

By the Committees on Banking and Insurance; Judiciary; and
Senator Posey

311-2064-02

1 A bill to be entitled

2 An act relating to the Florida Uniform

3 Principal and Income Act; creating ss. 738.101,

4 738.102, 738.103, 738.104, 738.1041, 738.105,

5 738.201, 738.202, 738.301, 738.302, 738.303,

6 738.401, 738.402, 738.403, 738.501, 738.502,

7 738.503, 738.504, 738.601, 738.602, 738.603,

8 738.604, 738.605, 738.606, 738.607, 738.608,

9 738.701, 738.702, 738.703, 738.704, 738.705,

10 738.706, 738.801, 738.802, 738.803, 738.804,

11 F.S.; providing a short title; providing

12 definitions; specifying a fiduciary's duties;

13 providing general principles; providing a

14 trustee's power to adjust between principal and

15 income; providing for a unitrust alternative to

16 certain trusts where the power to adjust is

17 unavailable or not exercised; providing

18 requirements, criteria, and procedures;

19 providing for judicial control of certain

20 discretionary powers; providing limitations;

21 providing for determinations and distributions

22 of net income; providing requirements;

23 providing for distributions to residuary and

24 remainder beneficiaries; providing for

25 apportionment at beginning and end of an income

26 interest; providing for entitlement to a right

27 to income; providing for apportionment of

28 receipts and disbursements under certain

29 circumstances; providing for allocation of

30 trust receipts during administration;

31 specifying character of receipts; providing for

1 distributions from trust or estate; providing
2 for separate accounting by trustee of certain
3 businesses or activities; providing for
4 allocation of certain receipts not normally
5 apportioned; providing for allocation of
6 certain normally apportioned receipts;
7 providing for allocation of disbursements from
8 income and principal during administration of a
9 trust; providing for certain transfers from
10 income under certain circumstances; providing
11 for payment of certain taxes; providing for
12 adjustments between principal and income due to
13 taxes; providing for uniform application and
14 construction; providing severability; providing
15 for application with respect to apportionment
16 of expenses and improvements; providing for
17 application; repealing ss. 738.01, 738.02,
18 738.03, 738.04, 738.05, 738.06, 738.07, 738.08,
19 738.09, 738.10, 738.11, 738.12, 738.13, 738.14,
20 738.15, F.S., relating to principal and income
21 of trusts; providing an effective date.

22
23 Be It Enacted by the Legislature of the State of Florida:

24
25 Section 1. Sections 738.101, 738.102, 738.103,
26 738.104, 738.1041, 738.105, 738.201, 738.202, 738.301,
27 738.302, 738.303, 738.401, 738.402, 738.403, 738.501, 738.502,
28 738.503, 738.504, 738.601, 738.602, 738.603, 738.604, 738.605,
29 738.606, 738.607, 738.608, 738.701, 738.702, 738.703, 738.704,
30 738.705, 738.706, 738.801, 738.802, 738.803, and 738.804,
31 Florida Statutes, are created to read:

1 738.101 Short Title.--This chapter may be cited as the
2 "Florida Uniform Principal and Income Act."

3 738.102 Definitions.--As used in this chapter, the
4 term:

5 (1) "Accounting period" means a calendar year unless
6 another 12-month period is selected by a fiduciary. The term
7 includes a portion of a calendar year or other 12-month period
8 that begins when an income interest begins or ends when an
9 income interest ends.

10 (2) "Beneficiary" means, in the case of a decedent's
11 estate, an heir or devisee and, in the case of a trust, an
12 income beneficiary or a remainder beneficiary.

13 (3) "Fiduciary" means a personal representative or a
14 trustee. The term includes an executor, administrator,
15 successor personal representative, special administrator, or a
16 person performing substantially the same function.

17 (4) "Income" means money or property that a fiduciary
18 receives as current return from a principal asset. The term
19 includes a portion of receipts from a sale, exchange, or
20 liquidation of a principal asset, to the extent provided in
21 ss. 738.401-738.403 and s. 738.503.

22 (5) "Income beneficiary" means a person to whom net
23 income of a trust is or may be payable.

24 (6) "Income interest" means the right of an income
25 beneficiary to receive all or part of net income, whether the
26 terms of the trust require the net income to be distributed or
27 authorize the net income to be distributed in the trustee's
28 discretion.

29 (7) "Mandatory income interest" means the right of an
30 income beneficiary to receive net income that the terms of the
31 trust require the fiduciary to distribute.

1 (8) "Net income" means the total receipts allocated to
2 income during an accounting period minus the disbursements
3 made from income during the period, plus or minus transfers
4 under this chapter to or from income during the period.

5 (9) "Person" means an individual, corporation,
6 business trust, estate, trust, partnership, limited liability
7 company, association, joint venture, public corporation, or
8 any other legal or commercial entity or a government or
9 governmental subdivision, agency, or instrumentality.

10 (10) "Principal" means property held in trust for
11 distribution to a remainder beneficiary when the trust
12 terminates.

13 (11) "Remainder beneficiary" means a person entitled
14 to receive principal when an income interest ends.

15 (12) "Terms of a trust" means the manifestation of the
16 intent of a grantor or decedent with respect to the trust,
17 expressed in a manner that admits of its proof in a judicial
18 proceeding, whether by written or spoken words or by conduct.

19 (13) "Trustee" includes an original, additional, or
20 successor trustee, whether or not appointed or confirmed by a
21 court.

22 738.103 Fiduciary duties; general principles.--

23 (1) In allocating receipts and disbursements to or
24 between principal and income, and with respect to any matter
25 within the scope of ss. 738.201 and 738.202 and ss.
26 738.301-738.303, a fiduciary:

27 (a) Shall administer a trust or estate in accordance
28 with the terms of the trust or the will, even if there is a
29 different provision in this chapter.

30 (b) May administer a trust or estate by the exercise
31 of a discretionary power of administration given to the

1 fiduciary by the terms of the trust or the will, even if the
2 exercise of the power produces a result different from a
3 result required or permitted by this chapter.

4 (c) Shall administer a trust or estate in accordance
5 with this chapter if the terms of the trust or the will do not
6 contain a different provision or do not give the fiduciary a
7 discretionary power of administration.

8 (d) Shall add a receipt or charge a disbursement to
9 principal to the extent the terms of the trust and this
10 chapter do not provide a rule for allocating the receipt or
11 disbursement to or between principal and income.

12 (2) In exercising the power to adjust under s.
13 738.104(1) or a discretionary power of administration
14 regarding a matter within the scope of this chapter, whether
15 granted by the terms of a trust, a will, or this chapter, a
16 fiduciary shall administer a trust or estate impartially,
17 based on what is fair and reasonable to all of the
18 beneficiaries, except to the extent the terms of the trust or
19 the will clearly manifest an intention that the fiduciary
20 shall or may favor one or more of the beneficiaries. A
21 determination in accordance with this chapter is presumed to
22 be fair and reasonable to all of the beneficiaries.

23 738.104 Trustee's power to adjust.--

24 (1) A trustee may adjust between principal and income
25 to the extent the trustee considers necessary if the trustee
26 invests and manages trust assets as a prudent investor, the
27 terms of the trust describe the amount that may or shall be
28 distributed to a beneficiary by referring to the trust's
29 income, and the trustee determines, after applying the rules
30 in s. 738.103(1), that the trustee is unable to comply with s.
31 738.103(2).

1 (2) In deciding whether and to what extent to exercise
2 the power conferred by subsection (1), a trustee shall
3 consider all factors relevant to the trust and its
4 beneficiaries, including the following factors to the extent
5 they are relevant:

6 (a) The nature, purpose, and expected duration of the
7 trust.

8 (b) The intent of the grantor.

9 (c) The identity and circumstances of the
10 beneficiaries.

11 (d) The needs for liquidity, regularity of income, and
12 preservation and appreciation of capital.

13 (e) The assets held in the trust; the extent to which
14 the assets consist of financial assets, interests in closely
15 held enterprises, tangible and intangible personal property,
16 or real property; the extent to which an asset is used by a
17 beneficiary; and whether an asset was purchased by the trustee
18 or received from the grantor.

19 (f) The net amount allocated to income under the other
20 sections of this chapter and the increases or decreases in the
21 value of the principal assets, which the trustee may estimate
22 as to assets for which market values are not readily
23 available.

24 (g) Whether and to what extent the terms of the trust
25 give the trustee the power to invade principal or accumulate
26 income or prohibit the trustee from invading principal or
27 accumulating income and the extent to which the trustee has
28 exercised a power from time to time to invade principal or
29 accumulate income.

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1 (h) The actual and anticipated effect of economic
2 conditions on principal and income and effects of inflation
3 and deflation.

4 (i) The anticipated tax consequences of an adjustment.

