

Consider Putting Gifts to Grandchildren in a Trust

By Littman Krooks LLP | 06/01/07

Gifts of assets to your grandchildren isn't just a nice thing to do; it can reduce the size of your estate and the tax that will be due upon your death. Grandparents can give their grandchildren up to \$12,000 a year (in 2007) without having to report the gifts. While you can make an outright gift, pay health care and school costs directly, or put the money in a custodial account, putting the money into a trust has some major advantages.

With the help of an attorney, you can draft a trust that reflects your express wishes about when the income and principal will be available to the grandchild, and even how the funds will be spent. Transferring funds into such a trust offers the following benefits:

- You can reduce the size of your estate by transferring up to \$12,000 (in 2007) into each trust you create for each grandchild. No gift taxes will be due in connection with the transfers.
- Although the trust owns the assets, you control them as trustee and can decide what type of investments to make.
- Income earned by the trust from amounts that you've deposited will not be taxed to you; the trust pays the taxes.
- Amounts deposited in trust, and the income earned from those funds, will be used for the benefit of your grandchildren.
- You can provide that the trust terminate at any age you specify.

In order to qualify for these benefits, however, certain restrictions apply. These trusts are complex legal documents and should not be set up without the help of an experienced attorney. As a result, the chief downside of such trusts is the cost of establishing and maintaining them, which you should discuss with an attorney before going ahead with a trust.

As a final note on establishing such trusts, you must be totally comfortable with this gift planning strategy and the amount of money available to you in your estate. In short, you should only make gifts if you feel certain that the amount of funds remaining in your name and the amount of income they will produce will be adequate for your needs