

SENATE BILL 636

Unofficial Copy
N2

2000 Regular Session
0lr1803
CF 0lr2080

By: **Senator Baker**

Introduced and read first time: February 4, 2000

Assigned to: Judicial Proceedings

A BILL ENTITLED

1 AN ACT concerning

2 **Uniform Principal and Income Act**

3 FOR the purpose of enacting the 1997 revision of the Uniform Principal and Income
4 Act; establishing default rules for fiduciaries administering a trust or estate to
5 allocate receipts and disbursements to or between principal and income;
6 defining certain terms; providing for the application and construction of this Act;
7 providing for the severability of this Act; and generally relating to allocations
8 between principal and income of estates and trusts.

9 BY repealing

10 Article - Estates and Trusts
11 Section 7-304; and 14-201 through 14-214, inclusive, and the subtitle "Subtitle
12 2. Principal and Income"
13 Annotated Code of Maryland
14 (1991 Replacement Volume and 1999 Supplement)

15 BY repealing and reenacting, with amendments,

16 Article - Estates and Trusts
17 Section 11-106
18 Annotated Code of Maryland
19 (1991 Replacement Volume and 1999 Supplement)

20 BY adding to

21 Article - Estates and Trusts
22 Section 15-501 through 15-530, inclusive, to be under the new subtitle
23 "Subtitle 5. Maryland Uniform Principal and Income Act"
24 Annotated Code of Maryland
25 (1991 Replacement Volume and 1999 Supplement)

26 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
27 MARYLAND, That Section(s) 7-304; and 14-201 through 14-214, inclusive, and the
28 subtitle "Subtitle 2. Principal and Income" of Article - Estates and Trusts of the
29 Annotated Code of Maryland be repealed.

1 SECTION 2. AND BE IT FURTHER ENACTED, That the Laws of Maryland
2 read as follows:

3 **Article - Estates and Trusts**

4 11-106.

5 (a) [Unless otherwise expressly provided by a will or other controlling
6 instrument, where a person is given an interest in income, an estate for years or for
7 life, or other temporary interest in a trust or other assets and, under a tax law of the
8 United States, the personal representative or other person acting in a fiduciary
9 capacity for the deceased maker of the will or other instrument is given an election to
10 treat administration expenses of the estate of the decedent paid from or chargeable to
11 the principal of the trust or other assets either as income tax deductions or estate tax
12 deductions, and the fiduciary elects to treat the expenses in whole or in part as
13 income tax deductions, with the result that estate taxes imposed under the law and
14 paid from or chargeable to principal are greater than if the contrary election had been
15 made, an amount equal to the difference in estate taxes shall be reimbursed to
16 principal from the income of the trust or other assets.

17 (b) Unless otherwise expressly provided by a will or other controlling
18 instrument, under which a gift is made to or for the benefit of the surviving spouse of
19 the decedent which qualifies for an estate tax marital deduction under the tax law of
20 the United States and the amount or size of the gift is defined by the terms of the will
21 or other controlling instrument in terms of the maximum marital deduction allowable
22 under the tax law, no adjustment is required to be made between the gift and the
23 other interests in the estate of the decedent, or governed by the instrument, because
24 of:

25 (1) An increase in the amount or size of the gift resulting from an
26 election by the fiduciary, under the tax law, to treat estate administration expenses as
27 income tax deductions over the amount or size of the gift had the contrary election
28 been made, or

29 (2) Any increase or decrease in the amount or size of the gift resulting
30 from an election by the fiduciary, under the tax law, of an estate tax valuation date
31 other than the date of the death of the decedent as compared with the amount or size
32 of the gift had the contrary election been made.

33 (c) [Unless otherwise expressly provided by a will or other controlling
34 instrument, under which a gift is made to or for the benefit of the surviving spouse of
35 a decedent which qualifies for an estate tax marital deduction under the tax law of
36 the United States and the amount or size of the gift is defined by the terms of the will
37 or other controlling instrument in terms of the maximum marital deduction allowable
38 under the tax law, the definitions do not constitute a direction by the decedent to the
39 fiduciary to exercise an election respecting the deduction of estate administration
40 expenses or the determination of the estate tax valuation date, which the fiduciary
41 may have under the tax law, only in a manner as will result in a larger allowable
42 estate tax marital deduction than if the contrary election had been made.

1 [(d)] (B) (1) In this subsection the following words have the meanings
2 indicated.

3 (i) "Marital deduction formula clause" means any provision of a
4 will or other controlling instrument that makes a bequest or transfer, the size or
5 amount of which is determined in whole or in part with reference to the amount
6 allowable to a decedent's estate as a marital deduction under the tax law of the
7 United States.

8 (ii) "Qualified terminable interest property" means property
9 described in § 2056(b)(7) of the Internal Revenue Code.

10 (2) If a will or other controlling instrument executed on or before
11 September 12, 1981 contains a marital deduction formula clause, an election by the
12 personal representative or other authorized person to treat property not transferred
13 pursuant to the clause as qualified terminable interest property for purposes of the
14 estate tax marital deduction under the tax law of the United States shall neither
15 increase nor decrease the amount or fraction of the estate, trust, or other fund
16 transferred pursuant to the clause, unless a codicil to the will or amendment to
17 another controlling instrument executed after September 12, 1981 shall expressly
18 otherwise provide.

19 SUBTITLE 5. MARYLAND UNIFORM PRINCIPAL AND INCOME ACT.

20 PART I. DEFINITIONS; FIDUCIARY DUTIES.

21 15-501. DEFINITIONS.

22 (A) IN THIS SUBTITLE THE FOLLOWING WORDS HAVE THE MEANINGS
23 INDICATED.

24 (B) (1) "ACCOUNTING PERIOD" MEANS A CALENDAR YEAR UNLESS
25 ANOTHER 12-MONTH PERIOD IS SELECTED BY A FIDUCIARY.

26 (2) "ACCOUNTING PERIOD" INCLUDES A PORTION OF A CALENDAR YEAR
27 OR OTHER 12-MONTH PERIOD THAT BEGINS WHEN AN INCOME INTEREST BEGINS OR
28 ENDS WHEN AN INCOME INTEREST ENDS.

29 (C) "BENEFICIARY" INCLUDES, IN THE CASE OF A DECEDENT'S ESTATE, AN
30 HEIR AND LEGATEE AND, IN THE CASE OF A TRUST, AN INCOME BENEFICIARY AND A
31 REMAINDER BENEFICIARY.

32 (D) (1) "FIDUCIARY" MEANS A PERSONAL REPRESENTATIVE OR A TRUSTEE.

33 (2) "FIDUCIARY" INCLUDES AN EXECUTOR, ADMINISTRATOR,
34 SUCCESSOR PERSONAL REPRESENTATIVE, SPECIAL ADMINISTRATOR, AND A PERSON
35 PERFORMING SUBSTANTIALLY THE SAME FUNCTION.

36 (E) (1) "INCOME" MEANS MONEY OR PROPERTY THAT A FIDUCIARY
37 RECEIVES AS CURRENT RETURN FROM A PRINCIPAL ASSET.

1 (2) "INCOME" INCLUDES A PORTION OF RECEIPTS FROM A SALE,
2 EXCHANGE, OR LIQUIDATION OF A PRINCIPAL ASSET, TO THE EXTENT PROVIDED IN
3 PART IV OF THIS SUBTITLE.

4 (F) "INCOME BENEFICIARY" MEANS A PERSON TO WHOM NET INCOME OF A
5 TRUST IS OR MAY BE PAYABLE.

6 (G) "INCOME INTEREST" MEANS THE RIGHT OF AN INCOME BENEFICIARY TO
7 RECEIVE ALL OR PART OF NET INCOME, WHETHER THE TERMS OF THE TRUST
8 REQUIRE IT TO BE DISTRIBUTED OR AUTHORIZE IT TO BE DISTRIBUTED IN THE
9 TRUSTEE'S DISCRETION.

10 (H) "MANDATORY INCOME INTEREST" MEANS THE RIGHT OF AN INCOME
11 BENEFICIARY TO RECEIVE NET INCOME THAT THE TERMS OF THE TRUST REQUIRE
12 THE FIDUCIARY TO DISTRIBUTE.

13 (I) "NET INCOME" MEANS THE TOTAL RECEIPTS ALLOCATED TO INCOME
14 DURING AN ACCOUNTING PERIOD MINUS THE DISBURSEMENTS MADE FROM
15 INCOME DURING THE PERIOD, PLUS OR MINUS TRANSFERS UNDER THIS SUBTITLE
16 TO OR FROM INCOME DURING THE PERIOD.

17 (J) "PERSON" MEANS AN INDIVIDUAL, CORPORATION, BUSINESS TRUST,
18 ESTATE, TRUST, PARTNERSHIP, LIMITED LIABILITY COMPANY, ASSOCIATION, JOINT
19 VENTURE, GOVERNMENT; GOVERNMENTAL SUBDIVISION, AGENCY, OR
20 INSTRUMENTALITY; PUBLIC CORPORATION, OR ANY OTHER LEGAL OR COMMERCIAL
21 ENTITY.

22 (K) "PRINCIPAL" MEANS PROPERTY HELD IN TRUST FOR DISTRIBUTION TO A
23 REMAINDER BENEFICIARY WHEN THE TRUST TERMINATES.

24 (L) "REMAINDER BENEFICIARY" MEANS A PERSON ENTITLED TO RECEIVE
25 PRINCIPAL WHEN AN INCOME INTEREST ENDS.

26 (M) "TERMS OF A TRUST" MEANS THE MANIFESTATION OF THE INTENT OF A
27 SETTLOR OR DECEDENT WITH RESPECT TO THE TRUST, EXPRESSED IN A MANNER
28 THAT ADMITS OF ITS PROOF IN A JUDICIAL PROCEEDING, WHETHER BY WRITTEN OR
29 SPOKEN WORDS OR BY CONDUCT.

30 (N) "TRUSTEE" INCLUDES AN ORIGINAL, ADDITIONAL, OR SUCCESSOR
31 TRUSTEE, WHETHER OR NOT APPOINTED OR CONFIRMED BY A COURT.

32 15-502. FIDUCIARY DUTIES; GENERAL PRINCIPLES.

33 (A) IN ALLOCATING RECEIPTS AND DISBURSEMENTS TO OR BETWEEN
34 PRINCIPAL AND INCOME, AND WITH RESPECT TO ANY MATTER WITHIN THE SCOPE
35 OF PARTS II AND III OF THIS SUBTITLE, A FIDUCIARY:

36 (1) SHALL ADMINISTER A TRUST OR ESTATE IN ACCORDANCE WITH THE
37 TERMS OF THE TRUST OR THE WILL, EVEN IF THERE IS A DIFFERENT PROVISION IN
38 THIS SUBTITLE;

1 (2) MAY ADMINISTER A TRUST OR ESTATE BY THE EXERCISE OF A
2 DISCRETIONARY POWER OF ADMINISTRATION GIVEN TO THE FIDUCIARY BY THE
3 TERMS OF THE TRUST OR THE WILL, EVEN IF THE EXERCISE OF THE POWER
4 PRODUCES A RESULT DIFFERENT FROM A RESULT REQUIRED OR PERMITTED BY
5 THIS SUBTITLE;

6 (3) SHALL ADMINISTER A TRUST OR ESTATE IN ACCORDANCE WITH THIS
7 SUBTITLE IF THE TERMS OF THE TRUST OR THE WILL DO NOT CONTAIN A DIFFERENT
8 PROVISION OR DO NOT GIVE THE FIDUCIARY A DISCRETIONARY POWER OF
9 ADMINISTRATION; AND

10 (4) SHALL ADD A RECEIPT OR CHARGE A DISBURSEMENT TO PRINCIPAL
11 TO THE EXTENT THAT THE TERMS OF THE TRUST AND THIS SUBTITLE DO NOT
12 PROVIDE A RULE FOR ALLOCATING THE RECEIPT OR DISBURSEMENT TO OR
13 BETWEEN PRINCIPAL AND INCOME.

