

Qualified Terminal Interest Property (QTIP)

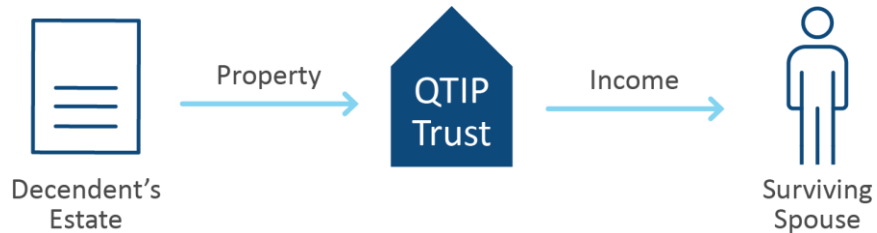
QTIP trusts provide for a survivor but control ultimate disposition of assets

What is a QTIP trust?

A qualified terminable interest property trust (QTIP) is a trust designed to hold assets for a surviving spouse after the first spouse dies. A transfer of property to a QTIP qualifies for the unlimited marital deduction. A QTIP trust is a way of using the unlimited marital deduction without making an outright transfer of assets to the surviving spouse. The QTIP enables the grantor (creator of the trust) to provide for the surviving spouse during life but control how assets are distributed after the surviving spouse's death. A limited power of appointment may allow the surviving spouse to appoint some or all trust assets to a limited group of beneficiaries at death.

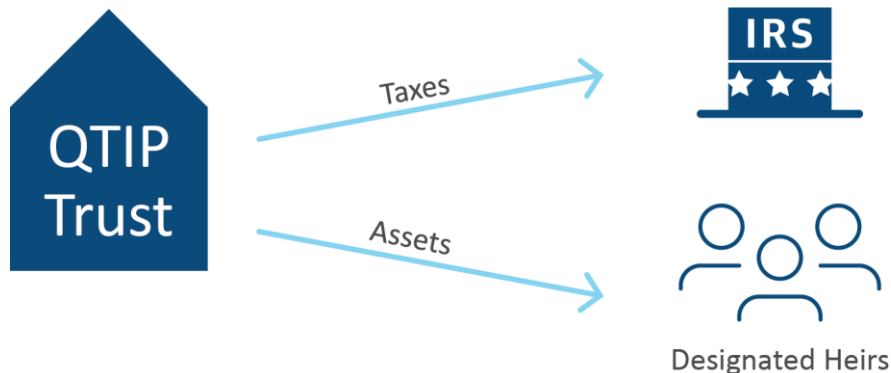
What happens at death of first spouse?

A decedent's will or revocable trust may state that assets pass to a QTIP trust for the benefit of the surviving spouse. A QTIP trust requires that all trust income is distributed to the surviving spouse. In addition, the trustee may have discretion to distribute trust principal to the surviving spouse. An election must be made on a decedent's estate tax return to treat the trust as a QTIP trust for federal and state estate tax purposes, if applicable.



What happens at death of surviving spouse?

Upon death of the surviving spouse, assets in a QTIP trust may be used to pay any estate taxes attributable to the assets in the QTIP. The remaining assets can be distributed to designated beneficiaries or continue to be held in trust.



What about estate tax?

The benefit of using a QTIP trust is that estate tax on the assets transferred to the QTIP are deferred until the surviving spouse dies. To qualify for the unlimited marital estate tax deduction, the surviving spouse must be (i) a US citizen, (ii) entitled to annual income, and (iii) the only lifetime beneficiary of the trust. Assets in the QTIP trust are included in the estate of the surviving spouse.

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Advanced Planning, July 2021