



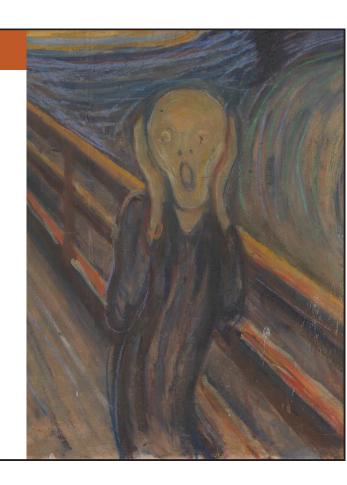
A QUICK TRUST TAX TUTORIAL

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How Bad Can It Be?

- Classifying Trusts
- Grantor Trusts
- Nongrantor Trusts





Classifying Trusts

- A grantor trust is ignored for most income tax purposes
 - Income is "owned" by the grantor or beneficiary
- A nongrantor trust is its own taxpayer
 - Trust is taxed on accumulated income
 - Either trust itself, or beneficiary, is taxed on distributed income

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What Makes a Grantor Trust?

- Power to revoke, I.R.C. § 676
- Income for benefit of grantor or spouse, I.R.C. § 677
- Reversionary interests, I.R.C. § 673
- Administrative Powers, I.R.C. § 675
- Foreign Trust with U.S. Beneficiary, I.R.C. § 679
- Power to Control Beneficial Enjoyment, I.R.C. § 674
- Beneficiary Withdrawal Right, I.R.C. § 678

Power to Revoke

- Grantor or nonadverse party has power to revoke
- "Nonadverse" = no substantial interest or wouldn't be negatively affected by revocation

 So power may be held by remote contingent beneficiary



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Income for Benefit of Grantor or Spouse

- Trust income may be paid to grantor or grantor's spouse, in discretion of grantor or nonadverse party
- Trust income may be used to pay insurance premiums on life of grantor or grantor's spouse, in discretion of grantor or nonadverse party
- Open issue: Does this rule still apply if grantor and spouse divorce?





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Title search: A Quick Trust Tax Tutorial

Also available as part of the eCourse 2024 Special Needs Trusts eConference

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