ENCOMPASS

by Commerce Trust

SPRING | SUMMER 2025

SECURE YOUR LEGACY

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Letter from the President and CEO

An era of significant wealth transfer has begun. Over the next 25 years, $124 trillion in financial assets is expected to transfer to the next generation. Helping our clients to plan for this transition of family wealth between generations and to philanthropic beneficiaries in the way they envision lies at the heart of planning your legacy.

At Commerce Trust, our holistic, team-based approach to servicing clients means your team of financial and tax planning, investment management, and trust administration professionals will collaborate to guide you through comprehensive, in-depth estate planning conversations that put your personal and family goals at the center.

Our approach considers how retirement planning, philanthropy, investment strategy, cash flow, risk management, and tax-efficient strategies need to work together as part of one plan to ensure your wealth is protected.

We can draw on our deep bench of experience and capabilities to help prepare future generations of your family for the responsibilities that accompany significant, inherited wealth. Our years of experience and insights guiding clients through all market cycles inform our approach to the sensitive and lasting decisions our clients will make today and for the future.

In this issue of the Encompass by Commerce Trust magazine, several of our wealth management client leaders offer perspective and guidance on how family governance can provide structure to reinforce family wealth values, types of trusts and their benefits in legacy planning, and tax strategies for high-net-worth families.

On behalf of the company, thank you to each of our clients for the privilege of helping to safeguard your legacy. And for those we have not met yet, please let us know if we can be of assistance in any way.

Sincerely,

JOHN K. HANDY
President and CEO, Commerce Trust

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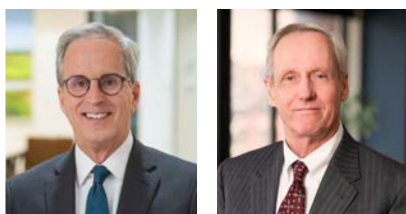
PRESERVING GENERATIONAL WEALTH

The Benefits of Implementing Family Governance for High-Net-Worth Families



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Family governance refers to the framework and practices high-net-worth families can use to align on family wealth decisions. The structure that family governance provides can also help engage the next generation of your family to accomplish your long-term goals together.

WHY IMPLEMENT FAMILY GOVERNANCE?

Many high-net-worth families use family governance to promote the preservation of generational wealth by instilling values that shape how the next generation thinks about money. This influences their attitudes toward saving, spending, and charitable giving, encouraging the next generation to develop habits that help them live within their means and maintain family wealth. Effective family governance measures can also help your family make informed decisions regarding family wealth or plan for asset transfer in a structured manner.

Even if you have family governance practices in place, families can change over time, making it important to revisit your governance structures periodically to ensure they remain relevant to your family's evolving dynamics. If you have not implemented family governance structures already, consider which strategies may fit your family's unique needs and goals.

DOCUMENT YOUR FAMILY MISSION STATEMENT

A mission statement, sometimes called a family's intention statement, can be a brief description of the family values that serve as a guidepost for family wealth decisions. For example, if your family places a great emphasis on higher education, your mission statement might reflect a commitment to lifelong learning and supporting higher education institutions. If your family values charity, you may state that giving back or making a positive impact in your community should be part of your family legacy.

Some high-net-worth families go a step further and draft a family constitution, which articulates their perspectives on family values such as philanthropy, education, and stewardship in more

depth. A family constitution may also include details regarding goals and family business governance.

Having these ideas written down does not mandate that family members must adhere to them in every circumstance. Rather, the benefit of going through the process of documenting shared family values may simply lie in aligning on a shared understanding of these matters to inform decisions made as a family.

MEET WITH FAMILY REGULARLY TO FOSTER OPEN COMMUNICATION

Holding family meetings allows families to reinforce family values and goals for family wealth, promote financial literacy by discussing strategies for building and preserving wealth, and address changes or upcoming family milestones that may impact decisions going forward. Ideally, these meetings should occur at least annually to maintain continuity and make meaningful progress toward long-term family goals.

Planning for a family meeting may include setting a meeting schedule, preparing a meeting agenda, or selecting someone to lead or facilitate the meeting. You might consider conducting a family meeting as part of a family vacation or retreat to help foster healthy dialogue in a relaxed, neutral atmosphere.

Often, high-net-worth families have a smaller subset of family members who may form a family council that also meets regularly. The family council acts similarly to a board of directors, providing governance and oversight over the family's wealth and estate. Different family members can be appointed to or voted into various roles on the council based on their skills and interests. Family councils may make decisions regarding issues like family disputes without needing to involve the entire family.

Some families divide responsibilities even further by creating committees to handle specific areas such as social events, charitable activities, or investments, promoting more effective

decision-making and consistency in each area by allowing the committee to focus on specific matters.

