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SLATs: A Marriage of Tax Benefits & Flexibility

An irrevocable trust can be a powerful estate planning tool, allowing households to reduce estate tax liabilities, shelter assets from lawsuits and control how and when family wealth is distributed to heirs. But they can come with an important drawback: Assets can't be controlled or withdrawn once they're in the trust.

The Benefits of SLATs

Spousal lifetime access trusts (SLATs) provide a solution to that problem, and it's one reason they've become increasingly popular. SLATs are actually a type of irrevocable trust. But they're unique in that they're designed to provide their creator, also known as the grantor, flexibility and indirect access to the trust assets through their spouse. SLATs, like other trusts, also allow grantors to move assets outside of a taxable estate, and they can even be structured to provide a stream of income to the beneficiary spouse.

How the Trusts Work

In a SLAT strategy, the grantor spouse uses some or all of their estate tax exemption to fund the trust. Their spouse is named as beneficiary during their lifetime. Children are often named as remainder beneficiaries, meaning that after the non-grantor spouse dies, they receive remaining trust assets.

SLAT assets are sheltered from lawsuits and creditors, and the assets, as well as any appreciation, are considered to be outside of either spouse's taxable estate. Thus, the assets are not subject to estate taxes at the time of the beneficiary spouse's death.

Integrating Insurance Into the Strategy

SLAT strategies may involve an insurance component as well. In such cases, the trust buys a life insurance policy covering the life of the grantor spouse. The cash value of the policy may be accessed by the beneficiary spouse and the death benefit can be used to pay estate taxes.

Know the Risks

The SLAT strategy is not without risks and drawbacks. Funding a SLAT uses up some or all of the grantor's lifetime gift and estate tax exemption, and overfunding may lead to potential gift tax liability. Another risk is divorce. Should a couple with a SLAT divorce, the beneficiary spouse would continue to be a beneficiary while the grantor spouse would lose their indirect access to the SLAT assets. One potential way to protect against that is to include a trust provision stating that the trust is for the benefit of the grantor's current and future spouses, a step that can restore indirect access once the grantor remarries. Another risk to consider is that if the beneficiary spouse were to die prematurely, the grantor spouse would lose indirect access to the funds.

It's important to note that SLAT assets do not receive a step-up in basis upon the death of the grantor spouse. Thus, beneficiaries may face capital gains tax consequences should they sell transferred assets.

The Right Solution?

In summary, spousal lifetime access trusts provide a powerful combination of tax benefits, asset protection and flexibility. SLATs are also subject to sometimes-complex rules and are just one trust strategy available to help you achieve your goals.

Keep in mind that SLATs are useful for couples with significant estate tax exposure, but for those with smaller estates, other strategies might be more suitable. Your wealth advisor can help you determine whether a SLAT is the best solution for you.

For more information visit: **mariner.com**

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