14 (B) IN EXERCISING A DISCRETIONARY POWER OF ADMINISTRATION
15 REGARDING A MATTER WITHIN THE SCOPE OF THIS SUBTITLE, WHETHER GRANTED
16 BY THE TERMS OF A TRUST, A WILL, OR THIS SUBTITLE, A FIDUCIARY SHALL
17 ADMINISTER A TRUST OR ESTATE IMPARTIALLY, BASED ON WHAT IS FAIR AND
18 REASONABLE TO ALL OF THE BENEFICIARIES, EXCEPT TO THE EXTENT THAT THE
19 TERMS OF THE TRUST OR THE WILL CLEARLY MANIFEST AN INTENTION THAT THE
20 FIDUCIARY SHALL OR MAY FAVOR ONE OR MORE OF THE BENEFICIARIES. A
21 DETERMINATION IN ACCORDANCE WITH THIS SUBTITLE IS PRESUMED TO BE FAIR
22 AND REASONABLE TO ALL OF THE BENEFICIARIES.

23 PART II. DECEDENT'S ESTATE OR TERMINATING INCOME INTEREST.

24 15-503. DETERMINATION AND DISTRIBUTION OF NET INCOME.

25 AFTER A DECEDENT DIES, IN THE CASE OF AN ESTATE, OR AFTER AN INCOME
26 INTEREST IN A TRUST ENDS, THE FOLLOWING RULES APPLY:

27 (1) (I) A FIDUCIARY OF AN ESTATE OR OF A TERMINATING INCOME
28 INTEREST SHALL DETERMINE THE AMOUNT OF NET INCOME AND NET PRINCIPAL
29 RECEIPTS RECEIVED FROM PROPERTY SPECIFICALLY GIVEN TO A BENEFICIARY
30 UNDER THE RULES IN PARTS III THROUGH V OF THIS SUBTITLE WHICH APPLY TO
31 TRUSTEES AND THE RULES IN PARAGRAPH (4) OF THIS SECTION. THE FIDUCIARY
32 SHALL DISTRIBUTE THE NET INCOME AND NET PRINCIPAL RECEIPTS TO THE
33 BENEFICIARY WHO IS TO RECEIVE THE SPECIFIC PROPERTY.

34 (II) 1. IF THE INCOME AND PRINCIPAL RECEIPTS FROM THE
35 SPECIFIC PROPERTY ARE NOT SUFFICIENT TO PAY THE TAXES, ORDINARY REPAIRS,
36 AND OTHER EXPENSES OF MANAGEMENT AND OPERATION RELATING TO THE
37 PROPERTY, OR IF THERE ARE NO INCOME OR PRINCIPAL RECEIPTS, THEN EXPENSES
38 IN EXCESS OF INCOME AND PRINCIPAL RECEIPTS SHALL BE CHARGED TO AND PAID
39 BY THE BENEFICIARY WHO IS TO RECEIVE THE SPECIFIC PROPERTY IMMEDIATELY
40 UPON WRITTEN DEMAND OF THE PERSONAL REPRESENTATIVE, OR AT THE OPTION

1 OF THE BENEFICIARY, CHARGED AGAINST A SHARE OF THE ESTATE TO WHICH THE
2 BENEFICIARY MAY BE ENTITLED.

3 2. IF THE BENEFICIARY WHO IS TO RECEIVE THE SPECIFIC
4 PROPERTY FAILS TO MAKE PAYMENT TO THE PERSONAL REPRESENTATIVE WITHIN
5 15 DAYS FROM THE DATE OF WRITTEN DEMAND, THE PERSONAL REPRESENTATIVE
6 MAY SELL AT EITHER PUBLIC OR PRIVATE SALE THE SPECIFIC PROPERTY TO SATISFY
7 THE EXCESS CHARGES, TAXES, AND EXPENSES ACCRUED. PROCEEDS OF THE SALE IN
8 EXCESS OF THE CHARGES, TAXES, AND EXPENSES, INCLUDING THE EXPENSES OF
9 THE SALE, SHALL SUBSEQUENTLY BE DISTRIBUTED TO THE BENEFICIARY IN FULL
10 SATISFACTION OF THE RIGHT TO RECEIVE THE SPECIFIC PROPERTY. IF THE
11 PROCEEDS OF THE SALE ARE INSUFFICIENT TO SATISFY CHARGES, TAXES, AND
12 EXPENSES INCIDENT TO THE SPECIFIC PROPERTY, THEN THE PERSONAL
13 REPRESENTATIVE MAY PAY THE EXCESS EXPENSES, TAXES, AND OTHER CHARGES
14 OUT OF THE RESIDUARY ESTATE.

15 (2) A FIDUCIARY SHALL DETERMINE THE REMAINING NET INCOME OF A
16 DECEDENT'S ESTATE OR A TERMINATING INCOME INTEREST UNDER THE RULES IN
17 PARTS III THROUGH V OF THIS SUBTITLE WHICH APPLY TO TRUSTEES AND BY:

18 (I) INCLUDING IN NET INCOME ALL INCOME FROM PROPERTY
19 USED TO DISCHARGE LIABILITIES;

20 (II) PAYING FROM INCOME OR PRINCIPAL, IN THE FIDUCIARY'S
21 DISCRETION, FEES OF ATTORNEYS, ACCOUNTANTS, AND FIDUCIARIES; COURT COSTS
22 AND OTHER EXPENSES OF ADMINISTRATION; AND INTEREST ON DEATH TAXES, BUT
23 THE FIDUCIARY MAY PAY THOSE EXPENSES FROM INCOME OF PROPERTY PASSING
24 TO A TRUST FOR WHICH THE FIDUCIARY CLAIMS AN ESTATE TAX MARITAL OR
25 CHARITABLE DEDUCTION ONLY TO THE EXTENT THAT THE PAYMENT OF THOSE
26 EXPENSES FROM INCOME WILL NOT CAUSE THE REDUCTION OR LOSS OF THE
27 DEDUCTION; AND

28 (III) PAYING FROM PRINCIPAL ALL OTHER DISBURSEMENTS MADE
29 OR INCURRED IN CONNECTION WITH THE SETTLEMENT OF A DECEDENT'S ESTATE
30 OR THE WINDING UP OF A TERMINATING INCOME INTEREST, INCLUDING DEBTS,
31 FUNERAL EXPENSES, DISPOSITION OF REMAINS, FAMILY ALLOWANCES, AND DEATH
32 TAXES AND RELATED PENALTIES THAT ARE APPORTIONED TO THE ESTATE OR
33 TERMINATING INCOME INTEREST BY THE WILL, THE TERMS OF THE TRUST, OR
34 APPLICABLE LAW.

35 (3) A FIDUCIARY SHALL DISTRIBUTE THE REMAINING NET INCOME IN
36 THE MANNER DESCRIBED IN § 15-504 OF THIS SUBTITLE TO ALL OTHER
37 BENEFICIARIES, INCLUDING A BENEFICIARY WHO RECEIVES A PECUNIARY AMOUNT
38 IN TRUST, EVEN IF THE BENEFICIARY HOLDS AN UNQUALIFIED POWER TO
39 WITHDRAW ASSETS FROM THE TRUST OR OTHER PRESENTLY EXERCISABLE
40 GENERAL POWER OF APPOINTMENT OVER THE TRUST, BUT EXCLUDING A
41 BENEFICIARY OTHER THAN A SURVIVING SPOUSE WHO RECEIVES A PECUNIARY
42 AMOUNT THAT IS NOT IN TRUST.

1 (4) A FIDUCIARY MAY NOT REDUCE PRINCIPAL OR INCOME RECEIPTS
2 FROM PROPERTY DESCRIBED IN PARAGRAPH (1) OF THIS SECTION BECAUSE OF A
3 PAYMENT DESCRIBED IN § 15-523 OR § 15-524 OF THIS SUBTITLE TO THE EXTENT
4 THAT THE WILL, THE TERMS OF THE TRUST, OR APPLICABLE LAW REQUIRES THE
5 FIDUCIARY TO MAKE THE PAYMENT FROM ASSETS OTHER THAN THE PROPERTY OR
6 TO THE EXTENT THAT THE FIDUCIARY RECOVERS OR EXPECTS TO RECOVER THE
7 PAYMENT FROM A THIRD PARTY. THE NET INCOME AND PRINCIPAL RECEIPTS FROM
8 THE PROPERTY ARE DETERMINED BY INCLUDING ALL OF THE AMOUNTS THE
9 FIDUCIARY RECEIVES OR PAYS WITH RESPECT TO THE PROPERTY, WHETHER THOSE
10 AMOUNTS ACCRUED OR BECAME DUE ON OR AFTER THE DATE OF A DECEDENT'S
11 DEATH OR AN INCOME INTEREST'S TERMINATING EVENT, AND BY MAKING A
12 REASONABLE PROVISION FOR AMOUNTS THAT THE FIDUCIARY BELIEVES THE
13 ESTATE OR TERMINATING INCOME INTEREST MAY BECOME OBLIGATED TO PAY
14 AFTER THE PROPERTY IS DISTRIBUTED.

15 15-504. DISTRIBUTION TO RESIDUARY AND REMAINDER BENEFICIARIES.

16 (A) EACH BENEFICIARY DESCRIBED IN § 15-503(3) OF THIS SUBTITLE IS
17 ENTITLED TO RECEIVE A PORTION OF THE NET INCOME EQUAL TO THE
18 BENEFICIARY'S FRACTIONAL INTEREST IN UNDISTRIBUTED PRINCIPAL ASSETS,
19 USING VALUES AS OF THE DISTRIBUTION DATE. IF A FIDUCIARY MAKES MORE THAN
20 ONE DISTRIBUTION OF ASSETS TO BENEFICIARIES TO WHOM THIS SECTION APPLIES,
21 EACH BENEFICIARY, INCLUDING ONE WHO DOES NOT RECEIVE PART OF THE
22 DISTRIBUTION, IS ENTITLED, AS OF EACH DISTRIBUTION DATE, TO THE NET INCOME
23 THE FIDUCIARY HAS RECEIVED AFTER THE DATE OF DEATH OR TERMINATING
24 EVENT OR EARLIER DISTRIBUTION DATE BUT HAS NOT DISTRIBUTED AS OF THE
25 CURRENT DISTRIBUTION DATE.

