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# A BILL FOR AN ACT

RELATING TO THE PERMITTED TRANSFERS IN TRUST ACT.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that Hawaii continues to  
2 lay the foundation necessary to attract foreign-source capital  
3 and retain local capital based on proven domestic and  
4 international estate and financial planning methodologies. The  
5 original intent of the Permitted Transfers in Trust Act was to  
6 offer incentives to high net-worth individuals throughout the  
7 United States and throughout the world to transfer a portion of  
8 their liquid net worth into this State for asset and trust  
9 management. It is the legislature's intent to help the  
10 Permitted Transfers in Trust Act achieve its original purpose  
11 and to make it more competitive in the national and local  
12 marketplace.

13           The purpose of this Act is to amend the Permitted Transfers  
14 in Trust Act by adding increased flexibility as to the nature  
15 and extent of the assets that may be managed by Hawaii's private  
16 financial sector, thereby increasing state tax revenues and  
17 better positioning the State as a world-class financial  
18 management jurisdiction.



1 SECTION 2. Chapter 554G, Hawaii Revised Statutes, is  
2 amended by adding a new section to be appropriately designated  
3 and to read as follows:

4 "§554G- Advisors. (a) A transferor may appoint,  
5 through the trust instrument, one or more advisors or  
6 protectors, including but not limited to the following:

7 (1) Advisors who have authority under the terms of the  
8 trust to remove and appoint trustees, advisors, trust  
9 committee members, or protectors;

10 (2) Advisors who have authority under the terms of the  
11 trust to direct, consent to, or disapprove of  
12 distributions from the trust; and

13 (3) Advisors, including the transferor beneficiary of the  
14 trust, who serve as investment advisors to the trust.

15 (b) While a trustee may appoint an advisor, the  
16 administrative and non-administrative authority over the trust  
17 shall remain with the trustee.

18 (c) Notwithstanding subsection (b), whenever there is a  
19 dispute, deadlock, or difference of opinion between a trustee  
20 and an advisor, the transferor may direct that the determination  
21 of the advisor shall be binding upon the trustee; provided that  
22 the trustee shall bear no liability or accountability for any



1 act or transaction entered into as a result of the enforcement  
2 of the advisor's privilege. Further, the trustee's  
3 administrative and non-administrative fiduciary duty to the  
4 beneficiaries shall be waived as to the specific act or executed  
5 transaction; provided that the trustee dissents in writing  
6 before the act or transaction is completed."

7 SECTION 3. Section 554G-2, Hawaii Revised Statutes, is  
8 amended to read as follows:

9 "[~~§~~554G-2[~~§~~] **Definitions.** As used in this chapter:

10 [~~"Cash" means United States currency.~~]

11 "Claim" means a right to payment, whether or not the right  
12 is reduced to judgment, liquidated, unliquidated, fixed,  
13 contingent, matured, unmatured, disputed, undisputed, legal,  
14 equitable, secured, or unsecured.

15 "Creditor" means, with respect to a transferor, a person  
16 who has a claim.

17 "Debt" means liability on a claim.

18 "Former spouse" means a person to whom the transferor was  
19 married where the marriage was dissolved before the time of the  
20 permitted transfer.

21 [~~"Grantor trust" means a trust described in sections 671~~  
22 ~~through 679 of the Internal Revenue Code of 1986, as amended.~~]



1 ~~"Marketable securities" means securities that are:~~  
2 ~~(1) Exchanged on a governmentally regulated exchange~~  
3 ~~within the United States including, common stocks,~~  
4 ~~bonds, mutual funds, or exchange traded funds; and~~  
5 ~~(2) Permitted to be held by a fiduciary under Hawaii state~~  
6 ~~law;~~

7 ~~provided that "marketable securities" does not include real~~  
8 ~~estate or any interests in corporations, partnerships, and~~  
9 ~~limited liability companies that are not publicly traded.~~

10 ~~"Non grantor trust" shall refer to any trust that is not a~~  
11 ~~"grantor trust" as defined in this chapter.]~~

12 "Permitted property" [~~means cash, marketable securities,~~  
13 ~~life insurance contracts, and non private annuities.] includes~~

14 real property, personal property, and interests in real or  
15 personal property.

