



Spousal Lifetime Access Trust (SLAT): A Flexible Wealth Transfer Strategy with Built-in Benefits

A Spousal Lifetime Access Trust (SLAT) is a strategic estate planning tool designed to transfer wealth outside of an individual's taxable estate while still providing financial flexibility to a spouse during their lifetime. A SLAT allows the grantor to make irrevocable gifts to a trust for the benefit of their spouse (and potentially other beneficiaries, such as children), providing both estate tax benefits and asset protection. SLATs are particularly valuable for individuals who want to take advantage of their lifetime gift tax exemption while maintaining indirect access to the trust assets through their spouse.

By utilizing a SLAT, married couples can shift assets out of their taxable estates, avoid estate taxes on future appreciation, and still preserve some access to the trust's assets, helping to ensure financial security for the spouse.

Key Benefits of a SLAT

- **Reduction of Taxable Estate:** Assets transferred into a SLAT are removed from the grantor's taxable estate, allowing for the transfer of wealth without incurring estate taxes upon the grantor's death. This is particularly effective for individuals aiming to take advantage of their lifetime gift tax exemption.
- **Preservation of Indirect Access to Trust Assets:** Although the assets in the SLAT are irrevocably transferred to the trust, the grantor's spouse can still receive distributions from the trust as a beneficiary. This structure allows for indirect access to the assets, ensuring that the grantor and their spouse can maintain financial flexibility if needed.
- **Asset Protection:** Assets held within a SLAT are typically protected from creditors, lawsuits, and other potential financial threats. This offers an additional layer of financial security for the spouse and other beneficiaries.
- **Use of the Lifetime Gift Tax Exemption:** A SLAT enables the grantor to use their lifetime gift tax exemption, which can significantly reduce estate taxes upon death. By gifting assets to a SLAT during their lifetime, individuals can lock in the current exemption amounts before any future changes in tax law.





How a SLAT Works

- **Creation and Funding:** The grantor creates the SLAT as an irrevocable trust and transfers assets into it. The spouse is named as the primary beneficiary, and the trust may also include provisions for additional beneficiaries, such as children or grandchildren.
- **Distributions to the Spouse:** The trustee of the SLAT can make distributions to the spouse during their lifetime. These distributions can be used for the spouse's health, education, maintenance, or support (commonly referred to as HEMS standards), which provides financial security for the spouse without the assets being included in the grantor's or spouse's taxable estate.
- **Future Use by Children or Other Heirs:** Upon the spouse's death (or at a designated point in time), the remaining trust assets are distributed to the designated beneficiaries, often the couple's children or other heirs. These assets are not subject to estate taxes, making the SLAT an efficient way to transfer wealth across generations.
- **Control Over Trust Assets:** The grantor retains no direct control over the trust assets once they are transferred into the SLAT. However, because the spouse can receive distributions from the trust, there is an element of financial flexibility built into the structure.

Tax Treatment of a SLAT

- **Income Taxes:** A SLAT is typically structured as a grantor trust for income tax purposes, meaning the grantor continues to pay income taxes on the trust's earnings. This allows the assets in the trust to grow without the burden of income tax, further enhancing the tax efficiency of the strategy.
- **Estate Taxes:** The assets in the SLAT are not included in the taxable estates of either the grantor or the spouse, which can result in significant estate tax savings. Any appreciation in the value of the trust assets after the transfer occurs outside of the taxable estate, benefiting future generations.
- **Gift Taxes:** The assets transferred into the SLAT are considered gifts to the trust beneficiaries and count against the grantor's lifetime gift tax exemption. By utilizing the exemption, the grantor can reduce their overall taxable estate.





Considerations for Implementing a SLAT

- **Irrevocability of the Trust:** Once assets are transferred into a SLAT, the trust is irrevocable. The grantor cannot reclaim the assets, so it is important to carefully consider which assets are contributed to the trust and ensure that both spouses have sufficient financial security outside of the trust.
- **Reciprocal Trust Doctrine:** If both spouses create SLATs for the benefit of each other, care must be taken to avoid the application of the reciprocal trust doctrine, which could result in the IRS treating both trusts as part of each spouse's taxable estate. To avoid this, the two trusts should not be identical and should have meaningful differences, such as different beneficiaries, terms, or timing of distributions.
- **Impact of Divorce:** If the grantor and spouse divorce, the spouse's access to the trust assets may terminate, depending on how the trust is drafted. It is important to consider this possibility when structuring the trust to avoid potential complications.
- **Asset Selection:** The assets chosen to fund the SLAT should be carefully selected. Ideally, the grantor should transfer assets expected to appreciate, as this will allow future growth to occur outside of the taxable estate, maximizing estate tax savings.
- **Trustee Selection:** Selecting the right trustee is critical, as the trustee will have the authority to manage and distribute the trust's assets. The trustee could be a third-party individual, a family member, or a corporate trustee, depending on the family's preferences and trust objectives.

Conclusion

A Spousal Lifetime Access Trust (SLAT) offers a flexible and tax-efficient strategy for transferring wealth while still providing financial support to a spouse during their lifetime. By leveraging the lifetime gift tax exemption and removing appreciating assets from the taxable estate, SLATs can help families preserve wealth for future generations while maintaining access to funds through the spouse. Properly structured, a SLAT can be a powerful estate planning tool for high-net-worth individuals seeking to maximize estate tax savings while ensuring financial security for their loved ones.

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