26 (B) IN DETERMINING A BENEFICIARY'S SHARE OF NET INCOME, THE
27 FOLLOWING RULES APPLY:

28 (1) THE BENEFICIARY IS ENTITLED TO RECEIVE A PORTION OF THE NET
29 INCOME EQUAL TO THE BENEFICIARY'S FRACTIONAL INTEREST IN THE
30 UNDISTRIBUTED PRINCIPAL ASSETS IMMEDIATELY BEFORE THE DISTRIBUTION
31 DATE, INCLUDING ASSETS THAT LATER MAY BE SOLD TO MEET PRINCIPAL
32 OBLIGATIONS.

33 (2) THE BENEFICIARY'S FRACTIONAL INTEREST IN THE
34 UNDISTRIBUTED PRINCIPAL ASSETS SHALL BE CALCULATED WITHOUT REGARD TO
35 PROPERTY SPECIFICALLY GIVEN TO A BENEFICIARY AND PROPERTY REQUIRED TO
36 PAY PECUNIARY AMOUNTS NOT IN TRUST.

37 (3) THE BENEFICIARY'S FRACTIONAL INTEREST IN THE
38 UNDISTRIBUTED PRINCIPAL ASSETS SHALL BE CALCULATED ON THE BASIS OF THE
39 AGGREGATE VALUE OF THOSE ASSETS AS OF THE DISTRIBUTION DATE WITHOUT
40 REDUCING THE VALUE BY ANY UNPAID PRINCIPAL OBLIGATION.

41 (4) THE DISTRIBUTION DATE FOR PURPOSES OF THIS SECTION MAY BE
42 THE DATE AS OF WHICH THE FIDUCIARY CALCULATES THE VALUE OF THE ASSETS IF

1 THAT DATE IS REASONABLY NEAR THE DATE ON WHICH ASSETS ARE ACTUALLY
2 DISTRIBUTED.

3 (C) IF A FIDUCIARY DOES NOT DISTRIBUTE ALL OF THE COLLECTED BUT
4 UNDISTRIBUTED NET INCOME TO EACH PERSON AS OF A DISTRIBUTION DATE, THE
5 FIDUCIARY SHALL MAINTAIN APPROPRIATE RECORDS SHOWING THE INTEREST OF
6 EACH BENEFICIARY IN THAT NET INCOME.

7 (D) A FIDUCIARY MAY APPLY THE RULES IN THIS SECTION, TO THE EXTENT
8 THAT THE FIDUCIARY CONSIDERS IT APPROPRIATE, TO NET GAIN OR LOSS REALIZED
9 AFTER THE DATE OF DEATH OR TERMINATING EVENT OR EARLIER DISTRIBUTION
10 DATE FROM THE DISPOSITION OF A PRINCIPAL ASSET IF THIS SECTION APPLIES TO
11 THE INCOME FROM THE ASSET.

12 PART III. APPORTIONMENT AT BEGINNING AND END OF INCOME INTEREST.

13 15-505. WHEN RIGHT TO INCOME BEGINS AND ENDS.

14 (A) AN INCOME BENEFICIARY IS ENTITLED TO NET INCOME FROM THE DATE
15 ON WHICH THE INCOME INTEREST BEGINS. AN INCOME INTEREST BEGINS ON THE
16 DATE SPECIFIED IN THE TERMS OF THE TRUST OR, IF NO DATE IS SPECIFIED, ON THE
17 DATE AN ASSET BECOMES SUBJECT TO A TRUST OR SUCCESSIVE INCOME INTEREST.

18 (B) AN ASSET BECOMES SUBJECT TO A TRUST:

19 (1) ON THE DATE IT IS TRANSFERRED TO THE TRUST IN THE CASE OF AN
20 ASSET THAT IS TRANSFERRED TO A TRUST DURING THE TRANSFEROR'S LIFE;

21 (2) ON THE DATE OF A TESTATOR'S DEATH IN THE CASE OF AN ASSET
22 THAT BECOMES SUBJECT TO A TRUST BY REASON OF A WILL, EVEN IF THERE IS AN
23 INTERVENING PERIOD OF ADMINISTRATION OF THE TESTATOR'S ESTATE; OR

24 (3) ON THE DATE OF AN INDIVIDUAL'S DEATH IN THE CASE OF AN ASSET
25 THAT IS TRANSFERRED TO A FIDUCIARY BY A THIRD PARTY BECAUSE OF THE
26 INDIVIDUAL'S DEATH.

27 (C) AN ASSET BECOMES SUBJECT TO A SUCCESSIVE INCOME INTEREST ON
28 THE DAY AFTER THE PRECEDING INCOME INTEREST ENDS, AS DETERMINED UNDER
29 SUBSECTION (D) OF THIS SECTION, EVEN IF THERE IS AN INTERVENING PERIOD OF
30 ADMINISTRATION TO WIND UP THE PRECEDING INCOME INTEREST.

31 (D) AN INCOME INTEREST ENDS ON THE DAY BEFORE AN INCOME
32 BENEFICIARY DIES OR ANOTHER TERMINATING EVENT OCCURS, OR ON THE LAST
33 DAY OF A PERIOD DURING WHICH THERE IS NO BENEFICIARY TO WHOM A TRUSTEE
34 MAY DISTRIBUTE INCOME.

1 15-506. APPORTIONMENT OF RECEIPTS AND DISBURSEMENTS WHEN DECEDENT DIES
2 OR INCOME INTEREST BEGINS.

3 (A) A TRUSTEE SHALL ALLOCATE AN INCOME RECEIPT OR DISBURSEMENT
4 OTHER THAN ONE TO WHICH § 15-503(1) OF THIS SUBTITLE APPLIES TO PRINCIPAL IF
5 ITS DUE DATE OCCURS BEFORE A DECEDENT DIES IN THE CASE OF AN ESTATE OR
6 BEFORE AN INCOME INTEREST BEGINS IN THE CASE OF A TRUST OR SUCCESSIVE
7 INCOME INTEREST.

8 (B) A TRUSTEE SHALL ALLOCATE AN INCOME RECEIPT OR DISBURSEMENT TO
9 INCOME IF ITS DUE DATE OCCURS ON OR AFTER THE DATE ON WHICH A DECEDENT
10 DIES OR AN INCOME INTEREST BEGINS AND IT IS A PERIODIC DUE DATE. AN INCOME
11 RECEIPT OR DISBURSEMENT SHALL BE TREATED AS ACCRUING FROM DAY TO DAY IF
12 ITS DUE DATE IS NOT PERIODIC OR IT HAS NO DUE DATE. THE PORTION OF THE
13 RECEIPT OR DISBURSEMENT ACCRUING BEFORE THE DATE ON WHICH A DECEDENT
14 DIES OR AN INCOME INTEREST BEGINS SHALL BE ALLOCATED TO PRINCIPAL AND
15 THE BALANCE SHALL BE ALLOCATED TO INCOME.

16 (C) AN ITEM OF INCOME OR AN OBLIGATION IS DUE ON THE DATE THE PAYER
17 IS REQUIRED TO MAKE A PAYMENT. IF A PAYMENT DATE IS NOT STATED, THERE IS
18 NO DUE DATE FOR THE PURPOSES OF THIS SUBTITLE. DISTRIBUTIONS TO
19 SHAREHOLDERS OR OTHER OWNERS FROM AN ENTITY TO WHICH § 15-508 OF THIS
20 SUBTITLE APPLIES ARE DEEMED TO BE DUE ON THE DATE FIXED BY THE ENTITY FOR
21 DETERMINING WHO IS ENTITLED TO RECEIVE THE DISTRIBUTION OR, IF NO DATE IS
22 FIXED, ON THE DECLARATION DATE FOR THE DISTRIBUTION. A DUE DATE IS
23 PERIODIC FOR RECEIPTS OR DISBURSEMENTS THAT MUST BE PAID AT REGULAR
24 INTERVALS UNDER A LEASE OR AN OBLIGATION TO PAY INTEREST OR IF AN ENTITY
25 CUSTOMARILY MAKES DISTRIBUTIONS AT REGULAR INTERVALS.

26 15-507. APPORTIONMENT WHEN INCOME INTEREST ENDS.

27 (A) (1) IN THIS SECTION, "UNDISTRIBUTED INCOME" MEANS NET INCOME
28 RECEIVED BEFORE THE DATE ON WHICH AN INCOME INTEREST ENDS.

29 (2) "UNDISTRIBUTED INCOME" DOES NOT INCLUDE AN ITEM OF INCOME
30 OR EXPENSE THAT IS DUE OR ACCRUED OR NET INCOME THAT HAS BEEN ADDED OR
31 IS REQUIRED TO BE ADDED TO PRINCIPAL UNDER THE TERMS OF THE TRUST.

32 (B) WHEN A MANDATORY INCOME INTEREST ENDS, THE TRUSTEE SHALL PAY
33 TO A MANDATORY INCOME BENEFICIARY WHO SURVIVES THAT DATE, OR THE
34 ESTATE OF A DECEASED MANDATORY INCOME BENEFICIARY WHOSE DEATH CAUSES
35 THE INTEREST TO END, THE BENEFICIARY'S SHARE OF THE UNDISTRIBUTED INCOME
36 THAT IS NOT DISPOSED OF UNDER THE TERMS OF THE TRUST UNLESS THE
37 BENEFICIARY HAS AN UNQUALIFIED POWER TO REVOKE MORE THAN 5 PERCENT OF
38 THE TRUST IMMEDIATELY BEFORE THE INCOME INTEREST ENDS. IN THE LATTER
39 CASE, THE UNDISTRIBUTED INCOME FROM THE PORTION OF THE TRUST THAT MAY
40 BE REVOKED MUST BE ADDED TO PRINCIPAL.

41 (C) WHEN A TRUSTEE'S OBLIGATION TO PAY A FIXED ANNUITY OR A FIXED
42 FRACTION OF THE VALUE OF THE TRUST'S ASSETS ENDS, THE TRUSTEE SHALL

1 PRORATE THE FINAL PAYMENT IF AND TO THE EXTENT REQUIRED BY APPLICABLE
2 LAW TO ACCOMPLISH A PURPOSE OF THE TRUST OR ITS SETTLOR RELATING TO
3 INCOME, GIFT, ESTATE, OR OTHER TAX REQUIREMENTS.

4 PART IV. ALLOCATION OF RECEIPTS DURING ADMINISTRATION OF TRUST.

5 SUBPART A. RECEIPTS FROM ENTITIES.

6 15-508. CHARACTER OF RECEIPTS.

7 (A) IN THIS SECTION, "ENTITY" MEANS A CORPORATION, PARTNERSHIP,
8 LIMITED LIABILITY COMPANY, REGULATED INVESTMENT COMPANY, REAL ESTATE
9 INVESTMENT TRUST, COMMON TRUST FUND, OR ANY OTHER ORGANIZATION IN
10 WHICH A TRUSTEE HAS AN INTEREST OTHER THAN A TRUST OR ESTATE TO WHICH §
11 15-509 OF THIS SUBTITLE APPLIES, A BUSINESS OR ACTIVITY TO WHICH § 15-510 OF
12 THIS SUBTITLE APPLIES, OR AN ASSET-BACKED SECURITY TO WHICH § 15-522 OF
13 THIS SUBTITLE APPLIES.

