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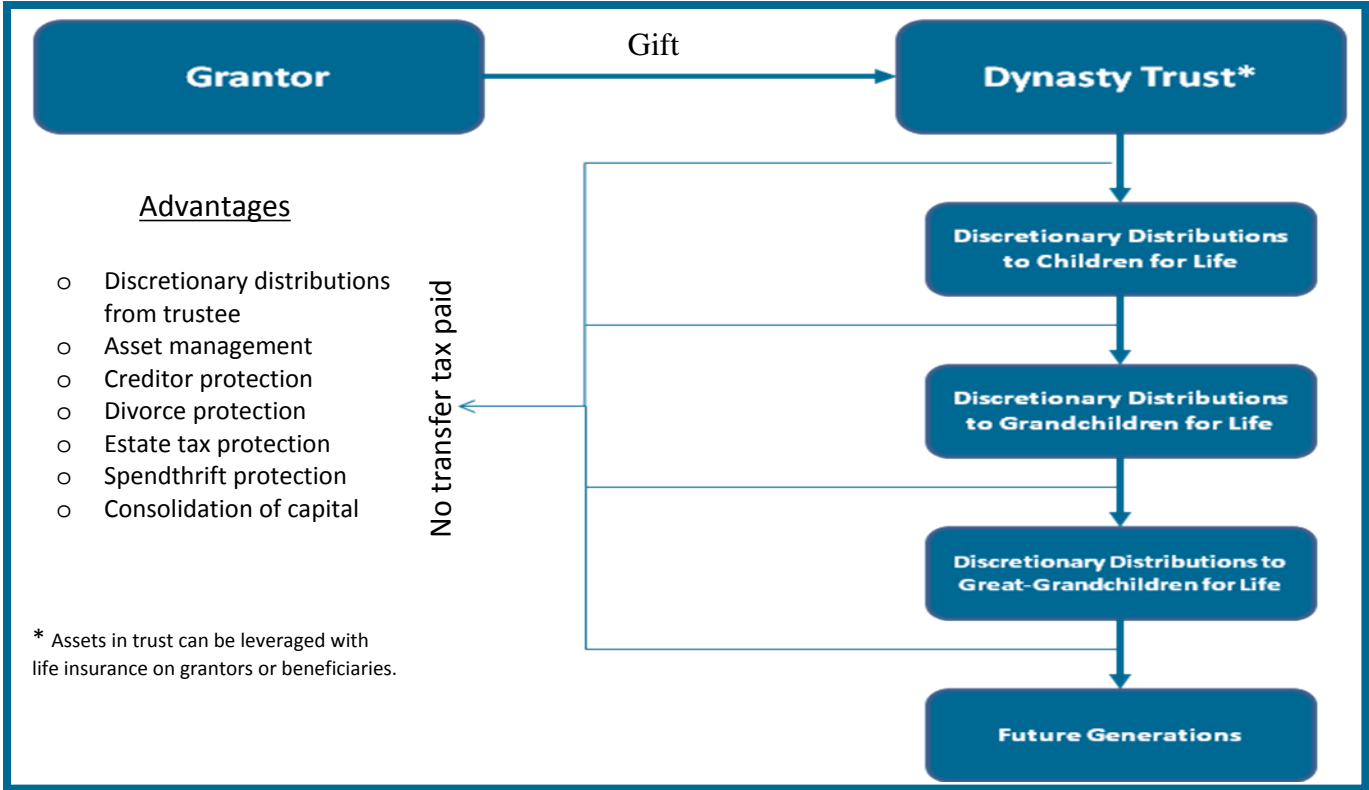
Opportunity

- ◆ For estate owners with the means to make significant gifts without compromising their lifestyle and security, a planning technique may exist to make these transfers without incurring a gift tax. In addition, when these tax-advantaged gifts are made to a trust specifically designed to benefit multiple generations of family members, the results can be quite compelling. With proper planning -- and, depending on state law -- assets in these "dynasty" trusts can be made available to children, grandchildren, and sometimes younger generations, while remaining sheltered from beneficiaries' potential creditors and ex-spouses; and, avoiding federal transfer taxes from one generation to the next.

