PLANNING FOR YOUR WEALTH

ESSENTIAL US WEALTH PLANNING STRATEGIES

citi Wealth

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FOREWORD

Creating a proper wealth plan is essential for the preservation of a family's wealth and legacy. It is equally critical to ensure that a plan can adapt to changing circumstances. Over the last few years, much has changed. Financial market moves and shifting laws have created both risks and opportunities. Wealth planning strategies that were previously attractive have become less so and vice versa.

There are various reasons for avoiding the creation and updating of wealth plans; however, the lack of planning or failure to update a plan may result, among other things, in:

- Inadequate protection of assets during your lifetime and thereafter
- Inheritance disputes
- Slow administrative procedures
- Asset depletion
- Unnecessary taxes
- The need for a guardianship proceeding if minor child receives assets free of trust

Ideally, you should create a plan at the earliest opportunity and revisit it regularly or as warranted by changing circumstances. These may include changes in your family, your wealth, or the economic, legal, and tax environment. By acting sooner rather than later, you may be able to create tax savings, ensure that appropriate fiduciaries are in place and that assets are distributed to desired beneficiaries.

Federal tax law provides every US person an exemption amount to make gifts and/or bequests (outright or in trust) without paying a gift tax or an estate tax. Due to the enactment of the One Big Beautiful Bill Act ("OBBBA"), this federal exemption amount increased to $15 million per individual ($30 million per married couple) on January 1, 2026, with annual inflation adjustments starting in 2027. Annual inflation adjustments represent a significant opportunity for additional tax-free gifts for people who have already used their full lifetime gift tax exemption in previous years.

At the same time, interest rates have increased since early 2022. This can impact existing wealth plans and certain popular wealth transfer strategies. Previously, many planning strategies relied upon low interest rates as a means to transfer wealth at a low cost to future generations. But while higher interest rates create challenges for certain strategies, they can also create new opportunities and increase the appeal of strategies that were less advantageous in a low interest rate environment.

This paper will highlight some of the challenges and opportunities arising from the current economic and political environment. We encourage you to contact your Wealth Planner and independent professional advisors to ensure your plan is updated and ready to adapt to changing circumstances.

Information throughout reflects current rules under the Internal Revenue Code, Treasury Regulations, and other guidance promulgated by the United States Department of the Treasury. Information is current as of January 2026 and is subject to change.

There's no assurance that investment objectives will be achieved. All investments are subject to risk of loss. Before implementing a wealth plan, consult your independent legal and tax advisors in the relevant jurisdictions regarding the appropriate strategy to achieve your objectives. Citigroup Inc. and its affiliates do not provide tax or legal advice. Not all products and services are provided by all affiliates or are available at all locations.

STRATEGIES TO CONSIDER WHEN FEDERAL TRANSFER TAX EXEMPTION AMOUNTS ARE AT AN ALL-TIME HIGH

GIFTS TO IRREVOCABLE TRUSTS

Even though the OBBBA has increased the federal exemption amount to an all-time high in 2026, there are still many reasons to make a gift of some or all of your exemption sooner rather than later. Considerations include:

- **Your net worth is approaching or exceeds your remaining exemption amount.** Proper planning can help you reduce potential estate taxes by getting future appreciation and income on transferred assets out of your taxable estate,
- **Future transfer-tax legislation.** A future Congress and a future administration can enact and sign legislation that may reduce the exemption amount – changes made by the OBBBA are not permanent changes,
- **State-level estate taxes.** If you reside in a state that imposes a state-level estate tax, the state exemption amount may be lower than the federal exemption amount, and
- **Asset-protection planning.** If properly structured, funding one or more irrevocable trusts with the exemption amount can shield the trust assets from future creditor claims.

Making gifts now to an irrevocable trust may help you attain your long-term wealth planning goals and mitigate the tax effects on wealth creation and transfer. The irrevocable trust could be structured as a multi-generational trust to benefit the current generation and many generations thereafter, often called a Dynasty Trust. Thoughtful planning impacts not only your estate, but also the legacy you leave for your family.

A crucial consideration for lifetime gifting is the forfeiture of the advantageous step-up in income tax basis on gifted assets at death, as recipients typically inherit the donor's original cost basis, potentially increasing future capital gains when assets are sold. Nevertheless, the significant estate tax savings realized on the appreciation of gifted assets often outweigh the diminished income tax basis for the recipient, making lifetime transfers a compelling strategy.

EXAMPLE

Dynasty planning with a transfer of $15 million in trust

You decide to fund an irrevocable Dynasty Trust for the benefit of your children and future generations. The Dynasty Trust is funded this year with $15 million.