14 (B) EXCEPT AS OTHERWISE PROVIDED IN THIS SECTION, A TRUSTEE SHALL
15 ALLOCATE TO INCOME MONEY RECEIVED FROM AN ENTITY.

16 (C) EXCEPT AS PROVIDED IN SUBSECTION (F) OF THIS SECTION, A TRUSTEE
17 SHALL ALLOCATE THE FOLLOWING RECEIPTS FROM AN ENTITY TO PRINCIPAL:

18 (1) PROPERTY OTHER THAN MONEY;

19 (2) MONEY RECEIVED IN ONE DISTRIBUTION OR A SERIES OF RELATED
20 DISTRIBUTIONS IN EXCHANGE FOR PART OR ALL OF A TRUST'S INTEREST IN THE
21 ENTITY;

22 (3) MONEY RECEIVED IN TOTAL OR PARTIAL LIQUIDATION OF THE
23 ENTITY; AND

24 (4) MONEY RECEIVED FROM AN ENTITY THAT IS A REGULATED
25 INVESTMENT COMPANY OR A REAL ESTATE INVESTMENT TRUST IF THE MONEY
26 DISTRIBUTED IS A CAPITAL GAIN DIVIDEND FOR FEDERAL INCOME TAX PURPOSES.

27 (D) MONEY IS RECEIVED IN PARTIAL LIQUIDATION:

28 (1) TO THE EXTENT THAT THE ENTITY, AT OR NEAR THE TIME OF A
29 DISTRIBUTION, INDICATES THAT IT IS A DISTRIBUTION IN PARTIAL LIQUIDATION; OR

30 (2) OF THE TOTAL AMOUNT OF MONEY AND PROPERTY RECEIVED IN A
31 DISTRIBUTION OR SERIES OF RELATED DISTRIBUTIONS IS GREATER THAN 20
32 PERCENT OF THE ENTITY'S GROSS ASSETS, AS SHOWN BY THE ENTITY'S YEAR-END
33 FINANCIAL STATEMENTS IMMEDIATELY PRECEDING THE INITIAL RECEIPT.

34 (E) MONEY IS NOT RECEIVED IN PARTIAL LIQUIDATION, NOR MAY IT BE
35 TAKEN INTO ACCOUNT UNDER SUBSECTION (D)(2) OF THIS SECTION, TO THE EXTENT
36 THAT IT DOES NOT EXCEED THE AMOUNT OF INCOME TAX THAT A TRUSTEE OR

1 BENEFICIARY MUST PAY ON TAXABLE INCOME OF THE ENTITY THAT DISTRIBUTES
2 THE MONEY.

3 (F) (1) (I) IN THIS SUBSECTION THE FOLLOWING WORDS HAVE THE
4 MEANINGS INDICATED.

5 (II) "INVESTMENT FUND" MEANS AN ENTITY TREATED AS A
6 PARTNERSHIP FOR FEDERAL INCOME TAX PURPOSES, HAS 50 OR MORE INVESTORS,
7 AND MORE THAN HALF THE ASSETS OF WHICH CONSIST OF CASH AND MARKETABLE
8 SECURITIES, INCLUDING ITS PROPORTIONATE SHARE OF THESE ASSETS OWNED BY
9 ANY ENTITY IN WHICH IT OWNS AN INTEREST.

10 (III) "UNIT" MEANS AN EQUITY INTEREST IN AN INVESTMENT FUND.

11 (2) IF THE TRUSTEE MAKES AN IRREVOCABLE WRITTEN ELECTION TO
12 HAVE THIS SUBSECTION APPLY, DISTRIBUTIONS PER SHARE OR UNIT MADE IN ANY
13 CALENDAR YEAR BY A REGULATED INVESTMENT COMPANY OR AN INVESTMENT
14 FUND FROM REALIZED OR UNREALIZED CAPITAL GAINS OCCURRING IN THE
15 CALENDAR YEAR SHALL BE ALLOCATED BY THE TRUSTEE TO INCOME TO THE
16 EXTENT REQUIRED IN ORDER FOR THE SUM OF THE DISTRIBUTIONS PER SHARE OR
17 UNIT FROM ORDINARY INCOME AND FROM REALIZED OR UNREALIZED CAPITAL
18 GAINS TO EQUAL AN AMOUNT DETERMINED BY MULTIPLYING THE NET ASSET
19 VALUE OF A SHARE OR UNIT OF THE REGULATED INVESTMENT COMPANY OR
20 INVESTMENT FUND ON JANUARY 1 OF SUCH CALENDAR YEAR (OR ON SUCH LATER
21 DATE OF ACQUISITION BY A TRUSTEE DURING SUCH CALENDAR YEAR) BY THE
22 ANNUAL FEDERAL MID-TERM RATE APPLICABLE TO JANUARY 1 OF SUCH CALENDAR
23 YEAR (OR TO SUCH LATER DATE OF ACQUISITION) ESTABLISHED BY THE SECRETARY
24 OF THE TREASURY UNDER § 1274(D)(1) OF THE INTERNAL REVENUE CODE OF 1986,
25 ADJUSTED TO REFLECT THE PROPORTION OF THE CALENDAR YEAR IN WHICH THE
26 SHARE HAS BEEN HELD BY A TRUSTEE.

27 (G) A TRUSTEE MAY RELY UPON A STATEMENT MADE BY AN ENTITY ABOUT
28 THE SOURCE OR CHARACTER OF A DISTRIBUTION IF THE STATEMENT IS MADE AT OR
29 NEAR THE TIME OF DISTRIBUTION BY THE ENTITY'S BOARD OF DIRECTORS OR
30 OTHER PERSON OR GROUP OF PERSONS AUTHORIZED TO EXERCISE POWERS TO PAY
31 MONEY OR TRANSFER PROPERTY COMPARABLE TO THOSE OF A CORPORATION'S
32 BOARD OF DIRECTORS.

33 15-509. DISTRIBUTION FROM TRUST OR ESTATE.

34 A TRUSTEE SHALL ALLOCATE TO INCOME AN AMOUNT RECEIVED AS A
35 DISTRIBUTION OF INCOME FROM A TRUST OR AN ESTATE IN WHICH THE TRUST HAS
36 AN INTEREST OTHER THAN A PURCHASED INTEREST, AND SHALL ALLOCATE TO
37 PRINCIPAL AN AMOUNT RECEIVED AS A DISTRIBUTION OF PRINCIPAL FROM SUCH A
38 TRUST OR ESTATE. IF A TRUSTEE PURCHASES AN INTEREST IN A TRUST THAT IS AN
39 INVESTMENT ENTITY, OR A DECEDENT OR DONOR TRANSFERS AN INTEREST IN SUCH
40 A TRUST TO A TRUSTEE, § 15-508 OR § 15-522 OF THIS SUBTITLE APPLIES TO A
41 RECEIPT FROM THE TRUST.

1 15-510. BUSINESS AND OTHER ACTIVITIES CONDUCTED BY TRUSTEE.

2 (A) IF A TRUSTEE WHO CONDUCTS A BUSINESS OR OTHER ACTIVITY
3 DETERMINES THAT IT IS IN THE BEST INTEREST OF ALL THE BENEFICIARIES TO
4 ACCOUNT SEPARATELY FOR THE BUSINESS OR ACTIVITY INSTEAD OF ACCOUNTING
5 FOR IT AS PART OF THE TRUST'S GENERAL ACCOUNTING RECORDS, THE TRUSTEE
6 MAY MAINTAIN SEPARATE ACCOUNTING RECORDS FOR ITS TRANSACTIONS,
7 WHETHER OR NOT ITS ASSETS ARE SEGREGATED FROM OTHER TRUST ASSETS.

8 (B) A TRUSTEE WHO ACCOUNTS SEPARATELY FOR A BUSINESS OR OTHER
9 ACTIVITY MAY DETERMINE THE EXTENT TO WHICH ITS NET CASH RECEIPTS MUST
10 BE RETAINED FOR WORKING CAPITAL, THE ACQUISITION OR REPLACEMENT OF
11 FIXED ASSETS, AND OTHER REASONABLY FORESEEABLE NEEDS OF THE BUSINESS
12 OR ACTIVITY, AND THE EXTENT TO WHICH THE REMAINING NET CASH RECEIPTS ARE
13 ACCOUNTED FOR AS PRINCIPAL OR INCOME IN THE TRUST'S GENERAL ACCOUNTING
14 RECORDS. IF A TRUSTEE SELLS ASSETS OF THE BUSINESS OR OTHER ACTIVITY,
15 OTHER THAN IN THE ORDINARY COURSE OF THE BUSINESS OR ACTIVITY, THE
16 TRUSTEE SHALL ACCOUNT FOR THE NET AMOUNT RECEIVED AS PRINCIPAL IN THE
17 TRUST'S GENERAL ACCOUNTING RECORDS TO THE EXTENT THE TRUSTEE
18 DETERMINES THAT THE AMOUNT RECEIVED IS NO LONGER REQUIRED IN THE
19 CONDUCT OF THE BUSINESS.

20 (C) ACTIVITIES FOR WHICH A TRUSTEE MAY MAINTAIN SEPARATE
21 ACCOUNTING RECORDS INCLUDE:

- 22 (1) RETAIL, MANUFACTURING, SERVICE, AND OTHER TRADITIONAL
23 BUSINESS ACTIVITIES;
- 24 (2) FARMING;
- 25 (3) RAISING AND SELLING LIVESTOCK AND OTHER ANIMALS;
- 26 (4) MANAGEMENT OF RENTAL PROPERTIES;
- 27 (5) EXTRACTION OF MINERALS AND OTHER NATURAL RESOURCES;
- 28 (6) TIMBER OPERATIONS; AND
- 29 (7) ACTIVITIES TO WHICH § 15-521 OF THIS SUBTITLE APPLIES.

30 SUBPART B. RECEIPTS NOT NORMALLY APPORTIONED.

31 15-511. PRINCIPAL RECEIPTS.

32 A TRUSTEE SHALL ALLOCATE TO PRINCIPAL:

- 33 (1) TO THE EXTENT NOT ALLOCATED TO INCOME UNDER THIS
34 SUBTITLE, ASSETS RECEIVED FROM A TRANSFEROR DURING THE TRANSFEROR'S
35 LIFETIME, A DECEDENT'S ESTATE, A TRUST WITH A TERMINATING INCOME

1 INTEREST, OR A PAYER UNDER A CONTRACT NAMING THE TRUST OR ITS TRUSTEE AS
2 BENEFICIARY;

3 (2) MONEY OR OTHER PROPERTY RECEIVED FROM THE SALE,
4 EXCHANGE, LIQUIDATION, OR CHANGE IN FORM OF A PRINCIPAL ASSET, INCLUDING
5 REALIZED PROFIT, SUBJECT TO THIS SUBTITLE;

6 (3) AMOUNTS RECOVERED FROM THIRD PARTIES TO REIMBURSE THE
7 TRUST BECAUSE OF DISBURSEMENTS DESCRIBED IN § 15-524(A)(9) OF THIS SUBTITLE
8 OR FOR OTHER REASONS TO THE EXTENT NOT BASED ON THE LOSS OF INCOME;

9 (4) PROCEEDS OF PROPERTY TAKEN BY EMINENT DOMAIN, BUT A
10 SEPARATE AWARD MADE FOR THE LOSS OF INCOME WITH RESPECT TO AN
11 ACCOUNTING PERIOD DURING WHICH A CURRENT INCOME BENEFICIARY HAD A
12 MANDATORY INCOME INTEREST IS INCOME;

13 (5) NET INCOME RECEIVED IN AN ACCOUNTING PERIOD DURING WHICH
14 THERE IS NO BENEFICIARY TO WHOM A TRUSTEE MAY OR MUST DISTRIBUTE
15 INCOME; AND

16 (6) OTHER RECEIPTS AS PROVIDED IN PART III OF THIS SUBTITLE.

