

FREE PREVIEW

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FREE SAMPLE CHAPTER

BARATELLI INSTITUTE - PRACTITIONER GUIDE SERIES

Estate Planning Decoded

Wills - Trusts - Gifting - Generational Transfer

SAMPLE CHAPTER IN THIS PREVIEW

Chapter 4 -- Irrevocable Trusts: ILITs, SLATs, DAPTs, Dynasty

17-page preview - drawn from the 201-page full guide

BARATELLI INSTITUTE

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MENTORING AT SCALE

ABOUT THIS FREE PREVIEW

Estate Planning Decoded, Free Preview

Estate Planning Decoded is the 201-page practitioner reference for the advisor or principal who has to translate the estate attorney's memo into a decision the client can sign on Wednesday morning. Fifteen chapters covering wills, revocable trusts, the estate-and-gift tax system, irrevocable trusts (ILITs, SLATs, DAPTs, Dynasty), business interests, charitable structures, retirement accounts in the estate, real estate, the family meeting, and how the OBBBA-permanent exemption changed the playbook from defense to offense.

This free preview gives you the cover, the table of contents, the persona reading paths (so you can find your starting point), and one complete chapter -- Chapter 4, Irrevocable Trusts: ILITs, SLATs, DAPTs, Dynasty. It is the strongest single-chapter teaching unit in the book -- the four irrevocable-trust families that drive most pre-OBBBA and post-OBBBA estate plans, with the family-question-to-trust mapping, the worked GST math, and the practitioner Common Pitfalls. If it reads like the others, you know what the full guide is.

Read it the way a practitioner reads a reference: find your client situation in the family-question table, see which trust the chapter recommends and why, then check whether the existing plan you inherited holds up against the framework.

WHAT YOU GET IN THIS PREVIEW

Cover - About This Preview - Table of Contents - Reading Map by Role - one full sample chapter
Sample chapter: Chapter 4 -- Irrevocable Trusts: ILITs, SLATs, DAPTs, Dynasty.

The full guide is available at baratelliinstitute.com. Single-user license; not for redistribution.

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WHO THIS GUIDE SERVES

A Reading Map by Role

Estate planning is multi-disciplinary by design. The estate attorney, the CPA, the family-office director, the trustee, and the principal each enter the document set with different questions and different stakes. This guide is built so each role can read the chapters that matter to them first, then circle back for the surrounding context.

You are...	Read in this order
Family-office director / COO (running an SFO or MFO)	<ul style="list-style-type: none"> • Ch 9 - The Family Meeting: Communication and Governance • Ch 1 - The Foundation: Wills, Trusts, POAs, Beneficiaries • Ch 14 - Executor & Trustee Administration • Ch 4 - Irrevocable Trusts (the structures the FO will administer) • Apx K - Committee addenda (state-law, trustee 90-day, FO archetype) <p><i>Then index into asset-class chapters (Ch 5-8) as the family situation demands.</i></p>
Estate-planning attorney (generalist or new to private-client work)	<ul style="list-style-type: none"> • Ch 4 - Irrevocable Trusts: ILITs, SLATs, DAPTs, Dynasty • Ch 3 - The Estate and Gift Tax System • Ch 11 - International Estate Planning & Expatriation • Ch 14 - Executor & Trustee Administration • Ch 12 - Special Needs Trust Planning • Ch 1 - The Foundation: Wills, Trusts, POAs, Beneficiaries <p><i>Then index into asset-class chapters (Ch 5-8) as the matter requires.</i></p>
CPA / tax preparer (serving HNW estate-planning clients)	<ul style="list-style-type: none"> • Ch 3 - The Estate and Gift Tax System • Ch 7 - Retirement Accounts in the Estate • Ch 5 - Business Interests in the Estate • Ch 8 - Real Estate in the Estate • Ch 15 - State Estate Tax Residency Planning • Ch 11 - International Estate Planning • Ch 14 - Executor & Trustee Administration <p><i>Tax mechanics first, then asset-class-specific issues.</i></p>
Family-office director / COO	<ul style="list-style-type: none"> • Ch 9 - The Family Meeting: Communication and Governance • Ch 1 - The Foundation: Wills, Trusts, POAs, Beneficiaries • Ch 2 - The Revocable Living Trust • Ch 10 - Building and Maintaining the Estate Plan • Ch 14 - Executor & Trustee Administration • Ch 4 - Irrevocable Trusts <p><i>Then index into Ch 5-8 for asset-class detail and Ch 13 / 15 as the family situation demands.</i></p>
Principal / family member	<ul style="list-style-type: none"> • Ch 1 - The Foundation: Wills, Trusts, POAs, Beneficiaries • Ch 9 - The Family Meeting: Communication and Governance • Ch 2 - The Revocable Living Trust • Ch 3 - The Estate and Gift Tax System • Ch 10 - Building and Maintaining the Estate Plan • Ch 6 - Charitable Planning <p><i>The plain-language path; layer in Ch 4 (irrevocable trusts) as your advisors recommend.</i></p>

