



IDGT Summary

Intentionally Defective Grantor Trust

IDGT Strategic Plan

- Sell assets at fair market value to Intentionally Defective Grantor Trust
- Take back interest-only balloon note
- Gift seed money (10%)
- Balloon note bears interest at applicable federal rate
- Appreciation in assets grows outside of your taxable estate

What are the benefits of the IDGT?

- No income tax effect for Grantor during her life
- No gift tax consequences except for seed money
- Asset “freezing” technique - appreciation in assets grows outside of the taxable estate
- Only the value of the note stays in the estate
- Trustee may make interim distributions to beneficiaries
- Grantor may swap assets with those in trust and make additional contributions

Drawbacks

- The IDGT is “defective” in that Grantor remains responsible for income tax of the trust (this may actually be a good thing, though – trust assets grow tax free and estate has “tax burn”)
- The IDGT is irrevocable
- Must use an independent Trustee
- Probably no “step up” in basis of assets at death of Grantor (note right of substitution, however)



Thank you.

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NOTICE ABOUT IRREVOCABLE PLANNING TECHNIQUES: The decision to use a qualified personal residence trust requires a balancing of the tax benefits and the potential loss of control that comes with placing the property in trust. Because the QPRT is irrevocable, you should give serious consideration to whether it is appropriate for you.