17 15-512. RENTAL PROPERTY.

18 TO THE EXTENT THAT A TRUSTEE ACCOUNTS FOR RECEIPTS FROM RENTAL
19 PROPERTY PURSUANT TO THIS SECTION, THE TRUSTEE SHALL ALLOCATE TO
20 INCOME AN AMOUNT RECEIVED AS RENT OF REAL OR PERSONAL PROPERTY,
21 INCLUDING AN AMOUNT RECEIVED FOR CANCELLATION OR RENEWAL OF A LEASE.
22 AN AMOUNT RECEIVED AS A REFUNDABLE DEPOSIT, INCLUDING A SECURITY
23 DEPOSIT OR A DEPOSIT THAT IS TO BE APPLIED AS RENT FOR FUTURE PERIODS,
24 MUST BE ADDED TO PRINCIPAL AND HELD SUBJECT TO THE TERMS OF THE LEASE
25 AND IS NOT AVAILABLE FOR DISTRIBUTION TO A BENEFICIARY UNTIL THE
26 TRUSTEE'S CONTRACTUAL OBLIGATIONS HAVE BEEN SATISFIED WITH RESPECT TO
27 THAT AMOUNT.

28 15-513. OBLIGATION TO PAY MONEY.

29 (A) AN AMOUNT RECEIVED AS INTEREST, WHETHER DETERMINED AT A
30 FIXED, VARIABLE, OR FLOATING RATE, ON AN OBLIGATION TO PAY MONEY TO THE
31 TRUSTEE, INCLUDING AN AMOUNT RECEIVED AS CONSIDERATION FOR PREPAYING
32 PRINCIPAL, MUST BE ALLOCATED TO INCOME WITHOUT ANY PROVISION FOR
33 AMORTIZATION OF PREMIUM.

34 (B) A TRUSTEE SHALL ALLOCATE TO PRINCIPAL AN AMOUNT RECEIVED FROM
35 THE SALE, REDEMPTION, OR OTHER DISPOSITION OF AN OBLIGATION TO PAY MONEY
36 TO THE TRUSTEE MORE THAN 1 YEAR AFTER IT IS PURCHASED OR ACQUIRED BY THE
37 TRUSTEE, INCLUDING AN OBLIGATION WHOSE PURCHASE PRICE OR VALUE WHEN IT
38 IS ACQUIRED IS LESS THAN ITS VALUE AT MATURITY. IF THE OBLIGATION MATURES
39 WITHIN 1 YEAR AFTER IT IS PURCHASED OR ACQUIRED BY THE TRUSTEE, AN

1 AMOUNT RECEIVED IN EXCESS OF ITS PURCHASE PRICE OR ITS VALUE WHEN
2 ACQUIRED BY THE TRUST MUST BE ALLOCATED TO INCOME.

3 (C) THIS SECTION DOES NOT APPLY TO AN OBLIGATION TO WHICH § 15-516, §
4 15-517, § 15-518, § 15-519, § 15-521, OR § 15-522 OF THIS SUBTITLE APPLIES.

5 15-514. INSURANCE POLICIES AND SIMILAR CONTRACTS.

6 (A) EXCEPT AS OTHERWISE PROVIDED IN SUBSECTION (B) OF THIS SECTION, A
7 TRUSTEE SHALL ALLOCATE TO PRINCIPAL THE PROCEEDS OF A LIFE INSURANCE
8 POLICY OR OTHER CONTRACT IN WHICH THE TRUST OR ITS TRUSTEE IS NAMED AS
9 BENEFICIARY, INCLUDING A CONTRACT THAT INSURES THE TRUST OR ITS TRUSTEE
10 AGAINST LOSS FOR DAMAGE TO, DESTRUCTION OF, OR LOSS OF TITLE TO A TRUST
11 ASSET. THE TRUSTEE SHALL ALLOCATE DIVIDENDS ON AN INSURANCE POLICY TO
12 INCOME IF THE PREMIUMS ON THE POLICY ARE PAID FROM INCOME, AND TO
13 PRINCIPAL IF THE PREMIUMS ARE PAID FROM PRINCIPAL.

14 (B) A TRUSTEE SHALL ALLOCATE TO INCOME PROCEEDS OF A CONTRACT
15 THAT INSURES THE TRUSTEE AGAINST LOSS OF OCCUPANCY OR OTHER USE BY AN
16 INCOME BENEFICIARY, LOSS OF INCOME, OR, SUBJECT TO § 15-510 OF THIS SUBTITLE,
17 LOSS OF PROFITS FROM A BUSINESS.

18 (C) THIS SECTION DOES NOT APPLY TO A CONTRACT TO WHICH § 15-516 OF
19 THIS SUBTITLE APPLIES.

20 (D) (1) THIS SUBSECTION APPLIES TO ANY OBLIGATION FOR THE PAYMENT
21 OF MONEY AT A FUTURE TIME, PROVIDED THE OBLIGATION WAS HELD AS AN ASSET
22 OF A TRUST THAT WAS IRREVOCABLE ON OCTOBER 1, 2000 (REGARDLESS OF
23 WHETHER THE ASSET WAS ACQUIRED BEFORE OR AFTER OCTOBER 1, 2000), AND
24 PROVIDED THE TRUSTEE MAKES AN IRREVOCABLE ELECTION ON THE FIRST
25 YEAR-END ACCOUNTING OF THE TRUST'S PRINCIPAL AND INCOME STATED AFTER
26 SEPTEMBER 30, 2000 TO ALLOCATE DISTRIBUTIONS IN ACCORDANCE WITH THIS
27 SUBSECTION, INCLUDING:

28 (I) A BOND;

29 (II) A ZERO COUPON BOND;

30 (III) AN ANNUITY CONTRACT BEFORE UNITIZATION;

31 (IV) A LIFE INSURANCE CONTRACT BEFORE THE DEATH OF THE
32 INSURED; AND

33 (V) AN INTEREST IN A COMMON TRUST FUND AS DEFINED UNDER §
34 584 OF THE INTERNAL REVENUE CODE WITH RESPECT TO CHARITABLE REMAINDER
35 TRUSTS AS DEFINED UNDER § 664 OF THE INTERNAL REVENUE CODE AND POOLED
36 INCOME FUNDS AS DEFINED UNDER § 642(C)(5) OF THE INTERNAL REVENUE CODE.

37 (2) UNLESS OTHERWISE PROVIDED IN THE TRUST INSTRUMENT OR IN
38 THIS SUBTITLE, THE INCREMENT IN VALUE OF AN OBLIGATION FOR THE PAYMENT

1 OF MONEY PAYABLE AT A FUTURE TIME IN ACCORDANCE WITH A FIXED, VARIABLE,
2 OR DISCRETIONARY SCHEDULE OF APPRECIATION IN EXCESS OF THE PRICE AT
3 WHICH IT WAS ISSUED SHALL BE DISTRIBUTABLE AS INCOME.

4 (3) THE INCREMENT IN VALUE IS DISTRIBUTABLE TO THE BENEFICIARY
5 WHO WAS THE INCOME BENEFICIARY AT THE TIME OF THE INCREMENT FROM THE
6 FIRST PRINCIPAL CASH AVAILABLE OR, IF NONE IS AVAILABLE, WHEN REALIZED BY
7 SALE, REDEMPTION, OR OTHER DISPOSITION. WHENEVER UNREALIZED INCREMENT
8 IS DISTRIBUTED AS INCOME, BUT OUT OF PRINCIPAL, THE PRINCIPAL SHALL BE
9 REIMBURSED FOR THE INCREMENT WHEN REALIZED.

10 (4) FOR PURPOSES OF THIS SUBSECTION, THE INCREMENT IN VALUE OF
11 AN OBLIGATION FOR THE PAYMENT OF MONEY SHALL BE AVAILABLE FOR
12 DISTRIBUTION ONLY WHEN THE TRUSTEE RECEIVES CASH ON ACCOUNT OF THE
13 OBLIGATION.

14 SUBPART C. RECEIPTS NORMALLY APPORTIONED.

15 15-515. INSUBSTANTIAL ALLOCATIONS NOT REQUIRED.

16 IF A TRUSTEE DETERMINES THAT AN ALLOCATION BETWEEN PRINCIPAL AND
17 INCOME REQUIRED BY § 15-516, § 15-517, § 15-518, § 15-519, OR § 15-522 OF THIS
18 SUBTITLE IS INSUBSTANTIAL, THE TRUSTEE MAY ALLOCATE THE ENTIRE AMOUNT
19 TO PRINCIPAL. AN ALLOCATION IS PRESUMED TO BE INSUBSTANTIAL IF:

20 (1) THE AMOUNT OF THE ALLOCATION WOULD INCREASE OR DECREASE
21 NET INCOME IN AN ACCOUNTING PERIOD, AS DETERMINED BEFORE THE
22 ALLOCATION, BY LESS THAN 10 PERCENT; OR

23 (2) THE VALUE OF THE ASSET PRODUCING THE RECEIPT FOR WHICH
24 THE ALLOCATION WOULD BE MADE IS LESS THAN 10 PERCENT OF THE TOTAL VALUE
25 OF THE TRUST'S ASSETS AT THE BEGINNING OF THE ACCOUNTING PERIOD.

26 15-516. DEFERRED COMPENSATION, ANNUITIES, AND SIMILAR PAYMENTS.

27 (A) (1) IN THIS SECTION, "PAYMENT" MEANS A PAYMENT THAT A TRUSTEE
28 MAY RECEIVE OVER A FIXED NUMBER OF YEARS OR DURING THE LIFE OF ONE OR
29 MORE INDIVIDUALS BECAUSE OF SERVICES RENDERED OR PROPERTY TRANSFERRED
30 TO THE PAYER IN EXCHANGE FOR FUTURE PAYMENTS.

31 (2) "PAYMENT" INCLUDES A PAYMENT MADE IN MONEY OR PROPERTY
32 FROM THE PAYER'S GENERAL ASSETS OR FROM A SEPARATE FUND CREATED BY THE
33 PAYER, INCLUDING A PRIVATE OR COMMERCIAL ANNUITY, AN INDIVIDUAL
34 RETIREMENT ACCOUNT, AND A PENSION, PROFIT-SHARING, STOCK-BONUS, OR
35 STOCK-OWNERSHIP PLAN.