You are...	Read in this order
Trustee / executor (corporate or individual)	<ul style="list-style-type: none"> • Ch 14 - Executor & Trustee Administration • Ch 4 - Irrevocable Trusts • Ch 7 - Retirement Accounts in the Estate (SECURE Act) • Ch 12 - Special Needs Trust Planning • Ch 13 - Digital Assets & RUFADAA • Ch 2 - The Revocable Living Trust <p><i>Read the rest as the matter demands; SNT and digital assets are the highest-risk specialty areas.</i></p>
Trust-officer staff (community or regional bank)	<ul style="list-style-type: none"> • Ch 14 - Executor & Trustee Administration • Ch 4 - Irrevocable Trusts • Ch 12 - Special Needs Trust Planning • Ch 7 - Retirement Accounts in the Estate • Ch 13 - Digital Assets & RUFADAA • Ch 9 - The Family Meeting (beneficiary-communication discipline) <p><i>The front-line trust-administration path; the family-communication chapter protects the bank from beneficiary disputes.</i></p>
RIA / investment advisor (serving HNW estate-planning clients)	<ul style="list-style-type: none"> • Ch 3 - The Estate and Gift Tax System • Ch 4 - Irrevocable Trusts • Ch 6 - Charitable Planning: DAFs, CRTs, CLTs, Foundations • Ch 7 - Retirement Accounts in the Estate • Ch 5 - Business Interests in the Estate (QSBS arc) • Ch 14 - Executor & Trustee Administration <p><i>Tax mechanics, the trust types most relevant to portfolio decisions, and the charitable vehicles that sit alongside the investment program.</i></p>
Insurance professional (life / disability / long-term-care)	<ul style="list-style-type: none"> • Ch 4 - Irrevocable Trusts (ILIT specifically) • Ch 1 - The Foundation: beneficiary designations • Ch 5 - Business Interests in the Estate (succession funding) • Ch 12 - Special Needs Trust Planning (funding mechanics) • Ch 14 - Executor & Trustee Administration • Ch 10 - Building and Maintaining the Estate Plan <p><i>ILIT mechanics drive most of the planning conversation; the rest is the surrounding context.</i></p>
Engaged HNW client (self-directed reader)	<ul style="list-style-type: none"> • Ch 1 - The Foundation: Wills, Trusts, POAs, Beneficiaries • Ch 3 - The Estate and Gift Tax System • Ch 9 - The Family Meeting: Communication and Governance • Ch 10 - Building and Maintaining the Estate Plan • Ch 4 - Irrevocable Trusts • Ch 6 - Charitable Planning <p><i>The plain-language path; read Ch 7-8, 11-15 as your situation demands.</i></p>

The guide is designed to be read in any order. Cross-references at the end of every chapter point to the surrounding material the role-specific path may have skipped.

Chapter 4

Irrevocable Trusts: ILITs, SLATs, DAPTs, Dynasty

IRC AUTHORITY: IRC §§671–679 (grantor-trust rules), 2036–2038 (estate inclusion of retained-interest transfers), 2501 (gift-tax imposition), 2503(b) (annual exclusion), 2601–2663 (GST), 2702 (qualified-interest valuation; GRAT and QPRT statutory basis), 7520 (valuation rate), 1274 (AFR for installment sales); Treas. Reg. §§25.2702-3 (GRAT qualified annuity), 25.2702-5 (QPRT); *Crummey v. Commissioner*, 397 F.2d 82 (9th Cir. 1968); *Estate of Grace*, 395 U.S. 316 (1969) (reciprocal-trust doctrine); *Walton v. Commissioner*, 115 T.C. 589 (2000) (zeroed-out GRAT validity).

