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PRIVATE WEALTH

Tax-Efficient Wealth Transfer Strategies

Many individuals looking to secure their legacies understand the importance of proactive estate planning. A common goal is to ensure that hard-earned assets are transferred in a strategic way that minimizes exposure to creditors and taxes. An organized wealth transfer strategy can mitigate the financial burden on beneficiaries and pave the way for a seamless transition of assets.

Fundamental Planning

Moving significant wealth to beneficiaries does not always require complex transactions. The key to ensuring the most favorable outcome is finding a balance between achieving your planning goals and complying with applicable tax laws. When establishing a wealth transfer plan, carefully consider the total value of your assets, including those that do not include beneficiary designation or co-ownership.

Tax Exemptions & Exclusions

Tax law sets limitations on how much you can give to others without incurring gift or estate tax. Taxpayers can utilize powerful wealth transfer tools such as the lifetime gift tax exemption and the annual exclusion to strategically distribute wealth while leveraging both gift and estate tax benefits.

The Lifetime Gift Exemption

The lifetime gift tax exemption allows you to make gifts up to a certain amount throughout your lifetime without incurring gift tax (or at death, without incurring estate tax). For 2024, the exemption amount stands at $13.61 million per individual and $27.22 million per couple. Any amount of the exemption used for gifting will reduce the amount you will be able to use for the estate tax, and once the full exemption amount is used, gift or estate tax becomes payable. It is important to note that the current exclusion amounts are expected to be significantly reduced at the end of 2025. Unless Congress decides to extend the changes from the 2017 Tax Act, which doubled the amount of these exemptions, the provisions will expire and revert to 2017 levels, indexed for inflation.

The Annual Exclusion

The annual exclusion is the specific amount of money you are allowed to give to any number of individuals (each) within a tax year before needing to use your gift tax exemption. For 2024, the annual exclusion is $18,000 for individuals and $36,000 for couples gifting together. Any amount exceeding these thresholds per recipient must be reported and counted against your gift tax exemption total. The annual exclusion is applied per year, meaning any unused portion will not be carried over to the next year. Using the annual exclusion can help you gradually transfer wealth without absorbing your lifetime gift and estate exemption as quickly.

> Example: If you were to gift $20,000 to a single individual in 2024, $18,000 would be applied to annual exclusion and $2,000 of your gift tax exemption would be used.

Education & Health Tax Exclusions

You can also leverage additional gift-giving opportunities without tax implications by supporting your loved ones with education and qualified medical expenses. Direct payments of qualified education and medical expenses on behalf of someone, related or unrelated, are not considered taxable gifts and do not diminish your gift tax exemption or annual exclusion. In some cases, qualified medical expenses can include medical insurance policy premiums.

Marital Deduction

Unlike the annual exclusion, the marital deduction allows you to transfer an unlimited amount of assets to your spouse, both during your lifetime and at death, without any gift or estate tax consequences. There are three requirements: you are legally married, your spouse survives you, and your spouse is a U.S. citizen. Under the marital deduction, these assets will be included at their death in their taxable estate. However, they may benefit from the portability rule—a process in which a surviving spouse acquires the deceased spouse's unused gift and estate tax exemption.

Trusts

Transferring wealth through trusts offers greater flexibility and control than outright gifts. Commonly recognized benefits can include tax savings, management, ease of transfer and protection against creditors and spendthrift behavior. In this sense, trusts can act as secure vaults for your wealth while preserving your authority over how your assets are distributed. Many types of trusts exist, each with specific attributes and tax implications.

Revocable Trust

A revocable trust, or living trust, allows you to modify the terms of the trust throughout your lifetime or even revoke the trust entirely and regain full control of the trust assets. With a revocable trust, the assets remain part of your estate and you are subject to income and estate taxes on its assets. Often, revocable trusts are used for ease of management, privacy and avoidance of probate.

Irrevocable Trust

An irrevocable trust is less flexible but offers certain tax advantages. Once an irrevocable trust is established, you cannot make changes to the trust. Transferring assets by a completed gift to a properly crafted irrevocable trust can remove them and any future appreciation from your taxable estate.

Trust	Grantor Benefits	Beneficiary Benefits	Tax Advantages	Disadvantages
Grantor Retained Annuity Trust (GRAT)	Receives fixed annuity from trust for a set period, regardless of actual income generated.	Receives tax-free trust assets remaining post-annuity period, and any appreciation above a specific rate.	Reduces gift and estate tax liability. Choosing a high annuity payment relative to the asset value can reduce taxable gift to near-zero.	Beneficiary benefits eliminated if trust assets don't appreciate enough to cover annuity payments and at risk if you don't survive the annuity term.
Qualified Personal Residence Trust (QPRT)	Removes the value of your residence from your taxable estate while retaining the right to live in the property for a set term of years.	Receives residence after trust term; can lease property to grantor for fair market value rent.	Reduces gift tax value by subtracting the retained right to live in the property from fair market value and removes the future value of the residence from your taxable estate.	If you die before the end of the term, the value of the home is included in your taxable estate. If you survive the term, beneficiaries receive the home with carry-over basis and may lose homestead or other state and real estate tax benefits.
Charitable Remainder Trust (CRT)	Reducing estate taxes and receiving a charitable income tax deduction.	You, you and another person(s) or others receive an annuity or unitrust payout for a term of years or lifetime. At the end of the term, the remainder passes to charity.	Provides an income tax deduction, can defer capital gains, and reduces estate tax liability.	Once funded, you have access only to the payout and cannot access the funds otherwise.
Charitable Lead Trust (CLT)	Reducing estate taxes and potentially receiving a charitable income tax deduction.	An annuity or unitrust payout is made to a charity for a set term. After the set term, the remaining assets pass to the designated beneficiaries (often children or grandchildren).	Possibly receive immediate income tax deduction; make a deferred but discounted gift to loved ones. An annuity form of CLT can be "zeroed-out" for gift and GSTT purposes.	Unlike a CRT, a CLT is not tax-exempt, so income tax will be due each year. Like a CRT, it is irrevocable, and you cannot access the assets once funded.
Dynasty Trust	Reduced estate tax burden and can last for generations; assets and future appreciation not included in taxable estate.	Trust distributions can be made to beneficiaries without exposing remaining assets to creditors or estate tax.	Assets are removed from taxable estate. GSTT exemption can shield assets from estate tax for multiple generations.	Long-term nature requires complexity in drafting and sometimes in funding.

