

SKIPPING GENERATIONS, NOT STRATEGY

A Practical Guide to GST

Today's Speaker



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Welcome!

What is the GST tax?

Why estate planners should care: It's not just for billionaires.



Historical context

Introduced in 1976, revamped in 1986

Created to close perceived loopholes in estate/gift tax regime.



Understanding the GST Tax

Definition and Purpose

- Tax on transfers that “skip” a generation (e.g., grandparent to grandchild)
- Designed to impose tax once per generation



Understanding the GST Tax

Key Terms

- **Skip Person:** Grandchild, unrelated person >37.5 years younger
- **Non-Skip Person:** Child or someone in same generation
- **GST Exemption:** Currently \$13.99M (2025), indexed annually
 - Expected to drop in 2026



Types of GST Transfers

Types of GST Transfers

- **Direct Skips (outright gifts/bequests to skip persons)**

- Also to trusts where only skip persons are beneficiaries

- **Indirect Skips**

- **Taxable Terminations (trusts ending in favor of skip persons)**
- **Taxable Distributions (trust distributions to skip persons)**



Why the GST Tax Matters

Estate Planning Traps

» Mistaken assumptions

- Misunderstanding automatic allocation
- improperly made elections
- Misunderstanding effect of paying tax
- Botched fix jobs

» Many GST mistakes are permanent and cannot be un-made



Why the GST Tax Matters

Strategic Planning

- » Long-term dynasty trusts
- » Leveraging GST exemption for future generations
- » Asset protection and compounding value over generations



Automatic Allocation of GST Exemption

What Is Automatic Allocation?

- Exemption auto-applied unless opted out
- Applies to direct skips and “GST Trusts”



Automatic Allocation of GST Exemption

GST Trust – Defined by Statute

- IRC §2632(c): Certain trusts presumed to be GST trusts
- 6 trigger tests (most trusts with long-term provisions qualify)



Automatic Allocation of GST Exemption

Opting Out or In

- When and how to file a timely election (Forms 709)
- Why you may not want automatic allocation (e.g., non-exempt trusts)



Automatic Allocation of GST Exemption

Common Mistakes

- Failing to opt out when trust isn't meant to be exempt
 - Or the reverse!
- Misunderstanding which gifts are automatically protected
- Failing to keep track of automatic allocation



Case Studies or Real-World Examples

Common Mistakes

- How automatic allocation saved (or failed to save) a client
- Contrasting scenarios (e.g., proper 709 allocation vs. failure to opt out)



Conclusion

Key Takeaways

- » Understand when GST applies and how it's triggered
- » Automatic allocation is helpful—but not a cure-all
- » Proactive exemption planning is essential in every estate plan