An irrevocable trust, once created and funded, cannot be modified or revoked by the grantor — that is the source of both its limitations and its power. Because the grantor has relinquished control, the assets transferred to an irrevocable trust are generally no longer included in the grantor's taxable estate. The irrevocability that makes these structures psychologically uncomfortable is precisely what gives them their estate planning power: estate tax savings, asset protection, and GST planning that revocable structures simply cannot provide. The irrevocable trust landscape includes a wide range of structures, each designed for specific planning objectives.

The following are the most important for the practitioner who needs to understand the full range of tools available and when each one is appropriate.

WHICH TRUST, WHEN — THE PLAIN-ENGLISH DECISION CHART

Before reading the technical descriptions below, this is the one-page guide to picking the right trust for the right situation. Each row is a real family question. Each answer is the trust that exists specifically to solve it.

The Family Question	The Trust That Answers It	Why This One
I want my fast-growing business or stock to pass to my kids without being eaten by estate tax.	GRAT (Grantor Retained Annuity Trust)	Transfers all the appreciation above a low IRS hurdle rate gift-tax-free. Costs nothing if it fails.
I have a \$20M business I want to sell to a trust for my kids without paying capital gains today.	IDGT (Intentionally Defective Grantor Trust)	Sells the business to a trust on an installment note. No gain recognized. Appreciation grows outside your estate.
I want my \$5M life insurance death benefit to go to my family — NOT to the IRS.	ILIT (Irrevocable Life Insurance Trust)	Trust owns the policy, so the death benefit is outside your taxable estate. Pays cash to your heirs immediately.

The Family Question	The Trust That Answers It	Why This One
I want to put \$10M in trust today and have it stay in the family for generations without estate tax at every death.	Dynasty Trust (Generation-Skipping Trust)	GST exemption allocated once. Trust never gets taxed at any future generational transfer. Compounds for centuries.
I want my spouse to still benefit from gifted assets even though they are technically out of my estate.	SLAT (Spousal Lifetime Access Trust)	Removes assets from estate but spouse remains a permitted beneficiary — access without inclusion.
I want to give my home to my kids at a deep discount but keep living in it.	QPRT (Qualified Personal Residence Trust)	Gift is valued at the present value of the kids' future ownership — deeply discounted. You stay put.
I want a charitable gift now AND a continuing income stream for me/my spouse.	CRT (Charitable Remainder Trust)	Income to you for life or term, then remainder to charity. Income-tax deduction at funding.
I want a charitable gift NOW that funds my kids LATER, after charity gets a stream.	CLT (Charitable Lead Trust)	Charity gets income stream first, then remainder to family. Reduces gift-tax cost on the family transfer.
I want my assets shielded from future creditors and divorces but I am not ready to give them up forever.	DAPT (Domestic Asset Protection Trust)	Self-settled trust in DAPT-friendly state (NV, DE, SD, AK). Asset protection without giving up access.
I have a child with special needs and need to provide for them WITHOUT disqualifying them from public benefits.	Special Needs Trust (SNT)	Holds assets for the beneficiary's supplemental needs. Means-tested benefits remain intact.
I want a simple way to avoid probate and manage my own assets if I become incapacitated.	RLT (Revocable Living Trust)	Probate avoidance, capacity planning, privacy. Not an estate-tax tool — for control and continuity.

Most family plans use **three to five** of these trusts working together. The RLT plus the ILIT plus a SLAT covers the standard high-net-worth family. Add a GRAT or an IDGT when there is a fast-growing business. Add a dynasty trust when there is multi-generational wealth. Add a DAPT when liability is the dominant concern. Add a special-needs trust when the family situation requires it. The decision is rarely one trust — it is the combination.

GRANTOR RETAINED ANNUITY TRUST (GRAT)

WHY YOUR FAMILY CHOOSES THIS		
MONEY SAVED		
If your business or stock keeps growing, the appreciation passes to your kids without an estate-tax bill. A GRAT funded with \$5M of stock that doubles in 5 years can transfer \$5M to the next generation tax-free — at 40% estate tax, that is \$2M of family wealth saved.		
PROTECTION		

The GRAT does not protect assets from your creditors during the term, but it does separate the transferred assets from your estate at death — the kids inherit them through the trust, not through probate.

