

SB

63

<target><bill>SB 63</bill><subject>SB
63</subject><comm>SFIN26</comm></target>

ALASKA STATE LEGISLATURE

Session
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Juneau, Alaska 99801-1182
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Chair
Senate Special Committee on Energy
Senate Committee on World Trade,
Technology and Innovations

Co-Chair
Senate Resources Committee

Member
Senate Judiciary Committee

SENATOR LESIL MCGUIRE

SPONSOR STATEMENT CS for SENATE BILL NO. 63(JUD)

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SIXTH LEGISLATURE—SECOND SESSION**

This bill amends and improves Alaska's trust provisions which permit a settlor to form an irrevocable trust, be a discretionary beneficiary of the trust and, if the trust has a spendthrift clause, protect the trust assets from the settlor's creditors. Alaska was the first state to enact this type of trust law. Since enactment in 1997, numerous other states have enacted similar statutes. At present, twelve states allow this type of trust.

This bill improves Alaska's trust provisions so that Alaska's statute remains competitive with those of other states. As a result, both residents, and nonresidents of Alaska who choose to form this type of trust in Alaska, will benefit from these improved provisions.

The bill upgrades Alaska's statute by adopting the following provisions which have been adopted in other states:

- A creditor must establish by clear and convincing evidence that a transfer was made with an intent to defraud a creditor. (This standard has been adopted by nine of the other twelve states);
- Distributions can be made under the discretion of a trustee pursuant to a standard, as well as with absolute discretion;
- The settlor may be reimbursed for income taxes attributable to the trust;
- The settlor can retain the power to replace a trustee/advisor with a non-related, non-subordinate party.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101


State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

March 23, 2010

SUBJECT: Sectional summary of CSSB 63(), a bill relating to transfer restrictions on trust interests (Work Order No. 26-LS0317P)

TO: Senator Lesil McGuire
Attn: Esther Cha

FROM: 
Theresa Bannister
Legislative Counsel

You have requested a sectional summary of the above-described bill. As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

Section 1. Amends the subsection that establishes four situations when a creditor can satisfy a claim out of a beneficiary's interest in a trust when the trust contains a transfer restriction. In the first situation, this bill requires that the creditor establish the intent to defraud by clear and convincing evidence. In the second situation, which is based on the settlor's (the creator of the trust) right to revoke or terminate the trust, deletes a current exclusion from the meaning of "revoke or terminate" because the exclusion does not fit within the concept of revocation or termination.

Section 2. Adds a new provision to the section that allows a person who creates a trust (settlor) to restrict the transfer of a beneficiary's interest before payment to the beneficiary. States that the transfer restriction is allowed even if the settlor has any of the three listed rights: (1) to appoint a trustee, a trust protector, or an advisor for the trust; (2) to remove a trustee or trust protector and appoint certain replacements; or (3) remove an advisor and appoint a replacement.

Section 3. Adds a new provision to the section that allows a person who creates a trust (settlor) to prohibit the transfer of a beneficiary's interest before payment to the beneficiary (the beneficiary can be the settlor). States that the transfer restriction operates even if two situations exist: (1) the beneficiary has the right to receive a distribution made in a person's discretion; or (2) the settlor, under specific conditions, potentially will receive or actually receives income or principal to pay income taxes due on the income of the trust.

If I may be of further assistance, please advise.

TLB:ljw
10-208.ljw

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Summary of Changes Between CS SB 63(STA) and CS SB 63(JUD)

This document is an identification of the changes between W.O. 26-LS0317\A and W.O. 26-LS0317\C.

Section 1 deletes language involving discretionary distributions on page 2, lines 5-7 because it conflicts with the concept of that section which involves a settlor's right to revoke or terminate all or part of the trust. This discretionary language has been placed in subsection (n)(1) established in Section 3 of Version P.

Section 1 also removes subsections (3)(E) and (3)(F) on page 3, lines 1-14 in version S and makes conforming changes to page 2, line 8.

The language in (b)(3)(E) allowing a settlor to receive certain discretionary distributions made by a trustee conflicts with the concept of subsection (b)(3) regarding mandatory distributions of income or principal. Therefore, the discretionary language has been moved and established to new subsection (n)(1) in Section 3 of version P.

Language in subsection (b)(3)(F) involves discretionary distributions for the payment of taxes again conflicting with the concepts in (b)(3) involving mandatory distributions of income or principal. This discretionary authority for the payment of taxes has been moved to new subsection (n)(2).

Section 2 No change

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What is a Trust?

A Trust is a legal arrangement (basically a contract) where one person (called a trustee) holds property for the benefit of other persons (called beneficiaries). There are many different types of trusts.

The personal trust is the most common form of trust, created for non-business reasons for the benefit and protection of individuals. The trustee in a personal trust acts in accordance with the law and the instructions set forth in the governing instrument by the person who created the trust (called Grantor or Settlor). The primary responsibilities of the trustee are to manage and protect the assets in the trust for the best interest of the beneficiaries. The management and protection responsibilities include proper investment of assets, collection of income, maintenance of accurate books and records, filing of tax returns and other reports, and the payment of income and trust property to the beneficiaries in accordance with the terms of the trust.