16 "Permitted transfer" means a transfer of permitted property  
17 by or from a transferor [~~to~~], or multiple transferors in the  
18 case of property in which each transferor owns an undivided  
19 interest, to one or more trustees, at least one of which is a  
20 permitted trustee by means of a trust instrument, regardless of  
21 whether consideration is exchanged. In the case of a transfer  
22 to more than one trustee, a disposition that is otherwise a



1 permitted transfer shall not be treated as other than a  
2 permitted transfer solely because not all of the trustees are  
3 qualified trustees.

4 "Permitted trustee" means a person[~~, other than the~~  
5 ~~transferor,~~] who is a resident of this State, or a bank or trust  
6 company authorized to do business in this State that possesses  
7 and exercises trust powers and has its principal place of  
8 business in this State[-]; and:

- 9 (1) Maintains or arranges for custody of some or all of  
10 the property that is the subject of the permitted  
11 transfer;  
12 (2) Maintains records for the trust on an exclusive or  
13 nonexclusive basis;  
14 (3) Prepares or arranges for the preparation of fiduciary  
15 income tax returns; or  
16 (4) Otherwise materially participates in the  
17 administration of the trust.

18 "Person" means a natural person.

19 "Spouse" means a person to whom the transferor is married  
20 at the time of the permitted transfer.

21 "Transfer" means the disposition, conveyance, or assignment  
22 of [~~permitted~~] property [~~to a permitted trustee~~], including the



1 change in the legal ownership of property occurring upon the  
2 substitution of one trustee for another or the addition of one  
3 or more new trustees, or the exercise of a power that causes the  
4 disposition, conveyance, or assignment of permitted property to  
5 a [permitted] trustee[-] or trustees, but shall include the  
6 release or relinquishment of an interest in property that  
7 theretofor was the subject of a permitted transfer.

8 ~~["Transfer tax" means the tax described in section 554C-~~  
9 ~~12.]~~

10 "Transferor" means [an]:

11 (1) An owner of permitted property; [a]

12 (2) The holder of a power of appointment that authorizes  
13 the holder to appoint in favor of the holder, the  
14 holder's creditors, the holder's estate, or the  
15 creditors of the holder's estate; or [a]

16 (3) A trustee who directly or indirectly makes a  
17 disposition of permitted property.

18 "Trust instrument" means an irrevocable instrument  
19 appointing a permitted trustee or permitted trustees for the  
20 permitted property that is the subject of a disposition.

21 "Trustee" includes an original, additional, or successor  
22 trustee, whether or not appointed or confirmed by court."



1 SECTION 4. Section 554G-4, Hawaii Revised Statutes, is  
2 amended to read as follows:

3 "~~[f]~~§554G-4~~[f]~~ **Permitted trustees.** [~~(a)~~ A permitted  
4 trustee means a person, other than the transferor, who is a  
5 resident of this State, or a bank or trust company authorized to  
6 do business in this State that possesses and exercises trust  
7 powers and has its principal place of business in this State.

8 ~~(b)~~ If a permitted trustee of a trust ceases to meet the  
9 requirements of [~~subsection (a)~~] a permitted trustee, as defined  
10 in section 554G-2, and there remains no trustee that meets the  
11 requirements, the permitted trustee shall be deemed to have  
12 resigned [~~as of~~] at the time that the trustee [~~no longer meets~~]  
13 ceases to meet the requirements [~~of subsection (a)~~]. At that  
14 time, the successor permitted trustee provided for in the trust  
15 instrument shall become the permitted trustee of the trust. In  
16 the absence of any successor permitted trustee provided for in  
17 the trust instrument, a trust advisor or protector provided for  
18 in the trust instrument shall appoint a successor permitted  
19 trustee. In the absence of [~~an appointed~~] a designated trust  
20 advisor or protector, or the failure of that trust advisor or  
21 protector to appoint a successor permitted trustee, [a Hawaii  
22 court of competent jurisdiction shall,] the circuit court



1 sitting in probate, upon application of any interested party,  
2 shall appoint a successor permitted trustee.

