Dynasty Trusts

Essentials 2018

A dynasty trust is a powerful tool that is available to help provide for current and future generations. It is a trust designed to maximize the use of the donor's Generation Skipping Transfer (GST) tax exemption. This is typically done during life by allocation the GST tax exemption when creating the trust. When a dynasty trust is properly structured, the assets left in trust are not subject to estate taxes when they pass from one generation to another.

Dynasty Trust Is a Sophisticated Estate Planning Tool

- Complicated planning issues exist at both the state and federal level.
- The advantage can provide an effective way to transfer wealth to future generations with minimal tax.
- If the trust is created with highly appreciating assets, the tax leverage can be significant.
- If the trust is established in a state without termination rules, the dynasty can be created to help provide financial security to all future generations.

How a Dynasty Works

1. Client establishes a dynasty trust that is the owner and beneficiary of a life insurance policy.
2. Client transfers cash or assets to the dynasty trust. (Whether or not these gifts are subject to gift tax depends on your client's annual exclusions and/or lifetime gift tax exemption amounts. In addition, the client will need to allocate some or all of their GST tax exemption to the contributions made to their dynasty trust to avoid the GST tax.)
3. All future growth or death benefit will not be subject to future estate tax.
4. All future distributions of interest and principal are distributed free of the GST tax for the duration of the trust. *

Considerations

- The assets are usually exempt from the claims of beneficiary's creditors or ex-spouses because the assets do not actually belong to the beneficiaries. Careful planning is necessary to provide this protection.
- The client should consider naming a corporate co-trustee because the dynasty trust can continue for many years.

Essentially

A dynasty trust is a way for clients to provide financial security for their children and future generations. While a dynasty trust can be funded with many types of assets, life insurance is often used in order to maximize the amount of wealth transferred to the trust beneficiaries.

*A dynasty trust can be created in any state, however many states subject a trust to the "Rule Against Perpetuities." This is a rule that forces a trust to end at some point in time. Many states require a trust to end 21 years after the death of the last beneficiary alive when the trust was created. However, this law is governed at the state level and there are a number of states that have abolished or relaxed this rule. When the "Rule Against Perpetuities" is abolished, the trust does not need to end until the last living descendent of the trust creator dies. In this situation, there is potential for the trust to never end. Additionally, there are states with relaxed laws that allow a trust to continue anywhere from 150 to 1,000 years. To take advantage of another state's rules, it is important to have at least one trustee with significant powers based in the desired jurisdiction. Many times this is a bank or trust company.

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