

Tax reporting for Rabbi Trusts

Federal tax reporting requirements for Rabbi Trusts are discussed in the instructions for Form 1041, U.S. Income Tax Return for Estates and Trusts.

Rabbi Trusts established for the benefit of nonqualified deferred compensation plan participants must be set up as **Grantor Trusts**. A Grantor Trust isn't recognized as a separate taxable entity for income tax purposes because the grantor (the company sponsoring the plan) hasn't relinquished control over the trust. All taxable income and deductions generated in the Trust are treated as belonging directly to the Grantor. Therefore, a Grantor Trust, as a separate tax entity, is ignored for tax purposes.

Form 1041 Instructions also allow simplified tax reporting for Grantor Trusts. There are two optional methods of reporting available. Unfortunately, for grantor trusts with a tax year different than a calendar year, these optional methods are not available, and a Form 1041 must be filed.

Optional method 1. Under this method, the trustee of the Rabbi Trust must have a signed Form W-9 of the grantor trust on file. The trustee then gives all payers of income the name and employer identification number (EIN) of the company. At the end of each year, the trustee must give a report to the company which details the payer and nature of each income item, any deductions, and states that the income and deductions must be reported on the sponsoring company's tax return. If these conditions are met:

- The Rabbi Trust **doesn't** need to file a Form 1041.
- The Rabbi Trust **doesn't** need a separate EIN as long as it continues to report using this method.

Optional method 2. Under this method, the Rabbi Trust has its own EIN, and the trustee gives all payers of income the name and EIN of the trust. The trustee must issue a Form 1099 to the company reporting each type of income in the aggregate and stating that the income must be reported on the grantor company's tax return. If these conditions are met:

- The Rabbi Trust **doesn't** need to file a Form 1041.

In lieu of these optional methods, the Rabbi Trust may choose to file a Form 1041, but in any case, all income and deductions must be reported on the company's tax return.

State filing requirements vary, but most states follow the federal rules. Check with your state for trust reporting requirements.



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