

ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004 8672

11162 SENATE JUDICIARY

Sponsor Statement

Alaska once led the nation in the development of trust law. However since that time other states have not only enacted similar legislation but have improved on it. Delaware has amended its statute six times since enacting its trust legislation. The last time we amended our trust statutes and in particular our spendthrift statute was in 1998 and as a result, our laws are now viewed as being deficient in many respects. This not only places our trust companies in an uncompetitive position but also places Alaska residents at a disadvantage when compared to the citizens of our competitor states. This bill rectifies many of these shortcomings.

This bill provides statutory authority to provisions commonly found in trust instruments. For example, section 1 of the bill specifically provides for the position of a trust advisor and trust protector and clarifies the manner in which these positions relate to the administration of a trust. Delaware, South Dakota and Idaho has similar legislation. Many trust instruments allow a trustee to make trust assets available for the use of a beneficiary. Section 2 allows trusts assets consisting of real property and tangible personal property to be used by a beneficiary without the use being considered a distribution which could in turn be subjected to the claims of a beneficiary's creditors. For example a trustee could exercise its discretion and permit a beneficiary to reside in a family home. Were it not for this provision the settlor's intention that a family homestead be made available for future generations might be defeated.

Other sections in the bill codify a number of matters which have always been accepted by Alaska trust practitioners as being the common law of this state, but for which there has been no statutory counterpart. Section 4 provides that trust assets can not be attached by a beneficiary's creditor until such time that trust assets are actually distributed to a beneficiary, nor can there be a continuing order against the trustee with respect to future distributions that a trustee would choose to make.

Sections 3, 5 and 6 make amendments or adds subsections to AS 34.40.110 which will assist a future court in the interpretation of our spendthrift statute, something an Alaska court has yet to do. Section 3 clarifies that a trust can be set aside only if a creditor is able to successfully assert by a preponderance of the evidence that the settlor's transfer of property in trust was made with the intent to defraud that creditor. Section 5 clarifies a fraudulent conveyance action may only be brought against a settlor of a trust and then only as to a specific transfer of assets which are determined to be fraudulent as to that creditor. This section also clarifies the definition of a preexisting creditor who can avail themselves of the time period found in AS 34.40.110(d)(1) for bringing a fraudulent conveyance action against the settlor of a self-settled trust. Section 6 provides a transfer restriction will be valid with respect to a beneficial interest retained by a settlor even though the settlor serves as a co-trustee, provided the settlor doesn't have control over the manner in which distributions may be made to the settlor. Section 6 adds a new subsection (h) to AS 34.40.110 which clarifies that the statute affording spendthrift protection for beneficial interests applies not only to trusts in which a settlor may have a retained interest, but also in the very common third party settled trust where a beneficiary might be serving as sole

trustee, co-trustee or an advisor to the trustee. Section 6 invalidates any unwritten agreement or understanding between a settlor who is a beneficiary and a trustee which gives the settlor rights greater than those which are permitted to be expressed in the trust instrument. Lastly, Section 6 adds an affidavit requirement wherein the settlor of a self settled trust must sign a sworn affidavit stating those items indicated in the bill prior to making a transfer of assets into the trust.

Finally, there are several provisions contained in this bill which have their counterpart in the laws of other states. Section 3 provides the circumstances in which a transfer restriction will continue to be valid even though a settlor retains a unitrust or annuity interest in the trust. These provisions presently exist in Delaware. Section 7 of the bill clarifies when property subject to a power of appointment can be subjected to the claims of a donee=s creditors and codifies the common law as enunciated in the Restatement 2nd of Property and has its genesis in a comparable Rhode Island statute. All the provisions found in this bill are necessary additions not only if Alaska expects our trust industry to remain competitive with other states but also if Alaska residents are to have benefits comparable to those of citizens in other states.

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

April 8, 2003

SUBJECT: Sectional summary of SB 163 (Work Order No. 23-LS0774\H)

TO: Senator Ralph Seekins
Attn: Brian

FROM: *TB*
Theresa L. 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. Establishes two new sections relating to trusts.

AS 13.36.370. Provides for the appointment of a trust protector. Requires that the trust protector be a disinterested third party. Gives the trust protector the powers, delegations, and functions conferred on the protector by the trust instrument, and identifies some of these powers. Sets a limit on a modification the trust protector is allowed to make. Subject to the trust's terms, provides that a trust protector is not liable or accountable as a trustee or fiduciary when acting as a trust protector.

AS 13.36.375. Provides for the appointment of an advisor to the trustee with regard to matters relating to a trust's property. Provides that even if an advisor is appointed, the property and management of the trust and the exercise of powers and discretionary acts remain vested in the trustee. States that the trustee is not required to follow the advisor's advice. States that an advisor is not liable as, or considered to be, a trustee or fiduciary when acting as an advisor.

Section 2. Makes various substantive and stylistic changes to the subsection that allows for the establishment of a restriction on the transfer of a beneficiary's trust interests. States that a "beneficiary" can include a beneficiary who is the settlor of the trust. Excludes certain activities from being considered as "payment or delivery" of a trust interest for purposes of applying the subsection.

Section 3. Makes various substantive and stylistic changes to the subsection that applies the transfer restriction against the claims of creditors. States when a creditor can satisfy a claim despite the transfer restriction.

Senator Ralph Seekins
April 8, 2003
Page 2

Section 4. Makes various substantive and stylistic changes to the subsection that addresses the satisfaction of claims of creditors under (b) of the section. Provides that an attachment or other order may not be made against a trustee with respect to a beneficiary's interest or against property subject to a transfer restriction, except to the extent that a transfer restriction is not allowed under (b)(1) - (4) of the section.

Section 5. Makes various substantive and stylistic changes to the subsection that identifies which creditors may bring a cause of action or claim for relief for a fraudulent transfer under (b)(1) of the section, and within what time frame the action or claim must be brought.

Section 6. Adds new subsections to AS 34.40.110.

Subsection (g) applies the transfer restriction to settlors who are also beneficiaries even if the settlor serves as a co-trustee or an advisor to the trustee, as long as the settlor does not have trustee power over discretionary distributions.

Subsection (h) applies the transfer restriction to a beneficiary who is not the settlor, even if serving as a sole trustee, a co-trustee, or an advisor to the trustee.

Subsection (i) allows a transfer restriction even if a settlor has the authority to appoint a trust protector or an advisor to the trustee.

Subsection (j) prohibits a settlor with a beneficial interest subject to a transfer restriction from benefiting from, directing a distribution of, or using trust property except as stated in the trust. Voids an agreement or understanding between the settlor and the trustee that attempts to grant or permit the retention of greater rights or authority than stated in the trust instrument.

Section 7. States that the property that a donee of a power of appointment is authorized to appoint is not subject to the claims of the creditors of the donee except to the extent certain conditions are met.

Section 8. Applies this Act to trusts created before, on, or after the effective date of the particular section of the Act that is involved.

If I may be of further assistance, please advise.

TLB:med
03-373.med

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

AL JOURNAL.



LL STREET JOURNAL.

THURSDAY, FEBRUARY 20, 2003 D1

The Tax Shelter Next Door

To Avoid Higher Taxes at Home, Some Stash Cash in Out-of-State Trusts; the Case for Delaware

By RUTH SIMON
And RACHEL EMMA SILVERMAN

LOOKING FOR A place to set up a tax shelter? You don't have to go to some tropical island.

In an effort to shave state tax bills, attorneys and trust companies are encouraging clients to set up trusts, not out of the country, but merely out of state. The aim is to let your investments grow free of state taxes by setting up a trust account in a place with favorable tax laws. Someone in New York, for example, where state taxes are high, could set up a trust account in South Dakota, which has no state income tax.

The incentive to duck state taxes is likely to grow. Locked in their worst budget crisis in decades, close to half the states are considering raising taxes of various kinds, and California and Connecticut have proposals for income-tax increases on the table. At the same time, federal tax rates are being rolled back. Bottom line: A greater share of your total tax bill is likely to go to the state where you live.

Banks and trust departments are touting these trusts in newsletters, seminars and in meetings with clients, attorneys and financial advisers.

"Clients wishing to establish irrevocable trusts often assume those trusts should be located in their state of residence," J.P. Morgan Chase & Co.

How to Set One Up

If you're planning an out-of-state trust:

- Find a lawyer familiar with tax laws in the state where you live as well as the one where the trust actually will be located.
- Hire a reputable trustee in the target state.
- Remember: Beneficiaries may have to pay state tax on income the trust distributes.

Your state taxes may be rising soon; see page D2

advises its upscale private bank clients in a newsletter. As state laws change, advisers "will need to be especially attentive in their search to find the best jurisdiction for establishing and administering trusts."

Delaware attracts a lot of money, partly because it has changed its laws to make them extremely friendly to out-of-state trusts. As long as the beneficiaries of a trust live out of state, it imposes no state income tax. "The national banks that do business in Delaware are pushing it very hard," says Joshua S. Rubenstein, a trust and estate lawyer in New York. Other states with favorable laws include Washington and Alaska. (See chart on page D2 for a list of state policies.)

How does an out-of-state trust work? Suppose you live in New York, which has a top tax rate of almost 7%, and have \$1 million in stocks you want to sock away for a few years. If you keep the money in New York trust, you have to pay state tax on any capital gains or dividend income.

But the picture changes if you set up a trust in Delaware and stick the \$1 million there. In that case, there is no state tax imposed on income and capital gains retained by the trust.

"With very wealthy clients, I feel I'm not doing my job if I don't mention there are states that may be attractive to them," says Dennis Belcher, a

Please Turn to Page D2, Column 1



GRANIT ROBINOV

Remarry, hickens

In her family's plot, Michigan spouses make burial decisions. And with Mr. Techner: "Is there anyone can be together?" The funeral: "Your stepmother gets to know. But upon her death, you, immediate next of kin. If you him and move him next to your your right."

to his stepmother and told her father in her family's plot, "but one moment buried beside and carry out that threat, she stand he buried with his first attend the graveside service. If these postmortem battles, ng California, Texas, Wash- mpshire—have begun accept- Page D6, Column 5

Fighting

COMMERCE CAPITAL MARKETS

FEB 20 2003 13:54 215-282-4037

The Tax Shelter Next Door: an Out-of-State Trust

Continued From Page D1

trust and estates lawyer in Richmond, Va.

The trust will still be subject to federal income taxes. And beneficiaries of the trust must pay state income taxes on any income paid out by the trust.

Setting up an out-of-state trust isn't cheap. For starters, you'll need to hire an attorney who understands the quirks of your home state's laws and the laws of the state you'd like to move your trust to. In California, for instance, an out-of-state trust may still be subject to some state tax if one or more of the beneficiaries live in the state.

It's also wise to have the trust documents reviewed by a lawyer in the state where the trust will be located. That can cost anywhere from a few hundred dollars to a few thousand dollars, depending on how complex the trust is.

Finally, you'll have to pay for the services of an out-of-state trustee, with the fees you pay determined by the amount of money under management. At Delaware's Wilmington Trust Co., for instance, fees start at 1% on the first \$2 million in the trust with a \$10,000 minimum fee.

Dealing with an out-of-state trustee can also be more complicated than what many people are used to. "People like being able to walk into the bank," notes Michael Fredlender, a partner with the accounting firm Grant Thornton LLP.

Where to Go

Here are five states that are particularly attractive for individuals to set up out-of-state trusts. Trustees in these states generally charge an annual fee ranging from 0.5% to 1.25% of the assets in the trust.

STATE	TRUST GOVERNMENT
Alaska	No state income tax. * Trusts may be subject to a 1,000-year limit. Asset protection laws against future claimants in cases like a divorce or a lawsuit.
Delaware	Delaware imposes no state income tax on trusts set up by non-residents if beneficiaries also reside out of state. A 110-year limit for real estate but no limits on other assets. Asset protection laws against future claimants.
Florida	No state income tax. Trust limit of 360 years.
South Dakota	No state income tax. Trusts can last forever.
Washington	No state income tax. Trust limit of 150 years.

*Some states, such as Alaska, have corporate income tax.

Such hassles make moving a trust not worth the bother for someone who has \$300,000 or even \$1 million in a trust, Mr. Fredlender says. But for multimillion-dollar trusts, it could be worth the time and expense, he adds.

The tax beneficiaries face depends on where they live. If it's New York, they will be subject to that state's regular income tax. But if they've moved in the meantime to a state with no income taxes, such as Florida, they're avoid paying state taxes on the income.

Setting up an out-of-state trust cor-

rectly takes some work. To qualify for favorable treatment, the trust must be irrevocable, meaning you can't undo it later. At least one trustee must reside in the state where the trust is located. Many people choose to use a trust company set up in that location. South Dakota's tax laws are so attractive that Citigroup, which has a large credit-card processing operation there, has also set up a major trust outfit in the state.

Avoiding capital-gains taxes isn't the only attraction of going out of state. In many states a trust can last for a fixed period that's normally less than 100 years. But Delaware and more than a dozen other states allow trusts to go on for centuries or, in some cases, indefinitely.

"The trust can go on forever without any state taxes and with no federal death taxes," explains Mux Gutierrez Jr., a trust and estates lawyer in San Francisco. An out-of-state trust may also provide better protection against creditors' claims in cases like a divorce or a lawsuit, trust lawyers say.

In some cases, it can make sense to situate your trust in a state that's not known as a tax haven. That's because each state has different rules that define whether the trust's income is taxable. For New York state to tax a trust, for example, the trust must be created by someone who lives in the state. "If you live in New Jersey, you can create a trust in New York with no New York or New Jersey income tax," says Gall Cohen, senior vice president and general trust counsel for Fiduciary Trust Co. International.

Get The Journal at 60% off the cover price.

The finest investment in these pages.

Charge your subscription to your credit card and pay just \$7.99 a month for the first two months - only 38¢ a day. Call 800-WSJ-2206 ext. 172

Charge by: AMEX V/MC DISCOVER Diners

Card Number _____ Expiration Date _____
 Signature _____
 Name _____
 Address _____
 City _____
 State _____ Zip _____



Or mail this coupon to:
 The Wall Street Journal, 200 Bunker Hill, Chicago, MA 01020
 Offer good for new subscribers in the continental U.S. Customer agrees to a 30-day trial subscription (renewal at standard journal rate) charged to their credit card each month. The lowest monthly rate is \$15.99 (25% off the newsstand price). Sales tax may apply.
 200200 02/02/02

of their own? Laura...
 sic in western New York. Laura...
 the defending champ. The sports world...
 should care, but will it?

RUSS...
 vately owned fish houses.
 Mrs. McQuoid was directing opera-
 tions from Mac's lakeside office, a
 10-by-20 fish house that she said is indica-

April 20, 2003...
trustcenter.org
 -Stuart Perlmutter

Past & Future Of

Alaska Trust

Legislation

Presented By:



ALASKA TRUST COMPANY

Wealth Management Specialists

Legislation Passed Into Law 1997

HB 101 – Effective April 2, 1997

- Perpetual Trusts
- Self-Settled Spendthrift Trusts

HB 266 – Effective July 1, 1997

- Limited Partnership & LLC Improvements
Statute



Legislation 1998

SB 354 – Effective April 12, 1998

- General Modernization of Trust and Estate Laws

HB 199 – Effective May 23, 1998

- Alaska Community Property Trust

HB 321 – Effective May 23, 1998

- Alaska Uniform Prudent Investor Act

HB 490 – Effective June 26, 1998

- Life Insurance Premium Tax

HB 222 – Effective March 8, 2000

- Improvements & Technical Changes to Limited Partnerships LLC Statute

SB 166 – Effective March 8, 2000

- Technical Changes to Alaska Community Property Trust

SB 162 – Effective April 22, 2000

- Modification to Perpetual Trust Statute

HB 275 – Effective August 9, 2000

- “Safety Net” Estate Planning Legislation

SB 163 – Effective August 30, 2000

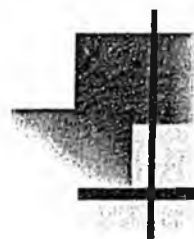
- Modification and Improvement to General Trust Statutes



Why Alaska

- Personal
- Familiar with Alaska Statutes and Estate Planning Professionals
- Estate Planning Professionals wanted Institutions that would Specialize in Trust and Investment Management Services
- No State Income Tax On Trusts & Estates

Has It Been Successful?



Yes

Yes

Yes

Positive Developments



Alaska Has Become Known Throughout the Country for Being Creative and Innovative Regarding its Trust Laws. Alaska is Considered the Leading Jurisdiction for Trust Administration.

Alaska's 1st Independent Trust Company

- Has 7 full time employees; 5 are born & raised Alaskans
- Pays State Corporate Income Tax
- Annually puts hundreds of thousands of dollars into the Alaska Economy
- We have on deposit with local banks (Northrim & 1st Interstate) Tens of Millions of dollars
- Over 700 clients have come to Alaska from other states

Professionals in Alaska Have Benefited

- Attorneys have increased business both from outside clients and Alaska clients
- CPA'S have increased business
- Insurance agents
- Stock brokers
- Others




Alaskans have benefited directly
from the legislation

Many Alaskans are taking
advantage of the unique Trust &
Estate Legislation



State Of Alaska

- Increase in Life Insurance Premium Taxes
 - Additional estimated 2001 Premium Tax of \$700,000.00 directly related to Trust Legislation
- Increase Corporate Income Tax
- Increase revenue from LLC & LP filings
- Insurance Companies are considering opening up subsidiaries in Alaska



All This Has Happened in
Less Than 5 Years With No
Financial Outlay From the
State

Why the Need to Have Additional Legislation

- Much of this Legislation is structured to meet IRS rules & guidelines. When IRS makes a change it may require a change in Alaska Statute to stay effective.
- Other states are trying to improve their Trust Laws. If they come up with a better approach we need to adjust in Alaska to stay effective.
- Fine tune legislation to make sure it is the best.

The Future Looks Very Bright for Alaska to Continue to Attract Business to the State. The Only Potential Problem Would Be the Implementation of an Income Tax on Trusts and Estates Set up by Non-Resident's.

The Implementation of Such a Tax Would Cause Alaska to Lose Within One Year 99% of the Business It Has Attracted. The Business Would Go to a State That Does Not Tax Non-Resident Trusts.



Thank You

For your prior involvement and
hope for your continued support

A New Direction In Estate Planning: North To Alaska

Two goals that often are sought to be achieved in estate planning are estate tax reduction and protection of assets from claims of creditors. Reducing taxes significantly may be a "sum zero" game if the assets are attached by creditors. Similarly, protecting assets from creditors' claims may not accomplish all goals sought unless taxes also are reduced. Fortunately, these two goals are not only compatible, they usually are complementary. That is, the steps to protect assets from claims of creditors may allow tax reduction to occur, as well. On the other hand, a transfer that fails to protect property from claims of the transferor's creditors is likely to fail to reduce taxes because, almost always, if a creditor of the transferor can attach the asset the transfer is regarded as incomplete for gift and estate tax purposes.¹ The Alaska Trust Act (Chapter No. 6, SLA 1997, effective April 2, 1997) offers a new tool in the United States to accomplish the dual goals of asset protection and tax reduction. The Act also effectively repeals the rule against perpetuities for a trust created under Alaska law. This article discusses the dual goals of asset protection and estate tax reduction and how the Alaska Trust Act can be used in the context of estate planning. It also compares some aspects of Alaska trusts with certain offshore trusts.

Alaska recently has enacted legislation similar to laws in certain foreign asset protection jurisdictions. As a consequence, an American in any state can create a trust for his or her own benefit which is protected from creditors provided, among other things, it is not a transfer intended to defraud known creditors. Perhaps of greater importance, Alaska trusts open a new dimension in estate planning. One of this article's co-authors, Jonathan Blattmachr, was the principle draftsman of this new Alaska legislation.

Steps To Reduce Estate Taxation

It seems well accepted that an effective, if not the most effective, estate tax reduction planning step is to make lifetime transfers. Lifetime transfers can avoid gift tax (and, by removing an asset from an estate, can avoid estate tax, as well) in ways that cannot be used at death to avoid estate taxation. However, lifetime transfers are effective for these purposes only if they are "complete" under the federal estate and gift tax rules.² The law appears well established that a transfer is complete for such tax purposes only if it is not (or when it no longer is) subject to the claims of the transferor's creditors.