5 (3) A trustee may not make an adjustment:

6 (a) That diminishes the income interest in a trust
7 that requires all of the income to be paid at least annually
8 to a spouse and for which an estate tax or gift tax marital
9 deduction would be allowed, in whole or in part, if the
10 trustee did not have the power to adjust;

11 (b) That reduces the actuarial value of the income
12 interest in a trust to which a person transfers property with
13 the intent to qualify for a gift tax exclusion;

14 (c) That changes the amount payable to a beneficiary
15 as a fixed annuity or a fixed fraction of the value of the
16 trust assets;

17 (d) From any amount that is permanently set aside for
18 charitable purposes under a will or the terms of a trust
19 unless both income and principal are so set aside;

20 (e) If possessing or exercising the power to adjust
21 causes an individual to be treated as the owner of all or part
22 of the trust for income tax purposes and the individual would
23 not be treated as the owner if the trustee did not possess the
24 power to adjust;

25 (f) If possessing or exercising the power to adjust
26 causes all or part of the trust assets to be included for
27 estate tax purposes in the estate of an individual who has the
28 power to remove a trustee or appoint a trustee, or both, and
29 the assets would not be included in the estate of the
30 individual if the trustee did not possess the power to adjust;

31 (g) If the trustee is a beneficiary of the trust; or

1 (h) If the trustee is not a beneficiary of the trust
2 but the adjustment would benefit the trustee directly or
3 indirectly.

4 (4) If paragraph (3)(e), paragraph (3)(f), paragraph
5 (3)(g), or paragraph (3)(h) applies to a trustee and there is
6 more than one trustee, a cotrustee to whom the provision does
7 not apply may make the adjustment unless the exercise of the
8 power by the remaining trustee is not permitted by the terms
9 of the trust.

10 (5) A trustee may release the entire power to adjust
11 conferred by subsection (1) or may release only the power to
12 adjust from income to principal or the power to adjust from
13 principal to income if the trustee is uncertain about whether
14 the possessing or exercising the power will cause a result
15 described in paragraphs (3)(a)-(f) or paragraph (3)(h) or if
16 the trustee determines that possessing or exercising the power
17 will or may deprive the trust of a tax benefit or impose a tax
18 burden not described in subsection (3). The release may be
19 permanent or for a specified period, including a period
20 measured by the life of an individual.

21 (6) Terms of a trust that limit a trustee's power to
22 adjust between principal and income do not affect the
23 application of this section unless it is clear from the terms
24 of the trust that the terms are intended to deny the trustee
25 the power to adjust conferred by subsection (1).

26 (7) Nothing in this chapter is intended to create or
27 imply a duty to make an adjustment and no inference of
28 impropriety shall be made as a result of a trustee not
29 exercising the power to adjust conferred by subsection (1).

30 (8) With respect to a trust in existence on January 1,
31 2003:

1 (a) A trustee shall not have the power to adjust under
2 this section if, within 60 days after the date of the
3 statement required in subsection (9), a super majority of the
4 trust beneficiaries deliver to the trustee a written objection
5 to the application of this section to such trust. An objection
6 shall be deemed to be delivered to the trustee on the date the
7 objection is mailed to the mailing address listed in the
8 notice provided in subsection (9).

9 (b) An objection under this section may be executed by
10 a legal representative or natural guardian of a beneficiary
11 without the filing of any proceeding or approval of any court.

12 (c) If an objection is delivered to the trustee, then
13 the trustee may petition the circuit court for an order
14 quashing the objection and vesting in such trustee the power
15 to adjust under this section. The burden will be on the
16 objecting beneficiaries to prove that the power to adjust
17 would be inequitable, illegal, or otherwise in contravention
18 of the grantor's intent. The court may award costs and
19 attorney's fees relating to the trustee's petition in the same
20 manner as in chancery actions. When costs and attorney's fees
21 are to be paid out of the trust, the court may, in its
22 discretion, direct from which part of the trust they shall be
23 paid.

24 (d) If no timely objection is made or if the trustee
25 is vested with the power to adjust by court order, the trustee
26 may thereafter exercise the power to adjust without providing
27 notice of its intent to do so unless, in vesting the trustee
28 with the power to adjust, the court determines that unusual
29 circumstances require otherwise.

30 (e)1. If a trustee makes a good-faith effort to comply
31 with the notice provisions of subsection (9), but fails to

1 deliver notice to one or more beneficiaries entitled to such
2 notice, neither the validity of the notice required under this
3 subsection, nor the trustee's power to adjust under this
4 section shall be affected until the trustee has actual notice
5 that one or more beneficiaries entitled to notice were not
6 notified. Until the trustee has actual notice of the notice
7 deficiency, the trustee shall have all of the powers and
8 protections granted a trustee with the power to adjust under
9 this chapter.

10 2. When the trustee has actual notice that one or more
11 beneficiaries entitled to notice under subsection (9) were not
12 notified, the trustee's power to adjust under this section
13 shall cease until all beneficiaries who are entitled to such
14 notice, including those who were previously provided with such
15 notice, are notified and given the opportunity to object as
16 provided for under this subsection.

17 (f) The objection of a super majority of beneficiaries
18 under this subsection shall be valid for a period of 1 year
19 after the date of the notice set forth in subsection (9). Upon
20 expiration of the objection, the trustee may thereafter give a
21 new notice under subsection (9).

22 (g) Nothing in this section is intended to create or
23 imply a duty of the trustee of a trust existing on January 1,
24 2003, to seek a power to adjust pursuant to this subsection or
25 to give the notice described in subsection (9) if the trustee
26 does not desire to have a power to adjust under this section,
27 and no inference of impropriety shall be made as the result of
28 a trustee not seeking a power to adjust pursuant to this
29 subsection.

30 (9)(a) A trustee of a trust in existence on January 1,
31 2003, that is not prohibited under subsection (3) from

1 exercising the power to adjust shall, any time prior to
2 initially exercising the power, provide to all reasonably
3 ascertainable current beneficiaries described in s.
4 737.303(4)(b)1. and all reasonably ascertainable remainder
5 beneficiaries described in s. 737.303(4)(b)2. a statement
6 containing the following:

7 1. The name, telephone number, street address, and
8 mailing address of the trustee and of any individuals who may
9 be contacted for further information;

10 2. A statement that unless a super majority of the
11 beneficiaries objects to the application of this section to
12 the trust within 60 days after the date the statement pursuant
13 to this subsection was served, section 738.104, Florida
14 Statutes, shall apply to the trust; and

15 3. A statement that, if section 738.104, Florida
16 Statutes, applies to the trust, the trustee will have the
17 power to adjust between income and principal and that such a
18 power may have an effect on the distributions to such
19 beneficiary from the trust.

20 (b) The statement may contain information regarding a
21 trustee's fiduciary obligations with respect to the power to
22 adjust between income and principal under this section.

23 (c) The statement referred to in this subsection shall
24 be served informally, in the manner provided in the Florida
25 Rules of Civil Procedure relating to service of pleadings
26 subsequent to the initial pleading.

27 (d) For purposes of subsection (8) and this
28 subsection, a "super majority of the trust beneficiaries"
29 means at least two-thirds in interest of the reasonably
30 ascertainable current beneficiaries described in s.

31 737.303(4)(b)1. or two-thirds in interest of the reasonably

1 ascertainable remainder beneficiaries described in s.
2 737.303(4)(b)2., if the interests of the beneficiaries are
3 reasonably ascertainable, otherwise, it means two-thirds in
4 number of either such class.

5 (10) A trust exists on January 1, 2003, if it is not
6 revocable on January 1, 2003. A trust is revocable if
7 revocable by the grantor alone or in conjunction with any
8 other person. A trust is not revocable for purposes of this
9 section if revocable by the grantor only with the consent of
10 all persons having a beneficial interest in the property.

11 738.1041 Total return unitrust.--

12 (1) For purposes of this section, the term:

13 (a) "Disinterested person" means a person who is not a
14 "related or subordinate party" as defined in s. 672(c) of the
15 United States Internal Revenue Code, 26 U.S.C. s. 1 et seq.,
16 or any successor provision thereof, with respect to the person
17 then acting as trustee of the trust and excludes the grantor
18 and any interested trustee.

19 (b) "Income trust" means a trust, created by either an
20 inter vivos or a testamentary instrument, which directs or
21 permits the trustee to distribute the net income of the trust
22 to one or more persons, either in fixed proportions or in
23 amounts or proportions determined by the trustee.

24 Notwithstanding the foregoing, no trust that otherwise is an
25 "income trust" shall qualify hereunder, if it may be subject
26 to taxation under the Internal Revenue Code, 26 U.S.C. s. 2001
27 or s. 2501, until the expiration of the period for filing the
28 return therefor, including extensions.

