TREVOR SCHWARTZ INVESTMENTS OF RAYMOND JAMES®

# Tax Planning: Trusts

Understanding how the tax law affects trusts

**Given the complexity of changes to the tax code in the United States, there is much to consider in determining the impact tax legislation will have on each of us with regard to trusts.**

**I'm here to help.**


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# Learning about trusts

## Grantor retained annuity trust (GRAT)

This popular wealth transfer strategy, when combined with the substantial increase in the exemption, can transfer high-income producing or rapidly appreciating assets, such as a closely held business interest or investment real estate, out of the estate on a discounted basis.

The grantor, which is you, transfers an asset to a grantor trust, but retains the right to receive a fixed annual payment from the trust for a term of years, usually a percentage of the initial value of the trust assets.

### *Asset protection trust*

A surviving spouse could use the ported exemption, detailed above, to fund a self-settled asset protection trust, also known as a domestic asset protection trust (DAPT). By utilizing a DAPT, the surviving spouse could access the transferred wealth.

**The GRAT can be structured so the annuity payment back to the grantor is large enough to eliminate or minimize the taxable gift – a so-called zeroed-out GRAT.**

# More about trusts

## Installment sale to a grantor trust

This sophisticated wealth transfer technique, in conjunction with the increased exemption, can be an extremely effective way to transfer a high-income producing or rapidly appreciating asset, such as a closely held business interest or investment real estate, with little or no gift or estate tax.

The grantor, which is you, sells assets to a grantor trust in exchange for an installment note. Due to the grantor income tax rules:

- **The income of the trust is taxed to the grantor**
- **The sale of an appreciated asset by the grantor to the trust is a nontaxable transaction**
- **The grantor's payment of income taxes on the trust income is not a taxable gift from the grantor to the trust beneficiaries**

Income generated in the trust is applied to principal and interest on the note. Due to favorable interest rates on intra-family loans, interest payments are minimized, leaving more assets in trust for beneficiaries.

**Review your asset cash flows and discuss with your tax and legal advisors to determine whether this or other strategies are appropriate.**

# Trusts and transactions

## Dynasty trusts

With a dynasty trust, you can make substantial gifts using your increased exemptions to this trust, to which lifetime gift and GST exemptions may be allocated, exempting the trust assets from further transfer taxation for the term of the trust.

Throughout your lifetime, a dynasty trust can be structured as a grantor trust for income tax purposes, so you are taxed on the trust income. And your payment of income taxes on trust income tax further reduces your taxable estate over the years.

**Dynasty trusts with life insurance can further leverage transfer tax exemptions.**

*Simplified transactions*

If you previously used GRATs, you may find that larger transfer-tax exemptions allow for simpler trust transactions without the need for leveraging provided by GRATs. Likewise, if you are interested in wealth transfer planning, but prefer simplicity, you may favor skipping complex strategies in favor of a straightforward gift to a trust.

# Let's work together with your tax and legal professionals to determine how the legislation affects you directly.

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