



The Peninsula Center
for Estate and Lifelong Planning
Attorneys and Counselors at Law

HELENA S. MOCK, ESQ.*
Catherine E. Sears, Esq.

461 McLAWS CIRCLE, SUITE 2
WILLIAMSBURG, VIRGINIA 23185
Telephone: (757) 969-1900
Facsimile: (757) 969-1903
www.tpcestate.com

*Also licensed in North Carolina

Tax Benefits of the Grantor Trust

With a grantor trust, the grantor is taxed on the income generated by the trust assets, even if the income is retained in the trust or distributed to other trust beneficiaries. However, for estate tax purposes, the full value of the trust assets is not included in the grantor's taxable estate. Another benefit of this technique is that by paying the income taxes attributable to the assets in the trust each year, the grantor is further depleting his estate. And, by paying the taxes, the grantor is essentially making additional "tax-free" gifts to the trust beneficiaries because he is relieving the beneficiaries of the liability, which, under other circumstances would be considered a taxable gift. Finally, even if the Grantor is in the highest individual tax bracket, the trust will always pay more because of the compressed rate schedule applicable to trusts.

Tax Rates:

2022 federal income tax rates for *trusts*:

Ordinary Income

- 10%: \$0 - \$2,750
- 24%: \$2,751 - \$9,850
- 35%: \$9,851 - \$13,450
- 37%: \$13,451 and higher

Capital Gains

- 0%: \$0 - \$2,800
- 15%: \$2,801 - \$12,700
- 20%: \$13,701 and higher

2022 federal tax rates for *single individuals*:

Ordinary Income

- 10%: up to \$10,275
- 12%: 10,276 - \$41,775
- 22%: 41,776 - \$89,075

Capital Gains

- 0%: up to \$40,400
- 15%: \$40,401 - \$445,850
- 20%: over \$445,850

- 24%: 89,076 – 170,050
- 32%: \$170,051 - \$215,950
- 35%: 215,951 - \$539,000
- 37%: over 539,000

2022 federal tax rates for *married individuals filing jointly*:

Ordinary Income

- 10%: up to \$20,550
- 12%: \$20,551 - \$83,550
- 22%: \$83,551 - \$178,150
- 24%: \$178,151 - \$340,100
- 32%: \$340,101 - \$431,900
- 35%: \$31,901 - \$647,850
- 37%: over \$647,850

Capital Gains

- 0%: up to \$80,800
- 15%: \$80,801 - \$501,600
- 20%: over \$501,600

Example:

Assume a single Grantor creates an irrevocable trust. If the trust has \$250,000 in taxable income in 2022, the income tax liability would be:

- \$61,253 if taxed to a single Grantor; or
- \$100,974.13 if taxed to the trust