

SENATE BILL 636

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2000 Regular Session
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By: **Senator Baker**

Introduced and read first time: February 4, 2000

Assigned to: Judicial Proceedings

Committee Report: Favorable with amendments

Senate action: Adopted

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CHAPTER_____

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"

1 Annotated Code of Maryland
2 (1991 Replacement Volume and 1999 Supplement)

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6 Annotated Code of Maryland be repealed.

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

9 **Article - Estates and Trusts**

10 11-106.

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

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

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

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

39 (c) Unless otherwise expressly provided by a will or other controlling
40 instrument, under which a gift is made to or for the benefit of the surviving spouse of

1 a decedent which qualifies for an estate tax marital deduction under the tax law of
2 the United States and the amount or size of the gift is defined by the terms of the will
3 or other controlling instrument in terms of the maximum marital deduction allowable
4 under the tax law, the definitions do not constitute a direction by the decedent to the
5 fiduciary to exercise an election respecting the deduction of estate administration
6 expenses or the determination of the estate tax valuation date, which the fiduciary
7 may have under the tax law, only in a manner as will result in a larger allowable
8 estate tax marital deduction than if the contrary election had been made.

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

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

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

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

27 SUBTITLE 5. MARYLAND UNIFORM PRINCIPAL AND INCOME ACT.

28 PART I. DEFINITIONS; FIDUCIARY DUTIES.

29 15-501. DEFINITIONS.

30 (A) IN THIS SUBTITLE THE FOLLOWING WORDS HAVE THE MEANINGS
31 INDICATED.

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

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

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

- 1 (D) (1) "FIDUCIARY" MEANS A PERSONAL REPRESENTATIVE OR A TRUSTEE.
- 2 (2) "FIDUCIARY" INCLUDES AN EXECUTOR, ADMINISTRATOR,
3 SUCCESSOR PERSONAL REPRESENTATIVE, SPECIAL ADMINISTRATOR, AND A PERSON
4 PERFORMING SUBSTANTIALLY THE SAME FUNCTION.
- 5 (E) (1) "INCOME" MEANS MONEY OR PROPERTY THAT A FIDUCIARY
6 RECEIVES AS CURRENT RETURN FROM A PRINCIPAL ASSET.
- 7 (2) "INCOME" INCLUDES A PORTION OF RECEIPTS FROM A SALE,
8 EXCHANGE, OR LIQUIDATION OF A PRINCIPAL ASSET, TO THE EXTENT PROVIDED IN
9 PART IV OF THIS SUBTITLE.
- 10 (F) "INCOME BENEFICIARY" MEANS A PERSON TO WHOM NET INCOME OF A
11 TRUST IS OR MAY BE PAYABLE.
- 12 (G) "INCOME INTEREST" MEANS THE RIGHT OF AN INCOME BENEFICIARY TO
13 RECEIVE ALL OR PART OF NET INCOME, WHETHER THE TERMS OF THE TRUST
14 REQUIRE IT TO BE DISTRIBUTED OR AUTHORIZE IT TO BE DISTRIBUTED IN THE
15 TRUSTEE'S DISCRETION.
- 16 (H) "MANDATORY INCOME INTEREST" MEANS THE RIGHT OF AN INCOME
17 BENEFICIARY TO RECEIVE NET INCOME THAT THE TERMS OF THE TRUST REQUIRE
18 THE FIDUCIARY TO DISTRIBUTE.
- 19 (I) "NET INCOME" MEANS THE TOTAL RECEIPTS ALLOCATED TO INCOME
20 DURING AN ACCOUNTING PERIOD MINUS THE DISBURSEMENTS MADE FROM
21 INCOME DURING THE PERIOD, PLUS OR MINUS TRANSFERS UNDER THIS SUBTITLE
22 TO OR FROM INCOME DURING THE PERIOD.
- 23 (J) "PERSON" MEANS AN INDIVIDUAL, CORPORATION, BUSINESS TRUST,
24 ESTATE, TRUST, PARTNERSHIP, LIMITED LIABILITY COMPANY, ASSOCIATION, JOINT
25 VENTURE, GOVERNMENT; GOVERNMENTAL SUBDIVISION, AGENCY, OR
26 INSTRUMENTALITY; PUBLIC CORPORATION, OR ANY OTHER LEGAL OR COMMERCIAL
27 ENTITY.
- 28 (K) "PRINCIPAL" MEANS PROPERTY HELD IN TRUST FOR DISTRIBUTION TO A
29 REMAINDER BENEFICIARY WHEN THE TRUST TERMINATES.
- 30 (L) "REMAINDER BENEFICIARY" MEANS A PERSON ENTITLED TO RECEIVE
31 PRINCIPAL WHEN AN INCOME INTEREST ENDS.
- 32 (M) "TERMS OF A TRUST" MEANS THE MANIFESTATION OF THE INTENT OF A
33 SETTLOR OR DECEDENT WITH RESPECT TO THE TRUST, EXPRESSED IN A MANNER
34 THAT ADMITS OF ITS PROOF IN A JUDICIAL PROCEEDING, WHETHER BY WRITTEN OR
35 SPOKEN WORDS OR BY CONDUCT.
- 36 (N) "TRUSTEE" INCLUDES AN ORIGINAL, ADDITIONAL, OR SUCCESSOR
37 TRUSTEE, WHETHER OR NOT APPOINTED OR CONFIRMED BY A COURT.

