

MONEY MYTHS SERIES

Do the Rich Use Trusts to Pay Zero Tax? What Trusts Actually Do

What revocable, irrevocable, GRAT and dynasty trusts actually do for taxes in 2026, and why the zero-tax trust packages sold online end in prosecutions.

By Eric Ridley, attorney, Ridley Law · Updated September 2026 · Read online with live links: ridleylawoffices.com/do-trusts-avoid-taxes/

Part of our [money myths series](#).

The claim: rich people put everything in trusts and pay no tax, and if you buy the right trust, you can too.

The verdict: a trust doesn't make income tax go away. A revocable living trust changes nothing on your return, and an irrevocable trust that keeps its income hits the 37% federal bracket once its taxable income passes \$16,000 in 2026. The trusts wealthy families use save gift and estate tax on fortunes above the \$15,000,000 exemption, and that tax reaches only a few thousand estates a year.

\$16,000

Taxable income where a trust reaches the 37% federal bracket, 2026

\$640,600

Where a single filer reaches 37%, 2026

\$15,000,000

Federal estate tax exemption per person, 2026

2,663

Taxable estate tax returns filed nationwide in 2024

\$25,000 to \$55,000

Typical price of one convicted promoter's trust package (DOJ, 2026)

Who gets paid when you follow this advice: the person selling the trust. In September 2026 a Texas promoter was sentenced to 60 months in federal prison for an "own nothing, control everything" trust shelter he marketed through seminars, webinars and podcasts. The Justice Department says he typically sold the trust packages for \$25,000 to \$55,000 and quoted fees as high as \$225,000. A Frisco promoter who pleaded guilty in August 2026 charged \$25,000 to \$50,000 for a set of "non-grantor" trusts and a "private family foundation." DOJ says his group's clients filed false returns sheltering about \$156 million of income, a tax loss of about \$43 million.

Do rich people really use trusts to avoid taxes?

Some do, and the tax they avoid is mostly federal gift and estate tax on fortunes worth tens of millions, using tools the Senate Finance Committee says "are neither available nor useful to middle-class Americans" (2026).

ProPublica's 2021 analysis of IRS data found that more than half of the 100 richest Americans had used grantor retained annuity trusts (GRATs) and other trusts to avoid estate tax. The Treasury Department's own budget proposals for fiscal 2025 described the GRAT as a tool that "involved little to no cost or downside risk for the grantor" and proposed limits on it. Senators Wyden and King reintroduced a bill in April 2026 that would require every GRAT to last at least 15 years.

Estate tax applies only to estates above the basic exclusion amount, which is \$15,000,000 per person for 2026 after the July 4, 2025 budget act (Pub. L. 119-21). In 2024 the IRS received 7,195 estate tax returns, and only 2,663 of them owed any tax. About 3.09 million Americans died in 2023, the year most of those returns covered. That's roughly one taxable estate for every 1,160 deaths. California has no estate tax of its own; the State Controller stopped requiring a California estate tax return for deaths on or after January 1, 2005.

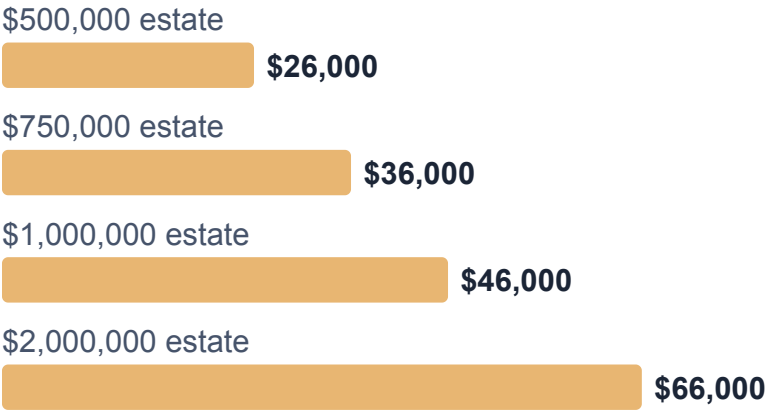
So when a video says "the rich use trusts," it's describing a tax most viewers will never owe, and then selling them a product to avoid it. If you want to see where you stand, our [estate tax exposure calculator](#) runs the numbers.

Does a revocable living trust lower your taxes?

No. The IRS says a revocable living trust "is treated as a grantor type trust for tax purposes" (Form 1041 instructions, 2025), so every dollar it earns is reported on your own return.