We assume as follows for the funding of this Dynasty Trust:

- You have not used any of your available transfer tax exemption amount, so the transfer will not trigger a gift tax
- Assets grow at an annualized rate of 5%
- You are in the highest income bracket and live in a state that has no state income tax and no gift, estate or generation-skipping transfer (GST) tax
- Trust is structured as a Grantor Trust and you pay income tax on behalf of the trust out of your own assets, allowing the trust assets to grow free of income tax while you are alive
- You allocate your GST tax exemption to shield the assets from future GST tax consequences
- 30 years between each generation

After the first 30 years, the value of the trust assets will be approximately $64.83 million. Your payment of income taxes during the 30-year period beneficially reduces your taxable estate and is not treated as an additional taxable gift.

At your death, assets that remain in the Dynasty Trust do not receive a step up in income tax basis. Following your death, trust assets continue to grow for another 30 years outside your child's taxable estate, but the trust pays its own income tax. At the end of the next 30 years and continuing to assume a 5% annual growth rate, the value of the trust assets will be approximately $155.53 million.

The highest federal estate tax rate is currently 40%. If properly structured, the assets that remain in the Dynasty Trust would not be subject to federal estate taxation or GST taxation at your death or at the death of future generations (your children and grandchildren).

BY PLANNING NOW, YOU MAY BE ABLE TO SUBSTANTIALLY INCREASE THE AMOUNT OF WEALTH PASSING TO YOUR BENEFICIARIES.

SPOUSAL PLANNING WITH THE INCREASED GIFT TAX EXEMPTION

For a married couple wanting to do wealth-transfer planning during their lifetime, a Spousal Lifetime Access Trust (SLAT) is an attractive strategy for many reasons. You may consider a SLAT if:

- Your net worth is substantial, but you are uncomfortable losing complete access to the gifted assets
- You are reluctant to make large gifts to children or other family members and wish for your spouse to retain the right to change the ultimate disposition of the gifted property by granting your spouse a power of appointment
- You wish to shield your assets from your potential future creditors but wish for your spouse to maintain access to the assets

With a SLAT, one spouse (the "grantor spouse") transfers assets to an irrevocable trust for the benefit of the other spouse (the "beneficiary spouse") and possibly other family members. During the lifetime of the beneficiary spouse, the trustee may make distributions of income and principal to the beneficiary spouse (and others if permitted). At the time of the beneficiary spouse's death, the remaining assets in the SLAT may pass directly to (or remain in trust for the benefit of) the grantor spouse's children, more remote descendants, other family members, and/or charities. If properly structured, the value of assets remaining in the SLAT would not be subject to estate taxation when either spouse dies.

Besides wealth transfer planning, the SLAT technique provides the beneficiary spouse access to the trust assets during the beneficiary spouse's lifetime. The grantor spouse may indirectly benefit from assets transferred to the SLAT, provided the beneficiary spouse is alive and married to the grantor spouse. SLAT agreements can also contain provisions that may shield the assets (while they remain in trust) from the grantor spouse's creditors and the beneficiary spouse's creditors.

If the SLAT is properly structured, the beneficiary spouse may serve as a trustee to the extent distributions are limited to an "ascertainable standard" for beneficiary needs relating to health, education, maintenance, and support. For distributions relating to other needs, an independent trustee will be required.

Additional planning (including how to address a possible divorce) will be required if each spouse wants to establish a SLAT for the other spouse – such SLATs may need to be structured with different terms, different distribution provisions, different trustees, and/or different beneficiaries.