Fraudulent Transfers, Etc.

IN GENERAL, "fraudulent conveyances" with respect to creditors whose claims arise either before or after the transfer are transfers (a)

that the debtor made with actual intent to hinder, delay or defraud his or her creditors or (b) (i) for which the debtor received less than "a reasonably equivalent value" and (ii) after which the debtor

had insufficient assets to meet future business needs or to pay debts. A transfer made by a debtor is fraudulent as to a creditor whose claim arose before the transfer if the debtor made the transfer without receiving "reasonably equivalent value" and the debtor was insolvent at the time of or as a result of the transfer.³ Proof of actual intent to defraud is not required. Most states have adopted these rules in the form of the Uniform Fraudulent Transfer Act. However, some states (including New York) still have in effect the Uniform Fraudulent Conveyance Act. (See N.Y. Debtor and Creditor Law Secs. 273-281.) Alaska has adopted neither the Uniform Fraudulent Transfers Act nor the Uniform Fraudulent Conveyance Act. [See *Summers v. Hasen*, 852 P.2d 1165, 1169 n.5 (Alaska 1993).] Its fraudulent transfer rules are contained in Alaska Statutes (AS) 34.40.010 et seq.

Similar rules are contained under the Bankruptcy Code, and in the case of bankruptcy, fraudulent conveyances may be defined with reference to the Bankruptcy Code or under applicable state law. The Bankruptcy Code permits such transfers to be set aside

By Douglas J. Blattmachr
Alaska Trust Company
Anchorage, Alaska
and Jonathan G. Blattmachr
Milbank, Tweed, Hadley & McCloy
New York, NY

only if made within one year before filing of the petition, but many states permit reference to a much longer period, especially, in the case of transfers to family members. [See, e.g., *FDIC v. Pappadio*, 606 F. Supp. 631, 632 (S.D.N.Y. 1985) (under New York law a claim to set aside a fraudulent conveyance is governed by a six year statute of limitations).] Avoided fraudulent conveyances are "brought back" into the debtor's estate, usually for distribution to the debtor's creditors. In addition, some fraudulent conveyances may deprive a debtor of (1) homestead or other property exemptions⁸ and (2) a bankruptcy discharge.

As a general rule, a transfer is found to have been made with an actual intent to hinder, delay or defraud creditors only if it was intended to remove assets from claims of specifically known or anticipated creditors. "If the debtor has particular creditors in mind and is trying to remove his assets from their reach, this would be grounds to deny the [bankruptcy] discharge [on the ground of a fraudulent conveyance]. If the debtor is merely looking to his future well-being, [the conveyance would not be fraudulent and as such] the discharge will be granted."⁷

An example will help illustrate this principle. A property owner makes a gift to a family member (whether outright or in trust) which does not result in the property owner being insolvent or unable to pay her debts as they mature. She has no known or specifically identifiable creditors. Nonetheless, she realizes that a claim against her could arise on account of unforeseen circumstances, such as being involved in a car accident, occurring in the future. This gift should not be regarded as a fraudulent conveyance, despite the fact that she is making it with the general intention to protect the property from claims that could arise against her in the future.

Although the fraudulent conveyance rules apply to creditors in bankruptcy, obviously they also have a broader application. For example, in a number of states a tort claimant is permitted to attack as

fraudulent a transfer made after the time of the tort but prior to any judgment.

Interests in Trusts

TWO SETS OF CONTRASTING rules must be considered to determine whether interests in trusts are subject to claims of creditors. First, as a general rule, a beneficial interest in trust that is subject to a restriction on transfer (called a "spendthrift provision") is not subject to the claims of a beneficiary's creditors.⁹ Thus, if the debtor is a beneficiary of a trust established for his or her benefit by another person (such as by a parent) which interest by its terms and/or applicable state law is not assignable, the trust assets should be protected.¹⁰ However, property transferred in trust for the beneficiary may be attached by the creditors of the grantor if the transfer to the trust was a fraudulent conveyance.¹¹

In virtually all states, property may be placed in trust for another and thereby be protected from the claims of most creditors of the beneficiaries (and of the grantor). The degree of "creditor proofing" usually varies depending on whether the trust gives the beneficiary the right to receive all of the income, is for the "support" of the beneficiary and/or restricts alienation of the beneficiary's interests.¹² It appears the maximum protection of trust property from the claims of the beneficiary's creditors may be achieved by placing property in a trust that gives the trustee complete discretion as to whether and when to distribute income and/or principal to the beneficiary or beneficiaries of the trust, and which also imposes spendthrift restrictions. The trustee, having control over distributions, probably should not be one of the beneficiaries, both to secure the creditor protection and to avoid inclusion of the property in the estate of a beneficiary for tax purposes (which may be viewed as an additional form of credit protection). The beneficiary, however, may participate as a trustee in investment decisions and may have a non-general power of appointment over all or part of the trust corpus.¹³

Such a trust offers major advan-

tages to the beneficiaries. First, the trust assets should be entirely protected from the claims of most creditors of the beneficiaries, including creditors in bankruptcy and spousal property, and in some cases, even support claims, in the event of divorce or upon death of the beneficiary.¹⁴ In order to maximize the creditor protection, the trustee may be given broad authority not only to distribute or accumulate income and principal, but also to purchase assets for the use of trust beneficiaries. For example, the trustee may be authorized to purchase a home for the use of the beneficiary, thereby preserving that asset in the trust protected from the claims of the beneficiary's creditors. (It seems that this use by a beneficiary should not cause any income to be imputed to the beneficiary.) The purchase of assets "inside" the trust as opposed to distributions also preserves the wealth transfer tax savings that may be achieved through the use of such a trust. Thus, the property owner can confer a substantial benefit on the chosen objects of his or her bounty by transferring during lifetime or bequeathing at death assets to such a "discretionary" trust.¹⁵

As noted above, however, a transfer for less than fair value¹⁶, including a gratuitous transfer in trust for the benefit of another, may be set aside if it constitutes a fraudulent conveyance. For example, a person could not defeat an outstanding liability by transferring while insolvent all of his or her assets into a trust for the benefit of his or her spouse. Thus, in the case of lifetime planning, it is best to have created trusts and make the transfers in advance of any financial difficulties in order to successfully avoid the challenge that such transfers were fraudulent conveyances.¹⁷

The second general rule relates to whether and to the extent of which the grantor of the trust has a beneficial interest in it. As to a trust created for one's own benefit, the "black letter" law is that a transfer in trust for the benefit of the transferor is void as against his or her creditors, whether their claims arise before or after the transfer.¹⁸ In other words, the general rule that has

prevailed throughout the United States, at least until the enactment of the Alaska Trust Act¹⁹, has been that the assets in the trust may be claimed by the creditors of the grantor to the extent the grantor is entitled or eligible to receive assets from the trust, even if the transfer to it was not in default of creditors and even though the statute of limitations for a person to make a claim that the transfer to the trust was fraudulent has expired.²⁰ For example, an individual creates a trust in 1970 from which the individual is eligible, but not entitled, in the exercise of discretion of a third party as trustee, to receive distributions. A judgment is rendered against the grantor in 1997 on account of a car accident that occurred in 1996. To the extent the trustee has the capacity to make distributions of trust property to the grantor, the judgment against the grantor could be enforced according to the Restatement (2d) Trusts against the trust assets even though the grantor had no intention of defrauding that creditor, or any other creditor, when the trust was created in 1970. On the other hand, a judgment creditor of the grantor generally may not attach the assets in a trust of which the grantor is neither eligible nor entitled to receive distributions unless the transfer was in default of creditors.

The Tax Rule

THE TREATMENT OF self-settled domestic trusts has been explored in a series of federal tax cases that follow from the creditors' rights analysis. Specifically, if the grantor's creditors can reach the entire corpus of such a trust, the transfer to the trust is regarded as wholly incomplete and no gift tax is due upon creation of the trust. As a corollary, however, the entire trust is included in the creator's estate under Code Sec. 2036(a)(1).

Thus, in *Paolozzi v. Commissioner*²¹, the settlor transferred property to a trust under which the trustees had discretion to pay over the income to her during her lifetime. The Tax Court determined that under Massachusetts law, the settlor's creditors could reach the maximum amount that, under the trust terms,

could be paid to the settlor — that is, the entire income interest. Accordingly, the gift was incomplete to the extent of that interest. In *Outwin v. Commissioner*²², also considering Massachusetts law, the Tax Court reached the same result where the trustee could distribute income and principal to the settlor in the trustee's discretion but only with the consent of the settlor's spouse. The spouse had an income interest following the settlor's death, could receive principal in the discretion of the trustee at that time, and had a limited testamentary power of appointment. However, the Tax Court concluded that the spouse's veto power was not sufficient to distinguish the situation from *Paolozzi*, regardless of the fact that the spouse might be an adverse party for gift-tax purposes.²³

More recently, in *Paxton v. Commissioner*²⁴, the Tax Court held that a trust was included in the settlor's estate where the trustee had discretion to apply income and principal among a class of persons including the settlor; the trustee was the settlor's son, who also had a beneficial interest in the trust. The Tax Court looked to Washington state law, but relied primarily on the Restatement rule, discussed earlier, to support its holding.²⁵

Offshore Trusts

IN THE PAST FEW YEARS, there has been considerable use of trusts created in those foreign jurisdictions that provide greater protection against claims of creditors than is available under American law. A so-called "asset protection trust" allows a grantor to protect assets from his or her creditors without requiring the settlor to relinquish all interest in the assets in the trust. In general, asset protection trusts are trusts established in foreign jurisdictions that have limited the recourse of creditors to trust assets.

The selection of the foreign jurisdiction in which the asset protection trust will be established requires great care because of the existence of the English "Statute of Elizabeth" (precursor to U.S. fraudulent conveyance law, discussed above), which makes it possible to set aside a transfer that is intended

to defeat future, but currently unknown, creditors. Some offshore sites have enacted "Statute of Elizabeth override" statutes to circumvent any questions concerning the applicability of the Statute of Elizabeth. Some of the offshore sites that have passed such legislation are the Bahamas, Bermuda, the Cayman Islands, the Cook Islands (which appears to offer particularly strong protection against creditors) and Gibraltar²⁶. Other concerns are political stability and the availability of adequate banking and other financial services in the chosen jurisdiction.

Asset protection trusts usually are designed so that the settlor, upon creation of the trust, will experience no tax consequences. In almost all cases, an asset protection trust will be a so-called "grantor trust" for federal income tax purposes, with the result that the creator will continue to be taxed on all the trust income in the same manner as if he or she continued to own the trust property outright.²⁷ In addition, the settlor typically retains certain powers or interests sufficient to render the transfer to the trust an incomplete gift, thereby avoiding gift tax and keeping the trust property within the settlor's gross estate for estate tax purposes. For example, in Private Letter Ruling 9536002 (May 12, 1995) (not precedent), the IRS ruled that a transfer to an offshore trust was incomplete because the grantors retained a limited power of appointment over the trust property.

The New Alaska Trust Law

Elimination of the Rule Against Perpetuities. Under the Alaska Trust Law, an interest in a trust will not fail to be valid because it is non-vested if all or part of the income or principal of the trust may be distributed, in the discretion of the trustee, to a person who is living when a trust is created.²⁸ As a practical matter, this means a trust can be of perpetual duration provided the Trustee has discretion to distribute trust income and principal to the beneficiaries, at least one of whom is living when the trust is created. (This might be contrasted with South Dakota law, which provides that a trust may be perpetual if the trustee is authorized

to sell the trust assets and with Delaware law which has abolished the rule against perpetuities in its entirety, except with respect to real estate.) Thus, a perpetual trust now can be created under the law of Alaska which imposes no income tax. And if the trust is not a grantor trust (causing the income to be attributed directly to the grantor), state (and local) income tax can be avoided to the extent trust income is not currently distributed to beneficiaries who are tax residents of states (or localities) that impose income tax.

Spendthrift Provisions. Alaska law also was amended expressly to provide that a person who transfers property in trust may direct that the interest of a beneficiary of the trust may not be either voluntarily or involuntarily transferred before payment or delivery of the property to the beneficiary by the trustee. It further provides that if the trust contains such a transfer restriction, the restriction prevents a creditor existing when the trust is created, a subsequent creditor or any other person from seeking to satisfy a claim out of the beneficiary's interest in the trust, subject to four exceptions.

First, if the settlor retains the power to revoke or terminate the trust, his or her creditors may attach the trust property to the extent of the power of revocation or termination. However, a power to revoke or terminate does not include a power to veto distributions from the trust to another beneficiary, the retention of a special testamentary power of appointment, or the right to receive a distribution of income, corpus or both in the discretion of another person, including a trustee, other than the settlor of the trust. The veto power and power of appointment may be retained by the grantor to prevent the transfer to the trust from being complete for federal gift-tax purposes.³¹ By the same token, retention of such powers will cause the assets to be includable in the gross estate of the grantor at death.

Second, creditors of the settlor may also attach property in the trust to the extent that the trust income and principal must be distributed to the grantor.

Third, the transfer is void with respect to creditors if at the time of the transfer to the trust the settlor was in default by 30 or more days in making a payment due under a child support judgment or order.³¹

Fourth, the transfer is subject to attachment by the settlor's creditors if the transfer was intended, in whole or in part, to hinder, delay or defraud creditors under the Alaska fraudulent transfer law. (AS 34.40.010.) However, an action to claim the transfer was fraudulent may not be commenced unless (1) if the claimant was a creditor when the trust was created, the action is brought within the later of four years after the transfer to the trust was made or one year after the trust is or could have been reasonably discovered, or (2) if the claimant becomes a creditor after the transfer, the action is commenced within four years after the transfer to the trust.³²

The foregoing means that if the settlor is not in default by 30 or more days of making a child support payment, the transfer was not intended to defraud creditors and the grantor retains no power to revoke or terminate the trust or the mandatory right to receive income or principal but only retains the right to receive a distribution in the discretion of a trustee, creditors of the grantor cannot reach the assets contained in the Alaska trust. If the grantor retains the power to veto a distribution to other beneficiaries and a special testamentary power of appointment or similar right, the transfer to the trust will not be complete for gift and estate tax purposes even though it is not subject to the claims of the grantor's creditors. On the other hand, if the grantor retains no such power to veto or power of appointment or similar right, the transfer to the trust will be complete for estate and gift tax purposes. Thus, the Act offers flexibility to integrate creditor protection with the grantor's tax and other estate planning objectives.

The Rule for Making the Trust Alaskan

ALTHOUGH FOUR OTHER jurisdictions (Delaware, South Dakota, Idaho and Wisconsin) allow trusts to

last perpetually in their jurisdictions, no statutory guidance is provided by their laws as to what connection or nexus is sufficient to cause their state's law to apply to the trust. The Alaska statute, however, provides an explicit rule as to what makes a trust an Alaskan trust for both the purpose of avoiding the rule against perpetuities and the purpose of creating a trust that will not be subject to claims of the settlor's creditors. First, some of the trust assets must be deposited in the state and be administered by a "qualified person." Deposited in Alaska means held in a checking account, time deposit, certificate of deposit, brokerage account, trust company fiduciary account or other similar account located in Alaska. A "qualified person" is an Alaskan domiciliary or an Alaskan trust company or bank. Second, the Alaskan trustee's duties must at least include an obligation to maintain records for the trust (on an exclusive or nonexclusive basis with other trustees) and the obligation to prepare or arrange for the preparation of income tax returns that must be filed by the trust (again on an exclusive basis or on a nonexclusive basis with other trustees). Third, part of the administration must occur in the state.

Some Contrasts to Foreign Asset Protection Trusts

ALTHOUGH AN AMERICAN now is able to create an Alaskan trust of which he or she is a discretionary beneficiary which will be protected from the claims of his or her creditors, an Alaska trust will not provide the same level of practical protection from claims of creditors which may be afforded to a trust created in one of the offshore jurisdictions, such as the Cook Islands or the Bahamas. The laws of such offshore jurisdictions typically have extremely short statutes of limitations before the period to commence an action claiming the transfer to the trust was fraudulent runs which, as a practical matter, cannot be met by a creditor especially if the trust is created and funded sufficiently in advance of the entry of a final judgment against the debtor in an American court.³³ Second, the

jurisdiction may prohibit the enforcement of American judgments. That means the action must be retried in the offshore jurisdiction. As a practical matter, that may well be impossible. Because Alaska is one of the American states, its courts will be required to give full faith and credit to any judgment of a sister state although, as indicated, a judgment against the debtor will not be enforceable against the Alaska trust unless there is a finding that the transfer to the trust was a fraudulent transfer or some other reason for voiding the trust, such as the grantor having been in default by 30 or more days in child support payments at the time the trust was created. Third, at least some of these offshore jurisdictions explicitly exclude some claimants from contending a transfer was fraudulent. For instance, in some cases, a claim founded on a domestic right (such as an equitable distribution claim to property in the event of a divorce) cannot be brought against a trust situated in that jurisdiction.

In some ways, however, a foreign asset protection trust may be less desirable than an Alaska trust. Obviously, there is greater political risk in these offshore jurisdictions than there is in the United States. In addition, new "anti-foreign trust" provisions added to the Internal Revenue Code (see, e.g., Code Sec. 6048) will not apply to an Alaska trust. Also, it may be that a court would be more prone to view the creation of a foreign asset protection trust as an attempt to remove or secrete assets than it would the creation of an Alaska trust. In a recent bankruptcy court case, the court expressed considerable hostility to the creation of an offshore trust and ultimately applied New York law to determine whether the debtor had retained a property interest in the trust (which was established under Jersey law) for purposes of determining whether he should be denied a discharge in bankruptcy.³⁴ It appears, however, that this case may have turned on the rather extraordinary facts, which the court apparently perceived as involving a course of deception and concealment of assets by the debtor.

Options Under the Alaska Trust Act

A SIGNIFICANT OBSTACLE to the making of lifetime transfers is that the property owner is then cut off from the property. For example, some persons are willing to make a gift, and anticipate that they will be comfortable without the gifted asset and/or the income therefrom under the most likely scenarios, but are concerned about a "disaster" situation in which they might need access to the funds. They may not be at all concerned about protecting assets from creditors. In such a case, an offshore trust may be appropriate to consider. Precisely because the normal U.S. rule permitting creditors to reach the trust does not apply, the fact that the grantor is a permissible beneficiary of trust income and/or principal in the discretion of an independent trustee should not render the gift incomplete and includable in the estate under Code Sec. 2036 or 2038. Thus, the trust can be structured so that the transfer is a completed gift upon creation.³⁵ Gift tax would be paid (or unified credit applied). In that way, the "normal" estate planning benefits of removing gifted assets and the appreciation thereon from the estate are achieved. However, the Trustee can give the settlor access to the trust assets.

These same opportunities are now available to Americans using Alaska trusts. For example, an individual could create a so-called "Crummey trust"³⁶ in Alaska for the benefit of himself or herself as well as members of his or her family and protect transfers to the trust from gift tax using annual exclusions with respect to the other family members. For instance, a woman who is married and has two children could transfer up to \$50,000 under the protection of the annual exclusion under Code Sec. 2503(c) granting her husband and each child the right, respectively, to withdraw \$10,000 and \$20,000 from the trust. The transfers to such a trust created under Alaska law would be complete and should be excludable from the grantor's estate at death even though the grantor is eligible, although not entitled, to receive

distributions from the trust in the discretion of a trustee other than himself or herself. Of course, the beneficiaries may exercise the powers of withdrawal so that there is no property left in the trust from which the grantor could benefit. In addition, to the extent that the powers of withdrawal have not lapsed tax-free pursuant to Code Sec. 2514(e) and 2041(b)(2), the property subject to the powers of withdrawal will be includable under Code Sec. 2041(a) in the gross estates of the powerholders.

