

CHAPTER 35. TRUSTS: Subchapter II. Accounting and Distribution of Trust Funds

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**CHAPTER 35. TRUSTS: Subchapter II. Accounting and Distribution of Trust Funds
§ 3521 - § 3528****35-2****§ 3521. Trustees' accounts; filing; contents; approval.**

Except as provided in §§ 3522 and 3523 of this title, all trustees named in wills, as well as trustees appointed by the Court of Chancery, shall file with the Register in Chancery in the county in which such wills are probated or in which such appointments are made and submit for the approval of the Court of Chancery just and true accounts, showing all receipts and disbursements of their trusts, as the Court requires, but not oftener than once in 2 years, unless there is special occasion. Such accounts shall also show the manner in which the principal of the trust is invested. Upon the request of the trustee or of any party in interest the Court shall, and upon its own motion may, proceed to approve or disapprove the investments, but otherwise the Court shall approve or disapprove the remainder of the account without passing upon the manner in which the principal of the trust is invested. Notwithstanding the foregoing provisions of this section, the trustee of an inter vivos trust, to whom property shall have been bequeathed or devised by a will, shall not be required to file any accounts with respect to such property so bequeathed or devised, except upon an order of the Court of Chancery, for cause shown, expressly requiring an accounting by such trustee nor shall a successor trustee of an inter vivos trust appointed by the Court of Chancery be required to file any accounts with respect to the property held in such trust, except as may be otherwise provided in the order of the Court of Chancery appointing such successor trustee or upon an order of the Court of Chancery, for cause shown, expressly requiring an accounting by such successor trustee.

25 Del. Laws, c. 226, § 2; 26 Del. Laws, c. 258, § 1; Code 1915, § 3874; 40 Del. Laws, c. 232, § 1; Code 1935, § 4400; 12 Del. C. 1953, § 3521; 51 Del. Laws, c. 326.;

§ 3522. Waiver of filing of accounts in will.

Trustees named in wills and trustees appointed by the Court shall be required to file accounts as described in § 3521 of this title only in accordance with the express terms, if any, of any such trust or upon order of the Court with respect to any such trust. A trustee who, pursuant to this section, is not required to file an account for a trust shall not be required to file an inventory with respect to such trust.

25 Del. Laws, c. 226, § 2; 26 Del. Laws, c. 258, § 1; Code 1915, § 3874; 40 Del. Laws, c. 232, § 1; Code 1935, § 4400; 12 Del. C. 1953, § 3522; 75 Del. Laws, c. 97, § 5; 76 Del. Laws, c. 90, § 20.;

§ 3523. Trustees' accounts in wills probated prior to April 5, 1909.

Trustees named in wills probated prior to April 5, 1909, may file and submit

accounts of their trusts at such times as they deem necessary and they shall be required to file and submit accounts only upon a rule of the Register in Chancery issued upon them pursuant to the written request of any one beneficially interested in their trusts or upon the order of the Court of Chancery.

25 Del. Laws, c. 226, § 2; 26 Del. Laws, c. 258, § 1; Code 1915, § 3874; 40 Del. Laws, c. 232, § 1; Code 1935, § 4400; 12 Del. C. 1953, § 3523.;

§ 3524. [Reserved.]

§ 3525. Interest in lieu of other income on testamentary trusts pending payment or delivery to trustee of trust corpus.

Repealed by 77 Del. Laws, c. 99, § 2, effective Aug. 1, 2009.

§ 3526. [Reserved.]

§ 3527. Total return unitrusts.

(a) In this section:

(1) "Disinterested person" means a person who is not a "related or subordinate party" (as defined in § 672(c) of the Internal Revenue Code [26 U.S.C. § 672(c)] or any successor provision thereof (hereinafter referred to in this section as the "I.R.C.)) with respect to the person then acting as trustee of the trust and excludes the trustor of the trust and any interested trustee.

(2) "Income trust" means a trust, created by either an inter vivos or a testamentary instrument, which directs or permits the trustee to distribute the net income of the trust to 1 or more persons, either in fixed proportions or in amounts or proportions determined by the trustee and regardless of whether the trust directs or permits the trustee to distribute the principal of the trust to 1 or more such persons.

