April 9, 2025

Session 4: Tax Minimization Strategies

Please Note:

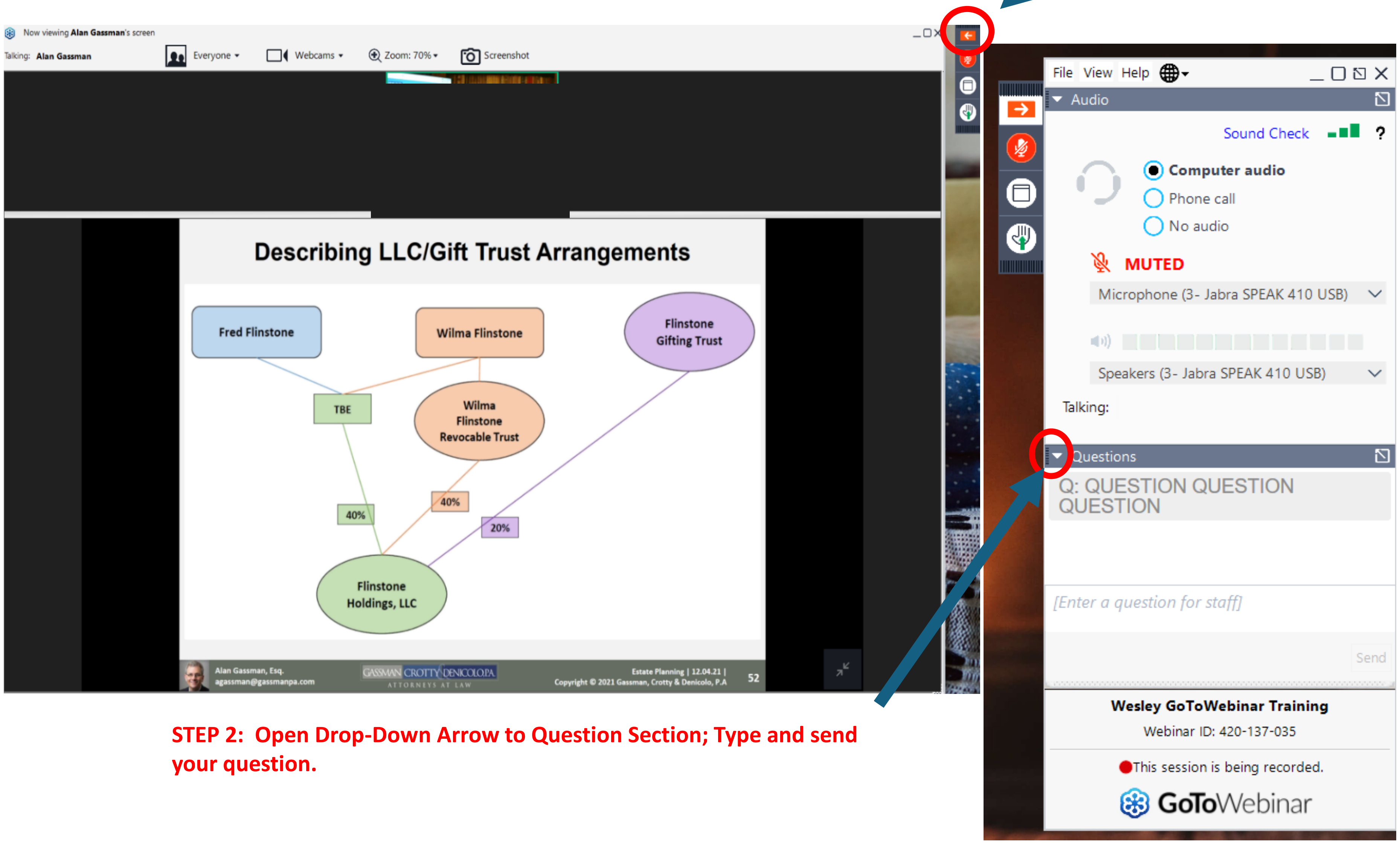
1. This presentation Qualifies for 2.0 CE Credits (CFP, IAR, PACE, NAPFA) and 2.0 CPE Credits. MUST be logged in for 105 minutes.

2. Today's PowerPoint slides are available in the "Handouts" section of your GoToWebinar side panel.

3. CLE Program #: 2503836N

How Do I Ask A Question?

**STEP 1:
Click Red Arrow to
open Control Panel**



STEP 2: Open Drop-Down Arrow to Question Section; Type and send your question.

Save the Dates for Case-of-the-Month Call

May 13: 12:00-1:30 ET
June 25: 4:00-5:30 ET
Aug. 6: 12:00-1:30 ET
Sept. 24: 4:00-5:30 ET

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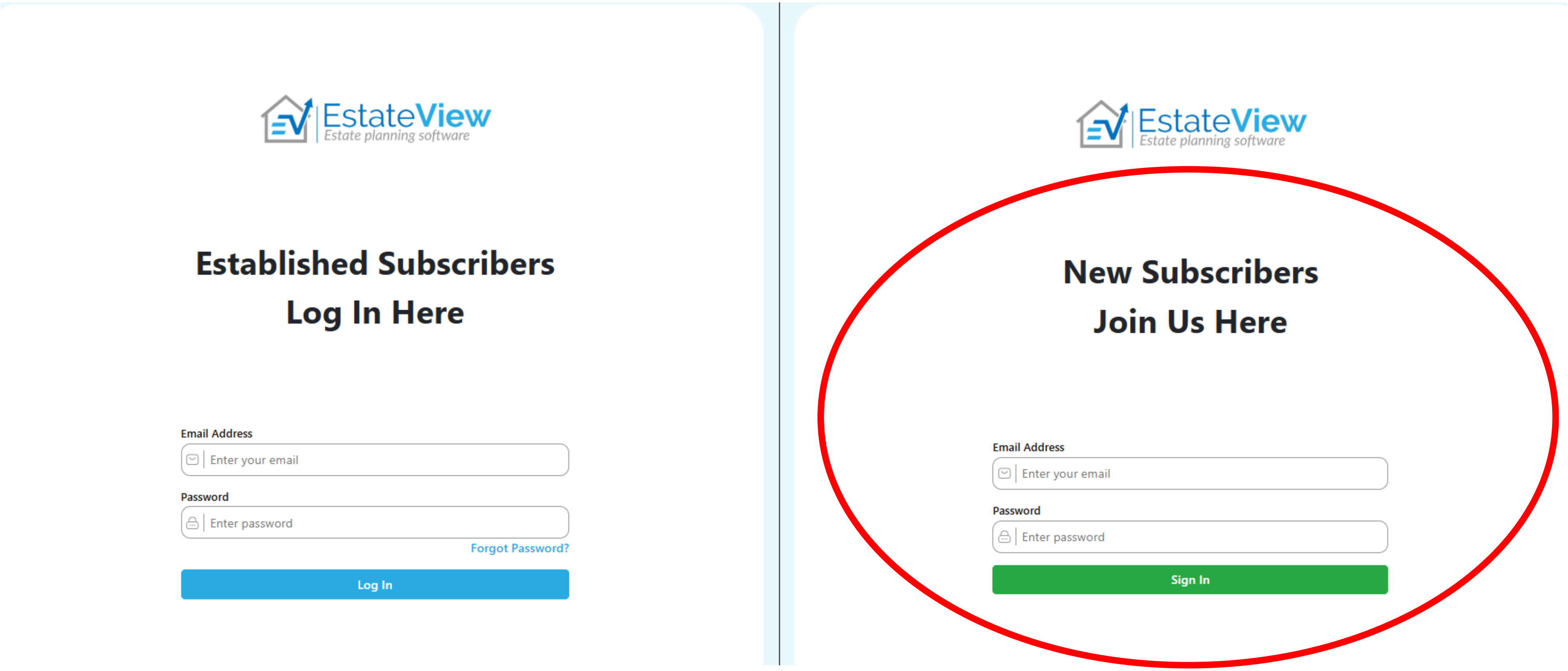

