

Kim - Wed, 1/15/2014 - 15:17

The inclusion ratio is the fraction of a distribution from an individual or trust that is subject to generation skipping transfer tax (GST). For example, if a lead trust distributes \$1,000,000 to a "skip person" and the inclusion ratio is .40, the amount of the distribution that will be subject to GST is $.40 \times \$1,000,000$ or \$400,000.

Life income plan payments:

For life income plans that make distributions that are subject to GST, the inclusion ratio equals:

$$1 - (\text{GST exemption used} / (\text{funding amount} - \text{charitable deduction}))$$

For example, if the funding amount is \$1,000,000, the charitable deduction is \$400,000 and the GST exemption used is \$500,000, the GST inclusion ratio is:

$$1 - ((500,000 / (1,000,000 - 400,000)) = 0.16667$$

Bequests and trust distributions:

Computing the inclusion ratio for trust distributions can be complicated.

Lead unitrusts: $IR = 1 - (\text{GST exemption used} / (\text{principal placed in trust} - \text{gift tax deduction}))$.

Lead annuity Trusts: $IR = (\text{principal at termination} - \text{GST adjusted exemption}) / \text{principal at termination}$.

Regular irrevocable trusts: $IR = 1 - (\text{GST exemption used} / \text{principal placed in trust})$.

Bequests to individuals (includes No Trust option in Lead Trust Projections)
: $IR = (\text{bequest amount} - \text{estate tax on bequest}^* - \text{GST} - \text{GST exemption used}) / \text{bequest amount} - \text{estate tax on bequest}^* - \text{GST}$.

* In the No Trust case in Lead Trust Projections, estate tax on bequest = $(\text{principal after num years} - (\text{net estate} \& \text{ princ. to family} - \text{net estate w/o gross principal}))$

[Print](#)

Categories

[Definitions - General Gift Planning](#)