## TERMINOLOGY
Terminology is important. Important terms when first addressed are highlighted and underscored.

## BOXES
A trust, like a corporation, partnership, LLC, is a box where some someone puts something in, gives someone the keys, and where someone gets what is inside. The thing to remember is that the box, the device, is about people.

## TRUSTS
A trust is set up for either a personal or a tax reason. The person setting it up is called a **Granter** or Settlor, the person who manages it is a **Trustee**, and the person who gets the benefits is the **Beneficiary**. These can be all one person, or 1, 2, or 3 different people.

There are rules for how the Trustee can manage the Trust, and when the Beneficiary can benefit. The rules are specified in the **Trust Agreement.**

The rest of this memo will be focused on the tax aspects. There are legal nuances, which are not addressed here.

## 2 TYPES OF TRUSTS
There are only 2 types of trusts, Revocable and Irrevocable.

A **Revocable Trust** is where the Grantor is also the Trustee or the Beneficiary. For tax purposes, the trust is ignored and any income is reflected on the Grantor's individual tax return. A Revocable Trust is also known as a **Grantor Trust**. Usually, when the Grantor dies, the Revocable Trust becomes an Irrevocable Trust.

An **Irrevocable Trust** is obviously Irrevocable. This means that once the trust is set up, the Grantor has given up the ability to make any changes. The Grantor can also not benefit from the trust.

## 2 TYPES OF IRREVOCABLE TRUSTS
A trust can be Simple or Complex. The words are misleading. Trust taxation is complicated and even many accountants do not understand.

A **Simple Trust** is required to distribute its income, except capital gains, to the beneficiary each year. So if the trust earns $100 of interest, the beneficiary pays taxes on it. A Simple Trust will only pay taxes on any capital gains.

The definition of a **Complex Trust** is any trust that is not a Simple Trust. A Complex Trust is not required to give anything to the beneficiary except as required by the Trust Agreement. The Complex Trust will pay taxes on any income it does not distribute.

Each year that the Trust makes a distribution to a Beneficiary, the Trust must give the Beneficiary a K-1 so the Beneficiary will know what to include on his tax return. A Trust K-1 is similar to a Partnership or S Corp K-1.