



INTENTIONALLY DEFECTIVE GRANTOR TRUST

IDGT

A primary goal of wealth transfer planning is to transfer wealth to the next generation while managing the impact of estate and gift taxes. An IDGT is an optimum planning tool for a family-owned business as it may allow the patriarch to maintain control throughout his lifetime and still accomplish many of these goals and objectives.

How it Works?

1. Cash or liquid assets are contributed to the trust as a form of “Seed Money” to get the trust established and it should be at least 10% of the overall assets committed to the trust.
2. Shares of the business (S-Corp or LLC) are then sold to the IDGT in return for a promissory note. The IDGT will use a portion of the trust earnings to pay note interest payments back to the grantor.
3. The IDGT may then purchase life insurance with a portion of the earnings and thus keep the proceeds outside of the taxable estate.
4. Once the IDGT assets have grown sufficiently, the IDGT can then repay the grantor for the note principal. The trusts assets may then continue to grow and use a portion of the earnings to fund any remaining life insurance premiums.
5. Upon death, the life insurance and remaining trust assets pass to the trust beneficiaries free of income and estate taxes.



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Details

- The trust is designed so that it is “Defective” with regards to income tax obligations only, but it is fully “Effective” as a an irrevocable trust to avoid estate taxes.
- The advantage here is that the grantor assumes all income tax liability and this allows the trust to grow much greater than it would otherwise.
- If a family-owned business is the primary asset, the grantor can still control the business by maintaining voting control or establishing himself as the managing member of an LLC.

Key Benefits

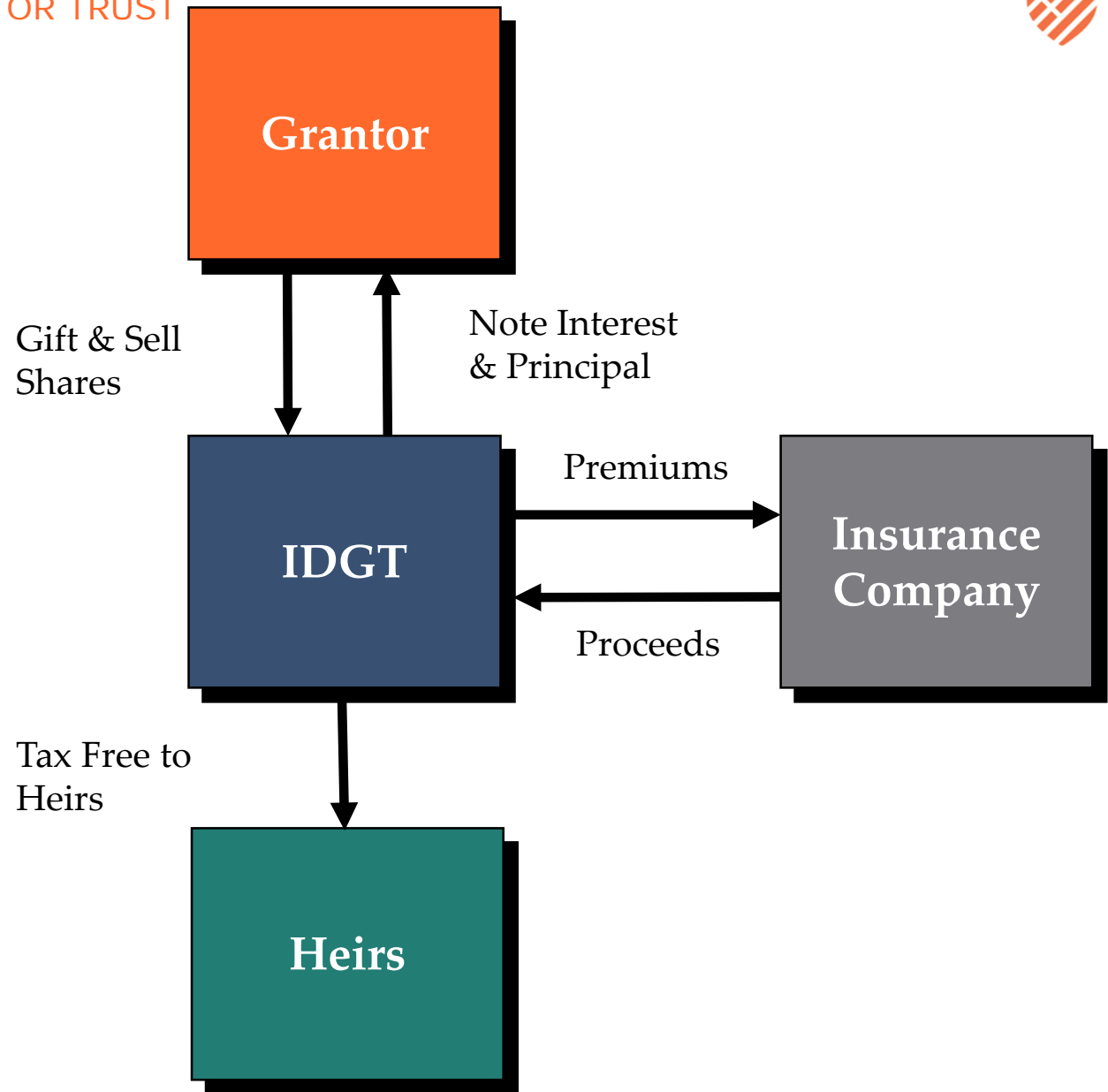
- A substantial discount of 20% to 40% may be obtained on transfers to an IDGT because of lack of marketability and minority control (proposed regulations may abolish this in the future)
- Note interest payments may be based on very low interest rates. The current Applicable Federal Rate for Mid-Term loans is only 1.43% (July 2016), so this offers substantial leverage.