29 (c) "Interested distributee" means a person to whom
30 distributions of income or principal can currently be made who
31 has the power to remove the existing trustee and designate as

1 successor a person who may be a "related or subordinate
2 party," as defined in the Internal Revenue Code, 26 U.S.C. s.
3 672(c), with respect to such distributee.

4 (d) "Interested trustee" means an individual trustee
5 to whom the net income or principal of the trust can currently
6 be distributed or would be distributed if the trust were then
7 to terminate and be distributed, any trustee who may be
8 removed and replaced by an interested distributee, or an
9 individual trustee whose legal obligation to support a
10 beneficiary may be satisfied by distributions of income and
11 principal of the trust.

12 (2) A trustee may, without court approval, convert an
13 income trust to a total return unitrust, reconvert a total
14 return unitrust to an income trust, or change the percentage
15 used to calculate the unitrust amount or the method used to
16 determine the fair market value of the trust if:

17 (a) The trustee adopts a written statement regarding
18 trust distributions that provides:

19 1. In the case of a trust being administered as an
20 income trust, that future distributions from the trust will be
21 unitrust amounts rather than net income, and indicates the
22 manner in which the unitrust amount will be calculated and the
23 method in which the fair market value of the trust will be
24 determined.

25 2. In the case of a trust being administered as a
26 total return unitrust, that:

27 a. Future distributions from the trust will be net
28 income rather than unitrust amounts; or

29 b. The percentage used to calculate the unitrust
30 amount or the method used to determine the fair market value
31 of the trust will be changed, and indicates the manner in

1 which the new unitrust amount will be calculated and the
2 method in which the new fair market value of the trust will be
3 determined;

4 (b)1. The trustee determines, or if there is no
5 trustee other than an interested trustee, the trustee appoints
6 a disinterested person who, in its sole discretion but acting
7 in a fiduciary capacity, determines for the trustee:

8 a. The percentage to be used to calculate the unitrust
9 amount, provided the percentage used is not greater than 5
10 percent nor less than 3 percent;

11 b. The method to be used in determining the fair
12 market value of the trust; and

13 c. Which assets, if any, are to be excluded in
14 determining the unitrust amount; or

15 2. The trustee administers the trust such that:

16 a. The percentage used to calculate the unitrust
17 amount is 50 percent of the applicable federal rate as defined
18 in the Internal Revenue Code, 26 U.S.C. s. 7520 in effect for
19 the month the conversion under this section becomes effective
20 and for each January thereafter; however, the percentage shall
21 never be greater than 5 percent nor less than 3 percent; and

22 b. The fair market value of the trust shall be
23 determined at least annually on an asset-by-asset basis,
24 reasonably and in good faith, in accordance with the
25 provisions of s. 738.202(5), except the following property
26 shall not be included in determining the value of the trust:

27 (I) Any residential property or any tangible personal
28 property that, as of the first business day of the current
29 valuation year, one or more current beneficiaries of the trust
30 have or have had the right to occupy, or have or have had the
31 right to possess or control (other than in his or her capacity

1 as trustee of the trust), and instead the right of occupancy
2 or the right to possession and control shall be deemed to be
3 the unitrust amount with respect to such property; however,
4 the unitrust amount shall be adjusted to take into account
5 partial distributions from or receipt into the trust of such
6 property during the valuation year.

7 (II) Any asset specifically given to a beneficiary and
8 the return on investment on such property, which return on
9 investment shall be distributable to such beneficiary.

10 (III) Any asset while held in a testator's estate;

11 (c) The trustee sends written notice of its intention
12 to take such action, along with copies of such written
13 statement and this section, and, if applicable, the
14 determinations of either the trustee or the disinterested
15 person to:

16 1. The grantor of the trust, if living.

17 2. All living persons who are currently receiving or
18 eligible to receive distributions of income of the trust.

19 3. All living persons who would receive distributions
20 of principal of the trust if the trust were to terminate at
21 the time of the giving of such notice (without regard to the
22 exercise of any power of appointment) or, if the trust does
23 not provide for its termination, all living persons who would
24 receive or be eligible to receive distributions of income or
25 principal of the trust if the persons identified in
26 subparagraph 2. were deceased.

27 4. All persons acting as adviser or protector of the
28 trust.

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30 Notice under this paragraph shall be served informally, in the
31 manner provided in the Florida Rules of Civil Procedure

1 relating to service of pleadings subsequent to the initial
2 pleading;

3 (d) At least one person receiving notice under each of
4 subparagraphs (c)2. and 3. is legally competent; and

5 (e) No person receiving such notice objects, by
6 written instrument delivered to the trustee, to the proposed
7 action of the trustee or the determinations of the
8 disinterested person within 60 days after receipt of such
9 notice.

10 (3) If a trustee desires to convert an income trust to
11 a total return unitrust, reconvert a total return unitrust to
12 an income trust, or change the percentage used to calculate
13 the unitrust amount or the method used to determine a fair
14 market value of the trust but does not have the ability to or
15 elects not to do it under subsection (2), the trustee may
16 petition the circuit court for such order as the trustee deems
17 appropriate. In that event, the court, in its own discretion
18 or on the petition of such trustee or any person having an
19 income or remainder interest in the trust, may appoint a
20 disinterested person who, acting in a fiduciary capacity,
21 shall present such information to the court as shall be
22 necessary for the court to make a determination hereunder.

23 (4) All determinations made pursuant to
24 sub-subparagraph (2)(b)2.b. shall be conclusive if reasonable
25 and made in good faith. Such determination shall be
26 conclusively presumed to have been made reasonably and in good
27 faith unless proven otherwise in a proceeding commenced by or
28 on behalf of a person interested in the trust within the time
29 provided in s. 737.307. The burden will be on the objecting
30 interested party to prove that the determinations were not
31 made reasonably and in good faith.

1 (5) The unitrust amount shall not be less than the net
2 income of the trust, determined without regard to the
3 provisions of subsection (6), for:

4 (a) A trust for which a marital deduction has been
5 taken for federal tax purposes under the Internal Revenue
6 Code, 26 U.S.C. s. 2056 or s. 2523, during the lifetime of the
7 spouse for whom the trust was created; or

8 (b) A trust to which the generation-skipping transfer
9 tax due under the Internal Revenue Code, 26 U.S.C. s. 2601
10 does not apply by reason of any effective date or transition
11 rule.

12
13 Paragraph (a) will not apply to any trust to the extent that
14 the use of a total return unitrust is recognized for federal
15 tax purposes under the Internal Revenue Code, 26 U.S.C. s.
16 2056 or s. 2523. Paragraph (b) will not apply to any trust to
17 the extent that the use of a total return unitrust is
18 recognized for federal tax purposes under the Internal Revenue
19 Code, 26 U.S.C. s. 2601.

20 (6) Following the conversion of an income trust to a
21 total return unitrust, the trustee:

22 (a) Shall treat the unitrust amount as if it were net
23 income of the trust for purposes of determining the amount
24 available, from time to time, for distribution from the trust.

25 (b) May allocate to trust income for each taxable year
26 of the trust, or portion thereof:

27 1. Net short-term capital gain described in the
28 Internal Revenue Code, 26 U.S.C. s. 1222(5) for such year, or
29 portion thereof, but only to the extent that the amount so
30 allocated together with all other amounts allocated to trust
31 income, as determined under the provisions of this chapter

1 without regard to this section and s. 738.104, for such year,
2 or portion thereof, does not exceed the unitrust amount for
3 such year, or portion thereof; and

4 2. Net long-term capital gain described in the
5 Internal Revenue Code, 26 U.S.C. s. 1222(7) for such year, or
6 portion thereof, but only to the extent that the amount so
7 allocated together with all other amounts, including amounts
8 described in subparagraph 1., allocated to trust income for
9 such year, or portion thereof, does not exceed the unitrust
10 amount for such year, or portion thereof.

11 (7) In administering a total return unitrust, the
12 trustee may, in its sole discretion but subject to the
13 provisions of the governing instrument, determine:

14 (a) The effective date of the conversion.

15 (b) The timing of distributions, including provisions
16 for prorating a distribution for a short year in which a
17 beneficiary's right to payments commences or ceases.

18 (c) Whether distributions are to be made in cash or in
19 kind or partly in cash and partly in kind.

20 (d) If the trust is reconverted to an income trust,
21 the effective date of such reconversion.

22 (e) Such other administrative issues as may be
23 necessary or appropriate to carry out the purposes of this
24 section.

25 (8) Conversion to a total return unitrust under the
26 provisions of this section shall not affect any other
27 provision of the governing instrument, if any, regarding
28 distributions of principal.

