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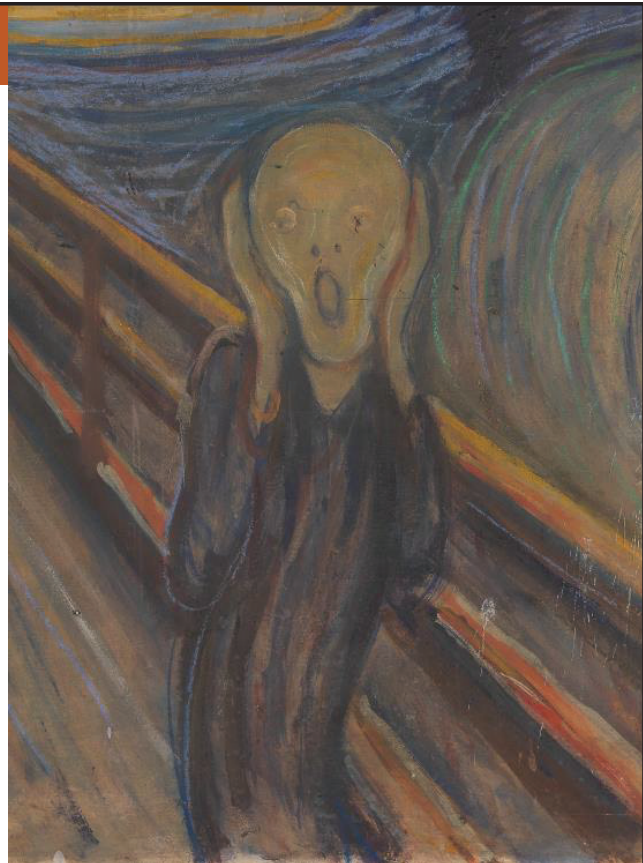
A QUICK TRUST TAX TUTORIAL

ERIC REIS
UNT Dallas College of Law

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How Bad Can It Be?

- Classifying Trusts
- Grantor Trusts
- Nongrantor Trusts



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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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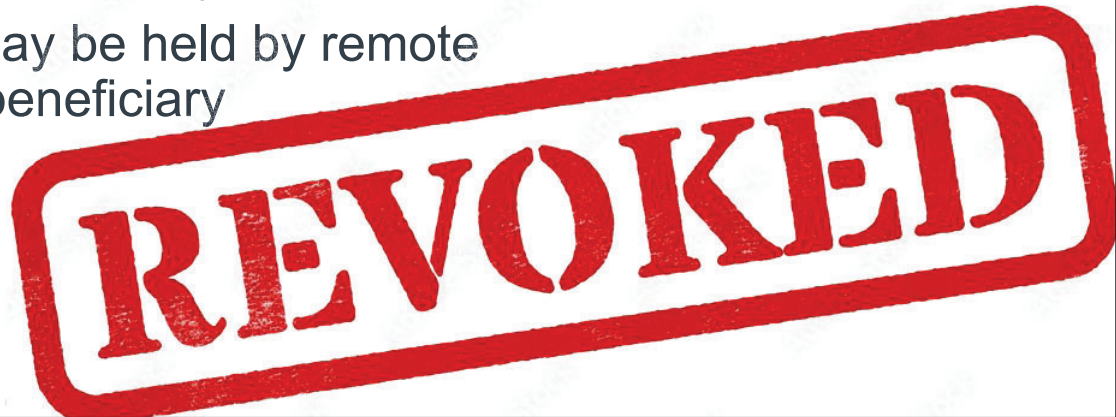
What Makes a Grantor Trust?

- 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

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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

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First appeared as part of the conference materials for the
20th Annual Changes and Trends Affecting Special Needs Trusts session
"A Quick Trust Tax Tutorial"