The rule comes from the Internal Revenue Code. If you keep the power to take the property back, you're treated as the owner (IRC § 676), and the owner reports the trust's income, deductions and credits as if the trust weren't there (IRC § 671). Most living trusts don't even file a separate return. The trustee can give banks and brokers the grantor's name and Social Security number, and under that method "the trustee is not required to file any type of return" (Treas. Reg. § 1.671-4). Our page on [whether a living trust files a tax return](#) walks through the forms.

What a living trust saves is probate. In California the executor and the executor's attorney are each entitled to a statutory fee figured on the gross value of the estate, "without reference to encumbrances or other obligations on estate property" (Prob. Code §§ 10800, 10810). A house with a big mortgage still produces a fee on its full value.



Ordinary statutory fees under Prob. Code §§ 10800 and 10810, figured on gross value without subtracting the mortgage. Extraordinary fees are extra.

Gross estate	Executor fee	Attorney fee	Combined
\$500,000	\$13,000	\$13,000	\$26,000
\$750,000	\$18,000	\$18,000	\$36,000
\$1,000,000	\$23,000	\$23,000	\$46,000
\$2,000,000	\$33,000	\$33,000	\$66,000

That's the money a funded trust keeps in the family, and it's why we recommend one for most California homeowners. See [what probate actually costs in California](#) and [how to avoid probate court](#).

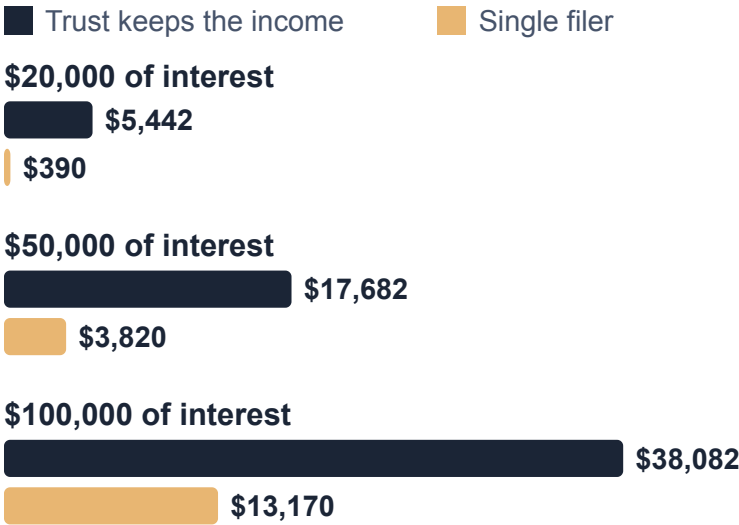
Can you move income into an irrevocable trust to escape income tax?

Not if you keep control or can benefit, because the grantor trust rules in IRC §§ 671 to 679 tax the income to you anyway, and if you truly give it away, a trust that keeps the income pays at the steepest brackets in the tax code.

Congress wrote the grantor trust rules to stop exactly this move. You're taxed on the trust's income if you hold a reversion worth more than 5% (IRC § 673), if you control who benefits (IRC § 674), if you can borrow trust money "without adequate interest or without adequate security" (IRC § 675), if you can revoke the trust (IRC § 676), or if income can be paid or held for you or your spouse (IRC § 677). The IRS states the underlying principle in one line: "Income that is earned by one person cannot be assigned to another for federal income tax purposes." California's Franchise Tax Board says the same thing about state tax: when earned income is shifted to a trust, "the trust will not be treated as a separate entity."

If you do give up control and the trust keeps the income, it becomes its own taxpayer, and its brackets are compressed. For 2026 a trust pays 10% on its first \$3,300, 24% to \$11,700, 35% to \$16,000 and 37% above that (Rev. Proc. 2025-32). A single person doesn't reach 37% until \$640,600. The 3.8% net investment income tax also

starts for a trust where its top bracket begins, \$16,000, while a single filer's threshold is \$200,000 (IRC § 1411).



Hypothetical. 2026 federal brackets from Rev. Proc. 2025-32; trust takes its \$100 exemption; single filer has no other income.

Interest income	Trust keeps it (tax + 3.8% NIIT)	Effective rate	Single filer (standard deduction)	Effective rate
\$20,000	\$5,442	27.2%	\$390	1.9%
\$50,000	\$17,682	35.4%	\$3,820	7.6%
\$100,000	\$38,082	38.1%	\$13,170	13.2%

That's why a real irrevocable trust usually distributes its income to beneficiaries, who then pay at their own rates. California also taxes a trust's entire income when a trustee or a noncontingent beneficiary lives here, "regardless of the residence of the settlor" (Rev. & Tax. Code § 17742), which is why a Nevada or South Dakota trust doesn't solve the state side either. Our [2026 trust tax rates](#) page has the full tables, and [can a Nevada trust avoid California income taxes?](#) covers the out-of-state version of the pitch.

