

UNLOCKING THE MYSTERIES OF MEDICAID TRUSTS



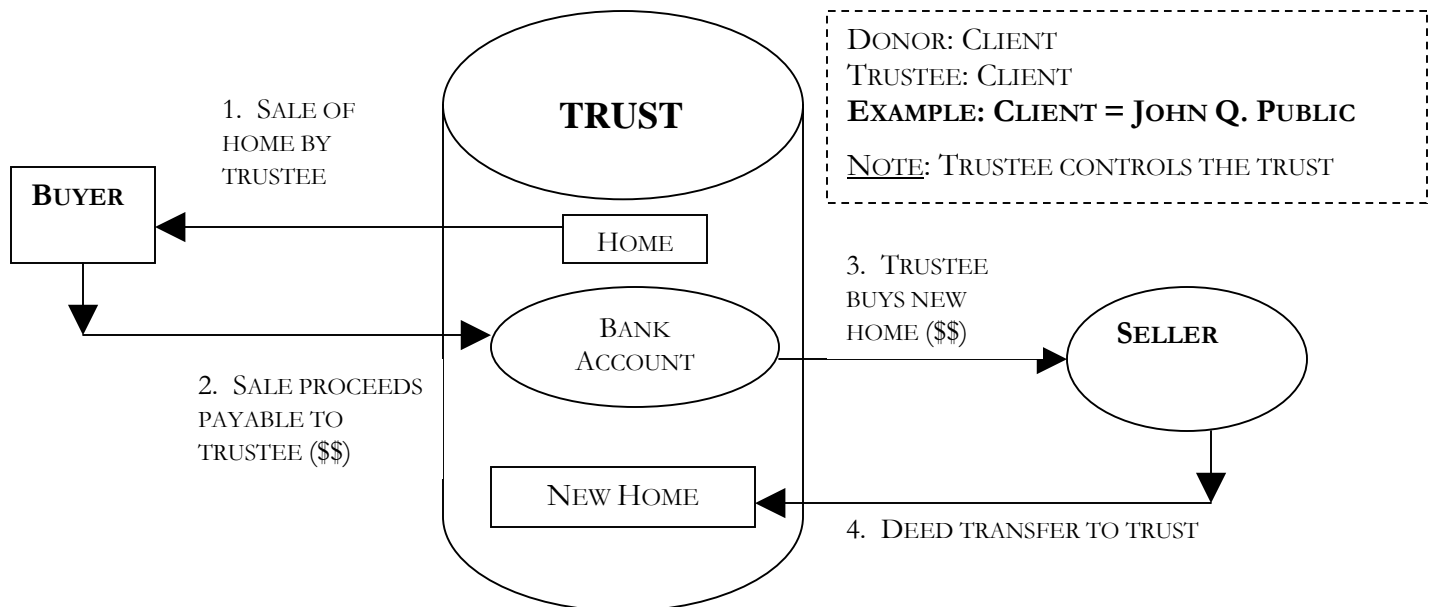
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IRREVOCABLE MEDICAID INCOME ONLY TRUST FUNDED WITH ONLY THE PRIMARY RESIDENCE AND ABILITY TO SELL THE SAME (I)



LOOKBACK PERIOD:

Duration = Five (5) years or sixty (60) months

- Assets will be protected from the costs of a nursing home **five years from the date of transfer to a trust.**

PROCEDURE FOR SALE OF HOME OUT OF THE TRUST:

1. Trustee: requires no permission from any family members.
2. Trustee: prepares deed transferring home to buyer.
3. Buyer: writes check to trustee for sale price of the house.
4. Trustee: deposits check into newly created trust bank account.
5. Transaction complete.

PROCEDURE FOR PURCHASING A NEW HOME INSIDE OF THE TRUST:

1. Trustee: requires no permission from any family members.
2. Trustee: writes a check from trust bank account to seller.
3. Seller: prepares deed transferring home to trustee of the trust.
4. Trustee: records deed at the registry of deeds and trustee certificate.
5. Transaction complete.

IMPACT ON THE 60-MONTH LOOKBACK PERIOD:

- **No Impact:** This transaction does not start a new waiting period nor does it affect an existing period already running prior to the sale.