An individual also could create an Alaska trust and transfer the amount of his or her remaining gift tax exemption equivalent (which can be as great as \$600,000) and remain a beneficiary eligible to receive distributions in the discretion of a trustee other than himself or herself and avoid having the property includable in his or her estate. This provides an opportunity to remove the income and appreciation earned on the property during the balance of his or her lifetime from his or her gross estate even though the grantor has retained the possibility of receiving assets back in the discretion of the trustee if appropriate circumstances arise. Similarly, an individual could make a transfer, which is complete for estate and gift tax purposes, to an Alaska trust, of which he or she is eligible to receive distributions, equal to his or her remaining GST exemption under Code Sec. 2631(a) which can be as great \$1 million. This would allow the amount protected from generation-skipping transfer tax to increase by post-transfer income and appreciation during the balance of the transferor's lifetime even though the grantor is an eligible beneficiary of the trust.

The entitlement to payments from a grantor retained annuity trust (GRAT) described in Code Sec. 2702(b)(1) or grantor retained unitrust (GRUT) described in Code Sec. 2702(b)(2) must terminate prior to the death of the grantor or the trust assets will be includable, in whole or in part, in the grantor's estate.³⁷ However, if the GRAT or GRUT is created under Alaska law, the property may continue in trust after the grantor's annuity or uni-

trust term ends, and the grantor thereafter could be eligible to receive distributions from the trust without causing the trust to be includable in his or her estate, provided the grantor survives the annuity or unitrust term.

Conclusions

THE DUAL GOALS OF asset protection and reduction in taxation are often compatible and complementary. The new Alaska Trust Act provides an opportunity for Americans in all states to create trusts in Alaska which may help achieve both goals. Although not providing all of the practical protection that may be available through similar trusts created in offshore jurisdictions, many Americans will prefer for their assets to remain in the United States. For them, Alaska trusts may be considered. Although not discussed in detail in this article, making the trust perpetual may offer additional financial, tax and estate planning benefits. ♦

End Notes

1. See, e.g., *Paolozzi v. Commissioner*, 22 T.C. 182 (1954).
2. Compare Reg. Sec. 25.2511-2(c) with Code Sec. 2038(a).
3. "If and when the grantor's dominion and control of the trust assets ceases, such as by the trustee's decision to move the situs of the trust to a state where the grantor's creditors cannot reach the trust assets, then the gift is complete for Federal gift tax purposes...." Rev. Rul. 76-103, 1976-1 CB 293. See generally, Kartiganer, Rollins & Piontka, "Completed Gifts to Offshore Trusts and the Three-Year Rule," *Journal of Asset Protection* (March/April 1996).
4. See generally, P. Alces, *The Law of Fraudulent Conveyance*, Sec. 504 (1989) (1991 Cum. Supp. No. 2).
5. See, e.g., Tex. Prop. Code Sec. 42.004(a); (under Texas law, a debtor who acquires otherwise exempt personal property with intent to hinder, delay or defraud creditors loses the personal property exemption—however, that is not the case with the Texas homestead exemption, although a bankruptcy discharge may be denied); *Anderson Mill & Lumber Co. v. Clements*, 134 So. 588, 592 (Fla. 1931); (under Florida law, debtor who acquires otherwise exempt homestead property with intent to hinder, delay or defraud creditors loses homestead exemption).
6. See, e.g., Bankruptcy Code Sec. 727(a)(2); *In re Reed*, 700 F.2d 986, 988 (5th Cir. 1983) ("a debtor who converts nonexempt assets to an exempt homestead immediately before bankruptcy, with intent to defraud his creditors, must be denied a discharge in bankruptcy because of the provisions of Section 727 of the Bankruptcy Code"); *In re Myerson & Kuhn*, 121 B.R. 145, 158-159 & n.15 (Bkrcty. S.D.N.Y. 1990).
7. *Oberst v. Oberst*, 91 B.R. 97, 101 (Bkrcty. C.D. California 1988). See, also, *Klein v. Klein et al.*, 122 NYS 2d 546 (1952) (similar).
8. See *Myers v. Redmill*, 266 Ala. 270, 96 So. 2d 450 (1957) (conveyance to wife two days after automobile accident), and cases cited in annot., 73 A.L.R.2d 749. See, also, annot., 38 A.L.R.3d 597.
9. Such an interest would normally be excluded from a beneficiary's bankruptcy estate as well. See Bankruptcy Code Sec. 541(c)(1) and (2). *In re Remington*, 14 BR 496 (Bankr. DNJ 1981) (in bankruptcy proceeding of New Jersey resident, both income and principal of trust created for his benefit by relative who resided in Pennsylvania protected under Bankruptcy Code because under Pennsylvania law spendthrift provision was effective to provide that protection).
10. In some states, trusts are "spendthrift" only to the extent so provided in the governing instrument. In other states, they are "automatically" spendthrift unless the governing instrument provides otherwise. In still others, they may not be "spendthrift" at all (i.e. they are subject to creditor claims regardless of spendthrift provisions in the instruments). See, e.g., *Industrial Nat'l Bank v. Budlong*, 106 RI 780, 264 A2d 18 (1970).
11. See e.g., N.Y. Debtor and Creditor Law, Secs. 278 and 279.
12. See, e.g., Scott, 11A *The Law of Trusts*, Secs. 152, 155-157.1 (4th ed. 1987); *Restatement (2d) Trusts*, Secs. 155 and 157; Cal. Prob. Code Ann. Secs. 15400-15307.
13. See Code Sec. 2041.
14. See *Converstan v. Kellogg*, 136 Mich. App. 504, 357 N.W. 2d 705 (Mich. App. 1984); Scott, *supra*, Sec. 157.1.
15. See Oshins & Blattmachr, "The Megatrust: An Ideal Family Wealth Preservation Tool", *Trusts & Estates* 20 (November 1991).
16. It is not always clear whether a transfer is for fair value for this purpose. The analysis will depend on applicable law and the facts of the case.
17. See *Oberst v. Oberst*, 91 B.R. 97 (Bkrcty. C.D. Cal. 1988).
18. See, e.g., *Restatement (2d) Trusts*, Sec. 156.2.
19. Although apparently not widely known, a rule somewhat similar to that in Alaska is contained in Missouri Revised Statute Sec. 456.080.
20. However, it seems that not every retained interest will trigger the application of this rule. For example, a power to direct investments probably is not attachable by the grantor's creditors. A related issue is whether creditors can reach the assets of a trust over which the settlor retained a power of revocation (or a general power of appointment), and whether creditors can reach the assets of such a trust to satisfy the debts of the settlor/decedent. It appears that the trend is to allow assets in such a trust to be used to satisfy the debts of the settlor/decedent and toward extending the recourse of creditors (including creditors of a decedent) against such trusts, in some cases by statute. See, e.g., Cal. Prob. Code Ann. Secs. 18200 and 18201; *State Street Bank & Trust Co. v. Relsor*, 389 N.E.2d 768 (Mass. App. 1979).
21. 22 T.C. 182 (1954). See, also, Rev. Rul. 77-378, 1972-2 CB 347; Rev. Rul. 76-103, 1976-1 CB 394.
22. 76 T.C. 153 (1981), acq. 1981-2 C.B. 1.
23. See *Comm'r v. Vander Wheele*, 254 F.2d 895 (6th Cir. 1958), acq. 1962-1 CB 5 (same result under Michigan law); PLR 8350004 (same result under California law). Neither a private letter ruling (PLR) nor a national office technical advice memorandum may be cited or used as precedent. Code Sec. 6110(j).
24. 86 T.C. 785 (1986).
25. See, however, *Estate of German v. United States*, 85-1 TC ¶ 13,610 (Ct. Cl. 1985) and *Herzog v. Comm'r*, 116 F.2d 591 (2d Cir. 1941), finding that creditors could not reach assets of a trust of which the settlor was one of several discretionary beneficiaries (or found that the Internal Revenue Service had failed to meet its burden to show that settlor's creditors could reach the asset held in the trust). However, the conclusion reached by the Federal courts in these cases may not be the same as those reached by state courts. Compare *Vanderbill Credit Corp. v. Chase Manhattan Bank, N.A.*, 100 AD2d 544, 473 NYS 2d 242 (2d Dep't 1984) with *Herzog v. Comm'r*, *supra*.
26. In general, it appears that asset protection trusts will be effective only against future, but currently unknown, creditors. The settlor, generally, cannot be insolvent at the time the trust is created or become insolvent as a result of the creation of the trust.
27. See Code Sec. 677(a) (a trust is a grantor trust if, among other situations, the trustee, without the consent of an "adverse party", can distribute the trust assets to the grantor.) There will be no Code Sec. 1491 excise tax consequences since no tax will apply to the transfer of appreciated assets to a foreign trust so long as that trust is a "grantor trust" and the settlor is a U.S. person. Rev. Rul. 87-61, 1987-1 CB 219.
28. AS 34.27.050(a)
29. Reg. Sec. 25.2511-1(c).
30. Code Sec. 2036(a)(2), 2038(a).
31. An Alaska trust could not be used to avoid child support or alimony payments because neither a judgment for child support nor one for alimony is dischargeable in bankruptcy. Bankruptcy Code Sec. 523(a)(5).
32. It is possible that a court would determine that the statute of limitations of the grantor's domicile state (or another state) should be applied rather than the one provided under the new Alaska law. This could mean a shorter, longer or "different" statute of limitations. However, the determination that the trust is "spendthrift" under Alaska law should apply even if the grantor is domiciled elsewhere. See 4 *Collier on Bankruptcy*, 544.02 at 544-13 to 544-14 and fn. 17 (15th ed. 1989) ("The

tendency of the courts is to treat the law of the site of property at the commencement of the case as governing to the extent that Sec. 544(a) refers to non-bankruptcy law"); *4A Collier on Bankruptcy*, ¶ 70.26 at 364-365 (14th ed.) ("Whether the bankrupt's interest as a *cestui que trust* was, at the time of bankruptcy, assignable or transferable, or subject to attachment, seizure or judicial sale, is a matter generally to be determined by the law of the state where the trust has its situs" [footnote omitted]); *Ferrari v. Barclays Business Credit, Inc.*, 108 B.R. 384, 387 (D. Mass. 1989) ("The authorities ... have shown a preference for applying the law of the site of the conveyed property"); *In re Remington*, *supra* (applying Pennsylvania law to determine interest of New Jersey debtor in trust established under Pennsylvania law). But cf. *In re Portnoy*, *infra* (alleged concealment of assets of offshore trust as grounds for denial of discharge in bankruptcy).

33. But, see 515 S. *Orange Grove Owners Ass'n v. Orange Grove Partners*, Plaint No. 208/94 (High Ct. Rarotonga, Civil Div., Nov. 6, 1995)

34. *In re Larry Portnoy*, 201 B.R. 685, 695 (S.D.N.Y. 1996).

35. See, e.g., PLR 9332006 (not precedent) (transfer to offshore trust of which grantor

and members of grantor's family are eligible beneficiaries a completed gift and will not be in grantor's estate because under the law governing the trust creditors of the grantor cannot attach the trust assets).

36. See, generally, Blattmachr & Slade, "Building an Effective Life Insurance Trust"

Continued on page 94

Trusts & Estates 29 (May 1990) explaining how to structure such a trust to hold insurance policies on the grantor's life. Crummeys trusts can hold other assets as well. It seems that the life insurance proceeds should not be includable in the grantor's estate under Code Sec. 2042 if the grantor is merely an eligible beneficiary of the trust which is not subject to the claims of his or her creditors, because the incidents of ownership (which is the "touchstone" for application of Code Sec. 2042) held by a trust are not automatically attributed to the beneficiary whose life is insured. See, e.g., PLR 9434028 (not precedent).

37. The Internal Revenue Service has contended that a GRAT is includable in its entirety under Code Sec. 2039(a) if the grantor dies during the term for which he or she is entitled to annuity payments. See PLR 9345035 (not precedent).

Estate Planning on America's Last Frontier: Alaska Trusts, Limited Partnerships, and LLCs

by Jonathan G. Blattmachr, New York, New York*
George E. Goerig, Jr., Anchorage, Alaska; and
Richard S. Thwaites, Jr., Anchorage, Alaska

Two 1997 statutory changes to Alaska law provide new estate planning opportunities for clients throughout the country, as well as for some outside the United States. The Alaska Trust Act, Chapter No. 6, SLA 1997, which became effective in April, 1997, allows individuals to create "self-settled" trusts under Alaska law that are immunized under that state's laws from claims of the individual's creditors. Another act amended Alaska law relating to limited partnerships and limited liability companies formed in that state. Chapter No. 78, SLA 1997. This second change was designed to simplify the formation and operation of these entities as permitted under the new Treasury Department "check the box" regulations. These two statutory changes provide enhanced opportunities in the United States for asset protection. Perhaps of greater interest to Fellows, the two acts provide new opportunities in estate planning. Although using either act alone may be effective, estate planning may be more enhanced in many cases by using a combination of Alaska trusts and Alaska limited partnerships or limited liability companies.

Alaska Trusts

The principal changes made by the Alaska Trust Act are (1) effectively to repeal the rule against perpetuities for Alaska trusts, and (2) to permit an individual to create an Alaska trust of which he or she is an eligible beneficiary yet (unlike the law that prevails in virtually all other American states) which will not be subject to the claims of his or her creditors. This latter change not only provides asset protection, but also allows lifetime transfers to be complete for federal gift and estate tax purposes in ways not previously available under American law.¹

As a general matter, to the extent that a creditor can reach assets transferred by an individual to a trust, those transfers will not constitute completed gifts and will be includable in the gross estate of the transferor. However, it seems certain that if the trust is formed in "a state where the grantor's creditors cannot reach the trust assets, then the gift is complete for federal gift tax purposes...." Rev. Rul. 76-103, 1976-1 C.B. 293.

*Copyright 1997 Jonathan G. Blattmachr, George E. Goerig, Jr., and Richard S. Thwaites, Jr. All rights reserved.

See also Rev. Rul. 77-376, 1977-2 C.B. 347; *Estate of German v. U.S.*, 7 Ct. Cl. 641 (1985); *Estate of Uhl v. Commissioner*, 241 F.2d 867 (7th Cir. 1957); *Estate of Wells v. Commissioner*, T.C. Memo 1951-574. Both Rev. Rul. 76-103 and Rev. Rul. 77-378 specifically deal with completed gifts, and not with estate exclusion. These rulings make clear that if, under the law where the trust is created, creditors cannot reach the property transferred, the transfer is *entirely* complete for gift tax purposes.² If the grantor has retained an interest, as noted above, creditors can reach that interest and presumably the transfer would not be entirely complete. Although it is theoretically possible for a transfer to be entirely subject to gift tax (even though partially an incomplete gift) and still be included in the gross estate of the transferor, such circumstances are rare. However, the rulings state that the transfer is entirely complete for gift tax purposes, not just that it is entirely subject to gift tax. It is thus reasonable to conclude that the Internal Revenue Service has determined that no interest was retained by the transferor because if the grantor had retained an interest, the transfer would be partly incomplete.³

In contrast to the law of most American states, many jurisdictions outside the United States provide that the interest of a grantor in a trust he or she created is not subject to the claims of his or her creditors unless the transfer to the trust was a fraudulent transfer under that jurisdiction's rules. As a consequence, under U.S. law transfers to such a foreign trust can be complete for U.S. estate and gift tax purposes, even though the grantor is a beneficiary of the trust. Indeed, the *German*, *Uhl*, and *Wells* cases cited above so hold. In addition, the IRS has explicitly so ruled in private letter rulings. For instance, in PLR 9332006,⁴ the Service held that a transfer to an offshore trust of which the grantor and members of the grantor's family were eligible as beneficiaries in the discretion of a trustee (who was a person other than the grantor) was a completed gift and would not be in the grantor's gross estate for federal estate tax purposes because, under the law governing the trust, creditors of the grantor could not attach the trust assets. See also PLR 8037116. With the Alaska Trust Act, such a tax-advantaged trust can now be created under the law of Alaska.

Self-Settled Estate Planning Trusts

The Alaska Act opens a new dimension in estate planning for Americans. They can now make lifetime transfers, which are complete for federal gift and estate tax purposes, to an Alaska trust of which the grantor is eligible, but not entitled, to receive distributions in the discretion of a trustee (other than himself or herself).⁷ Such self-settled Alaska trusts could be used for virtually all lifetime estate planning transfers.

For instance, an individual may make transfers under the protection of the Internal Revenue Code §2503(b) gift tax annual exclusion by transferring property to an annual exclusion or so-called "Crummey" trust, which provides that certain individuals (such as a transferor's spouse, descendants, and perhaps others, but not the grantor) can withdraw property transferred to the trust up to the amount of annual exclusions not used elsewhere. With an Alaska trust, the grantor may remain eligible to receive distributions of trust property in the discretion of a trustee other than the grantor without causing the trust assets to be includable in his or her estate. From an estate planning perspective, the grantor will want distributions to him or her to be minimized, because such distributions diminish the estate tax planning benefits of having made completed transfers to the trust that otherwise would be excludable from his or her estate.

If an agreement that the grantor would receive the income from or the use of the assets held by the trust may be inferred from the circumstances, the assets almost certainly will be includable in the grantor's estate, under Code §2036(a)(1), even when coupled with the finding that the grantor had no legal entitlement to such income or use. See, e.g., *Estate of Skinner v. U.S.*, 197 F. Supp. 726 (E.D. Pa. 1961), *aff'd*, 316 F.2d 517 (3rd Cir. 1963). On the other hand, only occasional use of trust assets or occasional receipt of trust income should avoid any such inference. See, e.g., *Estate of Wells v. Commissioner, supra*. Actual retention of the property or the income (that is, the failure actually to transfer the property or the income to another) may also result in estate tax inclusion. See, e.g., *Lee v. United States*, 86-1 U.S.T.C. ¶ 13,649 (CCH)(W.D. Ky. 1986).

Annual Exclusion Trusts

Not infrequently, a Crummey trust will acquire one or more life insurance contracts on the life of the grantor or on the lives of the grantor and the grantor's spouse. Ownership of the policies by the trust is an attempt to keep the proceeds paid at death from inclusion in the estate(s) of the insured(s). If the insured holds no "incident of ownership" in the policy at or within three years of death, and if the proceeds are not paid to the estate of the insured, the proceeds should

not be included in the insured's gross estate. Code §2035, 2042.

If the terms of an annual exclusion (or another type) Alaska trust that acquires a cash value life insurance contract provide merely that the trustee may, in the exercise of its discretion, distribute trust assets to the grantor, the incidents of ownership in the contract should not be attributed to the insured grantor so as to cause the proceeds to be includable in his or her estate. See, e.g., PLR 9434028 (incidents of ownership held by a trust are not automatically attributed to the beneficiary whose life is insured if the beneficiary is not a trustee).

This provides an opportunity for the grantor, through the exercise of discretion of a trustee other than himself or herself, to be eligible to receive cash value in the policy without causing the proceeds paid at death to be includable in his or her estate.

Unified Credit, GST Exemption, and Other Trusts

One of the most effective lifetime planning techniques is to transfer as early as possible in life the amount protected from gift tax by reason of the unified credit allowable under Code Sec. 2010 or by reason of the amount of GST exemption under Code Sec. 2631. Use of the unified credit (which under the Taxpayer Relief Act of 1997 will increase commencing in 1998 and continuing through 2006) early in life can result in a very large amount being excludable from the transferor's estate. The early use of the \$1 million GST exemption (which under the Taxpayer Relief Act of 1997 is indexed for inflation) can be even more effective from an estate planning perspective. In the long run, because the GST exemption can be used to avoid wealth transfer tax on property as it passes from one generation to the next without limit, the use of the GST exemption to avoid tax may be even more important than use of the unified credit. (As noted earlier, an Alaska trust can be structured so it can last perpetually. Also, Alaska has no income tax.)

The remainder following the grantor's retained interest term in a grantor retained annuity trust (GRAT), grantor retained unitrust (GRUT), or grantor retained income trust (GRIT), including a qualified personal residence trust, can pass outright to others or remain in trust. In most jurisdictions in the United States, the property will continue to be includable in the grantor's estate if the grantor is eligible to receive continuing distributions in the discretion of a trustee after the grantor's entitlement to payments ceases, because the grantor's creditors will be able to attach the trust assets. See Rev. Rul. 77-378, *supra*. However, if the GRAT, GRUT, or GRIT is an Alaska trust, the property should not be includable in the grantor's estate after the annuity, unitrust, income, or use term

ends, even if the grantor remains eligible to receive distribution from the continuing trust for the balance of his or her lifetime in the discretion of the trustee other than the grantor.