PEACE OF MIND

If markets cooperate, you transferred wealth to your family at almost zero gift-tax cost. If they do not, you simply get your assets back at the end of the term — there is no penalty for trying.

A GRAT is an irrevocable trust in which the grantor transfers assets, retains the right to receive an annuity payment for a defined term, and transfers whatever remains in the trust at the end of the term to the beneficiaries — gift-tax-free if the trust is structured correctly. The gift is valued at the present value of the remainder interest — the expected value of the trust after the annuity payments are made — using the IRS Section 7520 rate (roughly the midterm AFR) as the assumed growth rate. The key insight: if the trust assets grow faster than the Section 7520 rate, the excess appreciation passes to the beneficiaries free of gift and estate tax.

A GRAT funded with \$1 million of business interests that grows at 15% annually when the 7520 rate is 4% will transfer significant value to the beneficiaries with minimal gift tax. The GRAT is most powerful for rapidly appreciating assets — business interests, concentrated stock positions, real estate — and in low-interest-rate environments where the hurdle rate is low.

GRAT DESIGN: THE ZEROED-OUT GRAT

A 'zeroed-out' GRAT is structured so that the annuity payments are set equal to the full value of the transferred assets plus the 7520 rate — making the gift tax value of the remainder interest equal to zero (or close to it). The gift tax on a zeroed-out GRAT is zero, making it possible to use the GRAT without consuming any lifetime exemption. If the assets outperform the 7520 rate, the excess passes to beneficiaries tax-free. If the assets underperform (or the grantor dies during the trust term), the GRAT fails without penalty — no worse than not having done the GRAT at all.

GRAT MORTALITY RISK AND ROLLING GRATs

The GRAT's primary risk is mortality: if the grantor dies during the trust term, the trust assets are pulled back into the taxable estate. Rolling GRATs — a series of short-term (typically two-year) GRATs initiated sequentially — mitigate this risk by minimizing the period during which a death would cause estate inclusion. Each GRAT that succeeds transfers its appreciation to the beneficiaries; GRATs that fail (because the asset underperformed) do not consume exemption or generate tax.

INTENTIONALLY DEFECTIVE GRANTOR TRUST (IDGT)

WHY YOUR FAMILY CHOOSES THIS

MONEY SAVED

Your family business or appreciated assets grow inside the trust outside your taxable estate. Every year you pay the income tax on trust earnings, you are quietly moving more wealth to the kids tax-free — for a \$20M business, this can compound to \$5M-\$15M of additional family wealth over 15-20 years.

PROTECTION

Trust assets are owned by the trust, not by you — they are typically beyond reach of your future creditors and divorce settlements involving your children when properly structured in an asset-protection state.

PEACE OF MIND

The trust holds the family business and you control the income tax. The kids inherit the appreciation. You do not have to negotiate annual gifts or worry about gift-tax filings on every transfer.

An IDGT is an irrevocable trust that is 'defective' for income tax purposes but effective for estate tax purposes. The 'defect' — a specific retained power that causes grantor trust status under the tax code — means that the grantor is treated as the owner of the trust for income tax purposes and pays income tax on the trust's income. But for estate tax purposes, the trust assets are outside the estate. The grantor's payment of income tax on trust income is itself a tax-free gift to the trust beneficiaries — it reduces the grantor's estate (by the amount of the tax paid) without being treated as a taxable gift.

Over time, this tax payment mechanism can transfer significant additional value to the trust beneficiaries beyond the initial funding.

THE IDGT AS INSTALLMENT SALE PURCHASER

The most common use of an IDGT is as the purchaser in an installment sale of a business interest or other appreciated asset. The grantor sells assets to the IDGT in exchange for a promissory note bearing interest at the applicable federal rate (AFR). Because the trust is a grantor trust, the sale is ignored for income tax purposes — no gain is recognized. The trust pays principal and interest on the note; the appreciation in excess of the AFR accumulates in the trust free of estate tax.

