



Estate Planning

Bypass (Credit Shelter) Trust

PRESENTED FOR

PRESENTED BY:



Estate Planning

IMPORTANT INFORMATION

This information is provided by American General Life Insurance Company (AGL) and The United States Life Insurance Company in the City of New York (US Life), members of American International Group, Inc. (AIG).

The information contained in this document is general in nature and intended for educational purposes only and is not a comprehensive analysis of the topic presented. The information may be subject to change and should be verified for accuracy and reliability (e.g., federal income tax statutes, rulings, etc. that may have changed since publication) and may be subject to differing legal interpretations. While the publisher has been diligent in attempting to provide accurate information, the accuracy of the information cannot be guaranteed. No representation or warranty, express or implied, is made by AGL, US Life and its affiliates as to the completeness of the information in this document. AGL and US Life shall not be liable for any loss or damage caused by the use of, or reliance on, the tax, accounting, legal, investment or financial items contained in this material.

The Company, its financial professionals and other representatives are not authorized to give legal, tax or accounting advice. For advice concerning your situation, consult your professional attorney, tax advisor or accountant.

To ensure compliance with requirements imposed by U.S. Treasury Regulations, we inform you that any tax advice contained in this document (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

©2017. All rights reserved.



Estate Planning

BYPASS (CREDIT SHELTER) TRUST

Summary

WHAT IS A BYPASS TRUST?

A bypass trust is a device used to minimize a married couple's federal estate taxes by fully utilizing the applicable exclusion amounts of both spouses.

HOW DOES IT WORK?

When the first spouse dies, the bypass trust receives that person's assets up to the amount exempt from federal estate tax under the tax law. So, for someone who dies in 2017, up to \$5.49 million could be placed in the bypass trust to escape federal estate taxation. The bypass trust can also protect the assets, preserve them for beneficiaries such as children or grandchildren, and provide income for someone other than the surviving spouse.

The remainder of the deceased spouse's assets may go directly to the surviving spouse or into a marital trust. In either case, this portion isn't taxed at the first death because of the unlimited marital deduction available for surviving spouses who are U.S. citizens.

The bypass trust often pays income for life to the surviving spouse. The principal typically remains in the trust until the second spouse dies, when it passes to the heirs without being included in the surviving spouse's gross estate.

The surviving spouse may have rights to use the principal in several ways, including the right to invade principal for health, education, support and maintenance needs, the right to a limited power of appointment over the principal, and the right to annually withdraw the greater of \$5,000 or 5% of the principal.

The surviving spouse may serve as trustee of a bypass trust, subject to certain limitations in the trust document so that the tax benefits in the arrangement won't be lost.



Estate Planning

BYPASS (CREDIT SHELTER) TRUST

WHAT HAPPENS AT THE SECOND DEATH?

When the surviving spouse dies, all assets in the bypass trust go directly to the heirs. These assets “bypass” the second estate, so they are not included in the surviving spouse’s gross estate. Alternatively, assets could remain in the trust for the benefit of the heirs, if desired.

Although bypass trusts are typically used by married couples to benefit the surviving spouse, they can also be set up to provide income for someone other than the spouse. A trust might be payable to the couple’s children or grandchildren, for example, or for a dependent parent or other relative. Although the trust beneficiary is frequently a relative, that is not a requirement.

WHAT ARE THE BENEFITS?

A bypass trust lets both spouses fully utilize the applicable exclusion amount permitted under the tax code. The trust can be set up to benefit not just the spouse but anyone—children, grandchildren or other relatives. Other minor adjustments to the trust terms can provide a “customized” trust arrangement to meet a variety of different needs, paying careful attention to the tax consequences.

The critical point to remember is that the primary goal in setting up a bypass trust is estate tax savings. It’s essential that the applicable exclusion amount of both spouses be used effectively so that no federal estate tax benefits are lost.



Estate Planning

BYPASS (CREDIT SHELTER) TRUST

