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A Truly Unique Holiday Gift!

By Sabrina Winters, Charlotte Wills and Estates Lawyer

As your Charlotte estate and tax-planning lawyer, I would like to ask how your holiday shopping is going? If you are like me you are trying your best to fit holiday shopping into every day family and work life, running errands and all other day-to-day obligations. What if I told you to skip the malls when looking for a holiday gift idea for your grandkids? If you are looking for a “one of a kind” gift, what about a *family limited partnership*?

Huh?

Let me explain...

While the estate tax lapse seems to be in the forefront of the news this year, there is also a lesser-known gap that is offering many people a tax-free way to pass on some of their wealth to their grandchildren.

The Generation-Skipping Transfer Tax, (GST), has also been repealed for 2010. What this means to grandparents is that you can leave outright gifts to your grandchildren as long as those gifts meet certain conditions. The definition of a “gift” is fairly broad, but one way to take advantage of this is to set up a partnership and then give away units to your grandchildren. This will mean that you can put funds into a family limited partnership and transfer them tax-free but also transfer it in a way to keep the kids from getting control of the assets all at once and possibly squandering them.

The GST is different than income, estate and gift taxes. The purpose of this tax is to keep people from transferring property many generations down with the intent and purpose of never paying any tax. So, the GST is imposed if the transfer avoids gift or estate tax.

Example...

Dad dies with a large estate and leaves his property in a trust with the income payable to his children. At his death, his trust assets go to his children. Dad’s estate would then owe estate tax.

But when his children die, the trust property would not be taxable in their name so the family will have avoided paying for a generation of estate tax. In this instance, the GST would apply.

It is important to point out that the GST applies to anyone, not just family, so this would apply to unrelated beneficiaries as long as they were at least 37 and one-half years younger than the deceased.

There are limits to what you can exempt in generation skipping gifts and you are only allowed to use them in certain circumstances. So, it is important to talk to an experienced Charlotte estate and tax-planning attorney when considering this.

So, as you are making your holiday list and checking it twice you might want to consider this for your grandchildren (naughty or nice!) This will be a gift they will remember (and thank you for!) for the rest of their lives!