

The “Daily Plan-It™”

ESTATE & BUSINESS LAW GROUP, P.C.

Volume 11, Issue 10

5/14/2009

Is that Legalese for Estate Planning? Trust Terminology for Advisors - Part II

On behalf of the nation’s lawyer community, please allow me to apologize for all of the cryptic acronyms we’ve developed for various kinds of Trusts that you as an advisor often find yourself explaining to confused clients.

Our office recently provided you with a kind of “cheat sheet” that explained some basic Trust terminology. This article is the second installment in that series.

The goal is for you to talk to clients about estate planning and asset protection with confidence and without feeling tripped up by complicated legal words or phrases.

The ABCs of QTIPs, ILITs & IDGTs

Lawyers have developed a multitude of trusts to accomplish everything from tax sheltering and gifting to asset protection and passing along family businesses. As complex as their functions can be, these Trusts also carry some pretty complicated names.

Here are the definitions for some of the most common Trusts your clients might ask you about:

1. **Qualified Terminable Interest Property (QTIP)** – This is a common planning tool that is often used in second marriages to prevent accidental disinheritance of children from a first marriage. A QTIP allows your client’s surviving spouse to benefit from assets held within the Trust, such as continuing to live in the client’s home after the client dies and receiving income from the assets held in the Trust.

No estate taxes are assessed until after the surviving spouse dies. The QTIP postpones estate taxes, but it does not eliminate them. After the death of the surviving spouse, assets in the Trust are distributed according to the Trustmaker’s wishes (i.e., given to the client’s children).

2. **Irrevocable Life Insurance Trust (ILIT)** – In this kind of planning, a Trust owns the Trustmaker’s life insurance policy. If properly funded, the ILIT protects the policy’s proceeds from the Trustmaker’s Federal Estate Tax burden. These proceeds can be used to pay those taxes or support the beneficiary, usually a spouse or child.
3. **Intentionally Defective Grantor Trust (IDGT)** – This kind of Trust has a really bad name, but it’s a pretty effective way to transfer wealth. It allows your client to gift an asset’s appreciation but retain the responsibility to pay tax on its income. Many people use IDGTs as a succession

planning tool for a family business.

The asset, its appreciation and its accumulated income, without reduction for income taxes, will be passed along to your client’s beneficiaries. Your client will pay the income taxes. The advantage to this Trust is that the asset is removed from the client’s estate and not subject to the Estate Tax. There is also creditor protection for the asset in the trust.

Online Estate Planning Dictionaries

Here are some great resources for Trust term definitions:

NOLO.com’s online wills and estate planning dictionary at <http://tinyurl.com/cuflru>.

- FindLaw.com’s online estate planning and probate dictionary at <http://tinyurl.com/ch7t5o>.

I hope this article helps you and your clients. If you have suggestions for other terms you’d like to see defined, please forward them. As always, if you have a question or concern about a specific case, please contact our office.

Workshop Schedule

The Truth about Estate Planning

Usually Tuesday nights, 7:00 pm
(Please call for current dates)

IRA Preservation Planning

Learn how to properly protect your IRAs and what the IRA Preservation Trust can do!

(Please call for current dates)



On February 8, 2006, President Bush signed into law the Deficit Reduction Act of 2005 (DRA 2005), which included the most sweeping changes to [Medicaid](#) laws ever enacted.

Medicaid Planning Workshop

The new Medicaid laws and some of the planning options that are still available, even in light of these sweeping changes.

Usually Tuesday nights, 7:00 pm
(Please call for current dates)

Registration: Contact Mary Lang at (847) 367-4460
<http://eblawgroup.com>

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We invite you also to direct your clients to
http://eblawgroup.com/FAQ_medicaid.htm
for more information on Medicaid Planning.