

Arrow Point Tax Services

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- **Intentionally Defective Grantor Trust (IDGT)** – Benefit; depending on the specific type of trust, it allows a grantor to place assets in a trust for their heirs or beneficiaries and let the income or gains of that trust accrue to their benefit without impacting the lifetime gift tax
 - A unique type of irrevocable trust structure where the income of the trust is still the grantor's for income tax purposes, but the assets of the trust are excluded from his/her estate for estate tax purposes
 - In other words, the trust is “effective” for estate taxes, but “defective” for income taxes
 - Income and gains taxes are still owed on the trust and must be paid, but they are paid by the grantor out of “other funds”
 - Because the trust is receiving the income but not paying the tax, it is critical that the grantor have other means to pay the taxes
 - This strategy allows for assets to move to heirs beyond the gift limitations of the government – the assets of the trust are not treated as the grantor's property for estate tax purposes
 - A common planning technique with IDGTs is the sale by the grantor of assets to the trust in return for a promissory note aka “sale to a defective trust”
 - Under current law this does not create a taxable sale as the grantor is seen as making the sale to themselves
 - In order to properly execute this strategy, the trust must pay interest at the prescribed IRS rate (<https://www.irs.gov/pub/irs-drop/rr-20-20.pdf>)
 - This is not a deferral mechanism or tax shelter mechanism for income and gains taxes, those taxes are owed each year
 - At current lifetime gift amounts \$11.58 million per life, it may not be worth the effort of creating a trust like this. If the lifetime gift were to drop then it might
 - Most IDGT allow for the grantor trust status to be turned on or off – giving the grantor flexibility
 - <https://www.kitces.com/blog/idgt-installment-sale-to-intentionally-defective-grantor-trust-rules/>
 - <https://www.lbmc.com/blog/grantor-trust-tax-strategy/>
 - <https://www.journalofaccountancy.com/issues/2019/oct/wealth-transfer-grantor-retained-annuity-trusts.html>