

## **TOPIC: GENERATION SKIPPING TRUSTS**

The estate tax system assumes that assets are inherited by one generation and then the next, and are taxed upon the death of each succeeding generation. In the past, one way wealthy families avoided estate taxes was by passing on assets directly to grandchildren or great-grandchildren, thereby minimizing the number of times assets were subject to estate taxes. In order to prevent this practice, a special generation skipping tax is imposed whenever assets are passed down more than one generation at a time. The tax is at the highest marginal estate tax rate (40% in 2015) and is in addition to the normal estate tax. However, every individual is granted an aggregate \$5,430,000 (in 2015, increased in future years for inflation) lifetime exemption from the generation skipping tax. This means they can pass on a total of \$5,430,000 to grandchildren or great-grandchildren without incurring the generation skipping tax.

This exemption is often used with larger estates where children already have sufficient assets to provide for all of their anticipated needs. If the children inherited additional assets, those assets would probably never be needed or used by the children during their lifetimes and would ultimately pass through the children's estate to the grandchildren. The assets would be subject to estate taxes in both the parents and the children's estates.

To avoid this, each of the parents at their death can pass on the lifetime exemption amount directly to their grandchildren, thereby preventing the assets from being taxed in the children's estates, and the transfers will not be subject to the generation skipping tax. However, the assets will still be subject to tax as part of the parent's estate.

This can be done by each of the parents making direct bequests totaling the lifetime exemption amount to their grandchildren. Or, the parents can establish irrevocable trusts providing that the children have the right to all income from the trusts while they are alive, with the principal passing to the grandchildren upon the children's death. The bequests can also be incorporated into marital deduction or by-pass trusts.

We at Bingham, Osborn & Scarborough, LLC (BOS), are ready to work with clients, their attorneys and tax professionals on the merits and specifics of these and other investment and financial planning options. For additional information on this or related topics, or to learn more about the investment management and financial planning services offered by BOS, please visit our website at [www.bosinvest.com](http://www.bosinvest.com).

*Disclosure:*

*This white paper is for informational purposes only and is not intended to be used as a general guide to investing or financial planning, or as a source of any specific recommendations, and makes no implied or express recommendations concerning the manner in which any individual's account should or would be handled, as appropriate investment strategies depend upon the individual's specific objectives. It is the responsibility of any person or persons in possession of this material to inform himself or herself of and to seek appropriate advice regarding any investment or financial planning decisions, legal requirements, and taxation regulations which might be relevant to the topic of this white paper or the subscription, purchase, holding, exchange, redemption or disposal of any investments.*

*The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk. Past performance is not indicative of future results, which may vary. The value of investments and the income derived from investments can go down as well as up. Future returns are not guaranteed and inherent in any investment is the potential for loss.*

*This white paper does not constitute a solicitation in any jurisdiction in which such a solicitation is unlawful or to any person to whom it is unlawful. Moreover, this white paper neither constitutes an offer to enter into an investment agreement with the recipient nor an invitation to respond by making an offer to enter into an investment agreement.*

*Opinions expressed are current opinions as of the date appearing in this material only and are subject to change. No part of this material may, without the prior written consent of Bingham, Osborn & Scarborough, LLC, be (i) copied, photocopied or duplicated in any form, by any means, or (ii) distributed to any person that is not an employee, officer, director, or authorized agent of the recipient.*