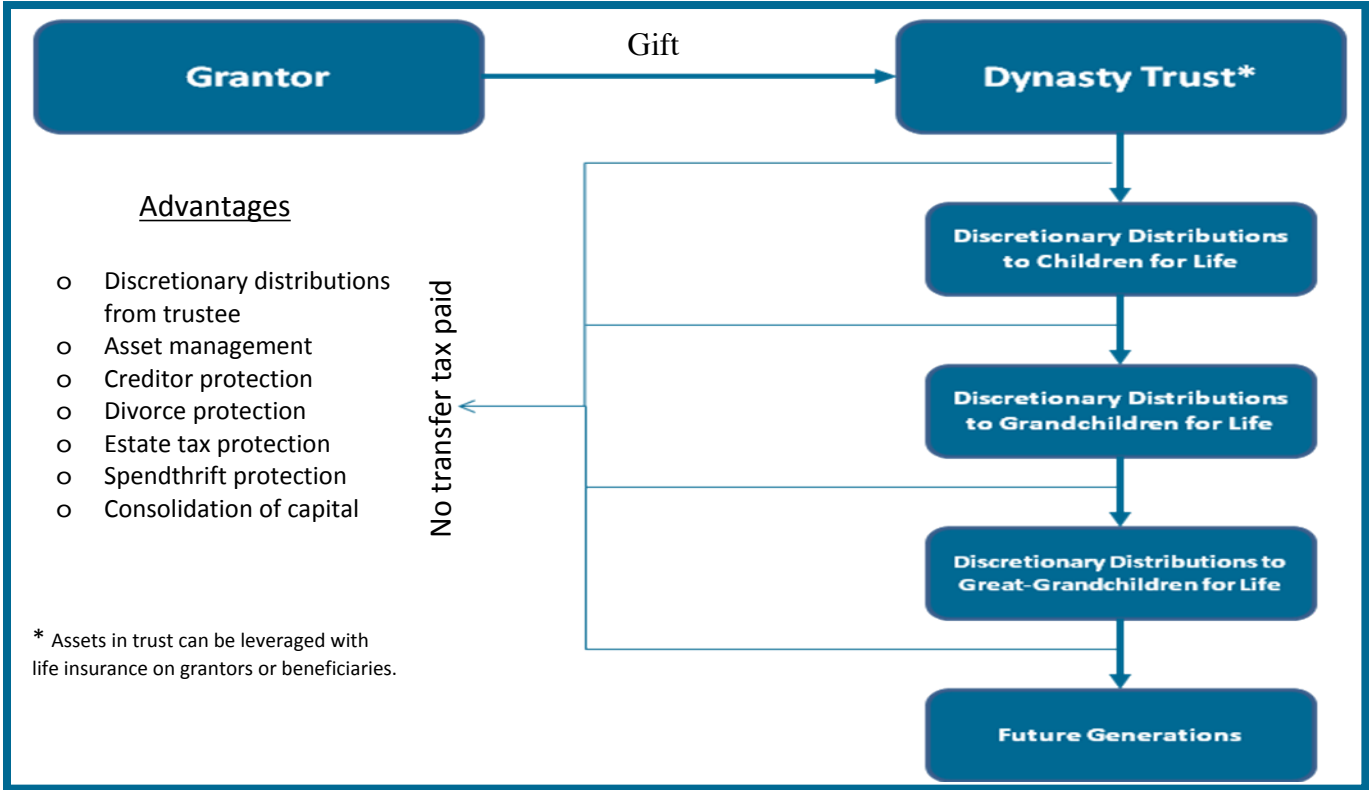
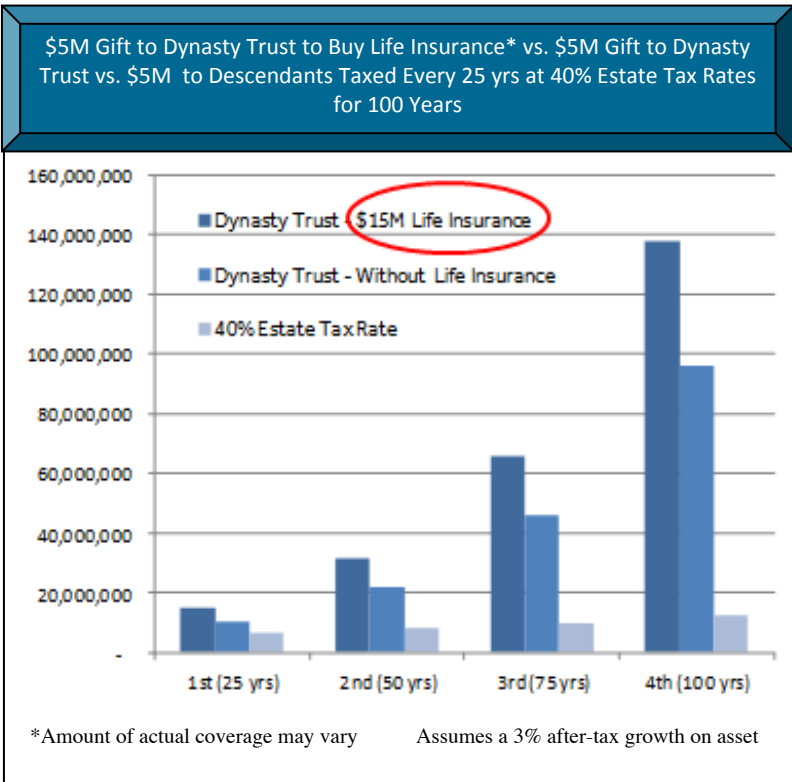




# Dynasty Trust – How It Works



## 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 1<sup>st</sup> 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 2<sup>nd</sup> scenario shows \$5,000,000 gift in a dynasty trust (without life insurance) that is not subject to estate taxes for 100 years. The 3<sup>rd</sup> 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.**<sup>1</sup> 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.

---

<sup>1</sup> All future exclusion and exemption amounts are indexed for inflation.



## **Atlantic Financial Group, LLC**

**Brett Sause\*, LUTCF®, LTCP®, CLTC®, FSCP®**

8706 Commerce Drive, Suite 1, Easton, MD 21601

Phone: (443)249-3311

[brett@atlanticfinancialgroup.org](mailto:brett@atlanticfinancialgroup.org)

\*Registered Representative offering securities through NYLIFE Securities LLC, Member FINRA/SIPC, a Licensed Insurance Agency, (8706 Commerce Drive, Suite 1, Easton, MD 21601). Member Agent of The Nautilus Group®, a service of New York Life Insurance Company.

This tax-related discussion reflects an understanding of generally applicable rules and was prepared to assist in the promotion or marketing of the transactions or matters addressed in this material. It is not intended (and cannot be used by any taxpayer) for the purpose of avoiding any IRS penalties that may be imposed upon the taxpayer. New York Life Insurance Company, its agents and employees may not give legal, tax or accounting advice. Please consult your own professional advisors before making any decisions.

This information was produced by New York Life Insurance Company and provided as a courtesy by Brett Sause. © 2016 New York Life Insurance Company. All rights reserved. SMRU 517314-TNG (exp. 4.1.2019)