Abusive Trust Schemes

On the IRS website, they have a section that talks about Abusive Trust Schemes. You'll find it at:

Here's the article:
https://www.irs.gov/businesses/small-businesses-self-employed/abusive-trust-tax-evasion-schemes-facts-section-iii

If you look at the second to the last line of the "Business Trust" section, it suggests that one of the reasons that doesn't work to reduce taxes is because it is a "grantor trust" and therefore, the income is taxable to the taxpayer.

Our Business Trust is a Non-Grantor Trust, which is very different than a Grantor Trust. All of the income earned by the business is fully reported. However, because of the fact that the Business Trust is structured as a pass through Trust and cannot own any assets, we are able to utilize the provisions of the Internal Revenue Code to defer taxes on a substantial portion of the business income.

At the bottom of the IRS page, you'll find a link to a table of contents located at https://www.irs.gov/businesses/small-businesses-self-employed/abusive-trust-tax-evasion-schemes. You'll see in that table of contents a link to a section in taxation of Non-Grantor Trusts located at https://www.irs.gov/businesses/small-businesses-self-employed/abusive-trust-tax-evasion-schemes-law-and-arguments-section-iii.

As you'll see in the Taxation of Non-Grantor Trusts article, it states: "If the trust is not a sham and is not a grantor trust, the trust's income (reduced by amounts distributed to beneficiaries) is taxable."

With our Trusts, we report every penny of income. All of that income is taxed. It's just that we are able to use provisions of the tax code to defer taxes on passive income in perpetuity.

There is an article written by a Nevada attorney that goes on to explain that the IRS, in many of its publications, goes to great lengths to distinguish between abusive trusts and legitimate trusts. See http://mvprogress.com/2008/05/28/abusive-trusts/.

Hopefully that helps you to better understand what that article is really saying. Let me explain in a bit greater detail how our Business Trust works...

The case study on our Business Trust is found at:

www.deferthegainstax.com

As you will see in it, the Dental Practice was originally operating as an S Corp. Once the Business Trust was fully implemented and all assets were sold to the Beneficial Trust and leased back to the Business Trust, the S Corp was dissolved and the practice now operates solely out of the Business Trust.

The assets needed to run the business are leased by the Beneficial Trust to the Business Trust under an Equipment and Intellectual Property Lease. (This is different than an "Equipment Trust" discussed in the IRS article.) The amount of the lease payment will vary based on the value of the assets, the net profit of the business, and the nature of the business. In no event will the amount of the lease payment exceed 70% of the net profit of the business.

The remaining amount of net profit passes through to the Beneficial Trust where it gets added to the other passive income earned by that Trust. The total income is then used to pay the valid Trust expenses of the Beneficial Trust. Once the net income is determined, a formula is applied to determine what portion of that income is attributed to active business income and what portion is attributed to passive income.

The portion attributed to active business income then gets reported on either a 1099 or a K-1 to the business owner. The passive income is added to corpus and declared as an Extraordinary Dividend so that taxes on that portion of income can be deferred in perpetuity.

As you work with our team to setup your Trusts, we will look at each of your businesses separately to determine how best to structure the Trust for that business. We may not structure all of the businesses the same way. It will depend on the degree of risk each business has, how the business is currently structured, the amount of net profit, the value of all assets, and whether you have partners (and whether those partners choose to obtain Beneficial Trusts for themselves).

What you will find with our Trusts are that they are some of the most flexible business tools you will ever see, in spite of them being Irrevocable Trusts. There are usually multiple ways of accomplishing your objectives. It comes down to a matter of structure. Some structures may give you better asset protection. Others may give you better tax mitigation.

As we work with you to implement your Trusts, we will work together to define your objectives with great specificity. We will then educate you on the various structures that can accomplish your objectives, and the pros and cons for each one.

In the end, you will be able to make an informed decision to guide the implementation for each business.

I should also point out that when you invest in our Trust, we can also set you up with a complimentary consultation with a Licensed Tax Attorney. After your meeting, off you wish, she can provide you with a written opinion letter that discusses how the Trust will work on your particular situation, and the tax implications for you. *(Note: There may be an additional fee if you choose to obtain an opinion letter.)*

This should give you some peace of mind to know that you can rely on what we have shared with you.

The best way to get all of your questions answered is to schedule a consultation with the Trust Advisor that sent you this article. You can do so at:

Go.oncehub.com/nogainstax

Please let us know if you have any further questions!