If the Alaska trust holds real property outside of that state, it is possible that a court would apply the spendthrift trust rule of the state where the property is situated rather than the spendthrift trust rule of Alaska. If the real estate is located in a state where spendthrift trust provisions are not effective in protecting the grantor's interest in the trust from claims of his or her creditors, it may be appropriate to permit the trustee to distribute trust property to the grantor only if the real property outside of the state of Alaska is no longer held in the trust (e.g., the non-Alaska real estate has been sold by the trustee or distributed to other beneficiaries).

In most states, the grantor could not become a beneficiary to whom the trustee could distribute assets from any continuing trust after the charitable term of a charitable lead trust without causing the property to be includable in the grantor's estate due to the right of the grantor's creditors to attach the trust assets. See Rev. Rul. 77-378. If the charitable lead trust is created under Alaska law, however, the grantor may remain eligible to receive distributions from the continuing trust after the charitable term ends without causing the property to be includable in his or her estate. *Estate of German v. U.S.*, *supra*, *Estate of Wells v. Commissioner*, *supra*, *Estate of Uhl v. Commissioner*, *supra*.

Use of Alaska Trusts by Non-U.S. Persons

Alaska trusts may also be effective vehicles for use by non-U.S. persons. For example, many individuals who are neither U.S. citizens nor U.S. domiciliaries ("foreigners") have American relatives or friends whom they wish to benefit. Except for U.S. real estate and tangible personal property, a foreigner may make lifetime gifts to or in trust for Americans without the imposition of U.S. gift tax. Similarly, a foreigner may make transfers at death to or in trust for Americans without the imposition of U.S. estate tax, except to the extent the transfer consists of U.S. real estate or tangibles, stock in U.S. corporations, and certain indebtedness of U.S. obligors. In addition to avoiding U.S. gift and estate tax, these transfers may be made free of generation-skipping transfer tax. Treas. Reg. §26.2663-2(b). A foreigner can thus transfer to or place in trust for Americans unlimited amounts of non-U.S. assets which will never be subject to U.S. wealth transfer tax. Such an opportunity suggests consideration of the creation of a very long-term or perpetual trust by a foreigner for American relatives or friends whom the foreigner wishes to benefit.

Six American states allow trusts to last perpetually: Alaska, Delaware, Idaho, South Dakota, and Wis-

consin. Alaska may be the most preferable of all for several reasons. First, if the foreigner wishes, he or she could remain a beneficiary of an Alaska trust to whom the trustee could make distributions without causing the trust to be includable in his or her estate for federal estate tax purposes. This could be very important due to the major distinction in the taxation of foreigners for gift tax purposes on the one hand, and estate tax purposes on the other. Lifetime gifts by foreigners of U.S. securities are not subject to U.S. gift tax but those same securities, as a general rule, are subject to U.S. estate tax if includable in the foreigner's estate at death. Hence, a foreigner could transfer U.S. stock to an Alaska Trust free of U.S. tax, remain an eligible beneficiary for life and yet avoid U.S. estate tax on the trust assets at death. Also, only Alaska has a statutory rule of what makes a trust be treated as sited there: (i) there must be an Alaska trustee whose duties consist at least of maintaining a set of trust records and of preparing or arranging for the preparation of any trust tax returns, (ii) part of the trust assets must be maintained in Alaska, such as by maintenance of a bank or brokerage account there, and (iii) some part of the administration must occur in Alaska, such as holding some trustee meetings there or effecting some "trades" there.

In fact, even if a foreigner does not wish to benefit Americans but simply wants to create a trust for his or her own benefit that is protected from claims of his or her creditors, an Alaska trust may be preferable to one created in an "offshore" jurisdiction even if that jurisdiction provides for the trust assets to be protected from claims of the grantor's creditors. For several reasons, many foreigners acquire or maintain assets in the United States. Holding those assets through an Alaska trust may well provide an additional level of protection for them.

Alaska Limited Partnerships and Limited Liability Companies

Limited partnerships and limited liability companies have become a mainstay in business and personal planning. The adoption by the Treasury Department of the so-called "check the box" regulations effective January 1, 1997, vastly simplified the formation and administration of such entities. See Treas. Reg. §301.7701-1, 2, 3. Prior to the adoption of those regulations, four complex factors (known as "corporate characteristics factors") had to be analyzed to determine whether an entity other than a corporation would be taxed as a corporation or as a partnership. It is generally preferable for an entity to be taxed as a partnership rather than a corporation because profits are taxed once, losses are passed through to the owners of the entity, and adjustments to basis are usually more favorable. See, e.g.,

IRC § 754. Moreover, entities treated as partnerships for income tax purposes can be much more flexible in formation, operation and ownership than so-called S corporations. Subject to certain exceptions (such as for domestic (U.S.) corporations), an entity may elect on its first tax return filed after 1997 to be treated as a partnership (or, alternatively, as a corporation) for federal income tax purposes.

Entities treated as partnerships, in certain circumstances, can be used to enhance the protection of assets from claims of creditors. First, "buy-out" provisions contained in a partnership agreement (or other document) sometimes provide other owners or the entity itself the right to buy partnership interests (or comparable interests in a LLC) from a partner who becomes bankrupt. Although these "triggered by bankruptcy" provisions sometimes are not enforceable, they may be enforceable in certain other cases. In any event, their mere existence may chill a creditor from attempting to attach a partnership interest. Second, as a general matter, any creditor who does succeed to the economic interest of the bankrupt partner but does not become a partner (because, for example, state law or the partnership agreement so provides) nonetheless may be taxed apparently on a pro rata portion of the income, even if no distributions are made. See Rev. Rul. 77-137, 1977-1 C.B. 178. This may make the attached interest in the partnership a liability in the hands of the creditor (because it may generate an income tax liability without a concomitant distribution of cash or other assets,) which may cause the creditor to agree to disgorge the asset at a lower price or possibly to abandon it. Under the law of virtually all jurisdictions, however, a court having jurisdiction over the partnership may order its liquidation for any "equitable" reason. See, e.g., 8A N.Y. Cons. Law §121-802. In addition, under those state laws that otherwise permit a partner to demand to be bought out upon six month's notice (which is the default rule contained in the Revised Uniform Limited Partnership Act), a creditor might convince a court that a creditor should be able to exercise that power to be liquidated out.

Under the new Alaska law, a court will be able to order the dissolution of a partnership or limited liability company only if it determines that it is impossible for the enterprise to continue to operate. Therefore, the court will be unable to order a liquidation merely for an "equitable" reason. In addition, unlike the default rules under most state laws, an Alaska limited partnership or limited liability company does not go out of existence upon the death of a general partner of a limited partnership or of a member of an LLC.

Limited partnerships and LLCs are widely used for estate planning. They can accomplish many goals, including providing a family unit with an opportunity

to shift income more efficiently, share in lower brokerage and investment advisory fees, and centralize and harmonize the management of assets and investment decisions. Use of these entities changes the nature of what is owned. In other words, family members no longer own an interest in the assets owned by the partnership or LLC, but rather own interests in the partnership or LLC. Because the nature of the family's interest changes, so does its value. Often, the value is reduced. Lower value may mean lower gift, estate, or generation-skipping transfer tax when an interest is transferred. It can also mean a smaller "step-up" in income tax basis at death. See IRC §1014.

The Internal Revenue Service has shown a strong and growing inclination to disregard the existence of the partnership (or LLC) when disregarding its existence would result in a larger value for estate, gift, or generation-skipping transfer tax purposes, and thus, higher taxes. The Service's attack, to date, has revolved around four primary arguments. See, generally, Aucutt, "More on Deathbed FLPs," 9 *Probate Practice Report* 1 (August 1997), for a discussion of some of these arguments.

First, the IRS has contended that the taxpayer may be making a gift upon formation of the entity to other equity owners (e.g., partners) if the taxpayer receives back an interest worth less than what he or she contributed. The argument may not be sound. For example, upon termination any such "gift" to the other partners may be offset by a "gift" back from the others. If so, any transfer upon formation must be for full consideration and cannot be a gift. At least in some cases, the courts have not completely dismissed the argument that a gift can be made upon formation, thus this argument should not be disregarded in forming a limited partnership or LLC. Cf. *Estate of Trenchard v. Commissioner*, T.C. Memo 1995-232. See, also, Horn, "Limited Partnerships: Some Thoughts and Theories about Key Issues," 23 *ACTEC Notes* 37 (Summer 1997).

Second, the IRS has contended that the existence of the partnership should not be respected in those cases where the partnership was formed only for tax reduction reasons, at least if its existence has no other substantial economic impact. It appears more likely that there will have been a smaller non-tax impact if a transfer of partnership units occurs immediately after the formation of the entity. See, e.g., National Office Technical Advice Memorandum (NOTAM) 9719006 (formation of partnership by individual who was terminally ill and died two days after partnership was formed). See, also, NOTAM 9723009 (formation 54 days before death), and NOTAM 9725002 (formation two months before death).

Third, the Internal Revenue Service also has recently contended that the existence of the partner-

ship should be ignored because it constitutes a restriction on the use of the assets of the partnership. See, e.g., NOTAM 9719006. IRC §2703 provides that, in certain circumstances, an option, agreement, or other right to acquire or use property at a price less than fair market value or any restriction on the right to sell or use the property is ignored for estate, gift, and generation-skipping transfer tax valuation purposes unless it is established by the taxpayer that the option, etc., is comparable to similar ones found in arms' length transactions.

Fourth, the IRS has attempted to attack partnership discounts under IRC §2704(b), on the basis that the partnership agreement (or LLC operating agreement) imposes one or more applicable restrictions. See, e.g., NOTAM 9724703 (provision of partnership agreement that eliminates the right under Massachusetts law of a limited partner to withdraw on six months' notice is disregarded). A restriction is disregarded for valuation purposes under Code Sec. 2704(b) only if the restriction will expire or if the family acting together without non-family members can remove it. It is understood that the Internal Revenue Service may contend that any applicable restriction in a partnership that contains a fixed term (such as terminating in the year 2039) means that the applicable restriction will expire by the terms of the partnership when the term of the partnership ends, and, therefore, any such restriction should be disregarded for valuation purposes. The Internal Revenue Service may also contend that the family can remove any applicable restriction (which under Treas. Reg. §25.2704-2(b) is to be determined under default state law, and not as limited by the terms of the partnership agreement) even in a circumstance where a non-family member (such as a niece or nephew) is also a partner. Under the partnership laws of many states, certain actions may not require unanimous consent of all the partners (unless the partnership agreement expressly so provides).

Alaska law was amended not only to permit simpler formation of limited partnerships and LLCs pursuant to the check-the-box regulations and to use them more effectively for asset protection and other non-tax reasons, but also to assist a taxpayer in resisting such IRS attacks on valuation of interests in partnerships and LLCs. First, Alaska law is now clear that a single member (one owner) LLC may be formed. Forming a limited partnership with only one real owner of equity (e.g., the same person owns all limited partnership interests and all of the stock of a corporation which owns a relatively small general partnership interest) or a single member LLC should avoid any argument by the Internal Revenue Service that a gift is made upon formation from one owner to another. (If a husband and wife, both of whom are United States residents, are

the only partners or members, there also is no taxable gift because any gift from one to the other should qualify for the gift tax marital deduction under IRC §2523, barring some provision that would make it a so-called "terminable interest.") The Internal Revenue Service has essentially conceded that a subsequent gift of an interest even in a wholly owned enterprise is to be valued by looking at the interest transferred in isolation. Rev. Rul. 93-12, 1993-1 C.B. 202. Hence, the "depletion of the value of the estate" argument, which is essentially what the gift upon formation contention is, should not arise if the entity is formed by a single owner who thereafter makes gifts to others of interests in the entity.

One of the most effective ways to avoid the IRS contention that the partnership was formed only for tax reduction reasons and without any other substantial economic or other impact is to operate the partnership or LLC for substantial period of time prior to making gifts or sales of the units (and forming it as long before death as practicable if the interests in it will be held until then). As mentioned above, limited partnerships and limited liability companies often provide significant non-tax benefits, such as providing for asset protection and lower brokerage or investment advisory fees through the aggregation of wealth. By making gifts of relatively small interests in the enterprise, the others who receive these transfers can participate in such non-tax benefits attributable to the structure of the enterprise.

The IRS argument that the existence of the partnership should be ignored under IRC §2703 appears flawed. It is based on the Code section, regulations promulgated thereunder, and its legislative history, which indicate that the section applies only with respect to the property which is the subject of the gift or transfer at death. In the case of gifts or transfers at death of partnership interests, it is those interests (not the underlying partnerships assets) that must be restricted for the section to apply. As mentioned, the section does not apply where the taxpayer establishes that unrelated third parties have entered into similar arrangements. Presumably hundreds of such entities will be created under Alaska law, a majority of which probably will be created by unrelated third parties. In many cases, these agreements will contain no provisions other than those provided under default state law. This may help establish that any family partnership agreement or limited liability company, at least to the extent that the governing agreement does not provide additional restrictions, is the same as that entered into by unrelated third parties.

The new Alaska law should go far in combatting the IRS arguments under §2704(b). First, as a matter of default state law, Alaska limited partnerships and

limited liability companies last indefinitely (just as corporations do). In addition, as a matter of default Alaska law, the terms of a partnership agreement (or governing documents of a limited liability company) can only be changed with the unanimous of all partners (or members of an LLC). Hence, if there is any partner who is not a family member (such as a niece or nephew), the family will not be able to remove the restriction and, accordingly, it should not constitute an applicable restriction the existence of which may be disregarded under IRC §2704(b).

Alaska has also eliminated any right of a limited partner or LLC member to demand to be bought out on six months' notice. In fact, under default state law, a partner or member is entitled to distributions only as provided in the governing documents. Moreover, unlike the default rules under the law of virtually all the other states, neither a limited partnership nor a limited liability company is dissolved under Alaska law upon the death of any general partner or member. Rather, a limited liability company continues for as long as there is one member. A limited partnership continues in existence as long as there is another general partner, or if there is none, it dissolves only if a majority-in-interest of the remaining partners fail to elect a new general partner within 90 days.

New Delaware Asset Protection Trust Legislation

Effective July 1, 1997, Delaware enacted a new law similar to and intended to produce the same estate planning and asset protection benefits that the Alaska Trust Act provides. The official synopsis of the new Delaware law states that the purpose of the Act is to facilitate the establishment of trusts in Delaware and is intended to be like the Alaska Trust Act. In fact, much of the language in the Delaware law is identical to the Alaska law.⁶

Unfortunately, it appears that the Delaware law will provide less asset protection than the Alaska law will. Perhaps of much greater significance, it may not be possible for a gift to a self-settled trust formed under Delaware law, as enacted, to be complete for

federal tax purposes. See Dela. Stat. Ann. §3573. Subsection §3573(a) appears to provide that the trust is permanently available to discharge the grantor's obligation to pay alimony, child support, and property settlement awards even if the obligation arises after the transfer to the trust occurs. As indicated above, a transfer is incomplete for Federal estate and gift tax purposes to the extent the grantor can relegate the grantor's creditors to the trust. Here, because the potential use of trust assets is limited and probably ascertainable, it seems the transfer might be only partly incomplete (i.e., to the extent potential use of trust assets for child support, etc. is ascertainable). See Treas. Reg. §20.2036-1(a)(ii).

Probably most troublesome is §3573(b), under which the grantor can certify in writing to any creditor (including apparently someone who becomes a creditor after the trust has been created) that the trust assets are available to satisfy the creditor's claim. That certification seems to make the trust assets available to that creditor. This virtually assures that the gift to the trust is incomplete, because the grantor can relegate his or her future creditors to the trust assets. This power of relegation is sufficient to render the gift incomplete. Rev. Rul. 77-378, *supra*.

Third, under §3573(c) the trust assets are permanently available to claimants who have suffered personal injury, death, or property damage that occurs prior to the transfer to the trust. It appears quite certain that these claimants continue for all time to have access to the property in the Delaware trust to satisfy their claims, even if the transfer to the trust was not a fraudulent conveyance. It seems that transfers to the Delaware trust are incomplete to the extent of any such pre-transfer claims, under Dela. Stat. Ann. §3573(c).

Nonetheless, supporters of the new Delaware trust act are likely to seek to have these potential problems with the legislation cured early in that state's 1998 legislative session. With certain changes, Delaware law will provide the same estate planning benefits currently available under Alaska law.

Notes

¹ The extent of asset protection is discussed in more detail in Hompesch, Rothschild and Blattmachr. "Does the New Alaska Trusts Act Provide an Alternative to the Foreign Trust?" *The Journal of Asset Protection*, 9 (July-August, 1997).

² For example, Rev. Rul. 77-378 states, in part:

There would be no doubt of his nonliability for gift tax upon the value of the income if he had reserved to himself the absolute right to the income for his life. But he made no such reservation. He transferred the entire property. Whether he would enjoy any of its income depended entirely on the trustee, who, in his uncontrolled discretion, could deprive him of it completely. It

was only by virtue of the trustee's direction, which on this record must be regarded as entirely voluntary, that the donor received any of the income: and this direction might be terminated whenever the trustee deemed it proper that the wife should receive the income. *Such a hope of passive expectancy is not a right. It is not enough to lessen the value of the property transferred.... Whether the grantor enjoy any of the trust's assets is dependent entirely on the uncontrolled discretion of the trustee. Such a hope or passive expectancy does not lessen the value of the property transferred....* Rev. Rul. 62-13 is hereby clarified to remove any implication

that an entirely voluntary power held by a trustee to distribute all of the trust's assets to the grantor is sufficient to render a gift incomplete either in whole or in part (emphasis added).

Section 2036(a)(1) requires that the decedent retain either 'possession or enjoyment' or 'the right to the income.' If he has a legal right to income, the 'income' phrase would not support inclusion under Section 2036. Perhaps it may be said he has retained 'enjoyment.' However, if some meaning is to be accorded the word 'retained,' some showing of an arrangement, more than the fact that income was paid to the decedent, should be required.... Since such transfers are treated as complete when made for gift tax purposes there is even less reason for the imposition of estate tax liability under Section 2036."

Stephens et al., *Federal Estate and Gift Taxation*, § 8.08[4][c] (footnote numbers and footnotes, other than a portion of the text from n. 42, omitted).

* Neither a private letter ruling nor a national office techni-

cal advice memorandum may be cited or used as precedent. IRC § 6110(j)(3). However, they often are indicative of the Internal Revenue Service's position.

* There are four exceptions (or limitations) to the new Alaska spendthrift rule: (i) to the extent the transfer is a fraudulent conveyance, (ii) to the extent that the grantor is in default by 30 or more days in child support, (iii) to the extent that the grantor retains the right to distributions, or (iv) to the extent that the grantor retains a power to revoke. A power to revoke does not include a power to veto distributions to others or to exercise a testamentary special power of appointment. These two powers (i.e., to veto or exercise a testamentary special power) can be used to prevent the transfer to the trust from being a completed gift, but the retention of either power will cause inclusion in the grantor's estate for federal estate tax purposes.

* See, generally, Hompesch, "Alaska v. Delaware: Comparison of Recent Trust Legislation," to be published in *Prostate & Property* (Jan./Feb. 1998). Mr. Hompesch was the principal drafter of the Alaska LLC/Limited Partnership Amendment Act.

ACTEC NOTES

THE AMERICAN COLLEGE OF TRUST AND ESTATE COUNSEL

3415 S. Sepulveda Boulevard, Suite 330 • Los Angeles, California 90034 • (310) 398-1888 • FAX: (310) 572-7280

Lynn Wintriss, Editor / W. Bjarne Johnson, Assistant Editor / © The American College of Trust and Estate Counsel 1997



Jerold I.
Horn

President's Message

My first President's Message, appearing in the Summer, 1997, issue of *ACTEC Notes*, signalled my long-held belief that the most important issue that confronts trusts and estates lawyers, and the most significant issue that I can address and can induce the College to address, is an economic and professional malaise that befalls the legal specialty in which we practice. I devote this President's Message to revisiting the theme.

