When preparing your estate plan, it is important to choose the right tools for your family and financial circumstances. While a will, revocable living trust and healthcare planning documents will be sufficient for many people, for others, tools that serve more-specific estate planning purposes will be necessary.

For high-net-worth individuals, one estate planning tool that can be particularly effective is the generation-skipping trust. This is a type of irrevocable trust that offers tax and other benefits. Here, our McKinney estate planning lawyers discuss when, why, and how to incorporate a generation-skipping trust into your estate plan.

Understanding the Benefits of Generation-Skipping Trusts

As its name suggests, a generation-skipping trust affords the opportunity to leave a portion of your wealth to your grandchildren, and potentially to future generations as well. The purpose of this is not to disinherit your children, but rather to ensure that as much of your wealth is preserved for future generations as possible. In most cases, generation-skipping trusts will be utilized in conjunction with revocable living trusts and other estate planning documents in order to comprehensively address the distribution of an individual's estate.

The primary benefit of establishing a generation-skipping trust involves mitigating federal estate tax liability. If the value of your estate exceeds the threshold for federal estate tax liability (which is $11,580,000 for 2020), then your estate will be taxed at a rate as high as 45 percent. If you leave a substantial amount of wealth to your children, then their estates will be taxed again, and this will continue down the line—potentially resulting in millions of dollars being paid to the Internal Revenue Service (IRS) for generations to come.

A generation-skipping trust avoids this issue by reducing the amount of your estate that you leave to your children, and thus reducing the amount that is potentially subject to repeated taxation. By carefully structuring your estate plan, you can avoid substantial estate tax liability while still achieving all of your other estate

planning goals. You can ensure that your children will have the assets they need to live comfortably, and you can also ensure that your grandchildren and/or others will be able to benefit from your wealth accumulation to the fullest extent possible.

What is Required to Form a Generation-Skipping Trust?

If a generation-skipping trust makes sense for your estate planning needs, you will need to work with your lawyer to carefully structure the trust – and the rest of your estate plan – to achieve maximum tax savings. The only significant limitation on generation-skipping trusts is that your chosen beneficiaries must be at least 37.5 years younger than you. If you have questions or are ready to get started, we invite you to schedule a time to speak with one of our attorneys.

Discuss Forming a Generation-Skipping Trust with an Estate Planning Lawyer in McKinney, TX

Are you interested in preserving as much of your wealth as possible for future generations? If so, our McKinney estate planning lawyers can help. To schedule an appointment at your convenience, please call 214-726-1450 or contact us online today.