This structure combines the benefits of an installment sale (income stream to the grantor), estate tax removal (appreciation above AFR stays out of the estate), and income tax efficiency (grantor trust treatment eliminates recognition on the 'sale').

IRREVOCABLE LIFE INSURANCE TRUST (ILIT)

WHY YOUR FAMILY CHOOSES THIS

MONEY SAVED

Without an ILIT, a \$5M life insurance policy is taxed as part of your estate — at 40%, your family loses \$2M of the death benefit to the IRS. With an ILIT, the entire \$5M passes to your family tax-free.

PROTECTION

Trust-owned policy is shielded from your personal creditors and outside any divorce reckoning. The death-benefit cash arrives at the trust on day one, providing liquidity for estate taxes or to equalize inheritances among children with different careers.

PEACE OF MIND

Your spouse and kids do not have to fire-sale the family business or the home to pay the estate-tax bill. The cash is already there in trust, controlled by a trustee you named, distributed on terms you set.

An ILIT is an irrevocable trust that owns a life insurance policy on the grantor's life. Because the trust owns the policy, the death benefit is not included in the grantor's taxable estate — unlike a policy owned by the insured, whose death benefit is included in the estate. The ILIT effectively removes the

life insurance death benefit from the estate while directing the proceeds to the trust beneficiaries in a structured, protected way.

The ILIT must be carefully administered: premiums are funded through annual exclusion gifts from the grantor to the trust (using a 'Crummey' notice procedure that gives beneficiaries a brief withdrawal right to qualify the contributions as present-interest gifts eligible for the annual exclusion). The trust document governs how the death benefit is distributed — which can include holding proceeds in trust for young beneficiaries, distributing over time, or retaining for a surviving spouse's benefit.

DYNASTY TRUST (GENERATION-SKIPPING TRUST)

WHY YOUR FAMILY CHOOSES THIS

MONEY SAVED

Without a dynasty trust, your wealth is taxed at 40% at your death, AGAIN at 40% when your children die, and AGAIN at 40% when your grandchildren die — three rounds of estate tax inside three generations. A properly funded dynasty trust pays once and then never again. On a \$20M trust, that is roughly \$30M of taxes saved across three generations.

PROTECTION

Assets in a dynasty trust are shielded from each beneficiary's creditors, divorces, lawsuits, and bad business decisions. A grandchild who gets sued or divorces does not lose the family wealth — it stays in the trust.

PEACE OF MIND

The trust document — written by you — sets the rules for how distributions are made and what behavior is rewarded. Education, healthcare, business ventures, home purchases, charitable giving — all on the terms the founding generation specified.

A dynasty trust is a long-term irrevocable trust designed to hold assets for multiple generations — often for the maximum period permitted under state law (some states have eliminated the rule against perpetuities, allowing trusts to continue indefinitely). Assets transferred to a dynasty trust with GST exemption allocated can pass from generation to generation without ever being subject to estate tax — because the assets are held in trust and never included in any individual beneficiary's estate. The dynasty trust is the most powerful vehicle for permanent wealth transfer across multiple generations.

A \$10 million dynasty trust growing at 7% annually for 50 years accumulates to approximately \$294 million — none of which was subject to estate tax at any generational transfer along the way. The siting of dynasty trusts in favorable jurisdictions (South Dakota, Nevada, Delaware) that have eliminated the rule against perpetuities and have favorable asset protection laws is an important consideration in trust design.

PRETEND YOU'RE THE RICH GUY — THE \$20M QUESTION

Forget the IRC sections for a moment. You have \$50M, three children, and seven grandchildren. You want \$20M of your wealth to make it to the grandkids without being taxed twice. The Generation-Skipping Transfer (GST) tax exists specifically to stop you from doing that for free — but the GST **exemption** \$15M per person, \$30M as a couple, OBBBA-permanent) is the legal lane

the IRS leaves open. Here is what that path actually looks like.