What is a GRAT, and who is it for?

A GRAT pays you a fixed annuity for a set term and passes whatever is left to your children, and it saves gift and estate tax only when the assets grow faster than the IRS's § 7520 rate, which was 5.6% for October 2026.

The leading case is *Walton v. Commissioner*, 115 T.C. 589 (2000). A Wal-Mart heir put Wal-Mart stock worth \$100,000,023.56 into each of two 2-year GRATs and valued the gifts of the remainder to her daughters at zero. The IRS asserted a gift tax deficiency of \$4,532,776.82. The Tax Court held that the Treasury regulation example the IRS relied on "is an unreasonable interpretation and an invalid extension of section 2702." That holding is what lets planners design a GRAT whose taxable gift is close to zero.

Notice the scale: a hundred million dollars of stock per trust, built to move growth out of a taxable estate. A GRAT is a gift and estate tax tool. It doesn't lower your income tax, and it does nothing for a family whose estate sits under the \$15,000,000 exemption.

What about dynasty trusts?

A dynasty trust uses the generation-skipping transfer tax exemption, \$15,000,000 per person for 2026, to keep wealth out of the estate tax for several generations, and California law limits how long one can last.

The GST exemption equals the estate tax basic exclusion amount (IRC § 2631(c)). Treasury has noted that some states now let trusts "continue in perpetuity." California isn't one of them. Under the statutory rule against perpetuities, an interest in a California trust has to vest or end within 90 years (Prob. Code § 21205). And a trust with a California trustee or noncontingent beneficiary still owes California income tax. For the families who need one, our page on [California dynasty trusts](#) explains how they work here.

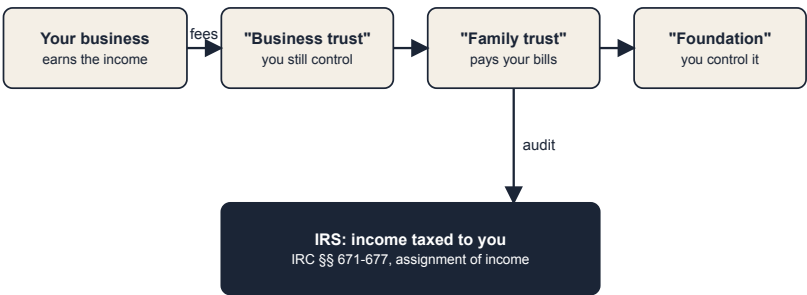
Does putting assets in an irrevocable trust help your heirs on capital gains?

It can hurt them: under Rev. Rul. 2023-2 (2023), assets in an irrevocable grantor trust that aren't included in your taxable estate don't get a step-up in basis when you die.

Assets in a revocable trust do get the step-up, because the Code treats property you could revoke as passing from you at death (IRC § 1014(b)(2)). Move the same stock or rental into an irrevocable trust built to stay out of your estate, and your children inherit your old basis. For a family with no estate tax to save, that trade only costs money. Details are on our page about [step-up in basis for irrevocable trusts](#), and the "never sell" version of the step-up pitch is covered in [buy, borrow, die](#).

How do people get in trouble with "zero tax" trust packages?

They pay a promoter to route business income through a chain of trusts and a "foundation," keep spending the money, and file returns the Justice Department treats as false.



Layer in the pitch	What the promoter says	What the law says
Business trust	Business income now belongs to the trust	Income is taxed to the person who earns it (IRS Q&A)
Family trust	Trust pays your house, car and travel	Personal living expenses aren't deductible (FTB Form 541 booklet)

Layer in the pitch	What the promoter says	What the law says
Private family foundation	Deduct what you give it, keep control	Promoters convicted for this structure (DOJ, June 2026)

In June 2026 a federal jury in Colorado convicted four promoters of a "layered" trust shelter built from a business trust, a family trust, a charitable trust and a private family foundation. DOJ says they taught clients to avoid federal income tax on "upwards of 98%" of their business profits, that setup cost \$25,000 to \$50,000, and that the scheme caused about \$40 million in losses. One of the four had already been convicted of tax evasion and permanently barred from promoting tax shelters. The Texas and Frisco cases described above came out of the same playbook. Our page on the [pure trust and constitutional trust scam](#) covers the older versions and the Tax Court cases that rejected them.

What should you do instead?

1 Fund a revocable living trust for probate, not taxes

Retitle the house and accounts into the trust so your family skips the statutory fees and the court process. Expect no change to your tax return. See [revocable vs. irrevocable trusts in California](#).