36 (B) TO THE EXTENT THAT A PAYMENT IS CHARACTERIZED AS INTEREST OR A
37 DIVIDEND OR A PAYMENT MADE IN LIEU OF INTEREST OR A DIVIDEND, A TRUSTEE
38 SHALL ALLOCATE IT TO INCOME. THE TRUSTEE SHALL ALLOCATE TO PRINCIPAL THE
39 BALANCE OF THE PAYMENT AND ANY OTHER PAYMENT RECEIVED IN THE SAME

1 ACCOUNTING PERIOD THAT IS NOT CHARACTERIZED AS INTEREST, A DIVIDEND, OR
2 AN EQUIVALENT PAYMENT.

3 (C) IF NO PART OF A PAYMENT IS CHARACTERIZED AS INTEREST, A DIVIDEND,
4 OR AN EQUIVALENT PAYMENT, AND ALL OR PART OF THE PAYMENT IS REQUIRED TO
5 BE MADE, A TRUSTEE SHALL ALLOCATE TO INCOME 10 PERCENT OF THE PART THAT
6 IS REQUIRED TO BE MADE DURING THE ACCOUNTING PERIOD AND THE BALANCE TO
7 PRINCIPAL. IF NO PART OF A PAYMENT IS REQUIRED TO BE MADE OR THE PAYMENT
8 RECEIVED IS THE ENTIRE AMOUNT TO WHICH THE TRUSTEE IS ENTITLED, THE
9 TRUSTEE SHALL ALLOCATE THE ENTIRE PAYMENT TO PRINCIPAL. FOR PURPOSES OF
10 THIS SUBSECTION, A PAYMENT IS NOT "REQUIRED TO BE MADE" TO THE EXTENT
11 THAT IT IS MADE BECAUSE THE TRUSTEE EXERCISES A RIGHT OF WITHDRAWAL.

12 (D) IF, TO OBTAIN AN ESTATE TAX MARITAL DEDUCTION FOR A TRUST, A
13 TRUSTEE MUST ALLOCATE MORE OF A PAYMENT TO INCOME THAN PROVIDED FOR
14 BY THIS SECTION, THE TRUSTEE SHALL ALLOCATE TO INCOME THE ADDITIONAL
15 AMOUNT NECESSARY TO OBTAIN THE MARITAL DEDUCTION.

16 (E) THIS SECTION DOES NOT APPLY TO PAYMENTS TO WHICH § 15-517 OF THIS
17 SUBTITLE APPLIES.

18 15-517. LIQUIDATING ASSET.

19 (A) (1) IN THIS SECTION, "LIQUIDATING ASSET" MEANS AN ASSET WHOSE
20 VALUE WILL DIMINISH OR TERMINATE BECAUSE THE ASSET IS EXPECTED TO
21 PRODUCE RECEIPTS FOR A PERIOD OF LIMITED DURATION.

22 (2) "LIQUIDATING ASSET" INCLUDES A LEASEHOLD, PATENT,
23 COPYRIGHT, ROYALTY RIGHT, AND RIGHT TO RECEIVE PAYMENTS DURING A PERIOD
24 OF MORE THAN 1 YEAR UNDER AN ARRANGEMENT THAT DOES NOT PROVIDE FOR
25 THE PAYMENT OF INTEREST ON THE UNPAID BALANCE.

26 (3) "LIQUIDATING ASSET" DOES NOT INCLUDE A PAYMENT SUBJECT TO §
27 15-516 OF THIS SUBTITLE, RESOURCES SUBJECT TO § 15-518 OF THIS SUBTITLE,
28 TIMBER SUBJECT TO § 15-519 OF THIS SUBTITLE, AN ACTIVITY SUBJECT TO § 15-521
29 OF THIS SUBTITLE, AN ASSET SUBJECT TO § 15-522 OF THIS SUBTITLE , OR ANY ASSET
30 FOR WHICH THE TRUSTEE ESTABLISHES A RESERVE FOR DEPRECIATION UNDER §
31 15-525 OF THIS SUBTITLE.

32 (B) A TRUSTEE SHALL ALLOCATE TO INCOME 10 PERCENT OF THE RECEIPTS
33 FROM A LIQUIDATING ASSET AND THE BALANCE TO PRINCIPAL.

34 15-518. MINERALS, WATER, AND OTHER NATURAL RESOURCES.

35 (A) TO THE EXTENT THAT A TRUSTEE ACCOUNTS FOR RECEIPTS FROM AN
36 INTEREST IN MINERALS OR OTHER NATURAL RESOURCES PURSUANT TO THIS
37 SECTION, THE TRUSTEE SHALL ALLOCATE THEM AS FOLLOWS:

38 (1) IF RECEIVED AS NOMINAL DELAY RENTAL OR NOMINAL ANNUAL
39 RENT ON A LEASE, A RECEIPT MUST BE ALLOCATED TO INCOME.

1 (2) IF RECEIVED FROM A PRODUCTION PAYMENT, A RECEIPT MUST BE
2 ALLOCATED TO INCOME IF AND TO THE EXTENT THAT THE AGREEMENT CREATING
3 THE PRODUCTION PAYMENT PROVIDES A FACTOR FOR INTEREST OR ITS
4 EQUIVALENT. THE BALANCE MUST BE ALLOCATED TO PRINCIPAL.

5 (3) IF AN AMOUNT RECEIVED AS A ROYALTY, SHUT-IN-WELL PAYMENT,
6 TAKE-OR-PAY PAYMENT, BONUS, OR DELAY RENTAL IS MORE THAN NOMINAL, 90
7 PERCENT MUST BE ALLOCATED TO PRINCIPAL AND THE BALANCE TO INCOME.

8 (4) IF AN AMOUNT IS RECEIVED FROM A WORKING INTEREST OR ANY
9 OTHER INTEREST NOT PROVIDED FOR IN PARAGRAPH (1), (2), OR (3) OF THIS
10 SUBSECTION, 90 PERCENT OF THE NET AMOUNT RECEIVED MUST BE ALLOCATED TO
11 PRINCIPAL AND THE BALANCE TO INCOME.

12 (B) AN AMOUNT RECEIVED ON ACCOUNT OF AN INTEREST IN WATER THAT IS
13 RENEWABLE MUST BE ALLOCATED TO INCOME. IF THE WATER IS NOT RENEWABLE,
14 90 PERCENT OF THE AMOUNT MUST BE ALLOCATED TO PRINCIPAL AND THE
15 BALANCE TO INCOME.

16 (C) THIS SUBTITLE APPLIES WHETHER OR NOT A DECEDENT OR DONOR WAS
17 EXTRACTING MINERALS, WATER, OR OTHER NATURAL RESOURCES BEFORE THE
18 INTEREST BECAME SUBJECT TO THE TRUST.

19 (D) IF A TRUST OWNS AN INTEREST IN MINERALS, WATER, OR OTHER
20 NATURAL RESOURCES ON OCTOBER 1, 2000, THE TRUSTEE MAY ALLOCATE RECEIPTS
21 FROM THE INTEREST AS PROVIDED IN THIS SUBTITLE OR IN THE MANNER USED BY
22 THE TRUSTEE BEFORE OCTOBER 1, 2000. IF THE TRUST ACQUIRES AN INTEREST IN
23 MINERALS, WATER, OR OTHER NATURAL RESOURCES AFTER OCTOBER 1, 2000, THE
24 TRUSTEE SHALL ALLOCATE RECEIPTS FROM THE INTEREST AS PROVIDED IN THIS
25 SUBTITLE.

26 15-519. TIMBER.

27 (A) TO THE EXTENT THAT A TRUSTEE ACCOUNTS FOR RECEIPTS FROM THE
28 SALE OF TIMBER AND RELATED PRODUCTS PURSUANT TO THIS SECTION, THE
29 TRUSTEE SHALL ALLOCATE THE NET RECEIPTS:

30 (1) TO INCOME TO THE EXTENT THAT THE AMOUNT OF TIMBER
31 REMOVED FROM THE LAND DOES NOT EXCEED THE RATE OF GROWTH OF THE
32 TIMBER DURING THE ACCOUNTING PERIODS IN WHICH A BENEFICIARY HAS A
33 MANDATORY INCOME INTEREST;

34 (2) TO PRINCIPAL TO THE EXTENT THAT THE AMOUNT OF TIMBER
35 REMOVED FROM THE LAND EXCEEDS THE RATE OF GROWTH OF THE TIMBER OR THE
36 NET RECEIPTS ARE FROM THE SALE OF STANDING TIMBER;

37 (3) TO OR BETWEEN INCOME AND PRINCIPAL IF THE NET RECEIPTS ARE
38 FROM THE LEASE OF TIMBERLAND OR FROM A CONTRACT TO CUT TIMBER FROM
39 LAND OWNED BY A TRUST, BY DETERMINING THE AMOUNT OF TIMBER REMOVED

1 FROM THE LAND UNDER THE LEASE OR CONTRACT AND APPLYING THE RULES IN
2 PARAGRAPHS (1) AND (2) OF THIS SUBSECTION; OR

3 (4) TO PRINCIPAL TO THE EXTENT THAT ADVANCE PAYMENTS,
4 BONUSES, AND OTHER PAYMENTS ARE NOT ALLOCATED PURSUANT TO PARAGRAPH
5 (1), (2), OR (3) OF THIS SUBSECTION.

6 (B) IN DETERMINING NET RECEIPTS TO BE ALLOCATED PURSUANT TO
7 SUBSECTION (A) OF THIS SECTION, A TRUSTEE SHALL DEDUCT AND TRANSFER TO
8 PRINCIPAL A REASONABLE AMOUNT FOR DEPLETION.

9 (C) THIS SUBTITLE APPLIES WHETHER OR NOT A DECEDENT OR TRANSFEROR
10 WAS HARVESTING TIMBER FROM THE PROPERTY BEFORE IT BECAME SUBJECT TO
11 THE TRUST.

12 (D) IF A TRUST OWNS AN INTEREST IN TIMBERLAND ON OCTOBER 1, 2001, THE
13 TRUSTEE MAY ALLOCATE NET RECEIPTS FROM THE SALE OF TIMBER AND RELATED
14 PRODUCTS AS PROVIDED IN THIS SUBTITLE OR IN THE MANNER USED BY THE
15 TRUSTEE BEFORE OCTOBER 1, 2000. IF THE TRUST ACQUIRES AN INTEREST IN
16 TIMBERLAND AFTER OCTOBER 1, 2000, THE TRUSTEE SHALL ALLOCATE NET
17 RECEIPTS FROM THE SALE OF TIMBER AND RELATED PRODUCTS AS PROVIDED IN
18 THIS SUBTITLE.

19 15-520. PROPERTY NOT PRODUCTIVE OF INCOME.

20 (A) IF A MARITAL DEDUCTION IS ALLOWED FOR ALL OR PART OF A TRUST
21 WHOSE ASSETS CONSIST SUBSTANTIALLY OF PROPERTY THAT DOES NOT PROVIDE
22 THE SPOUSE WITH SUFFICIENT INCOME FROM OR USE OF THE TRUST ASSETS, THE
23 SPOUSE MAY REQUIRE THE TRUSTEE TO MAKE PROPERTY PRODUCTIVE OF INCOME,
24 OR CONVERT PROPERTY WITHIN A REASONABLE TIME. THE TRUSTEE MAY DECIDE
25 WHICH ACTION OR COMBINATION OF ACTIONS TO TAKE.

