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DYNASTY TRUSTS

Preserve Your Legacy

Upon hearing the term "dynasty trust," most people assume this type of planning is reserved for the Rockefellers or Vanderbilts of the world. However, many estate planning clients and their families can benefit from dynasty trust planning even without large estates. In general, dynasty trusts are long-term trusts designed to pass wealth from one generation to the next without incurring additional estate taxation. In Florida, proper dynasty trust planning can also provide enhanced wealth and asset protection to the beneficiaries, shielding the inheritance from the risks posed by divorce, malpractice, business failures and other creditors. It truly is the best of both worlds.

The Fundamentals

- ☐ Grantor creates a revocable living trust or an irrevocable trust during its lifetime.
- ☐ The grantor allocates part or all of its lifetime gift or estate tax credit <u>and</u> generation skipping transfer ("GST") tax exemptions (all currently $13,990,000 for 2025) to the trust in order to shelter it from future estate taxation. For an irrevocable trust, this allocation would be done on the grantor's gift tax return when the gift is made, and for a revocable trust, upon the grantor's death.
- ☐ Once the tax exemptions are allocated, *the assets retained in trust and all future appreciation are free from future estate and GST taxation* as the assets pass from generation to generation for the duration of the trust's existence. Additionally, the beneficiaries' own estate and GST tax exemptions will be preserved, allowing their tax credits to benefit their family too, since the inherited assets are not included in their taxable estates.
- ☐ If drafted properly, Florida dynasty trusts can also provide significant protection for the assets held in trust against creditors of a beneficiary.
- ☐ In Florida, the "Rule Against Perpetuities" statute allows dynasty trusts to remain in effect for up to 1,000 years – potentially protecting many future generations.

The Dynasty Trust in Action - Irrevocable Trust

- ☐ Mr. Smith creates a spousal lifetime access trust (see https://ivanlawgroup.com/blog/f/spousal-lifetime-access-trust-slat) with dynasty trust provisions for the benefit of his wife and children. Mr. Smith makes a $5,000,000 gift to the trust and allocates his lifetime gift and GST tax credits for this amount on his gift tax return. The gift doubles to $10,000,000 in 10 years by yielding a 7% return annually (see Rule of 72 discussed in link above).
- ☐ Assuming the current exemption amounts, the assets held in this trust are exempt from estate and GST taxation. The appreciation of those assets also escapes estate and GST taxation during his wife's lifetime, and for so long as those assets are held in trust for his children and future grandchildren for generations to come, while also providing substantial asset protection to the surviving spouse and children for their lifetimes.

The Dynasty Trust in Action – Revocable Living Trust

- ☐ Mr. Smith creates a revocable living trust with dynasty trust provisions for the benefit of his wife and children. At his death, Mr. Smith's estate is worth $5,000,000.
- ☐ Assuming the current estate and GST tax exemptions, the entire amount will be exempt from estate and GST taxation. The appreciation of those assets also escapes estate and GST taxation in the same manner as described above, while also providing substantial asset protection to the surviving spouse and children for their lifetimes.

Without proper dynasty trust planning, the assets described in the above examples, and all subsequent appreciation, would continue to be subject to estate and GST taxation at each generation (currently, 40%) and remain at risk to the beneficiaries' creditors.