1 15-502. FIDUCIARY DUTIES; GENERAL PRINCIPLES.

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

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

8 (2) MAY ADMINISTER A TRUST OR ESTATE BY THE EXERCISE OF A
9 DISCRETIONARY POWER OF ADMINISTRATION GIVEN TO THE FIDUCIARY BY THE
10 TERMS OF THE TRUST OR THE WILL, EVEN IF THE EXERCISE OF THE POWER
11 PRODUCES A RESULT DIFFERENT FROM A RESULT REQUIRED OR PERMITTED BY
12 THIS SUBTITLE;

13 (3) SHALL ADMINISTER A TRUST OR ESTATE IN ACCORDANCE WITH THIS
14 SUBTITLE IF THE TERMS OF THE TRUST OR THE WILL DO NOT CONTAIN A DIFFERENT
15 PROVISION OR DO NOT GIVE THE FIDUCIARY A DISCRETIONARY POWER OF
16 ADMINISTRATION; AND

17 (4) SHALL ADD A RECEIPT OR CHARGE A DISBURSEMENT TO PRINCIPAL
18 TO THE EXTENT THAT THE TERMS OF THE TRUST AND THIS SUBTITLE DO NOT
19 PROVIDE A RULE FOR ALLOCATING THE RECEIPT OR DISBURSEMENT TO OR
20 BETWEEN PRINCIPAL AND INCOME.

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

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

31 15-503. DETERMINATION AND DISTRIBUTION OF NET INCOME.

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

34 (1) (I) A FIDUCIARY OF AN ESTATE OR OF A TERMINATING INCOME
35 INTEREST SHALL DETERMINE THE AMOUNT OF NET INCOME AND NET PRINCIPAL
36 RECEIPTS RECEIVED FROM PROPERTY SPECIFICALLY GIVEN TO A BENEFICIARY
37 UNDER THE RULES IN PARTS III THROUGH V OF THIS SUBTITLE WHICH APPLY TO
38 TRUSTEES AND THE RULES IN PARAGRAPH (4) OF THIS SECTION. THE FIDUCIARY
39 SHALL DISTRIBUTE THE NET INCOME AND NET PRINCIPAL RECEIPTS TO THE
40 BENEFICIARY WHO IS TO RECEIVE THE SPECIFIC PROPERTY.

1 (II) 1. IF THE INCOME AND PRINCIPAL RECEIPTS FROM THE
2 SPECIFIC PROPERTY ARE NOT SUFFICIENT TO PAY THE TAXES, ORDINARY REPAIRS,
3 AND OTHER EXPENSES OF MANAGEMENT AND OPERATION RELATING TO THE
4 PROPERTY, OR IF THERE ARE NO INCOME OR PRINCIPAL RECEIPTS, THEN EXPENSES
5 IN EXCESS OF INCOME AND PRINCIPAL RECEIPTS SHALL BE CHARGED TO AND PAID
6 BY THE BENEFICIARY WHO IS TO RECEIVE THE SPECIFIC PROPERTY IMMEDIATELY
7 UPON WRITTEN DEMAND OF THE PERSONAL REPRESENTATIVE, OR AT THE OPTION
8 OF THE BENEFICIARY, CHARGED AGAINST A SHARE OF THE ESTATE TO WHICH THE
9 BENEFICIARY MAY BE ENTITLED.

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

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

25 (I) INCLUDING IN NET INCOME ALL INCOME FROM PROPERTY
26 USED TO DISCHARGE LIABILITIES;

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

35 (III) PAYING FROM PRINCIPAL ALL OTHER DISBURSEMENTS MADE
36 OR INCURRED IN CONNECTION WITH THE SETTLEMENT OF A DECEDENT'S ESTATE
37 OR THE WINDING UP OF A TERMINATING INCOME INTEREST, INCLUDING DEBTS,
38 FUNERAL EXPENSES, DISPOSITION OF REMAINS, FAMILY ALLOWANCES, AND DEATH
39 TAXES AND RELATED PENALTIES THAT ARE APPORTIONED TO THE ESTATE OR
40 TERMINATING INCOME INTEREST BY THE WILL, THE TERMS OF THE TRUST, OR
41 APPLICABLE LAW.

42 (3) A FIDUCIARY SHALL DISTRIBUTE THE REMAINING NET INCOME IN
43 THE MANNER DESCRIBED IN § 15-504 OF THIS SUBTITLE TO ALL OTHER

1 BENEFICIARIES, INCLUDING A BENEFICIARY WHO RECEIVES A PECUNIARY AMOUNT
2 IN TRUST, EVEN IF THE BENEFICIARY HOLDS AN UNQUALIFIED POWER TO
3 WITHDRAW ASSETS FROM THE TRUST OR OTHER PRESENTLY EXERCISABLE
4 GENERAL POWER OF APPOINTMENT OVER THE TRUST, BUT EXCLUDING A
5 BENEFICIARY OTHER THAN A SURVIVING SPOUSE WHO RECEIVES A PECUNIARY
6 AMOUNT THAT IS NOT IN TRUST.