WITHOUT GST PLANNING — THE WEALTH GETS TAXED TWICE

	Step	Dollars
	You die. Estate taxes \$20M slice destined for grandkids at 40%.	\$(8,000,000)
	Kids inherit	12,000,000
	Kids live their lives. Balance roughly intact 30 years later.	12,000,000
	Kids die. Estate taxes the same money AGAIN at 40%.	(4,800,000)
	Grandkids finally inherit	7,200,000
	Effective tax on the original \$20M: 64%	\$(12,800,000)

WITH A GST-FUNDED DYNASTY TRUST — ONE TAX, NOT THREE

	Step	What
		\$0 gift tax
	You move \$20M into a dynasty trust today. Allocate \$15M of GST exemption 709.	\$15M solo, \$30M as a couple
	Kids receive distributions during life: education, health, home, business funding. own the trust.	\$0 estate tax
	Kids die. Trust is NOT in their estate — they never owned it.	\$0 estate tax
	Trust rolls to grandkids. GST exemption attached at funding shields the transfer.	\$0 estate tax
	Trust rolls to great-grandkids. Same exemption shield holds.	\$0 estate tax
	Trust value 50 years later at 7% growth, no tax along the way.	\$588M (50yr @ 7%, untaxed)

The "delay" the rich family is looking for is actually a permanent escape. Once GST exemption is allocated to the trust at funding, future generations inside the trust are immune to estate tax for as long as state law allows. South Dakota, Nevada, Delaware, Alaska, and Wyoming have either eliminated the rule against perpetuities or extended it to 1,000 years. A South Dakota dynasty trust can theoretically run forever.

THE RICH-FAMILY CHECKLIST

Step	What	What
		\$15M solo, \$30M couple
1. Fund during life or at death	Up to \$15M solo, \$30M as a couple. P without spending more exemption.	GST exemption preserved
2. Allocate GST exemption on Form 709	Exemption does not auto-allocate to non-dire form wastes the exemption.	SD, NV, DE, AK, WY
3. Pick a dynasty-friendly state	Situs in SD, NV, DE, AK, or WY. New York a	Maximize growth in trust
4. Use a fast-growth asset to fund	Pre-IPO stock, private business interest, real inside the trust escapes estate tax forever.	Compounding outside estate
5. Pair with an IDGT installment sale	Sell additional business interest to the trust o over time; appreciation above the AFR stays	\$0 estate tax forever

One real-world example: the Walton family (Walmart founders) used dynasty-trust structures funded with pre-IPO Walmart stock in the 1950s. That stock has compounded for roughly 70 years inside their trusts. The original allocation of GST exemption — when the exemption was much smaller — has sheltered tens of billions of dollars across multiple generations from estate tax. Same playbook, bigger numbers.

QUALIFIED PERSONAL RESIDENCE TRUST (QPRT)

WHY YOUR FAMILY CHOOSES THIS

MONEY SAVED

Transfers your home or vacation property to the kids at a fraction of its true value for gift-tax purposes. A \$4M house with a 15-year QPRT term can be "gifted" today using only \$1.8M of your lifetime exemption — saving \$880K of future estate tax on the \$2.2M discount alone, with all future appreciation also outside your estate.

PROTECTION

The home becomes trust-owned at term-end, providing some asset-protection insulation against future creditor claims on you personally.

PEACE OF MIND

You stay living in the house for the entire term — your daily life does not change. At the end of the term, the kids own a debt-free family home that they did not have to scramble to buy in a hot real-estate market.

A QPRT is an irrevocable trust to which the grantor transfers a primary residence or vacation home, retaining the right to live in the property for a specified term of years. At the end of the term, the property passes to the remainder beneficiaries (typically children) at a significantly reduced gift tax value — because the gift is valued as the present value of the remainder interest after the retained term, not the full value of the property. The QPRT is particularly effective for highly appreciated real estate and in lower-interest-rate environments.

Its primary risks: the grantor must outlive the term or the property is included in the estate; after the term, the grantor must pay fair market rent to the trust to continue occupying the property (which can be an additional transfer mechanism but may be psychologically difficult); and the beneficiaries receive the property with the grantor's original tax basis rather than a stepped-up basis. Irrevocable Trust Quick Reference Trust Type Primary Benefit Best Used For Key Risk / Limitation Exemption Used?

Irrevocable trust vehicles compared. Each transfers different economics and serves a different planning objective. Selection depends on the §7520 rate environment, asset characteristics, and family goals.

The §7520 rate (currently published monthly by IRS Bulletin) drives present-value calculations for split-interest trusts. Lower rates favor GRATs, CLATs, and IDGTs.