PLANNING TECHNIQUES IN A VOLATILE MARKET

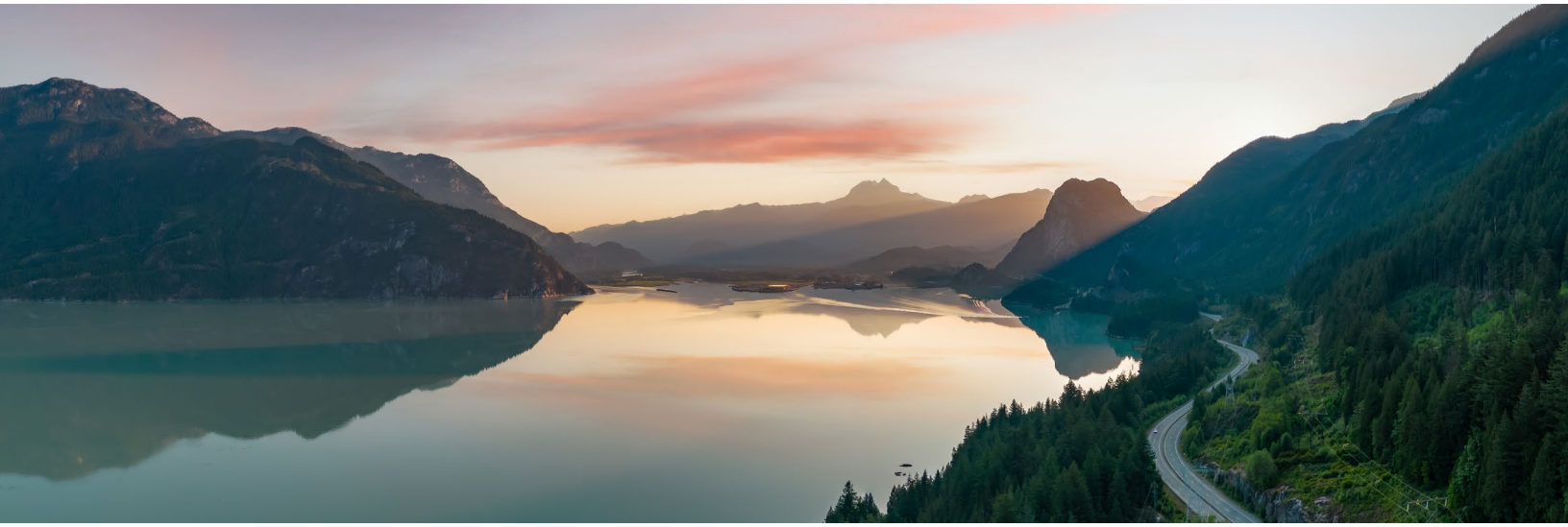
While volatile financial markets cause uncertainty, they also present planning opportunities. Depressed assets and the potential for future growth are key factors that can contribute to the success of certain estate planning strategies.

CONSIDER CONVERTING YOUR TRADITIONAL INDIVIDUAL RETIREMENT ACCOUNT (IRA) TO A ROTH IRA

If you were considering converting your traditional IRA to a Roth IRA, it might make sense to do so at a time when there is a decline in your IRA account values. While the conversion may trigger a state and federal income tax, the income due will be less if the conversion occurs during a market decline. After the conversion, the recovery and subsequent growth of the assets held by the Roth IRA will occur in a tax-free account.

Paying the federal income tax now at the current income tax rates will reduce the value of your taxable estate and thereby reduce potential estate taxes, which could be up to 40% due on death. Further, because of the passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, Roth IRA conversions may be an even more attractive option for individuals who want to reduce the future tax liability for their children.

While Roth IRAs do not have required minimum distributions for the account owner, that is not the case for most beneficiaries. Under the SECURE Act, most beneficiaries must withdraw the full value of an IRA within ten years after the account owner's death. With a traditional IRA, the beneficiaries are required to take the distribution and report income received from the IRA, possibly placing them in a higher income tax bracket. By converting to a Roth IRA, the beneficiaries can avoid such future tax consequences.



GIVING ASSETS DIRECTLY TO YOUR BENEFICIARIES

For 2026, the Internal Revenue Code allows an individual to give up to $19,000 to any single recipient during the calendar year without triggering any gift tax consequences. Such gifts do not count against the donor's lifetime gift tax exemption amount. However, those gifts do not have to be made in cash. Investments such as publicly traded equities or even shares in a family entity can be given with no gift tax consequences, so long as the asset's value is less than $19,000. When volatile markets push asset values down, you may be able to make an even more valuable gift to your beneficiaries than you could have done when markets were higher.

While a non-retirement asset held at the time of death is subject to estate tax, that asset will receive a new income tax basis equal to its fair market value as of the decedent's date of death. While gifted assets will not receive a step-up in basis at your death, the value in this strategy is that future appreciation on the transferred assets will be out of your estate for estate tax purposes.

By taking advantage of depressed asset prices, you may be able to give a larger number of shares to the recipient. Over several decades, that can result in a substantially more valuable gift.

EXAMPLE

Gifts of equities

Say you own shares in a public company trading at $200 a share. You could give up to 95 shares of that stock to your nephew without triggering any gift tax consequences. However, before you could make the same gift to your niece, the stock's value fell to $125 a share — a more-than-37% decline. As a result, you could give her up to 152 shares to stay under that $19,000 threshold. A few years later, the stock recovers to $275 a share. Your nephew's 95 shares are now worth $26,125, but your niece's 152 shares are worth $41,800.

GRANTOR RETAINED ANNUITY TRUST (GRAT)

A GRAT is a popular technique for wealth transfer planning because a properly structured GRAT can transfer large amounts of wealth out of the grantor's estate while using little – or, in many cases, none – of the grantor's lifetime gift tax exemption amount. Although the technique is common in low interest rate environments, it can still be a useful technique in volatile markets. Planning with GRATs is more fully addressed later in this white paper.