3 ~~[(c) A permitted trustee may appoint an investment advisor~~  
4 ~~to manage the assets of the trust fund; provided that~~  
5 ~~administrative and non-administrative fiduciary responsibility~~  
6 ~~shall remain vested, as against beneficiaries of the trust, with~~  
7 ~~the permitted trustee.]"~~

8 SECTION 5. Section 554G-5, Hawaii Revised Statutes, is  
9 amended to read as follows:

10 "~~[+]~~**§554G-5**~~[+]~~ **Trust instrument.** (a) A trust instrument  
11 shall be irrevocable and shall expressly incorporate the laws of  
12 this State governing the validity, construction, and  
13 administration of the trust.

14 (b) The trustee, in its discretion, may terminate any  
15 trust if and when its fair market value has declined to the  
16 extent that would make it uneconomical, imprudent, or unwise to  
17 continue to retain the trust, and shall pay and distribute the  
18 trust to the persons entitled to mandatory or discretionary  
19 income distributions as the trustee in the trustee's absolute  
20 discretion shall decide.

21 (c) A trust instrument shall not be deemed revocable on  
22 account of the inclusion of:





- 1 (1) A transferor's power to veto a distribution from the  
2 trust;
- 3 (2) A power of appointment other than a power to appoint  
4 to the transferor, the transferor's creditors, the  
5 transferor's estate, or the creditors of the  
6 transferor's estate that may be exercised by will or  
7 other written instrument of the transferor effective  
8 only upon the transferor's death;
- 9 (3) The transferor's potential or actual receipt of  
10 income, including rights to income retained in the  
11 trust instrument;
- 12 (4) The transferor's annual receipt of a percentage not to  
13 exceed five per cent of the initial value of the trust  
14 assets or its value determined from time to time  
15 pursuant to the trust instrument or of a fixed amount  
16 that on an annual basis does not exceed five per cent  
17 of the initial value of the trust assets;
- 18 (5) The transferor's potential or actual receipt or use of  
19 the trust's principal due to ~~[the discretionary action~~  
20 ~~of a permitted trustee or]~~ the trustee acting:
- 21 (A) In the trustee's discretion;



1           (B) Pursuant to a provision in the trust instrument  
2           that governs the distribution of principal[~~+~~  
3           ~~provided that any included provision shall]~~ and  
4           does not confer upon the transferor a  
5           substantially unfettered right to the receipt or  
6           use of the principal; or

7           (C) At the direction of an advisor described in  
8           section 554G-        who is acting:

9           (i) In the advisor's discretion;

10          (ii) Pursuant to a provision in the trust  
11          instrument that governs the distribution of  
12          principal and does not confer upon the  
13          transferor a substantially unfettered right  
14          to the receipt or use of the principal; or

15          (iii) Pursuant to the transferor's determination  
16          under section 554G-       (c) of a dispute,  
17          deadlock, or difference of opinion in favor  
18          of the advisor;

19          For purposes of this paragraph, a trustee is presumed  
20          to have discretion with respect to the distribution of  
21          principal unless that discretion is expressly denied  
22          to the trustee by the terms of the trust instrument;