Vehicle	What It Transfers	Best For	Key Risk
GRAT (Grantor Retained Annuity Trust)	Appreciation above the §7520 rate, estate/gift-tax-free	Rapidly appreciating assets; low §7520 rate environments; near-zero gift-tax cost via 'zeroed-out' GRAT	Grantor must survive the term; if grantor dies during term, assets revert to estate
CLAT (Charitable Lead Annuity Trust)	Appreciation above §7520 rate to non-charitable remainderman after charity's term	Charitable intent + wealth transfer; low §7520 rate environment	§7520 rate uncertainty; remainder calculation
SLAT (Spousal Lifetime Access Trust)	Use of one spouse's lifetime exemption while preserving access through other spouse	Couples with significant exemption available; pre-sunset planning (uncertain post-OBBA)	Reciprocal-trust doctrine if both spouses settle SLATs; divorce risk
IDGT (Intentionally Defective Grantor Trust)	Asset growth outside grantor's estate while grantor pays income tax (additional 'gift' to trust)	Concentrated low-basis assets; family with current liquidity for tax payments	Grantor's continued income-tax burden; sale-to-IDGT financing
ILIT (Irrevocable Life Insurance Trust)	Life insurance proceeds outside grantor's estate	Estate-tax liquidity; equalization between heirs; wealth replacement	§2042 incidents-of-ownership recapture; 3-year §2035 lookback
Dynasty Trust	Multi-generation wealth without estate-tax recurrence	GST exemption use; perpetuity-friendly states (DE, SD, NV, NH)	Trust modification limits; perpetuities-rule limits in some states

NOTES

1. IRC §2036 (retained life estate inclusion); §2037 (reversionary-interest inclusion); §2038 (inclusion of trusts with retained power to alter, amend, revoke, or terminate). The irrevocable trust avoids §§2036 and 2038 inclusion only if the grantor retains no prohibited control — no right to income or enjoyment, no right to designate who enjoys the property, no power to alter the beneficial interest. Trustee powers held in non-fiduciary capacity or by an independent party can preserve grantor-trust income-tax status without triggering estate inclusion — the IDGT fulcrum.
2. IRC §2702 (qualified interest valuation for transfers to family members); Treas. Reg. §25.2702-3 (qualified annuity interest requirements: fixed annual amount, paid at least annually, no pre-payment or debt). §7520 publishes the monthly valuation rate equal to 120% of the federal mid-term AFR, rounded to the nearest two-tenths of one percent; rates are published monthly in revenue rulings.
3. *Walton v. Commissioner*, 115 T.C. 589 (2000), held that a §2702-qualified annuity interest could be valued using standard actuarial principles without the IRS-imposed 'qualified interest plus 0' adjustment, effectively permitting a near-zero remainder valuation. The IRS acquiesced in Notice 2003-72 and amended Treas. Reg. §25.2702-3(e) Ex. 5. The zeroed-out GRAT has been targeted by legislative proposals over the years (minimum ten-year term, minimum remainder value) that have not become law.
4. IRC §675(4)(C) (power to reacquire trust corpus by substituting property of equivalent value, exercisable in a nonfiduciary capacity, causes grantor-trust status without estate inclusion). Rev. Rul. 2008-22 confirmed that the substitution power, when properly structured, does not trigger §2036 or §2038 inclusion. Other grantor-trust triggers commonly used: §674(c) (borrowing power without adequate interest), §675(2) (non-adverse-party borrowing), and §677(a) (spouse-beneficiary-income accumulation).
5. Rev. Rul. 2004-64, 2004-2 C.B. 7 (grantor's payment of income tax on grantor-trust income is not an additional gift to the trust beneficiaries, and does not cause estate inclusion of the trust corpus). Rev. Rul. 85-13 (installment sale to a grantor trust is ignored for income-tax purposes; no gain recognized, note interest disregarded).
6. IRC §2042 (life insurance proceeds included in gross estate if decedent possessed 'incidents of ownership'); §2035(a) (three-year lookback for transfers of life insurance policies within three years of death); *Crummey v. Commissioner*, 397 F.2d 82 (9th Cir. 1968) (limited withdrawal right creates present interest for §2503(b) annual-exclusion purposes). *Estate of Cristofani v. Commissioner*, 97 T.C. 74 (1991), extended *Crummey* treatment to contingent-remainder beneficiaries.

