

[Date]

[Client Name]

[Client Address]

[City, State, Zip Code]

## **Re: Generation-Skipping Transfer (GST) Tax Advisory**

Dear [Client Name],

This letter serves to advise you on the federal Generation-Skipping Transfer (GST) tax implications regarding your current estate planning strategy and proposed transfers to "skip persons."

### **1. Overview of GST Tax**

The GST tax is an additional federal tax applied to transfers made to beneficiaries who are two or more generations below the donor (e.g., grandchildren or great-grandchildren). It is designed to ensure that wealth is taxed at each generational level.

### **2. GST Tax Exemption**

For the current tax year [Year], the lifetime GST tax exemption is \$[Amount]. This exemption allows you to transfer assets up to this limit to skip persons without incurring the GST tax. Any transfers exceeding this threshold may be subject to a flat tax rate of [Current Rate]%.

### **3. Allocation of Exemption**

It is critical to strategically allocate your GST exemption to specific transfers or trusts. We recommend reviewing your "Automatic Allocation" rules to ensure the exemption is being applied to the assets with the greatest appreciation potential.

### **4. Annual Exclusion Transfers**

Certain direct transfers to skip persons may qualify for the annual gift tax exclusion (currently \$[Amount] per recipient). However, transfers to trusts for grandchildren must meet specific requirements under Internal Revenue Code Section 2642(c) to qualify for a zero GST inclusion ratio.

### **5. Recommendation and Next Steps**

We suggest the following actions:

- Review the inclusion ratio of your existing irrevocable trusts.
- Evaluate the impact of "Taxable Terminations" or "Taxable Distributions" within your current trust structures.
- File Form 709 (United States Gift and Generation-Skipping Transfer Tax Return) to formally elect or opt-out of exemption allocations.

Please contact our office to schedule a formal review of your asset allocation and to ensure your records are compliant with current IRS regulations.

Sincerely,

[Advisor Name]

[Firm Name]