2 Check whether estate tax is even in play

If your estate, including life insurance and retirement accounts, is well under \$15,000,000 per person, the tools in the viral videos don't apply to you.

3 Make any trust seller answer three questions

Who drafted it? Will they give you a written tax opinion naming the Code sections? Is it a grantor trust? Anyone promising you'll keep control and owe no tax is describing the structure DOJ prosecuted in 2026.

4 If you already bought one, get independent advice before your next return

A tax attorney or CPA who didn't sell you the trust can tell you how to unwind it and fix prior filings.

When does a trust legitimately save tax or money?

When the estate is large enough to owe estate tax, or when the goal is something other than income tax, such as skipping probate or protecting a beneficiary.

Above the exemption, GRATs, [spousal lifetime access trusts](#), dynasty trusts and [irrevocable life insurance trusts](#) are legitimate and the IRS knows all about them. For ordinary families, trusts earn their keep in other ways: a funded living trust avoids probate, and a spendthrift clause keeps a beneficiary's income interest from being reached by a money judgment until it's paid out (Prob. Code § 15300). A trust for a child on public benefits is another good reason; see [leaving money to a child on benefits](#). None of these is a way to stop paying income tax.

Question	The social media version	What the law says
Does a living trust cut income tax?	Yes, the rich do it	No. It's a grantor trust; income goes on your 1040 (IRC §§ 671, 676)
Can an irrevocable trust shelter my business income?	Yes, if you buy the right package	Not if you control or benefit from it (IRC §§ 674 to 677); if you don't, the trust pays 37% above \$16,000 (2026)
What do GRATs and dynasty trusts save?	All your taxes	Gift, estate and GST tax on estates above \$15,000,000 per person (2026)
Will my heirs get a step-up?	Trusts protect it	Revocable trust, yes (IRC § 1014(b)(2)); irrevocable grantor trust outside your estate, no (Rev. Rul. 2023-2)
What does it cost?	"An investment"	\$25,000 to \$55,000 per package in the cases DOJ prosecuted in 2026

Frequently asked questions

Do trusts pay income tax?

A revocable trust doesn't; its income is taxed to you. An irrevocable non-grantor trust pays its own tax on income it keeps, at 2026 federal rates that reach 37% above \$16,000, and beneficiaries pay tax on what's distributed to them.

Can a trust help me avoid capital gains tax?

Not during your life. Selling an asset inside a revocable trust is the same as selling it yourself. At death, revocable trust assets get a step-up in basis; assets in an irrevocable grantor trust kept out of your estate don't (Rev. Rul. 2023-2).

Is a "non-grantor trust" a legal way to avoid tax?

A real non-grantor trust is legal, and it pays tax at compressed rates. The "non-grantor trust" packages sold as a way to keep control and stop paying tax are what DOJ prosecuted in the 2026 Frisco and Texas cases.

How big does an estate have to be to owe federal estate tax in 2026?

More than \$15,000,000 per person, the 2026 basic exclusion amount under Rev. Proc. 2025-32. California has no separate estate tax. Our [California estate tax guide](#) covers married couples and portability.

Does a trust protect my income from the IRS if I'm a business owner?

No. Income is taxed to the person who earns it, and personal expenses run through a trust aren't deductible. Business owners who want lower taxes should talk to a CPA about entity choice and retirement plans, not a trust package.

Why do influencers say the rich don't pay taxes through trusts?

Because the true part, that billionaires use GRATs and dynasty trusts against the estate tax, makes a good hook. The trust packages sold after the hook are aimed at income tax, where those tools don't work.

This page is general information about the law as of its update date. It isn't legal, tax, or investment advice for your situation, and reading it doesn't create an attorney-client relationship.

More myths from social media, checked against the actual rules: [the money myths series](#).

SOURCES

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- [ProPublica, More Than Half of America's 100 Richest People Exploit Special Trusts to Avoid Estate Taxes](#) (September 28, 2021)
- [Internal Revenue Code § 2631 \(GST exemption\) and § 1014 \(basis at death\)](#) (current)
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- [IRS Statistics of Income, Estate Tax Returns Filed in 2024, Table 1 and Table 2](#) (2026)
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- [California Rev. & Tax. Code § 17742](#) (current)
- [California Franchise Tax Board, 2025 Form 541 Booklet](#) (2025)
- [California Probate Code §§ 10800, 10810 \(statutory fees\)](#) (current)
- [California Probate Code § 15300 \(spendthrift\) and § 21205 \(rule against perpetuities\)](#) (current)

Questions about your own plan?

Ridley Law helps California families with trusts, wills, trust administration and probate from Port Hueneme, serving Ventura, Santa Barbara and Los Angeles counties. The first call is free and runs 30 minutes.

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