26 (B) IN CASES NOT GOVERNED BY SUBSECTION (A) OF THIS SECTION,
27 PROCEEDS FROM THE SALE OR OTHER DISPOSITION OF AN ASSET ARE PRINCIPAL
28 WITHOUT REGARD TO THE AMOUNT OF INCOME THE ASSET PRODUCES DURING ANY
29 ACCOUNTING PERIOD.

30 15-521. DERIVATIVES AND OPTIONS.

31 (A) IN THIS SECTION, "DERIVATIVE" MEANS A CONTRACT OR FINANCIAL
32 INSTRUMENT OR A COMBINATION OF CONTRACTS AND FINANCIAL INSTRUMENTS
33 WHICH GIVES A TRUST THE RIGHT OR OBLIGATION TO PARTICIPATE IN SOME OR ALL
34 CHANGES IN THE PRICE OF A TANGIBLE OR INTANGIBLE ASSET OR GROUP OF
35 ASSETS, OR CHANGES IN A RATE, AN INDEX OF PRICES OR RATES, OR OTHER MARKET
36 INDICATOR FOR AN ASSET OR A GROUP OF ASSETS.

37 (B) TO THE EXTENT THAT A TRUSTEE DOES NOT ACCOUNT UNDER § 15-510 OF
38 THIS SUBTITLE FOR TRANSACTIONS IN DERIVATIVES, THE TRUSTEE SHALL
39 ALLOCATE TO PRINCIPAL RECEIPTS FROM AND DISBURSEMENTS MADE IN
40 CONNECTION WITH THOSE TRANSACTIONS.

1 (C) IF A TRUSTEE GRANTS AN OPTION TO BUY PROPERTY FROM THE TRUST,
2 WHETHER OR NOT THE TRUST OWNS THE PROPERTY WHEN THE OPTION IS
3 GRANTED, GRANTS AN OPTION THAT PERMITS ANOTHER PERSON TO SELL PROPERTY
4 TO THE TRUST, OR ACQUIRES AN OPTION TO BUY PROPERTY FOR THE TRUST OR AN
5 OPTION TO SELL AN ASSET OWNED BY THE TRUST, AND THE TRUSTEE OR OTHER
6 OWNER OF THE ASSET IS REQUIRED TO DELIVER THE ASSET IF THE OPTION IS
7 EXERCISED, AN AMOUNT RECEIVED FOR GRANTING THE OPTION SHALL BE
8 ALLOCATED TO PRINCIPAL. AN AMOUNT PAID TO ACQUIRE THE OPTION SHALL BE
9 PAID FROM PRINCIPAL. A GAIN OR LOSS REALIZED UPON THE EXERCISE OF AN
10 OPTION, INCLUDING AN OPTION GRANTED TO A SETTLOR OF THE TRUST FOR
11 SERVICES RENDERED, SHALL BE ALLOCATED TO PRINCIPAL.

12 15-522. ASSET-BACKED SECURITIES.

13 (A) (1) IN THIS SECTION, "ASSET-BACKED SECURITY" MEANS AN ASSET
14 WHOSE VALUE IS BASED UPON THE RIGHT IT GIVES THE OWNER TO RECEIVE
15 DISTRIBUTIONS FROM THE PROCEEDS OF FINANCIAL ASSETS THAT PROVIDE
16 COLLATERAL FOR THE SECURITY.

17 (2) "ASSET-BACKED SECURITY" INCLUDES AN ASSET THAT GIVES THE
18 OWNER THE RIGHT TO RECEIVE FROM THE COLLATERAL FINANCIAL ASSETS ONLY
19 THE INTEREST OR OTHER CURRENT RETURN OR ONLY THE PROCEEDS OTHER THAN
20 INTEREST OR CURRENT RETURN.

21 (3) "ASSET-BACK SECURITY" DOES NOT INCLUDE AN ASSET TO WHICH §
22 15-508 OR § 15-516 OF THIS SUBTITLE APPLIES.

23 (B) IF A TRUST RECEIVES A PAYMENT FROM INTEREST OR OTHER CURRENT
24 RETURN AND FROM OTHER PROCEEDS OF THE COLLATERAL FINANCIAL ASSETS, THE
25 TRUSTEE SHALL ALLOCATE TO INCOME THE PORTION OF THE PAYMENT WHICH THE
26 PAYER IDENTIFIES AS BEING FROM INTEREST OR OTHER CURRENT RETURN AND
27 SHALL ALLOCATE THE BALANCE OF THE PAYMENT TO PRINCIPAL.

28 (C) IF A TRUST RECEIVES ONE OR MORE PAYMENTS IN EXCHANGE FOR THE
29 TRUST'S ENTIRE INTEREST IN AN ASSET-BACKED SECURITY IN ONE ACCOUNTING
30 PERIOD, THE TRUSTEE SHALL ALLOCATE THE PAYMENTS TO PRINCIPAL. IF A
31 PAYMENT IS ONE OF A SERIES OF PAYMENTS THAT WILL RESULT IN THE
32 LIQUIDATION OF THE TRUST'S INTEREST IN THE SECURITY OVER MORE THAN ONE
33 ACCOUNTING PERIOD, THE TRUSTEE SHALL ALLOCATE 10 PERCENT OF THE
34 PAYMENT TO INCOME AND THE BALANCE TO PRINCIPAL.

35 PART V. ALLOCATION OF DISBURSEMENTS DURING ADMINISTRATION OF TRUST.

36 15-523. DISBURSEMENTS FROM INCOME.

37 A TRUSTEE SHALL MAKE THE FOLLOWING DISBURSEMENTS FROM INCOME TO
38 THE EXTENT THAT THEY ARE NOT DISBURSEMENTS TO WHICH § 15-503(2)(II) OR (III)
39 OF THIS SUBTITLE APPLY:

1 (1) REGULAR COMPENSATION OF THE TRUSTEE ON INCOME, IF
2 DETERMINED IN ACCORDANCE WITH § 14-103(B) OF THIS ARTICLE;

3 (2) THAT PORTION OF THE REGULAR COMPENSATION OF THE TRUSTEE,
4 IF THE COMPENSATION IS DETERMINED IN A MANNER OTHER THAN IN ACCORDANCE
5 WITH § 14-103(B) AND (C) OF THIS ARTICLE, AND THAT PORTION OF THE
6 COMPENSATION OF ANY PERSON PROVIDING INVESTMENT ADVISORY OR CUSTODIAL
7 SERVICES TO THE TRUSTEE, AS THE TRUSTEE DETERMINES IS FAIR AND
8 REASONABLE IN ACCORDANCE WITH § 15-502(B) OF THIS SUBTITLE;

9 (3) ONE-HALF OF ALL EXPENSES FOR ACCOUNTINGS, JUDICIAL
10 PROCEEDINGS, OR OTHER MATTERS THAT INVOLVE BOTH THE INCOME AND
11 REMAINDER INTERESTS;

12 (4) ALL OF THE OTHER ORDINARY EXPENSES INCURRED IN
13 CONNECTION WITH THE ADMINISTRATION, MANAGEMENT, OR PRESERVATION OF
14 TRUST PROPERTY AND THE DISTRIBUTION OF INCOME, INCLUDING INTEREST,
15 ORDINARY REPAIRS, REGULARLY RECURRING TAXES ASSESSED AGAINST PRINCIPAL,
16 AND EXPENSES OF A PROCEEDING OR OTHER MATTER THAT CONCERNS PRIMARILY
17 THE INCOME INTEREST; AND

18 (5) RECURRING PREMIUMS ON INSURANCE COVERING THE LOSS OF A
19 PRINCIPAL ASSET OR THE LOSS OF INCOME FROM OR USE OF THE ASSET.

20 15-524. DISBURSEMENTS FROM PRINCIPAL.

21 (A) A TRUSTEE SHALL MAKE THE FOLLOWING DISBURSEMENTS FROM
22 PRINCIPAL:

23 (1) REGULAR COMPENSATION OF THE TRUSTEE ON PRINCIPAL, IF
24 DETERMINED IN ACCORDANCE WITH § 14-103(C) OF THIS ARTICLE;

25 (2) THAT PORTION OF THE REGULAR COMPENSATION OF THE TRUSTEE,
26 IF THE COMPENSATION IS DETERMINED IN A MANNER OTHER THAN IN ACCORDANCE
27 WITH § 14-103(B) AND (C) OF THIS ARTICLE, AND THAT PORTION OF THE
28 COMPENSATION OF ANY PERSON PROVIDING INVESTMENT ADVISORY OR CUSTODIAL
29 SERVICES TO THE TRUSTEE, AS THE TRUSTEE DETERMINES IS FAIR AND
30 REASONABLE IN ACCORDANCE WITH § 15-502(B) OF THIS SUBTITLE;

31 (3) ONE-HALF OF ALL EXPENSES FOR ACCOUNTINGS, JUDICIAL
32 PROCEEDINGS, OR OTHER MATTERS THAT INVOLVE BOTH THE INCOME AND
33 REMAINDER INTERESTS;

34 (4) ALL OF THE TRUSTEE'S COMPENSATION CALCULATED ON PRINCIPAL
35 AS A FEE FOR ACCEPTANCE, DISTRIBUTION, OR TERMINATION, AND DISBURSEMENTS
36 MADE TO PREPARE PROPERTY FOR SALE;

37 (5) PAYMENTS ON THE PRINCIPAL OF A TRUST DEBT;

1 (6) EXPENSES OF A PROCEEDING THAT CONCERNS PRIMARILY
2 PRINCIPAL, INCLUDING A PROCEEDING TO CONSTRUE THE TRUST OR TO PROTECT
3 THE TRUST OR ITS PROPERTY;

4 (7) PREMIUMS PAID ON A POLICY OF INSURANCE NOT DESCRIBED IN §
5 15-523(5) OF THIS SUBTITLE OF WHICH THE TRUST IS THE OWNER AND BENEFICIARY;

6 (8) ESTATE, INHERITANCE, AND OTHER TRANSFER TAXES, INCLUDING
7 PENALTIES, APPORTIONED TO THE TRUST; AND

8 (9) DISBURSEMENTS RELATED TO ENVIRONMENTAL MATTERS,
9 INCLUDING RECLAMATION, ASSESSING ENVIRONMENTAL CONDITIONS, REMEDYING
10 AND REMOVING ENVIRONMENTAL CONTAMINATION, MONITORING REMEDIAL
11 ACTIVITIES AND THE RELEASE OF SUBSTANCES, PREVENTING FUTURE RELEASES OF
12 SUBSTANCES, COLLECTING AMOUNTS FROM PERSONS LIABLE OR POTENTIALLY
13 LIABLE FOR THE COSTS OF THOSE ACTIVITIES, PENALTIES IMPOSED UNDER
14 ENVIRONMENTAL LAWS OR REGULATIONS AND OTHER PAYMENTS MADE TO COMPLY
15 WITH THOSE LAWS OR REGULATIONS, STATUTORY OR COMMON LAW CLAIMS BY
16 THIRD PARTIES, AND DEFENDING CLAIMS BASED ON ENVIRONMENTAL MATTERS.

