Trust Company

CASE STUDY

Credit Shelter Trust

CLIENT PROFILE: John and Mary Jenkins, are a married couple in their late 50s with two adult children. They have accumulated substantial wealth over the years, including real estate, investments, and retirement savings. Their primary goal is to preserve their assets and efficiently transfer them to their children while minimizing taxes.

CHALLENGE: The Jenkins' face the challenge of navigating the complexities of estate taxes, which could significantly reduce the value of their estate. They want their children to receive the maximum inheritance possible without unnecessary tax burdens. Additionally, they wish to maintain financial security for the surviving spouse, should one of them pass away.

SOLUTION: John and Mary have been working with their Hightower advisor, Rachel, and an attorney that Rachel referred them to. Together, they recommend the implementation of a Credit Shelter Trust (also known as a Bypass Trust) as part of the Jenkins' estate plan. This trust allows each spouse to utilize their federal estate tax exemption, effectively doubling the amount that can be shielded from estate taxes.

Credit Shelter Trusts are created at the death of the first spouse. In addition to benefiting the surviving spouse and providing tax efficiency, a Credit Shelter Trust offers several other advantages:

01

ASSET PROTECTION: The trust can protect assets from creditors, lawsuits, and even remarriage of the surviving spouse, preserving them for future beneficiaries, typically children or other heirs.

02

CONTROL OVER DISTRIBUTION: The trust allows the grantor to maintain control over how and when assets are distributed to beneficiaries, which can be particularly useful if the heirs are minors, have special needs, or may not be financially responsible.

03

PRESERVATION OF ESTATE TAX EXEMPTIONS: By using a Credit Shelter Trust, the first spouse's estate tax exemption is preserved, and the assets placed in the trust are not included in the surviving spouse's taxable estate, maximizing the use of both spouses' exemptions.

04

GROWTH OUTSIDE OF TAXABLE ESTATE: Any appreciation in the value of the assets held in the Credit Shelter Trust after the first spouse's death occurs outside of the surviving spouse's estate, which can further reduce the taxable estate when the second spouse passes away.

05

FLEXIBILITY FOR THE SURVIVING SPOUSE: While the trust assets are protected from estate taxes and creditors, the surviving spouse can often benefit from the income generated by the trust, and sometimes even access principal for certain needs, depending on the terms of the trust.

CONCLUSION: The Jenkins' decision to utilize a Credit Shelter Trust became an effective strategy in addressing their estate planning challenges. By implementing this type of trust, they have successfully minimized potential estate taxes, thereby preserving a larger portion of their wealth for their children. Additionally, the trust provides financial security to the surviving spouse by allowing access to income and, under certain conditions, principal from the trust. This approach not only helps to maximize the inheritance for their children but also provides reassurance for the Jenkins family, knowing that their financial legacy is protected and efficiently managed.

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