

Dynasty Trusts

Dynasty Trusts

Some very wealthy folks (or probably their lawyers) figured out that if each generation leaves its money to its grandkids or great-grand kids instead of their children, then much estate tax can be avoided. Remember, if you leave the estate to the next generation, not only will you pay estate tax, but so will your children before your grandkids get the money. Every generation, the government gets their cut. But what if you leave money to your great grand children instead of your kids? Then not only would your kids not have to pay estate tax on that money when they die, but neither would the grandchildren. You can see why it would be advantageous for very wealthy families to only pay estate tax every 2nd or 3rd generation.

In 1976 the government decided to put a stop to this. It's apparently simply un-American to not pay taxes each generation, I guess. The philosophical reasons behind estate/gift/transfer taxes are interesting to discuss, but the fact remains that law is the law, so you might as well understand it. You can either rejoice about it or complain about it later, depending on your political leanings. At any rate, since 1976 the government has had a little-known (and seldom-applied) tax called the Generation-Skipping Transfer Tax. This basically ensures that estate taxes are at least paid every other generation. Just as there is a \$5 Million exemption for the estate tax, so is there a \$5 Million exemption for the Generation-Skipping Transfer Tax.

Enter the Dynasty or Generation-Skipping Trust. Basically, you form a trust that leaves your assets not to your children, but to your grandchildren. By doing this, your children won't

have to pay estate taxes on the assets in the trust. This is the main benefit of a dynasty trust. They are somewhat flexible, in that the income from the trust can still go to the children, but the assets pass directly to the grandchildren upon the death of the children and are never actually possessed by the children themselves. Upon the death of the grandchildren, estate taxes, of course, would be due. But since the assets have probably been divided up among a number of grandchildren, and since they'll probably all become spendthrift trust babies, there probably won't be any estate tax due anyway.

Most physicians will never have a need for this type of trust since the estate tax exemption is so high (\$5 Million for each spouse), but a few might. Remember also that if the estate tax and generation skipping tax exemptions are reduced back to \$1 Million, that this could very well become important to many doctors.

Learn more about estate planning [here](#).