(3) "Interested distributee" means a person to whom distributions of income or principal can currently be made who has the power to remove the existing trustee and designate as successor a person who may be a "related or subordinate party" (as defined in I.R.C. § 672(c) [26 U.S.C. § 672(c)]) with respect to such distributee.

(4) "Interested trustee" means :

a. An individual trustee to whom the net income or principal of the trust can currently be distributed or would be distributed if the trust were then to terminate and be distributed,

b. Any trustee who may be removed and replaced by an interested distributee and/or

c. An individual trustee whose legal obligation to support a beneficiary may be satisfied by distributions of income and principal of the trust.

(5) "Total return unitrust" means an income trust that has been converted under this section or the laws of any other jurisdiction that permits an income trust to be converted to a trust in which a unitrust amount is treated as the net income of the trust.

(6) "Trustee" means all persons acting as trustee of the trust (except where expressly noted otherwise), whether acting in their discretion or on the direction of 1 or more persons acting in a fiduciary capacity.

(7) "Trustor" means an individual who created an inter vivos or a testamentary trust.

(8) "Unitrust amount" means an amount computed as a percentage of the fair market value of the trust.

(b) A trustee, other than an interested trustee, or where 2 or more persons are acting as trustee, a majority of the trustees who are not an interested trustee (in either case hereafter "trustee"), may, in its sole discretion and without the approval of the Court of Chancery:

(1) Convert an income trust to a total return unitrust;

(2) In the case of a total return unitrust converted under this section or the laws of any other jurisdiction, reconvert a total return unitrust to an income trust; or

(3) In the case of a total return unitrust converted under this section or the laws of any other jurisdiction, change the percentage used to calculate the unitrust amount and/or the method used to determine the fair market value of the trust if:

a. The trustee adopts a written policy for the trust providing:

1. In the case of a trust being administered as an income trust, that future distributions from the trust will be unitrust amounts rather than net income;

2. In the case of a trust being administered as a total return unitrust, that future distributions from the trust will be net income rather than unitrust amounts; or

3. That the percentage used to calculate the unitrust amount and/or the method used to determine the fair market value of the trust will be changed as stated in the policy;

b. The trustee sends written notice of its intention to take such action, along with copies of such written policy and this section, to:

1. The trustor of the trust, if living;
2. All living persons who are currently receiving or eligible to receive distributions of income of the trust;
3. Without regard to the exercise of any power of appointment, all living persons who would receive principal of the trust if the trust were to terminate at the time of the giving of such notice and all living persons who would receive or be eligible to receive distributions of income or principal of the trust if the interests of all of the beneficiaries currently eligible to receive income under paragraph (b)(3)b.2. of this section were to terminate at the time of the giving of such notice; and
4. All persons acting as adviser or protector of the trust;
 - c. At least 1 person receiving notice under each of paragraphs (b)(3)b.2. and (b)(3)b.3. of this section above is legally competent; and
 - d. No person receiving such notice objects, by written instrument delivered to the trustee, to the proposed action of the trustee within 30 days of receipt of such notice.

(c) If there is no trustee of the trust other than an interested trustee, the interested trustee or, where two or more persons are acting as trustee and are interested trustees, a majority of such interested trustees may, in its sole discretion and without the approval of the Court of Chancery:

- (1) Convert an income trust to a total return unitrust;
- (2) Reconvert a total return unitrust to an income trust; or
- (3) Change the percentage used to calculate the unitrust amount and/or the method used to determine the fair market value of the trust if:
 - a. The trustee adopts a written policy for the trust providing:
 1. In the case of a trust being administered as an income trust, that future distributions from the trust will be unitrust amounts rather than net income;
 2. In the case of a trust being administered as a total return unitrust, that future distributions from the trust will be net income rather than unitrust amounts; or
 3. That the percentage used to calculate the unitrust amount and/or the method used to determine the fair market value of the trust will be changed as stated in the policy;

b. The trustee appoints a disinterested person who, in its sole discretion but acting in a fiduciary capacity, determines for the trustee:

