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THE DYNASTY TRUST AND HOW IT WORKS

DYNASTY. The word itself just oozes wealth, doesn't it?

In the case of estate planning, the historic reputation of the Dynasty Trust is just that. It is an instrument that has been used by the wealthy to preserve the wealth and legacy of family assets for generations upon generations. If you've ever been to Newport, RI and toured the great mansions, I'm confident that each and every family from the Rockefellers and on, enjoyed the benefits of the Dynasty Trust. And it is a well-spoken topic that the Kennedy's are still enjoying the benefits of the Dynasty Trusts established generations ago.

So what is it, how does it work and who really benefits by it?

A Dynasty Trust is essentially an Irrevocable Trust used to pass significant wealth and assets to descendants of the person establishing the Trust. It is the epitome of long term financial planning. This is because it doesn't leave assets to a spouse or the immediate children, but to grand-children and great-grand-children and so on. In theory, a Grantor could leave a substantial estate to heirs multiple generations down the road.

This process went on for many years and an extreme amount of wealth was passed on tax-free. Well, the government didn't appreciate that very much and decided to enact a tax law called the Generation Skipping Tax. Now, if you transfer wealth to your descendants by skipping a few generations, you still pay a tax. In essence, the government limited the transfer so that they will eventually get their tax dollars.

However, and this may be a good thing or a bad thing depending on how you look at it, the government has also provided for the gift tax exclusion. The amount varies year by year or should I say, President by President. It seems as though the exclusion amount changes when the Presidency administration changes. Currently there is a \$11.58 million gift tax exclusion which means that you can gift away, in your lifetime, up to \$11.58 million tax free. After that, you pay a significant percentage in taxes on gifted transfers of wealth. However, that amount can drop any time the President or Congress wishes to change that rule!

One other item that affects the Dynasty Trust is a little known law called the Rule Against Perpetuities. This law limits the number of generations that can be skipped before the Trust must commence distributions. In essence, the law puts a time limit on the Trust so that the money can't be held in trust forever. Connecticut's

rule is included in the Connecticut General Statutes §45A-491. Generally, the Rule provides that the distribution must take place within 21 years after the last remaining beneficiary, alive at the time of the making of the Trust, dies.

So how does this affect the Dynasty Trust? Well, you can still leave assets to descendants generation down the line, but it has to be within the exclusion amount, and within a certain time limit. Quite frankly, with the exclusions and taxes in place now, the Dynasty Trust is no longer a tool that is used only by the upper elite. A few million dollars during your lifetime is not a lot of money when you really think about it. So Dynasty Trusts have become estate planning tools in the arsenal of most estate planners today.

I have only skimmed the basics of this comprehensive Trust in this article. There is a lot of information to know before determining if this Trust is right for you. However, when used correctly, this Trust is very powerful, not only for preserving wealth but for its powerful asset protection functionality. If you have not used up your lifetime gift exclusion allowance and you are interested in preserving some family wealth for future generations, I encourage you to learn more about the Dynasty Trust.

Anthony J. Medico, Esq., has practiced law for over 27 years. To ask a question regarding this article, send an e-mail to info@medicoandassociates.com or call us at (203) 661-8151. To read more highly informative Estate Planning articles, visit our website at www.medicoandassociates.com, where you can also download our free Estate Planning Survival Guide. Enjoy.

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