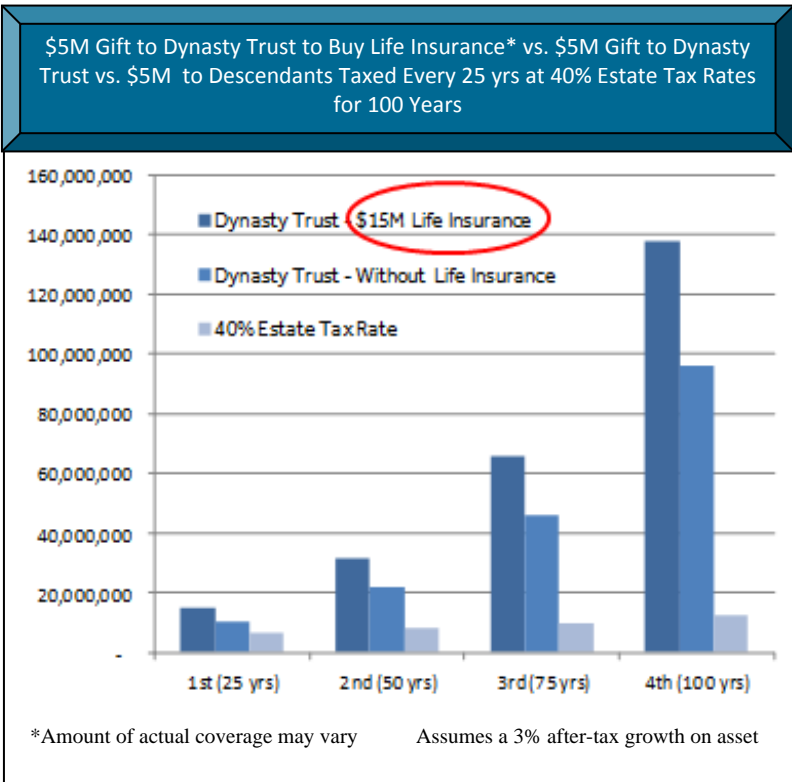
Overview: Minimizing or Eliminating Transfer Taxes for Several Generations

- ◆ Subject to certain exemptions and exclusions, transfer taxes may be imposed when one person transfers property to another. There are three types of transfer taxes: gift, estate, and generation-skipping.
- ◆ A "Dynasty Trust" is a type of trust that can be created to benefit several generations of the same family without being subject to estate or generation-skipping taxes when wealth is transferred from one generation to the next.

Dynasty Trust – How It Works



Proposed Concept: Create a Dynasty Trust with Life Insurance



◆ The chart compares three scenarios. Each scenario shows four generations of 25 years each and an initial gift of \$5,000,000, which grows at an annual after-tax rate of 3%. The 1st scenario shows the \$5,000,000 gift being used to purchase \$15,000,000 of survivorship life insurance in a dynasty trust. The insurance death benefit is paid when the grantors die after 25 years, with the proceeds invested at a 3% after-tax, annual return for the next 75 years. The 2nd scenario shows \$5,000,000 gift in a dynasty trust (without life insurance) that is not subject to estate taxes for 100 years. The 3rd scenario shows the \$5,000,000 assets subject to estate taxes at a 40% rate every 25 years. These hypothetical numbers show the potential power of the dynasty trust, especially in situations where life insurance death benefits or cash values can provide financial leverage.

Additional Considerations

- ◆ **Estate and Gift Tax.**¹ A gift tax is generally imposed on gratuitous lifetime transfers. However, donors may exclude from this tax, direct gifts up to \$15,000 per donee, per year (2018), made to an unlimited number of donees. Additional gifts may be subject to gift tax; but, the tax may be offset by using one's lifetime gift tax exclusion, currently \$11,180,000 (2018). This means no out-of-pocket gift taxes will need be paid until accumulated taxable gifts, beyond available annual exclusions, exceed \$11,180,000. At death, an estate tax is imposed on an individual estate owner's remaining property in excess of \$11,180,000, less any gift tax exclusion used in prior years.
- ◆ **Generation Skipping Transfer ("GST") Tax.** In addition to any estate or gift tax that may be due, a separate GST tax may be imposed on transfers to -- or for the benefit of -- a "skip person." A skip person is generally someone who is two or more generations removed from the transferor, such as a grandchild, great-grandchild, etc. Dynasty trusts tend to benefit skip persons (among others, such as children), resulting in a potential need for careful planning to reduce or eliminate GST taxes. Often, this involves efficient utilization of an estate owner's GST tax exemption of \$11,180,000 (2018).
- ◆ **State Law.** Since the maximum duration of most trusts -- including dynasty trusts -- is determined under applicable state law, the ultimate potential advantage of a dynasty trust can differ from one jurisdiction to the next. Some states, have removed their limitations on the duration of trusts, opening the possibility for truly multi-generational planning. Other states have limited the duration of trusts; but, even in these states, the potential advantages of dynasty trusts *can be quite* compelling.

¹ All future exclusion and exemption amounts are indexed for inflation.



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Ferris Financial, LLC

Matthew Ferris*, MBA

150 E. Mound Street, Suite 301, Columbus, OH 43215

Phone: (614)227-7090

msferris@ferris-financial.com

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