GRANTOR TRUSTS – GIFTS, SALES AND LOANS

During your lifetime, you (as the grantor) can structure an irrevocable trust with certain "grantor trust" powers so that you will be treated as the deemed owner of the trust assets for federal income tax purposes, but not for federal gift, estate, or GST tax purposes. This type of trust is often referred to as an Intentionally Defective Grantor Trust or "IDGT."

As the deemed owner of the IDGT's assets for federal income tax purposes, you will be responsible for reporting the IDGT's income, deductions, gains, and losses on your personal income tax return. You will not be treated as making an additional gift to the IDGT by paying (from your own assets) any income taxes attributable to the income and gains generated by the IDGT.

"Grantor trust" status for an IDGT will generally operate until the earlier of the grantor's death or the release of all "grantor trust" powers. While the IDGT has "grantor trust" status, the following transactions between the grantor and the IDGT will not trigger any income tax consequences to either the grantor or the IDGT:

- The grantor selling appreciated assets to an IDGT in exchange for a promissory note
- The grantor receiving interest on the promissory note from the IDGT
- The IDGT repaying back the principal of the note to the grantor – even with appreciated assets
- The grantor substituting assets of equal value with the IDGT

To fund the IDGT, you would make an initial gift using some/all of your lifetime gift tax exemption amount – this gift to the IDGT is often referred to as a "seed gift." To leverage this seed gift, you may sell additional assets to the IDGT in exchange for a promissory note. This note should provide for an interest rate that is no lower than the Applicable Federal Rate or "AFR" (determined at the time of your sale of assets to the IDGT).

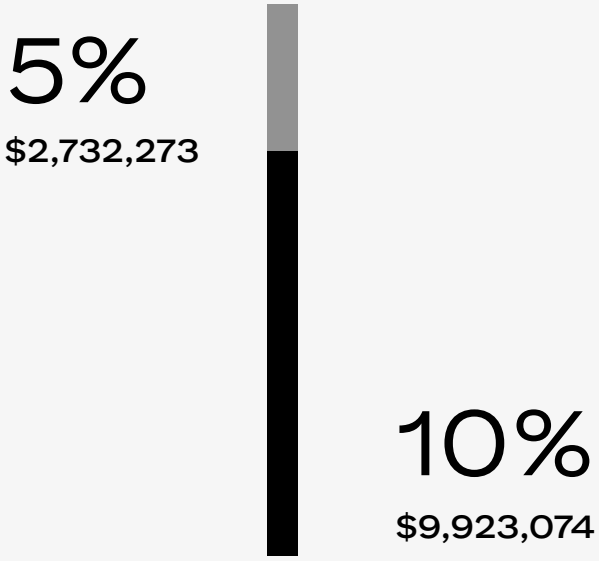
If the total return (i.e., income, gains, and appreciation) of the assets sold to the IDGT exceeds the note's stated interest rate, then such excess return (both realized and unrealized) will accrue to the IDGT and thus be outside of your estate and not subject to an estate tax. On the other hand, if the total return does not exceed the note's interest rate, the trustee of the IDGT may need to repay the note with some/all of the seed gift, resulting in the gifted assets coming back into your estate without restoring any used gift tax exemption amount.

EXAMPLE

Sale to a Grantor Trust
In January 2026, the grantor transferred $1 million of stock to a Grantor Trust. The grantor then sold $9 million of stock to the trustee of the Grantor Trust in exchange for a $9 million promissory note. The promissory note provided for annual interest-only payments, using the mid-term AFR of 3.81% for January 2026. Full repayment of the outstanding principal will be due at the end of nine years.

The following hypothetical shows the value of the Grantor Trust's remaining assets at the end of 9 years after repayment of the $9 million note, assuming various annual return rates on the Grantor Trust's assets.

Grantor Trust's hypothetical annual return / remaining assets



The above hypothetical scenario was created for illustrative purposes only. The hypothetical performance levels should not be taken as an indication of any specific future performance or returns, which may be better or worse than the levels set forth above. The returns shown do not represent the results of actual returns of investor assets.

There's no assurance that investment objectives will be achieved. All investments are subject to risk of loss. Before implementing a wealth plan, consult your independent legal and tax advisors in the relevant jurisdictions regarding the appropriate strategy to achieve your objectives. Citigroup Inc. and its affiliates do not provide tax or legal advice. Not all products and services are provided by all affiliates or are available at all locations.

USE OF SUBSTITUTION POWERS TO MANAGE TRUST ASSETS EFFECTIVELY

Most GRAT and irrevocable Grantor Trust agreements include substitution or "swap" powers. These powers allow the grantor of the trust (in a fiduciary capacity) to swap assets of equivalent value with the assets in the trust without any income tax consequences.

