



Is A Dynasty Trust Right For Me?

When transferring wealth to the next generation, many families prefer to make gifts to younger individuals in a trust rather than gifting the assets outright. This method of gifting assets to a trust can have many advantages, including asset protection, tax planning and maintaining control of the assets. There are many options when making a choice to create a trust, and it's important to choose the right option for your family.

In this article our attorneys break down dynasty trusts, a useful estate planning tool for multi-generational families. This option has several unique benefits that may make it the right choice for you.

What is a dynasty trust?

A dynasty trust, also known as a perpetual trust, is a powerful wealth transfer tool because it allows wealth to transfer from generation to generation without triggering transfer taxation such as gift, estate or generation-skipping transfer tax. A dynasty trust is an irrevocable trust with no specified termination date, and the trust lasts as long as there are assets in the trust.

Why use a dynasty trust?

By allocating generation-skipping transfer tax exemption to the assets transferred to the dynasty trust and drafting the trust so that the assets are not included in the beneficiaries' estates at their deaths, the trust assets escape estate taxation upon the death of each beneficiary. A dynasty trust allows wealth to be available to each generation while never being reduced by transfer taxes. In 2020, the generation-skipping transfer tax exemption amount is \$11,580,000 per person and is the same as the lifetime gift and estate tax exemption amount. The generation-skipping transfer tax is a tax levied in addition to the estate

tax on assets that pass to individuals more than one generation younger than the transferor, such as grandchildren.

Who would benefit from this tool?

Individuals with taxable estates should consider tools to reduce and eliminate transfer taxes for them and for future generations. Family business owners are great candidates for dynasty trust planning.

Where can a dynasty trust be created?

Ohio law permits settlors to create dynasty trusts by opting out of the Rule Against Perpetuities. Many other states permit perpetual trusts as well.



How does a dynasty trust help the beneficiary?

Properly drafted, the dynasty trust provides asset protection to the beneficiary so that the trust assets are outside the reach of the beneficiary's creditors and not subject to division upon divorce. The assets are available for the use of the beneficiary but sufficiently out of the beneficiary's control to maintain these protections. Dynasty trusts are better than any insurance policy a beneficiary can buy. Further, dynasty trust assets are not included in the estates of the beneficiaries, even if the assets double or triple in value.

When can a dynasty trust be created?

A dynasty trust can be created during life or upon death. Individuals with enough core capital to support their current lifestyle through life expectancy are candidates to use transfer tax exemptions during life.

Example: Outright Gift To Dynasty Trust

Client gives assets valued at \$11,580,000 to a dynasty trust for the benefit of child of the client. The client allocates \$11,580,000 gift tax exemption and generation-skipping transfer tax exemption to the gift to the dynasty trust. The client has removed \$11,580,000 from the client's estate without paying tax today. All assets in the dynasty trust will not be included in the child's estate or the child's descendants' estates and provide asset protection.

The attorneys in the Carlile Patchen & Murphy LLP Family Wealth & Estate Planning Group frequently create dynasty trusts for clients. If you are interested in learning more about this powerful wealth transfer tool, contact your attorney at CPM today.