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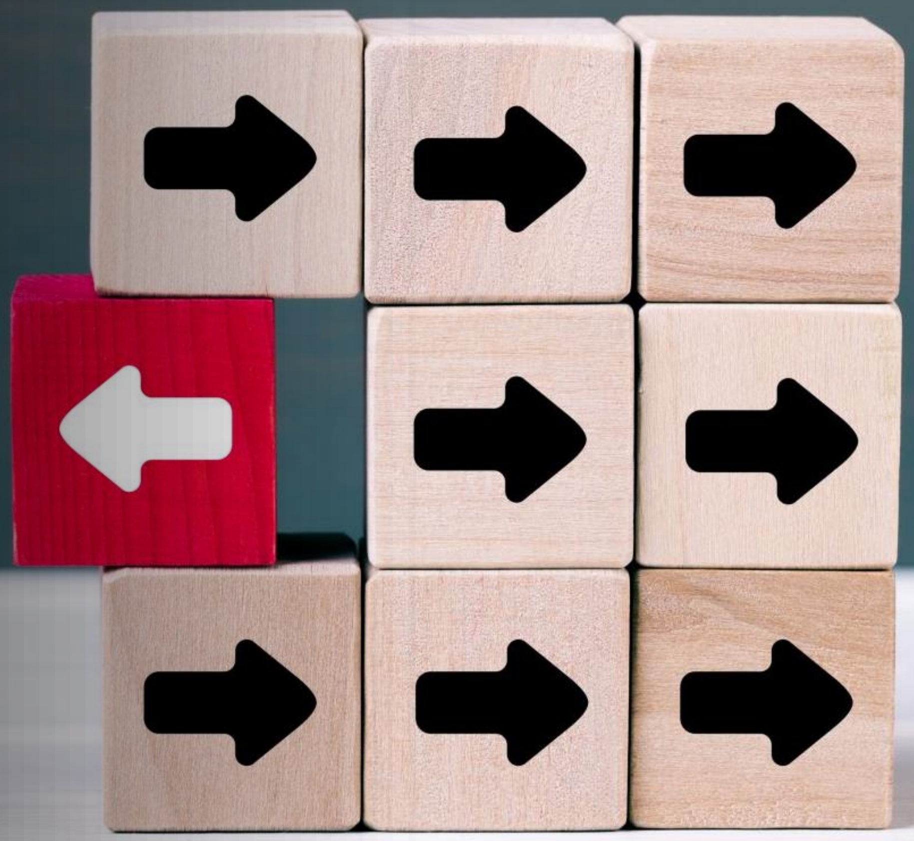
Comprehensive Plans	Calculators		My Account
Single Client	Large Gift/SLAT	CLAT	Help
Married Clients	SCIN/Conventional	CRAT	Detailed Instruction Manual
Sample Plan	Installment Sale with Income Tax Analysis	CRUT & NIMCRUT	
NEST Retirement Calculator	QPRT	Life Estate / Remainder Interest	
RMD Calculator	Private Annuity	Amortization	
Monte Carlo	GRAT	Life Expectancy	
Life Insurance Estimator	Rolling GRATs	Holding Company Valuation	
§7520 & AFR Table	Letter Writer (Under Construction)	Valuation Discount (Active Business)	

🔄 Flexible Trust Options for Large IRA Inheritances



Listener Question: Flexible trust options for large IRA inheritances to provide lifetime income for children and residuals for grandchildren and charities.

🧠 The Concept: Stretching an IRA’s Purpose Beyond 10 Years

Since the **SECURE Act of 2020**, most non-spouse beneficiaries must withdraw inherited IRA assets within **10 years**, which limits tax deferral.

- To work around this and **preserve long-term value**, estate planners turn to **trusts** that offer flexibility while complying with tax rules. Here's how you can structure them.
- This may include a 20-year or even longer stretch using a Charitable Remainder Trust.

📜 What Is an IRA Inheritance Trust?

An **IRA Inheritance Trust** (also called a standalone retirement trust, IRA trust, or ”stretch trust") is a **special type of trust** designed **specifically to receive and manage distributions from an inherited IRA** after the original account owner passes away.

- It's not a separate kind of IRA—it's a legal structure that **becomes the beneficiary of your IRA** instead of a person.

1. Standalone IRA Inheritance Trust (Accumulation Type)

This trust is named as the **beneficiary of the IRA**, and it:

- Accepts RMDs or full IRA withdrawals over 10 years.
- **Retains funds inside the trust** instead of automatically passing them to the heirs.
- **Distributes income** to children over their lifetime (not necessarily tied to the 10-year rule).
- **Leaves remainder** to grandchildren or charities.

Great for: (1) Control. (2) Creditor protection and (3) Multi-generational planning

How Does It Work?

1. **You establish a standalone trust** during your lifetime or to arise upon death—drafted with specific language to comply with IRS rules.

2. You **name the trust as the beneficiary** of your traditional IRA, Roth IRA, or other qualified retirement plan (401(k), etc.).

3. Upon your death, the IRA doesn't go directly to your heirs—it passes into the trust.

4. The trust then **controls how and when the IRA funds are distributed** to your beneficiaries. These distributions are made based on terms you've specified (e.g., age limits, spendthrift protections, or incentives).

🧠 Why Use an IRA Inheritance Trust?

✅ **Creditor Protection**

Assets in the trust are shielded from lawsuits, bankruptcy, and divorce—protection your heirs wouldn't get if they inherited the IRA outright.

✅ **Spendthrift Control**

Great for beneficiaries who may be unwise with money. You can restrict access to just the **Required Minimum Distributions (RMDs)** or set other limits.

✅ **Asset Management for Minors or Special Needs Beneficiaries**

A trust can hold and manage the funds for beneficiaries who are too young, disabled, or otherwise unable to handle the money themselves.

✅ **Preserves the Tax-Deferred Status (within SECURE Act limits)**

- Post-SECURE Act (2020), most non-spouse beneficiaries must fully withdraw the IRA within just over 10 years. But a trust can still help with **tax planning**, by ensuring that distributions are strategically timed within that window and possibly being sprayed among lower income beneficiaries.

👥 Who Benefits Most from an IRA Inheritance Trust?

- Parents leaving large IRAs to children or grandchildren
- Individuals concerned about their heirs' **creditors, future ex-spouses, or spending habits**
- Those with **blended families** who want to control how retirement assets are passed
- People leaving assets to **minors or special needs beneficiaries**
- Those who want to **align retirement account distributions with broader estate planning goals**

⚠️ Important Considerations

- **Must be carefully drafted**: The IRS has strict "see-through" trust rules that must be followed if you want to preserve tax-deferred treatment.

- **May cost more upfront** to set up and maintain than naming a person directly as beneficiary.

- Trust distributions may be taxed at **compressed trust tax brackets**—a good estate planner or tax advisor can help navigate this.