- 1 (6) The transferor's right to remove a ~~[permitted]~~ trustee  
2 or advisor and to appoint a new ~~[permitted]~~ trustee or  
3 advisor;
- 4 (7) The transferor's potential or actual receipt of income  
5 or principal to pay income taxes due on income of the  
6 trust if the trust instrument includes a provision  
7 allowing or directing the use of trust funds to pay  
8 income taxes due, or if the ~~[permitted]~~ trustee acts  
9 in the trustee's discretion to allow payment of income  
10 taxes due on the trust income; ~~[or]~~
- 11 (8) A ~~[permitted]~~ trustee's authority pursuant to  
12 discretion, direction, or the transferor's exercise of  
13 a testamentary power of appointment to pay all or any  
14 part of the transferor's debts outstanding at the time  
15 of the transferor's death, the expenses of  
16 administering the transferor's estate, or any estate  
17 or inheritance tax imposed on or with respect to the  
18 transferor's estate~~[.];~~
- 19 (9) The transferor's potential or actual receipt of income  
20 or principal from a charitable remainder unitrust or  
21 charitable remainder annuity trust, as those terms are  
22 defined in section 664 of the Internal Revenue Code of



1 1986 and any successor provision thereto; and the  
2 transferor's right, at any time and from time to time  
3 by written instrument delivered to the trustee, to  
4 release the transferor's retained interest in the  
5 trust, in whole or in part, in favor of a charitable  
6 organization that has or charitable organizations that  
7 have a succeeding beneficial interest in the trust;

8 (10) The transferor's potential or actual receipt of income  
9 or principal from a grantor-retained annuity trust or  
10 grantor-retained unitrust, as these terms are  
11 described in 26 Code of Federal Regulations 25.2702-3  
12 and any successor provision thereto, or the  
13 transferor's receipt each year of a percentage  
14 specified in the governing instrument of the initial  
15 value of the trust assets or their value determined  
16 from time to time pursuant to the governing  
17 instrument; provided that the percentage received does  
18 not exceed five per cent; or

19 (11) The transferor's potential or actual use of real  
20 property held under a qualified personal residence  
21 trust, as described in 26 Code of Federal Regulations  
22 25.2702-5(c) and any successor provision thereto, or



1           the transferor's possession and enjoyment of a  
2           qualified annuity interest, as described in 26 Code of  
3           Federal Regulations 25.2702-5(c)(8) and any successor  
4           provision thereto.

5           (d) A trust instrument may provide that the interest of a  
6 beneficiary of the trust, including a beneficiary who is the  
7 transferor of the trust, may not be transferred, assigned,  
8 pledged, or mortgaged, whether voluntarily or involuntarily,  
9 before the [~~permitted~~] trustee actually distributes the property  
10 or income to the beneficiary. Any provision of this type  
11 contained in the trust instrument shall be deemed to be a  
12 restriction on the transfer of the transferor's beneficial  
13 interest in the trust that is enforceable under applicable  
14 nonbankruptcy law within the meaning of 11 United States Code  
15 [~~section~~] Section 541(c)(2) of the Bankruptcy Code or any  
16 successor provision.

17           ~~[(e) A transferor may appoint, through the trust~~  
18 ~~instrument, one or more advisors or protectors, including the~~  
19 ~~following:~~

20           ~~(1) Advisors who have authority under the terms of the~~  
21           ~~trust to remove and appoint permitted trustees,~~  
22           ~~advisors, or protectors,~~



1       ~~(2) Advisors who have authority under the terms of the~~  
2           ~~trust to direct, consent to, or disapprove of~~  
3           ~~distributions from the trust; and~~

4       ~~(3) Advisors, including the transferor beneficiary of the~~  
5           ~~trust, who serve as investment advisors to the trust.~~

6       ~~(f) Whenever there shall be a dispute, deadlock, or~~  
7       ~~difference of opinion between a permitted trustee and an~~  
8       ~~advisor, the transferor may direct that the determination of the~~  
9       ~~advisor shall be binding upon the permitted trustee, but that~~  
10       ~~the permitted trustee shall bear no liability or accountability~~  
11       ~~for any act or transaction entered into as a result of the~~  
12       ~~enforcement of the advisor's privilege if the permitted trustee~~  
13       ~~dissents in writing.~~

