ~~by this section, the trustee shall allocate to income the additional~~  
23 ~~amount necessary to obtain the marital deduction~~ Except as otherwise

1 provided in subsection E of this section, subsections F and G of  
2 this section apply, and subsections B and C of this section do not  
3 apply in determining the allocation of a payment made from a  
4 separate fund to:

5 1. A trust to which an election to qualify for a marital  
6 deduction under Section 2056(b)(7) of the Internal Revenue Code of  
7 1986, as amended, has been made; or

8 2. A trust that qualifies for the marital deduction under  
9 Section 2056(b)(5) of the Internal Revenue Code of 1986, as amended.

10 E. Subsections D, F, and G of this section do not apply if and  
11 to the extent that the series of payments would, without the  
12 application of subsection D of this section, qualify for the marital  
13 deduction under Section 2056(b)(7)(C) of the Internal Revenue Code  
14 of 1986, as amended.

15 F. A trustee shall determine the internal income of each  
16 separate fund for the accounting period as if the separate fund were  
17 a trust subject to the Oklahoma Uniform Principal and Income Act.  
18 Upon request of the surviving spouse, the trustee shall demand that  
19 the person administering the separate fund distribute the internal  
20 income to the trust. The trustee shall allocate a payment from the  
21 separate fund to income to the extent of the internal income of the  
22 separate fund and distribute that amount to the surviving spouse.  
23 The trustee shall allocate the balance of the payment to principal.

1 Upon request of the surviving spouse, the trustee shall allocate  
2 principal to income to the extent the internal income of the  
3 separate fund exceeds payments made from the separate fund to the  
4 trust during the accounting period.

5 G. If a trustee cannot determine the internal income of a  
6 separate fund but can determine the value of the separate fund, the  
7 internal income of the separate fund shall be an amount of not less  
8 than three percent (3%) or more than four percent (4%) of the fund's  
9 value, as determined annually by the trustee in a manner that  
10 fulfills the trustee's duty of impartiality between the income and  
11 remainder beneficiaries, according to the most recent statement of  
12 value preceding the beginning of the accounting period. If the  
13 trustee can determine neither the internal income of the separate  
14 fund nor the fund's value, the internal income of the fund is deemed  
15 to equal the product of the interest rate and the present value of  
16 the expected future payments, as determined under Section 7520 of  
17 the Internal Revenue Code of 1986, as amended, for the month  
18 preceding the accounting period for which the computation is made.

19 H. This section does not apply to ~~payments~~ a payment to which  
20 Section ~~19~~ 175.410 of this ~~act~~ title applies.

21 SECTION 2. AMENDATORY 60 O.S. 2001, Section 175.505, is  
22 amended to read as follows:

23 Section 175.505

1 INCOME TAXES

2 A. A tax required to be paid by a trustee based on receipts  
3 allocated to income must be paid from income.

4 B. A tax required to be paid by a trustee based on receipts  
5 allocated to principal must be paid from principal, even if the tax  
6 is called an income tax by the taxing authority.

7 C. A tax required to be paid by a trustee on the trust's share  
8 of an entity's taxable income must be paid ~~proportionately~~:

9 1. From income to the extent that receipts from the entity are  
10 allocated only to income; ~~and~~

11 2. From principal to the extent that:

12 a. receipts from the entity are allocated only to  
13 principal, ~~and~~

14 b. ~~the trust's share of the entity's taxable income~~  
15 ~~exceeds the total receipts described in paragraph 1~~  
16 ~~and subparagraph a of paragraph 2 of this section;~~

17 3. Proportionately from principal and income to the extent that  
18 receipts from the entity are allocated to both income and principal;  
19 and

20 4. From principal to the extent that the tax exceeds the total  
21 receipts from the entity.

22 D. ~~For purposes of this section, receipts allocated to~~  
23 ~~principal or income must be reduced by the amount distributed to a~~

1 ~~beneficiary from principal or income for which the trust receives a~~  
2 ~~deduction in calculating the tax~~ After applying subsections A  
3 through C of this section, the trustee shall adjust income or  
4 principal receipts to the extent that the trust's taxes are reduced  
5 because the trust receives a deduction for payments made to a  
6 beneficiary.

7 SECTION 3. NEW LAW A new section of law to be codified  
8 in the Oklahoma Statutes as Section 175.603 of Title 60, unless  
9 there is created a duplication in numbering, reads as follows:

10 TRANSITIONAL MATTERS

11 Section 175.409 of Title 60 of the Oklahoma Statutes applies to  
12 a trust described in subsection D of Section 175.409 of Title 60 of  
13 the Oklahoma Statutes on and after the following dates:

14 1. If the trust is not funded as of November 1, 2009, the date  
15 of the decedent's death;

16 2. If the trust is initially funded in the calendar year  
17 beginning January 1, 2009, the date of the decedent's death; or

18 3. If the trust is not described in paragraph 1 or 2 of this  
19 section, January 1, 2009.

20 SECTION 4. This act shall become effective November 1, 2009.

21 COMMITTEE REPORT BY: COMMITTEE ON FINANCE, dated 2-17-09 - DO PASS,  
22 As Amended and Coauthored.