

# Family Wealth Transfer—Credit Shelter Trust Strategy

## Credit Shelter Trust

A Credit Shelter Trust (also called a “bypass trust”) is an irrevocable trust designed to make maximum use of the estate tax exemption (\$3,500,000 in 2009)<sup>1</sup> when the first spouse passes away. The trust document is drafted to prevent the assets in the trust from being included in the second spouse’s estate. The trustee uses a portion of the trust assets to purchase a life insurance policy on the life of the surviving spouse.

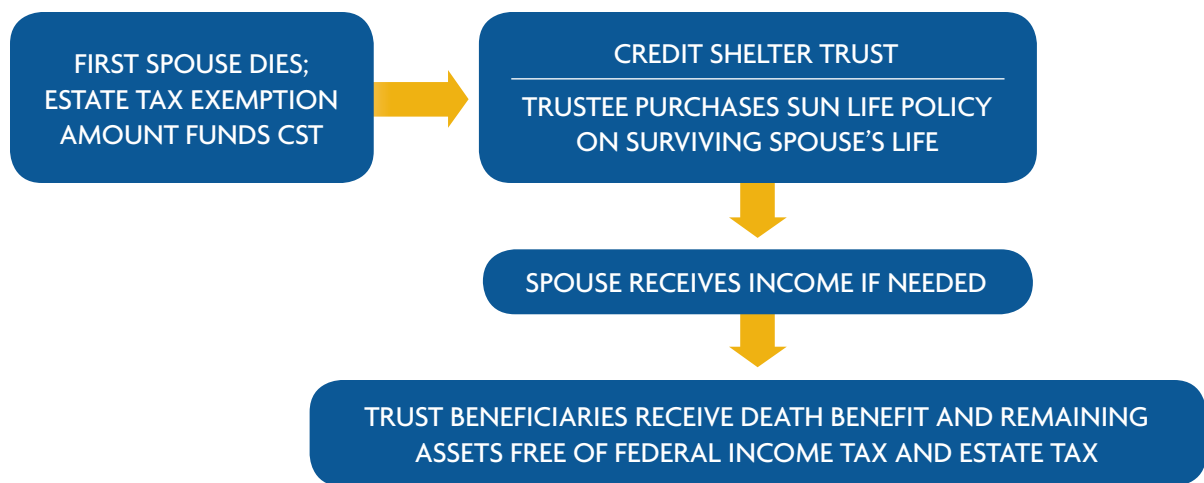
## The Situation

The Sullivans want to maximize the assets they leave to their heirs with minimal taxation. When the first spouse dies, they do not want all of the decedent’s assets to go directly to the surviving spouse.

## The Solution

Establish a Credit Shelter Trust to capture the estate tax exemption amount upon first spouse’s death. The trust is drafted to use the exemption amount to pass assets to trust beneficiaries other than the spouse, and prevents trust assets from being included in the second spouse’s estate.<sup>2</sup> The surviving spouse can receive income from the trust, and the trust beneficiaries receive the policy death benefit upon the second spouse’s demise.

## How It Works



1. Under current law, the estate tax is repealed in 2010; thereafter, the applicable exclusion is \$1,000,000 per person, subject to change.

2. Wealth transfer concepts require the use of sophisticated trust estate and income tax techniques. Trusts should be drafted by an attorney familiar with trusts, income and estate tax issues to ensure the desired tax treatment is achieved.

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