As I view the essentials and state them directly, the issue is nothing less than whether our work is sufficiently valuable to generate the fees that will enable us to continue to perform our work in the manner in which we are prepared and inclined and in which our professional standards require. The economic and professional standards that I see at the margins of the market are not cause for encouragement.

The recent and vast increase in the number of lawyers arguably is having the greatest impact upon those types of
(continued on page 183)

Volume 23, No. 3, Winter 1997

Table of Contents

President's Message	177
Calendar of Events	178
In Memoriam	181
Fellows in the News	185
Editor's Page	186
Washington Report	187
<i>John M. Bixler and Ronald D. Aucutt</i>	
Foundation News	189
<i>Thomas P. Sweeney</i>	
Committee Corner	191
<i>W. Bjarne Johnson</i>	
ACTech Talk: Push Technology	193
<i>Roger L. Shumaker</i>	
Spotlight on Attorneys' Fees	195
<i>Martin A. Heckscher</i>	
New Developments in Construction and Instruction Case Law	198
<i>Arlene Harris</i>	
The Taxpayer Relief Act of 1997 ("TAPRA"): A First Look, but Not the Last Word	201
<i>George L. Cushing, John H. Clymer and Natalie B. Choate</i>	
The Family-Owned Business Exclusion	214
<i>Donald H. Kelley</i>	
The New Charitable Remainder Trust Rules: Show Me the Charitable Gift	234
<i>Conrad Teitell</i>	
Estate Planning on America's Last Frontier: Alaska Trusts, Limited Partnerships, and LLCs	240
<i>Jonathan G. Blattmachr, George E. Goerig, Jr. and Richard S. Thwaites, Jr.</i>	
Written Communication with Clients: Observations on the Survey	247
<i>Stephen E. Martin</i>	
Contest Planning for the Client with Marginal Capacity	251
<i>Wills and Trusts Subcommittee of the Fiduciary Litigation Committee</i>	

PLEASE NOTE

1998 Summer Meeting, Portland, Oregon, July 9-12

Enclosed with this issue are a letter from E. James Gamble, a hotel brochure and reservation form, and a return postcard for a free Northwest Oregon travel guide.

Alaska Consensual Community Property Law And Property Trust

In most community property states, many forms of property acquired by a married couple are automatically held as community property, unless the couple enter into a binding agreement to treat their assets as separate property. The Alaska Community Property Act (the Act) gives Alaska residents the option of conducting their marital finances within a community system, making it the first wholly consensual community property statute in nearly 60 years.¹ Of even greater importance to estate planners in other states, however, the Act allows both residents and non-residents to establish Alaska Community Property Trusts, by which specific assets can be held as community property under Alaska law.

Alaska Community Property

The Act, which became law on May 22, 1998, allows a husband and wife who are both domiciled in Alaska to enter into an agreement that converts any or all of their property into community property.² The Act draws many of its key provisions from the Uniform Marital Property Act, which has previously been adopted only in Wisconsin.³ The key elements of the Alaska community property rules for residents are that:

THE STATE OF ALASKA has adopted a new community property law by which a married couple may elect to treat all of their assets or specific assets as community property. This article discusses the estate planning uses and implications of converting one's separate property to community property, and how non-Alaskans may use an Alaska Community Property Trust to obtain the tax and non-tax benefits of community property status for select assets.



1. The couple may select which assets are to be community property and which are to be held in some other form of separate or joint ownership;⁴

2. Community property may be owned with rights of survivorship;⁵

3. Each spouse owns and may control a one-half interest in the community property,⁶ but the spouses may choose to grant management authority to one of them;⁷

4. Each spouse is required to act in good faith toward the other with respect to their community property.⁸

5. A spouse may "reclaim" community property given to a third party by one of them unless the

non-transferring spouse consents, except for gifts that do not exceed \$1,000 in any calendar year or larger gifts which are reasonable, in light of the economic position of both spouses;⁹

6. An Alaska court may equitably divide community property along with marital property in the event of divorce, except to the extent, if any, the spouses have provided otherwise in a community property agreement or trust;¹⁰

7. Community property is not subject to a claim by a surviving spouse to any minimum or elective share when the first spouse dies;¹¹

8. An Alaska Community Property Agreement may be set aside if it is found that it was unconscionable when made, was not voluntarily executed, or that he or she was not given and did not have fair and reasonable disclosure of the property and financial obligations of the other spouse and did not voluntarily waive such disclosure.¹²

The Alaska Community Property Trust

Both resident and nonresident married couples may classify property as community property by transferring it to a community property

By **Jonathan G. Blattmachr**
Millbank, Tweed, Hadley & McCloy
New York, NY
and **Howard M. Zaritsky**
Attorney
Rapidan, VA

trust and by providing in the trust agreement that the property is community property.¹³ The Act requires for a valid Alaska Community Property Trust that:

1. One or both spouses transfer property to a trust;

2. The trust expressly declares that some or all the property transferred is community property under Chapter 75 of Title 34 of the Laws of the State of Alaska;

3. At least one trustee of the trust is a "qualified person" whose powers include or are limited to a. maintaining records of the trust and b. preparing or arranging for the preparation of any income tax returns that must be filed by the trust. A "qualified person" is an individual Alaska domiciliary, Alaska trust company or Alaska bank as described in AS 34.75.100(a) (Michie 1998). The powers to maintain trust records and prepare or arrange for the preparation of trust income tax returns may be

given either to the Alaska trustee alone or to the Alaska trustee and one or more other trustees;

4. The Trust must contain the following language (in capital letters) at the beginning of the trust agreement:

THE CONSEQUENCES OF THIS TRUST MAY BE VERY EXTENSIVE, INCLUDING, BUT NOT LIMITED TO, YOUR RIGHTS WITH RESPECT TO CREDITORS AND OTHER THIRD PARTIES, AND YOUR RIGHTS WITH YOUR SPOUSE BOTH DURING THE COURSE OF YOUR MARRIAGE AND AT THE TIME OF A DIVORCE. ACCORDINGLY, THIS AGREEMENT SHOULD ONLY BE SIGNED AFTER CAREFUL CONSIDERATION. IF YOU HAVE ANY QUESTIONS ABOUT THIS AGREEMENT, YOU SHOULD SEEK COMPETENT ADVICE.¹⁴

5. Both spouses must sign the trust, even if only one transfers property to the trust;

6. The trustees must maintain records that identify which property held by the trust is community property and which property held by the trust is not community property.

An Alaska Community Property Trust that meets these requirements will allow the conversion of the trust assets from separate or joint property into community property. Furthermore, it allows the spouses to enter into enforceable agreements regarding:

1. Their rights and obligations in the property transferred to the trust;

2. The management and control of the property transferred to the trust;

3. The disposition of the property transferred to the trust in the event of the dissolution of the marriage or of the trust, death of either or both spouses or the occurrence or nonoccurrence of another event;

4. The choice of law governing the interpretation of the trust; and

5. Any other matter that affects the property transferred to the trust and does not violate public policy or a statute imposing a criminal penalty.

An Alaska Community Property Trust may not be amended or revoked unless the agreement itself provides for revocation on a particular date or on the occurrence of a particular event or unless the agreement is amended or revoked by a later community property trust. To amend or revoke the trust, the later community property trust is not required to declare any property held by the trustee as community property. This means that the spouses may amend the trust to transmute property back from community property to separate property. Both an Alaska Community Property Trust and a later (amending) Community Property Trust are enforceable without consideration,

WE FIND HEIRS **A Better Way!**

BETTER BECAUSE...

- Reasonable Fees, Non-Percentage Based
- Results Guaranteed, or No Charge
- Court Authorized Search, Recommended
- Professional Reports, with Full Documentation
- Fully Insured, for your protection
- No-Obligation Fee Quotation

We prove Heirship and locate Missing Heirs, Beneficiaries, Legatees, Property Owners, Stockholders and Estranged Family Members. For more information, without cost or obligation, please call!

1-800-663-2255 (24 Hours)

Fax: 1-800-663-3299

Internet: <http://www.heirsearch.com>
Email: lgs@heirsearch.com



Member:
The National
Genealogical
Society



INTERNATIONAL
GENEALOGICAL
SEARCH, INC.

Established 1987

Member:
National
Forensic
Center

although no such agreement is enforceable if unconscionable when made or the spouse against whom enforcement is sought was not given a fair and reasonable disclosure of the property and financial obligations of the other spouse, did not voluntarily sign a written consent expressly waiving the right to disclosure of the property and financial obligations of the other spouse beyond any disclosure made and did not have notice of the property or financial obligations of the other spouse.

Efficacy Of Alaska Community Property Trusts

An Alaska Community Property Trust for nonresidents of the State of Alaska should be valid for tax purposes if the trust can create enforceable property rights with respect to property contributed by persons who are not resident or domiciled within the State of Alaska. The law on point supports the use of a trust in one state to create beneficial and property rights for nonresident beneficiaries, but even in jurisdictions in which the law may be less supportive, good planning can help assure the desired result.

The rules by which the state that should assume jurisdiction over various aspects of trust administration, construction and the rights of beneficiaries, depend upon whether the trust corpus is real or personal property. Generally, the intent of the settlor determines the jurisdiction for a trust holding personal property, while the sites of the real property are determinative with respect to a trust on real property.

Issues of the administration of a trust holding personal property (whether tangible or intangible) are determined under the jurisdiction in which the trust is otherwise administered, which itself is determined on the basis of the intent of the settlor, as disclosed in the governing instrument. Absent an express declaration in the instrument as to the place of administration, the settlor's intent is usually assumed to be that the trustee shall administer the trust at the trustee's

principal place of business or domicile. A settlor who names two or more trustees who are domiciled in different states may manifest an intention that the trust should be administered at the domicile or place of business of one of them. Therefore, if the settlor names one or more trustees situated in Alaska, as is required of an Alaska Community Property Trust, it may be assumed that the trust should be administered in Alaska and that it should be supervised by the courts of that state.

The requirements for an Alaska Community Property Trust include the designation of at least one Alaska trustee and refer repeatedly to the construction of the rights of the parties in the property under Alaska law. Under the general rule, therefore, Alaska courts should have jurisdiction over matters involving the administration of an Alaska Community Property Trust even though they might lack jurisdiction over some or all of the beneficiaries.¹⁵

Questions relating to the construction of an inter vivos trust holding personal property and the rights of the various beneficiaries will be based on the law of the state designated in the instrument, or in the absence of such a designation, the law of the place of administration, if the issue relates to trust administration, or otherwise the jurisdiction that the settlor would probably have desired to apply.¹⁶ A state need have no connection with the trust in order to use its law in construing the trust instrument, if the settlor has selected that particular state's law.¹⁷

A similar rule applies in determining the overall validity of a trust of personal property. The validity of the trust is determined under the law of the state designated by the settlor, as long as that state has a substantial relation to the trust and that the application of its law does not violate a strong public policy of the state with which the trust has its most significant relationship.¹⁸ A state



Let us improve your overall performance.

LJH offers overall strategic counseling in the management of substantial wealth, providing consulting services on non-traditional investments for wealthy families, institutions and foundations.

Buyout Funds
Distressed Securities
Emerging Markets

Hedge Funds
International Private Equity
Venture Capital

LJH is a Registered Investment Advisor with the Securities and Exchange Commission and the Commodities Futures Trading Commission.

400 Fifth Avenue South, Naples, Florida 34102
Telephone: 941.263.7445 Facsimile: 941.263.1242
Internet: <http://www.ljh.com>

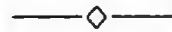
has a substantial relation to a trust if the settlor designates that the trust is to be administered there, if any trustee has its principal place of business or domicile in that state when the trust is created, if the trust is administered in that state or if it is the domicile of the beneficiaries.

As to trusts of interests in land, however, the law of the situs of the land becomes more important. The administration and validity of a trust in land is determined according to the law of the state in which the land is situated, even if the trustees are situated elsewhere.¹⁹ A court of a state other than that in which the property is situated may still exercise jurisdiction over the administration of the trust, if this does not unduly interfere with the control by the courts of the situs.²⁰

Issues of construction of the trust instrument, however, have not always been construed according to the situs. Some courts apply the law of the situs,²¹ but a few others have applied the law designated by the settlor in constructing a trust on real estate.²² The law of the situs almost certainly controls issues of construction only in the absence of a designation in the instrument of the governing law.

Therefore, it appears very likely that an Alaska Community Property Trust holding personal property will be respected in matters of administration, construction and trust validity, as long as it meets the basic rules set forth by Alaska law. On the other hand, it is quite possible that a court would view an Alaska Community Property Trust as not creating community property interests in real estate, the title to which is held by the trust but the location of which is in another state that has no community property rules, or that has significantly different rules from those adopted in Alaska. A practitioner who wishes to create an Alaska Community Property Trust to hold out-of-state real estate should, therefore, arrange for the transfer of the real estate to an Alaska corporation or partnership or limited liability

The administration and validity of a trust in land is determined according to the law of the state in which the land is situated, even if the trustees are situated elsewhere.



company if that is otherwise compatible with the client's wishes, since stock, partnership interests and LLC interests are themselves personal property, even if the underlying assets are real property. The stock or partnership or LLC interests may then be transferred to an Alaska Community Property Trust, the terms of which would be governed more clearly by Alaska law.

Gift Tax Consequences Of Creating An Alaska Community Property Trust

Although an Alaska Community Property Trust could be irrevocable, the grantor or grantors should ensure that neither spouse will be deemed to make a completed gift for Federal gift tax purposes to any third party upon the transfer of property to the trust or thereafter unless that is what he, she or they wish. Because both spouses must sign the trust, even if only one of them transfers assets to it, one spouse cannot create the trust, make the assets community property and unilaterally control what the disposition of those assets will be. If the other spouse does not agree to the proposed disposition, he or she presumably will not sign the trust.

The gift tax marital deduction would appear to be a simple protection against adverse gift tax consequences on the creation of an Alaska Community Property Trust, but the law does not clearly establish that granting one's

spouse the immediate, unilateral and continuing right until death to withdraw one-half of any property transferred to and which becomes a community property asset should qualify such one-half interest for the gift marital deduction. In other words, the fact that the donee-spouse's interest in the community property under the Alaska Community Property Trust will terminate at his or her death (if the right to withdraw that interest from the trust is not exercised) may mean it is a terminable interest.²³

With reasonable planning and drafting, a transfer to an Alaska Community Property Trust should be capable of qualifying for the marital deduction.²⁴ One way is to create an interest which constitutes an "estate trust," that terminates in favor of the donee-spouse's own probate estate, making it thereby disposable by that spouse's Will.²⁵ Alternatively, the transfer may be made to qualify by falling under the life estate general power of appointment exception.²⁶ The donee-spouse must be entitled to all of the income for life payable at least annually and be granted a lifetime and/or testamentary general power of appointment exercisable by the donee-spouse alone and in all events in favor of that spouse and/or his or her estate. These are known as general powers of appointment marital deduction trusts.

Although the statute relating to such general power of appointment marital deduction trusts states that the income must be payable to the spouse at least annually, the regulations promulgated under the gift tax regulations relating to such trusts clarify that the income does not, in fact, have to be paid to the donee-spouse but merely be subject to withdraw by that spouse.²⁷

The interest created for the donee-spouse in the Alaska Community Property Trust could be made to qualify alternatively for QTIP treatment under Code Sec. 2523(f) by structuring the donee-spouse's interest that way and by election on a timely filed United

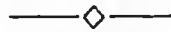
States Gift Tax Return. However, it nonetheless seems appropriate to grant the donee-spouse the immediate, unilateral and continuing right to withdraw his or her half of the assets transferred to the Alaska Community Property. The nature of community property is that each spouse owns and may control his or her one-half of the assets. Of course, the trust could provide that either or both spouses could relinquish his or her unilateral right to withdraw although, presumably, care should be taken to ensure that any such relinquishment is not a taxable gift, unless that result is intended.²⁸

Income Tax Treatment Of Alaska Community Property Trusts

If one spouse transfers property to the Alaska Community Trust, the trust presumably will be treated as a grantor trust in its entirety with respect to that spouse so that all the trust property, whether all or only part of it becomes community property under Alaska law, is treated as owned for income tax purposes by the grantor-spouse as long as the income and corpus may be distributed, without the consent of an adverse party, to or for the benefit of either or both spouses.²⁹ Even if the other spouse has the unilateral right to withdraw his or her half of the community property from the trust, powers held by the grantor's spouse are attributed under Code Sec. 672(e) to the grantor. As a result, the grantor-spouse will be treated as though he or she held that power to withdraw, presumably negating any possible application of Code Sec. 678, under which a beneficiary, who is not the trust's grantor but has a unilateral right to withdraw trust property, is treated as the owner of that property for income tax purposes. Moreover, the Internal Revenue Service has consistently held that the provisions of the grantor trust rules (Code Secs. 671-679) which cause the actual grantor to be treated as the owner of the trust assets supercede Code Sec. 678.³⁰

When the grantor spouse dies,

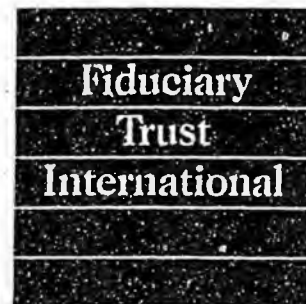
When the grantor spouse dies, the trust property will no longer be treated as owned by that spouse for income tax purposes.



the trust property will no longer be treated as owned by that spouse for income tax purposes. To the extent that the surviving spouse has a unilateral power to withdraw such property from the trust that spouse will be treated as the owner under Code Sec. 678. Often, a joint revocable community property trust (that is, one created by both spouses with their community property, as well as, perhaps, separate property) provides, when the first spouse dies, that the survivor's half of

the assets which had been community property as well as the survivor's separate property, if any, remains subject to that spouse's power of withdrawal. If that pattern is followed in an Alaska Community Property Trust, the surviving spouse will be considered the owner of such property for income tax purposes under the grantor trust rules. However, to the extent the surviving spouse's power unilaterally to withdraw one-half of the community property contributed by the other spouse expires at or before the death of the grantor spouse, the surviving spouse will not be treated as the owner of such property under the grantor trust rules.³¹

To the extent a spouse makes a contribution to the Alaska Community Property Trust that spouse presumably will continue to be treated as the owner of the property, as discussed above, for income tax purposes under the grantor trust rules even if the non-contributing spouse has a unilater-



**For sixty-seven years,
our clients have trusted us
to protect and enhance their wealth.**

Because we have.

NEW YORK • LOS ANGELES • MIAMI • WASHINGTON, D.C. • WILMINGTON
LONDON • GENEVA • HONG KONG • MELBOURNE • TOKYO
GRAND CAYMAN • GUERNSEY

For information about our
investment management, trust and estate and custody services
for accounts of at least \$2 million
please call Ellen Kratzer or George J. Mullen, Jr. at 877-384-1111.

al right to withdraw none, some (e.g., half) or all of property so contributed if the income from the property contributed or the property itself may be distributed, without the consent of an adverse party, to either or both spouse.³² As a result, during the spouses' joint lifetimes, each spouse will be treated as owning for income tax purposes the assets he or she contributed. That probably will be the case even if the spouses are treated as exchanging interests in assets contributed. For example, the wife contributes Asset X worth \$2 million to the trust which became community property (and, therefore, treated as owned under Alaska law as one-half by the husband) and the husband contributes Asset Y worth \$1 million which became community property (and, therefore, treated as owned under Alaska law as one-half by the wife). Even if the wife is treated as exchanging a 25 percent interest of Asset X for a 50 percent interest in Asset Y and the

husband is treated as exchanging a 50 percent interest in Asset Y for a 25 percent interest in Asset X, the wife probably will be treated as owning all of Asset X and the husband probably will be treated as owning all of Asset Y for Federal income tax purposes. The reason is that for income tax purposes (of which the grantor trust rules are a part), that exchange normally would be treated as a gift rather than as an exchange.³³ Hence, the spouse who contributed the property presumably will be treated as the sole grantor of that asset for income tax purposes.