Generation-Skipping Transfer Tax

The generation-skipping transfer tax (GSTT) is a federal tax that applies to transfers that skip a living generation in inheritance or gift-giving, such as leaving assets directly to grandchildren. Currently, the GSTT exemption amount is equal to the gift and estate tax exemption. Individuals can shield a portion of transferred assets from the tax by allocating the exemption. Doing so will protect the assets and their future appreciation from estate and GSTT taxation.

You can fund a dynasty trust with assets and allocate either (or both) the gift and GSTT exemptions to the trust. Strategically allocate them based on anticipated value appreciation and generation-skipping beneficiary interests.

Valuation Discounts

Valuation discounts (such as fractional interest, minority interest and lack of marketability) are percentages used to lower the value of the interest being transferred and are commonly available for nonvoting stock in a business, private investment partnerships, minority interests in limited liability companies (LLCs), and limited partnership interests. By reducing the taxable value of assets, valuation discounts lower both your gift and estate tax liabilities. Valuation professionals assess the discount's justification and determine its appropriate percentage. A qualified appraisal is required when filing gift and estate tax returns.

Life Insurance

The primary advantage of life insurance is the income-tax-free death benefit, except in rare cases. Like many other inherited assets, the death benefit received by beneficiaries is generally exempt from income tax. Exceptions to this rule include items known as income in respect of a decedent (IRD), typically IRAs, 401(k)s and other retirement accounts. Unlike term life insurance, permanent insurance policies (e.g., whole life, variable and universal) include a cash value component that can grow over time. This cash value can be accessed through loans or withdrawals, which may trigger tax implications, or used to offset future premiums.

Life insurance can help replace lost income upon death of a breadwinner, providing financial security for dependents. It can also be used to balance inheritances between beneficiaries. These situations include when one child has already received significant financial assistance during their lifetime, or when one child is receiving a disproportionate highly valued asset, such as the family business. For many high-net-worth families, life insurance is used to cover in whole or in part the estate tax liability or provide immediate funds without requiring the sale of valuable assets at potentially disadvantageous prices.

Private Placement Life Insurance

Private Placement Life Insurance (PPLI) is a unique financial product aimed at high-net-worth individuals seeking income tax-efficient wealth accumulation. Additional benefits can include estate tax avoidance and asset protection. PPLI differs significantly from traditional life insurance in its investment options. PPLI is a customized life insurance policy offered privately to accredited investors or qualified purchasers. Instead of the insurer managing the cash value, the premiums can be invested in a wide range of assets beyond traditional insurance options, including private equity, venture capital, hedge funds and real estate. Also, you may be able to access investments from your preferred provider (e.g., a Glenmede client could use a PPLI policy that would give access to Glenmede investment allocations).

Like regular life insurance, PPLI pays a death benefit to your beneficiaries, income (and potentially estate) tax-free. The cash value within the PPLI accumulates tax-deferred and allows for various strategies to minimize income taxes on the cash value's growth. This includes leveraging specific investment options with otherwise unfavorable tax treatment. You can access funds through loans or withdrawals, which may trigger income tax. Because the cost of insurance reduces the wealth accumulation, often PPLI has the least amount of death benefit possible, but enough to still qualify for the preferred income taxation. PPLI can be combined with trust strategies to further minimize estate taxes—most frequently a Dynasty Trust.

Irrevocable Life Insurance Trust

An Irrevocable Life Insurance Trust (ILIT) is used to own life insurance policies and control asset distribution after your death. As noted above, life insurance death benefit is usually income tax free; however, life insurance is included for estate tax purposes in the estate of the owner. An ILIT is used to avoid estate tax on the death benefit. It often is funded with cash or other assets, and thereafter purchases one or more life insurance policies. Future gifts or loans to the ILIT may be necessary to pay premiums. The trust typically is named as the beneficiary. When the policy pays out upon your death, the proceeds go directly to the trust, not your estate or an individual. An ILIT can offer creditor and tax protection. Once you create an ILIT, you cannot make changes or revoke it. Carefully consider timing and conditions, such as when you want your heirs to receive the money, and how the inheritance can be used, which also drives the use of gift and GSTT exemptions.

Beyond Tax-Efficient Planning

Estate planning is ensuring that the correct people or charities receive the amount of wealth you desire and in the right way. Estate tax planning is designed to efficiently transfer your wealth in accordance with your estate plan. Combined, they are about more than just reducing tax liabilities. It's about ensuring your heirs and beneficiaries inherit the greatest value from your assets in a smooth and efficient manner. The strategies and techniques outlined above, such as annual exclusions, lifetime exemptions, trusts and specialized insurance products, can significantly reduce tax impact while protecting your wealth for future generations. All families' circumstances are unique, and seeking professional guidance is crucial when creating a wealth transfer plan that maximizes benefits and minimizes risks.

For more information about how Glenmede can help with transferring wealth, contact your relationship manager.

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