



THE UNIFORM TRUST DECANTING ACT

- A Summary -

“Decanting” is the term used to describe the distribution of assets from one trust into a second trust, like wine is decanted from the bottle to another vessel. Decanting can be a useful strategy for changing the outdated terms of an otherwise irrevocable trust, but can also be abused to defeat the settlor’s intent. The Uniform Trust Decanting Act (UTDA) permits decanting for appropriate purposes while preventing abuse and preserving the intent of the settlor.

Because decanting is an exercise of the trustee’s discretion and does not require beneficiaries to consent, certain tax penalties that would otherwise apply can be avoided. Every state allows decanting in some form, but only some states have statutes governing decanting, and those vary widely.

The UTDA includes one stricter set of rules that apply when the settlor gave the trustee limited discretion over distributions, and another more liberal set of rules that apply when the trustee has expanded discretion. In both cases, the person exercising the decanting power is subject to all applicable fiduciary duties, including the duty to act in accordance with the purposes of the first trust.

When the trustee has limited discretion over distributions, decanting is permitted for administrative or tax purposes, but the beneficial interests under the second trust instrument must be substantially similar to the beneficial interests under the first trust. In other words, the trustee may not exercise the decanting power to reduce or eliminate the interest of any beneficiary. However, if the trustee already has expanded discretion to reduce or eliminate the interest of beneficiaries under the terms of the first trust, the UTDA provides more flexibility.

One common reason for decanting is to provide for a beneficiary who becomes disabled after the settlor executed the first trust. If the settlor did not anticipate the possibility of disability, the beneficiary may be ineligible for governmental benefits that would otherwise be available. Section 13 of the UTDA gives additional flexibility to trustees with respect to disabled beneficiaries.

The UDTA limits decanting when it would defeat a charitable or tax-related purpose of the settlor, and Section 14 provides for prior notice to the state official that is responsible for protecting charitable interests. Section 16 prohibits decanting for the purpose of adjusting trustee compensation without the unanimous consent of the beneficiaries or court approval.

In summary, the UDTA provides a more complete set of rules for decanting than currently exists in any state. It is appropriate for states that have adopted the Uniform Trust Code and for states that have a non-uniform trust law statute.

For further information about the Uniform Trust Decanting Act, please contact ULC Chief Counsel Benjamin Orzeske at (312) 450-6621 or borzeske@uniformlaws.org.