

Dynasty trust planning: a tax-efficient way to manage wealthy families' assets

It is an estate-planning tool through which a parent's or grandparent's assets can continue to grow indefinitely for future generations without being subject to gift, estate or generation-skipping transfer taxes

By Michelle Canerday and Robert Gerber

Wealthy families have been taking advantage of an extremely beneficial estate-planning tool that advisers should be aware of. It allows individuals to pass millions — and in some cases billions — of dollars to children, grandchildren and future generations without ever having to pay estate, gift or generation-skipping transfer taxes on such assets, so long as they remain in the dynasty trust. This strategy is often referred to as dynasty trust planning.

DYNASTY TRUST PLANNING IN A NUTSHELL

Dynasty trust planning is an extremely powerful estate-planning tool whereby a parent or grandparent establishes a trust for the benefit of his or her children and grandchildren, then transfers assets to it, where they can continue to grow indefinitely for future generations without being subject to gift, estate or GST taxes.

Dynasty trust planning not only provides significant tax benefits, but it also shields the assets from creditors and former spouses in the event of a divorce. Being able to protect family wealth, especially family businesses, makes dynasty trust planning a particularly appealing option for many families.

HISTORICALLY HIGH EXEMPTION AMOUNTS

The federal estate and GST tax exemptions are currently set at \$5.43 million per taxpayer (less any prior usage). Thus, a married couple can give \$10.86 million to a dynasty trust for their children and grandchildren without incurring

any gift, estate or GST taxes on that transfer. On top of that, the assets gifted to the dynasty trust and all future appreciation on such assets are permanently removed from each parent's taxable estate.

Given the historically high exemption amounts, combined with relatively low market values and the ability to take discounts on certain business interests — often in the 30% to 40% range — this is an optimal time to suggest to clients that they consider transferring wealth to the next generation.

Despite rumors that the Treasury Department may be issuing new regulations that restrict the use of discounts in the near future, dynasty trust planning will continue to be an extremely useful estate-planning tool, because it allows a family to transfer assets to the next generation while removing all future appreciation on such assets from their taxable estates. This is extremely beneficial when an asset is expected to increase in value over time or where a liquidity event is anticipated in the future, such as when a business goes public (an initial public offering) or is involved in a strategic merger or acquisition.

In such instances, clients can reap significant tax benefits through dynasty trust planning, especially when assets are transferred to the dynasty trust before the liquidity event occurs.

LONG-TERM ASSET MANAGEMENT AND FLEXIBILITY

Dynasty trust planning also enables effective long-term asset management for various assets, including real estate, stock and private equity

investments. Assets that clients transfer to the dynasty trust will be held and managed by the trustee for the beneficiaries. Thus, a dynasty trust should include well-thought-out trustee and investment adviser provisions that will meet the needs of children and future generations.

Advisers and their clients can also use dynasty trust planning as a tool to start teaching future generations about financial goals and growth management. Children and other beneficiaries can serve as co-trustees or in supplementary investment adviser roles. In forming a dynasty trust, the parents have an opportunity to include key trust provisions for their children and grandchildren that aim to provide centralized management for the trust assets, appoint qualified individuals to manage the family assets and promote family harmony and financial stability for generations to come.

Many families have taken advantage of dynasty trust planning and transferred substantial wealth to the next generation, which may double or quadruple in value over the next five to 10 years. Given the sizeable assets that many families have accumulated over the past decade, dynasty trust planning has been and continues to be an extremely effective estate-planning tool that advisers should encourage clients to explore as an option for transferring assets to the next generation in a tax-efficient manner.

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