

Tax Reporting for Grantor Trusts



Jennifer Pierce
jpierce@mwlaw.com
(501) 688.8859

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Typically, a trust must file a separate income tax return for each calendar year. However, for most grantor trusts, filing a separate tax return is optional. The general rule and the alternative methods of reporting are described below.

When a trust is a “grantor trust” for income tax purposes, either the grantor or a beneficiary is deemed the owner of the income and losses of the trust for income tax purposes and must include such income and losses on his or her personal tax return. Grantor trust status can apply to either a revocable or an irrevocable trust.

Under the general rule, the trust serves as an information reporter. The trust must obtain its own taxpayer identification number (TIN). However, income is not reported on the trust’s Form 1041. Income is reported on an attachment to the Form 1041, which also identifies the grantor as the owner of trust income.

Under the first alternative method, the trustee is charged with providing payors of trust income with the grantor’s taxpayer identification number and mailing address. In addition, the trustee must provide the owner of trust income with a statement which includes: (1) all items of income; (2) identifies the payor of each item of income; (3) a statement telling the owner of the income that it is his or hers; and, (4) any other necessary information needed for the owner to complete his or her tax filing.

Under this tax reporting method, no income tax return needs to be filed by the trustee. The trustee is required to obtain a W-9 to verify grantor’s taxpayer identification number.

This method is most commonly used with revocable trusts which are also grantor trusts for income tax purposes.

The second alternative method requires the trust be a reporter of income to the grantor. Under this method, the trust acquires its own taxpayer identification number and furnishes its information to all income payors to the trust. The trustee then files Form 1099s showing the trust as the payor, and the grantor as the payee, of trust income. The trustee can avoid filing a Form 1099 where another form is used to report income, such as Form K-1. In addition, the trustee must provide a summary and transmittal of informational returns by filing Form 1096. The second alternative method may be used with one or multiple grantors who are owners of the trust’s income.

Unless the grantor is also the trustee or co-trustee, the trustee must provide the owner with a statement that includes the following information: (1) all items of income, deduction, and credit of the trust for the tax year; (2) identifies the payor of each item of income; (3) provides the grantor with any and all information needed for the grantor to include these items of income on his or her tax return; and, (4) informs the grantor that the items identified must be included in the grantor’s income.