14       ~~(g)]~~ (e) If a trustee of a trust existing prior to the  
15       enactment of this chapter proposes to make a permitted transfer,  
16       but the trust instrument does not contain a power of appointment  
17       that conforms to section 554G-5(c)(2), the trustee may deliver  
18       an irrevocable written election to have section 554G-5(c)(2)  
19       apply to the trust, and the nonconforming powers of appointment  
20       shall be deemed modified to the extent necessary to conform with  
21       section 554G-5(c)(2). The irrevocable written election shall  
22       include a description of the original transferor's powers of



1 appointment as modified, and the original transferor's written  
2 consent to the modification. Consent of the original transferor  
3 to a modification of powers of appointment shall not be  
4 considered to be a permitted transfer.

5 ~~(h)~~ (f) If, in any action brought against a trustee of a  
6 trust that results from a permitted transfer, a court declines  
7 to apply the law of this State in determining the validity,  
8 construction, or administration of the trust, or the effect of a  
9 spendthrift provision of the trust, the trustee, immediately  
10 upon the court's action and without the further order of any  
11 court, shall cease to be trustee of the trust and a successor  
12 trustee shall thereupon succeed as trustee in accordance with  
13 the terms of the trust instrument. If the trust instrument does  
14 not provide for a successor trustee or does not provide for an  
15 advisor or protector with powers to appoint successor trustees,  
16 a Hawaii court of competent jurisdiction shall appoint a  
17 successor permitted trustee upon the application of any  
18 beneficiary of the trust under any terms and conditions that the  
19 court determines to be consistent with the purposes of the trust  
20 and with this chapter. Upon the removal of a trustee pursuant  
21 to this section, the trustee who has been removed shall have no



1 power or authority other than to convey the trust property to  
2 the successor trustee."

3 SECTION 6. Section 554G-6, Hawaii Revised Statutes, is  
4 amended to read as follows:

5 "~~[-]~~**§554G-6**~~[+]~~ **Investments.** Nothing in this chapter shall  
6 prohibit a ~~[permitted]~~ trustee from diversifying trust assets~~[r~~  
7 ~~provided that a permitted trustee shall be authorized to invest~~  
8 ~~only in permitted property, as defined in this chapter]."~~

9 SECTION 7. Section 554G-7, Hawaii Revised Statutes, is  
10 amended to read as follows:

11 "~~[-]~~**§554G-7**~~[+]~~ **Retained interests of transferor.** (a) A  
12 permitted transfer shall be subject to this chapter  
13 notwithstanding a transferor's retention of any or all of the  
14 powers and rights described in section 554G-5(c) and  
15 notwithstanding the transferor's service as investment advisor  
16 pursuant to section ~~[554G-5(e)(3).]~~ 554G- (a)(3).

17 (b) The transferor shall have only the powers and rights  
18 specifically conferred by the trust instrument. Except as  
19 permitted by sections 554G-5(c) and ~~[554G-5(e),]~~ 554G- (a)(3),  
20 a transferor shall have no rights or authority with respect to  
21 the property that is the subject of a permitted transfer or to  
22 the income from property that is the subject of a permitted





1 transfer. Any agreement or understanding purporting to grant or  
2 permit the retention of any greater rights or authority shall be  
3 void."

4 SECTION 8. Section 554G-8, Hawaii Revised Statutes, is  
5 amended as follows:

6 1. By amending subsection (b) to read:

7 "(b) An allowable claim under subsection (a) [~~of this~~  
8 ~~section~~] shall be extinguished unless:

9 (1) The creditor's claim arose before the permitted  
10 transfer was made and the action is brought within the  
11 limitations of section 651C-9 on the latter of the  
12 date of the permitted transfer or [~~the date of the~~  
13 ~~enactment of this section,~~] July 1, 2010; or

14 (2) [~~The~~] Notwithstanding the provisions of section 651C-  
15 9, the creditor's claim arose concurrent with or  
16 subsequent to the permitted transfer, and the action  
17 is brought within two years after the permitted  
18 transfer is made."