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

21 15-504. DISTRIBUTION TO RESIDUARY AND REMAINDER BENEFICIARIES.

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

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

34 (1) THE BENEFICIARY IS ENTITLED TO RECEIVE A PORTION OF THE NET
35 INCOME EQUAL TO THE BENEFICIARY'S FRACTIONAL INTEREST IN THE
36 UNDISTRIBUTED PRINCIPAL ASSETS IMMEDIATELY BEFORE THE DISTRIBUTION
37 DATE, INCLUDING ASSETS THAT LATER MAY BE SOLD TO MEET PRINCIPAL
38 OBLIGATIONS.

39 (2) THE BENEFICIARY'S FRACTIONAL INTEREST IN THE
40 UNDISTRIBUTED PRINCIPAL ASSETS SHALL BE CALCULATED WITHOUT REGARD TO
41 PROPERTY SPECIFICALLY GIVEN TO A BENEFICIARY AND PROPERTY REQUIRED TO
42 PAY PECUNIARY AMOUNTS NOT IN TRUST.

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

5 (4) THE DISTRIBUTION DATE FOR PURPOSES OF THIS SECTION MAY BE
6 THE DATE AS OF WHICH THE FIDUCIARY CALCULATES THE VALUE OF THE ASSETS IF
7 THAT DATE IS REASONABLY NEAR THE DATE ON WHICH ASSETS ARE ACTUALLY
8 DISTRIBUTED.

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

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

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

19 15-505. WHEN RIGHT TO INCOME BEGINS AND ENDS.

20 (A) AN INCOME BENEFICIARY IS ENTITLED TO NET INCOME FROM THE DATE
21 ON WHICH THE INCOME INTEREST BEGINS. AN INCOME INTEREST BEGINS ON THE
22 DATE SPECIFIED IN THE TERMS OF THE TRUST OR, IF NO DATE IS SPECIFIED, ON THE
23 DATE AN ASSET BECOMES SUBJECT TO A TRUST OR SUCCESSIVE INCOME INTEREST.

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

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

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

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

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

37 (D) AN INCOME INTEREST ENDS ON THE DAY BEFORE AN INCOME
38 BENEFICIARY DIES OR ANOTHER TERMINATING EVENT OCCURS, OR ON THE LAST

1 DAY OF A PERIOD DURING WHICH THERE IS NO BENEFICIARY TO WHOM A TRUSTEE
2 MAY DISTRIBUTE INCOME.

3 15-506. APPORTIONMENT OF RECEIPTS AND DISBURSEMENTS WHEN DECEDENT DIES
4 OR INCOME INTEREST BEGINS.

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

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

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

28 15-507. APPORTIONMENT WHEN INCOME INTEREST ENDS.

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

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

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

1 (C) WHEN A TRUSTEE'S OBLIGATION TO PAY A FIXED ANNUITY OR A FIXED
2 FRACTION OF THE VALUE OF THE TRUST'S ASSETS ENDS, THE TRUSTEE SHALL
3 PRORATE THE FINAL PAYMENT IF AND TO THE EXTENT REQUIRED BY APPLICABLE
4 LAW TO ACCOMPLISH A PURPOSE OF THE TRUST OR ITS SETTLOR RELATING TO
5 INCOME, GIFT, ESTATE, OR OTHER TAX REQUIREMENTS.

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

7 SUBPART A. RECEIPTS FROM ENTITIES.

8 15-508. CHARACTER OF RECEIPTS.

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

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

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

20 (1) PROPERTY OTHER THAN MONEY;

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

24 (3) MONEY RECEIVED IN TOTAL OR PARTIAL LIQUIDATION OF THE
25 ENTITY; AND

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

29 (D) MONEY IS RECEIVED IN PARTIAL LIQUIDATION:

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

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

1 (E) MONEY IS NOT RECEIVED IN PARTIAL LIQUIDATION, NOR MAY IT BE
2 TAKEN INTO ACCOUNT UNDER SUBSECTION (D)(2) OF THIS SECTION, TO THE EXTENT
3 THAT IT DOES NOT EXCEED THE AMOUNT OF INCOME TAX THAT A TRUSTEE OR
4 BENEFICIARY MUST PAY ON TAXABLE INCOME OF THE ENTITY THAT DISTRIBUTES
5 THE MONEY.

6 (F) (1) (I) IN THIS SUBSECTION THE FOLLOWING WORDS HAVE THE
7 MEANINGS INDICATED.

8 (II) "INVESTMENT FUND" MEANS AN ENTITY THAT IS EXEMPT
9 FROM REGISTRATION UNDER THE INVESTMENT COMPANY ACT OF 1940 BASED ON
10 THE AUTHORITY IN 15 U.S.C. § 80A-3(C)(1), IS TREATED AS A PARTNERSHIP FOR
11 FEDERAL INCOME TAX PURPOSES, HAS 50 OR MORE INVESTORS, AND MORE THAN
12 HALF THE ASSETS OF WHICH CONSIST OF CASH AND MARKETABLE SECURITIES,
13 INCLUDING ITS PROPORTIONATE SHARE OF THESE ASSETS OWNED BY ANY ENTITY
14 IN WHICH IT OWNS AN INTEREST.