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1. Grantor gifts "seed \$" to IDGT
2. Grantor sells shares in exchange for note
3. Earnings in IDGT pay Insurance Premiums & Note Interest Payments
4. Grantor Pays Income Tax on Earnings





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Total Value of Assets to Transfer	\$6,000,000	Insurance Age	65	Note Interest Rate	1.4%
Gross Value of Assets Sold to Trust	\$5,000,000	Life Insurance Death Benefit	6,000,000	Side Fund Growth Rate	5.0%
Discounted Value of Assets	\$3,750,000	Life Insurance Annual Premium	(100,000)	Asset Growth Rate	3.0%
Seed Money Gifted To Trust	\$1,000,000	Year of Balloon Payment	9	Asset Income Rate	6.0%

		GRANTOR		INTENTIONALLY DEFECTIVE GRANTOR TRUST (IDGT)											
		A	B	C	D	E	F	G	H	I	J	K	L	M	
Yrs	Age	Note Amount	Payment to Grantor	TRUST ASSETS			TRUST SIDE FUND ACCOUNT							Life Insurance Death Benefit	Asset, Side Fund & Death Benefit (- Note) E+K+L-A
				Asset Value BOY	Asset Growth C x 3%	Asset Value C + D	Trust Side Fund BOY	Insurance Premium	Side Fund Growth @ 5%	Income from Asset C x 6%	Payment to Grantor	Trust Side Fund F+G+H+I			
1	65	3,750,000	-53,625	5,000,000	150,000	5,150,000	1,000,000	-100,000	45,000	300,000	-53,625	1,191,375	6,000,000	8,591,375	
2	66	3,750,000	-53,625	5,150,000	154,500	5,304,500	1,191,375	-100,000	54,569	309,000	-53,625	1,401,319	6,000,000	8,955,819	
3	67	3,750,000	-53,625	5,304,500	159,135	5,463,635	1,401,319	-100,000	65,066	318,270	-53,625	1,631,030	6,000,000	9,344,665	
4	68	3,750,000	-53,625	5,463,635	163,909	5,627,544	1,631,030	-100,000	76,551	327,818	-53,625	1,881,774	6,000,000	9,759,318	
5	69	3,750,000	-53,625	5,627,544	168,826	5,796,370	1,881,774	-100,000	89,089	337,653	-53,625	2,154,891	6,000,000	10,201,261	
6	70	3,750,000	-53,625	5,796,370	173,891	5,970,261	2,154,891	-100,000	102,745	347,782	-53,625	2,451,792	6,000,000	10,672,054	
7	71	3,750,000	-53,625	5,970,261	179,108	6,149,369	2,451,792	-100,000	117,590	358,216	-53,625	2,773,973	6,000,000	11,173,342	
8	72	3,750,000	-53,625	6,149,369	184,481	6,333,850	2,773,973	-100,000	133,699	368,962	-53,625	3,123,008	6,000,000	11,706,859	
9	73	3,750,000	-53,625	6,333,850	190,016	6,523,866	3,123,008	-100,000	151,150	380,031	-53,625	3,500,565	6,000,000	12,274,431	
10	74	0	-3,750,000	6,523,866	195,716	6,719,582	3,500,565	-100,000	170,028	403,175	-3,750,000	223,768	6,000,000	12,943,350	
11	75	0	0	6,719,582	201,587	6,921,169	223,768	-100,000	6,188	415,270	0	545,227	6,000,000	13,466,396	
12	76	0	0	6,921,169	207,635	7,128,804	545,227	-100,000	22,261	427,728	0	895,216	6,000,000	14,024,021	
