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What is the Biggest Loophole in the Tax Law Today?

Even for those with modest estates, one available planning option which is growing in popularity is the "Family Legacy Trust." This arrangement is also known as the "Generation Skipping Trust," or the "Dynasty Trust," because it is intended to provide a source of funds for your family for generations to come.

Over time, the value of these funds is likely to increase substantially. For example, a trust initially funded with \$500,000 and growing at 7% annually, would be worth over \$1,900,000 after 20 years, approximately \$7,500,000 after 40 years and nearly \$29,000,000 after 60 years! Due to this dramatic potential for growth, creating such a trust requires careful planning to address a variety of important issues.

When properly prepared, the Family Legacy Trust serves as a barrier to insulate assets from the reach of outsiders. In this manner, the trust property will be protected from the claims of creditors, such as a former spouse in the event of divorce or other potential liability arising from lawsuits.

Similarly, the assets of the trust are exempt from future estate tax upon the death of a beneficiary. The general rule is that family wealth is taxed at the end of each generation. This means that the assets you leave to your children will be taxed as part of the children's estate when they die. A way to avoid this double taxation is by using the Family Legacy Trust.

Children are often puzzled when they learn that their inheritance was left in a "generation skipping trust". The name of this trust implies that the decedent skipped the children. In fact, however, the decedent left the assets in a way **to skip a generation of estate taxes** when the children later die and to provide protection for the children during their lifetime. The children can consume their legacy trust if they want.

The following illustrations demonstrate the powerful economic effect of skipping one or more generations of estate tax.

WITHOUT FAMILY LEGACY TRUST

	<u>Amount Inherited</u>	<u>Amount Owned At Death</u>	<u>Estate Tax</u>	<u>Net to Heirs</u>
Children	\$ 500,000	\$1,900,000	\$ 950,000	\$ 950,000
Grandchildren	950,000	3,675,000	1,837,500	1,837,500
Great - GC	1,837,500	7,100,000	3,550,000	3,550,000

WITH FAMILY LEGACY TRUST

	<u>Amount Inherited</u>	<u>Amount Owned At Death</u>	<u>Estate Tax</u>	<u>Net to Heirs</u>
Children	\$ 500,000	\$ 1,900,000	\$ 0	\$ 1,900,000
Grandchildren	1,900,000	7,500,000	0	7,500,000
Great - GC	7,500,000	29,000,000	0	29,000,000

In summary, these are a few of the many benefits a Family Legacy Trust provides to your children and future generations:

1. The assets in the trust are protected from lawsuits, e.g. car accidents, bankruptcy, the IRS;
2. The assets in the trust are protected from divorce because they are maintained as the separate property of the children, within the Family Legacy Trust;
3. The trust avoids both conservatorships and probates, not only for you but also for your children, grandchildren, and great grandchildren;
4. When the children die, the assets avoid estate tax; they will "skip" a generation of taxes when passing to your grandchildren. When grandchildren die, the assets avoid the estate tax and pass to your great grandchildren tax free again.