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

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

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

38 15-509. DISTRIBUTION FROM TRUST OR ESTATE.

39 A TRUSTEE SHALL ALLOCATE TO INCOME AN AMOUNT RECEIVED AS A
40 DISTRIBUTION OF INCOME FROM A TRUST OR AN ESTATE IN WHICH THE TRUST HAS
41 AN INTEREST OTHER THAN A PURCHASED INTEREST, AND SHALL ALLOCATE TO
42 PRINCIPAL AN AMOUNT RECEIVED AS A DISTRIBUTION OF PRINCIPAL FROM SUCH A

1 TRUST OR ESTATE. IF A TRUSTEE PURCHASES AN INTEREST IN A TRUST THAT IS AN
2 INVESTMENT ENTITY, OR A DECEDENT OR DONOR TRANSFERS AN INTEREST IN SUCH
3 A TRUST TO A TRUSTEE, § 15-508 OR § 15-522 OF THIS SUBTITLE APPLIES TO A
4 RECEIPT FROM THE TRUST.

5 15-510. BUSINESS AND OTHER ACTIVITIES CONDUCTED BY TRUSTEE.

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

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

24 (C) ACTIVITIES FOR WHICH A TRUSTEE MAY MAINTAIN SEPARATE
25 ACCOUNTING RECORDS INCLUDE:

26 (1) RETAIL, MANUFACTURING, SERVICE, AND OTHER TRADITIONAL
27 BUSINESS ACTIVITIES;

28 (2) FARMING;

29 (3) RAISING AND SELLING LIVESTOCK AND OTHER ANIMALS;

30 (4) MANAGEMENT OF RENTAL PROPERTIES;

31 (5) EXTRACTION OF MINERALS AND OTHER NATURAL RESOURCES;

32 (6) TIMBER OPERATIONS; AND

33 (7) ACTIVITIES TO WHICH § 15-521 OF THIS SUBTITLE APPLIES.

1 SUBPART B. RECEIPTS NOT NORMALLY APPORTIONED.

2 15-511. PRINCIPAL RECEIPTS.

3 A TRUSTEE SHALL ALLOCATE TO PRINCIPAL:

4 (1) TO THE EXTENT NOT ALLOCATED TO INCOME UNDER THIS
5 SUBTITLE, ASSETS RECEIVED FROM A TRANSFEROR DURING THE TRANSFEROR'S
6 LIFETIME, A DECEDENT'S ESTATE, A TRUST WITH A TERMINATING INCOME
7 INTEREST, OR A PAYER UNDER A CONTRACT NAMING THE TRUST OR ITS TRUSTEE AS
8 BENEFICIARY;

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

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

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

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

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

23 15-512. RENTAL PROPERTY.

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

34 15-513. OBLIGATION TO PAY MONEY.

35 (A) AN AMOUNT RECEIVED AS INTEREST, WHETHER DETERMINED AT A
36 FIXED, VARIABLE, OR FLOATING RATE, ON AN OBLIGATION TO PAY MONEY TO THE
37 TRUSTEE, INCLUDING AN AMOUNT RECEIVED AS CONSIDERATION FOR PREPAYING

1 PRINCIPAL, MUST BE ALLOCATED TO INCOME WITHOUT ANY PROVISION FOR
2 AMORTIZATION OF PREMIUM.

3 (B) A TRUSTEE SHALL ALLOCATE TO PRINCIPAL AN AMOUNT RECEIVED FROM
4 THE SALE, REDEMPTION, OR OTHER DISPOSITION OF AN OBLIGATION TO PAY MONEY
5 TO THE TRUSTEE MORE THAN 1 YEAR AFTER IT IS PURCHASED OR ACQUIRED BY THE
6 TRUSTEE, INCLUDING AN OBLIGATION WHOSE PURCHASE PRICE OR VALUE WHEN IT
7 IS ACQUIRED IS LESS THAN ITS VALUE AT MATURITY. IF THE OBLIGATION MATURES
8 WITHIN 1 YEAR AFTER IT IS PURCHASED OR ACQUIRED BY THE TRUSTEE, AN
9 AMOUNT RECEIVED IN EXCESS OF ITS PURCHASE PRICE OR ITS VALUE WHEN
10 ACQUIRED BY THE TRUST MUST BE ALLOCATED TO INCOME.

11 (C) THIS SECTION DOES NOT APPLY TO AN OBLIGATION TO WHICH § 15-516, §
12 15-517, § 15-518, § 15-519, § 15-521, OR § 15-522 OF THIS SUBTITLE APPLIES.

13 15-514. INSURANCE POLICIES AND SIMILAR CONTRACTS.

14 (A) EXCEPT AS OTHERWISE PROVIDED IN SUBSECTION (B) OF THIS SECTION, A
15 TRUSTEE SHALL ALLOCATE TO PRINCIPAL THE PROCEEDS OF A LIFE INSURANCE
16 POLICY OR OTHER CONTRACT IN WHICH THE TRUST OR ITS TRUSTEE IS NAMED AS
17 BENEFICIARY, INCLUDING A CONTRACT THAT INSURES THE TRUST OR ITS TRUSTEE
18 AGAINST LOSS FOR DAMAGE TO, DESTRUCTION OF, OR LOSS OF TITLE TO A TRUST
19 ASSET. THE TRUSTEE SHALL ALLOCATE DIVIDENDS ON AN INSURANCE POLICY TO
20 INCOME IF THE PREMIUMS ON THE POLICY ARE PAID FROM INCOME, AND TO
21 PRINCIPAL IF THE PREMIUMS ARE PAID FROM PRINCIPAL.

