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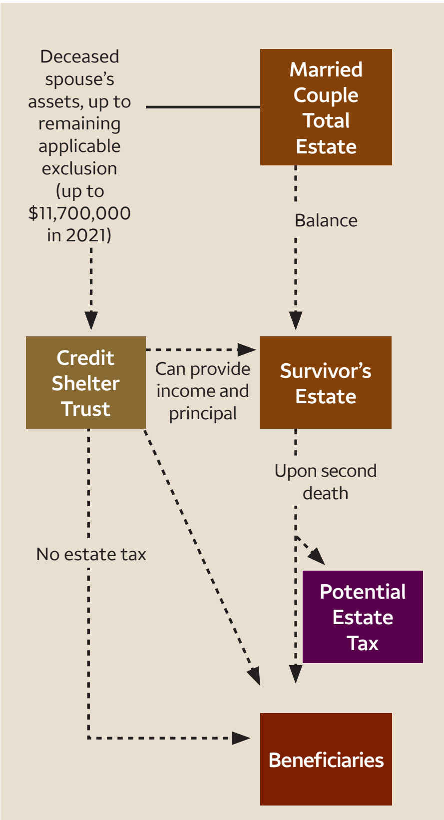
Credit shelter trust

Estate planning quick facts



The credit shelter trust (CST) is an estate tax planning strategy for married couples. For 2021, the estate tax "basic exclusion" is $11,700,000 (indexed for inflation), but is scheduled to "sunset" after 2025, essentially reducing it by one-half.

Married couples do not automatically get a double exclusion. But credit shelter trust planning is one way for couples to use both of their exclusions to protect up to $23,400,000 (2021) or more from estate taxes. (An alternative strategy, the "portability" election, is discussed in a companion factsheet.)

The diagram at left depicts the general flow of assets when using the credit shelter trust strategy.

- You include provisions to create a credit shelter trust in your will or revocable living trust. (The CST does not come into existence until the first spouse's death, but the plan to create it must be in place prior to your death.)
- At the first spouse's death, an amount up to the remaining "applicable exclusion" is allocated to the credit shelter trust. This could include the $11,700,000 basic exclusion plus any additional amounts received from a previously deceased spouse.
- The CST could be funded using a variety of approaches, such as through formula provisions, qualified disclaimers, or QTIP trust planning.
- The trust is typically designed to pay income (and principal, if needed) to the surviving spouse for life.
- The trust could be designed to benefit other family members as well, if desired.
- When the surviving spouse dies, trust assets are distributed to named beneficiaries, either outright or in trust.
- This trust is **not** included in the surviving spouse's taxable estate. So the assets placed in the CST, *along with any future growth*, are "sheltered" from estate tax when the surviving spouse dies. However, there is also no potential "step-up" in cost basis at that time.
- The surviving spouse still has his or her own basic exclusion available at the second death, plus any unused exclusion "ported over" from the deceased spouse.

For credit shelter trust planning to be effective, it's important to consider account titling and how assets are owned.

- There should be sufficient assets in each spouse's revocable trust, or respective single names, to fund a credit shelter trust to the desired level no matter who is the first to die.
- Jointly-held assets pass directly to the surviving joint tenant and sidestep the credit shelter trust. In some cases, credit shelter planning will be more effective if jointly held assets are re-titled.
- Special care should be taken before naming a trust as the beneficiary of IRAs, retirement plans, and deferred annuities because of income tax consequences.
- It may not be necessary or advantageous to "maximize" funding of the credit shelter trust, if the surviving spouse is likely to have a taxable estate smaller than the applicable exclusion.

There are many approaches to designing and funding credit shelter trusts. It's important to work with your attorney and tax advisor to create an overall estate plan that is both tailored to your personal situation and flexible enough for changing tax laws.

Talk to Wells Fargo Advisors

We welcome the opportunity to work with you to help you achieve your planning goals. Contact us for more information and to learn about how we can assist you.

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