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

3 "[~~f~~]~~\$554G-2~~[~~+~~] **Definitions.** As used in this chapter:

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

5 "Claim" means a right to payment, whether or not the right
6 is reduced to judgment, liquidated, unliquidated, fixed,
7 contingent, matured, unmatured, disputed, undisputed, legal,
8 equitable, secured, or unsecured.

9 "Creditor" means, with respect to a transferor, a person
10 who has a claim.

11 "Debt" means liability on a claim.

12 "Former spouse" means a person to whom the transferor was
13 married where the marriage was dissolved before the time of the
14 permitted transfer.

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

17 "~~Marketable securities" means securities that are:~~

18 ~~(1) Exchanged on a governmentally regulated exchange~~

19 ~~within the United States including, common stocks,~~

20 ~~bonds, mutual funds, or exchange traded funds; and~~

21 ~~(2) Permitted to be held by a fiduciary under Hawaii state~~

22 ~~law.~~



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

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

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

8 real property, personal property, and interests in real or
9 personal property.

10 "Permitted transfer" means a transfer of permitted property
11 by or from a transferor [~~to~~], or multiple transferors in the
12 case of property in which each transferor owns an undivided
13 interest, to one or more trustees, at least one of which is a
14 permitted trustee by means of a trust instrument, regardless of
15 whether consideration is exchanged. In the case of a transfer
16 to more than one trustee, a disposition that is otherwise a
17 permitted transfer shall not be treated as other than a
18 permitted transfer solely because not all of the trustees are
19 qualified trustees.

20 "Permitted trustee" means a person[, ~~other than the~~
21 ~~transferor,~~] who is a resident of this State, or a bank or trust
22 company authorized to do business in this State that possesses



1 and exercises trust powers and has its principal place of
2 business in this State[-]; and:

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

12 "Person" means a natural person.

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

15 "Transfer" means the disposition, conveyance, or assignment
16 of [~~permitted~~] property [~~to a permitted trustee~~], including the
17 change in the legal ownership of property occurring upon the
18 substitution of one trustee for another or the addition of one
19 or more new trustees, or the exercise of a power that causes the
20 disposition, conveyance, or assignment of permitted property to
21 a [~~permitted~~] trustee[-] or trustees, but shall include the



1 release or relinquishment of an interest in property that
2 theretofore was the subject of a permitted transfer.

3 ~~["Transfer tax" means the tax described in section 554G-~~
4 ~~12.]~~

5 "Transferor" means:

6 (1) ~~[an]~~ An owner of permitted property;

7 (2) ~~[a]~~ The holder of a power of appointment that
8 authorizes the holder to appoint in favor of the
9 holder, the holder's creditors, the holder's estate,
10 or the creditors of the holder's estate; or

11 (3) ~~[a]~~ A trustee who directly or indirectly makes a
12 disposition of permitted property.

13 "Trust instrument" means an irrevocable instrument
14 appointing a permitted trustee or permitted trustees for the
15 permitted property that is the subject of a disposition.

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

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

20 "[+]§554G-3[+] ~~[Completed transfers.]~~ Advisors. [The
21 ~~transfer of permitted property under this chapter shall be~~



1 ~~deemed completed following the completion of all of the~~
2 ~~following:~~

3 ~~(1) The delivery of permitted property by the transferor~~
4 ~~to the permitted trustee and the written acceptance of~~
5 ~~the permitted property by the permitted trustee;~~

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

16 ~~(3) The filing of the appropriate form by the transferor~~
17 ~~with the department of taxation and payment of the~~
18 ~~attendant transfer tax.]~~

19 (a) A transferor may appoint, through the trust instrument, one
20 or more advisors or protectors including, but not limited to,
21 the following:



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

4 (2) Advisors who have authority under the terms of the
5 trust to direct, consent to, or disapprove of
6 distributions from the trust; and

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

9 (b) While a trustee may appoint an advisor, the
10 administrative and non-administrative authority over the trust
11 shall remain with the trustee.

12 (c) Notwithstanding subsection (b), whenever there is a
13 dispute, deadlock, or difference of opinion between a trustee
14 and an advisor, the transferor may direct that the determination
15 of the advisor shall be binding upon the trustee; provided that
16 the trustee shall bear no liability or accountability for any
17 act or transaction entered into as a result of the enforcement
18 of the advisor's privilege. Further, the trustee's
19 administrative and non-administrative fiduciary duty to the
20 beneficiaries shall be waived as to the specific act or executed
21 transaction; provided that the trustee dissents in writing
22 before the act or transaction is completed."



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 such 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-3 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-3(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 541(c)(2) of the Bankruptcy Code or any successor
16 provision.

17 ~~[(c) 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[+
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-3(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-3(a)(3), a
20 transferor shall have no rights or authority with respect to the
21 property that is the subject of a permitted transfer or to the
22 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-3(a) or against any person involved in drafting, preparing,
3 executing, or funding a trust or in counseling the parties to a
4 trust that is the subject of a permitted transfer if, as of the
5 date [~~of~~] the action[~~7~~] is brought, [the] an action with respect
6 to the permitted transfer would be barred under this section."

