

Grantor and Crummey trusts can be good options to fund a grandchild's education

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Do you wish to play an active role in funding your grandchildren's college educations? As you examine the financing options, don't forget about their impact on your estate plan. Two trust types to consider are grantor and Crummey trusts.

Grantor trusts

A trust can be established for your grandchild, and assets contributed to the trust, together with future appreciation, are removed from your taxable estate. The funds can be used for college expenses.

If the trust is structured as a "grantor trust" for income tax purposes, its income will be taxable to you, allowing the assets to grow tax-free for the benefit of the beneficiaries. Plus the income tax you pay further reduces your taxable estate.

On the downside, for financial aid purposes a trust is considered the child's asset, potentially reducing or eliminating the amount of aid available to him or her. So please keep this in mind if your grandchild is hoping to qualify for aid.

Another potential downside is that trust contributions are considered taxable gifts. But you can reduce or eliminate gift taxes by using your annual exclusion or your lifetime exemption to fund the trust.

To qualify for the annual exclusion, however, the beneficiary must receive a *present* interest. Gifts in trust are generally considered *future* interests, but you can convert these gifts to present interests by structuring the trust as a Crummey trust.

Crummey trusts

With a Crummey trust, each time you contribute assets, you must give the beneficiaries a brief window (typically 30 to 60 days) during which they may withdraw the contribution. You also must notify beneficiaries of their withdrawal rights.

If a Crummey trust is established for a single beneficiary, annual exclusion gifts to the trust are also generation-skipping transfer ("GST") tax-free. If there are multiple beneficiaries, however, contributions may be subject to GST tax. The impact of the GST tax can be mitigated, or even eliminated, if you allocate some of your GST exemption to the trust.

Please contact us to learn more about using either of these trusts in your estate plan.

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