The Weekly Scenario: Dynasty Trust planning

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The reasons for creating a dynasty trust vary depending upon the needs and desires of the trust settlor. Dynasty trusts can be created to provide creditor and so-called 'predator' protection for the beneficiaries of the trust generation after generation.

Such trusts can shield against divorce proceedings initiated against a beneficiary of the trust or creditors of a beneficiary arising out of a business failure.

The dynasty trust can also provide a pool of assets to be managed by a trustee for the benefit of all the beneficiaries, thus preventing individual beneficiaries from squandering their inheritance by misusing the funds or investing poorly.

The dynasty trust can also be used to encourage participation in certain worthwhile causes or discourage behavior that is unacceptable. One of the greatest way's dynasty trusts are used by families who value education is to establish a fund that will pay for the secondary and graduate education of many future generations. When you ask most people to name their great -great grandparents, they are unable to do so. But providing full college tuition and other educational perks for future generations could be helpful to establish a family legacy.

The generation skipping transfer tax exemption can be utilized to plan for several generations and build significant wealth. One of the reasons Congress enacted the generation skipping transfer tax is to curb the wealth building effects of dynasty planning. The concept of dynasty planning is to pass the maximum amount of wealth one can to their grandchildren (and subsequent generations) without subjecting the transfer to the tax. In so doing, one can exempt the trust property from future generations skipping the transfer tax.

As always, if you have any questions or would like to learn more, please contact Steve Shane at sshane@offitkurman.com or 301.575.0313.