Appendix 1C
Summary of Trust Types, Purposes, and Income Tax Consequences

The following table lists common types of trusts and briefly describes their purposes and federal income tax treatments.

Type of Trust	Purpose	Income Tax
1. Asset Protection Trusts	Asset Protection. A trust that protects trust assets from creditors by (1) preventing the assignment or transfer of a beneficiary's interest, (2) rendering a beneficiary's interest unascertainable, (3) limiting the trustee's distributions to ascertainable standards, (4) allowing the trustee discretionary distributions to multiple beneficiaries, or (5) changing or terminating a beneficiary's interest when certain events occur (e.g., insolvency of beneficiary).	Grantor typically pays income tax on all ordinary trust income and capital gains if he or she retains the right to discretionary income and principal distributions. If distributions to the grantor can only be made with an adverse party's consent, the trust may be treated as a discretionary trust, and will shift the tax burden to the trust (e.g., if no distributions are made).

Type of Trust	Purpose	

		Income Tax
2. Blind Trust	Conflict of interest. A blind trust is used by individuals who wish to keep certain investments, but want to limit the knowledge of how the assets are being managed.	Income and capital gains are taxed to the grantor.
3. Bypass or Credit Shelter Trust	Estate tax planning. Protects trust property from estate tax as it passes from one beneficiary to another. The trust is normally funded with property equal to the estate tax applicable exclusion amount.	Income distributed under trustee's discretion is taxed to beneficiary, accumulated income is taxed to fiduciary. Income required to be distributed currently is taxed to beneficiary.
4. Charitable Lead Trust (CLT)	Estate tax and/or charitable planning. Similar to GRAT (see item 9) or GRUT (see item 10), except the term interest is given to charity. Remainder usually passes to family members. Can be either an *inter vivos* trust or a testamentary trust. Charitable lead interest must be a qualified annuity or unitrust interest.	*Inter vivos* charitable lead interest (in the form of an annuity or unitrust interest) qualifies for an income tax charitable deduction to the donor only if the trust is a grantor trust whose income is taxable to its grantor. A testamentary CLT qualifies for a charitable deduction for income paid to or for charity. This trust is treated in all ways as a regular trust subject to the Form 1041 filing requirements, with income tax deductions to the trust for payments made to the charity as allowed by the trust instrument. Taxable income not paid to charity under the trust instrument is taxable to the trust.

Type of Trust	Purpose	Income Tax
5. Charitable Remainder Trust	Estate tax and/or charitable planning. Similar to GRAT (see item 9) or GRUT (see item 10), except the remainder passes to charity. Usually an *inter vivos* trust.	Distributions to a beneficiary are taxable under a four-tier system (ordinary income, capital gain, tax-exempt income, and principal). Distributions are ordinary income until all current and accumulated income have been distributed. Once ordinary income is distributed, distributions are considered capital gain, then tax-exempt income and, finally, principal.
6. *Crummey* Trust	Gift tax planning. Beneficiary is given a "*Crummey*" withdrawal power (i.e., a limited, noncumulative power to withdraw principal or income). This power enables the transfer to the trust to be eligible for the gift tax annual exclusion.	The *Crummey* power holder is considered the owner of the amount of trust assets he or she has the right to withdraw and is taxed on a prorata share of trust income for the length of the withdrawal period. Also, if the beneficiary fails to exercise the power, the income from the contribution accumulates in the trust for the future benefit of that beneficiary. Thus, the beneficiary will be taxed on a prorata share of the income from the trust in future years.

7. Dynasty Trust	Estate tax planning. An irrevocable trust with a term that generally extends as long as legally possible, to preserve the wealth for future generations (children, grandchildren, and great grandchildren). Often funded with life insurance, for which grantor makes a current gift of the premiums while still removing a significant asset from the estate. If the annual gift tax exclusion is desired, the trust should have a *Crummey* feature. (See item 6.)	Distributed income is taxed to the beneficiary, and income required to be distributed currently is taxed to the beneficiary whether distributed or not. Accumulated income is taxed to fiduciary.