Outright to Surviving Spouse who transfers to rollover IRA

Can use dual person life expectancy recalculated annually.

LEVEL 1

<u>For any of Outright Distribution, Conduit Trust for the lifetime benefit of, or an Accumulation Trust exclusively for one or more of the following</u>:
(1) Surviving Spouse,
(2) Disabled or Chronically Ill Individual,
(3) Individual Not More Than 10 Years Younger Than Plan Participant

Life Expectancy Rule - Distributions may be paid out over the life expectancy of the oldest Eligible Designated Beneficiary.

LEVEL 2

Outright Distribution, Conduit Trust, or an Accumulation Trust for a Minor Child

Life Expectancy Rule - Distributions may be paid out over life expectancy of the oldest minor child of the Plan Participant (or in some instances, any minor child) who is a beneficiary of the trust until the child reaches the age of majority. The Level 4 10-Year Rule below applies from the date of reaching the age of majority.

LEVEL 3

Accumulation Trust or Conduit Trust for a Designated Beneficiary Who is Not an Eligible Designated Beneficiary

10 Year Rule -- Distributions must be paid out of IRA/Plan no later than December 31 of the 10^{th} year following the calendar year of the Plan Participant's death.

LEVEL 4

When There Is No Designated Beneficiary

Default Rule – 5 Year Rule – All distributions must be paid out by December 31 of the 5^{th} year following the calendar year of the Plan Participant's death. Exception where the Plan Participant dies after reaching his or her required beginning date – Distributions can be made over the life expectancy of the deceased Plan Participant, based upon the Single Life Table, without recalculation.

LEVEL 5

<u>Not mentioned above:</u>

1. Surviving Spouse can annuitize an annuity, based upon Surviving Spouse's life expectancy.
2. Non-Surviving Spouse individual beneficiary or trust where the individual beneficiary is the "Designated Beneficiary" may annuitize.
3. 20 Year Charitable Remainder Trust.
4. Lifetime Charitable Remainder Trust.
5. Charitable Gift Annuity.

LEVEL 1

Outright to Surviving Spouse who transfers to rollover IRA

Can use dual person life expectancy recalculated annually.

LEVEL 1 -- Level 1 Surviving Spouse's rollover IRA can use the dual person life expectancy recalculated annually, and no need to take a distribution until year after Surviving Spouse has reached age 72.

<u>For any of Outright Distribution, Conduit Trust for the lifetime benefit of, or an Accumulation Trust exclusively for one or more of the following</u>:
(1) Surviving Spouse,
(2) Disabled or Chronically Ill Individual,
(3) Individual Not More Than 10 Years Younger Than Plan Participant

Outright Distribution, Conduit Trust, or an Accumulation Trust exclusively for a Minor Child

Accumulation Trust or Conduit Trust for a Designated Beneficiary Who is Not an Eligible Designated Beneficiary

When There Is No Designated Beneficiary

LEVEL 2

<u>For any of Outright Distribution, Conduit Trust for the lifetime benefit of, or an Accumulation Trust exclusively for one or more of the following</u>:
(1) Surviving Spouse,
(2) Disabled or Chronically Ill Individual, or
(3) Individual Not More Than 10 Years Younger Than Plan Participant

Outright to Surviving Spouse who transfers to rollover IRA

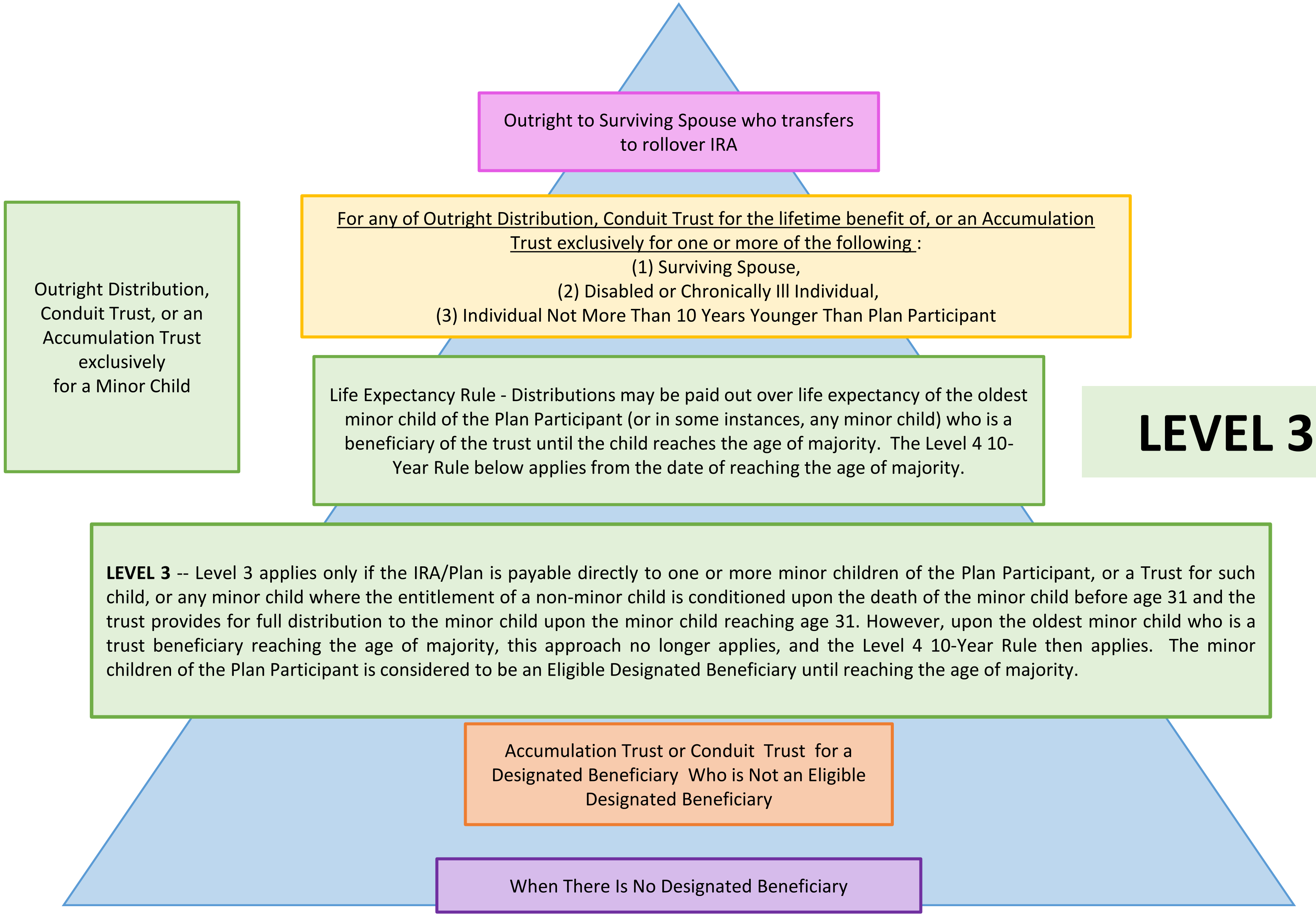
Life Expectancy Rule - Distributions may be paid out over the life expectancy of the applicable Eligible Designated Beneficiary.

