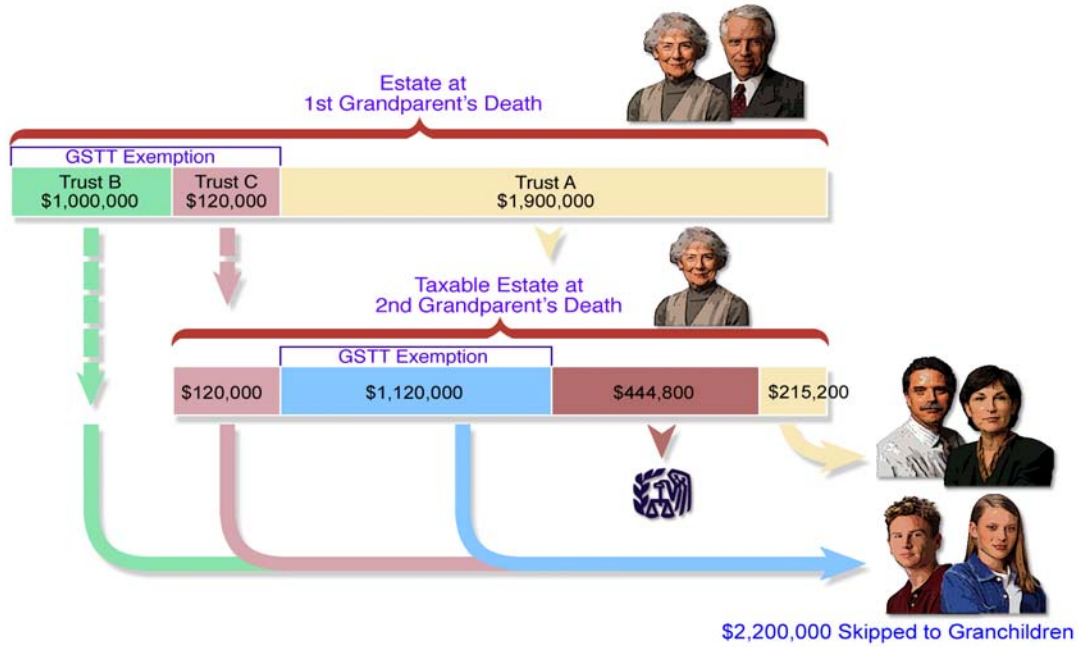


ABC Trusts for Generation-Skipping

Reverse QTIP for Hypothetical \$3,000,000 Estate Example



ABC Trusts can facilitate generation-skipping transfers, can eliminate estate taxes at the first grandparent's death, and can provide income to the surviving grandparent. (Numbers for this example are based on both deaths occurring in any year after 2010.)

Generation-Skipping Transfer Tax (GSTT) is a tax on transfers of assets to persons two or more generations below the individual making the gift or bequest. This tax is in addition to any estate or gift taxes that may be due on the property. The tax rate is equal to the maximum federal estate tax rate in effect. For years after 2010, there is an exemption of \$1,120,000 in total gifts and bequests by an individual (\$2,240,000 total for both spouses).¹

Trust A uses the marital deduction. Trust B is part of the generation-skipping transfer up to the equivalent amount of the Applicable Credit Amount. Trust C (a Reverse QTIP Trust—same as QTIP Trust, but reverses the GSTT exemption to be used by the estate of the first to die) is a marital deduction trust for the balance of the exemption less the amount in Trust B. The surviving grandparent gets the income from both Trusts A and C. These trusts are included in the second grandparent's taxable estate. At the second grandparent's death, the amounts in Trusts B and C go to the grandchildren, as well as the exemption from the second grandparent. ABC Trusts can maximize the effectiveness of generation-skipping transfers at death.

¹ For years after 2010, generation-skipping transfers are exempt from the Generation-Skipping Transfer Tax on the first \$1,120,000, plus increases for indexing for inflation after 2003; in 2005 on the first \$1,500,000, in 2006-2008 on the first \$2,000,000 and in 2009 on the first \$3,500,000. There is no Generation-Skipping Transfer Tax on transfers in 2010.