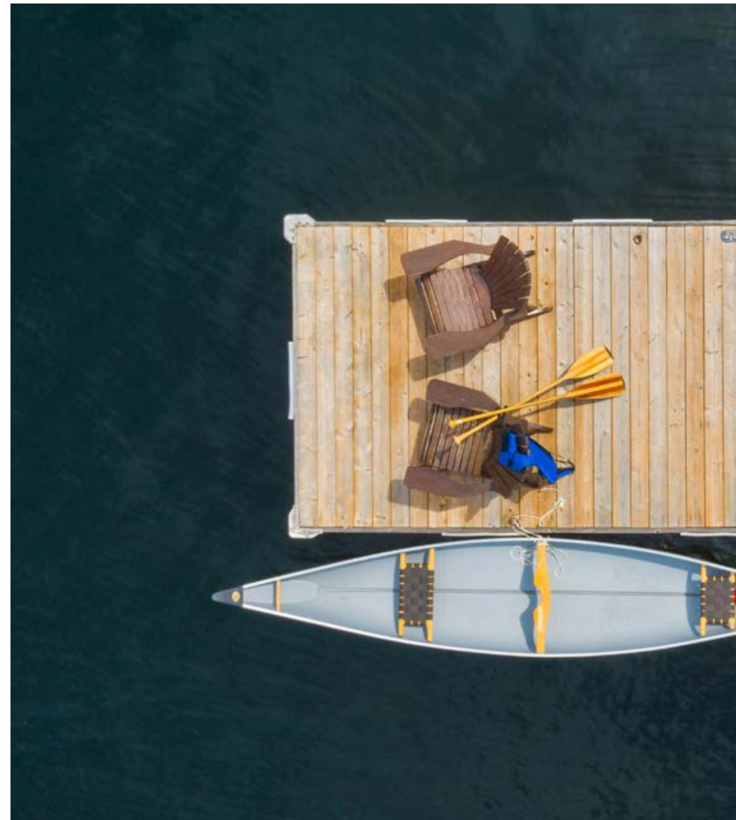
A family may appoint designated representatives to serve as the primary point of contact with specific advisors, such as accountants or investment managers. Council updates during regular family meetings may be an efficient way to keep the family apprised of council decisions.

IMPLEMENT GOVERNANCE FOR SPECIFIC ASSETS

There may be special assets for which you want to implement governance, such as real estate, art, and collectibles. For example, if you plan on your family inheriting a vacation home or a farm property, you may want to use your family governance structures to define use and guest privileges, plan for maintenance expenses, or set guidelines for future ownership and potential sale to ensure the property is managed according to your direction.

Similarly, if you have an art collection, you may want to document whether you would like the art to be donated to a museum, given to your family during your life, bequeathed at death, or sold. Since art often requires special care and can be illiquid, planning for a smooth transfer with your family can help preserve the value of the art by providing for its care and prevent conflicts over what should be done with it as it passes from your ownership.

Family governance may provide a structure to document your instructions for assets that have sentimental value, giving your family a roadmap for the transfer and care of the assets today and for your beneficiaries in the future.



SET FAMILY STANDARDS AND EXPECTATIONS FOR CHARITABLE GIVING

For many high-net-worth families, charitable giving and philanthropy in support of causes they believe in are a reflection of their family values and pivotal to how their family legacy will be defined. Governance around charitable giving can help answer questions regarding which charities to support and how to maximize the value of your contributions over time.

For instance, a local organization may come to you seeking support for their plan to build a community garden. If you have governance in place such as a mission statement or family constitution, you can evaluate this request based on how it fits with your family's shared values. For a family that primarily values education,

their charitable contributions may be better suited to educational institutions. A family that is dedicated to curing a specific medical condition may focus their giving on research centers making progress toward a cure.

Governance structures can also help ensure a family's focus on the longevity of their charitable contributions. Instead of outright gifts, your family may assess whether establishing a charitable trust or contributing to a donor-advised fund offers advantages for the management and distribution of funds. Informed by these governance structures, families may determine that if income is generated or assets can appreciate in a charitable trust or donor-advised fund may have a more lasting impact than if funds were exhausted by an outright donation.

TAILOR FAMILY GOVERNANCE TO YOUR FINANCIAL GOALS

Effective family governance can establish a structure for high-net-worth families to help preserve wealth through multiple generations by implementing a framework that encourages communication and alignment around your goals for family wealth. Working with a private wealth management team that can assist your development and implementation of family governance structures can ensure you have the needed family decision-making, oversight, and communication mechanisms in place to keep family members aligned around the long-term goals of your estate plan. By taking the time to understand your unique family dynamics and values, we can help determine the governance strategies that are right for you.

At Commerce Trust, your private wealth management team is comprised of specialists in estate planning, trust administration, and tax management*. Through a team-based approach, our professionals can facilitate family meetings and coordinate with your estate planning attorney or tax advisor on the implementation and adherence to the plans laid out through your family governance.

Contact Commerce Trust today to learn more about how we can integrate family governance structures into a comprehensive estate plan tailored to your family's goals.