To the extent of the property contributed by him or her, the surviving spouse will continue to be treated as the property owner for income tax purposes under the grantor trust rules to the extent the property or its income may be distributed to that spouse, without the consent of any adverse party,³⁴ after (as well as before) the other spouse dies. In addition, the surviving spouse may become to

be treated as the owner under Code Sec. 678 of property contributed by the first spouse to die upon that spouse's death to the extent the survivor has a unilateral right to withdraw the property after the death of the first spouse to die.

Basis Adjustment At Death

One major tax advantage of creating an Alaska Community Property Trust is that it enables residents of non-community property states to take advantage of Sec. 1014(b)(6), which states that, upon the death of either spouse, the basis of the entire community property asset (and not just one-half of the asset) becomes equal to the value of the asset at the death of that spouse (or, if applicable, on the alternate valuation date determined under Code Sec. 2032). Sec. 1014(b)(6) does not distinguish between property that is held as community property under automatic (opt out) state laws or under elective (opt in) state laws. Furthermore, significant authority strongly suggests that community property under an opt in law, such as that adopted in Alaska, would be eligible for the basis adjustment at death under Sec. 1014(b)(6).³⁵

However, it is appropriate to note that Code Sec. 1014(b)(6) only requires that the property is community property under the laws of any State (or possession or foreign country). If a non-Alaska married person or persons transfers property to an Alaska Community Property Trust, the property will be community property under the law of Alaska. Therefore, it seems literally to fall under the section.

Although it seems the asset which is community property under Alaska law is "community property ... under the community property laws of [a] State," it is possible the courts will hold otherwise.³⁶ Accordingly, married couples should elect into the Alaska community property system only if that form of ownership reflects their wishes regardless of whether the basis of the surviving spouse's interest in the property

bide-a-wee

HOME ASSOCIATION INC.

A NOT-FOR-PROFIT HUMANE ORGANIZATION PROVIDING SHELTER, CARE AND COMPASSION SINCE 1903.



- Pet Retirement Home
- 1.5 million cats and dogs adopted into loving homes
- Low-cost veterinary clinics serve 30,000 animals annually
- Pet therapy visits to nursing homes and hospitals
- Humane Education Programs
- Pet Memorial Parks

WE NEVER DESTROY AN ANIMAL UNLESS IT IS TERMINALLY ILL.

Write or call:
Bide-A-Wee Development Office
410 E. 38th St., NY, NY 10016
(212)532-6395

SOMEONE MISSING?

GLOBAL WILL FIND THEM

YOU PAY NOTHING IF WE FAIL
"Specializing in missing heirs"

Call or fax us for a free estimate
1-800-882-5889 Fax 1-800-480-5889
9:00 a.m.-7:30 p.m. EST
6:00 a.m.-4:30 p.m. PST



Americas Major Tracing Firm Since 1967.

will be determined on the death of the first spouse to die under Code Sec. 1014(b)(6). Moreover, because the Alaska Community Property law's treatment under that section is untested, it may be preferable for the couple, if it is seeking a step-up in basis for all of their wealth when the first spouse dies, to place all of the assets in the name of the spouse who will die first. Unfortunately, that is not always predictable well before that death occurs. Under Code Sec. 1014(e), no change in basis occurs under Code Sec. 1014(a) for property which was given to the decedent within a year of his or her death and is reacquired, directly or indirectly, by the donor.³⁷

Conclusions

Under the Alaska Community Property Act, both married Alaskans and non-Alaskans may elect for some or all of their assets to be community property under Alaska law. To the extent the value of what one spouse converts to community property exceeds the value of what the other so converts, a gift will be made. That gift should usually qualify for the gift tax marital deduction unless the donee spouse is not a U.S. citizen and the gift, along with other gifts to the spouse, exceeds \$100,000 in a calendar year.³⁸

Although converting assets to community property that may provide the surviving spouse a significant income tax benefit when the first spouse dies, the change in the nature of assets may have other far-reaching effects.³⁹ Each spouse, in fact, will have a 50 percent ownership interest in the community property. That means, for example, that the community assets will be subject to a 50 percent division in the event of divorce (except to the extent the court having jurisdiction over the divorce may and does order a different division under applicable equitable distribution or similar laws) and each spouse will be permitted to dispose of his or her one-half of the assets when he or she dies except to the extent agreed otherwise. As with other

community property systems, spouses hold other rights with respect to their community property which do not exist with respect to other property they own. As a consequence, it is likely that only couples in long-term stable marriages, and perhaps only those who have descendants only of their common union, will elect to have their assets treated as community property under Alaska law.

Even if neither the Internal Revenue Service nor the courts rule that Alaska community property is community property under Code Sec. 1014(b)(6), it seems likely it will be treated as a "50-50" tenancy in common between the spouses or, if elected under the Alaska Act to be "survivorship" community property as the Act permits,⁴⁰ as a joint tenancy with rights of survivorship between the spouses. If so, that probably means one-half of the asset will be included in the estate of the first spouse to die.⁴¹

Thus, the Alaska Community Property Act and the Alaska Com-

munity Property Trust offer a rare opportunity for clients whose marriages are extremely sound, to convert those assets that they wish into community property, with possibly significant income tax advantages upon the first spouse's death. Furthermore, these new laws present this opportunity with remarkably few downside risks. ♦

End Notes

1. In other community property states, marital property agreements frequently convert some or all of the parties' non-community property assets into community property, filling the gaps left by state law. However, those agreements differ materially from the Alaska Community Property Agreements because the former add some assets to an extant stack of community property, while the latter starts from a situation in which no assets are community property prior to the agreement. On the non-Alaska form of agreement, see, e.g., Rasmussen, "Divorce Provisions in Opt-In Marital Property Agreements," 67 *Wisc. Lawyer* 15 (Apr. 1994).
2. Alaska Stat. 34.75.060(a) (Michie 1998).
3. The Uniform Marital Property Act was approved by the National Conference of Commissioners on Uniform State Laws in 1983. It is adopted in Wisconsin at *Wisc. Stat. Ann. Sec. 766.001-766.97*.

The Board of Directors of
**SOUTHWEST GUARANTY
 TRUST COMPANY
 NATIONAL ASSOCIATION**

is pleased to announce
 the election of

Walter J. Taylor,
 Executive Vice President and Director



SOUTHWEST GUARANTY TRUST
 Independent • Professional • Responsive
 Houston Dallas Bryan/College Station Longview Odessa

2121 Sage Road, Suite 150 • Houston, Texas 77056
 (713) 850-0571 • Fax (713) 965-9679 • (800) 944-4234

4. Alaska Stat. 34.75.030 (Michie 1998).
5. See, e.g. Alaska Stat. 34.75.1101(c) (Michie 1998).
6. See, e.g., Alaska Stat. 34.75.30(c) (Michie 1998).
7. See, e.g., Alaska Stat. 34.75.040 and 34.75.909(d) (Michie 1998).
8. Alaska Stat. 34.75.010 (Michie 1998)
9. Alaska Stat. 34.75.050 (Michie 1998).
10. Alaska Stat. 25.24.160(d) (Michie 1998).
11. Alaska Stat. 13.12.208(d) (Michie 1998).
12. Alaska Stat. 34.75.090(g) and (h) (Michie 1998).
13. Alaska Stat. 34.75.060(b) (Michie 1998).
14. A similar requirement exists for an Alaska Community Property Agreement. See, Alaska Stat. 34.75.090(b) (Michie 1998).
15. See *Mullane v. Central Hanover Bank & Trust Co.*, 339 U.S. 306 (1950).
16. Restatement (2d) Conflicts of Law, Sec. 268.
17. *Hughes v. Commissioner of Internal Revenue*, 104 F.2d 144 (9th Cir. 1939); *Noble v. Rogan*, 49 F.Supp. 370 (S.D.Cal.1943); *Application of Eyre*, 133 N.Y.S.2d 511 (1954); *Matter of Grant-Suttie*, 205 Misc. 940, 129 N.Y.S.2d 572 (1954); *Matter of Carter*, 13 Misc.2d 1040, 178 N.Y.S.2d 569 (1958).
18. Restatement (2d) Conflicts of Law, Sec. 270.
19. Restatement (2d) Conflicts of Law, Sec. 276.
20. *Fuller v. McKim*, 187 Mich. 667, 154 N.W. 55 (1915); *Knox v. Jones*, 47 N.Y. 389 (1872); *Matter of Osborn*, 151 Misc. 52,270 N.Y.S. 616 (1934); *In re Sandford's Will*, 81 N.Y.S.2d 377 (1948); *In re Fagan's Estate*, 84 N.Y.S.2d 558 (1949); *In re Piazza's Estate*, 130 N.Y.S.2d 244 (1954); *In re Master's Will*, 136 N.Y.S.2d 907 (1954); *In re Warburg's Estate*, 237 N.Y.S.2d 557 (1963).
21. *Bowen v. Frank*, 179 Ark. 1004, 18 S.W.2d 1037 (1929); *Veach v. Veach*, 205 Ga. 185, 53 S.E.2d 98 (1949); *Peet v. Peet*, 229 Ill. 341, 82 N.E. 376 (1907); *Scofield v. Hadden*, 206 Iowa 597, 220 N.W. 1 (1928); *Thompson v. Penn*, 149 Ky. 158, 148 S.W. 33 (1912); *In re Estate of Hencke*, 220 Minn. 414, 19 N.W.2d 718 (1945); *Minot v. Minot*, 17 App.Div. 521, 45 N.Y.S. 554 (1st Dep't 1897); *Matter of Good*, 304 N.Y. 110, 106 N.E.2d 36 (1952), *aff'g* 278 App.Div. 806, 927, 104 N.Y.S.2d 804 (1st Dep't 1951), *aff'g* 278 App.Div. 806, 927, 104 N.Y.S.2d 804 (1st Dep't 1951), *aff'g* 96 N.Y.S.2d 798 (1950).
22. *Greenwood v. Page*, 138 F.2d 921 (D.C.Cir.1943); *Guerard v. Guerard*, 73 Ga. 566 (1884); *Brown v. Ramsey*, 74 Ga. 210 (1884) (*inter vivos* trust); *Keith v. Eaton*, 58 Kan. 732, 51 P. 271 (1897); *Houghton v. Hughes*, 108 Me. 233, 79 A. 909 (1911); *Martin v. Eslick*, 229 Miss. 234, 90 So.2d 635 (1956); *Zombro v. Moffett*, 329 Mo. 137, 44 S.W.2d 149 (1931); *Applegate v. Brown*, 344 S.W.2d 13 (Mo. 1961); *Cary v. Carman*, 116 Misc. 463, 190 N.Y.S. 193 (1921).
23. As a general rule, a terminable interest does not qualify for the marital deduction. Code Sec. 2523(b)(1). Certain terminable interests may so qualify. See, e.g., Code Sec. 2523(e), 2523(f).
24. As a general rule, no marital deduction is allowed if the transferor's spouse is not a citizen of the United States. Code Sec. 2523(D).
25. See, e.g., Reg. Sec. 20.2056(c)-2(b)(1)(i). Cf. Rev. Rul. 72-33, 1972-2 C.B. 530.
26. Code Sec. 2523(e).
27. Reg. Sec. 25.2523(e)-1(f)(8). See, also, Reg. Sec. 25.2523(f)-1(f), *Example 2* and *Example 3*.
28. See, generally, Reg. Sec. 25.2511-2.
29. Code Secs. 672(e), 673, 676 and 677. The trust may be a grantor trust for income tax purposes for other reasons as well. See, Code Sec. 674 (control of beneficial interests in the trust) and 675 (administrative powers).
30. See, generally, Blattmachr & Sembler, "Crummey Powers and Income Taxation", *The Chase Review* (July 1995).
31. See PLR 9321050, essentially reversing PLR 9026036.
32. As mentioned above, the trust may be a grantor trust for other or additional reasons.
33. Code Sec. 1041.
34. As mentioned above, it may be a grantor trust for other or additional reasons.
35. On the validity of a consensual community property law for this purpose, see *Comm'r v. Harmon*, 323 US 44 (1944); and *McCullum v. United States*, 58-2 USTC ¶ 9957 (USDC ND Ok. 1958); and also see Rev. Rul. 77-359, 1977-2 C.B. 24.
36. The IRS seems to accept that separate property converted to community property by agreement is community property for Federal income tax purposes, at least under an opt-out system. See Rev. Rul. 77-359, *supra*.
37. If, as suggested by Rev. Rul. 77-359, *supra*, the transmutation of separate to community property is a gift, Code Sec. 1014(e) may control notwithstanding Code Sec. 1014(b)(6).
38. See, Code Sec. 2523(D)(2).
39. Caution should be exercised in converting certain assets to community property, for instance, if one spouse owns a policy of insurance on the life of the other, the conversion presumably will cause the insured spouse to hold an incident of ownership in the policy potentially causing proceeds paid at death to be included in his or her estate. Cf. *Estate of Cervon v. Commissioner*, 111 F.3d 1252 (5th Cir. 1997). It may be inappropriate also for one spouse to convert qualified plan and similar interests into community property. Generally, such interests represent income in respect of a decedent under Code Sec. 691(a) which, under Code Sec. 1014(c), do not receive the income tax-free step-up in basis under Code Sec. 1014(a), but complications of such ownership can arise in the non-participant spouse dies first.
40. See, Alaska Stat. 34.75.110(c) (Michie 1998).
41. See, e.g., *Harvey v. United States*, 185 F.2d 463 (7th Cir. 1950).

Are You Looking To Improve Your Investment Management Competitiveness?

Many trust companies do not have the time or resources to build and operate a fully functioning investment services department. Are you facing any of the following challenges?

- ◆ Do you need help with new business development and marketing support to get that extra edge over your competition?
- ◆ Maybe you excel in domestic equity management but are not geared to offer the international exposure that some of your clients desire.
- ◆ Possibly fixed income management is your strength and you need to enhance your equity management capabilities.
- ◆ How many potential business clients did you have to turn away because you do not offer a broad array of retirement plans and services?
- ◆ Have you been looking for a way to efficiently and profitably meet the investment needs of prospects with only modest amounts to invest?
- ◆ Do you have investment decision makers but lack the investment research for them to base decisions on?

In order to compete in today's competitive marketplace you need to offer your clients and prospects a full array of top quality products and services to satisfy their needs. Through Wright Investors' Service Trust Investment Services Program we can offer you a complete line of investment management services or individual pieces to complement your existing offering. Whatever it takes to make you a top-quality, full service provider. Whatever it takes to give you that competitive edge.

WRIGHT
INVESTORS' SERVICE

Trust Investment Services Program
Bridgeport, CT ♦ (800) 232-0013 ♦ <http://www.wis.com>

Co.	Co.
Dept.	Phone #
Fax # 907 465-5241	Fax # 907 278-6015



Uniform Law Commissioners

The National Conference of Commissioners on Uniform State Laws



Section Title: Introductions & Adoptions Of Uniform Acts.

> Why States Should Adopt the ...

UNIFORM PRINCIPAL AND INCOME ACT (1997)

The Uniform Principal and Income Act, originally promulgated by the Uniform Law Commissioners in 1931, revised in 1962, and adopted in 41 states, provides procedures for trustees administering an estate in separating principal from income. The basic purpose of the new act, like the 1931 and 1962 versions, is to ensure that the intention of the trust creator is the guiding principle for trustees.

Like its predecessors, this revision distinguishes between property that is principal, which will be distributed to remainder beneficiaries (persons entitled to receive principal when an income interest ends), and property that is income distributed to income beneficiaries.

The Uniform Act has always provided the default rules for such allocations in the event the trust investment is silent.

There are many reasons why every state should adopt the Revised Uniform Principal and Income Act (1997).

- The law of trust investment has been modernized. It is now time to update the traditional income and allocation rules so that it can work with the doctrine of modern investment theory.
- The new act provides a means for implementing the transition to an investment regime based on principles embodied in the Uniform Prudent Investor Act, especially the principle for investing for total return instead of for a certain level of income.
- The new act better clarifies allocations of acquired assets, such as those from corporate distributions.
- An "unincorporated entity" concept has been introduced to deal with businesses operated by a trustee, including farming and livestock operations, and investment activities in rental real estate, natural resources, and timber.
- The new act provides for investment modalities that were not in existence in 1962, such as derivatives, options, deferred payment obligations, and synthetic financial assets.
- There is a new provision which deals with the problem of disbursements made because of environmental laws.
- New provisions which deal with the imbalances as a result of tax laws are also included. The act provides the power to make adjustments between principal and income to correct inequities caused by tax elections or peculiarities in the way the fiduciary income tax rules apply.

UNIFORMITY

This act will provide uniformity of law, necessary in an interstate investment environment. The Revised Uniform Principal and Income Act provides answers to long-standing problems in reconciling modern portfolio management with traditional rules of income allocation. It is important that every state adopt this act as soon as possible.

SB

170

AMENDMENT TO CSSB 170 (JUD) Work Draft 3/8/2004

Delete Page 15, line 31 to page 16, lines 1-3

Insert in its place:

(s) In a prosecution under (a) of this section, a person may introduce evidence of having consumed alcohol before operating or driving the motor vehicle, aircraft or watercraft, to rebut or explain the results of a chemical test, but it is not a defense that the chemical test did not measure the blood alcohol at the time of the operating or driving.

Add a new section and renumber other sections accordingly:

*Sec. ___. AS 28.35.030(a) is amended to read:

(a) A person commits the crime of driving while under the influence of an alcoholic beverage, inhalant, or controlled substance if the person operates or drives a motor vehicle or operates an aircraft or a watercraft

(1) while under the influence of an alcoholic beverage, intoxicating liquor, inhalant, or any controlled substance ;

(2) if [WHEN], as determined by a chemical test taken within four hours after the alleged offense was committed, there is 0.08 percent or more by weight of alcohol in the person's blood or 80 milligrams or more of alcohol per 100 milliliters of blood, or if [WHEN] there is 0.08 grams or more of alcohol per 210 liters of the person's breath; or

(3) while the person is under the combined influence of an alcoholic beverage, an intoxicating liquor, an inhalant, or [AND] a controlled substance.

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

AMENDMENT NO. 2
4/2/04 *Oscur*

(Fails 2-2)

OFFERED IN THE SENATE

To: CSSB 170(JUD) Work Draft 23-GS1024VI 4/1/04

Page 3, line 9:

Sec. 4 AS 04.11.491 is amended by adding a new subsection to read:

(g) If a municipality or established village has adopted a local option under (a)(1), (2), (3), or (4), or (b)(1), (2), or (3) of this section, the municipality or established village, as part of the local option question or questions placed before the voters, may

(1) adopt an amount of alcoholic beverages that may be imported that is less than the amounts set out in AS 04.11.150(g);

(2) adopt an amount of alcoholic beverages that would give rise to a presumption that the person possessed the alcoholic beverages for sale; the amounts adopted under this paragraph may be lower than those set out in AS 04.11.010©;

(3) adopt an increased penalty for furnishing or delivery of alcoholic beverages to persons under 21 pursuant to AS 04.16.051(d)(3).

Page 4 lines 17-19:

of a "C" felony

Sec. 7 AS 04.16.051(d) is amended to read

(d) A person acting with criminal negligence who violates this section is guilty of a class C felony if

(1) within the five years preceding the violation, the person has been previously convicted under

(A) this section; or

(B) a law or ordinance of this or another jurisdiction with elements substantially similar to this section; [OR]

(2) the person who receives the alcoholic beverage negligently causes serious physical injury to or the death of another person while under the influence of the alcoholic beverage received in violation of this section; in this paragraph,

(A) "negligently" means acting with civil negligence; and

(B) "serious physical injury has the meaning given in AS 11.81.900; or

(3) the violation occurs within the boundaries of a municipality or the perimeter of an established village that has adopted a local option and the increased penalty of a class C felony under AS 04.11.491.

received Thurs. night

AMENDMENT NO. 1 (withdrawn)
4/2/04 *Franco*

OFFERED IN THE SENATE

To: CSSB 170(JUD) Work Draft 23-GS1024\I 4/1/04

Page 9, line 15

(4) with criminal negligence and when as determined by a chemical test taken within four hours after the alleged offense was committed, there is 0.05 percent or more by weight of alcohol in the person's blood or 50 milligrams or more of alcohol per 100 millileters of blood, or when there is 0.05 grams or more of alcohol per 210 liters of the person's breath, causes serious physical injury under AS 11.81.900(55)(B) to another person by means of a dangerous instrument.