LEVEL 2 -- Level 2 applies only if IRA/Plan benefits go outright, to a Conduit Trust for the lifetime benefit of, or an Accumulation Trust exclusively for one or more of (1) the Surviving Spouse, (2) a disabled or chronically ill individual, or (3) an individual who is not more than 10 years younger than the deceased Plan Participant. Upon the death of Eligible Designated Beneficiary, the Level 4 10-Year Rule applies from such date of death.

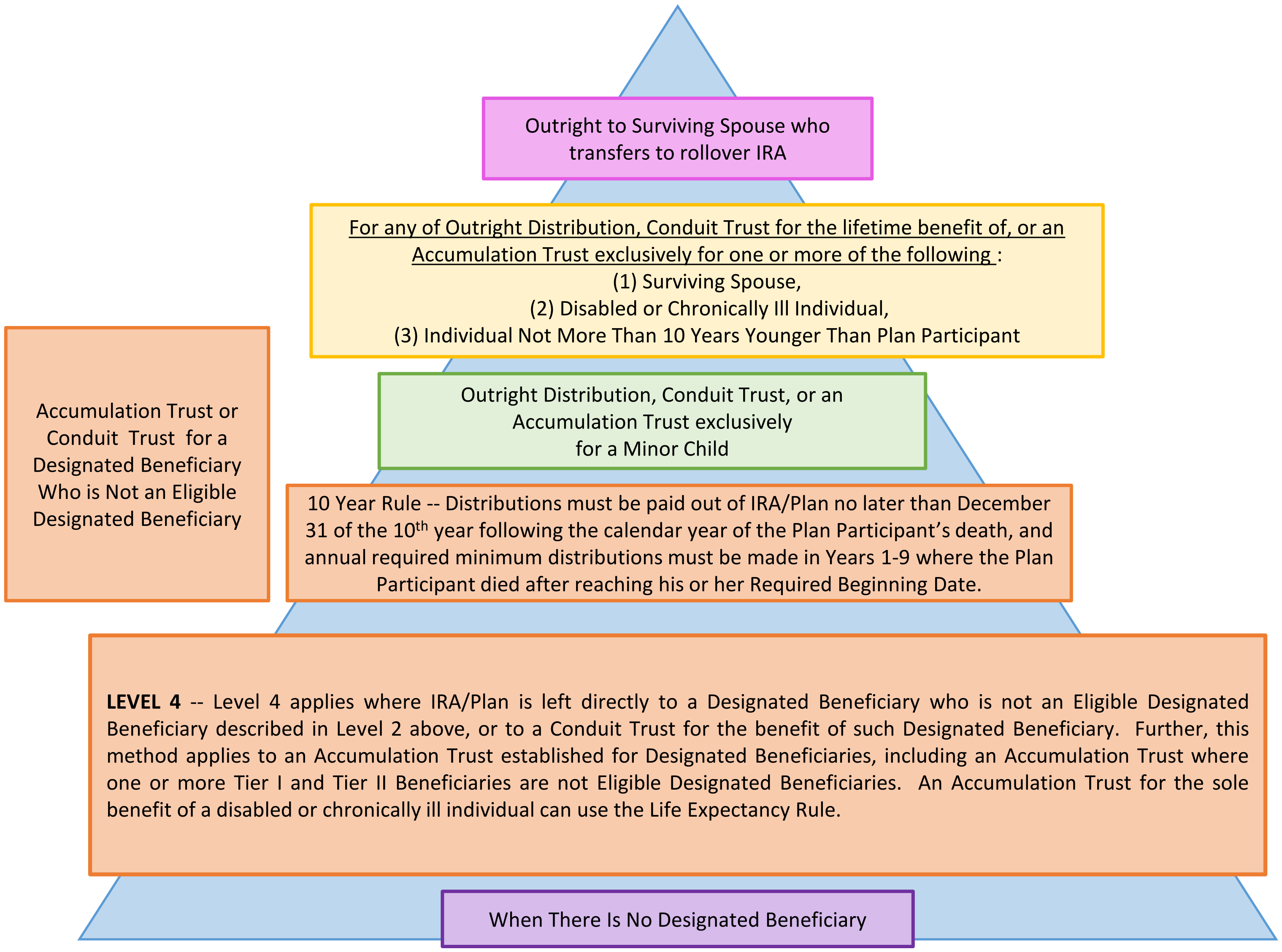
Outright Distribution, Conduit Trust, or an Accumulation Trust exclusively for a Minor Child

Accumulation Trust or Conduit Trust for a Designated Beneficiary Who is Not an Eligible Designated Beneficiary

When There Is No Designated Beneficiary


Outright to Surviving Spouse who transfers to rollover IRA
For any of Outright Distribution, Conduit Trust for the lifetime benefit of, or an Accumulation Trust exclusively for one or more of the following :
(1) Surviving Spouse,
(2) Disabled or Chronically Ill Individual,
(3) Individual Not More Than 10 Years Younger Than Plan Participant
Outright Distribution, Conduit Trust, or an Accumulation Trust exclusively for a Minor Child
Life Expectancy Rule - Distributions may be paid out over life expectancy of the oldest minor child of the Plan Participant (or in some instances, any minor child) who is a beneficiary of the trust until the child reaches the age of majority. The Level 4 10-Year Rule below applies from the date of reaching the age of majority.
LEVEL 3 -- Level 3 applies only if the IRA/Plan is payable directly to one or more minor children of the Plan Participant, or a Trust for such child, or any minor child where the entitlement of a non-minor child is conditioned upon the death of the minor child before age 31 and the trust provides for full distribution to the minor child upon the minor child reaching age 31. However, upon the oldest minor child who is a trust beneficiary reaching the age of majority, this approach no longer applies, and the Level 4 10-Year Rule then applies. The minor children of the Plan Participant is considered to be an Eligible Designated Beneficiary until reaching the age of majority.
Accumulation Trust or Conduit Trust for a Designated Beneficiary Who is Not an Eligible Designated Beneficiary
When There Is No Designated Beneficiary

LEVEL 3


Outright to Surviving Spouse who transfers to rollover IRA
For any of Outright Distribution, Conduit Trust for the lifetime benefit of, or an Accumulation Trust exclusively for one or more of the following :
(1) Surviving Spouse,
(2) Disabled or Chronically Ill Individual,
(3) Individual Not More Than 10 Years Younger Than Plan Participant
Accumulation Trust or Conduit Trust for a Designated Beneficiary Who is Not an Eligible Designated Beneficiary
Outright Distribution, Conduit Trust, or an Accumulation Trust exclusively for a Minor Child
10 Year Rule -- Distributions must be paid out of IRA/Plan no later than December 31 of the 10th year following the calendar year of the Plan Participant's death, and annual required minimum distributions must be made in Years 1-9 where the Plan Participant died after reaching his or her Required Beginning Date.
LEVEL 4 -- Level 4 applies where IRA/Plan is left directly to a Designated Beneficiary who is not an Eligible Designated Beneficiary described in Level 2 above, or to a Conduit Trust for the benefit of such Designated Beneficiary. Further, this method applies to an Accumulation Trust established for Designated Beneficiaries, including an Accumulation Trust where one or more Tier I and Tier II Beneficiaries are not Eligible Designated Beneficiaries. An Accumulation Trust for the sole benefit of a disabled or chronically ill individual can use the Life Expectancy Rule.
When There Is No Designated Beneficiary

LEVEL 4

Outright to Surviving Spouse who transfers to rollover IRA

For any of Outright Distribution, Conduit Trust for the lifetime benefit of, or an Accumulation Trust exclusively for one or more of the following :
(1) Surviving Spouse,
(2) Disabled or Chronically Ill Individual,
(3) Individual Not More Than 10 Years Younger Than Plan Participant

Outright Distribution, Conduit Trust, or an Accumulation Trust exclusively for a Minor Child

When There Is No Designated Beneficiary

Accumulation or Conduit Trust for a Designated Beneficiary Who is Not an Eligible Designated Beneficiary

Default Rule – 5 Year Rule – All distributions must be paid out by December 31 of the 5th year following the calendar year of the Plan Participant's death. Exception where the Plan Participant dies after reaching his or her required beginning date – Distributions can be made over the life expectancy of the deceased Plan Participant, based upon the Single Life Table, without recalculation. It is not clear whether this exception will apply if there is a Designated Beneficiary, although it seems likely.

