

ESTATE PLANNING

Credit Shelter Trust (aka Bypass Trust, Family Trust)

CONCEPT APPLIED:

Typically, married couples use credit shelter trusts to maximize the benefit the state (if applicable) and federal estate tax exemptions provide to a couple's combined estate. Credit shelter trusts ensure that each estate pays the lowest estate tax possible. A surviving spouse may receive an income for life and have limited access to principal while keeping assets safely outside the estate.

HOW IT WORKS:

A credit shelter trust is created by one or both spouses during their lifetime. At the death of the first spouse, the will divides the estate into two parts:

1. An amount equal to the estate tax exemption (\$15 million in 2026)* is placed in a credit shelter trust. The estate tax exemption shelters this amount from the estate tax. Because the trust is managed by a designated trustee, the surviving spouse never actually takes control of the trust's assets. Therefore, the transfer does not add to the surviving spouse's taxable estate. The surviving spouse has full rights to the trust income and limited access to the principal. When the surviving spouse dies, the trust property is not included in the estate. Rather, it remains in the trust or is distributed to family beneficiaries.

2. The remainder of the estate either passes outright to the surviving spouse or is placed in a marital trust for the spouse's benefit.

Please note: While the remainder of the estate passes to the surviving spouse tax-free using the unlimited marital deduction, those assets increase the value of the surviving spouse's taxable estate, making it likely that some amount will be subject to the estate tax when the surviving spouse passes.

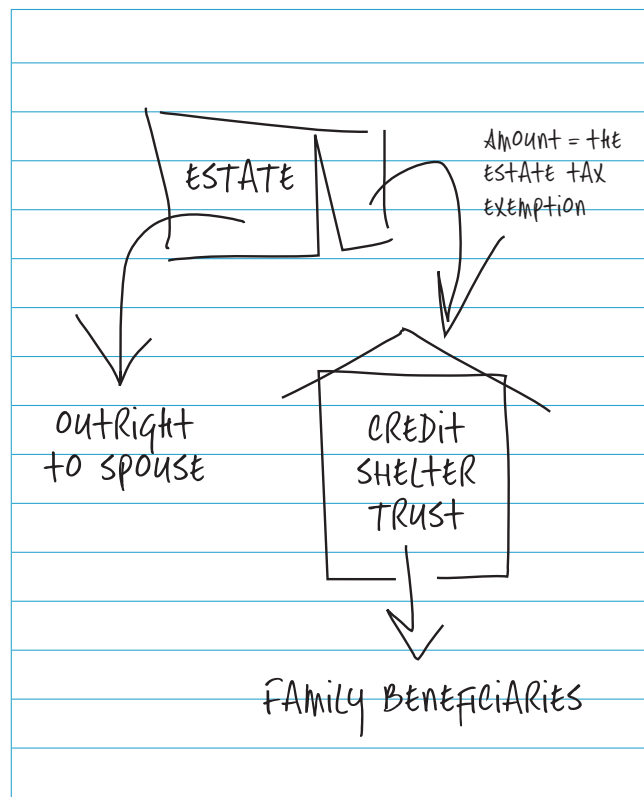
WHY IS IT USEFUL?

Couples use credit shelter trusts to avoid estate taxation (preserving assets for children, grandchildren or other beneficiaries) and protect assets from creditor claims.

50 WORDS OR LESS

An estate plan that uses a credit shelter trust combines the unlimited marital deduction with fully utilized state and federal estate tax exemptions to:

- maximize assets distributed to family members and
- minimize estate taxes.



* Rev. Proc. 2025-32 provides the 2026 amount.

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