

# Heirs of Heirs of Heirs of Heirs Love Dynasty Trusts

**The tool needed to leave money for generations to come is getting new looks after the 2018 tax overhaul.**

Bloomberg Businessweek | Ben Steverman

Everyone dies eventually, but if you're wealthy enough, your money might live forever. Dynasty trusts are a tool to make that possible. Thanks to the tax overhaul signed by President Donald Trump, these trusts are getting new attention from ultra-wealthy Americans looking to provide for the financial needs of grandchildren, great-grandchildren and beyond.

## 1. What Are Dynasty Trusts?

Most trusts -- bank accounts held by one person, a trustee, for the benefit of another person or group -- come with expiration dates. A few states, including Delaware and South Dakota, permit trusts to last forever. People from across the U.S. can open dynasty trusts in these states, and top wealth planning firms say they're doing so.

## 2. Why Are They Getting Popular Now?

The tax overhaul doubled -- to \$11.2 million for an individual and \$22.4 million for a married couple -- the amount that can be passed to heirs without triggering estate and gift taxes. But these higher thresholds are only in place until 2025, giving the rich a potentially limited opportunity to pass more wealth to family members tax-free, while also exerting some control over how heirs spend their inheritances. The higher exemption amounts also mean wealthy families can transfer enough assets to dynasty trusts to justify their extra set-up and administration costs.

## 3. Why Use a Trust in the First Place?

Trusts protect assets from creditors and former spouses. They can enable clever financial maneuvers that maximize the estate and gift-tax exemption. And trusts give donors some control over how their money gets spent, for instance by putting limits on withdrawals so money can only be used for college or other specific purposes.

## 4. Why Choose a Dynasty Trust?

Under the previous estate-tax limits, many wealthy Americans already had set up trusts for the benefit of their children. If you wish to make your grandchildren or great-grandchildren rich, a dynasty trust can make that easier.

## **5. How Do They Work?**

They can be funded with cash, stock or other assets, and structured to pay each generation only some of the trust's proceeds while the rest of the money grows free of estate and gift taxes. While trusts or their recipients generally need to pay taxes on income and gains, they don't owe capital-gains taxes until assets are sold. With the right planning, a trust funded up to the maximum \$22.4 million tax exemption can wind up being worth far more than that.

## **6. What's the Future of Dynasty Trusts?**

Most Republicans say they want to kill off the estate tax completely, which would make estate trusts unnecessary as a tax-avoidance tool. But concerns about costs resulted in the law boosting the exemption amount only temporarily. Democrats say that if they get the chance, they'll restore the \$11.2 million exemption amount for married couples, which would reduce the appeal of dynasty trusts. But doing that would require retaking both chambers of Congress. Should that happen, any assets in trusts would remain protected from the estate tax unless Congress specifically passed a law saying otherwise.