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

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

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

36 (I) A BOND;

37 (II) A ZERO COUPON BOND;

38 (III) AN ANNUITY CONTRACT BEFORE UNITIZATION;

1 (IV) A LIFE INSURANCE CONTRACT BEFORE THE DEATH OF THE
2 INSURED; AND

3 (V) AN INTEREST IN A COMMON TRUST FUND AS DEFINED UNDER §
4 584 OF THE INTERNAL REVENUE CODE WITH RESPECT TO CHARITABLE REMAINDER
5 TRUSTS AS DEFINED UNDER § 664 OF THE INTERNAL REVENUE CODE AND POOLED
6 INCOME FUNDS AS DEFINED UNDER § 642(C)(5) OF THE INTERNAL REVENUE CODE.

7 (2) UNLESS OTHERWISE PROVIDED IN THE TRUST INSTRUMENT OR IN
8 THIS SUBTITLE, THE INCREMENT IN VALUE OF AN OBLIGATION FOR THE PAYMENT
9 OF MONEY PAYABLE AT A FUTURE TIME IN ACCORDANCE WITH A FIXED, VARIABLE,
10 OR DISCRETIONARY SCHEDULE OF APPRECIATION IN EXCESS OF THE PRICE AT
11 WHICH IT WAS ISSUED SHALL BE DISTRIBUTABLE AS INCOME.

12 (3) THE INCREMENT IN VALUE IS DISTRIBUTABLE TO THE BENEFICIARY
13 WHO WAS THE INCOME BENEFICIARY AT THE TIME OF THE INCREMENT FROM THE
14 FIRST PRINCIPAL CASH AVAILABLE OR, IF NONE IS AVAILABLE, WHEN REALIZED BY
15 SALE, REDEMPTION, OR OTHER DISPOSITION. WHENEVER UNREALIZED INCREMENT
16 IS DISTRIBUTED AS INCOME, BUT OUT OF PRINCIPAL, THE PRINCIPAL SHALL BE
17 REIMBURSED FOR THE INCREMENT WHEN REALIZED.

18 (4) FOR PURPOSES OF THIS SUBSECTION, THE INCREMENT IN VALUE OF
19 AN OBLIGATION FOR THE PAYMENT OF MONEY SHALL BE AVAILABLE FOR
20 DISTRIBUTION ONLY WHEN THE TRUSTEE RECEIVES CASH ON ACCOUNT OF THE
21 OBLIGATION.

22 SUBPART C. RECEIPTS NORMALLY APPORTIONED.

23 15-515. INSUBSTANTIAL ALLOCATIONS NOT REQUIRED.

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

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

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

34 15-516. DEFERRED COMPENSATION, ANNUITIES, AND SIMILAR PAYMENTS.

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

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

6 (B) TO THE EXTENT THAT A PAYMENT IS CHARACTERIZED AS INTEREST OR A
7 DIVIDEND OR A PAYMENT MADE IN LIEU OF INTEREST OR A DIVIDEND, A TRUSTEE
8 SHALL ALLOCATE IT TO INCOME. THE TRUSTEE SHALL ALLOCATE TO PRINCIPAL THE
9 BALANCE OF THE PAYMENT AND ANY OTHER PAYMENT RECEIVED IN THE SAME
10 ACCOUNTING PERIOD THAT IS NOT CHARACTERIZED AS INTEREST, A DIVIDEND, OR
11 AN EQUIVALENT PAYMENT.

12 (C) IF NO PART OF A PAYMENT IS CHARACTERIZED AS INTEREST, A DIVIDEND,
13 OR AN EQUIVALENT PAYMENT, AND ALL OR PART OF THE PAYMENT IS REQUIRED TO
14 BE MADE, A TRUSTEE SHALL ALLOCATE TO INCOME 10 PERCENT OF THE PART THAT
15 IS REQUIRED TO BE MADE DURING THE ACCOUNTING PERIOD AND THE BALANCE TO
16 PRINCIPAL. IF NO PART OF A PAYMENT IS REQUIRED TO BE MADE OR THE PAYMENT
17 RECEIVED IS THE ENTIRE AMOUNT TO WHICH THE TRUSTEE IS ENTITLED, THE
18 TRUSTEE SHALL ALLOCATE THE ENTIRE PAYMENT TO PRINCIPAL. FOR PURPOSES OF
19 THIS SUBSECTION, A PAYMENT IS NOT "REQUIRED TO BE MADE" TO THE EXTENT
20 THAT IT IS MADE BECAUSE THE TRUSTEE EXERCISES A RIGHT OF WITHDRAWAL.

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

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

27 15-517. LIQUIDATING ASSET.

