

ESTATE PLANNING

Credit Shelter Trust (aka Bypass Trust, Family Trust)

CONCEPT APPLIED:

Typically, married couples use credit shelter trusts to maximize the benefit the federal estate tax exemption provides 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 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 (\$13.99 million in 2025) 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. Either way, it is sheltered by the unlimited marital deduction.

Please note: Even with the increased lifetime exemption amount for 2023, over \$2 million would be subject to estate taxes. Those assets could be gifted to you tax-free using the unlimited marital deduction; however, the value of your taxable estate would also be increased by the value of the assets gifted to you.

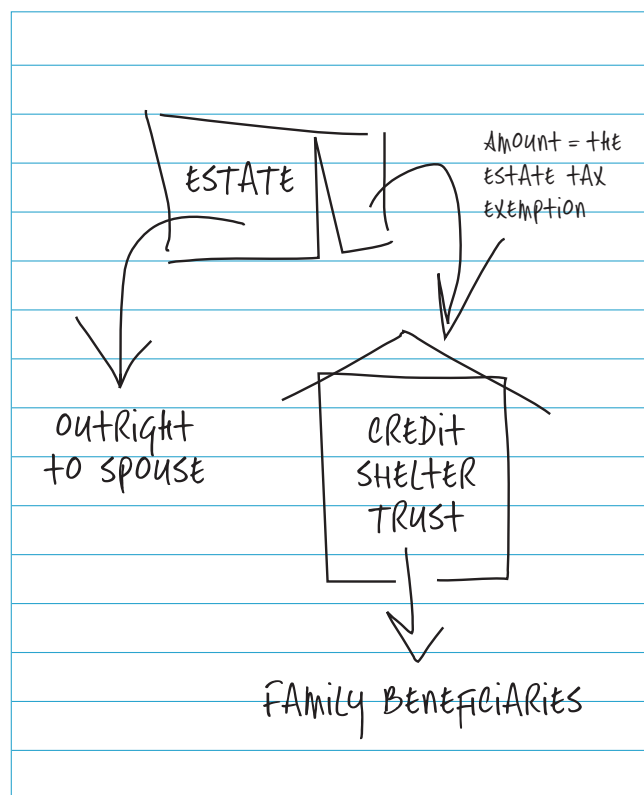
WHY IS IT USEFUL?

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 estate tax exemptions to:

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



* Internal Revenue Service Notice 2024-80 provides technical guidance regarding cost-of-living adjustments affecting retirement-related items for tax year 2025.

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