Assuming such powers exist in a GRAT agreement, during times where asset values may have dropped since inception of the GRAT, the grantor may be able to swap personal assets such as cash in return for the asset in the GRAT and then either:

1. transfer the asset to a new GRAT, or
2. do an installment sale with the asset to a new or existing IDGT.

By doing so, the grantor may still be able to transfer appreciation, including the recovery of the value of the assets, from the date of the new transfer going forward.

The following points are other scenarios where the grantor may want to consider a substitution/swap of assets with a GRAT and/or an irrevocable Grantor Trust (collectively referred to as the "Trust") without triggering immediate income tax consequences:

- **Reducing future capital gains by maximizing high tax basis.** The grantor can substitute high-basis assets (owned individually) for low-basis assets held in the Trust. If the grantor dies owning the low-basis assets, the swap will result in the low-basis assets receiving a step-up to fair market value at the grantor's death and will reduce the amount of future capital gain taxes in the Trust after the "grantor trust" status ends.
- **Solving the grantor's liquidity needs.** The grantor can acquire cash or other liquid assets held in the Trust by substituting illiquid assets such as interests in a family business or real estate.
- **Protecting/limiting the success of the Trust.** The initial value of assets contributed to a Trust may have substantially increased. Prior to the termination of the Trust (or termination of "grantor trust" status), a swap of assets may protect the wealth-transfer success by having the Trust hold less-volatile assets.
- **More tax-efficient charitable giving.** The grantor can use the swap power to acquire low-basis assets from the Trust. The grantor can then donate the appreciated assets to a tax-exempt charity without paying capital gain taxes. This donation to charity may also entitle the grantor to a charitable deduction for income tax purposes.

When substituting assets, consider working closely with your independent estate planning attorney and tax advisor to ensure the transaction is clearly documented and the necessary paperwork is prepared. In certain circumstances, it may make sense to file a gift tax return. If swap assets are not publicly traded, you may need an appraisal to determine fair market value.

PLANNING WHEN INTEREST RATES START TO RISE

In consultation with your independent tax advisor, you may then want to consider other strategies that take advantage of a rising interest rate environment, including:

- Qualified Personal Residence Trust (QPRT)
- Charitable Remainder Trusts (CRTs)

In addition, with rising interest rates and volatile markets, you may need to give special attention to existing GRATs or take advantage of the strategy for certain assets.

QUALIFIED PERSONAL RESIDENCE TRUST (QPRT)

A QPRT is an irrevocable trust that:

1. through a gift from the grantor, owns either a grantor's primary or secondary residence;
2. allows the grantor to use the property rent-free during a certain term; and
3. at the end of the term distributes the property outright or in trust for the named beneficiaries.

Although the gift of the property to the trust is taxable, this gift's value will not equal the full value of the property. Instead, the gift will be discounted for certain factors, including the grantor retaining the right to use the property.

The value of the gift is calculated using a prescribed IRS rate. The higher the federal rate, the lower the gift value of the trust's remainder interest.

Unlike some wealth transfer strategies, transferring a residence to a QPRT is an estate planning technique approved by the IRS. However, the governing code section and its underlying regulations are complex and require a thorough review to determine whether this is an appropriate strategy. Some of the considerations include:

- The grantor can live rent-free in the property during the term of the QPRT
- During the QPRT term, the grantor can be responsible for the ordinary carrying costs of the property such as minor repairs, insurance, and real estate taxes. If paid by the grantor, these expenses are not considered additional gifts to the QPRT
- The QPRT is a Grantor Trust and accordingly the grantor can deduct the real estate taxes paid, subject to any applicable limitation on deductions
- Any capital improvements made by the grantor will be considered an additional gift
- If the property is sold during the term of the QPRT, the proceeds must either be invested in a new home, distributed back to the grantor, or held in a trust structured as a GRAT
- If the property transferred is subject to a mortgage, the principal portion of the payment made by the grantor will be an additional taxable gift to the QPRT
- At the end of the QPRT term, if the grantor wants to continue residing in the property, the grantor must then pay a fair value rent
- If the grantor survives the QPRT term, all appreciation in the property passes to the beneficiaries free of transfer tax
- If the grantor dies during the QPRT term, the fair market value of the trust property at the time of the grantor's death will be includible in the grantor's estate for federal estate tax purposes
- If the grantor dies after the term of QPRT, there will be no step-up in basis in the property upon the grantor's death
- A QPRT is not an appropriate strategy for generation-skipping transfers

A married couple may be able to further discount the gift tax value by each spouse contributing a 50% interest of the residence to separate QPRTs. With today's current interest rates and increasing real estate values, the QPRT may be an effective strategy to transfer wealth to the next generation.