7. Rule-against-perpetuities abolition or extension: S.D. Codified Laws §43-5-8 (abolished); Nev. Rev. Stat. §111.1031 (365-year term); 25 Del. C. §503 (110-year term for real property; unlimited for personal property); Alaska Stat. §34.27.051 (1,000-year term); N.H. Rev. Stat. §564:24 (abolished, 2003); Wyo. Stat. §34-1-139 (1,000-year term). Dynasty-trust siting also depends on state fiduciary-income-tax treatment of accumulated trust income — South Dakota, Nevada, and Wyoming have no state fiduciary income tax.
8. Treas. Reg. §25.2702-5(c) (qualification requirements: single residence, no additional contributions, cash held only for specified expenses, termination and distribution provisions on sale of the residence or expiration of term). §2702(a)(3)(A)(ii) provides the statutory authorization for QPRTs as an exception to the general §2702 rule that retained interests in trusts for family members are valued at zero.
9. *Estate of Grace v. United States*, 395 U.S. 316 (1969), articulated the reciprocal-trust doctrine: when two grantors create substantially-similar trusts for each other, the trusts may be ‘uncrossed’ so each is treated as having retained an interest in the trust for himself. The doctrine is fact-intensive; structural differences in funding, trustee selection, discretionary standards, and timing are the practical defense. See also *Exchange Bank & Trust Co. v. United States*, 694 F.2d 1261 (Fed. Cir. 1982).
10. DAPT-enabling statutes (enactment year): Alaska (1997, Alaska Stat. §34.40.110); Delaware (1997, 12 Del. C. §3570 et seq.); Nevada (1999, Nev. Rev. Stat. §166.015 et seq.); Rhode Island (1999); Utah (2003); Oklahoma (2004); Missouri (2005); South Dakota (2005); Tennessee (2007); Wyoming (2007); New Hampshire (2008); Hawaii (2010); Virginia (2012); Ohio (2013); Michigan (2017); West Virginia (2017); Indiana (2019). Conflict-of-laws analysis: see Restatement (Second) of Conflict of Laws §§270, 273; *In re Huber*, 493 B.R. 798 (Bankr. W.D. Wash. 2013) (refusing to honor Alaska DAPT against Washington resident’s creditors).

CHAPTER-END · AI PROMPT CALLOUT

AI Prompts — Trust Structure Selection

Three prompts for choosing the right irrevocable trust for a client situation.

Prompt 1

Trust-type recommendation

Recommend the trust structure for this client. Client profile: [AGE, ASSETS, FAMILY, CHARITABLE INTENT, RISK]. Output: (1) the GRAT / IDGT / SLAT / Dynasty / ILIT / CRT / DAF decision tree, (2) the multi-trust strategy (different trusts for different asset types and objectives), (3) the funding-timing across types, (4) the trustee-selection issue per type, (5) the cost-vs-benefit summary per option.

Prompt 2

SLAT mutual / non-mutual structure

Design the SLAT structure for [CLIENT] and spouse. Both spouses want SLATs for each other. Output: (1) the reciprocal-trust doctrine risk (mirror-image SLATs invalidated by IRS), (2) the structural differences required to defeat reciprocal-trust attack (different trustees, different distribution standards, different terms, different beneficiary classes), (3) the timing of the two SLATs (don't fund both in the same window), (4) the spouse-death contingency planning, (5) the divorce-contingency planning.

Prompt 3

ILIT funding-mechanism choice

Choose the ILIT funding mechanism for \$[X] of new life insurance. Client's existing trust capacity: [DESCRIBE]. Output: (1) the Crummey-power gift mechanism with annual-exclusion stacking, (2) the hanging-power / lapse-power architecture, (3) the demand-letter discipline (timing, notice, documentation), (4) the alternative of bigger-than-Crummey gifts using lifetime exemption, (5) the trustee-vs-beneficiary tension.

END OF FREE PREVIEW

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The companion Excel workbook operationalizes the frameworks -- GRAT zeroed-out calculator, IDGT sale-to-trust scenarios, the SLAT reciprocal-trust risk analyzer, the OBBBA exemption-runway model, and the state-by-state estate-tax grid.

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