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

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

35 (3) "LIQUIDATING ASSET" DOES NOT INCLUDE A PAYMENT SUBJECT TO §
36 15-516 OF THIS SUBTITLE, RESOURCES SUBJECT TO § 15-518 OF THIS SUBTITLE,
37 TIMBER SUBJECT TO § 15-519 OF THIS SUBTITLE, AN ACTIVITY SUBJECT TO § 15-521
38 OF THIS SUBTITLE, AN ASSET SUBJECT TO § 15-522 OF THIS SUBTITLE, OR ANY ASSET
39 FOR WHICH THE TRUSTEE ESTABLISHES A RESERVE FOR DEPRECIATION UNDER §
40 15-525 OF THIS SUBTITLE.

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

3 15-518. MINERALS, WATER, AND OTHER NATURAL RESOURCES.

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

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

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

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

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

20 (B) AN AMOUNT RECEIVED ON ACCOUNT OF AN INTEREST IN WATER THAT IS
21 RENEWABLE MUST BE ALLOCATED TO INCOME. IF THE WATER IS NOT RENEWABLE,
22 90 PERCENT OF THE AMOUNT MUST BE ALLOCATED TO PRINCIPAL AND THE
23 BALANCE TO INCOME.

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

27 (D) IF A TRUST OWNS AN INTEREST IN MINERALS, WATER, OR OTHER
28 NATURAL RESOURCES ON OCTOBER 1, 2000, THE TRUSTEE MAY ALLOCATE RECEIPTS
29 FROM THE INTEREST AS PROVIDED IN THIS SUBTITLE OR IN THE MANNER USED BY
30 THE TRUSTEE BEFORE OCTOBER 1, 2000. IF THE TRUST ACQUIRES AN INTEREST IN
31 MINERALS, WATER, OR OTHER NATURAL RESOURCES AFTER OCTOBER 1, 2000, THE
32 TRUSTEE SHALL ALLOCATE RECEIPTS FROM THE INTEREST AS PROVIDED IN THIS
33 SUBTITLE.

34 15-519. TIMBER.

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

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

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

8 (3) TO OR BETWEEN INCOME AND PRINCIPAL IF THE NET RECEIPTS ARE
9 FROM THE LEASE OF TIMBERLAND OR FROM A CONTRACT TO CUT TIMBER FROM
10 LAND OWNED BY A TRUST, BY DETERMINING THE AMOUNT OF TIMBER REMOVED
11 FROM THE LAND UNDER THE LEASE OR CONTRACT AND APPLYING THE RULES IN
12 PARAGRAPHS (1) AND (2) OF THIS SUBSECTION; OR

13 (4) TO PRINCIPAL TO THE EXTENT THAT ADVANCE PAYMENTS,
14 BONUSES, AND OTHER PAYMENTS ARE NOT ALLOCATED PURSUANT TO PARAGRAPH
15 (1), (2), OR (3) OF THIS SUBSECTION.

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

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

22 (D) IF A TRUST OWNS AN INTEREST IN TIMBERLAND ON OCTOBER 1, 2001, THE
23 TRUSTEE MAY ALLOCATE NET RECEIPTS FROM THE SALE OF TIMBER AND RELATED
24 PRODUCTS AS PROVIDED IN THIS SUBTITLE OR IN THE MANNER USED BY THE
25 TRUSTEE BEFORE OCTOBER 1, 2000. IF THE TRUST ACQUIRES AN INTEREST IN
26 TIMBERLAND AFTER OCTOBER 1, 2000, THE TRUSTEE SHALL ALLOCATE NET
27 RECEIPTS FROM THE SALE OF TIMBER AND RELATED PRODUCTS AS PROVIDED IN
28 THIS SUBTITLE.

29 15-520. PROPERTY NOT PRODUCTIVE OF INCOME.

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

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

1 15-521. DERIVATIVES AND OPTIONS.

2 (A) IN THIS SECTION, "DERIVATIVE" MEANS A CONTRACT OR FINANCIAL
3 INSTRUMENT OR A COMBINATION OF CONTRACTS AND FINANCIAL INSTRUMENTS
4 WHICH GIVES A TRUST THE RIGHT OR OBLIGATION TO PARTICIPATE IN SOME OR ALL
5 CHANGES IN THE PRICE OF A TANGIBLE OR INTANGIBLE ASSET OR GROUP OF
6 ASSETS, OR CHANGES IN A RATE, AN INDEX OF PRICES OR RATES, OR OTHER MARKET
7 INDICATOR FOR AN ASSET OR A GROUP OF ASSETS.

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

12 (C) IF A TRUSTEE GRANTS AN OPTION TO BUY PROPERTY FROM THE TRUST,
13 WHETHER OR NOT THE TRUST OWNS THE PROPERTY WHEN THE OPTION IS
14 GRANTED, GRANTS AN OPTION THAT PERMITS ANOTHER PERSON TO SELL PROPERTY
15 TO THE TRUST, OR ACQUIRES AN OPTION TO BUY PROPERTY FOR THE TRUST OR AN
16 OPTION TO SELL AN ASSET OWNED BY THE TRUST, AND THE TRUSTEE OR OTHER
17 OWNER OF THE ASSET IS REQUIRED TO DELIVER THE ASSET IF THE OPTION IS
18 EXERCISED, AN AMOUNT RECEIVED FOR GRANTING THE OPTION SHALL BE
19 ALLOCATED TO PRINCIPAL. AN AMOUNT PAID TO ACQUIRE THE OPTION SHALL BE
20 PAID FROM PRINCIPAL. A GAIN OR LOSS REALIZED UPON THE EXERCISE OF AN
21 OPTION, INCLUDING AN OPTION GRANTED TO A SETTLOR OF THE TRUST FOR
22 SERVICES RENDERED, SHALL BE ALLOCATED TO PRINCIPAL.