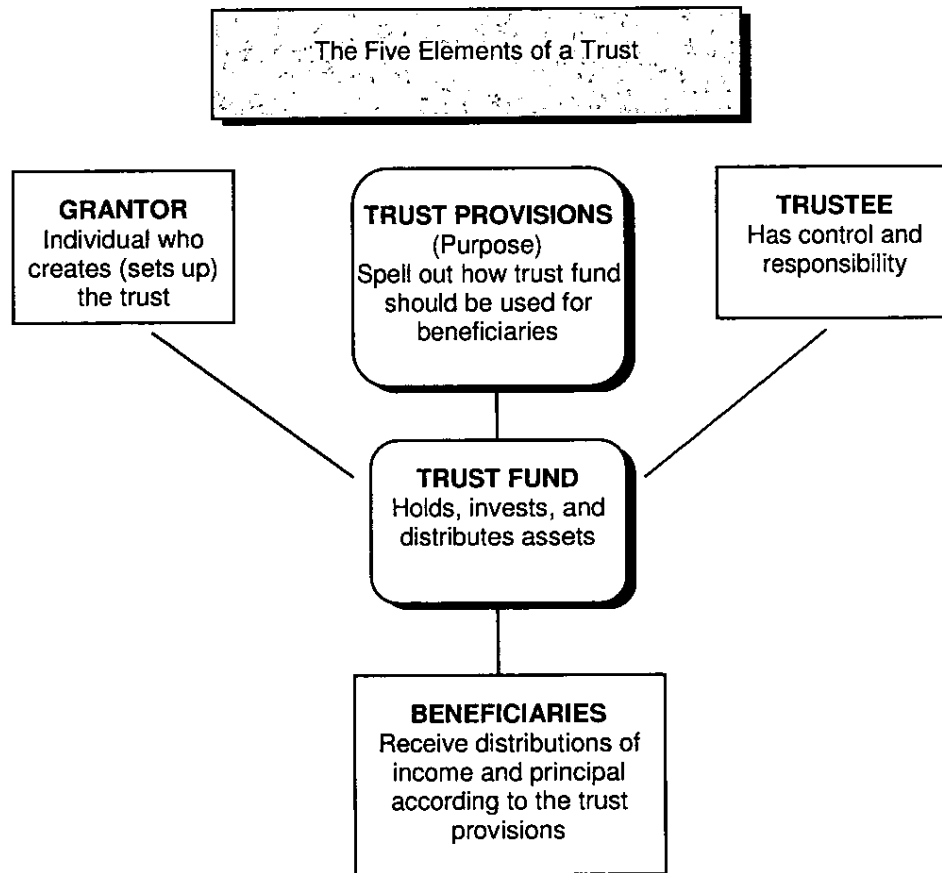
Trusts are used throughout the United States to accomplish many different objectives such as;

- Protecting interest of minors
- Preserve assets for the family
- Accomplish the desires of the family
- Improve quality of life by allowing use of trust assets by beneficiaries
- Provide asset protection
- Reduce and in some cases eliminate gift, estate and income taxes

A self-settled trust is a trust where the grantor is also a beneficiary with other family members. This allows the assets in the trust to appreciate in value and the trust assets will not be in the Grantors taxable estate for federal estate tax purposes. The IRS has recently issued a private letter ruling acknowledging that these trusts can accomplish this objective.

From the information we have received from Alaska estate planning attorneys over ten thousand Alaskans have taken advantage of Alaska's favorable trust laws, non-residents of Alaska have also used Alaska's trust laws to accomplish their family financial goals.

What is a Trust?



SENATE FINANCE COMMITTEE REPORT

DATE: 3/30/10

FURTHER:

DATE TURNED
IN TO OFFICE: _____

Finance Committee considered SENATE BILL NO. 63

SB 63 TRANSFER RESTRICTIONS ON TRUSTS

"An Act relating to transfer restrictions on trust interests."

and recommends:

be replaced with SCS or CS SB 63 (JUD)

adopt previous SCS or CS _____ (____)

attached amendment(s)

adopt _____ Letter of Intent

further referral to _____ Committee

SENATE BILL:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
<hr/>	
HOUSE BILL:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

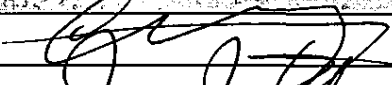
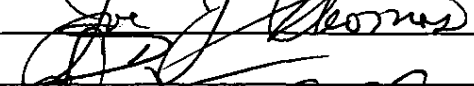
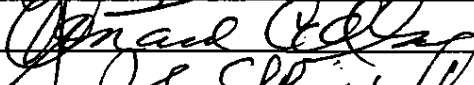
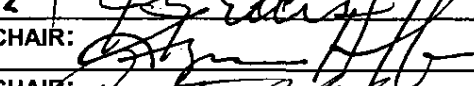



NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
LAW	1/29			✓	1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Huggins	✓			
	Thomas	✓			
	EGAC	✓			
	Orsod			X	
	Ellis	✓			
CO-CHAIR: 	Hoffman	✓			
CO-CHAIR: 	Stedman	✓			

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: CSSB 63(STA)
 (S) Publish Date: 3/12/10

Identifier (file name): SB063-LAW-CIV-1-29-10 Dept. Affected: Law
 Title: An Act relating to transfer restrictions on trust interests RDU: Civil
 Component: Com. And Fair Business
 Sponsor: Senator McGuire
 Requester: State Affairs Component Number: 2717

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
		FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
OPERATING EXPENDITURES							
Personal Services							
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES							
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CHANGE IN REVENUES ()							
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: _____

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

This bill proposes amendments to statutes relating to transfer restrictions on trust interests including provisions to receive a distribution of trust's income or principal. Enactment of the bill is not anticipated to fiscally impact the Department of Law.

Prepared by: Eileen Donahue, Division Operations Manager
 Division: Administrative Services
 Approved by: Daniel S. Sullivan, Attorney General
Department of Law

Phone 465-5427
 Date/Time 1/29/10 12:00 AM
 Date 1/29/2010