The generation-skipping transfer (GST) is among the least-understood and most underutilized tools available for estate planning. When used properly, a GST not only provides a safe way to bequeath assets to future generations, but can also provide tax benefits that can save substantial sums – particularly for large estates.

What is a Generation-Skipping Transfer?

So, what is a generation-skipping transfer? A GST is a form of gift that allows for assets to be transferred from a grandparent to a grandchild (effectively "skipping" the parent generation). This is not the only scenario, but it is the most common. GSTs can also be used to transfer assets to other individuals who are at least one generation removed, as well as to unrelated individuals who are at least 37 and a half years younger than the grantor.

What are Some of the Benefits of a Generation-Skipping Transfer?

Generation-skipping transfers can be achieved through use of the estate planning tool known as a generation-skipping trust (sometimes referred to as a "dynasty trust"). This is an irrevocable trust that can provide several benefits under the right circumstances. Potential benefits of incorporating a generation-skipping trust into your estate plan include:

Preserving wealth for future generations – If you want to ensure that your grandchildren (or other relatives or loved ones) have access to your wealth long after your death, the best way to do so may be through the use of one or more GSTs.

Keeping heirlooms in the family – If you have prized possessions which, for one reason or another, you believe would be best preserved by bequeathing them to a future generation, you may choose to use a generation-skipping trust.

Limiting or eliminating estate and gift tax liability – For high-net-worth individuals, the administration of an estate plan can trigger substantial estate and gift tax liability. The Internal Revenue Service (IRS) also imposes a “GST tax,” which is designed to prevent individuals from using generation-skipping transfers to avoid estate and gift tax liability. However, when used appropriately, GSTs can still provide significant tax-savings opportunities.

Who Should Consider Incorporating a GST Into Their Estate Plan?

Is a generation-skipping transfer right for you? It depends. If you want to ensure the preservation of assets for future generations, then a GST may be a good option. While a generation-skipping trust is one option for realizing the benefits discussed above, depending on your individual circumstances and estate planning goals, you may have other options available as well. As a result, before settling on a generation-skipping trust, it is important to consider other estate planning tools that may provide even greater benefits, and to make sure that any GSTs will work with the remainder of your estate plan.

Contact the McKinney Estate Planning

Lawyers at The Nordhaus Firm

Do you have questions about estate planning? If so, we encourage you to contact us for a free initial estate planning consultation at our law offices in McKinney, TX. To schedule an appointment at your convenience, please call (214) 726-1450 or send us your contact information online today.