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## 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 appropriate 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 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

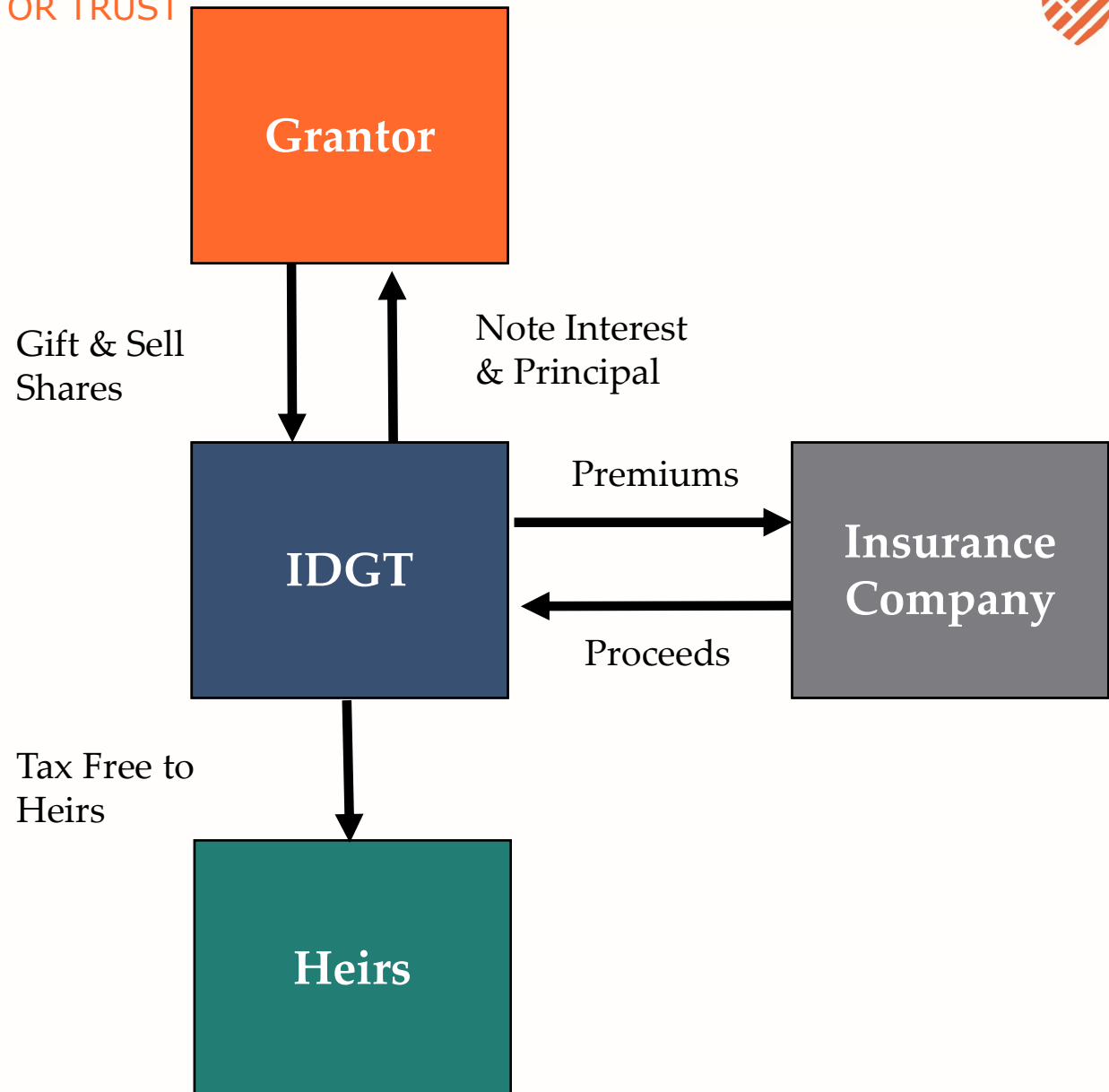
- A substantial discount of 20% to 40% may be obtained on transfers to an IDGT because of lack of marketability and minority control (proposed regulations may abolish this in the future)
- Note interest payments may be based on very low interest rates. The Applicable Federal Rate (AFR) for Mid-Term loans was 1.30% in January of 2022, which would have offered substantial leverage. It’s important to consider the current AFR when using an IDGT.