Type of Trust	Purpose	Income Tax
8. General Power of Appointment Trust (as a marital trust)	Estate planning. A marital trust (i.e., qualifies for the marital deduction) that grants a surviving spouse a general power of appointment over the trust assets. Provides the spouse with an income interest, but permits the spouse to determine who will receive the assets at a future time.	In a testamentary general power of appointment trust, income required to be distributed to the surviving spouse is taxed to the surviving spouse. Capital gains are taxed to the trust. However, a lifetime general power of appointment trust is taxed as a grantor trust.
9. Grantor Retained Annuity Trust (GRAT)	Gift and estate tax planning. *Inter vivos* trust in which grantor transfers property while retaining a fixed dollar annuity payable for a term of years. Remainder normally passes to family members.	Grantor typically pays income tax on all ordinary income (and capital gains if contingent or reversionary power relating to corpus is also retained).

10. Grantor Retained Unitrust (GRUT)	Gift and estate tax planning. *Inter vivos* trust in which grantor transfers property while retaining a right to receive distributions equal to a fixed percentage of the annual FMV of the trust's assets for a fixed term of years. Remainder normally passes to family members.	Grantor typically pays income tax on all ordinary trust income. Grantor is also taxed on capital gains if contingent power or reversionary power relating to corpus is also retained.
11. Income Sprinkling Trust	The trustee is given the power to either “sprinkle” (distribute) or accumulate income as he thinks best. Typically, the beneficiaries are the children of the settlor (creator of the trust).	Distributed income is taxed to beneficiary. Accumulated income is taxed to fiduciary.
12. Income Trust or Section 2503(b) Trust	Gift and estate tax planning. All income must be distributed to the beneficiary at least annually.	Income required to be distributed is taxed to beneficiary. Capital gains generally are taxed to fiduciary.

Type of Trust	Purpose	Income Tax
13. Irrevocable Income Only Trust (IIOT)	Medicaid eligibility. A grantor trust created to prevent some assets (but not the income earned on those assets) from being counted for Medicaid eligibility. Typically the IIOT requires all income to be paid to the grantor or the grantor's spouse while prohibiting the possibility of any principal being distributed to the grantor or the grantor's spouse. When the grantor enters the nursing home, the income will continue to be distributed and will be available for Medicaid purposes.	The trust is a defective grantor trust, the trust income and capital gains are taxed to the grantor.

14. Irrevocable Life Insurance Trust (ILIT)	*Inter vivos* trust corpus consists of insurance policy(ies). Grantor is the insured but retains no interest as beneficiary or trustee. On grantor's death, trust assets pass to family members as provided in trust instrument.	Funded trusts: trust income available for premium payment is taxed to the grantor. Unfunded trusts avoid this problem with annual gifts to trust to pay premiums covered by *Crummey* withdrawal power (see item 6).
15. Irrevocable Trust	Estate tax planning. Assets are transferred to a trust with no retained power to alter, amend, or revoke.	Usually distributed income is taxed to beneficiary and accumulated income and capital gains are taxed to fiduciary (unless grantor is taxed due to retention of certain powers or benefits).
16. Minority Trust or Section 2503(c) Trust	Gift and estate tax planning. *Inter vivos* trust for the benefit of a minor before attaining the age of 21. Accumulated income and corpus passes to minor on reaching age 21. The trust becomes a grantor trust at age 21 if the trust instrument extends the term of the trust beyond age 21.	If the beneficiary is (1) under age 18, or (2) age 18 (or a full time student age 19-23) and has earned income that is less than or equal to half of his or her support, income over $2,000 (for 2015) distributed to or for the child is taxed to the child at the parents' marginal rate (kiddie tax). If the beneficiary does not fit

Type of Trust	Purpose	Income Tax
		into one of those specific categories (e.g., age 18, and earned income is more than half of his or her support), income distributed to or for the child is taxed at the child's own rate. Income not distributed is taxed to the trust.
17. Personal Residence Grantor Retained Interest Trust, also called a Qualified Personal Residence Trust	Gift and estate tax planning. *Inter vivos* trust in which grantor retains right to occupy trust property as a personal residence for a term of years. Remainder to family members. The grantor cannot be the holder of an interest in more than two such trusts at the same time.	Tax consequences to grantor include the normal deductions relative to personal residence ownership, such as property taxes and interest. Trust is typically drafted with a retained contingent power or reversion that will also cause principal gains and losses to be attributed to grantor.
18. Pourover Trust	Estate planning. Useful as a receptacle for insurance proceeds, IRA benefits, and qualified retirement plan benefits. May also receive a portion of probate estate under the will.	Distributed income is taxed to beneficiary, and accumulated income is taxed to fiduciary unless income is required to be distributed currently.