1. The percentage to be used to calculate the unitrust amount;
2. The method to be used in determining the fair market value of the trust; and
3. Which assets, if any, are to be excluded in determining the unitrust amount;

c. The trustee sends written notice of its intention to take such action, along with copies of such written policy and this section, and the determinations of the disinterested person to:

1. The trustor of the trust, if living;
2. All living persons who are currently receiving or eligible to receive distributions of income of the trust;
3. Without regard to the exercise of any power of appointment, all living persons who would receive principal of the trust if the trust were to terminate at the time of the giving of such notice and all living persons who would receive or be eligible to receive distributions of income or principal of the trust if the interests of all of the beneficiaries currently eligible to receive income under paragraph (c)(3)c.2. of this section were to terminate at the time of the giving of such notice; and
4. All persons acting as adviser or protector of the trust;

d. At least 1 person receiving notice under each of paragraphs (c)(3)c.2. and (c)(3)c.3. of this section is legally competent; and

e. No person receiving such notice objects, by written instrument delivered to the trustee, to the proposed action or the determinations of the disinterested person within 30 days of receipt of such notice.

(d) If any trustee desires to (i) convert an income trust to a total return unitrust, (ii) reconvert a total return unitrust to an income trust, or (iii) change the percentage used to calculate the unitrust amount and/or the method used to determine the fair market value of the trust but does not have the ability to or elects not to do it under the provisions of subsection (b) or (c) of this section above, the trustee may petition the Court of Chancery for such order as the trustee deems appropriate. In the event, however, there is only 1 trustee of such trust and such trustee is an interested trustee or in the event there are 2 or more trustees of such trust and a majority of them are interested trustees, the Court, in its own discretion or on the petition of such trustee or trustees or any person interested in the trust, may appoint a disinterested person who, acting in a fiduciary capacity, shall present such

information to the Court as shall be necessary to enable the Court to make its determinations hereunder.

(e) The fair market value of the trust shall be determined at least annually, using such valuation date or dates or averages of valuation dates as are deemed appropriate. Assets for which a fair market value cannot be readily ascertained shall be valued using such valuation methods as are deemed reasonable and appropriate. Assets used by a trust beneficiary, such as a residence property or tangible personal property, may be excluded from fair market value for computing the unitrust amount.

(f) The percentage to be used in determining the unitrust amount shall be a reasonable current return from the trust, in any event not less than 3 percent nor more than 5 percent, taking into account the intentions of the trustor of the trust as expressed in the governing instrument, the needs of the beneficiaries, general economic conditions, projected current earnings and appreciation for the trust, and projected inflation and its impact on the trust.

(g) A trustee may act pursuant to subsection (b) or subsection (c) of this section with respect to a trust for which both income and principal have been permanently set aside for charitable purposes under the governing instrument and for which a federal estate or gift tax deduction has been taken, provided, that:

(1) Instead of sending written notice to the persons described in paragraphs (b)(3)b.2. and (b)(3)b.3. of this section or paragraphs (c)(3)c.2. and (c)(3)c.3. of this section, as the case may be, the trustee shall send such written notice to the named charity or charities then entitled to receive income of the trust and, if no named charity or charities are entitled to receive all of such income, to the Attorney General of this State;

(2) Paragraph (b)(3)c. of this section or paragraph (c)(3)d. of this section, as the case may be, shall not apply to such action; and

(3) In each taxable year, the trustee shall distribute the greater of the unitrust amount and the amount required by I.R.C. § 4942 [26 U.S.C. § 4942].

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

(1) Shall consider the unitrust amount as paid from net accounting income determined as if the trust were not a unitrust;

(2) Shall then consider the unitrust amount as paid from ordinary income not allocable to net accounting income;

(3) After calculating the trust's capital gain net income described in I.R.C. § 1222(9) [26 U.S.C. § 1222(9)], may consider the unitrust amount as paid from net short-term capital gain described in I.R.C. § 1222(5) [26 U.S.C. § 1222(5)] and then

from net long-term capital gain described in I.R.C. § 1222(7) [26 U.S.C. § 1222(7)]; and

(4) Shall then consider the unitrust amount as coming from the principal of the trust.