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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	(75,969)	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)
				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	E+K+L-A		
1	65	3,750,000	-52,500	5,000,000	150,000	5,150,000	1,000,000	-75,969	46,202	300,000	-52,500	1,217,733	6,000,000	8,617,733	
2	66	3,750,000	-52,500	5,150,000	154,500	5,304,500	1,217,733	-75,969	57,088	309,000	-52,500	1,455,352	6,000,000	9,009,852	
3	67	3,750,000	-52,500	5,304,500	159,135	5,463,635	1,455,352	-75,969	68,969	318,270	-52,500	1,714,122	6,000,000	9,427,757	
4	68	3,750,000	-52,500	5,463,635	163,909	5,627,544	1,714,122	-75,969	81,908	327,818	-52,500	1,995,379	6,000,000	9,872,923	
5	69	3,750,000	-52,500	5,627,544	168,826	5,796,370	1,995,379	-75,969	95,970	337,653	-52,500	2,300,533	6,000,000	10,346,903	
6	70	3,750,000	-52,500	5,796,370	173,891	5,970,261	2,300,533	-75,969	111,228	347,782	-52,500	2,631,074	6,000,000	10,851,336	
7	71	3,750,000	-52,500	5,970,261	179,108	6,149,369	2,631,074	-75,969	127,755	358,216	-52,500	2,988,576	6,000,000	11,387,945	
8	72	3,750,000	-52,500	6,149,369	184,481	6,333,850	2,988,576	-75,969	145,630	368,962	-52,500	3,374,700	6,000,000	11,958,550	
9	73	3,750,000	-52,500	6,333,850	190,016	6,523,866	3,374,700	-75,969	164,937	380,031	-52,500	3,791,198	6,000,000	12,565,064	
10	74	0	-3,750,000	6,523,866	195,716	6,719,582	3,791,198	-75,969	185,761	403,175	-3,750,000	554,166	6,000,000	13,273,747	
11	75	0	0	6,719,582	201,587	6,921,169	554,166	-75,969	23,910	415,270	0	917,377	6,000,000	13,838,546	
12	76	0	0	6,921,169	207,635	7,128,804	917,377	-75,969	42,070	427,728	0	1,311,206	6,000,000	14,440,011	
13	77	0	0	7,128,804	213,864	7,342,669	1,311,206	-75,969	61,762	440,560	0	1,737,559	6,000,000	15,080,228	
14	78	0	0	7,342,669	220,280	7,562,949	1,737,559	-75,969	83,080	453,777	0	2,198,447	6,000,000	15,761,395	
15	79	0	0	7,562,949	226,888	7,789,837	2,198,447	-75,969	106,124	467,390	0	2,695,992	6,000,000	16,485,829	
16	80	0	0	7,789,837	233,695	8,023,532	2,695,992	-75,969	131,001	481,412	0	3,232,436	6,000,000	17,255,968	
17	81	0	0	8,023,532	240,706	8,264,238	3,232,436	-75,969	157,823	495,854	0	3,810,144	6,000,000	18,074,383	
18	82	0	0	8,264,238	247,927	8,512,165	3,810,144	-75,969	186,709	510,730	0	4,431,614	6,000,000	18,943,779	
19	83	0	0	8,512,165	255,365	8,767,530	4,431,614	-75,969	217,782	526,052	0	5,099,479	6,000,000	19,867,009	
20	84	0	0	8,767,530	263,026	9,030,556	5,099,479	-75,969	251,176	541,833	0	5,816,519	6,000,000	20,847,075	
21	85	0	0	9,030,556	270,917	9,301,473	5,816,519	-75,969	287,027	558,088	0	6,585,666	6,000,000	21,887,139	
22	86	0	0	9,301,473	279,044	9,580,517	6,585,666	-75,969	325,485	574,831	0	7,410,013	6,000,000	22,990,530	
23	87	0	0	9,580,517	287,416	9,867,933	7,410,013	-75,969	366,702	592,076	0	8,292,822	6,000,000	24,160,754	
24	88	0	0	9,867,933	296,038	10,163,971	8,292,822	-75,969	410,843	609,838	0	9,237,534	6,000,000	25,401,504	
25	89	0	0	10,163,971	304,919	10,468,890	9,237,534	-75,969	458,078	628,133	0	10,247,776	6,000,000	26,716,666	
26	90	0	0	10,468,890	314,067	10,782,956	10,247,776	-75,969	508,590	646,977	0	11,327,375	6,000,000	28,110,331	
27	91	0	0	10,782,956	323,489	11,106,445	11,327,375	-75,969	562,570	666,387	0	12,480,363	6,000,000	29,586,808	
28	92	0	0	11,106,445	333,193	11,439,638	12,480,363	-75,969	620,220	686,378	0	13,710,992	6,000,000	31,150,630	
29	93	0	0	11,439,638	343,189	11,782,828	13,710,992	-75,969	681,751	706,970	0	15,023,744	6,000,000	32,806,571	
30	94	0	0	11,782,828	353,485	12,136,312	15,023,744	-75,969	747,389	728,179	0	16,423,342	6,000,000	34,559,655	
31	95	0	0	12,136,312	364,089	12,500,402	16,423,342	-75,969	817,369	750,024	0	17,914,766	6,000,000	36,415,168	
32	96	0	0	12,500,402	375,012	12,875,414	17,914,766	-75,969	891,940	772,525	0	19,503,262	6,000,000	38,378,676	
33	97	0	0	12,875,414	386,262	13,261,676	19,503,262	-75,969	971,365	795,701	0	21,194,358	6,000,000	40,456,034	
34	98	0	0	13,261,676	397,850	13,659,526	21,194,358	-75,969	1,055,919	819,572	0	22,993,880	6,000,000	42,653,407	
35	99	0	0	13,659,526	409,786	14,069,312	22,993,880	-75,969	1,145,896	844,159	0	24,907,965	6,000,000	44,977,278	
36	100	0	0	14,069,312	422,079	14,491,392	24,907,965	-75,969	1,241,600	869,483	0	26,943,080	6,000,000	47,434,471	



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