CHARITABLE REMAINDER TRUSTS (CRTS)

A CRT is an irrevocable trust, often used for income tax planning, designed to benefit both individuals and charities. The donor or other non-charitable beneficiaries receive payments from the trust for a term of years, and one or more charities (which may include a donor advised fund), receive the remainder interest upon the conclusion of such term. CRTs can be structured several ways.

Charitable Remainder Annuity Trust (CRAT) provides annual payments to non-charitable beneficiaries in a fixed dollar amount determined as a percentage, which must be at least 5% of the initial fair market value of the trust.

Charitable Remainder Unitrust Trust (CRUT) provides annual payments to non-charitable beneficiaries) in a fixed percent of at least 5% of the annually revalued fair market value of the trust assets (the unitrust payment). Unlike fixed dollar payments from a CRAT, CRUT payments will vary from year to year, depending on the changing value of the trust assets.

Additional issues to consider include:

- The donor may be entitled to a charitable income tax deduction based on the present value of the remainder interest passing to charity
- A CRT can be a good tool to diversify the proceeds of appreciated assets as there is no immediate capital gains taxes when a CRT sells appreciated assets
- Payments to the non-charitable beneficiary must be made at least annually – the CRT can be structured to make payments more frequently
- The annuity payments will be taxed to the recipient. The tax consequences will be based on the nature of the income distributed by the CRT

The higher the interest rate, the easier it is to meet certain IRS thresholds required for CRTs to be a viable planning strategy. Further, higher interest rates may result in a higher charitable deduction. In light of current interest rates, CRTs should be explored if you are interested in making a charitable commitment while retaining an annuity interest or unitrust payment. Further, clients with significant built-in gain assets facing high federal and state income taxes could benefit from the deferral of income taxes in a CRT.

GRANTOR RETAINED ANNUITY TRUSTS (GRATS)

GRATs are one of the popular, yet interest rate sensitive techniques that require review in the current environment. In the current interest rate environment, special care and planning must be used if GRATs are to remain viable.

A GRAT is an irrevocable trust to which you transfer assets but retain the right to receive an annuity payment for a fixed term of years. The annuity payment is based upon the initial value of the GRAT's assets, the selected term of years, and a growth rate prescribed by the IRS – the Section 7520 rate, discussed in greater detail below – at the time the GRAT is funded.

The grantor may structure a GRAT so that the present value of the retained annuity payments will equal the initial value of the transferred assets plus the appreciation at the Section 7520 rate. This "zeroed-out GRAT" approach will result in the value of the grantor's gift to the GRAT being equal to zero (or nearly zero), preserving the grantor's remaining lifetime exemption amount for other wealth-transfer strategies. A grantor who has fully used his/her lifetime exemption amount may still be able to establish one or more zeroed-out GRATs with little or no gift tax consequences. When the GRAT term ends and the final annuity payment is made, any assets left in the trust can either pass outright to the grantor's beneficiaries or remain in trust for their benefit.

The IRS uses the Section 7520 rate – published monthly – to ascertain the expected growth of assets within a trust for gift tax purposes. Many planners refer to the 7520 rate as the "hurdle rate." This is because any appreciation of the GRAT assets exceeding the 7520 rate would not be factored into the IRS gift tax calculations, would not have to be accounted for in the annuity payments to the grantor, and would therefore pass to the trust beneficiaries free of gift and estate tax.

Accordingly, when the Section 7520 rate is very low, it would generally be less challenging to find assets that increase in value at a rate exceeding the 7520 rate. This would therefore result in a successful transfer of wealth. In January 2022, the 7520 rate was 1.6%; however, for January 2026, the 7520 rate increased to 4.6%, meaning that assets contributed to a GRAT must experience a more dramatic growth in value for the GRAT to beat the "hurdle rate" and effectively transfer wealth.

In a higher interest rate environment, GRATs can still be a valuable planning technique, as they are one of the few vehicles that can be used to transfer significant amounts of wealth without using a grantor's lifetime gift and estate tax exemption. However, their use requires careful planning.

With higher Section 7520 rates, grantors may want to consider using more volatile assets. Such assets may experience larger increases in value, helping the GRAT to be successful. One technique that can allow for assets with higher volatility to be used in a GRAT is the concept of "immunization." With immunization, highly volatile assets are contributed to a GRAT and allowed to appreciate above the amount required by the 7520 rate. However, they are then substituted for a low volatility asset such as cash so as to preserve the gains made during the GRAT term. Securities-backed lending can be a particularly useful technique for implementing such immunization strategies.

