



Proactive planning using gifts

Gifts can be an effective way to transfer wealth and even create a lasting financial legacy. While there are many ways to structure gifts, two common approaches are outright gifts and gifts to dynasty trusts.

What is an outright gift?

An outright gift is a simple way to transfer wealth to a beneficiary because there are no strings attached or restrictions on the use of the asset. It is just the transfer of an asset to another individual, whether it be via cash, check, property deed or electronic transfer of cash, securities or other assets.

What is a gift to a dynasty trust?

A gift to a dynasty trust is similar to an outright gift in that it is a transfer of assets. Instead of assets being transferred to an individual, however, assets are transferred to a trust that lasts for two or more generations. In addition, a dynasty trust (like other types of trusts) can be used to protect wealth from creditors and from the potentially poor judgement of any current or future beneficiaries. This asset protection of a dynasty trust can protect wealth for generations to come.

A key distinguishing feature of dynasty trusts is that they are designed to last much longer than many trusts. In fact, a dynasty trust can last as long as the law in the state of creation allows. Some states allow trusts to last in perpetuity, while others require trusts to terminate and vest in individuals after a certain period of time. It is possible to create a trust in a state other than the one in which the donor lives to take advantage of laws that allow for perpetual trusts. Delaware is a common state selected for dynasty trusts.

How do these types of gifts work?

If an individual makes a gift—whether outright or in trust—during life, the assets given and any future appreciation are excluded from the donor's estate and are considered property of the gift recipient. The transfer tax consequences of the gift will depend on the amount of the gift and any prior gifts the donor has made.

For an outright gift, if the value of the gift is \$19,000 or below, the transfer may be sheltered by the annual exclusion amount (assuming no other gifts were made by the donor to that gift recipient). Any amount of the outright gift in excess of the annual exclusion amount can be sheltered by the donor's remaining transfer tax exemptions. The gift tax and generation-skipping transfer (GST) tax exemptions for each individual in 2026 are \$15 million, reduced by that individual's prior use of that exemption.

A gift to a dynasty trust can also be sheltered by the donor's remaining transfer tax exemptions. Dynasty trusts, in particular, take advantage of the GST tax exemption. As long as GST tax exemption is applied to the trust, the assets held in a dynasty trust can be used to support multiple generations; furthermore, as long as assets remain in the trust, they will not be included in the taxable estates of any of the trust's beneficiaries. As a result, wealth can be effectively transferred from generation to generation—free of erosion from compounding transfer taxes with each successive generation.

Ideal timing for an outright gift or dynasty trust

Making a gift with an asset that has the potential to appreciate allows the donor to use less of the donor's transfer tax exemptions to shelter that gift from transfer tax. In addition, the potential appreciation is in the hands of the gift recipient rather than in the estate of the donor. Further, that lower value is essentially frozen for transfer tax purposes, which means the potential subsequent growth of the transferred asset will not be subject to transfer taxes.

As with any gifting strategy, anyone considering an outright gift or a gift to a dynasty trust should carefully consider the impact the transfer may have on the donor's wealth planning goals. It is important to consult qualified experts for income and transfer tax advice and to determine whether an outright gift or a dynasty trust is an appropriate planning option.

For more information on other lifetime gift planning strategies, visit our [Lifetime Gift Planning](#) resource page.

There are many variations to the strategies outlined above, as well as additional planning opportunities. Since these strategies can be complex, it's critical to work with a qualified professional.