

Estate Planning: Understanding Simple Trusts: Income Types and Beneficiary Impact

A simple trust is a legal term meaning that the income that that trust receives must be distributed at least annually to its beneficiaries.

Now the definition of income can have different meanings. It can be taxable income, it can be fiduciary accounting income, and it's all relevant. Take for example that trust owning a business interest. The K1 income from that business to the trust will be considered taxable income. Yet, what distributions came from that business to the trust is income for fiduciary accounting purposes, and it's fiduciary accounting income which determines how much we're going to distribute to the beneficiaries of the trust.

So care needs to be taken when utilizing a type of trust for a beneficiary, whether it's a simple trust or a complex trust, you need to understand the grantor, the set lore's goals and objectives and how ultimately the cash flow or distributions from that trust will impact the beneficiary.

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