AMENDMENT

OFFERED IN THE SENATE

TO: CSSB 170(JUD) (WORK DRAFT 23-GS1024H)

Page 11, following line 29:

Insert the following:

(3) "higher-level felony" means an unclassified or a class A felony;

(4) "lower-level felony" means a class B or a class C felony."

Page 12, lines 23 and 24:

Following "applies:": Delete all material and insert the following:

"a higher-level felony, a lower-level felony, or a misdemeanor."

AMENDMENT

OFFERED IN THE SENATE

TO: CSSH 170(JUD) (23-GS1024\H)

Page 10, lines 29 - 31, and Page 11, lines 1-4:

Delete all material and insert the following:

“(4) the force applied was the result of using a dangerous instrument that the person claiming the defense of justification possessed while

(A) acting alone or with others to further a felony criminal objective of the person or one or more other persons; or

(B) participating in a felony transaction or purported transaction, or in immediate flight from a felony transaction or purported transaction in violation of AS 11.71.

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

April 1, 2004

SUBJECT: CSSB 170(JUD) (Work Order No. 23-GS1024\1)

TO: Senator Ralph Seekins
Attn: Brian Hove

FROM: Pamela Finley *PF*
Revisor of Statutes

Enclosed is the committee substitute you requested.

New bill sec. 32 adopted by Amendment 8 has troubled the editors and one revisor. The change made by that section uses an "and" to start the paragraph, which makes it difficult to read. Note also that we changed the title to reflect the change in bill sec. 32. (Page 1, lines 4 - 5) Finally, in bill sec. 25, beginning AS 28.35.030(a)(2) with "if" creates an awkward "if . . . if" sentence structure. At the very least, AS 28.35.030(a)(2) should begin "and if".

PF:med
04-359.med

Enclosure

*ALASKA NETWORK ON
DOMESTIC VIOLENCE AND SEXUAL ASSAULT*

130 Seward, Rm 209
Juneau, Alaska 99801

(907) 586-3650 ph
(907) 463-4493 fx

SB170/HB244
March 2004

Please accept this memo as a letter of support for the Governor's crime bill.

The Network particularly appreciates the administration's stance on holding perpetrators accountable for each crime they've committed by requiring consecutive sentencing for multiple counts of particularly heinous crimes, including sexual assault. The longer sex offenders can be removed from the community the safer we all are. Consecutive sentences also provide some sense of approximate justice to each victim involved, that at least the perpetrator is being required to pay something, for the crime committed against her/him.

The Network supports increasing the penalty from a class A misdemeanor to a class C felony for the crime of sexual abuse when an older minor penetrates a very young minor. Recognizing that minors who commit sexual abuse crimes are sometimes victims themselves, it is still important that the crime carry a penalty severe enough that if the minor chooses to perpetrate a sexual assault as an adult, the previous conduct can be examined.

The Network also supports releasing documents concerning adjudication of a sexual offense to protect the safety of a child or vulnerable adult. Balancing the needs of families to protect children and vulnerable adults and the juvenile offender's right to confidentiality is something we believe can be achieved through the regulation process when the department begins to implement procedures to allow for the release of information.

AMENDMENT

Not Offered

OFFERED IN THE SENATE

BY SENATOR THERRIAULT

TO: CSSB 170(JUD), Draft Version "I"

1 Page 1, line 4, following "minor":

2 Insert "relating to aggravating factors at sentencing;"

3

4 Page 14, following line 11:

5 Insert a new bill section to read:

6 "* Sec. 24. AS 12.55.155(c) is amended by adding a new paragraph to read:

7 (31) the defendant knowingly directed the conduct constituting the
8 offense at a sports official or referee during, or because of, the exercise of duties as a
9 sports official or referee."

10

11 Renumber the following bill sections accordingly.

12

13 Page 19, lines 4 - 5:

14 Delete "25, 30, 31, and 33(b)"

15 Insert "24, 26, 31, 32, and 34(b)"

16

17 Page 19, line 7:

18 Delete "Sections 26 and 28"

19 Insert "Sections 27 and 29"

20

21 Page 19, line 9:

22 Delete "sec. 26"

23 Insert "sec. 27"

- 1
- 2 Delete "sec. 28"
- 3 Insert "sec. 29"
- 4
- 5 Page 19, line 10:
- 6 Delete "secs. 26 and 28"
- 7 Insert "secs. 27 and 29"
- 8
- 9 Page 19, line 15:
- 10 Delete "24, 27, and 29"
- 11 Insert "25, 28, and 30"
- 12
- 13 Page 19, line 17:
- 14 Delete "Section 32"
- 15 Insert "Section 33"

23-GS1024\I
Luckhaupt
4/1/04

CS FOR SENATE BILL NO. 170(JUD)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY THE SENATE JUDICIARY COMMITTEE

**Offered:
Referred:**

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to murder in the second degree, the justification of defense of self or**
 2 **others, immunity from prosecution, sentencing, probation, discretionary parole, and the**
 3 **right to representation in certain criminal proceedings; relating to violation of a**
 4 **custodian's duty; relating to sexual abuse of a minor; relating to release of information**
 5 **concerning certain cases involving a minor; relating to local options regarding alcoholic**
 6 **beverages, the offense of furnishing or delivery of alcoholic beverages to a person under**
 7 **21 years of age, and forfeiture of property used in, and money or other items of value**
 8 **used in financial transactions derived from, violation of certain laws relating to alcoholic**
 9 **beverages; relating to assault by means of a dangerous instrument; relating to operating**
 10 **or driving a motor vehicle, aircraft, or watercraft while under the influence of an**
 11 **alcoholic beverage, inhalant, or controlled substance, to the refusal to submit to a**
 12 **chemical test, and to the presumptions concerning the chemical analysis of breath or**

1 blood; and providing for an effective date."

2 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 * Section 1. AS 04.11.010(c) is amended to read:

4 (c) Unless a municipality or established village has adopted a more
5 restrictive local option under AS 04.11.491(g), in [IN] a criminal prosecution for
6 possession of alcoholic beverages for sale in violation of (a) of this section, the fact
7 that a person

8 (1) possessed more than 12 liters of distilled spirits, 24 liters or more
9 of wine, or 12 gallons or more of malt beverages in an area where the sale of alcoholic
10 beverages is restricted or prohibited under AS 04.11.491 creates a presumption that
11 the person possessed the alcoholic beverages for sale;

12 (2) sends, transports, or brings more than 12 liters of distilled
13 spirits, 24 liters or more of wine, or 12 gallons or more of malt beverages to an
14 area where the sale of alcoholic beverages is restricted or prohibited under
15 AS 04.11.491 creates a presumption that the person sent, transported, or brought
16 the alcoholic beverages for sale in the area.

17 * Sec. 2. AS 04.11.010 is amended by adding a new subsection to read:

18 (d) In this section,

19 (1) "bring" has the meaning given in AS 04.11.499;

20 (2) "send" has the meaning given in AS 04.11.499;

21 (3) "transport" has the meaning given in AS 04.11.499.

22 * Sec. 3. AS 04.11.150(g) is amended to read:

23 (g) If a shipment is to an area that has restricted the sale of alcoholic
24 beverages under AS 04.11.491(a)(1), (2), or (3) or (b)(1) or (2), a package store
25 licensee, agent, or employee may not ship to a purchaser more than 10 and one-half
26 liters of distilled spirits, 24 liters or more of wine, or 12 gallons or more of malt
27 beverages in a calendar month, or a lower amount of distilled spirits, wine, or malt
28 beverages if the municipality or established village has adopted the lower amount
29 by local option under AS 04.11.491(g).

30 * Sec. 4. AS 04.11.491 is amended by adding a new subsection to read:

1 (g) If a municipality or established village has adopted a local option under
2 (a)(1), (2), (3), or (4), or (b)(1), (2), or (3) of this section, the municipality or
3 established village, as part of the local option question or questions placed before the
4 voters, may

5 (1) adopt an amount of alcoholic beverages that may be imported that
6 is less than the amounts set out in AS 04.11.150(g);

7 (2) adopt an amount of alcoholic beverages that would give rise to a
8 presumption that the person possessed the alcoholic beverages for sale; the amounts
9 adopted under this paragraph may be lower than those set out in AS 04.11.010(c).

10 * Sec. 5. AS 04.11.508(b) is amended to read:

11 (b) If the perimeter of an established village determined under (a) of this
12 section includes any area that is

13 (1) within a municipality

14 (A) that has adopted a local option, the local option adopted
15 by the municipality applies in the overlapping area;

16 (B) the local option adopted by the established village does
17 not apply in the overlapping area;

18 (2) within the perimeter of another established village and, if the
19 other established village has

20 (A) also adopted a local option under AS 04.11.491, the
21 local option of the established village that is less restrictive applies in the
22 overlapping area;

23 (B) not adopted a local option under AS 04.11.491, the local
24 option does not apply in the overlapping area [OR WITHIN THE
25 PERIMETER OF ANOTHER ESTABLISHED VILLAGE, THE
26 PERIMETER DESCRIBED UNDER (a) OF THIS SECTION IS LIMITED
27 TO AN AREA THAT INCLUDES ONLY THE ESTABLISHED VILLAGE].

28 * Sec. 6. AS 04.11.508(c) is amended to read:

29 (c) If the board determines that the perimeter of an established village as
30 provided under (a) and (b) of this section does not accurately reflect the perimeter of
31 the established village, the board may establish the perimeter of the established village

1 and the areas of overlapping perimeter described under (b) of this section for
2 purposes of applying a local option selected under this chapter.

3 * Sec. 7. AS 04.16.051(d) is amended to read:

4 (d) A person acting with criminal negligence who violates this section is guilty
5 of a class C felony if

6 (1) within the five years preceding the violation, the person has been
7 previously convicted under

8 (A) this section; or

9 (B) a law or ordinance of this or another jurisdiction with
10 elements substantially similar to this section; [OR]

11 (2) the person who receives the alcoholic beverage negligently causes
12 serious physical injury to or the death of another person while under the influence of
13 the alcoholic beverage received in violation of this section; in this paragraph,

14 (A) "negligently" means acting with civil negligence; and

15 (B) "serious physical injury" has the meaning given in

16 AS 11.81.900; or

17 (3) the violation occurs within the boundaries of a municipality or
18 the perimeter of an established village that has adopted a local option under
19 AS 04.11.491.

20 * Sec. 8. AS 04.16.220(a) is amended to read:

21 (a) The following are subject to forfeiture:

22 (1) alcoholic beverages manufactured, sold, offered for sale or
23 possessed for sale, bartered or exchanged for goods and services in this state in
24 violation of AS 04.11.010; alcoholic beverages possessed, stocked, warehoused, or
25 otherwise stored in violation of AS 04.21.060; alcoholic beverages sold, or offered for
26 sale in violation of a local option adopted under AS 04.11.491; alcoholic beverages
27 transported into the state and sold to persons not licensed under this chapter in
28 violation of AS 04.16.170(b);

29 (2) materials and equipment used in the manufacture, sale, offering for
30 sale, possession for sale, barter or exchange of alcoholic beverages for goods and
31 services in this state in violation of AS 04.11.010; materials and equipment used in the

1 stocking, warehousing, or storage of alcoholic beverages in violation of AS 04.21.060;
2 materials and equipment used in the sale or offering for sale of an alcoholic beverage
3 in an area in violation of a local option adopted under AS 04.11.491;

4 (3) aircraft, vehicles, or vessels used to transport, or facilitate the
5 transportation of

6 (A) alcoholic beverages manufactured, sold, offered for sale or
7 possessed for sale, bartered or exchanged for goods and services in this state in
8 violation of AS 04.11.010;

9 (B) property stocked, warehoused, or otherwise stored in
10 violation of AS 04.21.060;

11 (C) alcoholic beverages imported into a municipality or
12 established village in violation of AS 04.11.499;

13 (4) alcoholic beverages found on licensed premises that do not bear
14 federal excise stamps if excise stamps are required under federal law;

15 (5) alcoholic beverages, materials or equipment used in violation of
16 AS 04.16.175;

17 (6) money, securities, negotiable instruments, or other things of
18 value used in financial transactions derived from activity prohibited under
19 AS 04.11.010 or in violation of a local option adopted under AS 04.11.491.

20 * Sec. 9. AS 04.16.220(e) is amended to read:

21 (e) The owner of property subject to forfeiture under (a) or (i) of this section
22 is entitled to relief from the forfeiture in the nature of remission of the forfeiture if, in
23 an action under (d) of this section, the owner shows that the owner

24 (1) was not a party to the violation;

25 (2) [AND] had no actual knowledge or reasonable cause to believe
26 that the property was used or was to be used in violation of the law; and

27 (3) had no actual knowledge or reasonable cause to believe that the
28 person committing the violation had

29 (A) a criminal record for violating this title; or

30 (B) committed other violations of this title.

31 * Sec. 10. AS 04.16.220(f) is amended to read:

1 (f) A person other than the owner holding, or the assignee of, a lien, mortgage,
2 conditional sales contract on, or the right to possession to property subject to forfeiture
3 under (a) or (i) of this section is entitled to relief from the forfeiture in the nature of
4 remission of the forfeiture if, in an action under (d) of this section, the person shows
5 that the person

6 (1) was not a party to the violation subjecting the property to
7 forfeiture;

8 (2) [AND] had no actual knowledge or reasonable cause to believe
9 that the property was [USED OR WAS] to be used in violation of the law; and

10 (3) had no actual knowledge or reasonable cause to believe that the
11 person committing the violation had

12 (A) a criminal record for violating this title; or

13 (B) committed other violations of this title.

14 * Sec. 11. AS 04.16.220 is amended by adding new subsections to read:

15 (i) Upon conviction for a violation of AS 04.11.010 or 04.11.499, if an
16 aircraft, vehicle, or watercraft is subject to forfeiture under (a) of this section, the court
17 shall, subject to remission to innocent parties under this section,

18 (1) order the forfeiture of an aircraft to the state;

19 (2) order the forfeiture of a vehicle or watercraft if

20 (A) the defendant has a prior felony conviction for a violation
21 of AS 11.41 or a similar law in another jurisdiction;

22 (B) the defendant is on felony probation or parole;

23 (C) the defendant has a prior conviction for violating
24 AS 04.11.010 or 04.11.499; or

25 (D) the quantity of alcohol transported in violation of this title
26 was twice the presumptive amounts in AS 04.11.010(c).

27 (j) Notwithstanding (i) of this section, a court is not required to order the
28 forfeiture of a vehicle or watercraft if the court determines that

29 (1) the vehicle or watercraft is the sole means of transportation for a
30 family residing in a village;

31 (2) the court may impose conditions that will prevent the defendant's

1 use of the vehicle or watercraft; and

2 (3) either

3 (A) a member of the family would be entitled to remission
4 under this section if the family member were an owner of or held a security
5 interest in the vehicle or watercraft; or

6 (B) if a member of the family would not be entitled to
7 remission, the family member was unable as a practical matter to stop the
8 violation making the vehicle or watercraft subject to forfeiture.

9 (k) When forfeiting property under (a), (d), or (i) of this section, a court may
10 award to a municipal law enforcement agency that participated in the arrest or
11 conviction of the defendant, the seizure of property, or the identification of property
12 for seizure, (1) the property if the property is worth \$5,000 or less and is not money or
13 some other thing that is divisible, or (2) up to 75 percent of the property or the value of
14 the property if the property is worth more than \$5,000 or is money or some other thing
15 that is divisible. In determining the percentage a municipal law enforcement agency
16 may receive under this subsection, the court shall consider the municipal law
17 enforcement agency's total involvement in the case relative to the involvement of the
18 state.

19 (l) In this section, "village" means a community of fewer than 1,000 persons
20 located off the interconnected state road system.

21 * Sec. 12. AS 09.50.020(a) is amended to read:

22 (a) A person who is guilty of contempt is punishable by a fine of not more
23 than \$300 or by imprisonment for not more than six months. However, when the
24 contempt is one mentioned in AS 09.50.010(3) - (12), or in an action before a
25 magistrate, the person is punishable by a fine of not more than \$100 unless it appears
26 that a right or remedy of a party to an action or proceeding was defeated or prejudiced
27 by the contempt, in which case the penalty shall be as prescribed for contempts
28 described in AS 09.50.010(1) and [,] (2) [, AND (13)].

29 * Sec. 13. AS 11.41.110(a) is amended to read:

30 (a) A person commits the crime of murder in the second degree if

31 (1) with intent to cause serious physical injury to another person or

1 knowing that the conduct is substantially certain to cause death or serious physical
2 injury to another person, the person causes the death of any person;

3 (2) the person knowingly engages in conduct that results in the death
4 of another person under circumstances manifesting an extreme indifference to the
5 value of human life;

6 (3) under circumstances not amounting to murder in the first degree
7 under AS 11.41.100(a)(3), while acting either alone or with one or more persons, the
8 person commits or attempts to commit arson in the first degree, kidnapping, sexual
9 assault in the first degree, sexual assault in the second degree, sexual abuse of a minor
10 in the first degree, sexual abuse of a minor in the second degree, burglary in the first
11 degree, escape in the first or second degree, robbery in any degree, or misconduct
12 involving a controlled substance under AS 11.71.010(a), 11.71.020(a), 11.71.030(a)(1)
13 or (2), or 11.71.040(a)(1) or (2) and, in the course of or in furtherance of that crime or
14 in immediate flight from that crime, any person causes the death of a person [OTHER
15 THAN ONE OF THE PARTICIPANTS];

16 (4) acting with a criminal street gang, the person commits or attempts
17 to commit a crime that is a felony and, in the course of or in furtherance of that crime
18 or in immediate flight from that crime, any person causes the death of a person
19 [OTHER THAN ONE OF THE PARTICIPANTS]; or

20 (5) the person with criminal negligence causes the death of a child
21 under the age of 16, and the person has been previously convicted of a crime involving
22 a child under the age of 16 that was

23 (A) a felony violation of AS 11.41;

24 (B) in violation of a law or ordinance in another jurisdiction
25 with elements similar to a felony under AS 11.41; or

26 (C) an attempt, a solicitation, or a conspiracy to commit a
27 crime listed in (A) or (B) of this paragraph.

28 * **Sec. 14.** AS 11.41.220(a) is amended to read:

29 (a) A person commits the crime of assault in the third degree if that person

30 (1) recklessly

31 (A) places another person in fear of imminent serious physical

1 injury by means of a dangerous instrument;

2 (B) causes physical injury to another person by means of a
3 dangerous instrument; or

4 (C) while being 18 years of age or older

5 (i) causes physical injury to a child under 10 years of
6 age and the injury reasonably requires medical treatment;

7 (ii) causes physical injury to a child under 10 years of
8 age on more than one occasion;

9 (2) with intent to place another person in fear of death or serious
10 physical injury to the person or the person's family member makes repeated threats to
11 cause death or serious physical injury to another person; [OR]

12 (3) while being 18 years of age or older, knowingly causes physical
13 injury to a child under 16 years of age but at least 10 years of age and the injury
14 reasonably requires medical treatment; or

15 (4) with criminal negligence causes serious physical injury to
16 another person by means of a dangerous instrument.

17 * Sec. 15. AS 11.41.438(a) is amended to read:

18 (a) An offender commits the crime of sexual abuse of a minor in the third
19 degree if

20 (1) being under 16 years of age, the offender engages in sexual
21 penetration with a person who is under 13 years of age and at least three years
22 younger than the offender;

23 (2) being 16 years of age or older, the offender engages in sexual
24 contact with a person who is 13, 14, or 15 years of age and at least three years younger
25 than the offender; or

26 (3) [(2)] being 18 years of age or older, the offender engages in sexual
27 penetration with a person who is 16 or 17 years of age and at least three years younger
28 than the offender, and the offender occupies a position of authority in relation to the
29 victim.