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

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

12 (1) Any person to whom the transferor is indebted on
13 account of a family court-supervised agreement or
14 family court order for the payment of support or
15 alimony to the transferor's spouse, former spouse, or
16 children, or for a division or distribution of
17 property to the transferor's spouse or former
18 spouse[~~7~~]; provided that the transferor is in default
19 by thirty days or more of making a payment due under
20 the agreement or order, but only to the extent of the
21 debt and not to any claim for forced heirship,
22 legitime, or elective share;



- 1 (2) Any person who suffers death, personal injury, or
- 2 property damage on or before the date of a permitted
- 3 transfer; provided that the death, personal injury, or
- 4 property damage is determined to have been caused in
- 5 whole or in part by the tortious act or omission of
- 6 either the transferor or another person for whom the
- 7 transferor is or was vicariously liable to the extent
- 8 of the transferor's liability or vicarious liability;
- 9 (3) Any lender who extends a secured or collateralized
- 10 loan to the transferor based on the transferor's or
- 11 the transferor's agent's express or implied
- 12 representation that the assets of a trust established
- 13 under this chapter would be available as security
- 14 against the loan in the event of the transferor's
- 15 default thereon; [~~or~~]
- 16 (4) The State of Hawaii to the extent that a transfer
- 17 results in the transferor being unable to meet the
- 18 transferor's tax liabilities, but only to the extent
- 19 necessary to extinguish the outstanding tax
- 20 liabilities[~~-~~]; or
- 21 (5) A divorce or dissolution of marriage, for purposes of
- 22 considering property subject to division under section



1 580-47, a transferor-beneficiary's interest with
2 respect to assets transferred to the trust instrument:

3 (A) After the transferor's marriage; or

4 (B) Within thirty days prior to the transferor's
5 marriage unless the transferor gives written
6 notice to the other party to the marriage of the
7 transfer; provided that in the event of the
8 divorce or dissolution of the marriage of a non-
9 transferor beneficiary of the trust, the non-
10 transferor beneficiary's interest in the trust is
11 not considered property subject to division under
12 section 580-47."

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

15 "~~§~~554G-10~~§~~ **Effect of avoidance of permitted**
16 **transfers.** (a) A creditor may avoid a permitted transfer
17 pursuant to section 554G-8 only to the extent necessary to
18 satisfy the transferor's debt to the creditor at whose instance
19 the transfer has been avoided, together with costs, including
20 attorney's fees, as allowed by a court.

21 (b) In an action pursuant to subsection (a) to avoid a
22 permitted transfer:



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

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

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

18 (C) For purposes of this paragraph, it shall be
19 presumed that the trustee did not act with intent
20 to defraud, hinder, or delay the creditor merely
21 by accepting such property; and



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

12 (c) A creditor who brings an action pursuant to
13 section 554G-8 to avoid a permitted trust shall have the burden
14 of proving by clear and convincing evidence that a trustee or
15 beneficiary acted with intent to defraud, hinder, or delay the
16 creditor; provided that in the case of a beneficiary who is also
17 the transferor, the burden on the creditor shall be to prove by
18 a preponderance of the evidence that the transferor-beneficiary
19 acted with intent to defraud, hinder, or delay the creditor.
20 ~~[Mere acceptance of permitted property by a trustee shall not~~
21 ~~constitute evidence of intent to defraud, hinder, or delay a~~
22 ~~creditor.]~~



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

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

- 10 (1) Estate or inheritance taxes imposed upon or due to the
11 beneficiary's estate;
- 12 (2) Debts of the beneficiary's estate; or
- 13 (3) Expenses of administering the beneficiary's
14 estate[~~f~~], [~~+~~]

15 unless the beneficiary actually directs the payment of taxes,
16 debts, or expenses and then only to the extent of that
17 direction.

18 (f) Where a husband and wife make a permitted transfer of
19 property and, immediately before the permitted transfer, the
20 property or any part thereof or any accumulation thereto was,
21 pursuant to applicable law, owned by them as tenants by the
22 entirety, then notwithstanding the permitted transfer and except



1 where the provisions of the trust instrument expressly provide
2 to the contrary, the property and any accumulation thereto,
3 while held in trust during the lifetime of both spouses, shall
4 be treated as though it were held in tenancy by the entirety and
5 be dealt with in a manner consistent with that applicable law
6 but in every other respect shall be dealt with in accordance
7 with the terms of the trust instrument.

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

15 (g) Subject to all of the foregoing provisions of this
16 section, and except as otherwise provided in subsection (f),
17 upon avoidance of a qualified disposition to the extent
18 permitted under subsection (a), the sole remedy available to the
19 creditor shall be an order directing the trustee to transfer to
20 the transferor the amount necessary to satisfy the transferor's
21 debt to the creditor at whose instance the disposition has been
22 avoided."



1 SECTION 11. Section 554G-12, Hawaii Revised Statutes, is
2 repealed.

3 ~~["§554G-12] Taxation. (a) The State shall levy a one-~~
4 ~~time one per cent excise tax on the fair market value of all~~
5 ~~permitted transfers. This one-time excise tax shall be~~
6 ~~administered by the department of taxation with all of its~~
7 ~~authorities under title 14, including all rights relating to the~~
8 ~~assessment, collection, and enforcement of the tax laws. The~~
9 ~~department of taxation shall be authorized to implement the tax~~
10 ~~under this section, including the timing, collection, and appeal~~
11 ~~rights of persons affected, by rule, including temporary rule.~~

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

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



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

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

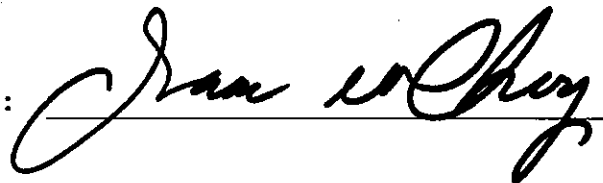
10 SECTION 12. This Act does not affect rights and duties
11 that matured, penalties that were incurred, and proceedings that
12 were begun before its effective date.

13 SECTION 13. Statutory material to be repealed is bracketed
14 and stricken. New statutory material is underscored.

15 SECTION 14. This Act shall take effect on July 1, 2011.

16

INTRODUCED BY:



JAN 26 2011



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 07/01/11.

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

