

Dynasty trust

The concept

A dynasty trust is an ILIT typically established to benefit multiple generations of the grantor's family as a form of family bank that can provide funds to future generations for educational, medical and other needs, such as to start a business or purchase a home.

Benefits

The use of life insurance to fund the ILIT leverages the amount of wealth benefiting future generations, because the policy premiums are relatively small as compared with the death benefit. In addition, as long as the funds remain in the trust, they are protected from the creditors of the grantor and trust beneficiaries.

Tax considerations

- The grantor's generation-skipping transfer tax (GSTT) exemption is leveraged by applying it to the policy premiums as they are gifted to the trust, because the premiums are smaller than the death benefit
- The death benefit is paid to the trust both income and estate tax free
- If the trust is drafted with Crummey withdrawal rights, the gifts to the trust should qualify for the annual gift tax exclusion; in addition, the grantor may use their gift tax applicable exclusion to cover gifts in excess of the annual gift tax exclusion

Steps

- The grantor establishes an ILIT for the benefit of family members
- The grantor makes gifts to the ILIT, applying the grantor's annual gift tax exclusion and, if necessary, lifetime gift tax applicable exclusion
- The grantor applies his or her GSTT exclusion to gifts to the trust
- The trustee of the ILIT uses the gifts to purchase life insurance on the grantor

- Upon the grantor's death, the trustee collects the death proceeds — all income, estate and GSTT free
- The death proceeds serve as a form of family bank for as long as state law or the trust instrument permits

How it works