30 * Sec. 16. AS 11.41.440(a) is amended to read:

31 (a) An offender commits the crime of sexual abuse of a minor in the fourth

1 degree if

2 (1) being under 16 years of age, the offender engages in [SEXUAL
3 PENETRATION OR] sexual contact with a person who is under 13 years of age and
4 at least three years younger than the offender; or

5 (2) being 18 years of age or older, the offender engages in sexual
6 contact with a person who is 16 or 17 years of age and at least three years younger
7 than the offender, and the offender occupies a position of authority in relation to the
8 victim.

9 * **Sec. 17.** AS 11.56 is amended by adding a new section to read:

10 **Sec. 11.56.758. Violation of custodian's duty.** (a) A person commits the
11 crime of violation of custodian's duty if the person knowingly fails, when acting as a
12 custodian appointed by the court for a released person under AS 12.30, to report
13 immediately as directed by the court that the person released has violated a condition
14 of release.

15 (b) Violation of custodian's duty is

16 (1) a class A misdemeanor if the released person is charged with a
17 felony;

18 (2) a class B misdemeanor if the released person is charged with a
19 misdemeanor.

20 * **Sec. 18.** AS 11.81.330(a) is amended to read:

21 (a) A person may use nondeadly force upon another when and to the extent the
22 person reasonably believes it is necessary for self defense against what the person
23 reasonably believes to be the use of unlawful force by the other, unless

24 (1) the force involved was the product of mutual combat not
25 authorized by law;

26 (2) the person claiming the defense of justification provoked the
27 other's conduct with intent to cause physical injury to the other; [OR]

28 (3) the person claiming the defense of justification was the initial
29 aggressor; or

30 (4) the force applied was the result of using a deadly weapon the
31 person claiming the defense of justification possessed while

1 (A) acting alone or with others to further a felony criminal
2 objective of the person or one or more other persons; or

3 (B) a participant in a felony transaction or purported
4 transaction or in immediate flight from a felony transaction or purported
5 transaction in violation of AS 11.71.

6 * Sec. 19. AS 12.50.101(a) is amended to read:

7 (a) If a witness refuses, on the basis of the privilege against self-incrimination,
8 to testify or provide other information in a criminal proceeding before or ancillary to a
9 court or grand jury of this state, and a judge issues an order under (b) of this section,
10 the witness may not refuse to comply with the order on the basis of the privilege
11 against self-incrimination. If the witness fully complies with the order, the witness
12 may not be prosecuted for an offense about which the witness is compelled to
13 testify [NO TESTIMONY OR OTHER INFORMATION COMPELLED UNDER
14 THE ORDER, OR INFORMATION DIRECTLY OR INDIRECTLY DERIVED
15 FROM THAT TESTIMONY OR OTHER INFORMATION, MAY BE USED
16 AGAINST THE WITNESS IN A CRIMINAL CASE], except in a prosecution based
17 on perjury, giving a false statement [,] or otherwise knowingly providing false
18 information, or hindering prosecution.

19 * Sec. 20. AS 12.50.101(e) is amended to read:

20 (e) In [AS USED IN] this section,

21 (1) "other information" means books, papers, documents, records,
22 recordings, or other similar material;

23 (2) "proffer" means a written or oral statement by the attorney for
24 the witness, stating the attorney's good faith belief of the substance of the
25 witness's testimony or other information.

26 * Sec. 21. AS 12.50.101 is amended by adding new subsections to read:

27 (f) If a witness refuses, or there is reason to believe the witness will refuse, to
28 testify or provide other information based on the privilege against self-incrimination,
29 and if the attorney general or the attorney general's designee has not applied for an
30 order under (b) of this section, the court shall inform the witness of the right to be
31 represented by an attorney, and that an attorney will be appointed for the witness if the

1 witness qualifies for counsel under AS 18.85. The court shall recess the proceeding to
2 allow the witness to consult with the attorney for the witness.

3 (g) If the attorney general or the attorney general's designee declines to seek
4 an order under (b) of this section after the witness has had an opportunity to consult
5 with an attorney, and the witness continues to refuse to testify or provide other
6 information, the court shall hold a hearing to determine the validity of the claim of
7 privilege by the witness. The hearing shall be in camera.

8 (h) At the hearing under (g) of this section, the attorney for the witness, in the
9 form of a proffer, shall describe the testimony or other information that the witness
10 claims is privileged. The proffer must include a description of how the testimony or
11 other information could connect the witness with a crime. The proffer is privileged
12 and inadmissible for any other purpose. If the proffer establishes a factual basis that
13 there is a real or substantial danger that the testimony or other information to be
14 compelled would support a conviction or would furnish a link in the chain of evidence
15 leading to conviction for a crime, the court may find that the witness has a valid claim
16 of privilege.

17 (i) If the court finds that the witness has a valid claim of privilege, it shall
18 advise the prosecution of that finding.

19 * **Sec. 22.** AS 12.55.025(c) is amended to read:

20 (c) Except as provided in (d) [AND (e)] of this section, when a defendant is
21 sentenced to imprisonment, the term of confinement commences on the date of
22 imposition of sentence unless the court specifically provides that the defendant must
23 report to serve the sentence on another date. If the court provides another date to
24 begin the term of confinement, the court shall provide the defendant with written
25 notice of the date, time, and location of the correctional facility to which the defendant
26 must report. A defendant shall receive credit for time spent in custody pending trial,
27 sentencing, or appeal, if the detention was in connection with the offense for which
28 sentence was imposed. A defendant may not receive credit for more than the actual
29 time spent in custody pending trial, sentencing, or appeal. The time during which a
30 defendant is voluntarily absent from official detention after the defendant has been
31 sentenced may not be credited toward service of the sentence.

1 * Sec. 23. AS 12.55 is amended by adding a new section to read:

2 **Sec. 12.55.127. Consecutive and concurrent terms of imprisonment.** (a) If
3 a defendant is required to serve a term of imprisonment under a separate judgment, a
4 term of imprisonment imposed in a later judgment, amended judgment, or probation
5 revocation shall be consecutive.

6 (b) Except as provided in (c) of this section, if a defendant is being sentenced
7 for two or more crimes in a single judgment, terms of imprisonment may be
8 concurrent or partially concurrent.

9 (c) If the defendant is being sentenced for

10 (1) escape, the term of imprisonment shall be consecutive to the term
11 for the underlying crime;

12 (2) two or more crimes under AS 11.41, a consecutive term of
13 imprisonment shall be imposed for at least

14 (A) the mandatory minimum term under AS 12.55.125(a) for
15 each additional crime that is murder in the first degree;

16 (B) the mandatory minimum term for each additional crime
17 that is an unclassified felony governed by AS 12.55.125(b);

18 (C) the presumptive term specified in AS 12.55.125(c) or the
19 active term of imprisonment, whichever is less, for each additional crime that
20 is

21 (i) manslaughter; or

22 (ii) kidnapping that is a class A felony;

23 (D) two years or the active term of imprisonment, whichever is
24 less, for each additional crime that is criminally negligent homicide;

25 (E) one-fourth of the presumptive term under AS 12.55.125(c)
26 or (i) for each additional crime that is sexual assault in the first degree under
27 AS 11.41.410 or sexual abuse of a minor in the first degree under
28 AS 11.41.434, or an attempt, solicitation or conspiracy to commit those
29 offenses; and

30 (F) some additional term of imprisonment for each additional
31 crime, or each additional attempt or solicitation to commit the offense, under

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

AS 11.41.200 - 11.41.250, 11.41.420 - 11.41.432, 11.41.436 - 11.41.458, or 11.41.500 - 11.41.520.

(d) In this section,

(1) "active term of imprisonment" means the total term of imprisonment imposed for a crime, minus suspended imprisonment;

(2) "additional crime" means a crime that is not the primary crime;

(3) "primary crime" means the crime

(A) for which the sentencing court imposes the longest active term of imprisonment; or

(B) that is designated by the sentencing court as the primary crime when no single crime has the longest active term of imprisonment.

* Sec. 24. AS 18.85.100 is amended by adding a new subsection to read:

(f) Notwithstanding (a) of this section, an indigent person is entitled to the representation and necessary services and facilities of representation as provided in (a) of this section when the person is a witness who refuses or there is reason to believe will refuse to testify or provide other information based on the privilege against self-incrimination.

* Sec. 25. AS 28.35.030(a) is amended to read:

(a) A person commits the crime of driving while under the influence of an alcoholic beverage, inhalant, or controlled substance if the person operates or drives a motor vehicle or operates an aircraft or a watercraft

(1) while under the influence of an alcoholic beverage, intoxicating liquor, inhalant, or any controlled substance;

(2) if [WHEN], as determined by a chemical test taken within four hours after the alleged offense was committed, there is 0.08 percent or more by weight of alcohol in the person's blood or 80 milligrams or more of alcohol per 100 milliliters of blood, or if [WHEN] there is 0.08 grams or more of alcohol per 210 liters of the person's breath; or

(3) while the person is under the combined influence of an alcoholic beverage, an intoxicating liquor, an inhalant, or [AND] a controlled substance.

* Sec. 26. AS 28.35.030(n) is amended to read:

1 (n) A person is guilty of a class C felony if the person is convicted under (a) of
2 this section and either has been previously convicted two or more times since
3 January 1, 1996, and within the 1⁰ years preceding the date of the present offense, or
4 punishment under this subsection or under AS 28.35.032(p) was previously
5 imposed on the person. For purposes of determining minimum sentences based on
6 previous convictions, the provisions of (r)(4) of this section apply. Upon conviction,
7 the court

8 (1) shall impose a fine of not less than \$10,000 and a minimum
9 sentence of imprisonment of not less than

10 (A) 120 days if the person has been previously convicted twice;

11 (B) 240 days if the person has been previously convicted three
12 times;

13 (C) 360 days if the person has been previously convicted four
14 or more times;

15 (2) may not

16 (A) suspend execution of sentence or grant probation except on
17 condition that the person serve the minimum imprisonment under (1) of this
18 subsection; or

19 (B) suspend imposition of sentence;

20 (3) shall permanently revoke the person's driver's license, privilege to
21 drive, or privilege to obtain a license subject to restoration of the license under (o) of
22 this section;

23 (4) may order that the person, while incarcerated or as a condition of
24 probation or parole, take a drug or combination of drugs, intended to prevent the
25 consumption of an alcoholic beverage; a condition of probation or parole imposed
26 under this paragraph is in addition to any other condition authorized under another
27 provision of law;

28 (5) shall order forfeiture under AS 28.35.036 of the vehicle, watercraft,
29 or aircraft used in the commission of the offense, subject to remission under
30 AS 28.35.037; and

31 (6) shall order the department to revoke the registration for any vehicle

1 registered by the department in the name of the person convicted under this
2 subsection; if a person convicted under this subsection is a registered co-owner of a
3 vehicle or is registered as a co-owner under a business name, the department shall
4 reissue the vehicle registration and omit the name of the person convicted under this
5 subsection.

6 * Sec. 27. AS 28.35.030 is amended by adding a new subsection to read:

7 (s) In a prosecution under (a) of this section, a person may introduce evidence
8 of having consumed alcohol before operating or driving the motor vehicle, aircraft, or
9 watercraft to rebut or explain the results of a chemical test, but it is not a defense that
10 the chemical test did not measure the blood alcohol at the time of the driving or
11 operating.

12 * Sec. 28. AS 28.35.032(p) is amended to read:

13 (p) A person is guilty of a class C felony if the person is convicted under this
14 section and either has been previously convicted two or more times since January 1,
15 1996, and within the 10 years preceding the date of the present offense, or
16 punishment under this subsection or under AS 28.35.030(n) was previously
17 imposed on the person. For purposes of determining minimum sentences based on
18 previous convictions, the provisions of AS 28.35.030(r)(4) apply. Upon conviction,

19 (1) the court shall impose a fine of not less than \$10,000 and a
20 minimum sentence of imprisonment of not less than

21 (A) 120 days if the person has been previously convicted twice;

22 (B) 240 days if the person has been previously convicted three
23 times;

24 (C) 360 days if the person has been previously convicted four
25 or more times;

26 (2) the court may not

27 (A) suspend execution of the sentence required by (1) of this
28 subsection or grant probation, except on condition that the person serve the
29 minimum imprisonment under (1) of this subsection; or

30 (B) suspend imposition of sentence;

31 (3) the court shall permanently revoke the person's driver's license,

1 privilege to drive, or privilege to obtain a license subject to restoration under (q) of
2 this section;

3 (4) the court may order that the person, while incarcerated or as a
4 condition of probation or parole, take a drug, or combination of drugs, intended to
5 prevent consumption of an alcoholic beverage; a condition of probation or parole
6 imposed under this paragraph is in addition to any other condition authorized under
7 another provision of law;

8 (5) the sentence imposed by the court under this subsection shall run
9 consecutively with any other sentence of imprisonment imposed on the person;

10 (6) the court shall order forfeiture under AS 28.35.036, of the motor
11 vehicle, aircraft, or watercraft used in the commission of the offense, subject to
12 remission under AS 28.35.037; and

13 (7) the court shall order the department to revoke the registration for
14 any vehicle registered by the department in the name of the person convicted under
15 this subsection; if a person convicted under this subsection is a registered co-owner of
16 a vehicle, the department shall reissue the vehicle registration and omit the name of
17 the person convicted under this subsection.

18 * **Sec. 29.** AS 28.35.033(c) is amended to read:

19 (c) Except as provided in AS 28.35.030(s), the [THE] provisions of (a) of
20 this section may not be construed to limit the introduction of any other competent
21 evidence bearing upon the question of whether the person was or was not under the
22 influence of intoxicating liquor.

23 * **Sec. 30.** AS 33.16.090(b) is amended to read:

24 (b) Except as provided in (e) of this section, a prisoner is not eligible for
25 discretionary parole during the term of a presumptive sentence; however, a prisoner is
26 eligible for discretionary parole during a term of sentence enhancement imposed under
27 AS 12.55.155(a) or during the term of a consecutive or partially consecutive
28 presumptive sentence imposed under AS 12.55.127 [AS 12.55.025(e) OR (g)]. A
29 prisoner sentenced to a mandatory 99-year term under AS 12.55.125(a) or a definite
30 term under AS 12.55.125(l) is not eligible for discretionary parole during the entire
31 term.

1 * **Sec. 31.** AS 33.16.090(c) is amended to read:

2 (c) Except as provided in (e) of this section, a prisoner eligible for
3 discretionary parole during a period of sentence enhancement imposed under
4 AS 12.55.155(a) or during a consecutive or partially consecutive presumptive sentence
5 imposed under AS 12.55.127 [AS 12.55.025(e) OR (g)] shall serve the unenhanced
6 portion of the sentence or the initial presumptive sentence before being otherwise
7 eligible for discretionary parole under AS 33.16.100(c) or (d). For purposes of this
8 subsection, the sentence for the most serious offense in the case of consecutive or
9 partially consecutive presumptive sentences shall be considered the initial presumptive
10 sentence. The unenhanced sentence or the initial presumptive sentence is considered
11 served for purposes of discretionary parole on the date the unenhanced or initial
12 presumptive sentence is due to expire less good time earned under AS 33.20.010.

13 * **Sec. 32.** AS 47.12.310(c) is amended to read:

14 (c) A state or municipal law enforcement agency

15 (1) shall disclose information regarding a case that is needed by the
16 person or agency charged with making a preliminary investigation for the information
17 of the court under this chapter;

18 (2) may disclose to the public information regarding a criminal offense
19 in which a minor is a suspect, victim, or witness if the minor is not identified by the
20 disclosure;

21 (3) may disclose to school officials information regarding a case as
22 may be necessary to protect the safety of school students and staff or to enable the
23 school to provide appropriate counseling and supportive services to meet the needs of
24 a minor about whom information is disclosed;

25 (4) and, under department regulations, a state or municipal agency
26 or authorized employee may disclose to the public information regarding a case as
27 may be necessary to protect the safety of the public; and

28 (5) may disclose to a victim or to the victim's insurance company
29 information, including copies of reports, as necessary for civil litigation or insurance
30 claims pursued by or against the victim.

31 * **Sec. 33.** (a) AS 09.50.010(13) is repealed.

1 (b) AS 12.55.025(e), 12.55.025(g), and 12.55.025(h) are repealed.

2 * Sec. 34. The uncodified law of the State of Alaska is amended by adding a new section to
3 read:

4 APPLICABILITY. (a) The changes made in secs. 7 - 11, 13 - 16, 18, 22, 23, 25, 30,
5 31, and 33(b) of this Act apply to offenses committed on or after the respective effective date
6 of those sections.

7 (b) Sections 26 and 28 of this Act apply to offenses occurring on or after the effective
8 date of those sections, except that previous punishment, referred to in AS 28.35.030(n), as
9 amended by sec. 26 of this Act, and in AS 28.35.032(p), as amended by sec. 28 of this Act,
10 includes punishment imposed before, on, or after the effective date of secs. 26 and 28 of this
11 Act.

12 (c) Section 17 of this Act applies to custodians who fail to report on or after the
13 effective date of sec. 17 of this Act, for persons released for offenses committed before, on, or
14 after the effective date of sec. 17 of this Act.

15 (d) The changes made in secs. 19, 21, 24, 27, and 29 of this Act apply to criminal
16 proceedings for offenses committed before, on, or after the effective date of those sections.

17 (e) Section 32 of this Act applies to an offense occurring before, on, or after the
18 effective date of this Act.

19 * Sec. 35. This Act takes effect July 1, 2004.

AMENDMENT #3

OFFERED IN THE SENATE

TO: CSSB 170(JUD) (23-GS1024\H

Page 18, lines 5 - 31, and Page 19, lines 1 - 17:

Delete all material and insert:

“* Sec. 32. AS 47.12.310(c) is amended to read:

(c) A state or municipal law enforcement agency

(1) shall disclose information regarding a case that is needed by the person or agency charged with making a preliminary investigation for the information of the court under this chapter;

(2) may disclose to the public information regarding a criminal offense in which a minor is a suspect, victim, or witness if the minor is not identified by the disclosure;

(3) may disclose to school officials information regarding a case as may be necessary to protect the safety of school students and staff or to enable the school to provide appropriate counseling and supportive services to meet the needs of a minor about whom information is disclosed.

(4) or a state or municipal agency or employee may disclose to the public information regarding a case as may be necessary to protect the safety of the public; and

(5) may disclose to a victim or to the victim's insurance company information, including copies of reports, as necessary for civil litigation or insurance claims pursued by or against the victim."

AMENDMENT

#1 passed as amend.

OFFERED IN THE SENATE

TO: CSSH 170(JUD) (23-GS1024\H)

Page 10, lines 29 - 31, and Page 11, lines 1-4:

Delete all material and insert the following:

leally
"(4) the force applied was the result of using a dangerous
weapon
instrument that the person claiming the defense of justification possessed
while

(A) acting alone or with others to further a felony criminal
objective of the person or one or more other persons; or

(B) participating in a felony transaction or purported
transaction, or in immediate flight from a felony transaction or
purported transaction in violation of AS 11.71.

AMENDMENT #2

passed as amended
(replaced by
Amendment #8)

OFFERED IN THE SENATE

TO: CSSB 170(JUD) (23-GS1024H)

Page 18, lines 5 - 31, and Page 19, lines 1 - 17:

Delete all material and insert:

**** Sec. 32.** AS 47.12.310(c) is amended to read:

(c) A state or municipal law enforcement agency

(1) shall disclose information regarding a case that is needed by the person or agency charged with making a preliminary investigation for the information of the court under this chapter;

(2) may disclose to the public information regarding a criminal offense in which a minor is a suspect, victim, or witness if the minor is not identified by the disclosure;

(3) may disclose to school officials information regarding a case as may be necessary to protect the safety of school students and staff or to enable the school to provide appropriate counseling and supportive services to meet the needs of a minor about whom information is disclosed.

(4) or a state or municipal agency or ^{authorized} employee may disclose to the public information regarding a case as may be necessary to protect the safety of the public; and