29 (9) In the case of a trust for which a marital
30 deduction has been taken for federal tax purposes under the
31 Internal Revenue Code, 26 U.S.C. s. 2056 or s. 2523, the

1 spouse otherwise entitled to receive the net income of the
2 trust shall have the right, by written instrument delivered to
3 the trustee, to compel the reconversion during his or her
4 lifetime of the trust from a total return unitrust to an
5 income trust, notwithstanding anything in this section to the
6 contrary, unless the use of a total return unitrust is
7 recognized for federal tax purposes under the Internal Revenue
8 Code, 26 U.S.C. s. 2056 or s. 2523.

9 (10) Any trustee or disinterested person who in good
10 faith takes or fails to take any action under this section
11 shall not be liable to any person affected by such action or
12 inaction, regardless of whether such person received written
13 notice as provided in this section and regardless of whether
14 such person was under a legal disability at the time of the
15 delivery of such notice. Such person's exclusive remedy shall
16 be to obtain, under subsection (11), an order of the court
17 directing the trustee to convert an income trust to a total
18 return unitrust, to reconvert from a total return unitrust to
19 an income trust, or to change the percentage used to calculate
20 the unitrust amount.

21 (11) If a majority in interest of either the income or
22 remainder beneficiaries of an income trust has delivered to
23 the trustee a written objection to the amount of the income
24 distributions of the trust, and, if the trustee has failed to
25 resolve the objection to the satisfaction of the objecting
26 beneficiaries within 6 months from the receipt of such written
27 objection, then the objecting beneficiaries may petition the
28 court in accordance with subsection (3).

29 (12) This section shall be construed as pertaining to
30 the administration of a trust and shall be available to any
31

1 trust that is administered in this state under Florida law
2 unless:

3 (a) The governing instrument reflects an intention
4 that the current beneficiary or beneficiaries are to receive
5 an amount other than a reasonable current return from the
6 trust;

7 (b) The trust is a trust described in the Internal
8 Revenue Code, 26 U.S.C. s. 170(f)(2)(B), s. 642(c)(5), s.
9 664(d), s. 1361(d), s. 2702(a)(3), or s. 2702(b);

10 (c) One or more persons to whom the trustee could
11 distribute income have a power of withdrawal over the trust
12 that is not subject to an ascertainable standard under the
13 Internal Revenue Code, 26 U.S.C. s. 2041 or s. 2514 or that
14 can be exercised to discharge a duty of support he or she
15 possesses;

16 (d) The governing instrument expressly prohibits use
17 of this section by specific reference to the section. A
18 provision in the governing instrument that, "The provisions of
19 section 738.1041, Florida Statutes, as amended, or any
20 corresponding provision of future law, shall not be used in
21 the administration of this trust," or similar words reflecting
22 such intent shall be sufficient to preclude the use of this
23 section; or

24 (e) The trust is a trust with respect to which a
25 trustee currently possesses the power to adjust under s.
26 738.104.

27 738.105 Judicial control of discretionary powers.--

28 (1) A court shall not change a fiduciary's decision to
29 exercise or not to exercise a discretionary power conferred by
30 this chapter unless the court determines that the decision was
31 an abuse of the fiduciary's discretion. A court shall not

1 determine that a fiduciary abused its discretion merely
2 because the court would have exercised the discretion in a
3 different manner or would not have exercised the discretion.

4 (2) The decisions to which subsection (1) applies
5 include:

6 (a) A determination under s. 738.104(1) of whether and
7 to what extent an amount should be transferred from principal
8 to income or from income to principal.

9 (b) A determination of the factors that are relevant
10 to the trust and trust beneficiaries, the extent to which such
11 factors are relevant, and the weight, if any, to be given to
12 the relevant factors, in deciding whether and to what extent
13 to exercise the power conferred by s. 738.104(1).

14 (3) If a court determines that a fiduciary has abused
15 its discretion, the remedy shall be to restore the income and
16 remainder beneficiaries to the positions they would have
17 occupied if the fiduciary had not abused its discretion,
18 according to the following rules:

19 (a) To the extent the abuse of discretion has resulted
20 in no distribution to a beneficiary or a distribution that is
21 too small, the court shall require the fiduciary to distribute
22 from the trust to the beneficiary an amount the court
23 determines will restore the beneficiary, in whole or in part,
24 to his or her appropriate position.

25 (b) To the extent the abuse of discretion has resulted
26 in a distribution to a beneficiary that is too large, the
27 court shall restore the beneficiaries, the trust, or both, in
28 whole or in part, to their appropriate positions by requiring
29 the fiduciary to withhold an amount from one or more future
30 distributions to the beneficiary who received the distribution

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1 that was too large or requiring that beneficiary to return
2 some or all of the distribution to the trust.

3 (c) To the extent the court is unable, after applying
4 paragraphs (a) and (b), to restore the beneficiaries, the
5 trust, or both, to the positions they would have occupied if
6 the fiduciary had not abused its discretion, the court may
7 require the fiduciary to pay an appropriate amount from its
8 own funds to one or more of the beneficiaries or the trust or
9 both.

10 (4) Upon the filing of a petition by the fiduciary,
11 the court having jurisdiction over the trust or estate shall
12 determine whether a proposed exercise or nonexercise by the
13 fiduciary of a discretionary power conferred by this chapter
14 will result in an abuse of the fiduciary's discretion. If the
15 petition describes the proposed exercise or nonexercise of the
16 power and contains sufficient information to inform the
17 beneficiaries of the reasons for the proposal, the facts upon
18 which the fiduciary relies, and an explanation of how the
19 income and remainder beneficiaries will be affected by the
20 proposed exercise or nonexercise of the power, a beneficiary
21 who challenges the proposed exercise or nonexercise has the
22 burden of establishing that such exercise or nonexercise will
23 result in an abuse of discretion.

24 (5) If an action is instituted alleging an abuse of
25 discretion in the exercise or nonexercise of the power of
26 adjustment conferred by s. 738.104(1) and the court determines
27 that no abuse of discretion has occurred, the trustee's costs
28 and attorney's fees incurred in defending the action shall be
29 paid from the trust assets.

30 738.201 Determination and distribution of net
31 income.--After a decedent dies, in the case of an estate, or

1 after an income interest in a trust ends, the following rules
2 apply:

3 (1) A fiduciary of an estate or of a terminating
4 income interest shall determine the amount of net income and
5 net principal receipts received from property specifically
6 given to a beneficiary under the rules in ss. 738.301-738.706
7 which apply to trustees and the rules in subsection (5). The
8 fiduciary shall distribute the net income and net principal
9 receipts to the beneficiary who is to receive the specific
10 property.

11 (2) A fiduciary shall determine the remaining net
12 income of a decedent's estate or a terminating income interest
13 under the rules in ss. 738.301-738.706 which apply to trustees
14 and by:

15 (a) Including in net income all income from property
16 used to discharge liabilities.

17 (b) Paying from income or principal, in the
18 fiduciary's discretion, fees of attorneys, accountants, and
19 fiduciaries; court costs and other expenses of administration;
20 and interest on death taxes, but the fiduciary may pay those
21 expenses from income of property passing to a trust for which
22 the fiduciary claims an estate tax marital or charitable
23 deduction only to the extent the payment of those expenses
24 from income will not cause the reduction or loss of the
25 deduction.

26 (c) Paying from principal all other disbursements made
27 or incurred in connection with the settlement of a decedent's
28 estate or the winding up of a terminating income interest,
29 including debts, funeral expenses, disposition of remains,
30 family allowances, and death taxes and related penalties that
31

1 are apportioned to the estate or terminating income interest
2 by the will, the terms of the trust, or applicable law.

3 (3) A fiduciary shall distribute to a beneficiary who
4 receives a pecuniary amount outright the interest or any other
5 amount provided by the will, the terms of the trust, or
6 applicable law from net income determined under subsection (2)
7 or from principal to the extent net income is insufficient.
8 If a beneficiary is to receive a pecuniary amount outright
9 from a trust after an income interest ends and no interest or
10 other amount is provided for by the terms of the trust or
11 applicable law, the fiduciary shall distribute the interest or
12 other amount to which the beneficiary would be entitled under
13 applicable law if the pecuniary amount were required to be
14 paid under a will.

15 (4) A fiduciary shall distribute the net income
16 remaining after distributions required by subsection (3) in
17 the manner described in s. 738.202 to all other beneficiaries,
18 including a beneficiary who receives a pecuniary amount in
19 trust, even if the beneficiary holds an unqualified power to
20 withdraw assets from the trust or other presently exercisable
21 general power of appointment over the trust.

22 (5) A fiduciary may not reduce principal or income
23 receipts from property described in subsection (1) because of
24 a payment described in s. 738.701 or s. 738.702 to the extent
25 the will, the terms of the trust, or applicable law requires
26 the fiduciary to make the payment from assets other than the
27 property or to the extent the fiduciary recovers or expects to
28 recover the payment from a third party. The net income and
29 principal receipts from the property are determined by
30 including all of the amounts the fiduciary receives or pays
31 with respect to the property, whether those amounts accrued or

1 became due before, on, or after the date of a decedent's death
2 or an income interest's terminating event, and by making a
3 reasonable provision for amounts the fiduciary believes the
4 estate or terminating income interest may become obligated to
5 pay after the property is distributed.

