

The image shows two logos side-by-side. On the left is the Corrigan Krause logo, which features the company name in a serif font with a stylized 'CK' monogram in the center. Below the name is the text 'CPAs and Consultants'. On the right is the Williams Allen Casey LPA logo, which includes a blue square with a white 'O' inside, followed by the company name in a serif font and 'Counselors at Law' in a smaller font below it.

1

## Introduction

2

## ○ Overview

- Revocable vs. Irrevocable Trusts
- Trust Protections
- Four Types of Disbursements from an Inherited Trust
- Limited Power to Vest
- Annual Tax Filing Requirements

3

1

**Overview**

- Form 1041/Grantor Letter
- Capital Gains Tax & the Importance of Basis
- Federal Estate Tax Planning
- Required Distributions from Qualified Retirement Plans
- The Importance of Tax Planning and Coordination – WHY WE DO THIS!

Williams Allen Casey, LPA  
www.wac.com

4

---



---



---



---



---



---



---

**Revocable vs. Irrevocable Trusts**

- Primary Trust - Revocable during Trustmaker's Lifetime
- "Sub Trusts" are created by the Primary Trust upon the happening of some event
  - Family Trusts: Created for a surviving spouse and family
  - Marital Trusts: Created for a surviving spouse only
  - Beneficiary Trusts: Created for adult children and/or other beneficiaries

Williams Allen Casey, LPA  
www.wac.com

5

---



---



---



---



---



---



---



---

**Trust Protections**

- "Outright" Distributions remain the norm in the estate planning industry
- Easier for attorneys to wind down affairs
- Complete loss of Trust Protections
- One Way Street!!!
- Two Part Test to maintain protections:
  - Ownership
  - Control

Williams Allen Casey, LPA  
www.wac.com

6

---



---



---



---



---



---



---



---

## ○ Trust Protections

- Creditor
- Catastrophic Law Suits
- Divorce
- Bankruptcy
- Nursing Home
- Bloodline
- Remarriage
- Federal Estate Tax (2026 "Coupon" Amount - \$15M per person/\$30M per married couple (adjusted for inflation)

All reasons to maintain assets in "sub-trust" as opposed to outright distributions

 Williams Allen Casey LPA Lawyers for Business

7

---



---



---



---



---



---



---



---

## ○ Beneficiary Trusts

- Generally two types – Trust Share or Inherited Trust
- Trust Share:
  - One beneficiary
  - Trustees = Beneficiary + Professional co-Trustee
  - Requires both trustees to transact business together – Practical Challenges
- Inherited Trust:
  - Cutting edge planning strategy
  - One beneficiary
  - One Trustee = Beneficiary
  - Utilizes a Distribution Protector
- Remember - Two Part Test to maintain protections:
  - Ownership – Inherited Trust with own EIN
  - Control – Trustee and Distribution Protector

 Williams Allen Casey LPA Lawyers for Business

8

---



---



---



---



---



---



---



---

## ○ Distribution Protector

- Has the power to veto "distributions"
- Appointed by the beneficiary
- Terms of trust require the Distribution Protector to approve (or disapprove) all distributions
- Attorney serves as a Distribution Protector
- Important to notify the attorney (i.e. Jen) of all "distributions"
- It's the PROCESS that provides the Protections (BMP Program)

 Williams Allen Casey LPA Lawyers for Business

9

---



---



---



---



---



---



---



---

## ○ Big Picture

Goal is to:

- Maintain Protections
- Maintain Control
- Ease of Use for Beneficiary
- Create no Adverse Income Taxes

 Williams Allen Casey LPA  
Lawyers for the Future

10

---



---



---



---



---



---



---



---

## ○ Four Types of "Disbursements"

- Expenses
- Withdrawals of Income under a Limited Power to Vest
- Distributions
- Loans (Promissory Notes)

\*\*Remember - ONE WAY STREET!\*\*

 Williams Allen Casey LPA  
Lawyers for the Future

11

---



---



---



---



---



---



---



---

## ○ Limited Power to Vest

- Goal is not to **distribute** the income from the Inherited Trust to maintain the Protections
- Income **distributed** loses Protections
- Income **distributed** to beneficiary is taxed at beneficiary income tax rates and added to their net worth
- Income retained in trust is taxed at higher trust income tax rates
- We want the best of both worlds – low taxes and maintain protections

 Williams Allen Casey LPA  
Lawyers for the Future

12

---



---



---



---



---



---



---



---

## O Limited Power to Vest

- Beneficiary has the right to demand a withdrawal of the income from the prior year
- Beneficiary does not have to exercise the demand
- Regardless of whether the beneficiary exercises the demand, the income is **attributed** to the beneficiary and taxed at beneficiary's individual tax rate – NOT the trust tax rate!