IRREVOCABLE MEDICAID INCOME ONLY TRUST FUNDED WITH ONLY THE PRIMARY RESIDENCE AND ABILITY TO SELL THE SAME (II)

HOW TO OPEN AND TITLE A TRUST BANK ACCOUNT:

Name of Account: {Client Name}, Trustee {Client Name} Family Irrevocable Trust u/d/t {Insert Date Signed}

1. Example:

- a. **If single:** John Q. Public, Trustee of John Q. Public Family Irrevocable Trust u/d/t January 01, 2007
- b. **If married:**
 1. John Q. Public and Mary R. Public, Trustees of John Q. Public Family Irrevocable Trust u/d/t January 01, 2007
 2. Mary R. Public and John Q. Public, Trustees of Mary R. Public Family Irrevocable Trust u/d/t January 01, 2007

Tax Identification Number: Obtained by Cushing & Dolan

INCOME TAX CONSEQUENCES OF SALE:

Grantor Trust: **No adverse income tax consequences**, as a grantor trust allows the client to retain his/her capital gains tax exclusions associated with the sale of the primary residence.

Capital Gains Exclusions: If the resulting gain does not exceed the exemptions below, there would be no tax liability.

- If married on the date of sale, client gets a \$500,000 capital gain exclusion.
- If single on the date of sale, client gets a \$250,000 capital gain exclusion.

INCOME TAX FILINGS FOR A TRUST:

Form 1041: Grantor Trust Tax Return

- Grantor trust means no taxes are paid at the trust level.

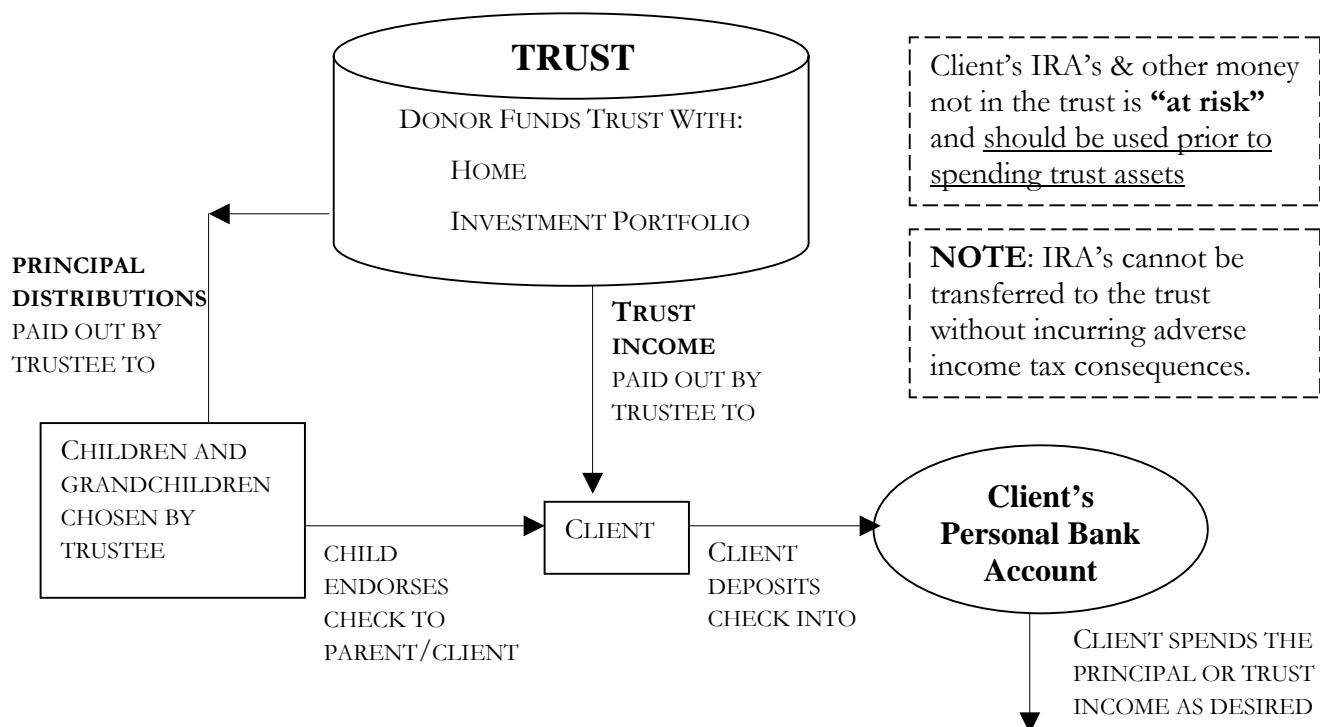
K-1 Form: This form is generated from the Form 1041 filing and is a letter to the client informing the client of the trust income and expenses, and instructs the client to report such income and expenses on the client's individual income tax return, Form 1040.

Form 1040: Client's income tax return will have the same liability as existed prior to establishing the trust.