19 2. By amending subsection (f) to read:

20 "(f) No creditor or any other person shall have any claim  
21 or cause of action, including an action to enforce a judgment  
22 entered by a court or other body having adjudicative authority,



1 against a trustee or advisor described in section [~~554G-4(e)~~]  
2 554G- (a) or against any person involved in drafting,  
3 preparing, executing, or funding a trust or in counseling the  
4 parties to a trust that is the subject of a permitted transfer  
5 if, as of the date [~~of~~] the action[~~, the~~] is brought, an action  
6 with respect to the permitted transfer would be barred under  
7 this section."

8 SECTION 9. Section 554G-9, Hawaii Revised Statutes, is  
9 amended to read as follows:

10 "~~[+]~~**§554G-9**~~[+]~~ **Limitations on permitted transfers.** The  
11 limitations contained in section 554G-8 on actions by creditors  
12 to avoid permitted transfers shall not apply to:

13 (1) Any person to whom the transferor is indebted on  
14 account of a family court-supervised agreement or  
15 family court order for the payment of support or  
16 alimony to the transferor's spouse, former spouse, or  
17 children, or for a division or distribution of  
18 property to the transferor's spouse or former  
19 spouse[~~7~~]; provided that the transferor is in default  
20 by thirty days or more of making a payment due under  
21 the agreement or order, but only to the extent of the



- 1 debt and not to any claim for forced heirship,  
2 legitime, or elective share;
- 3 (2) Any person who suffers death, personal injury, or  
4 property damage on or before the date of a permitted  
5 transfer; provided that the death, personal injury, or  
6 property damage is determined to have been caused in  
7 whole or in part by the tortious act or omission of  
8 either the transferor or another person for whom the  
9 transferor is or was vicariously liable to the extent  
10 of the transferor's liability or vicarious liability;
- 11 (3) Any lender who extends a secured or collateralized  
12 loan to the transferor based on the transferor's or  
13 the transferor's agent's express or implied  
14 representation that the assets of a trust established  
15 under this chapter would be available as security  
16 against the loan in the event of the transferor's  
17 default thereon; [~~or~~]
- 18 (4) The State of Hawaii to the extent that a transfer  
19 results in the transferor being unable to meet the  
20 transferor's tax liabilities, but only to the extent  
21 necessary to extinguish the outstanding tax  
22 liabilities[~~-~~]; or



1       (5) A divorce or dissolution of marriage, for purposes of  
2       considering property subject to division under section  
3       580-47, a transferor-beneficiary's interest with  
4       respect to assets transferred to the trust instrument:  
5       (A) After the transferor's marriage; or  
6       (B) Within thirty days prior to the transferor's  
7       marriage unless the transferor gives written  
8       notice to the other party to the marriage of the  
9       transfer; provided that in the event of the  
10       divorce or dissolution of the marriage of a non-  
11       transferor beneficiary of the trust, the non-  
12       transferor beneficiary's interest in the trust is  
13       not considered property subject to division under  
14       section 580-47."

15       SECTION 10. Section 554G-10, Hawaii Revised Statutes, is  
16 amended to read as follows:

17       "~~§~~**554G-10**~~§~~ **Effect of avoidance of permitted**  
18 **transfers.** (a) A creditor may avoid a permitted transfer  
19 pursuant to section 554G-8 only to the extent necessary to  
20 satisfy the transferor's debt to the creditor at whose instance  
21 the transfer has been avoided, together with costs, including  
22 attorney's fees, as allowed by a court.



