



# Planning for Estates Worth Less Than the Generation-Skipping Tax Exemption

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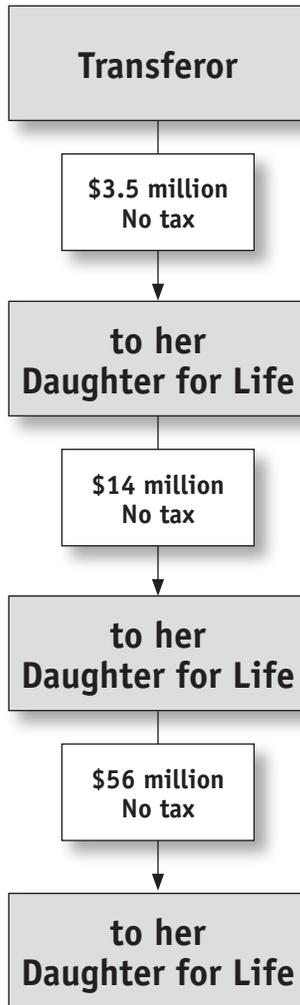
The Generation-Skipping Tax (GST) exemption makes the Generation-Skipping Transfer Tax (GSTT) irrelevant to unmarried clients with a net worth of less than the exemption amount. These clients can transfer all their wealth to grandchildren and other skip beneficiaries, including multi-generational bypass trusts, with the assurance that all their transfers will be exempt from the GSTT. No matter how large a multi-generational trust grows over many generations after the death of a client whose taxable estate is less than the GST exemption, no GSTT liability will result from any direct skips, taxable terminations, or taxable distributions with respect to trust assets.

## PLANNING FOR UNMARRIED CLIENTS WITH ESTATE LESS THAN THE GST EXEMPTION

Assuming a \$3.5 million GST exemption, an unmarried client can establish a testamentary, multi-generational bypass trust for his or her descendants.

**EXAMPLE:** Grandmother's living trust leaves Daughter \$3.5 million in an asset-protected, beneficiary-controlled bypass trust. Upon Daughter's death, the trust passes to Granddaughter under the same terms after it has grown to \$14 million in value, then to Great-Granddaughter upon Granddaughter's death when the trust has grown to \$56 million.

**Result:** Although there are two taxable terminations during the trust term, the first one equal to \$14 million when Daughter dies, and the second one equal to \$56 million when Granddaughter dies, the entire value of the trust will pass free of estate taxes under the bypass trust provisions because everything Grandmother transferred to the trust was covered by her GST exemption (and is automatically allocated to the trust to shelter its assets). Thus, the trust will be fully exempt from the GSTT, regardless of its increasing value.



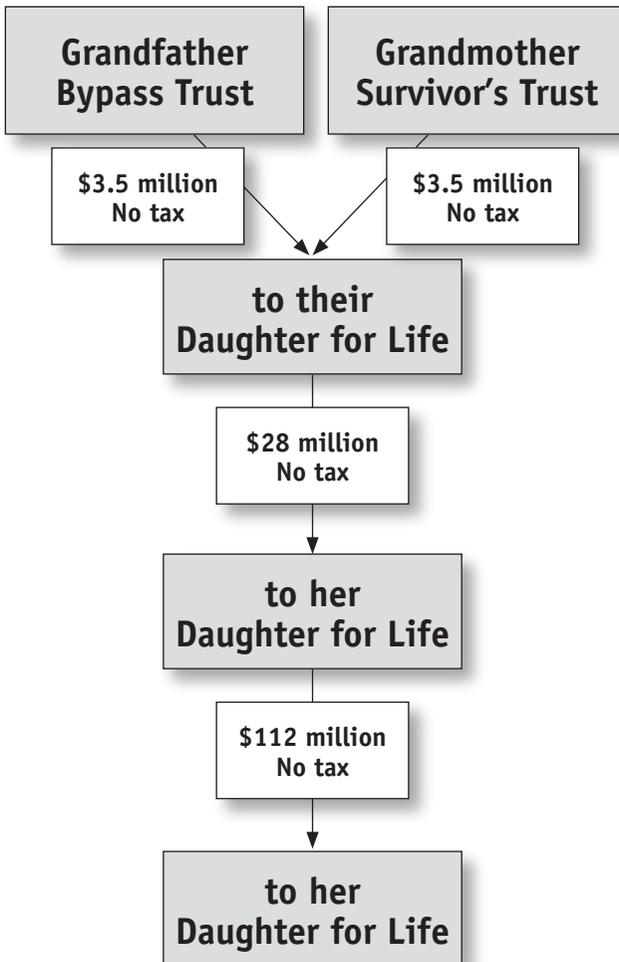
## PLANNING FOR COUPLES WITH COMBINED ESTATES LESS THAN \$7 MILLION

A husband and wife (or any unmarried couple for whom the estate tax marital deduction is not available) can leave \$7 million to their heirs (assuming each member of the couple has \$3.5 million) by establishing a bypass trust upon the death of the first spouse. A living trust plan for such a couple would look like this:

**EXAMPLE:** Grandfather and Grandmother each leave \$3.5 million to a bypass trust for the benefit of the survivor of them, then leave Daughter \$7 million in an asset-protected, beneficiary-controlled bypass trust. Upon Daughter's death, the trust passes to Granddaughter under

the same terms after it has grown to \$28 million in value, then to Great-Granddaughter upon Granddaughter's death when the trust has grown to \$112 million.

Result: Although there are two taxable terminations during the trust term, the first one equal to \$28 million when Daughter dies, and the second one equal to \$112 million when Granddaughter dies, the entire value of the trust will pass free of estate taxes under the bypass trust provisions because everything Grandfather and Grandmother transferred to the trust was covered by their GST exemptions (and is automatically allocated to the trust to shelter its assets). Thus, the trust will be fully exempt from GSTT, regardless of its increasing value.



As these two plans illustrate, even the heirs of small estates can benefit from GSTT planning because 1) even if the estate of a client is small, adding it to the estate of an

otherwise nontaxable beneficiary can raise that beneficiary's estate above the \$3.5 million (as of 2009) taxable threshold, 2) compound growth can turn a nontaxable estate into a taxable one over time, and 3) the flexibility and freedom to pass wealth from generation to generation of beneficiaries free of estate tax and GSTT allows you to plan for several generations of beneficiaries without having to worry about subjecting them to future transfer taxes.

These examples also illustrate that, if the GSTT exemption remains the \$3.5 million level it will be in 2009, under current law, GSTT planning will save all but fantastically large estates from being taxed when they pass to second, third, and fourth generations of beneficiaries, no matter how much the estates grow over the generations.

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