ABILITY TO BORROW MONEY:

1. Borrowing: If an equity line is established prior to transferring the home into trust, client is able to borrow against that equity line. Otherwise, if the property has already been transferred into trust, without an equity line previously established, client is **unable** to borrow money.
2. Regular Mortgages:
 - a. **Existing Mortgages:** Client is permitted to transfer encumbered property to the grantor irrevocable trust without triggering the 'Due on Sale' clause in the Note.
 - b. **Reverse Mortgages:** Client will be able to get a reverse mortgage even after property has been transferred into the trust, provided that client reserved a legal life estate in the deed to the primary residence.

IRREVOCABLE MEDICAID INCOME ONLY TRUST FUNDED WITH A HOME AND INVESTMENT ACCOUNTS (I)



DEFINITIONS:

Donor = Client

Trustee = Client (Note: Trustee controls the trust.)

EXAMPLE: CLIENT = JOHN Q. PUBLIC

Trust Income: Interest and dividends

Trust Principal: Home and value of investment portfolio and related capital gains

LOOKBACK PERIOD:

Duration = Five (5) years or sixty (60) months

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HOW TO OPEN AND TITLE A TRUST BANK ACCOUNT:

Name of Account: {Client Name}, Trustee {Client Name} Family Irrevocable Trust u/d/t {Insert Date Signed}

1. Example:

a. **If single:** John Q. Public, Trustee of John Q. Public Family Irrevocable Trust u/d/t January 01, 2007

b. **If married:**

i. John Q. Public and Mary R. Public, Trustees of John Q. Public Family Irrevocable Trust u/d/t January 01, 2007

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IRREVOCABLE MEDICAID INCOME ONLY TRUST FUNDED WITH A HOME AND INVESTMENT ACCOUNTS (II)

ABILITY TO BORROW MONEY:

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INCOME TAX FILINGS FOR A TRUST:

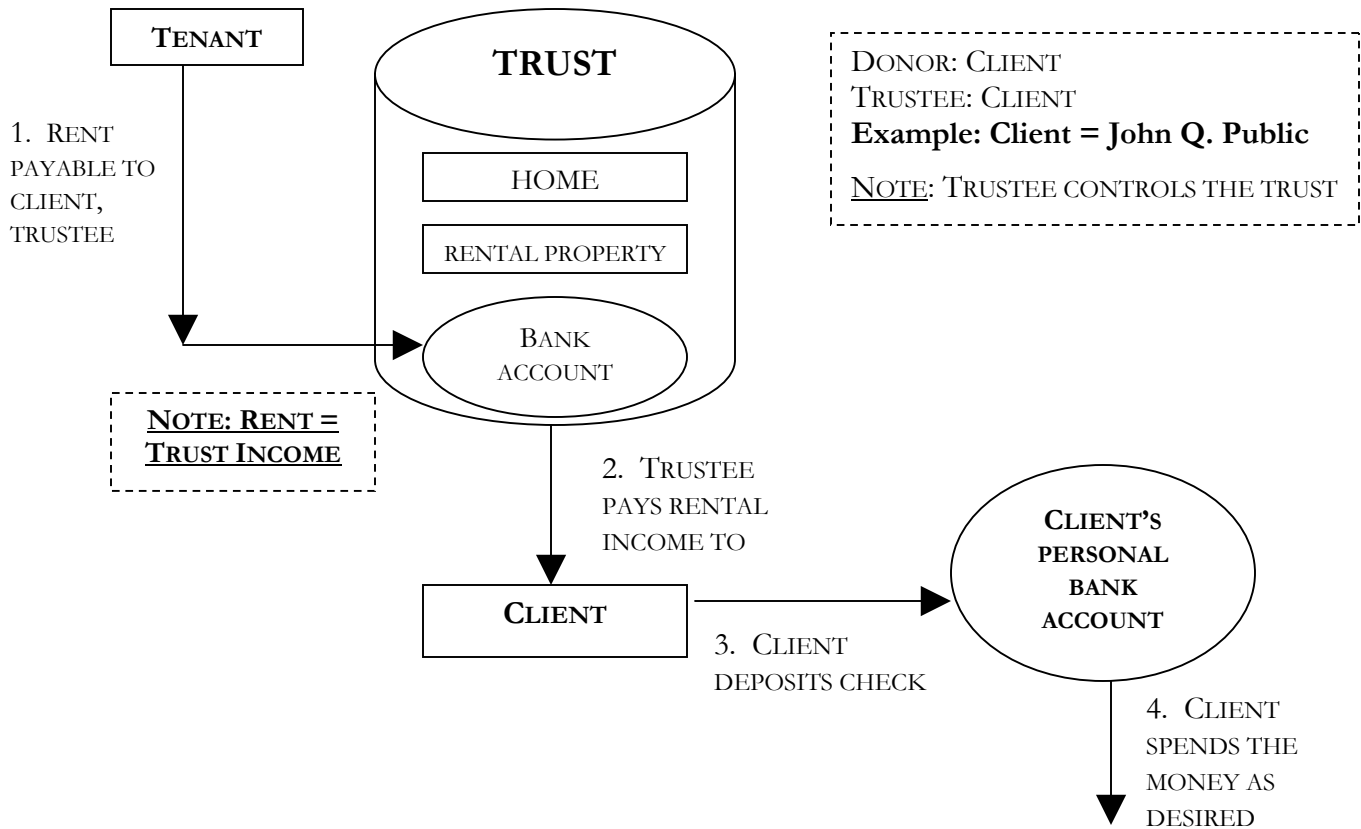
Form 1041: Grantor Trust Tax Return

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K-1 Form: This form is generated from the Form 1041 filing and is a letter to the client informing the client of the trust income and expenses, and instructs the client to report such income and expenses on the client's individual income tax return, Form 1040.

Form 1040: Client's income tax return will have the same liability as existed prior to establishing the trust.

IRREVOCABLE MEDICAID INCOME ONLY TRUST FUNDED WITH RENTAL PROPERTY (I)



LOOKBACK PERIOD:

Duration = Five (5) years or sixty (60) months

- Assets will be protected from the costs of a nursing home **five years from the date of transfer to a trust.**

HOW TO OPEN AND TITLE A TRUST BANK ACCOUNT:

Name of Account: {Client Name}, Trustee {Client Name} Family Irrevocable Trust u/d/t {Insert Date Signed}

2. Example:

- a. **If single:** John Q. Public, Trustee of John Q. Public Family Irrevocable Trust u/d/t January 01, 2007
- b. **If married:**
 - i. John Q. Public and Mary R. Public, Trustees of John Q. Public Family Irrevocable Trust u/d/t January 01, 2007
 - ii. Mary R. Public and John Q. Public, Trustees of Mary R. Public Family Irrevocable Trust u/d/t January 01, 2007

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IRREVOCABLE MEDICAID INCOME ONLY TRUST FUNDED WITH RENTAL PROPERTY (II)

INCOME TAX FILINGS FOR A TRUST:

Form 1041: Grantor Trust Tax Return

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K-1 Form: This form is generated from the Form 1041 filing and is a letter to the client informing the client of the trust income and expenses, and instructs the client to report such income and expenses on the client's individual income tax return, Form 1040.

Form 1040: Client's income tax return will have the same liability as existed prior to establishing the trust.

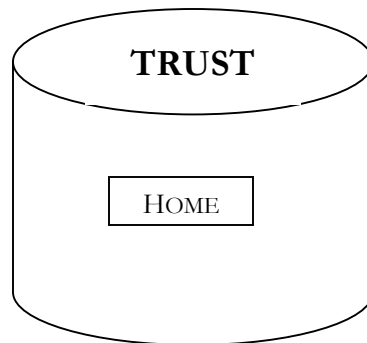
PROCEDURE FOR SALE OF RENTAL PROPERTY OUT OF THE TRUST:

1. Trustee: requires no permission from any family members.
2. Trustee: prepares deed transferring home to buyer.
3. Buyer: writes check to trustee for sale price of the house.
4. Trustee: deposits check into newly created trust bank account.
5. Transaction complete.

PROCEDURE FOR PURCHASING A NEW HOME INSIDE OF THE TRUST:

1. Trustee: requires no permission from any family members.
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3. Seller: prepares deed transferring home to trustee of the trust.
4. Trustee: records deed at the registry of deeds and trustee certificate.
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IRREVOCABLE MEDICAID INCOME ONLY TRUST FUNDED WITH ONLY THE PRIMARY RESIDENCE (I)



DONOR: CLIENT

TRUSTEE: CLIENT

Example: Client = John Q. Public

NOTE: TRUSTEE CONTROLS THE TRUST

LOOKBACK PERIOD:

Duration = Five (5) years or sixty (60) months

- Assets will be protected from the costs of a nursing home **five years from the date of transfer to a trust.**

IMPACT OF TRUST ON INCOME TAX FILINGS:

- **NONE:** No separate income tax return for the trust is required as the trust does not have any income.

TRUST BANK ACCOUNT NOT NEEDED:

No separate bank accounts need to be opened, as all accounts and related investment activity shall remain in the client's name.

ABILITY TO BORROW MONEY:

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