1 (b) In an action pursuant to subsection (a) to avoid a  
2 permitted transfer:

3 (1) If a court finds that a trustee has not acted with  
4 intent to defraud, hinder, or delay the creditor in  
5 accepting or administering the property that is the  
6 subject of the permitted transfer:

7 (A) The trustee shall have a first and paramount lien  
8 against the property that is the subject of the  
9 permitted transfer in an amount equal to the  
10 entire cost, including attorney's fees, properly  
11 incurred by the trustee in the defense of the  
12 action or proceedings to avoid the permitted  
13 transfer; [~~and~~]

14 (B) The permitted transfer shall be avoided, subject  
15 to payment of proper fees, costs, preexisting  
16 rights, claims, and interests of the trustee and  
17 of any predecessor trustee who has not acted with  
18 intent to defraud, hinder, or delay the creditor;  
19 and

20 (C) For purposes of this paragraph, it shall be  
21 presumed that the trustee did not act with intent



1                   to defraud, hinder, or delay the creditor merely  
2                   by accepting such property;

3                   and

4           (2) If the court is satisfied that a beneficiary of the  
5           trust has not acted with intent to defraud, hinder, or  
6           delay the creditor, the permitted transfer shall be  
7           avoided subject to the beneficiary's right to retain  
8           any distribution made prior to the creditor's  
9           commencement of an action to avoid the permitted  
10          transfer. For purposes of this paragraph, it shall be  
11          presumed that a beneficiary did not act with intent to  
12          defraud, hinder, or delay the creditor merely by  
13          creating the trust or by accepting a distribution made  
14          in accordance with the terms of the trust.

15          (c) A creditor who brings an action pursuant to  
16          section 554G-8 to avoid a permitted trust shall have the burden  
17          of proving by clear and convincing evidence that a trustee or  
18          beneficiary acted with intent to defraud, hinder, or delay the  
19          creditor; provided that in the case of a beneficiary who is also  
20          the transferor, the burden on the creditor shall be to prove by  
21          a preponderance of the evidence that the transferor-beneficiary  
22          acted with intent to defraud, hinder, or delay the creditor.



1 ~~[Mere acceptance of permitted property by a trustee shall not~~  
2 ~~constitute evidence of intent to defraud, hinder, or delay a~~  
3 ~~creditor.]~~

4 (d) For purposes of this chapter, attachment, garnishment,  
5 sequestration, or other legal or equitable process shall be  
6 permitted only in those circumstances permitted by the express  
7 terms of this chapter.

8 ~~[-d-]~~ (e) Notwithstanding any other provision of this  
9 chapter, a creditor shall have no right against the interest of  
10 a beneficiary to a trust based solely on the beneficiary's right  
11 to authorize or direct the trustee to use all or part of the  
12 trust property to pay:

13 (1) Estate or inheritance taxes imposed upon or due to the  
14 beneficiary's estate;

15 (2) Debts of the beneficiary's estate; or

16 (3) Expenses of administering the beneficiary's  
17 estate[+], [+]

18 unless the beneficiary actually directs the payment of taxes,  
19 debts, or expenses and then only to the extent of that  
20 direction.

21 (f) Where a husband and wife make a permitted transfer of  
22 property and, immediately before the permitted transfer, the



1 property or any part thereof or any accumulation thereto was,  
2 pursuant to applicable law, owned by them as tenants by the  
3 entirety, then notwithstanding the permitted transfer and except  
4 where the provisions of the trust instrument expressly provide  
5 to the contrary, the property and any accumulation thereto,  
6 while held in trust during the lifetime of both spouses, shall  
7 be treated as though it were held in tenancy by the entirety and  
8 be dealt with in a manner consistent with that applicable law  
9 but in every other respect shall be dealt with in accordance  
10 with the terms of the trust instrument.

11 Furthermore, in any action concerning whether a creditor of  
12 either or both spouses may recover the debt from the trust, upon  
13 avoidance of the permitted transfer, the sole remedy available  
14 to the creditor with respect to trust property treated as though  
15 it were held in tenancy by the entirety shall be an order  
16 directing the trustee to transfer the property to both spouses  
17 as tenants by the entirety.

18 (g) Subject to all of the foregoing provisions of this  
19 section, and except as otherwise provided in subsection (f),  
20 upon avoidance of a qualified disposition to the extent  
21 permitted under subsection (a), the sole remedy available to the  
22 creditor shall be an order directing the trustee to transfer to





1 the transferor the amount necessary to satisfy the transferor's  
2 debt to the creditor at whose instance the disposition has been  
3 avoided."

