# ESTATE PLANNING FOR MULTI-GENERATION GST TRUSTS

Generation skipping trust (GST) planning has become more common over the last thirty years as successful business owners, executives, and wealthy individuals have enjoyed economic success.

Life insurance owned by a GST can offset large estate taxes due when a grandparent estate owner dies which can provide significant financial leverage with income, estate, and generation skipping tax free funding. This injection of insurance proceeds into the GST can provide a tax-free inheritance to the grandchildren while "skipping" estate taxes on the middle generation children.

But what if the first-generation grandparent is uninsurable? Or rated so high as to make the premium unaffordable from a cash flow point of view? Or financially non-competitive from an Internal Rate of Return (IRR) point of view? Is there a way to restore asset value to the family, which will be lost to large federal and/or state estate taxes when the first-generation grandparent dies? The answer is yes!

The first-generation grandparent can be the grantor of a generation skipping "estate restoration" Irrevocable Life Insurance Trust (ILIT) for the benefit of the third-generation grandchildren. The grantor can make annual gifts to this trust to fund the premiums on the lives of the second-generation children. Eventually, the death proceeds will be income, estate, and generation skipping tax-free to the ILIT for the benefit of the grandchildren.

If desired, a time value of money factor can also be assigned to the estate assets lost to estate taxes to determine the total death benefit that may be placed in force subject to the financial underwriting guideline limits of the carrier.

## Case Example of Generation Skipping Trust

The grandparent is a female age 85 whose husband died many years ago. She is uninsurable based on medical history. She has an estate of $30,000,000 and is facing about $7,000,000 of estate taxes. She wants to find a way to offset these taxes and restore this impending lost asset value to her family. Her son and daughter in law are both age 60, and they have a significant estate of their own. There are three grandchildren in this family who would ultimately benefit from any multi-generation planning.

**Solution and Case Design**

Create a generation skipping “estate restoration” ILIT where the remainder beneficiaries of the trust are the three grandchildren. The trust is authorized to purchase insurance on the lives of any of the direct descendants of the grantor and their families. The trust also authorizes direct descendants and trust beneficiaries to make their own contributions to the trust if desired.

The trustee becomes the applicant, owner, and beneficiary of a competitive $7,000,000 10-pay guaranteed no-lapse Survivorship Universal Life (SUL) policy on the lives of the son and daughter in law. The 85-year-old grantor makes annual premium gifts of about $170,000 per year for 10 years to the ILIT. The trust has the usual “Crummey” withdrawal powers for children and “Cristofani” withdrawal powers for grandchildren so the gifts can qualify for gift tax annual exclusions. The grantor allocates these gift tax annual exclusions, applicable lifetime gift exemption, and generation skipping exemption on the Form 709 U.S. Gift Tax return.

**Gift and Generation Skipping Tax Considerations**

- The grantor allocates $17,000 gift tax annual exclusions, times five trust beneficiaries (son, daughter in law, three grandchildren) which adds up to $85,000 in annual exclusions available to offset annual premium gifts of $170,000.
- The grantor will allocate an the additional $85,000 to lifetime gift exemptions each year for 10 years on the Form 709 U.S. Gift Tax return. The 2023 lifetime gift exemption is $12,920,000.
- The grantor also allocates $170,000 each year for 10 years to concurrent generation skipping exemptions on the Form 709 U.S. Gift Tax return. The 2023 generation skipping exemption is $12,920,000. This generation skipping exemption is NOT in addition to the lifetime gift exemption. The GST exemption is a concurrent measurement at the same time as the lifetime gift exemption.

If a time value of money (4%) factor is taken into account for financial underwriting purposes, the carrier could be asked to underwrite a larger Survivorship SUL death benefit of about $14,000,000. This larger death benefit takes into account the fact that the restoration of lost estate taxes will not take place until some future year beyond the death of the 85-year-old grantor. The annual premium for a 10-pay no-lapse SUL with a $14,000,000 death benefit would be approximately $340,000 with annual exclusions, lifetime gift exemption, and generation skipping exemption allocated accordingly on the Form 709 U.S. Gift Tax return.

If the 85-year-old grantor dies before making all 10 annual gifts for premiums, then the second-generation children can make the remaining gifts into the trust to complete the 10-pay no-lapse premium schedule.

In summary, the 85-year-old grandmother is making annual cash gifts to the trust for insurance on the joint lives of her son and daughter in law for the ultimate benefit of her three grandchildren. It will take a while, but the grandmother's estate will eventually be restored for her family even though she was currently uninsurable.


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