17 (B) IF A PRINCIPAL ASSET IS ENCUMBERED WITH AN OBLIGATION THAT
18 REQUIRES INCOME FROM THAT ASSET TO BE PAID DIRECTLY TO THE CREDITOR, THE
19 TRUSTEE SHALL TRANSFER FROM PRINCIPAL TO INCOME AN AMOUNT EQUAL TO
20 THE INCOME PAID TO THE CREDITOR IN REDUCTION OF THE PRINCIPAL BALANCE OF
21 THE OBLIGATION.

22 15-525. TRANSFERS FROM INCOME TO PRINCIPAL FOR DEPRECIATION.

23 (A) IN THIS SECTION, "DEPRECIATION" MEANS A REDUCTION IN VALUE DUE
24 TO WEAR, TEAR, DECAY, CORROSION, OR GRADUAL OBSOLESCENCE OF A FIXED
25 ASSET HAVING A USEFUL LIFE OF MORE THAN 1 YEAR.

26 (B) A TRUSTEE MAY TRANSFER TO PRINCIPAL A REASONABLE AMOUNT OF
27 THE NET CASH RECEIPTS FROM A PRINCIPAL ASSET THAT IS SUBJECT TO
28 DEPRECIATION, BUT MAY NOT TRANSFER ANY AMOUNT FOR DEPRECIATION:

29 (1) OF THAT PORTION OF REAL PROPERTY USED OR AVAILABLE FOR USE
30 BY A BENEFICIARY AS A RESIDENCE OR OF TANGIBLE PERSONAL PROPERTY HELD
31 OR MADE AVAILABLE FOR THE PERSONAL USE OR ENJOYMENT OF A BENEFICIARY;

32 (2) DURING THE ADMINISTRATION OF A DECEDENT'S ESTATE; OR

33 (3) UNDER THIS SECTION IF THE TRUSTEE IS ACCOUNTING UNDER §
34 15-510 OF THIS SUBTITLE FOR THE BUSINESS OR ACTIVITY IN WHICH THE ASSET IS
35 USED.

36 (C) AN AMOUNT TRANSFERRED TO PRINCIPAL NEED NOT BE HELD AS A
37 SEPARATE FUND.

1 15-526. TRANSFERS FROM INCOME TO REIMBURSE PRINCIPAL.

2 (A) IF A TRUSTEE MAKES OR EXPECTS TO MAKE A PRINCIPAL DISBURSEMENT
3 DESCRIBED IN THIS SECTION, THE TRUSTEE MAY TRANSFER AN APPROPRIATE
4 AMOUNT FROM INCOME TO PRINCIPAL IN ONE OR MORE ACCOUNTING PERIODS TO
5 REIMBURSE PRINCIPAL OR TO PROVIDE A RESERVE FOR FUTURE PRINCIPAL
6 DISBURSEMENTS.

7 (B) PRINCIPAL DISBURSEMENTS TO WHICH SUBSECTION (A) APPLIES
8 INCLUDE THE FOLLOWING, BUT ONLY TO THE EXTENT THAT THE TRUSTEE HAS NOT
9 BEEN AND DOES NOT EXPECT TO BE REIMBURSED BY A THIRD PARTY:

10 (1) AN AMOUNT CHARGEABLE TO INCOME BUT PAID FROM PRINCIPAL
11 BECAUSE IT IS UNUSUALLY LARGE, INCLUDING EXTRAORDINARY REPAIRS;

12 (2) A CAPITAL IMPROVEMENT TO A PRINCIPAL ASSET, WHETHER IN THE
13 FORM OF CHANGES TO AN EXISTING ASSET OR THE CONSTRUCTION OF A NEW ASSET,
14 INCLUDING SPECIAL ASSESSMENTS;

15 (3) DISBURSEMENTS MADE TO PREPARE PROPERTY FOR RENTAL,
16 INCLUDING TENANT ALLOWANCES, LEASEHOLD IMPROVEMENTS, AND BROKER'S
17 COMMISSIONS;

18 (4) PERIODIC PAYMENTS ON AN OBLIGATION SECURED BY A PRINCIPAL
19 ASSET TO THE EXTENT THAT THE AMOUNT TRANSFERRED FROM INCOME TO
20 PRINCIPAL FOR DEPRECIATION IS LESS THAN THE PERIODIC PAYMENTS; AND

21 (5) DISBURSEMENTS DESCRIBED IN § 15-524(A)(9) OF THIS SUBTITLE.

22 (C) IF THE ASSET WHOSE OWNERSHIP GIVES RISE TO THE DISBURSEMENTS
23 BECOMES SUBJECT TO A SUCCESSIVE INCOME INTEREST AFTER AN INCOME
24 INTEREST ENDS, A TRUSTEE MAY CONTINUE TO TRANSFER AMOUNTS FROM INCOME
25 TO PRINCIPAL AS PROVIDED IN SUBSECTION (A) OF THIS SECTION.

26 15-527. INCOME TAXES.

27 (A) A TAX REQUIRED TO BE PAID BY A TRUSTEE BASED ON RECEIPTS
28 ALLOCATED TO INCOME SHALL BE PAID FROM INCOME.

29 (B) A TAX REQUIRED TO BE PAID BY A TRUSTEE BASED ON RECEIPTS
30 ALLOCATED TO PRINCIPAL SHALL BE PAID FROM PRINCIPAL, EVEN IF THE TAX IS
31 CALLED AN INCOME TAX BY THE TAXING AUTHORITY.

32 (C) A TAX REQUIRED TO BE PAID BY A TRUSTEE ON THE TRUST'S SHARE OF AN
33 ENTITY'S TAXABLE INCOME SHALL BE PAID PROPORTIONATELY:

34 (1) FROM INCOME TO THE EXTENT THAT RECEIPTS FROM THE ENTITY
35 ARE ALLOCATED TO INCOME; AND

36 (2) FROM PRINCIPAL TO THE EXTENT THAT:

1 (I) RECEIPTS FROM THE ENTITY ARE ALLOCATED TO PRINCIPAL;
2 AND

3 (II) THE TRUST'S SHARE OF THE ENTITY'S TAXABLE INCOME
4 EXCEEDS THE TOTAL RECEIPTS DESCRIBED IN PARAGRAPHS (1) AND (2)(I) OF THIS
5 SUBSECTION.

6 (D) FOR PURPOSES OF THIS SECTION, RECEIPTS ALLOCATED TO PRINCIPAL
7 OR INCOME MUST BE REDUCED BY THE AMOUNT DISTRIBUTED TO A BENEFICIARY
8 FROM PRINCIPAL OR INCOME FOR WHICH THE TRUST RECEIVES A DEDUCTION IN
9 CALCULATING THE TAX.

10 15-528. ADJUSTMENTS BETWEEN PRINCIPAL AND INCOME BECAUSE OF TAXES.

11 (A) A FIDUCIARY MAY MAKE ADJUSTMENTS BETWEEN PRINCIPAL AND
12 INCOME TO OFFSET THE SHIFTING OF ECONOMIC INTERESTS OR TAX BENEFITS
13 BETWEEN INCOME BENEFICIARIES AND REMAINDER BENEFICIARIES WHICH ARISE
14 FROM:

15 (1) ELECTIONS AND DECISIONS, OTHER THAN THOSE DESCRIBED IN
16 SUBSECTION (B) OF THIS SECTION, THAT THE FIDUCIARY MAKES FROM TIME TO
17 TIME REGARDING TAX MATTERS;

18 (2) AN INCOME TAX OR ANY OTHER TAX THAT IS IMPOSED UPON THE
19 FIDUCIARY OR A BENEFICIARY AS A RESULT OF A TRANSACTION INVOLVING OR A
20 DISTRIBUTION FROM THE ESTATE OR TRUST; OR

21 (3) THE OWNERSHIP BY AN ESTATE OR TRUST OF AN INTEREST IN AN
22 ENTITY WHOSE TAXABLE INCOME, WHETHER OR NOT DISTRIBUTED, IS INCLUDABLE
23 IN THE TAXABLE INCOME OF THE ESTATE, TRUST, OR A BENEFICIARY.

24 (B) IF THE AMOUNT OF AN ESTATE TAX MARITAL DEDUCTION OR
25 CHARITABLE CONTRIBUTION DEDUCTION IS REDUCED BECAUSE A FIDUCIARY
26 DEDUCTS AN AMOUNT PAID FROM PRINCIPAL FOR INCOME TAX PURPOSES INSTEAD
27 OF DEDUCTING IT FOR ESTATE TAX PURPOSES, AND AS A RESULT ESTATE TAXES
28 PAID FROM PRINCIPAL ARE INCREASED AND INCOME TAXES PAID BY AN ESTATE,
29 TRUST, OR BENEFICIARY ARE DECREASED, EACH ESTATE, TRUST, OR BENEFICIARY
30 THAT BENEFITS FROM THE DECREASE IN INCOME TAX SHALL REIMBURSE THE
31 PRINCIPAL FROM WHICH THE INCREASE IN ESTATE TAX IS PAID. THE TOTAL
32 REIMBURSEMENT MUST EQUAL THE INCREASE IN THE ESTATE TAX TO THE EXTENT
33 THAT THE PRINCIPAL USED TO PAY THE INCREASE WOULD HAVE QUALIFIED FOR A
34 MARITAL DEDUCTION OR CHARITABLE CONTRIBUTION DEDUCTION BUT FOR THE
35 PAYMENT. THE PROPORTIONATE SHARE OF THE REIMBURSEMENT FOR EACH
36 ESTATE, TRUST, OR BENEFICIARY WHOSE INCOME TAXES ARE REDUCED MUST BE
37 THE SAME AS ITS PROPORTIONATE SHARE OF THE TOTAL DECREASE IN INCOME TAX.
38 AN ESTATE OR TRUST SHALL REIMBURSE PRINCIPAL FROM INCOME.

1 15-529. UNIFORMITY OF APPLICATION AND CONSTRUCTION.

2 THIS SUBTITLE SHALL BE SO APPLIED AND CONSTRUED TO EFFECTUATE ITS
3 GENERAL PURPOSE TO MAKE UNIFORM THE LAW WITH RESPECT TO THE SUBJECT
4 MATTER OF THIS SUBTITLE AMONG THOSE STATES WHICH ENACT IT.

5 15-530. SHORT TITLE.

6 THIS SUBTITLE MAY BE CITED AS THE "MARYLAND UNIFORM PRINCIPAL AND
7 INCOME ACT".

8 SECTION 3. AND BE IT FURTHER ENACTED, That if any provision of this
9 Act or the application thereof to any person or circumstance is held invalid for any
10 reason in a court of competent jurisdiction, the invalidity does not affect other
11 provisions or any other application of this Act which can be given effect without the
12 invalid provision or application, and for this purpose the provisions of this Act are
13 declared severable.

14 SECTION 4. AND BE IT FURTHER ENACTED, That this Act applies to each
15 trust or decedent's estate existing on the effect date of this Act, except as otherwise
16 expressly provided in the will or terms of the trust or under this Act.

17 SECTION 5. AND BE IT FURTHER ENACTED, That this Act shall take
18 effect October 1, 2000.