6 738.202 Distribution to residuary and remainder
7 beneficiaries.--

8 (1) Each beneficiary described in s. 738.201(4) is
9 entitled to receive a portion of the net income equal to the
10 beneficiary's fractional interest in undistributed principal
11 assets, using values as of the distribution date. If a
12 fiduciary makes more than one distribution of assets to
13 beneficiaries to whom this section applies, each beneficiary,
14 including one who does not receive part of the distribution,
15 is entitled, as of each distribution date, to the net income
16 the fiduciary has received after the date of death or
17 terminating event or earlier distribution date but has not
18 distributed as of the current distribution date.

19 (2) In determining a beneficiary's share of net
20 income, the following rules apply:

21 (a) The beneficiary is entitled to receive a portion
22 of the net income equal to the beneficiary's fractional
23 interest in the undistributed principal assets immediately
24 before the distribution date, including assets that later may
25 be sold to meet principal obligations.

26 (b) The beneficiary's fractional interest in the
27 undistributed principal assets shall be calculated without
28 regard to property specifically given to a beneficiary and
29 property required to pay pecuniary amounts not in trust.

30 (c) The beneficiary's fractional interest in the
31 undistributed principal assets shall be calculated on the

1 basis of the aggregate value of those assets as of the
2 distribution date without reducing the value by any unpaid
3 principal obligation.

4 (d) The distribution date for purposes of this section
5 may be the date as of which the fiduciary calculates the value
6 of the assets if that date is reasonably near the date on
7 which assets are actually distributed.

8 (3) If a fiduciary does not distribute all of the
9 collected but undistributed net income to each person as of a
10 distribution date, the fiduciary shall maintain appropriate
11 records showing the interest of each beneficiary in that net
12 income.

13 (4) A fiduciary may apply the rules in this section,
14 to the extent the fiduciary considers appropriate, to net gain
15 or loss realized after the date of death or terminating event
16 or earlier distribution date from the disposition of a
17 principal asset if this section applies to the income from the
18 asset.

19 (5) The value of trust assets shall be determined on
20 an asset-by-asset basis and shall be conclusive if reasonable
21 and determined in good faith. Determinations based on
22 appraisals performed within 2 years of the valuation date
23 shall be presumed reasonable. The value of trust assets shall
24 be conclusively presumed to be reasonable and determined in
25 good faith unless proven otherwise in a proceeding commenced
26 by or on behalf of a person interested in the trust within the
27 time provided in s. 737.307.

28 738.301 When right to income begins and ends.--An
29 income beneficiary is entitled to net income from the date on
30 which the income interest begins.

31

1 (1) An income interest begins on the date specified in
2 the terms of the trust or, if no date is specified, on the
3 date an asset becomes subject to a trust or successive income
4 interest.

5 (2) An asset becomes subject to a trust:

6 (a) On the date the asset is transferred to the trust
7 in the case of an asset that is transferred to a trust during
8 the transferor's life;

9 (b) On the date of a testator's death in the case of
10 an asset that becomes subject to a trust by reason of a will,
11 even if there is an intervening period of administration of
12 the testator's estate; or

13 (c) On the date of an individual's death in the case
14 of an asset that is transferred to a fiduciary by a third
15 party because of the individual's death.

16 (3) An asset becomes subject to a successive income
17 interest on the day after the preceding income interest ends,
18 as determined under subsection (4), even if there is an
19 intervening period of administration to wind up the preceding
20 income interest.

21 (4) An income interest ends on the day before an
22 income beneficiary dies or another terminating event occurs,
23 or on the last day of a period during which there is no
24 beneficiary to whom a trustee may distribute income.

25 738.302 Apportionment of receipts and disbursements
26 when decedent dies or income interest begins.--

27 (1) A trustee shall allocate an income receipt or
28 disbursement other than one to which s. 738.201(1) applies to
29 principal if the due date of the receipt or disbursement
30 occurs before a decedent dies in the case of an estate or

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1 before an income interest begins in the case of a trust or
2 successive income interest.

3 (2) A trustee shall allocate an income receipt or
4 disbursement to income if the due date of the receipt or
5 disbursement occurs on or after the date on which a decedent
6 dies or an income interest begins and the due date is a
7 periodic due date. An income receipt or disbursement shall be
8 treated as accruing from day to day if the due date of the
9 receipt or disbursement is not periodic or the receipt or
10 disbursement has no due date. The portion of the receipt or
11 disbursement accruing before the date on which a decedent dies
12 or an income interest begins shall be allocated to principal
13 and the balance shall be allocated to income.

14 (3) An item of income or an obligation is due on the
15 date the payor is required to make a payment. If a payment
16 date is not stated, there is no due date for the purposes of
17 this chapter. Distributions to shareholders or other owners
18 from an entity to which s. 738.401 applies are deemed to be
19 due on the date fixed by the entity for determining who is
20 entitled to receive the distribution or, if no date is fixed,
21 on the declaration date for the distribution. A due date is
22 periodic for receipts or disbursements that shall be paid at
23 regular intervals under a lease or an obligation to pay
24 interest or if an entity customarily makes distributions at
25 regular intervals.

26 (4) Nothing in this section shall prevent the
27 application of s. 733.817 to apportion tax to the income
28 recipient under this section.

29 738.303 Apportionment when income interest ends.--

30 (1) For purposes of this section, "undistributed
31 income" means net income received before the date on which an

1 income interest ends. The term does not include an item of
2 income or expense that is due or accrued or net income that
3 has been added or is required to be added to principal under
4 the terms of the trust.

5 (2) When a mandatory income interest ends, the trustee
6 shall pay to a mandatory income beneficiary who survives that
7 date, or the estate of a deceased mandatory income beneficiary
8 whose death causes the interest to end, the beneficiary's
9 share of the undistributed income that is not disposed of
10 under the terms of the trust unless the beneficiary has an
11 unqualified power to revoke more than 5 percent of the trust
12 immediately before the income interest ends. In the latter
13 case, the undistributed income from the portion of the trust
14 that may be revoked shall be added to principal.

15 (3) When a trustee's obligation to pay a fixed annuity
16 or a fixed fraction of the value of the trust's assets ends,
17 the trustee shall prorate the final payment if and to the
18 extent required by applicable law to accomplish a purpose of
19 the trust or its grantor relating to income, gift, estate, or
20 other tax requirements.

21 738.401 Character of receipts.--

22 (1) For purposes of this section, "entity" means a
23 corporation, partnership, limited liability company, regulated
24 investment company, real estate investment trust, common trust
25 fund, or any other organization in which a trustee has an
26 interest other than a trust or estate to which s. 738.402
27 applies, a business or activity to which s. 738.403 applies,
28 or an asset-backed security to which s. 738.608 applies.

29 (2) Except as otherwise provided in this section, a
30 trustee shall allocate to income money received from an
31 entity.

1 (3) A trustee shall allocate the following receipts
2 from an entity to principal:

3 (a) Property other than money.

4 (b) Money received in one distribution or a series of
5 related distributions in exchange for part or all of a trust's
6 interest in the entity.

7 (c) Money received in total or partial liquidation of
8 the entity.

9 (d) Money received from an entity that is a regulated
10 investment company or a real estate investment trust if the
11 money distributed represents a distribution of short-term or
12 long-term capital gain for federal income tax purposes.

13 (4) If a trustee elects, or continues an election made
14 by its predecessor, to reinvest dividends in shares of stock
15 of a distributing corporation or fund, whether evidenced by
16 new certificates or entries on the books of the distributing
17 entity, the new shares shall retain their character as income.

18 (5) Money is received in partial liquidation:

19 (a) To the extent the entity, at or near the time of a
20 distribution, indicates that such money is a distribution in
21 partial liquidation; or

22 (b) If the total amount of money and property received
23 in a distribution or series of related distributions is
24 greater than 20 percent of the entity's gross assets, as shown
25 by the entity's year-end financial statements immediately
26 preceding the initial receipt.

27 (6) Money is not received in partial liquidation, nor
28 may money be taken into account under paragraph (5)(b), to the
29 extent such money does not exceed the amount of income tax a
30 trustee or beneficiary must pay on taxable income of the
31 entity that distributes the money.

1 (7) A trustee may rely upon a statement made by an
2 entity about the source or character of a distribution if the
3 statement is made at or near the time of distribution by the
4 entity's board of directors or other person or group of
5 persons authorized to exercise powers to pay money or transfer
6 property comparable to those of a corporation's board of
7 directors.