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

(1) The effective date of the conversion;

(2) The timing of distributions (including provisions for prorating a distribution for a short year in which a beneficiary's right to payments commences or ceases);

(3) Whether distributions are to be made in cash or in kind or partly in cash and partly in kind;

(4) If the trust is reconverted to an income trust, the effective date of such reconversion; and

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

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

(k) In the case of a trust for which a marital deduction has been taken for federal tax purposes under I.R.C. § 2056 or § 2523 [26 U.S.C. § 2056 or § 2523], the spouse otherwise entitled to receive the net income of the trust shall have the right, by written instrument delivered to the trustee, to compel the reconversion during that spouse's lifetime of the trust from a total return unitrust to an income trust, notwithstanding anything in this section to the contrary.

(l) This section shall be construed as pertaining to the administration of a trust and shall be available to any trust including a trust initially converted to a total return unitrust under the laws of another jurisdiction that is administered in Delaware under Delaware law or to any trust, regardless of its place of administration, whose governing instrument provides that Delaware law governs matters of construction or administration unless:

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

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(2) The trust is a pooled income fund described in I.R.C. § 642(c)(5) (26 U.S.C. § 642(c)(5)) or a charitable-remainder trust described in I.R.C. § 664(d) (26 U.S.C. § 664(d));

(3) The governing instrument expressly prohibits use of this section by specific reference to the section or expressly states the trustor's intent that net income not be calculated as a unitrust amount. A provision in the governing instrument that "The provisions of 12 Del. C. § 3527, as amended, or any corresponding provision of future law, shall not be used in the administration of this trust." or "My trustee shall not determine the distributions to the income beneficiary as a unitrust amount." or similar words reflecting such intent shall be sufficient to preclude the use of this section.

(4) [Deleted.]

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

(n) This section shall be effective upon enactment and shall be available to trusts in existence at the date of enactment or created thereafter.

73 Del. Laws, c. 48, § 1; 70 Del. Laws, c. 186, § 1; 74 Del. Laws, c. 270, §§ 1-12; 75 Del. Laws, c. 97, § 17; 77 Del. Laws, c. 98, §§ 8-11.;

§ 3527A. Express total return unitrusts.

(a) The following provisions shall apply to a trust that, by its governing instrument, requires or permits the distribution, at least annually, of a unitrust amount equal to a fixed percentage of not less than 3 nor more than 5 percent per year of the fair market value of the trust's assets, valued at least annually, such trust to be referred to in this section as an "express total return unitrust."

(b) The unitrust amount for an express total return unitrust may be determined by reference to the fair market value of the trust's assets in 1 year or more than 1 year.

(c) Distribution of such a fixed percentage unitrust amount is considered a distribution of all of the income of the express total return unitrust.

(d) An express total return unitrust may or may not provide a mechanism for changing the unitrust percentage similar to the mechanism provided under § 3527 of this title, based upon the factors noted therein, and may or may not provide for a

conversion from a unitrust to an income trust and/or a reconversion of an income trust to a unitrust similar to the mechanism under § 3527 of this title.

(e) If an express total return unitrust does not specifically or by reference to § 3527 of this title deny a power to change the unitrust percentage or to convert to an income trust, then the trustee shall have such power and the express total return unitrust shall be deemed to be a "total return unitrust" within the meaning of § 3527 of this title for purposes of applying § 3527 of this title to the trust.

(f) The distribution of a fixed percentage of not less than 3 percent nor more than 5 percent reasonably apportions the total return of an express total return unitrust.

(g) The trust instrument may grant discretion to the trustee to adopt a consistent practice of treating capital gains as part of the unitrust distribution, to the extent that the unitrust distribution exceeds the net accounting income, or it may specify the ordering of such classes of income.

(h) Unless the terms of the trust specifically provide otherwise, a distribution of the unitrust amount from an express total return unitrust shall be considered to have been made from the following sources in order of priority:

(1) From net accounting income determined as if the trust were not a unitrust;

(2) From ordinary income not allocable to net accounting income;

(3) After calculating the trust's capital gain net income as described in Internal Revenue Code ("I.R.C.") § 1222(9) [26 U.S.C. § 1222(9)], from net realized short-term capital gain as described in I.R.C. § 1222(5) [26 U.S.C. § 1222(5)] and then from net realized long-term capital gain described in I.R.C. § 1222(7) [26 U.S.C. § 1222(7)]; and

(4) From the principal of the trust.

