

Your *Trust* Matters

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MidWestOne™
TRUST SERVICES



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Advanced Wealth Transfer Techniques

The focus of most estate plans is a combination of the following: the orderly transfer of property upon death, the continuing care of minor children, support for disabled children and elderly parents, and creditor protection for heirs, among others. For those fortunate enough to have significant wealth, estate plans should have an additional focus on minimizing federal and state death and income taxes. Because tax laws frequently change, it's important to have trusted relationships with knowledgeable financial, estate, and tax advisors to help you navigate these waters.

Under the American Taxpayer Relief Act of 2012, the \$5 million (indexed to inflation) exemptions for estate, gift, and generation-skipping transfer taxes became "permanent." Of course, the only permanent is change, which could certainly be accelerated via the most recent change in legislative and executive power. Although the Tax Cuts and Jobs Act of 2017 doubled the federal exemptions through the end of 2025, high-net-worth families should be consulting their advisors now regarding their overall financial plan, potential tax liabilities, and wealth transfer goals to ensure they're well positioned to make changes to their estate plan should changes become imminent.

Below are high-level summaries of a few wealth transfer vehicles that these families could consider. Please note that this list is not exhaustive, these may not be appropriate in certain circumstances, and you should consult your tax and/or legal advisor for more information.

Spousal Limited Access Trust (SLAT)

- An irrevocable trust established by one spouse for the benefit of the surviving spouse. Descendants may also be beneficiaries.
- Effective tool to "lock in" current gift, estate, and GST tax exemptions.
- Generally, this type of trust is considered a "grantor" trust for income tax purposes. Thus, the trust entity is disregarded, and the income of the trust is taxed to the grantor as if the assets were owned by the grantor. This results in income-tax free growth of the trust assets.
- At the beneficiary-spouse's death, the assets may remain in trust for the benefit of descendants.

Grantor Retained Annuity Trust (GRAT)

- An irrevocable trust in which the grantor receives a fixed annuity for a specified term. At the end of the term, the remaining assets are distributed to the remainder beneficiaries.
- Generally, if the total return of the trust assets is greater than the Section 7520 rate (Feb. 2021 = 0.6%), assets can be transferred to the remainder beneficiaries with little or no gift tax consequences.
- Suitable assets to contribute to a GRAT consist of: (1) assets that can be valued low (e.g., due to marketability and minority discounts), and/or (2) assets that are expected to appreciate substantially during the term of the trust.

Sale to Intentionally Defective Grantor Trust (IDGT)

- The IDGT is an irrevocable trust that is structured so that the assets are excluded from the grantor's estate for estate tax purposes but is considered a "grantor" trust for income tax purposes. Thus, the income of the trust is taxed to the grantor as if the assets were owned by the grantor, and any transactions between the grantor and the trust are generally ignored for income tax purposes.
- After an initial gift of cash to the trust, usually greater than 10% of the total value of the trust assets, the grantor sells additional assets to the trust in exchange for a promissory note secured by the assets sold to the trust.
- Significant wealth transfer benefits can result if the total return of the trust assets is greater than the interest rate of the note.
- Grantor can use GST tax exemption for initial cash gift, making this a better vehicle for dynasty planning than a GRAT.
- Suitable assets to sell to an IDGT consist of: (1) assets that can be valued low (e.g., due to marketability and minority discounts), and/or (2) assets that are expected to appreciate substantially during the term of the trust.

Developing the best strategy for your wealth transfer plans is not always clear and easy. Please don't hesitate to contact our experts on the MidWestOne Bank Trust Services team today for a discussion!

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