8 738.402 Distribution from trust or estate.--A trustee
9 shall allocate to income an amount received as a distribution
10 of income from a trust or an estate in which the trust has an
11 interest other than a purchased interest and shall allocate to
12 principal an amount received as a distribution of principal
13 from such a trust or estate. If a trustee purchases an
14 interest in a trust that is an investment entity, or a
15 decedent or donor transfers an interest in such a trust to a
16 trustee, s. 738.401 or s. 738.608 applies to a receipt from
17 the trust.

18 738.403 Business and other activities conducted by
19 trustee.--

20 (1) If a trustee who conducts a business or other
21 activity determines that it is in the best interest of all the
22 beneficiaries to account separately for the business or
23 activity instead of accounting for the business or activity as
24 part of the trust's general accounting records, the trustee
25 may maintain separate accounting records for the transactions
26 of such business or other activity, whether or not the assets
27 of such business or activity are segregated from other trust
28 assets.

29 (2) A trustee who accounts separately for a business
30 or other activity may determine the extent to which the net
31 cash receipts of such business or activity must be retained

1 for working capital, the acquisition or replacement of fixed
2 assets, and other reasonably foreseeable needs of the business
3 or activity, and the extent to which the remaining net cash
4 receipts are accounted for as principal or income in the
5 trust's general accounting records. If a trustee sells assets
6 of the business or other activity, other than in the ordinary
7 course of the business or activity, the trustee shall account
8 for the net amount received as principal in the trust's
9 general accounting records to the extent the trustee
10 determines that the amount received is no longer required in
11 the conduct of the business.

12 (3) Activities for which a trustee may maintain
13 separate accounting records include:

14 (a) Retail, manufacturing, service, and other
15 traditional business activities.

16 (b) Farming.

17 (c) Raising and selling livestock and other animals.

18 (d) Management of rental properties.

19 (e) Extraction of minerals and other natural
20 resources.

21 (f) Timber operations.

22 (g) Activities to which s. 738.608 applies.

23 738.501 Principal receipts.--A trustee shall allocate
24 to principal:

25 (1) To the extent not allocated to income under this
26 chapter, assets received from a transferor during the
27 transferor's lifetime, a decedent's estate, a trust with a
28 terminating income interest, or a payor under a contract
29 naming the trust or its trustee as beneficiary.

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1 (2) Money or other property received from the sale,
2 exchange, liquidation, or change in form of a principal asset,
3 including realized profit, subject to this section.

4 (3) Amounts recovered from third parties to reimburse
5 the trust because of disbursements described in s.
6 738.702(1)(g) or for other reasons to the extent not based on
7 the loss of income.

8 (4) Proceeds of property taken by eminent domain but a
9 separate award made for the loss of income with respect to an
10 accounting period during which a current income beneficiary
11 had a mandatory income interest is income.

12 (5) Net income received in an accounting period during
13 which there is no beneficiary to whom a trustee may or shall
14 distribute income.

15 (6) Other receipts as provided in ss. 738.601-738.608.

16 738.502 Rental property.--To the extent a trustee
17 accounts for receipts from rental property pursuant to this
18 section, the trustee shall allocate to income an amount
19 received as rent of real or personal property, including an
20 amount received for cancellation or renewal of a lease. An
21 amount received as a refundable deposit, including a security
22 deposit or a deposit that is to be applied as rent for future
23 periods, shall be added to principal and held subject to the
24 terms of the lease and is not available for distribution to a
25 beneficiary until the trustee's contractual obligations have
26 been satisfied with respect to that amount.

27 738.503 Obligation to pay money.--

28 (1) An amount received as interest, whether determined
29 at a fixed, variable, or floating rate, on an obligation to
30 pay money to the trustee, including an amount received as
31

1 consideration for prepaying principal, shall be allocated to
2 income without any provision for amortization of premium.

3 (2) Except as otherwise provided herein, a trustee
4 shall allocate to principal an amount received from the sale,
5 redemption, or other disposition of an obligation to pay money
6 to the trustee.

7 (3) The increment in value of a bond or other
8 obligation for the payment of money bearing no stated interest
9 but payable at a future time in excess of the price at which
10 it was issued or purchased, if purchased after issuance, is
11 distributable as income. If the increment in value accrues
12 and becomes payable pursuant to a fixed schedule of
13 appreciation, it may be distributed to the beneficiary who was
14 the income beneficiary at this time of increment from the
15 first principal cash available or, if none is available, when
16 the increment is realized by sale, redemption, or other
17 disposition. When unrealized increment is distributed as
18 income but out of principal, the principal shall be reimbursed
19 for the increment when realized. If, in the reasonable
20 judgment of the trustee, exercised in good faith, the ultimate
21 payment of the bond principal is in doubt, the trustee may
22 withhold the payment of incremental interest to the income
23 beneficiary.

24 (4) This section does not apply to an obligation to
25 which s. 738.602, s. 738.603, s. 738.604, s. 738.605, s.
26 738.607, or s. 738.608 applies.

27 738.504 Insurance policies and similar contracts.--

28 (1) Except as otherwise provided in subsection (2), a
29 trustee shall allocate to principal the proceeds of a life
30 insurance policy or other contract in which the trust or its
31 trustee is named as beneficiary, including a contract that

1 insures the trust or its trustee against loss for damage to,
2 destruction of, or loss of title to a trust asset. The
3 trustee shall allocate dividends on an insurance policy to
4 income if the premiums on the policy are paid from income and
5 to principal if the premiums are paid from principal.

6 (2) A trustee shall allocate to income proceeds of a
7 contract that insures the trustee against loss of occupancy or
8 other use by an income beneficiary, loss of income, or,
9 subject to s. 738.403, loss of profits from a business.

10 (3) This section does not apply to a contract to which
11 s. 738.602 applies.

12 738.601 Insubstantial allocations not required.--If a
13 trustee determines that an allocation between principal and
14 income required by s. 738.602, s. 738.603, s. 738.604, s.
15 738.605, or s. 738.608 is insubstantial, the trustee may
16 allocate the entire amount to principal unless one of the
17 circumstances described in s. 738.104(3) applies to the
18 allocation. This power may be exercised by a cotrustee in the
19 circumstances described in s. 738.104(4) and may be released
20 for the reasons and in the manner described in s. 738.104(5).
21 An allocation is presumed to be insubstantial if:

22 (1) The amount of the allocation would increase or
23 decrease net income in an accounting period, as determined
24 before the allocation, by less than 10 percent; or

25 (2) The value of the asset producing the receipt for
26 which the allocation would be made is less than 10 percent of
27 the total value of the trust's assets at the beginning of the
28 accounting period.

29 738.602 Deferred compensation, annuities, and similar
30 payments.--

31

1 (1) For purposes of this section, "payment" means a
2 payment that a trustee may receive over a fixed number of
3 years or during the life of one or more individuals because of
4 services rendered or property transferred to the payor in
5 exchange for future payments. The term includes a payment
6 made in money or property from the payor's general assets or
7 from a separate fund created by the payor, including a private
8 or commercial annuity, an individual retirement account, and a
9 pension, profit-sharing, stock-bonus, or stock-ownership plan.

10 (2) With respect to payments that may be characterized
11 as interest, dividends, or their equivalent:

12 (a) A trustee shall allocate to income in the
13 following order:

14 1. First, payments characterized by the payor as
15 interest or dividends or as a payment made in lieu of interest
16 or dividends.

17 2. Second, all other payments to the extent that the
18 trustee, reasonably and in good faith, determines that such
19 payments represent interest, dividends, or their equivalent.

20 (b) A trustee shall allocate to principal the balance
21 of any payment not characterized as, or otherwise determined
22 to be, interest, dividends, or their equivalent.

23 (3) If no part of a payment is characterized as, or
24 otherwise determined to be, interest, a dividend, or an
25 equivalent payment and all or part of the payment is required
26 to be made, a trustee shall allocate to income 10 percent of
27 the part that is required to be made during the accounting
28 period and the balance to principal. If no part of a payment
29 is required to be made or the payment received is the entire
30 amount to which the trustee is entitled, the trustee shall
31 allocate the entire payment to principal. For purposes of

1 this subsection, a payment is not "required to be made" to the
2 extent the payment is made because the trustee exercises a
3 right of withdrawal.

4 (4) If, to obtain an estate tax marital deduction for
5 a trust, a trustee must allocate more of a payment to income
6 than provided for by this section, the trustee shall allocate
7 to income the additional amount necessary to obtain the
8 marital deduction.

9 (5) This section does not apply to payments to which
10 s. 738.603 applies.