4 SECTION 11. Section 554G-3, Hawaii Revised Statutes, is  
5 repealed.

6 [~~"§554G-3~~] ~~Completed transfers.~~ ~~The transfer of~~  
7 ~~permitted property under this chapter shall be deemed completed~~  
8 ~~following the completion of all of the following:~~

- 9 (1) ~~The delivery of permitted property by the transferor~~  
10 ~~to the permitted trustee and the written acceptance of~~  
11 ~~the permitted property by the permitted trustee;~~
- 12 (2) ~~The delivery by the transferor to the permitted~~  
13 ~~trustee of a signed and notarized certificate of~~  
14 ~~solvency that states that the amount of the transfer~~  
15 ~~is equal to or less than twenty five per cent of the~~  
16 ~~transferor's net worth and that the transfer will not~~  
17 ~~result in delay, defrauding, or hindrance of a~~  
18 ~~creditor who is known or knowable to the transferor at~~  
19 ~~the time of the permitted transfer with a claim~~  
20 ~~against the property that is subject to the transfer;~~  
21 and



1       ~~(3) The filing of the appropriate form by the transferor~~  
2           ~~with the department of taxation and payment of the~~  
3           ~~attendant transfer tax." ]~~

4           SECTION 12. Section 554G-12, Hawaii Revised Statutes, is  
5   repealed.

6           ~~[ "~~§554G-12~~ Taxation. (a) The State shall levy a one-~~  
7   ~~time one per cent excise tax on the fair market value of all~~  
8   ~~permitted transfers. This one time excise tax shall be~~  
9   ~~administered by the department of taxation with all of its~~  
10   ~~authorities under title 14, including all rights relating to the~~  
11   ~~assessment, collection, and enforcement of the tax laws. The~~  
12   ~~department of taxation shall be authorized to implement the tax~~  
13   ~~under this section, including the timing, collection, and appeal~~  
14   ~~rights of persons affected, by rule, including temporary rule.~~

15       ~~(b) A non grantor trust established under this chapter~~  
16   ~~shall be subject to income tax in Hawaii, provided that to the~~  
17   ~~extent that the beneficial interest in the non grantor trust~~  
18   ~~shall be held by a beneficiary or beneficiaries residing outside~~  
19   ~~this State, any income or capital gains accumulated for the~~  
20   ~~benefit of the non resident beneficiary or beneficiaries shall~~  
21   ~~be excluded from Hawaii income tax for that year.~~



1       ~~(c) A trustee of a non grantor trust established under~~  
2 ~~this chapter shall not be required to track accumulated income~~  
3 ~~or gains attributable to a nonresident beneficiary.~~

4       ~~(d) Notwithstanding any discretionary distribution~~  
5 ~~provisions to the contrary, where the percentage interests of~~  
6 ~~the beneficiaries are indeterminable based on the provisions of~~  
7 ~~the trust, the trustee shall allocate accumulated income and~~  
8 ~~gains equally among all beneficiaries then entitled to~~  
9 ~~distributions of income.~~

10       ~~(e) Hawaii resident taxpayers who receive actual or~~  
11 ~~constructive distributions of income or principal from trusts~~  
12 ~~shall be subject to all applicable taxes on that income." ]~~

13       SECTION 13. This Act does not affect rights and duties  
14 that matured, penalties that were incurred, and proceedings that  
15 were begun before its effective date.

16       SECTION 14. Statutory material to be repealed is bracketed  
17 and stricken. New statutory material is underscored.

18       SECTION 15. This Act shall take effect on July 1, 2030.



**Report Title:**

Permitted Transfers in Trust Act

**Description:**

Amends the Permitted Transfers in Trust Act to govern transfers of property from a transferor to a trustee by means of an irrevocable trust instrument. Effective July 1, 2030. (HB1447 HD2)

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

