TRUST & ESTATE ADMINISTRATION
FAMILY TRUSTS

Current tax law permanently sets the federal estate tax exemption amount at $5.0 million per individual, as indexed for inflation. That means that 2017 estates that exceed $5,450,000 will pay a tax rate of 40% on every dollar above the exclusion amount. The federal gift tax is integrated with the estate tax and will also be imposed at 40% with a $5.0 million exemption, as indexed for inflation.

Congress has also made permanent a portability provision which effectively permits a surviving spouse to inherit a deceased spouse's unused estate tax exemption, which the survivor can then use in addition to his or her own lifetime gift and estate tax exemption.

The added flexibility of portability may mean that family trusts or credit shelter trusts are no longer needed to take advantage of the federal estate tax credit of both spouses. However, there are hidden risks to relying solely on the new portability language to control the flow of a sizeable estate. A well-crafted family or credit shelter trust provides asset protection, professional management, control of ultimate beneficiaries, and the means to provide for children from a previous marriage. In fact, flexible estate planning is still important.

Regardless of changes to the estate tax, a good way to make the most of the estate-tax credit is to arrange for your estate to be divided into two parts at your death. One part passes outright to your spouse. The second part of your estate is placed in a trust, called a family trust or B trust, created under your will. This trust can pay your surviving spouse a lifetime income, and principal from the trust corpus at the trustee's discretion, and then benefit your children or other named beneficiaries after your spouse's death.

The amount funded in the trust at your death usually is limited to the estate tax exemption amount so that any tax on the assets funded into the trust will be offset by the exemption. No tax is due on the assets passing outright to your spouse, either, because of the unlimited marital deduction.

At your spouse's death, the family trust assets will pass to your children or other trust beneficiaries. These assets won't be taxed as part of your spouse's estate. The assets that passed to your spouse under the unlimited marital deduction will be included in your spouse's estate. However, your spouse's estate tax exemption amount will be available to offset tax on some or all of those assets. So by using a family trust you can effectively transfer twice as many assets to your loved ones, free of federal estate tax, as you could do without this planning strategy.

First Business Trust & Investments can act as the trustee for your family trust to professionally manage trust assets and correctly administer the trust to take advantage of tax savings and to provide for beneficiaries.

WANT TO LEARN MORE?

Let's talk. Contact your First Business representative today.