11 738.603 Liquidating asset.--

12 (1) For purposes of this section, "liquidating asset"
13 means an asset the value of which will diminish or terminate
14 because the asset is expected to produce receipts for a period
15 of limited duration. The term includes a leasehold, patent,
16 copyright, royalty right, and right to receive payments during
17 a period of more than 1 year under an arrangement that does
18 not provide for the payment of interest on the unpaid balance.
19 The term does not include a payment subject to s. 738.602,
20 resources subject to s. 738.604, timber subject to s. 738.605,
21 an activity subject to s. 738.607, an asset subject to s.
22 738.608, or any asset for which the trustee establishes a
23 reserve for depreciation under s. 738.703.

24 (2) A trustee shall allocate to income 10 percent of
25 the receipts from a liquidating asset and the balance to
26 principal.

27 738.604 Minerals, water, and other natural
28 resources.--

29 (1) To the extent a trustee accounts for receipts from
30 an interest in minerals or other natural resources pursuant to
31

1 this section, the trustee shall allocate such receipts as
2 follows:

3 (a) If received as nominal delay rental or nominal
4 annual rent on a lease, a receipt shall be allocated to
5 income.

6 (b) If received from a production payment, a receipt
7 shall be allocated to income if and to the extent the
8 agreement creating the production payment provides a factor
9 for interest or its equivalent. The balance shall be
10 allocated to principal.

11 (c) If an amount received as a royalty, shut-in-well
12 payment, take-or-pay payment, bonus, or delay rental is more
13 than nominal, 90 percent shall be allocated to principal and
14 the balance to income.

15 (d) If an amount is received from a working interest
16 or any other interest not provided for in paragraph (a),
17 paragraph (b), or paragraph (c), 90 percent of the net amount
18 received shall be allocated to principal and the balance to
19 income.

20 (2) An amount received on account of an interest in
21 water that is renewable shall be allocated to income. If the
22 water is not renewable, 90 percent of the amount shall be
23 allocated to principal and the balance to income.

24 (3) This chapter applies whether or not a decedent or
25 donor was extracting minerals, water, or other natural
26 resources before the interest became subject to the trust.

27 (4) If a trust owns an interest in minerals, water, or
28 other natural resources on January 1, 2003, the trustee may
29 allocate receipts from the interest as provided in this
30 chapter or in the manner used by the trustee before January 1,
31 2003. If the trust acquires an interest in minerals, water,

1 or other natural resources after January 1, 2003, the trustee
2 shall allocate receipts from the interest as provided in this
3 chapter.

4 738.605 Timber.--

5 (1) To the extent a trustee accounts for receipts from
6 the sale of timber and related products pursuant to this
7 section, the trustee shall allocate the net receipts:

8 (a) To income to the extent the amount of timber
9 removed from the land does not exceed the rate of growth of
10 the timber during the accounting periods in which a
11 beneficiary has a mandatory income interest;

12 (b) To principal to the extent the amount of timber
13 removed from the land exceeds the rate of growth of the timber
14 or the net receipts are from the sale of standing timber;

15 (c) To or between income and principal if the net
16 receipts are from the lease of timberland or from a contract
17 to cut timber from land owned by a trust by determining the
18 amount of timber removed from the land under the lease or
19 contract and applying the rules in paragraphs (a) and (b); or

20 (d) To principal to the extent advance payments,
21 bonuses, and other payments are not allocated pursuant to
22 paragraph (a), paragraph (b), or paragraph (c).

23 (2) In determining net receipts to be allocated
24 pursuant to subsection (1), a trustee shall deduct and
25 transfer to principal a reasonable amount for depletion.

26 (3) This chapter applies whether or not a decedent or
27 transferor was harvesting timber from the property before the
28 property became subject to the trust.

29 (4) If a trust owns an interest in timberland on
30 January 1, 2003, the trustee may allocate net receipts from
31 the sale of timber and related products as provided in this

1 chapter or in the manner used by the trustee before January 1,
2 2003. If the trust acquires an interest in timberland after
3 January 1, 2003, the trustee shall allocate net receipts from
4 the sale of timber and related products as provided in this
5 chapter.

6 738.606 Property not productive of income.--

7 (1) If a marital deduction is allowed for all or part
8 of a trust the income of which is required to be distributed
9 to the grantor's spouse and the assets of which consist
10 substantially of property that does not provide the spouse
11 with sufficient income from or use of the trust assets, and if
12 the amounts the trustee transfers from principal to income
13 under s. 738.104 and distributes to the spouse from principal
14 pursuant to the terms of the trust are insufficient to provide
15 the spouse with the beneficial enjoyment required to obtain
16 the marital deduction, the spouse may require the trustee to
17 make property productive of income, convert property within a
18 reasonable time, or exercise the power conferred by ss.
19 738.104 and 738.1041. The trustee may decide which action or
20 combination of actions to take.

21 (2) In cases not governed by subsection (1), proceeds
22 from the sale or other disposition of an asset are principal
23 without regard to the amount of income the asset produces
24 during any accounting period.

25 738.607 Derivatives and options.--

26 (1) For purposes of this section, "derivative" means a
27 contract or financial instrument or a combination of contracts
28 and financial instruments which gives a trust the right or
29 obligation to participate in some or all changes in the price
30 of a tangible or intangible asset or group of assets, or

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1 changes in a rate, an index of prices or rates, or other
2 market indicator for an asset or a group of assets.

3 (2) To the extent a trustee does not account under s.
4 738.403 for transactions in derivatives, the trustee shall
5 allocate to principal receipts from and disbursements made in
6 connection with those transactions.

7 (3) If a trustee grants an option to buy property from
8 the trust whether or not the trust owns the property when the
9 option is granted, grants an option that permits another
10 person to sell property to the trust, or acquires an option to
11 buy property for the trust or an option to sell an asset owned
12 by the trust, and the trustee or other owner of the asset is
13 required to deliver the asset if the option is exercised, an
14 amount received for granting the option shall be allocated to
15 principal. An amount paid to acquire the option shall be paid
16 from principal. A gain or loss realized upon the exercise of
17 an option, including an option granted to a grantor of the
18 trust for services rendered, shall be allocated to principal.

19 738.608 Asset-backed securities.--

20 (1) For purposes of this section, "asset-backed
21 security" means an asset the value of which is based upon the
22 right given the owner to receive distributions from the
23 proceeds of financial assets that provide collateral for the
24 security. The term includes an asset that gives the owner the
25 right to receive from the collateral financial assets only the
26 interest or other current return or only the proceeds other
27 than interest or current return. The term does not include an
28 asset to which s. 738.401 or s. 738.602 applies.

29 (2) If a trust receives a payment from interest or
30 other current return and from other proceeds of the collateral
31 financial assets, the trustee shall allocate to income the

1 portion of the payment which the payor identifies as being
2 from interest or other current return and shall allocate the
3 balance of the payment to principal.

4 (3) If a trust receives one or more payments in
5 exchange for the trust's entire interest in an asset-backed
6 security during a single accounting period, the trustee shall
7 allocate the payments to principal. If a payment is one of a
8 series of payments that will result in the liquidation of the
9 trust's interest in the security over more than a single
10 accounting period, the trustee shall allocate 10 percent of
11 the payment to income and the balance to principal.

12 738.701 Disbursements from income.--A trustee shall
13 make the following disbursements from income to the extent
14 they are not disbursements to which s. 738.201(2)(a) or (c)
15 applies:

16 (1) One-half of the regular compensation of the
17 trustee and of any person providing investment advisory or
18 custodial services to the trustee.

19 (2) One-half of all expenses for accountings, judicial
20 proceedings, or other matters that involve both the income and
21 remainder interests.

22 (3) All of the other ordinary expenses incurred in
23 connection with the administration, management, or
24 preservation of trust property and the distribution of income,
25 including interest, ordinary repairs, regularly recurring
26 taxes assessed against principal, and expenses of a proceeding
27 or other matter that concerns primarily the income interest.

28 (4) Recurring premiums on insurance covering the loss
29 of a principal asset or the loss of income from or use of the
30 asset.

31 738.702 Disbursements from principal.--

1 (1) A trustee shall make the following disbursements
2 from principal:

3 (a) The remaining one-half of the disbursements
4 described in s. 738.701(1) and (2).

5 (b) All of the trustee's compensation calculated on
6 principal as a fee for acceptance, distribution, or
7 termination and disbursements made to prepare property for
8 sale.

9 (c) Payments on the principal of a trust debt.

10 (d) Expenses of a proceeding that concerns primarily
11 principal, including a proceeding to construe the trust or to
12 protect the trust or its property.

13 (e) Premiums paid on a policy of insurance not
14 described in s. 738.701(4) of which the trust is the owner and
15 beneficiary.

16 (f) Estate, inheritance, and other transfer taxes,
17 including penalties, apportioned to the trust.

18 (g) Disbursements related to environmental matters,
19 including reclamation, assessing environmental conditions,
20 remediating and removing environmental contamination, monitoring
21 remedial activities and the release of substances, preventing
22 future releases of substances, collecting amounts from persons
23 liable or potentially liable for the costs of such activities,
24 penalties imposed under environmental laws or regulations and
25 other payments made to comply with those laws or regulations,
26 statutory or common law claims by third parties, and defending
27 claims based on environmental matters.