LEVEL 5

LEVEL 5 – Level 5 is a Default Rule that applies where there is no Designated Beneficiary (such as if an IRA/Plan is made payable to the estate of the deceased Plan Participant or to a trust that does not qualify as a See-Through Trust.)

Spousal Beneficiary Arrangements

Method of Distribution	Payout/Taxation	Protection Under The Best State Laws*	Less Protective States*	In Bankruptcy* (Assuming no state law protection)
Outright Rollover	Best – deferred – slowest payout	Protected from creditors	Protected from Not protected from creditors	Protected from creditors
Inherited IRA	Lifetime faster payout	Protected from creditors	Not protected from creditors	Not protected from creditors
Conduit Trust (Spouse receives all withdrawals)	Lifetime faster payout	Payments not protected	Not protected from creditors	Payments not protected
Accumulation Trust (Trustee can accumulate distributions)	10-Year Rule applies	Payments well protected	Protected from creditors	Protected from creditors
Charitable Remainder Unitrust (Life or 20 years)	Stretches over years of payment	Payments not protected	Payments not protected	Payments not protected
Charitable Remainder Annuity Trust	Stretches over years of payment	Annuity payments may be protected (Florida – *In re Mart*)	Payments not protected	Payments not protected
Annuitized Annuity	Stretches over life of surviving spouse	Payments may be protected	Protected from creditors	Payments not protected from creditors

Note: Many states provide exemptions that will be respected in bankruptcy, based upon whether the state elected to opt in/opt out – Bankruptcy Code nevertheless will protect an individually owned IRA to the extent funded from pension rollover plus up to $1,362,800[1] in value attributable to conventional IRA contributions.

Note: Only Accumulation Trusts will be completely protected from Super Creditors – the IRS, the FTC, the SEC, criminal restitution and some Medicare responsibilities. Only Accumulation Trusts may be protected from Exception Creditors (spouses, ex-spouses, child support, divorce attorney's fees and legal and associated costs incurred by a beneficiary who is not able to pay them), depending upon state law (Nevada and South Dakota do not allow Exception Creditors to reach into an asset protection trust).

J:\G\Gassman\SEMINARS\CHARTS\Spousal Beneficiary Arrangements From A Creditor Protection Standpoint.1b.docx
dlg 2/3/2020

[1] This value is adjusted every three years for inflation, with the last increase occurring April 1, 2019.

TEA POT
Trust System

See Grandpa needs a TEAPOT for his trust:

https://www.youtube.com/watch?v=MXZgFgxq0hk&list=PL4T6LFdbkPFmfbXMz_N3e--XzQ2FvnTwy&index=3

2. **Charitable Remainder Trust (CRT) + IRA**

1st: You **name a CRT as the IRA beneficiary**.

• The IRA is liquidated into the CRT at death (income tax is deferred inside the CRT).

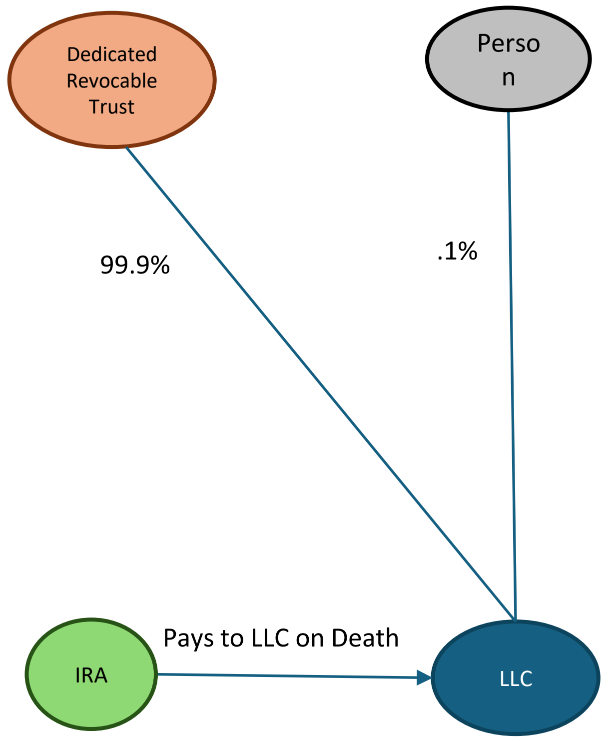
• The CRT **pays lifetime income** to your children.

•When they pass, **whatever's left goes to charity**.

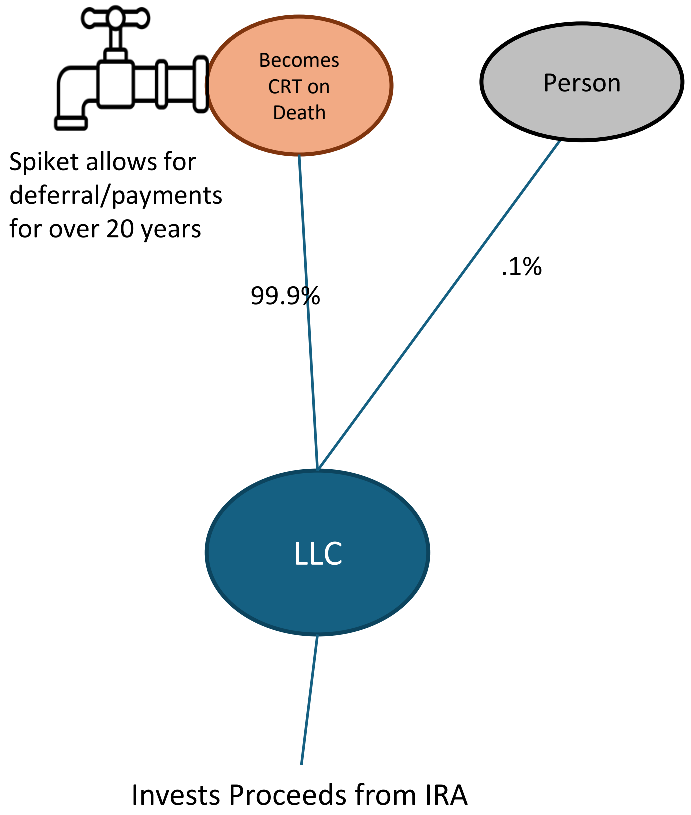
✅ **Why use this?**

- Avoids the 10-year SECURE Act rule entirely
- Provides lifetime income
- Preserves philanthropic goals
- Often used in **high-net-worth** estate tax planning
- Can turn ordinary income into capital gains.

