Dynasty trusts: preserving family assets for future generations

Wealth Management

Affluent individuals and families who wish to safeguard their wealth and create a lasting legacy for loved ones have many strategic estate and tax planning decisions to make. Gift taxes, estate taxes and generation-skipping transfer taxes can dramatically decrease the inheritance left to your children, grandchildren and great grandchildren.

Without careful preparations, the family business or other valued assets may need to be sold to pay the tax bill when the wealth transfer occurs. Compounded over the course of several generations, these various transfer taxes may threaten the economic opportunity and financial security you wish to create for the people you care most about.

Consider the benefits of a dynasty trust

If you wish to protect and preserve your wealth for multiple generations, you may want to place the assets you intend to share with heirs in a dynasty trust. This strategy has historically been used by wealthy families to maintain their wealth through multiple generations.

A dynasty trust can be designed to last potentially for multiple generations, if established in a jurisdiction that does not have statutory restrictions on how long trusts may last. Some states have a "rule against perpetuities," which means the trust must terminate and distribute assets no later than 21 years after the death of the last surviving individual who is alive at the time the trust was created. However, there are several jurisdictions that have abolished the rule against perpetuities—and if formed in one of those states, a dynasty trust can last for multiple generations.

> The Tax Cuts and Jobs Act increased the estate tax exemption to $13.99 million (2025) per person. This means that an individual can pass up to $13.99 million worth of assets estate and gift tax free, and a married couple can pass up to $27.98 million estate and gift tax free in 2025.

In addition to mitigating the impact transfer taxes have on your family's financial well-being, a dynasty trust can help shield your wealth from creditors, matrimonial claims and poor decisions of future beneficiaries. This will help ensure trust assets are invested for the optimum benefit of your children, grandchildren and all future descendents.

Hypothetical example

Look at how the transfer taxes assessed to each generation may whittle away a family legacy over time. Then compare that with the potential long-term growth of family wealth preserved for future generations in a dynasty trust. The following illustration shows a married couple currently gifting $12 million each to compare the possible outcomes produced by two planning scenarios that are identical, except one uses a dynasty trust, thereby preventing the harmful effect of transfer taxes.

Without a dynasty trust at 4% growth			
Generation	Transfer	Taxes	Net
1 Grantor	$24M	$0	$24M
2 Children	$53M	$21M	$32M
3 Grandchildren	$70M	$28M	$42M
4 Great grandchildren	$92M	$37M	$55M

With a dynasty trust at 4% growth			
Generation	Transfer	Taxes	Net
1 Grantor	$24M	$0	$24M
2 Children	$53M	$0	$53M
3 Grandchildren	$116M	$0	$116M
4 Great grandchildren	$254M	$0	$254M

Notes:

- Assumes grantor generation is a married couple using $24 million of their combined estate tax exemption (adjusted annually for inflation)
- Each generation assumed to be 20 years with trust assets growing at a compounded rate of 4%
- Assumes a $24 million gift
- Results rounded to nearest $1 million
- Assumes future generations have fully utilized their own exemptions
- Estate tax rate assumed to remain at 40%
- Does not include impact of state or local estate tax

Assets of choice

To preserve and build wealth for future generations, it is prudent to fund a dynasty trust with assets or investments that offer high potential appreciation and little or no transfer tax value today. For these reasons, life insurance may be an ideal product to consider.

With life insurance, the death benefit can provide great leverage. Additionally some life insurance products offer contractual guarantees, which means the policy cannot lapse or premiums will remain constant. Furthermore, gifts to the trust to pay the premiums may qualify for the gifting and generation-skipping transfer tax exemption—and the death proceeds payable to the trust pass outside of the grantor's estate, as well as the estates of the future descendents covered by the dynasty trust.

Because income generated within a dynasty trust is more heavily taxed, it could be more beneficial to place assets in the trust that are non-income generating such as life insurance, growth stocks, tax-exempt bonds or real estate.

Important considerations

- **The trust must be irrevocable** — To avoid estate inclusion and potential taxation, you must use an irrevocable structure. Once assets are placed in a dynasty trust, the grantor does not have the right to revoke or amend the trust.
- **Trustee responsibilities are significant and long term** — A professional trustee is recommended because trustees are given discretionary powers to distribute income or principal to beneficiaries over multiple generations. Use of a professional trustee to administer a trust that stretches for multiple generations helps promote continuity and consistency in managing the trust in accord with the trust provisions.
- **Generation-skipping taxes and gift taxes may apply** — When designing a dynasty trust, it may be beneficial to draft the trust so that future gifts to the trust qualify for the annual gift tax exclusion ($19,000 per donee). To qualify for this exclusion, the trust must be drafted so that it gives recipients a "present interest," which is an immediate ability to use and enjoy the gifted property.
- **Strict adherence to procedural details is essential** — Properly administering a trust that is drafted to qualify for annual exclusion gifts is key to the success of any trust that includes life insurance. Failure of a trustee to inform beneficiaries and to properly time and document Crummey notices can be a costly mistake. Naming a professional trustee to administer a dynasty trust is recommended where the trust contains more complexities.

Explore the opportunity

Your wealth represents a lifetime of hard work and smart investing. It also represents the courageous decisions, fiscal responsibility and personal sacrifice you have made. It may even represent a legacy from your parents, grandparents or other loved ones.

That means your wealth may represent more than money to you. It may honor your family heritage, reflect your personal values and serve your hopes for the future. Which is why it is so important to take full advantage of this unique and timely opportunity now.

Call your RBC Wealth Management financial advisor today to discuss whether a dynasty trust is a practical solution for your wealth management and legacy planning goals. In addition to helping you choose appropriate assets to fund the trust—which may include purchasing life insurance—your financial advisor can recommend a well-qualified professional trustee and simplify your experience by collaborating with your estate attorney and tax advisor.

Crummey notices: Notifications to beneficiaries of irrevocable trusts that they have the right to demand a disbursement after a gift is made to the trust.

25-42-2925990_4244 (02/25)