28 (h) Payments representing extraordinary repairs or
29 expenses incurred in making a capital improvement to
30 principal, including special assessments; however, a trustee
31

1 may establish an allowance for depreciation out of income to
2 the extent permitted by s. 738.703.

3 (2) If a principal asset is encumbered with an
4 obligation that requires income from that asset to be paid
5 directly to the creditor, the trustee shall transfer from
6 principal to income an amount equal to the income paid to the
7 creditor in reduction of the principal balance of the
8 obligation.

9 738.703 Transfers from income to principal for
10 depreciation.--

11 (1) For purposes of this section, "depreciation" means
12 a reduction in value due to wear, tear, decay, corrosion, or
13 gradual obsolescence of a fixed asset having a useful life of
14 more than 1 year.

15 (2) A trustee may transfer to principal a reasonable
16 amount of the net cash receipts from a principal asset that is
17 subject to depreciation but may not transfer any amount for
18 depreciation:

19 (a) Of that portion of real property used or available
20 for use by a beneficiary as a residence or of tangible
21 personal property held or made available for the personal use
22 or enjoyment of a beneficiary;

23 (b) During the administration of a decedent's estate;
24 or

25 (c) Under this section if the trustee is accounting
26 under s. 738.403 for the business or activity in which the
27 asset is used.

28 (3) The amount of depreciation taken for tax purposes
29 with respect to an asset shall be presumed to be a reasonable
30 amount of depreciation. An amount taken for depreciation
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1 shall not be considered unreasonable solely because it is
2 greater or less than the amount taken for tax purposes.

3 (4) An amount transferred to principal need not be
4 held as a separate fund.

5 738.704 Transfers from income to reimburse
6 principal.--

7 (1) If a trustee makes or expects to make a principal
8 disbursement described in this section, the trustee may
9 transfer an appropriate amount from income to principal in one
10 or more accounting periods to reimburse principal or to
11 provide a reserve for future principal disbursements.

12 (2) Principal disbursements to which subsection (1)
13 applies include the following, but only to the extent the
14 trustee has not been and does not expect to be reimbursed by a
15 third party:

16 (a) An amount chargeable to income but paid from
17 principal because the amount is unusually large.

18 (b) Disbursements made to prepare property for rental,
19 including tenant allowances, leasehold improvements, and
20 broker's commissions.

21 (c) Disbursements described in s. 738.702(1)(g).

22 (3) If the asset the ownership of which gives rise to
23 the disbursements becomes subject to a successive income
24 interest after an income interest ends, a trustee may continue
25 to transfer amounts from income to principal as provided in
26 subsection (1).

27 (4) To the extent principal cash is not sufficient to
28 pay the principal balance of payments due on mortgaged
29 property, income may be applied to such payment in order to
30 avoid a default on any mortgage or security interest securing
31 the property. Income shall be reimbursed for such payments

1 out of the first available principal cash. If the asset the
2 ownership of which gives rise to the disbursements described
3 in this subsection becomes subject to a successive income
4 interest after an income interest ends, all rights of the
5 initial income interest shall lapse, and amounts remaining due
6 from principal shall not be a lien on the assets of the trust.

7 738.705 Income taxes.--

8 (1) A tax required to be paid by a trustee based on
9 receipts allocated to income shall be paid from income.

10 (2) A tax required to be paid by a trustee based on
11 receipts allocated to principal shall be paid from principal,
12 even if the tax is called an income tax by the taxing
13 authority.

14 (3) A tax required to be paid by a trustee on the
15 trust's share of an entity's taxable income shall be paid
16 proportionately:

17 (a) From income to the extent receipts from the entity
18 are allocated to income; and

19 (b) From principal to the extent:

20 1. Receipts from the entity are allocated to
21 principal; and

22 2. The trust's share of the entity's taxable income
23 exceeds the total receipts described in paragraph (a) and
24 subparagraph 1.

25 (4) For purposes of this section, receipts allocated
26 to principal or income shall be reduced by the amount
27 distributed to a beneficiary from principal or income for
28 which the trust receives a deduction in calculating the tax.

29 738.706 Adjustments between principal and income
30 because of taxes.--

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1 (1) A fiduciary may make adjustments between principal
2 and income to offset the shifting of economic interests or tax
3 benefits between income beneficiaries and remainder
4 beneficiaries which arise from:

5 (a) Elections and decisions, other than those
6 described in paragraph (b), that the fiduciary makes from time
7 to time regarding tax matters;

8 (b) An income tax or any other tax that is imposed
9 upon the fiduciary or a beneficiary as a result of a
10 transaction involving or a distribution from the estate or
11 trust; or

12 (c) The ownership by an estate or trust of an interest
13 in an entity whose taxable income, whether or not distributed,
14 is includable in the taxable income of the estate, trust, or a
15 beneficiary.

16 (2) If the amount of an estate tax marital deduction
17 or charitable contribution deduction is reduced because a
18 fiduciary deducts an amount paid from principal for income tax
19 purposes instead of deducting such amount for estate tax
20 purposes, and as a result estate taxes paid from principal are
21 increased and income taxes paid by an estate, trust, or
22 beneficiary are decreased, each estate, trust, or beneficiary
23 that benefits from the decrease in income tax shall reimburse
24 the principal from which the increase in estate tax is paid.
25 The total reimbursement shall equal the increase in the estate
26 tax to the extent the principal used to pay the increase would
27 have qualified for a marital deduction or charitable
28 contribution deduction but for the payment. The proportionate
29 share of the reimbursement for each estate, trust, or
30 beneficiary whose income taxes are reduced shall be the same
31 as such estate's, trust's, or beneficiary's proportionate

1 share of the total decrease in income tax. An estate or trust
2 shall reimburse principal from income.

3 738.801 Application with respect to apportionment of
4 expenses; improvements.--

5 (1) The provisions of ss. 738.701-738.705 so far as
6 applicable and excepting those dealing with costs of, or
7 assessments for, improvements to property, shall govern the
8 apportionment of expenses between tenants and remaindermen
9 when no trust has been created, subject to any agreement of
10 the parties or specific direction of the taxing or other
11 statutes, but when either tenant or remainderman has incurred
12 an expense for the benefit of his or her own estate without
13 consent or agreement of the other, he or she shall pay such
14 expense in full.

15 (2) Subject to the exceptions stated in subsection
16 (1), the cost of, or special taxes or assessments for, an
17 improvement representing an addition of value to property
18 forming part of the principal shall be paid by the tenant when
19 the improvement is not reasonably expected to outlast the
20 estate of the tenant. In all other cases a part only shall be
21 paid by the tenant, while the remainder shall be paid by the
22 remainderman. The part payable by the tenant shall be
23 ascertainable by taking that percentage of the total that is
24 found by dividing the present value of the tenant's estate by
25 the present value of an estate of the same form as that of the
26 tenant except that it is limited for a period corresponding to
27 the reasonably expected duration of the improvement. The
28 computation of present values of the estates shall be made on
29 the expectancy basis set forth in the official mortality
30 tables, and no other evidence of duration or expectancy shall
31 be considered.

1 738.802 Uniformity of application and
2 construction.--In applying and construing this act,
3 consideration shall be given to the need to promote uniformity
4 of the law with respect to the act's subject matter among
5 states that enact such act.

6 738.803 Severability.--If any provision of this
7 chapter or its application to any person or circumstance is
8 held invalid, the invalidity shall not affect other provisions
9 or applications of this chapter which can be given effect
10 without the invalid provision or application and to this end
11 the provisions of this chapter are severable.

12 738.804 Application.--Except as provided in the trust
13 instrument, the will, or this chapter, this chapter shall
14 apply to any receipt or expense received or incurred and any
15 disbursement made after January 1, 2003, by any trust or
16 decedent's estate, whether established before or after January
17 1, 2003, and whether the asset involved was acquired by the
18 trustee or personal representative before or after January 1,
19 2003. Receipts or expenses received or incurred and
20 disbursements made before January 1, 2003, shall be governed
21 by the law of this state in effect at the time of the event,
22 except as otherwise expressly provided in the will or terms of
23 the trust or in this chapter.

24 Section 2. Sections 738.01, 738.02, 738.03, 738.04,
25 738.05, 738.06, 738.07, 738.08, 738.09, 738.10, 738.11,
26 738.12, 738.13, 738.14, and 738.15, Florida Statutes, are
27 repealed.

28 Section 3. This act shall take effect January 1, 2003.
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STATEMENT OF SUBSTANTIAL CHANGES CONTAINED IN
COMMITTEE SUBSTITUTE FOR
CS for SB 1166

Makes technical and clarifying changes.