ENSURING TRUST TERMS ARE ALIGNED WITH YOUR INTENTIONS

Trusts can be established as revocable or irrevocable. A revocable trust is typically created by its grantor to hold assets that can be managed by the grantor or on the grantor's behalf if he or she becomes incapacitated. A revocable trust can also dispose of the trust assets outside of the probate process when the grantor dies.

The grantor often serves as the initial trustee. While competent, he or she can revoke or amend the trust at any time. It is important to note that, while revocable trusts can be highly effective tools for managing assets during incapacity and avoiding probate, they do not remove assets from a grantor's estate for estate tax purposes.

To accomplish wealth transfer goals, an irrevocable trust is often required. However, this trust is not as easy to modify as a revocable trust. An irrevocable trust is typically established by the grantor to hold assets for the benefit of others rather than for the grantor. Usually, the grantor cannot revoke the trust or claw back the trust assets.

In addition to completing gifts or transfers to others, an irrevocable trust, in contrast to a revocable trust, generally removes assets from the grantor's estate. It thus often serves the purposes of minimizing estate taxes, as well as ensuring the proper management of the trust assets over multiple generations.

Just because a trust is irrevocable, however, does not mean it cannot be modified. This is especially true when its terms or provisions have become outdated or undesirable. In certain situations, it may be possible to modify the trust terms, even though the trust agreement may state that it cannot be amended or revoked. Depending on the terms of the irrevocable trust agreement and governing state law, trusts may be modified with the relevant parties' consent and without court proceedings, pursuant to what is referred to as a "non-judicial settlement agreement."

It may also be possible for an existing trust to transfer its assets to a new trust. This method of changing the trust terms is known as "decanting." You may seek to modify or decant a trust not only to improve its provisions but also to take advantage of jurisdictions with favorable trust laws, such as Delaware and South Dakota.

Benefits of these jurisdictions include:

- no state income tax on accumulated income
- flexibility to carve out different trustee roles, possibly allowing the grantor to serve as investment advisor to the trust
- silent trust provisions to delay notification of the existence of the trust to beneficiaries

MAKING GIFTS TO MINORS

A parent, grandparent or other family member can make a gift to a minor in several ways. During 2026, a donor can transfer up to $19,000 in cash or assets to any person, including a minor, as an annual exclusion gift. To the extent that the donor gives the minor an amount during the year that exceeds the annual exclusion gift amount, the excess portion will reduce the donor's available lifetime gift tax exemption amount or, if none is available, trigger a gift tax.

Listed below are some ways to make gifts to a minor:

- Irrevocable trust
- UTMA account
- Custodial IRA
- 529 savings plan account

In selecting the way to make a gift, factors you should consider include how much control you want to retain over the transferred assets, your goals in making the gift, the purposes for which the gift will be used, income tax and estate tax considerations, and when the minor will be entitled to receive the assets.

If your goal is to limit a minor's access to assets once they reach adulthood – and particularly if the assets are poised to grow substantially – you should consider establishing and funding an irrevocable trust.

The irrevocable trust can specify detailed guidelines for distributions to the minor and provide for the timing of outright distributions, whether at a particular age or remaining in trust for the minor's lifetime. Lifetime trusts offer benefits such as asset protection, creditor protection and potential transfer tax savings.

An UTMA account ("UTMA") for a minor is typically established with a financial institution under a particular state's Uniform Transfers to Minors Act. An UTMA does not require a trust to be established by the donor. A custodian – either the donor or, preferably for estate tax reasons, another adult – manages and invests the assets in the UTMA and spends funds for the minor's benefit.

Depending on state law and how the UTMA is established, the UTMA usually terminates when the minor reaches an age between 18 and 21. At this termination date, the custodian turns over the remaining assets in the UTMA to the now-adult beneficiary. If the donor serves as custodian and dies before the termination date, the date-of-death value of the UTMA may be subject to estate taxation because of the level of discretionary control the donor/custodian retained with respect to distributions to the beneficiary.

For minors, retirement is, of course, a distant prospect. Nonetheless, if a minor has earned income – wages, tips, and self- employment – a donor can establish and fund a custodial IRA (traditional or Roth) for the minor's benefit. This is one way you can help start a minor's retirement savings.

Like an UTMA, a custodian maintains control of the custodial IRA until the time the minor attains a certain age. The maximum amount a donor can contribute to a custodial IRA during the year is the lesser of the minor's earned income for the year or the maximum annual IRA contribution amount, currently $7,500.

If your goal is to provide for a minor's future college expenses, you may consider creating a 529 savings plan account ("529 account") under a plan sponsored by a state or educational institution. The donor – or another adult – is the account owner of the 529 account and the minor is the designated beneficiary. The donor and other persons can contribute only cash to fund a 529 account. 529 account plans provide different investment options that the account owner can select.