23 15-522. ASSET-BACKED SECURITIES.

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

28 (2) "ASSET-BACKED SECURITY" INCLUDES AN ASSET THAT GIVES THE
29 OWNER THE RIGHT TO RECEIVE FROM THE COLLATERAL FINANCIAL ASSETS ONLY
30 THE INTEREST OR OTHER CURRENT RETURN OR ONLY THE PROCEEDS OTHER THAN
31 INTEREST OR CURRENT RETURN.

32 (3) "ASSET-BACK SECURITY" DOES NOT INCLUDE AN ASSET TO WHICH §
33 15-508 OR § 15-516 OF THIS SUBTITLE APPLIES.

34 (B) IF A TRUST RECEIVES A PAYMENT FROM INTEREST OR OTHER CURRENT
35 RETURN AND FROM OTHER PROCEEDS OF THE COLLATERAL FINANCIAL ASSETS, THE
36 TRUSTEE SHALL ALLOCATE TO INCOME THE PORTION OF THE PAYMENT WHICH THE
37 PAYER IDENTIFIES AS BEING FROM INTEREST OR OTHER CURRENT RETURN AND
38 SHALL ALLOCATE THE BALANCE OF THE PAYMENT TO PRINCIPAL.

39 (C) IF A TRUST RECEIVES ONE OR MORE PAYMENTS IN EXCHANGE FOR THE
40 TRUST'S ENTIRE INTEREST IN AN ASSET-BACKED SECURITY IN ONE ACCOUNTING
41 PERIOD, THE TRUSTEE SHALL ALLOCATE THE PAYMENTS TO PRINCIPAL. IF A

1 PAYMENT IS ONE OF A SERIES OF PAYMENTS THAT WILL RESULT IN THE
2 LIQUIDATION OF THE TRUST'S INTEREST IN THE SECURITY OVER MORE THAN ONE
3 ACCOUNTING PERIOD, THE TRUSTEE SHALL ALLOCATE 10 PERCENT OF THE
4 PAYMENT TO INCOME AND THE BALANCE TO PRINCIPAL.

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

6 15-523. DISBURSEMENTS FROM INCOME.

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

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

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

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

21 (4) ALL OF THE OTHER ORDINARY EXPENSES INCURRED IN
22 CONNECTION WITH THE ADMINISTRATION, MANAGEMENT, OR PRESERVATION OF
23 TRUST PROPERTY AND THE DISTRIBUTION OF INCOME, INCLUDING INTEREST,
24 ORDINARY REPAIRS, REGULARLY RECURRING TAXES ASSESSED AGAINST PRINCIPAL,
25 AND EXPENSES OF A PROCEEDING OR OTHER MATTER THAT CONCERNS PRIMARILY
26 THE INCOME INTEREST; AND

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

29 15-524. DISBURSEMENTS FROM PRINCIPAL.

30 (A) A TRUSTEE SHALL MAKE THE FOLLOWING DISBURSEMENTS FROM
31 PRINCIPAL:

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

34 (2) THAT PORTION OF THE REGULAR COMPENSATION OF THE TRUSTEE,
35 IF THE COMPENSATION IS DETERMINED IN A MANNER OTHER THAN IN ACCORDANCE
36 WITH § 14-103(B) AND (C) OF THIS ARTICLE, AND THAT PORTION OF THE
37 COMPENSATION OF ANY PERSON PROVIDING INVESTMENT ADVISORY OR CUSTODIAL

1 SERVICES TO THE TRUSTEE, AS THE TRUSTEE DETERMINES IS FAIR AND
2 REASONABLE IN ACCORDANCE WITH § 15-502(B) OF THIS SUBTITLE;

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

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

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

10 (6) EXPENSES OF A PROCEEDING THAT CONCERNS PRIMARILY
11 PRINCIPAL, INCLUDING A PROCEEDING TO CONSTRUE THE TRUST OR TO PROTECT
12 THE TRUST OR ITS PROPERTY;

13 (7) PREMIUMS PAID ON A POLICY OF INSURANCE NOT DESCRIBED IN §
14 15-523(5) OF THIS SUBTITLE OF WHICH THE TRUST IS THE OWNER AND BENEFICIARY;

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

17 (9) DISBURSEMENTS RELATED TO ENVIRONMENTAL MATTERS,
18 INCLUDING RECLAMATION, ASSESSING ENVIRONMENTAL CONDITIONS, REMEDYING
19 AND REMOVING ENVIRONMENTAL CONTAMINATION, MONITORING REMEDIAL
20 ACTIVITIES AND THE RELEASE OF SUBSTANCES, PREVENTING FUTURE RELEASES OF
21 SUBSTANCES, COLLECTING AMOUNTS FROM PERSONS LIABLE OR POTENTIALLY
22 LIABLE FOR THE COSTS OF THOSE ACTIVITIES, PENALTIES IMPOSED UNDER
23 ENVIRONMENTAL LAWS OR REGULATIONS AND OTHER PAYMENTS MADE TO COMPLY
24 WITH THOSE LAWS OR REGULATIONS, STATUTORY OR COMMON LAW CLAIMS BY
25 THIRD PARTIES, AND DEFENDING CLAIMS BASED ON ENVIRONMENTAL MATTERS.