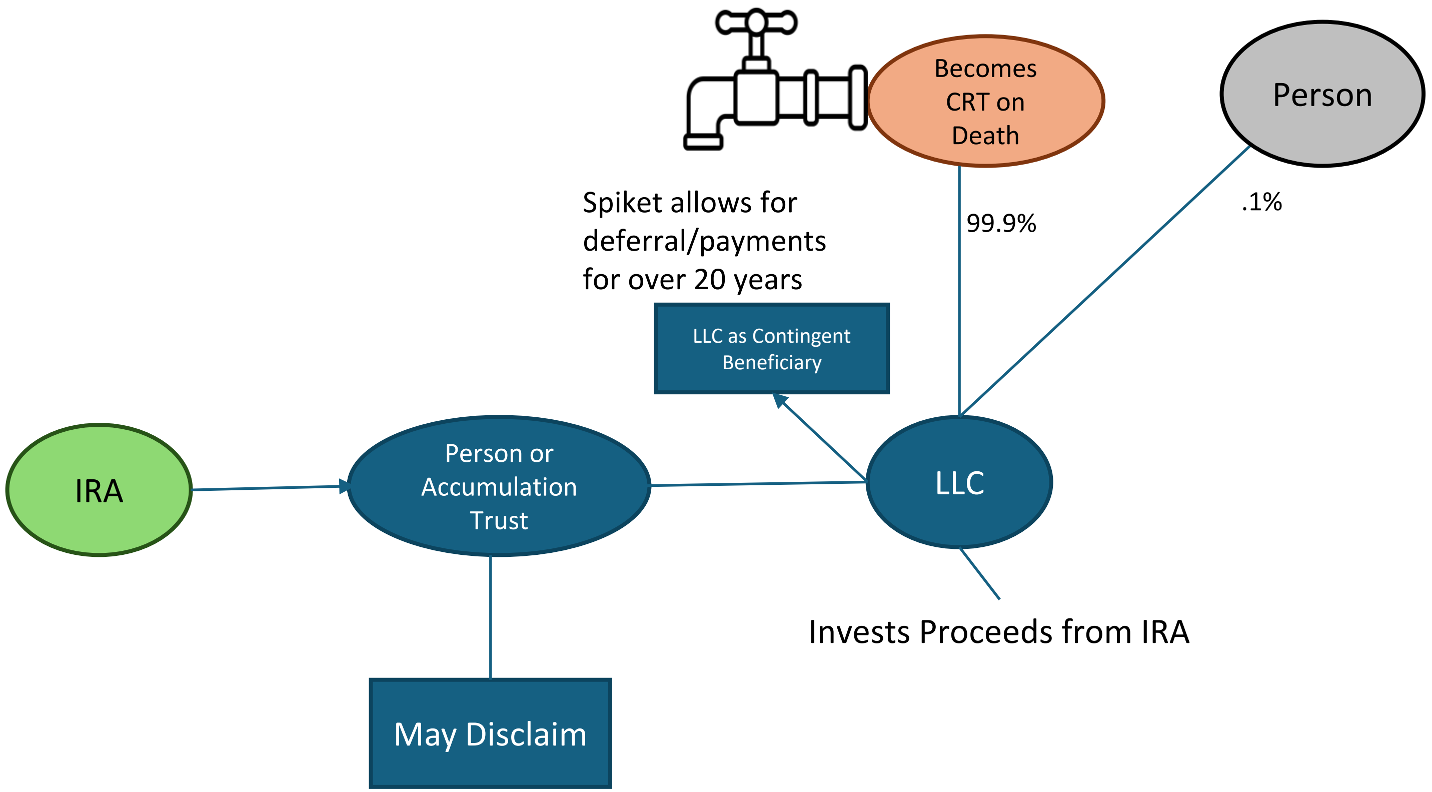
DURING IRA OWNER'S LIFETIME



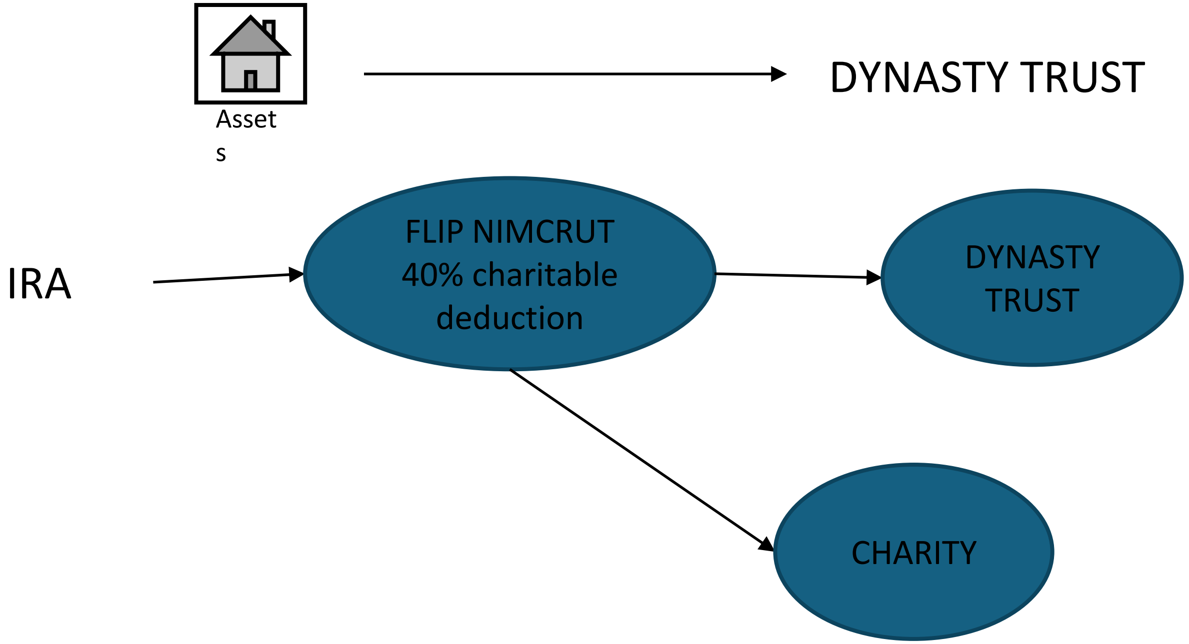
AFTER IRA OWNER'S DEATH



DISCLAIMER AFTER IRA OWNER'S DEATH



Excerpt from 10.29.2024 Gassman | UJA Federation New York – What You Didn't Know About Charitable Giving Opportunities and How It Can Affect Pre-2026 Planning



(See Following Pages)

3. **Multi-Beneficiary Trust with Subtrusts**

One master trust can be set up to provide lifetime payments and generation skipping tax exempt future benefits for multiple generations along with a charitable trust or foundation.

Benefits:

Gives you ultimate flexibility to:

- Tailor distributions
- Define ages/milestones
- Blend charitable and family goals

📜 Tax and Legal Considerations

Trust	Trust tax brackets are compressed—this makes accumulation trusts more tax-heavy unless distributions are made to individuals (who are taxed at lower brackets).
Use	Use a tax-savvy trustee and carefully drafted see-through trust provisions to preserve tax efficiency.
SECURE	SECURE Act 10-year rules apply unless you use a CRT or spouse/disabled/minor exceptions.

The Balance of the slides are from the Agenda

Techniques for Reducing Estate Tax Exposure

Objective: Explain strategies to minimize federal estate tax liability.

- **Valuation Discounts:**
  - Reducing the taxable value of minority interests in family-owned businesses or partnerships.

