

# Income Taxation of Third-Party Special Needs Trusts

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## INTRODUCTION

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# INTRODUCTION

- ▶ SNT can be grantor, non-grantor, complex, Qualified Disability Trust
- ▶ Classification dramatically affects income tax
- ▶ IRAs left to SNT result in income taxation
- ▶ Non-grantor trust—highest tax bracket quickly
  - ▶ May be subject to NII tax

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# INTRODUCTION

- ▶ Understanding the taxation of third-party SNTs
  - ▶ Essential for planning
  - ▶ Impact on trustee's duties
  - ▶ Impact on the life of beneficiary

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# INTRODUCTION

- ▶ First-Party SNTs
  - ▶ Grantor trusts as to beneficiary
  - ▶ Income taxed to beneficiary, not trust

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# QUALIFIED DISABILITY TRUSTS

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First appeared as part of the conference materials for the  
18<sup>th</sup> Annual Changes and Trends Affecting Special Needs Trusts session  
"Taxation of Third-Party Special Needs Trusts"