

DYNASTY TRUSTS



Estate planning trusts using life insurance.

What is a dynasty trust?

A dynasty trust usually refers to a form of irrevocable life insurance trust (ILIT) used to provide an ongoing legacy for future generations, while reducing taxes on wealth passed on to those generations by effective handling of the generation-skipping transfer tax (GSTT). Dynasty trusts are designed to alleviate estate taxes or GSTTs when trust assets are passed on to subsequent generations. In some states the trust may continue indefinitely, while in others, the term of the trust must be limited by state statutes (some follow “rules against perpetuities,” others have a statutory period, like 99 years). A licensed estate planning attorney can help you establish a dynasty trust that complies with your state’s requirements.

Incentive provisions may be included in the dynasty trust to help influence behavior by rewarding positive contributions and guard against negative lifestyle choices of beneficiaries. Grantors may choose to make payment conditional upon gainful employment, educational attainment, or other desirable behavior, or may require termination of payments to beneficiaries who engage in behaviors of which the grantor disapproves .

Who is a dynasty trust candidate?

- Anyone — not just the “ultra-wealthy” — who would like to create a family legacy to benefit successive generations.
- People who plan to leave substantial assets to grandchildren and want to utilize GSTT annual exclusions and lifetime exemptions as effectively as possible.
- Those who would like to provide incentives to influence their descendants’ behavior in a positive manner.

Why might you consider a dynasty trust?

- To pass on life insurance proceeds or other assets to multiple generations, outside of the grantor’s taxable estate.
- To create a lasting legacy for future generations.
- To protect trust assets from creditors and from the potential financial inexperience of beneficiaries, thus helping to ensure ongoing income for future generations.
- To promote personal values and ideals long after an individual has passed on, by inclusion of incentive provisions in the dynasty trust’s document.
- To protect trust assets from transfer taxes by effective use of the GSTT exclusions and exemption, thereby potentially increasing the wealth passed on to future generations.

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