- **Lifetime Exemption Planning:**
  - Maximizing the use of the unified estate and gift tax exemption.

Key Valuation Discounts

Lack of Control: No ability to direct operations or distributions

Lack of Marketability: No easy way to sell interest

Combined discounts reduce fair market value for estate/gift tax

Jane owns **30% of a family LLC** valued at $10 million in total.

A simple math approach would value her interest at:
30% × $10 million = $3 million

Here's the math:

Start with pro-rata value: $3,000,000

Apply **20% lack of control discount**:

$3,000,000 × (1 - 0.20) = $2,400,000

Apply **30% lack of marketability discount**:

$2,400,000 × (1 - 0.30) = **$1,680,000**

✅ **Result:**

Jane's 30% interest is valued at $1.68 million for gift or estate tax purposes — **a $1.32 million reduction** from the pro-rata value

A combined 44% discount.

A much lower discount is less likely to be audited.

Planning Implications

Use with gifts or trusts to transfer discounted interests

Common in FLPs and Family LLCs

Can help freeze estate value while transferring future growth

Requires proper valuation documentation to withstand IRS scrutiny

Voting and non-voting stock or membership interests.

What Is Lifetime Exemption Planning?

Use your lifetime estate and gift tax exemption while alive

2025 exemption: $13.99M per person ($27.98M per couple)

Allows tax-free transfer of appreciating assets

Exemption is scheduled to drop in 2026

Why Use the Exemption During Life?

- Future appreciation escapes estate taxation
- Use valuation discounts to reduce taxable gift
- Lock in current exemption before sunset
- Often more efficient than waiting until death

Example:
Gifting
High-Growth Assets

Linda owns a startup worth $1M, expected to grow to $10M

She gifts shares to an irrevocable trust today

Uses only $1M of her exemption (less with discounts)

Avoids estate tax on $9M of appreciation plus on distributions of profits after the gift occurs.

Example: Gifting Discounted Business Interests

Couple owns LLC worth $20M; gifts 40% interest

Pro-rata value = $8M; with 30% discount = $5.6M

Transfer made to a Dynasty Trust

Removes appreciating assets from estate

Tools for Lifetime Exemption Planning

- Irrevocable Trusts (e.g., IDGTs, SLATs, Dynasty Trusts)
- Family Limited Partnerships (FLPs)
- Grantor Retained Annuity Trusts (GRATs)
- Spousal Lifetime Access Trusts (SLATs)
- Qualified Personal Residence Trusts (QPRTs)

Strategy	Gift Now	Hold Until Death
Gifted Asset	$1M business, low basis	Same $1M business
Tax Result	No step-up → donee keeps basis	Step-up → heirs get FMV basis
Growth Removed from Estate?	✅ Yes	❌ No (included in estate)
Estate Tax Savings	✅ Depends on size of estate	❌ Possible estate tax due
Capital Gains Benefit	❌ No	✅ Yes

Common Misunderstandings About Gifting

Myth: I'll owe tax immediately if I gift more than $19,000

Truth: Gifts above $19K use your lifetime exemption — no immediate tax

Myth: I lose all control over gifted assets

Truth: Strategic trusts allow indirect access or spousal access

Myth: Gifting isn't reversible

Truth: While gifts are irrevocable, structure provides flexibility

❌ Assets That Do NOT Get a Step-Up in Basis at Death

1. Retirement Accounts (Traditional IRAs, 401(k)s, etc.)

- **No step-up** in basis — the **entire account is taxable** as income to the beneficiary (except for non-deductible contributions).
- Heirs pay **ordinary income tax** on withdrawals.

2. Roth IRAs

- Also **no step-up**, but withdrawals are **income-tax-free** if rules are met.
- Still subject to the 10-year distribution rule under the SECURE Act.

3. Annuities (Non-Qualified)

- The **gain portion** is taxed as **ordinary income** when distributed - "worst first".
- **No step-up** on the embedded gain — tax is due as the beneficiary receives payments.

❌ Assets That Do NOT Get a Step-Up in Basis at Death

4. Gifts Made During Life

- As we covered, gifted assets **carry the donor's original cost basis**.
- The recipient may owe **capital gains tax** on the appreciation when sold.

5. Assets in Certain Irrevocable Trusts

- If the trust is structured as a **non-grantor trust** and is **not included** in the decedent's estate, the **trust's assets may not receive a step-up**.
- This is often intentional for asset protection or income tax shifting.

✅ Assets That DO Get a Step-Up:

- Real estate (in the decedent’s name or revocable trust)
- Stocks and mutual funds
- Closely held businesses (if included in the estate)
- Assets in a **grantor trust** (if properly structured)
- Community property (both halves receive a step-up in some states)
- Assets subject to a General Power of Appointment.

⚠️ Special Cases to Watch:

Partnership interests or S Corp shares:

The **entity's assets may not get a step-up**, even if the interest itself does. Planning is needed to trigger asset-level step-up (e.g., 754 election).

Installment Sale Notes:

If outstanding at death, the **uncollected gain is still taxable** to heirs when payments are received. No step-up applies to deferred gain.

Depreciated Property:

Step-up can also work in reverse: if the asset has lost value, there could be a **step-down in basis** at death.

Brilliant Article on What-If of Estate Tax and Step-Up Basis Repeal

https://www.forbes.com/sites/martinshenkman/2025/02/20/estate-tax-repeal--could-it-be-real/

Google: “Martin Shenkman estate tax repeal 2025”

What Could Change: Step-Up in Basis at Risk

Several recent tax proposals have included provisions like:

❌ **Eliminating the step-up in basis at death**

- Heirs would inherit the **original basis**, just like a lifetime gift
- This would trigger **capital gains tax** when they sell the asset

💰 **Deemed realization at death**

- Assets would be treated as **sold at death**, triggering **capital gains tax immediately**, even if the heirs don’t sell
- Could result in **double taxation**: capital gains + estate tax

💥 Potential Impact on Clients

Without step-up:

- **Inherited appreciated assets** (stocks, real estate, businesses) would come with large **built-in gains**

- Families could face **capital gains tax bills** even if no asset is sold

- Particularly devastating for **illiquid estates** (farms, closely held businesses)

✅ Estate Planning Strategies to Minimize the Impact

1. Trust-Based Planning with Asset Swapping

- Use **grantor trusts** (like IDGTs) that allow **asset substitution**
- Near death, **swap low-basis assets back** into the estate to get a step-up
- Keeps high-basis assets in trust and brings low-basis ones back for reset

2. Hold Appreciated Assets in Estate (If Step-Up Remains)

- Don’t gift low-basis assets during life
- Keep them until death to preserve potential step-up
- Especially important if the estate is **below the exemption amount**

✅ Estate Planning Strategies to Minimize the Impact

3. Early Gifting If Step-Up Is Eliminated

- If step-up is repealed, gifting **won’t make the tax outcome worse**
- Could reduce estate size and shift future appreciation out of taxable estate
- **Use irrevocable trusts** to lock in valuation and remove growth

4. Use of Charitable Strategies

- Donate appreciated assets to charity during life or at death
- No capital gains tax is triggered, and estate receives a deduction
- Can combine with **Charitable Remainder Trusts (CRTs)** for income to heirs

5. Buy-Sell Agreements and Business Planning

- For family businesses, use life insurance and buy-sell plans to **create liquidity** for paying capital gains or estate taxes
- Consider **Entity Redemption** or **Cross-Purchase Agreements**

🔮 Planning Takeaway:

📌 The step-up basis rule is generous — and its **elimination would increase taxes** for many clients.

