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Reverse Estate Planning? There's Such A Thing, And It's A Good Strategy For Some Families



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Most estate planning discussions assume assets flow in only one direction, from older generations to younger generations. That focus neglects some opportunities to increase family after-tax wealth.

It's not unusual for adult children to help care for their parents or have more wealth or higher incomes than their parents. In those situations, reverse estate planning should be considered, especially when the parents won't use all their lifetime estate and gift tax exemptions or are in a lower tax bracket than their adult children.

The idea is the adult children can use an array of standard tax and estate planning strategies to transfer assets to their parents in tax-advantaged ways. The parents then use their lifetime exemptions to pass that wealth to younger generations, primarily their grandchildren and great-grandchildren, through either their estates or lifetime gifts. They might even

benefit their adult children at little or no tax cost by bequeathing the money to irrevocable trusts the adult children can't control.

For example, the adult children can make low-interest loans to their parents. The parents use the loan proceeds to buy assets that are expected to appreciate. At some point, they repay the loans and let the appreciation pass through their estates tax-free to the younger generations, either directly or through trusts. Or the parents can make lifetime gifts to the grandchildren or the trusts, using part of their lifetime exemptions.

Or suppose the parents are in a low capital gains tax bracket and the adult children have appreciated assets they want to sell. The adult children can give some of the appreciated assets to their parents, using either the annual gift tax exclusion of \$16,000 or part of their lifetime estate and gift tax exemptions.

The parents then sell the assets and pay little or no taxes on the gains. The parents can let the gains be inherited from their estate or can use their lifetime exemptions to make current gifts of the after-tax gains.

These are just a few examples of how reverse estate planning can work to reduce income taxes as well as estate and gift taxes over several generations.

Most of the widely-used strategies for transferring wealth to younger generations also can be used to transfer wealth to the older generation.

The lifetime estate and gift tax exemptions might not remain at their current levels for long. The 2017 tax law is scheduled to expire after 2025, which would cut the exemptions in half. Some families would benefit by using reverse estate planning to pass assets now to the older generation so their

excess exemptions can be used to transfer assets tax free for the benefit of their grandchildren or later generations.

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