(i) The trust instrument may provide that:

(1) Assets for which a fair market value cannot be readily ascertained shall be valued using such valuation methods as are deemed reasonable and appropriate; and

(2) Assets used by a trust beneficiary, such as a residence property or tangible personal property, may be excluded from the net fair market value for computing the unitrust amount.

74 Del. Laws, c. 270, § 13; 77 Del. Laws, c. 98, § 12.;

§ 3528. Trustee's authority to invade principal in trust.

(a) Unless the terms of the instrument expressly provide otherwise, a trustee who has authority, under the terms of a testamentary instrument or irrevocable inter vivos trust agreement, to invade the principal of a trust (the "first trust") to make distributions to, or for the benefit of, 1 or more proper objects of the exercise of the power, may instead exercise such authority by appointing all or part of the principal subject to the power in favor of a trustee of a trust (the "second trust") under an instrument other than that under which the power to invade is created or under the same instrument, provided, however, that, except as otherwise provided in this subsection (a):

(1) The exercise of such authority is in favor of a second trust having only beneficiaries who are proper objects of the exercise of the power;

(2) In the case of any trust contributions to which have been treated as gifts qualifying for the exclusion from gift tax described in § 2503(b) [26 U.S.C. § 2503(b)] of the Internal Revenue Code of 1986 (26 U.S.C. § 1 et seq.) (hereinafter referred to in this section as the "I.R.C."), by reason of the application of I.R.C. § 2503(c) [26 U.S.C. § 2503(c)], the governing instrument for the second trust shall provide that the beneficiary's remainder interest shall vest and become distributable no later than the date upon which such interest would have vested and become distributable under the terms of the governing instrument for the first trust;

(3) The exercise of such authority does not reduce any income interest of any income beneficiary of a trust for which a marital deduction has been taken for federal tax purposes under I.R.C. § 2056 or § 2523 [26 U.S.C. § 2056 or § 2523] or for state tax purposes under any comparable provision of applicable state law; and

(4) The exercise of such authority does not apply to trust property subject to a presently exercisable power of withdrawal held by a trust beneficiary who is the only trust beneficiary to whom, or for the benefit of whom, the trustee has authority to make distributions.

(5) The exercise of such authority shall comply with any standard that limits the trustee's authority to make distributions from the first trust.

Notwithstanding the foregoing provisions of this subsection (a) of this section, the governing instrument for the second trust may grant a power of appointment (including a power to appoint trust property to the powerholder, the powerholder's creditors, the powerholder's estate, the creditors of the powerholder's estate or any other person, whether or not such person is a trust beneficiary) to 1 or more of the trust beneficiaries who are proper objects of the exercise of the power in the first trust and may provide that, at a time or upon an event specified in the governing instrument, the remaining trust assets shall thereafter be held for the benefit of the beneficiaries of the first trust upon terms and conditions concerning the nature and extent of each such beneficiary's interest that are substantially identical to the first

trust's terms and conditions concerning such beneficial interests.

(b) The exercise of the power to invade the principal of the trust under subsection (a) of this section shall be by an instrument in writing, signed and acknowledged by the trustee and filed with the records of the trust.

(c) The exercise of the power to invade the principal of the trust under subsection (a) of this section shall be considered the exercise of a power of appointment (other than a power to appoint to the trustee, the trustee's creditors, the trustee's estate, or the creditors of the trustee's estate) and shall be subject to the provisions of Chapter 5 of Title 25 covering the time at which the permissible period of the rule against perpetuities begins and the law which determines the permissible period of the rule against perpetuities.

(d) The provisions of this section shall not be construed to abridge the right of any trustee who has a power of invasion to appoint property in further trust which arises under any other section of this chapter or under another statute or under common law.

74 Del. Laws, c. 81, § 3; 74 Del. Laws, c. 271, § 2; 75 Del. Laws, c. 300, § 2; 76 Del. Laws, c. 90, § 3; 77 Del. Laws, c. 98, § 13.;