

COMMON TERMS

Trust terminology can feel overwhelming at first. Below are common terms you may hear when setting up or administering a trust, explained in straightforward language.

Core trust roles

Beneficiary: a person or organization entitled to receive income or assets from the trust.

Grantor (settlor/trustor): the person who creates the trust and transfers assets into it.

Remainder beneficiary: the person/entity that receives remaining assets after certain events occur.

Successor trustee: the person/institution designated to serve if the current trustee can no longer act.

Trust: a legal arrangement in which assets are held and managed by one party for the benefit of another, based on written instructions.

Trustee: the individual or institution responsible for managing trust assets and following trust instructions.

Fiduciary and decision-making terms

Ascertainable standard (HEMS): distribution guidance for health, education, maintenance, and support.

Discretionary distribution: a distribution the trustee may make using judgment and trust guidelines.

Fiduciary duty: the highest legal duty of care, requiring the trustee to act in the beneficiaries' best interests.

Mandatory distribution: a distribution the trustee is required to make at certain times or events.

Spendthrift provision: a clause protecting trust assets from creditors and improper transfers.

Trust assets and accounting

Income: earnings generated by trust assets, including interest and dividends.

Principal (corpus): the assets owned by the trust, such as cash, investments, and real estate.

Trust accounting: a formal record of trust activity, typically prepared annually.

Trust accounting income (TAI): income calculated under state law or trust terms to allocate distributions.

Tax-related terms

Creditor claims: debts owed by the decedent.

Distributable net income (DNI): determines income taxable to beneficiaries versus the trust.

Estate account: bank account used for estate transactions.

Final income tax return: the decedent's last personal tax filing.

Form 1041: the federal income tax return for trusts and estates.

Grantor trust: a trust where income taxes are reported by the grantor.

Inventory: detailed list of estate assets and values.

K-1: a tax form showing taxable income allocated to beneficiaries.

Non-grantor trust: a trust that files its own tax return.

Step-up in basis: adjustment of asset cost basis to date-of-death value.

Common types of trusts

Irrevocable trust: generally cannot be changed after creation.

Revocable trust: may be changed or revoked during the grantor's lifetime.

Special needs trust (SNT): designed to benefit an individual with disabilities without impacting public benefits.

Testamentary trust: created through a will and effective at death.

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