Earnings in a 529 account accumulate free of income tax. Withdrawals from a 529 account do not trigger income tax if used for the beneficiary's "qualified education expenses" to attend college, university, trade and vocational schools and other eligible post-secondary institutions. Qualified education expenses include tuition, books, fees, computers and some room and board expenses. Federal tax law also allows tax-free annual distributions up to $20,000 for a minor's tuition at a K-12 school. Federal law now allows tax-free distributions from a 529 account to pay additional K-12 costs such as curriculum materials, books, online educational tools, tutoring, and standardized test fees. However, it is vital to confirm that your state conforms with these federal laws. Withdrawals from a 529 account for other reasons generally trigger federal and state/local income tax and possibly an additional 10% tax penalty.

Starting in 2024, the SECURE 2.0 Act adds a degree of extra flexibility to 529 account planning by allowing the transfer of up to a lifetime limit of $35,000 in unused 529 account funds to a Roth IRA established in the name of the same beneficiary under the original 529 plan. It is important to note that:

1. a 529 account must have been maintained for at least 15 years to qualify for such a Roth IRA transfer;
2. contributions made to a 529 plan within the last 5 years (and the earnings on such contributions) are not eligible to be moved to a Roth IRA ;
3. the beneficiary must have earned income at least equal to the transferred amount in the year of transfer; and
4. any such transfer counts toward the beneficiary's cumulative IRA contribution limits for the year of transfer.

Even given these restrictions, the ability to potentially transfer up to $35,000 of unused 529 account funds to a Roth IRA without penalty is a valuable planning strategy to address concerns about the potential overfunding of a 529 plan.

Note that a state's income tax treatment of withdrawals may not fully conform to the federal income tax laws for 529 plans.

Special rules allow a donor to frontload a 529 account with up to five years' worth of annual exclusion gifts and permit an account owner to change the designated beneficiary if the new minor beneficiary is a family member of the current minor beneficiary.

The tax laws also allow you to pay anyone's tuition expense without any gift tax consequences if you pay such expense directly to an educational organization. This "Tuition Expense Exclusion" does not have any dollar limit. The Tuition Expense Exclusion does not apply to (i) amounts paid for room and board, books, or supplies, and (ii) contributions to 529 plans. You can use the Tuition Expense Exclusion to pay tuition directly to the educational organization while using a 529 plan to pay other qualified education expenses.

URGING FAMILY MEMBERS TO PLAN FOR THEIR WEALTH

ENCOURAGE ADULT CHILDREN TO CREATE AN ESTATE PLAN

Understandably, younger people seldom contemplate mortality. Nevertheless, your adult children should prepare estate planning documents of their own. While it may be sensitive to discuss, you might encourage each of your children aged 18 and above to sign the following legal documents:

- durable general power of attorney (for financial purposes),
- medical power of attorney or health care directive, and
- authorization to release protected health information.

The first two documents allow a child to appoint an agent to make financial and medical decisions on that child's behalf, should the need ever arise.

Your child should understand the importance of signing the above documents and the negative consequences of not having them in place.

Your child may have bank accounts, interests in a family entity or other assets acquired as gifts or from a custodial account. He or she should consider signing a will and/or revocable trust to have a testamentary plan for distributing assets. Your child can also title accounts in a manner that will directly pass the assets to designated beneficiaries (at the time of such child's death) without the need for probate, such as a payable-on-death (POD) designation or a transfer-on-death (TOD) designation.

Begin a conversation with your adult children about the importance of creating an estate plan and introduce them to trusted advisors who can guide them through the next steps.

COORDINATE WEALTH PLANS TO MAXIMIZE TAX BENEFITS

In addition to discussions with children about wealth planning, if parents are living, it is important to collectively discuss their wealth and estate plans to ensure nothing in their plans conflict with your own goals and planning. As an example, many wealthy individuals may prefer their parents leave assets in trust for them and future generations, and thereby keep such assets out of their own estates, rather than leaving assets outright to a child who already has significant wealth and would then need to account for the additional assets as part of their own plan.

CLOSING THOUGHTS

THE TIME FOR WEALTH PLANNING IS NOW.

Life is inherently unpredictable, with wealth exposed to many forces that lie outside our control. The volatile financial market conditions of the last few years and evolving tax and legal regimes are stark reminders of this.

Effective wealth planning can help reduce life's uncertainties. Regular engagement with your Wealth Planner and other independent advisors can help establish whether your current plan is optimized, not just to protect from risks but also to benefit from new opportunities.

Before implementing a wealth plan, consult your independent legal and tax advisors in the relevant jurisdictions regarding the appropriate strategy to pursue your objectives.

Please contact your Private Banker or Wealth Planner for more information.

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