



# Skipping a Generation - Why and How

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In the world of the ultra high net worth, focusing on multi-generational wealth transfer considerations is a must. One key opportunity for a family to contemplate is leaving a part or the bulk of their estate to their grandchildren rather than the children. This requires advanced planning to circumvent paying unnecessary taxes on what is known as a Generation Skipping Transfer (GST) tax. Lawmakers created a 40% GST Tax, yet individuals can gift up to \$5.45 million tax free to grandchildren. For a married couple, the limit is \$10.9 million.

Following are a few potential advantages of establishing a GST trust and strategies to make it work optimally in estate planning:

**Keeping it within the family.** A GST trust can protect the family's assets. If structured properly, a GST trust can insulate assets in a way that protects them from divorce, bankruptcy or lawsuit issues that pertain to the skipped generation. For example, if a child divorces, the spouse has no claim on the assets in the trust. Similarly, if children fail in their businesses or incur large debts, the trust is shielded from creditors. A GST trust does not have to exclude children completely, as they can still receive dividends, for example.

**The power of the GST trust.** Leaving assets to grandchildren might make sense for some estates with multi-generational goals. The impact on future generations could be significant. By one estimate, a \$2 million gift to a generation skipping trust could be worth more than \$150 million two generations later. Without the skip, the accumulated value could potentially be one-fifth of that figure. It is all a part of the power of compounding and ensuring maximization of investable capital.

Every family has unique goals and circumstances, so strategies to transfer wealth to future generations should be determined only after examining the family goals and financial picture.



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