13	77	0	0	7,128,804	213,864	7,342,669	895,216	-100,000	39,761	440,560	0	1,275,537	6,000,000	14,618,206	
14	78	0	0	7,342,669	220,280	7,562,949	1,275,537	-100,000	58,777	453,777	0	1,688,091	6,000,000	15,251,040	
15	79	0	0	7,562,949	226,888	7,789,837	1,688,091	-100,000	79,405	467,390	0	2,134,886	6,000,000	15,924,723	
16	80	0	0	7,789,837	233,695	8,023,532	2,134,886	-100,000	101,744	481,412	0	2,618,042	6,000,000	16,641,574	
17	81	0	0	8,023,532	240,706	8,264,238	2,618,042	-100,000	125,902	495,854	0	3,139,798	6,000,000	17,404,037	
18	82	0	0	8,264,238	247,927	8,512,165	3,139,798	-100,000	151,990	510,730	0	3,702,518	6,000,000	18,214,683	
19	83	0	0	8,512,165	255,365	8,767,530	3,702,518	-100,000	180,126	526,052	0	4,308,696	6,000,000	19,076,226	
20	84	0	0	8,767,530	263,026	9,030,556	4,308,696	-100,000	210,435	541,833	0	4,960,964	6,000,000	19,991,520	
21	85	0	0	9,030,556	270,917	9,301,473	4,960,964	-100,000	243,048	558,088	0	5,662,101	6,000,000	20,963,574	
22	86	0	0	9,301,473	279,044	9,580,517	5,662,101	-100,000	278,105	574,831	0	6,415,037	6,000,000	21,995,554	
23	87	0	0	9,580,517	287,416	9,867,933	6,415,037	-100,000	315,752	592,076	0	7,222,864	6,000,000	23,090,797	
24	88	0	0	9,867,933	296,038	10,163,971	7,222,864	-100,000	356,143	609,838	0	8,088,846	6,000,000	24,252,816	
25	89	0	0	10,163,971	304,919	10,468,890	8,088,846	-100,000	399,442	628,133	0	9,016,422	6,000,000	25,485,311	
26	90	0	0	10,468,890	314,067	10,782,956	9,016,422	-100,000	445,821	646,977	0	10,009,220	6,000,000	26,792,176	
27	91	0	0	10,782,956	323,489	11,106,445	10,009,220	-100,000	495,461	666,387	0	11,071,068	6,000,000	28,177,513	
28	92	0	0	11,106,445	333,193	11,439,638	11,071,068	-100,000	548,553	686,378	0	12,205,999	6,000,000	29,645,638	
29	93	0	0	11,439,638	343,189	11,782,828	12,205,999	-100,000	605,300	706,970	0	13,418,269	6,000,000	31,201,097	
30	94	0	0	11,782,828	353,485	12,136,312	13,418,269	-100,000	665,913	728,179	0	14,712,361	6,000,000	32,848,674	
31	95	0	0	12,136,312	364,089	12,500,402	14,712,361	-100,000	730,618	750,024	0	16,093,003	6,000,000	34,593,405	
32	96	0	0	12,500,402	375,012	12,875,414	16,093,003	-100,000	799,650	772,525	0	17,565,178	6,000,000	36,440,592	
33	97	0	0	12,875,414	386,262	13,261,676	17,565,178	-100,000	873,259	795,701	0	19,134,138	6,000,000	38,395,814	
34	98	0	0	13,261,676	397,850	13,659,526	19,134,138	-100,000	951,707	819,572	0	20,805,416	6,000,000	40,464,943	
35	99	0	0	13,659,526	409,786	14,069,312	20,805,416	-100,000	1,035,271	844,159	0	22,584,846	6,000,000	42,654,158	
36	100	0	0	14,069,312	422,079	14,491,392	22,584,846	-100,000	1,124,242	869,483	0	24,478,572	6,000,000	44,969,963	

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