FILING TAX RETURNS FOR IRREVOCABLE
AND REVOCABLE LIVING TRUSTS

Comprehensive **Estate Planning** often involves the establishment of **Irrevocable** and **Revocable Living Trusts. Irrevocable Income Only Trusts** are typically established to shield assets from Long Term Care expenses and to qualify a person for **Medicaid**. **Revocable Living Trusts** are created to avoid probate and provide a method for Comprehensive Asset Management in the event of a serious illness.

Clients are usually elderly and have a home and investment assets, which are used to fund the trusts. The home is usually placed in the **Irrevocable Trust** and the remaining investment assets are used to fund the **Revocable** and **Irrevocable Trusts.** How the Trusts are funded is dependent upon a variety of factors including the health, and age of the creator of the Trust **(Grantors)** and the nature and extent of the assets.

There are several tax related filing requirements for establishing these trusts. The **Revocable Trust's** income is reported directly on an individual's 1040 calendar year income tax return. No additional forms are needed to complete on an annual basis. The tax payer's social security number is used.

The Internal Revenue Service requires that an **Irrevocable Trust** file its own separate federal and state returns. Typically these returns include interest and dividend income. In addition, if a personal residence funds the trust, mortgage interest and real estate taxes may be possible deductions. Like a **Revocable Trust** the income and deductions flow through to the individual's 1040 return via a form K-1. This form summarizes the data from the **Irrevocable Trust** and is reported to the Internal Revenue Service. The **Irrevocable Trust** must obtain its own EIN Number and all income is reported with the assigned EIN Number.

It is important to remember that when Irrevocable Trusts are established, it is necessary to obtain a separate EIN Number (Employer Identification Number). This will facilitate organizing the data to report to the IRS. Typically the trusts report their income on a calendar year basis. Usually the initial year of the trust is a short year (less than a full calendar year). However, the following year's report a full year's income.

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