Williams Allen Casey, LPA  
Lawyers for Business

13

---



---



---



---



---



---



---

## O Limited Power to Vest

- Income for prior year is subject to attachment by creditors for that year
- At end of year, **undistributed** income becomes principal and is now once again protected
- Cutting edge concept and planning strategy
  - Need CPAs that understand 1041 world
- We receive calls from CPAs because they are initially alarmed.
- At the end of the calls we are asked "Why doesn't everyone do this?"

Williams Allen Casey, LPA  
Lawyers for Business

14

---



---



---



---



---



---



---



---

## K Trust Document

- Trust of the decedent is the agreement that defines the Inherited Trust.
- The law firm restates decedent's trust for the beneficiaries and will provide this document to your CPA.

---



---



---



---



---



---



---



---

15

© What Returns are Required Each Year?

- Form 1041
- Grantor Letter

---



---



---



---



---



---

16

© 1041 Form



Accumulates all income types

---



---



---



---



---



---

17

© 1041 Form

- Rules are hybrid of 1040 & pass through for reporting
- New ID number created when trust is funded (provided through law firm)
- Always calendar year, cash basis taxpayer

---



---



---



---



---

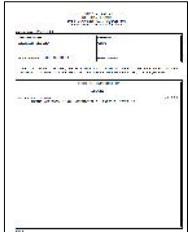


---

18

⑩ The Most Important Thing

- DO NOT FILE your personal return until you have your Grantor Letter!!!




---



---



---



---



---



---

19

⑩ Grantor Letter

- Used to capture income for current year when Limited Power to Vest is in place
- Tracking mechanism for IRS ID numbers
- A K-1 should not be generated for this type of trust

---



---



---



---



---



---

20

⑩ Basis of Inherited Assets

- Asset reports are prepared by the law firm to help you track
  - Brokerage
  - Real Estate
  - Collectibles (art, coins), vehicles
- Taxed at capital gains (0, 15 or 20%) or collectibles rate (28%)

---



---



---



---



---



---

21

IRAs, Pensions & Annuities

- No need to track basis
- Taxed at ordinary rates when distributed
- "Qualified Assets"

22

---



---



---



---



---



---



---

IRAs Held within Trust

- If established prior to 2020:
  - ROTH – must take Required Minimum Distributions (RMD), but distributions are not taxable
  - Inherited IRA – stretch distributions are taxable when taken

23

---



---



---



---



---



---



---



---

IRAs Held within Trust

- After 1/1/2020
  - SECURE Act shortens distribution period for inherited IRAs to 10 years vs. stretch IRA over the beneficiaries lifetime
  - If RMDs have started ALAR rule applies meaning that you take some each year and all by year 10
  - Opportunity to plan income

Rules are complex! Make sure to consult a tax advisor.  
Penalties are strict for not taking

24

---



---



---



---



---



---



---



---

© Planning Pitfalls

- Plan for increases carefully
- Medicare bump if over 65
- QBI threshold
- Rental loss deduction (income threshold)
- AOTC threshold

25

---



---



---



---



---



---



---

© Investments

- Important to align with specific beneficiary vs. decedent

26

---



---



---



---



---



---



---



---

© Contact Corrigan Krause

Corrigan Krause CPAs and Consultants  
 191 American Blvd, Suite #201  
 Westlake, OH 44145  
 (440) 471-0800

<b>CK South</b> 4015 Medina Road, # 150 Medina, OH 44256	<b>CK East</b> 5875 Landerbrook Dr, Ste 250 Mayfield Heights, OH 44124
--	--

[www.corrigan-krause.com](http://www.corrigan-krause.com)

27

---



---



---



---



---



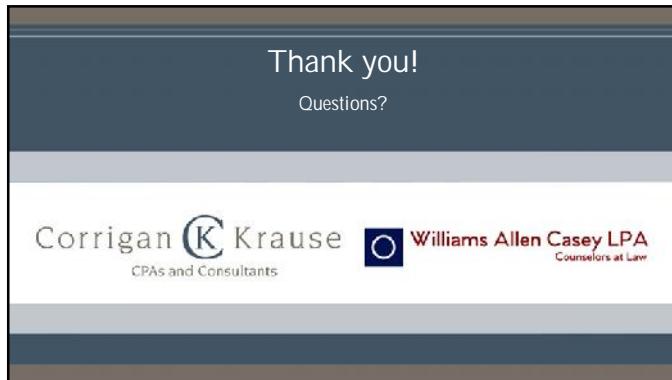
---



---



---



---

---

---

---

---

---

---