Beneficiary Defective Inheritor's Trust (BDIT)

CONCEPT APPLIED:

A third party creates an irrevocable trust granting beneficiaries specific powers over the trust assets. The trust is highly complex, but with proper implementation, it facilitates asset protection, tax-efficient growth, and wealth transfer to future generations.

HOW IT WORKS:

A third party funds the BDIT with a modest initial gift (often using Crummey withdrawal powers for gift tax exclusion purposes), retaining no powers that would cause the trust to be taxed to them.

The trust may purchase a life insurance policy on the beneficiary for estate tax liquidity without selling assets. It can also buy appreciating assets from the beneficiary at fair market value, often using a promissory note—an approach that secures valuable assets but avoids triggering gift taxes.

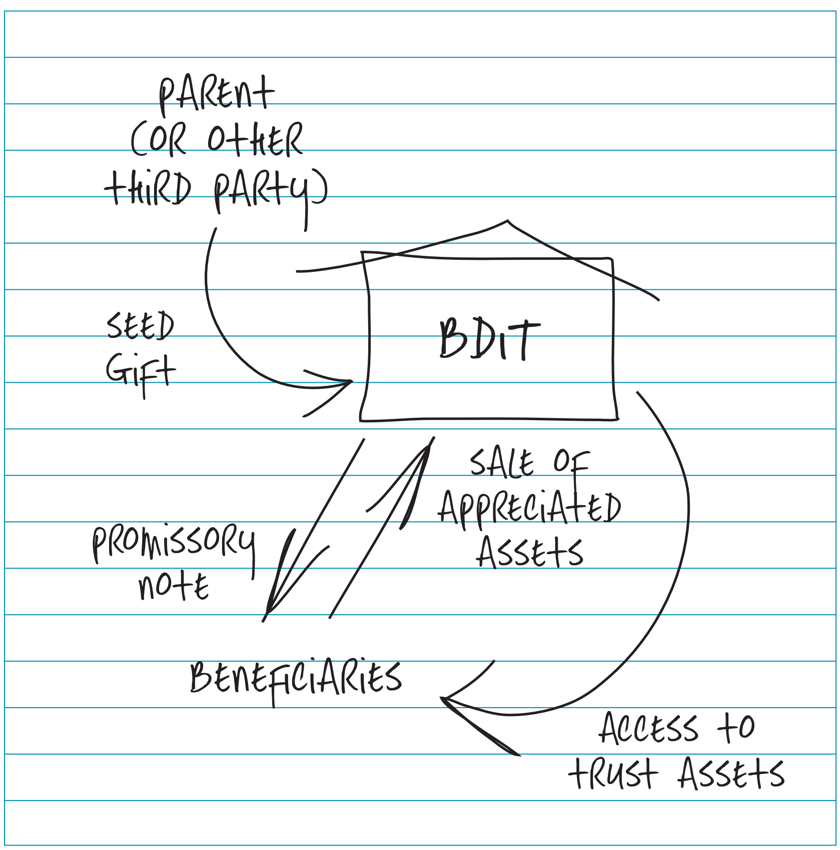
The beneficiary has significant access to trust assets and pays income tax on earnings, enabling tax-free growth and keeping assets and appreciation outside the taxable estate.

WHY IS IT USEFUL?

A BDIT allows high-net-worth individuals to transfer appreciating assets out of their estates through a "seed gift and sale" strategy. While complex, it minimizes estate taxes, preserves control over assets, and provides strong protection against creditors, ensuring long-term wealth preservation and security.

50 WORDS OR LESS

A BDIT is an irrevocable trust funded by a third party (usually a parent), allowing beneficiaries to manage assets outside their taxable estates. Through a "seed gift and sale" strategy and intentionally defective grantor trust rules, income tax shifts to beneficiaries—maximizing compounding growth, wealth preservation, and tax-efficient wealth transfer.



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