Type of Trust	Purpose	Income Tax
19. Pre-need or Qualified Funeral Trust	Postmortem planning. To provide funeral or burial services for the benefit of individual trust beneficiaries.	Income is generally taxable to the grantor (person creating the trust). However, an election is available to be treated as a qualified funeral trust, which simplifies the reporting for pre-need funeral trusts with multiple grantors. If the election is made, the trust income is taxable to the trust at trust tax rates. See paragraph 102.22.
20. Qualified Subchapter S Trusts (QSST) and Electing Small Business Trust (ESBT) (See Chapter 10.)	Gift and estate tax planning. QSSTs and ESBTs can own S corporation stock without triggering loss of S corporation status. They also provide an income stream to a beneficiary while retaining ownership of the underlying S corporation stock. ESBTs allow income distributions to multiple beneficiaries.	For ESBTs, income related to the S corporation stock is taxed at the highest individual rate (39.6% for 2015). Qualifying long-term capital gains are taxed at capital gains rates. For a QSST, the income beneficiary is treated as the owner of the S corporation stock, therefore, the trust is a grantor trust with respect to the S corporation stock. QSSTs must distribute all fiduciary accounting income annually.

21. Qualified Terminable Interest Property (QTIP) Trust (Also called marital deduction trust)	Estate planning. Provides a surviving spouse with an income interest for life. Enables an estate owner to control the disposition of the remainder interest in the trust after the surviving spouse's death, but transfer can still qualify for the marital deduction.	Ordinary income is taxable to the surviving spouse. Capital gains are taxable to the trust.
22. Rabbi Trust	Compensation planning. An irrevocable trust in which employer transfers assets to provide nonqualified deferred compensation for key employees. Trust assets are subject to the claims of the employer's creditors.	The employer generally is treated as the owner (grantor) of the trust, and is taxed on all income earned in the trust. The employees are not taxed when the contribution is made to the trust.
23. Revocable Living Trust	Estate planning. Assets are transferred to a trust subject to grantor's power to alter, amend, or revoke (becoming an irrevocable trust at death and avoiding probate).	Income and capital gains are taxable to grantor.
Type of Trust	**Purpose**	**Income Tax**
24. Spendthrift Trust	Estate planning. A trust established to protect a beneficiary from spending the entire inheritance by making periodic distributions instead of a one-time settlement. Depending on state law, may offer creditor protection. May be a simple or complex trust.	Income required to be distributed and discretionary income distributions are taxed to beneficiary. Accumulated income is taxed to the fiduciary. Capital gains are generally taxed to the fiduciary.

25. Spousal Lifetime Access Trust (SLAT)	Gift and estate tax planning. An irrevocable trust that includes the grantor's spouse as one of the permissible beneficiaries (usually in addition to children). Allows for greater flexibility by allowing the trustee to make distributions to the spousal beneficiary if the family's financial situation changes (i.e., assets previously gifted into the trust are later needed).	Distributed income is taxed to the beneficiary. Accumulated income is taxed to the trust.
26. Standby Trust	Financial planning. Unfunded trust stands ready to receive and manage trust assets when the grantor is no longer able to manage the assets. Usually revocable when established, becoming irrevocable when grantor becomes disabled.	Trust income is taxed to grantor/beneficiary, while revocable (before grantor becomes disabled). Upon grantor's disability, income is taxed to grantor/beneficiary to the extent distributed and at trust level to the extent retained.
27. Supplemental needs trust	Financial and/or elder care planning. Distributions from the trust provide a disabled or elderly person with financial assistance without affecting the government benefits available to that person.	Distributed income is taxed to the beneficiary. Accumulated income is taxed to the fiduciary. If grantor trust, trust income is taxed to the trust owner.

END OF DOCUMENT -