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Some Trusts Save On Taxes But Others Can Lead To Criminal Charges



Trusts come in numerous variations. One type is common to estate planning and probably just about everyone should have one. You don't want to die without a will, and but do you need a trust too? Most people regardless of their financial wherewithal should not need to admit a will to probate. Probate is public, takes a long time, and is expensive. But there is a simple way to keep it private and avoid the time and expense of probate.

Living (Revocable) Trusts

For very little money (some people even do it themselves) you can create a revocable trust that calls for the disposition of your assets. You still write a will, but the will just says that everything you own goes to the revocable trust. It's called a pour-over-will, since it pours all assets into the trust. The trust is private and is not separately taxable, and you can change your trust anytime you want.

You can add or delete beneficiaries over time to make sure the people inheriting your assets are the ones you want. Does a revocable (or living) trust save you taxes? No, but it doesn't cost you taxes either, it is tax neutral. If you transfer your house or stock to your living trust, it is not considered a transfer for tax purposes.

Irrevocable Trusts

The other major type of trust is an irrevocable trust. You can't take your transfer back or even amend the trust without court approval, and it is separately taxable and must file its own tax return. Transfers to an irrevocable trust can trigger gift taxes, but they can still save income, gift or estate taxes in the long run, depending on the facts.

Foreign Trusts

Most living trusts and most irrevocable trusts are domestic trusts, meaning that U.S. law controls. But there are also foreign trusts, that can be either revocable or irrevocable. If the trust is foreign, many complex rules apply that can make U.S. beneficiaries taxable on their share of trust income, even if it is never distributed to them. There are extra IRS tax forms to file too, and the penalties for omitting them can be onerous. What's more, the [IRS can audit your taxes forever if you miss a key form](#).

Tax Savings?

Some trusts are designed to save state taxes. For years, some Californians [skipped California taxes on assets without moving](#). The idea was to wall off assets from California's 13.3% tax rate via a 'NING', a Nevada Incomplete Gift Non-Grantor Trust. A 'DING' is its Delaware sibling. There is even a 'WING,' from Wyoming. The idea is that the trust itself will be taxed—but since the trust isn't in California, there's no California tax.

New Yorkers tried the same thing, but New York law was changed to outlaw it. California took longer to act, but its tax law was amended to so these [trusts to avoid California tax were outlawed](#). How about other creative uses of trusts?

Criminal Charges

Some uses of trusts go too far. Consider the case of Aanand Shukla, of Jonestown, Texas, who was [sentenced to five years in prison for promoting abusive trust tax shelters](#). He pleaded guilty to conspiracy to defraud the United States. As the Department of Justice news release about the case reported:

from 2017 to 2025, Shukla and his co-conspirators promoted, sold and personally used an abusive trust tax shelter that promised clients — for quoted fees as high as \$225,000 — that they could “own nothing, control everything” and eliminate taxes on nearly all of their business income while maintaining full control over their money.

Mr. Shukla marketed it via seminars, webinars, podcasts and direct sales pitches. The idea was to have nearly 98% of their business income flowing through trusts and a private family foundation. He told clients to run personal expenses like vehicles, entertainment and mortgage payments through trust accounts and to write them off. Shukla created trust documents, trained other promoters and sent his clients to tax preparers he knew would participate. Before he was prosecuted, he helped conceal more than \$27 million in income from the IRS.