26 (B) IF A PRINCIPAL ASSET IS ENCUMBERED WITH AN OBLIGATION THAT
27 REQUIRES INCOME FROM THAT ASSET TO BE PAID DIRECTLY TO THE CREDITOR, THE
28 TRUSTEE SHALL TRANSFER FROM PRINCIPAL TO INCOME AN AMOUNT EQUAL TO
29 THE INCOME PAID TO THE CREDITOR IN REDUCTION OF THE PRINCIPAL BALANCE OF
30 THE OBLIGATION.

31 15-525. TRANSFERS FROM INCOME TO PRINCIPAL FOR DEPRECIATION.

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

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

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

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

5 (3) UNDER THIS SECTION IF THE TRUSTEE IS ACCOUNTING UNDER §
6 15-510 OF THIS SUBTITLE FOR THE BUSINESS OR ACTIVITY IN WHICH THE ASSET IS
7 USED.

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

10 15-526. TRANSFERS FROM INCOME TO REIMBURSE PRINCIPAL.

11 (A) IF A TRUSTEE MAKES OR EXPECTS TO MAKE A PRINCIPAL DISBURSEMENT
12 DESCRIBED IN THIS SECTION, THE TRUSTEE MAY TRANSFER AN APPROPRIATE
13 AMOUNT FROM INCOME TO PRINCIPAL IN ONE OR MORE ACCOUNTING PERIODS TO
14 REIMBURSE PRINCIPAL OR TO PROVIDE A RESERVE FOR FUTURE PRINCIPAL
15 DISBURSEMENTS.

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

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

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

24 (3) DISBURSEMENTS MADE TO PREPARE PROPERTY FOR RENTAL,
25 INCLUDING TENANT ALLOWANCES, LEASEHOLD IMPROVEMENTS, AND BROKER'S
26 COMMISSIONS;

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

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

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

1 15-527. INCOME TAXES.

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

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

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

9 (1) FROM INCOME TO THE EXTENT THAT RECEIPTS FROM THE ENTITY
10 ARE ALLOCATED TO INCOME; AND

11 (2) FROM PRINCIPAL TO THE EXTENT THAT:

12 (I) RECEIPTS FROM THE ENTITY ARE ALLOCATED TO PRINCIPAL;
13 AND

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

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

21 15-528. ADJUSTMENTS BETWEEN PRINCIPAL AND INCOME BECAUSE OF TAXES.

22 (A) A FIDUCIARY MAY MAKE ADJUSTMENTS BETWEEN PRINCIPAL AND
23 INCOME TO OFFSET THE SHIFTING OF ECONOMIC INTERESTS OR TAX BENEFITS
24 BETWEEN INCOME BENEFICIARIES AND REMAINDER BENEFICIARIES WHICH ARISE
25 FROM:

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

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

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

35 (B) IF THE AMOUNT OF AN ESTATE TAX MARITAL DEDUCTION OR
36 CHARITABLE CONTRIBUTION DEDUCTION IS REDUCED BECAUSE A FIDUCIARY

1 DEDUCTS AN AMOUNT PAID FROM PRINCIPAL FOR INCOME TAX PURPOSES INSTEAD
2 OF DEDUCTING IT FOR ESTATE TAX PURPOSES, AND AS A RESULT ESTATE TAXES
3 PAID FROM PRINCIPAL ARE INCREASED AND INCOME TAXES PAID BY AN ESTATE,
4 TRUST, OR BENEFICIARY ARE DECREASED, EACH ESTATE, TRUST, OR BENEFICIARY
5 THAT BENEFITS FROM THE DECREASE IN INCOME TAX SHALL REIMBURSE THE
6 PRINCIPAL FROM WHICH THE INCREASE IN ESTATE TAX IS PAID. THE TOTAL
7 REIMBURSEMENT MUST EQUAL THE INCREASE IN THE ESTATE TAX TO THE EXTENT
8 THAT THE PRINCIPAL USED TO PAY THE INCREASE WOULD HAVE QUALIFIED FOR A
9 MARITAL DEDUCTION OR CHARITABLE CONTRIBUTION DEDUCTION BUT FOR THE
10 PAYMENT. THE PROPORTIONATE SHARE OF THE REIMBURSEMENT FOR EACH
11 ESTATE, TRUST, OR BENEFICIARY WHOSE INCOME TAXES ARE REDUCED MUST BE
12 THE SAME AS ITS PROPORTIONATE SHARE OF THE TOTAL DECREASE IN INCOME TAX.
13 AN ESTATE OR TRUST SHALL REIMBURSE PRINCIPAL FROM INCOME.

14 15-529. UNIFORMITY OF APPLICATION AND CONSTRUCTION.

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

18 15-530. SHORT TITLE.

19 THIS SUBTITLE MAY BE CITED AS THE "MARYLAND UNIFORM PRINCIPAL AND
20 INCOME ACT".

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

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

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