✅ Advisors should stay nimble and **prepare clients with flexible strategies**, especially trusts that allow **basis management** and **adjustment options**.

State Estate Tax Planning—Funding on 1st Death

Bypass Trust	State Tax Estate Exempt QTIP	State and Federal Estate Tax Marital Deduction QTIP
Funded to extent of state estate tax exemption.	Fund to extent of rest of federal estate tax exemption.	
Not considered as owned by surviving spouse for state or federal estate tax purposes.	Outside of federal estate but considered part of state estate of surviving spouse.	Considered as owned by surviving spouse for both state and estate tax purposes.

U.S. State Estate Taxes – 2025 Summary By Chat GPT 4.0 (Not Verified)

State	Estate Tax?	Exemption Amount	Top Rate	Portability Recognized?	Clawback / Lookback Rules?	Notes / Quirks
Connecticut	Yes	$13.99M	12%	Yes	Yes – lifetime gifts added back	Unified gift and estate system; lifetime gifts reduce exemption.
D.C.	Yes	$4.716M	16%	No	No	No clawback; limited indexing.
Hawaii	Yes	$5.49M	20%	Yes	No	Allows portability; no clawback.
Illinois	Yes	$4M	16%	No	No	No inflation adjustment; use credit shelter trust.
Maine	Yes	$6.8M	12%	No	No	Indexed exemption; no clawback.
Maryland	Yes	$5M	16%	No	No	Estate + inheritance tax; no clawback.

U.S. State Estate Taxes – 2025 Summary By Chat GPT 4.0 (Not Verified)

State	Estate Tax?	Exemption Amount	Top Rate	Portability Recognized?	Clawback / Lookback Rules?	Notes / Quirks
Minnesota	Yes	$3M	16%	No	Yes – 3-year lookback	Gifts to trusts or others within 3 years pulled back in.
New York	Yes	$7.518M	16%	No	Yes – 3-year clawback	Gifts within 3 years added back (excludes real estate/tangibles outside NY).
Oregon	Yes	$1M	16%	No	No	Very low exemption; no addback.
Rhode Island	Yes	$1.774M	16%	No	No	Indexed; no clawback.
Vermont	Yes	$5M	16%	No	No	Flat exemption; no portability or clawback.

See https://www.youtube.com/watch?v=laKrz-1E5y0

Jonathan Blattmachr on “Avoiding State Estate and Income Taxes and the Definition of "Resident".

Grantor Trust

- Tax Filing Form: Form 1041 (informational only)
- Who Pays Tax: Grantor (on personal return)
- Complexity Level: Low
- Common Use Case: Estate planning and probate avoidance

Simple Trust

- Tax Filing Form: Form 1041 + K-1 to beneficiaries
- Who Pays Tax: Beneficiaries (income flows through)
- Complexity Level: Moderate
- Common Use Case: Annual income distributions to heirs

Complex Trust

- Tax Filing Form: Form 1041 + K-1 to beneficiaries
- Who Pays Tax: Trust or beneficiaries (depending on distributions)
- Complexity Level: Medium-High
- Common Use Case: Wealth transfer with flexible distributions

The Qualified Domestic Trust, (QDOT)

Can qualify for federal estate tax marital deduction for non-citizen spouse (including non-resident aliens and green card holders who do not have citizenship).

Otherwise, there will be no marital deduction.

Once the surviving spouse becomes a citizen, the assets can come out estate and gift tax-free.

Until the spouse becomes a citizen, distributions of principal will trigger estate tax.

Accumulation Trust

- Tax Filing Form: Form 1041 (taxes retained income at trust rates)
- Who Pays Tax: Trust (unless income is distributed)
- Complexity Level: High
- Common Use Case: IRA inheritance with control and protection

Charitable Remainder Trust (CRT)

- Tax Filing Form: Form 5227 + K-1 equivalents
- Who Pays Tax: CRT is tax-exempt; beneficiaries pay tax on distributions
- Complexity Level: Very High
- Common Use Case: Lifetime income with charitable remainder

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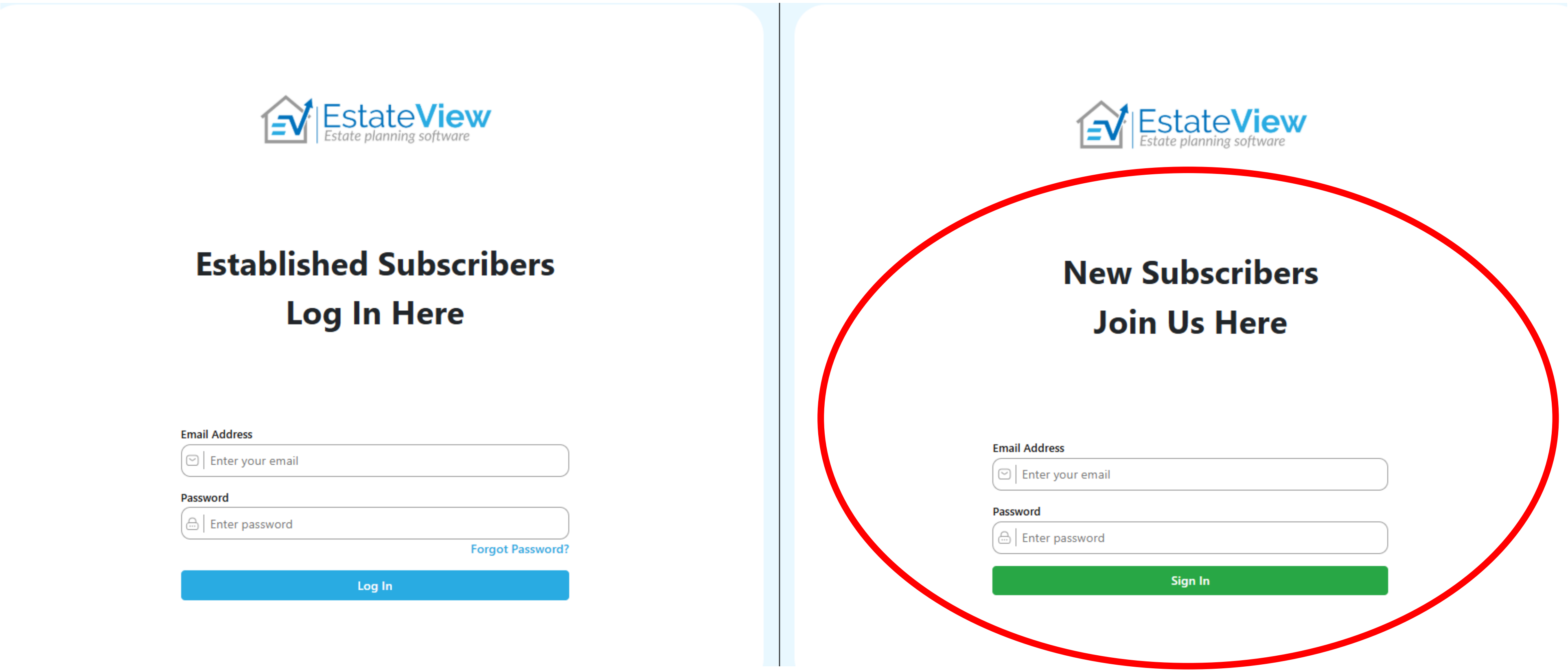

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