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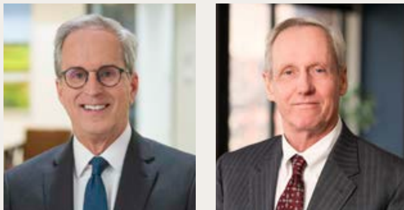
PRESERVING GENERATIONAL WEALTH

Family Meetings for High-Net-Worth Families



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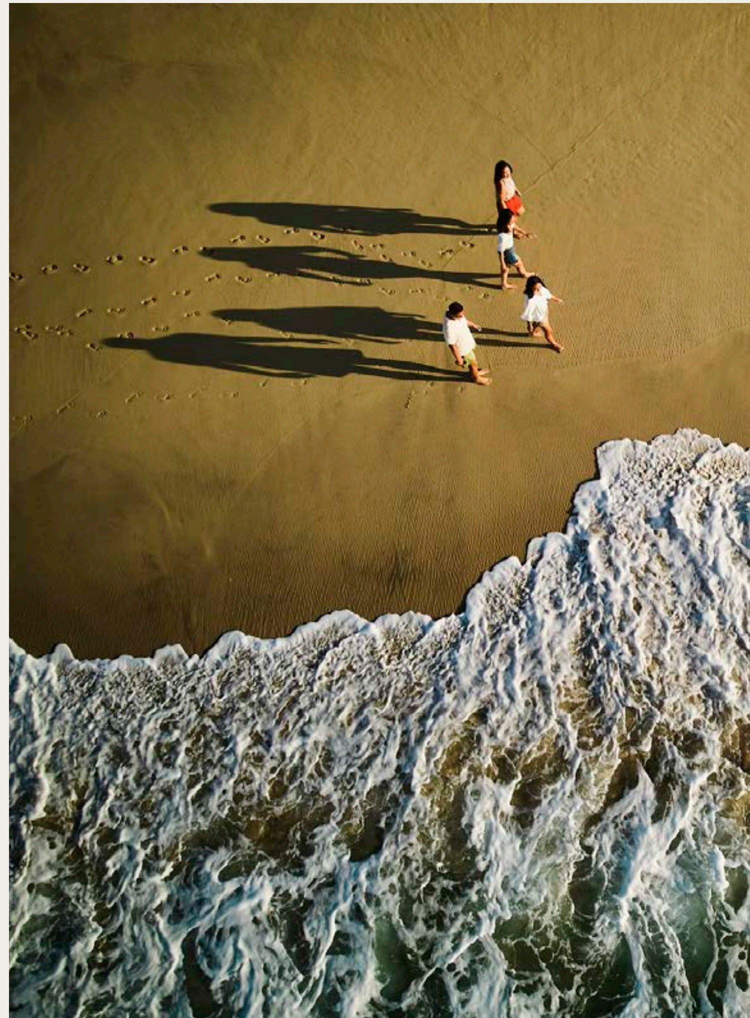
Family meetings promote communication about family finances, can serve to engage younger generations in family wealth matters, and ultimately help cement values that are critical to preserving generational wealth. Conducting regular family meetings in a way that best suits your family priorities and dynamics can ensure family members are apprised of important family business, financial management, and estate planning matters.



SET A REGULAR MEETING CADENCE

Determining when and how frequently to meet may depend on a number of factors. Meeting at least once annually establishes a standing channel of communication between family members. When scheduling family meetings, you may consider planning the meeting around a particularly meaningful family event to convene for such important discussion. For example, is there an anniversary, holiday, or a time of the year when such planning discussions as a family unit feel in keeping with family tradition?

When determining how frequently to meet, it is important to consider how often is frequent enough to maintain good communication

and ensure continuity on wealth matters as family members progress through different life stages and experience their own life changes. For example, children will bring more life experience and perspective to the meeting as they age from young adults starting their own independent lives to grown adults with their own careers and families.

And if there are particularly timely or urgent matters impacting the family or family business, perhaps it is helpful to meet more frequently until the immediate matter is resolved. If the desire is to have the most engaged participation by all family members, determining when and how often to convene may also require taking into account the practical consideration of family members' schedules and other priorities. Whatever your family decides, maintaining a regular routine or cadence for family meetings will be key to maintaining good communication among the family and keeping alignment toward progress on long-term family goals.

PREPARE AN AGENDA BEFORE EACH MEETING

Before the family meeting, think about your goals for the meeting and consider documenting them to form an agenda that can be shared in advance, giving participating family members enough time to prepare for the meeting. This will give your family members an idea of what will be discussed and help structure the meeting to keep everyone on topic.

What you want to include on a family meeting agenda is up to you. You may want to set objectives for what you want to accomplish in the meeting or spend time reinforcing your family's wealth values by reviewing the family's short-term and long-term wealth goals. Consider planning the agenda around a theme such as charitable giving, or a significant, upcoming family event.

The agenda may include a segment on financial education if younger generations are present. Building in time for the appropriate amount of family discussion or questions will be important to ensure participants feel genuinely involved and that their perspectives are heard.

If you are unsure where to start, consider engaging your private wealth management team

to help you draft an agenda tailored to your goals. They can also be involved in presenting at the meeting as a guest speaker to explain more complex topics, such as the structure of the family trust, or to promote financial literacy by conducting an education session on a particular topic.

SELECT SOMEONE TO LEAD THE MEETING

Choosing an effective meeting leader or facilitator can help participants adhere to the agenda and ensure the allotted amount of time for discussion is given to each topic. The family meeting leader can help set the tone for the meeting, providing emphasis on the points you want to reinforce and moderating the discussion to ensure everyone has a voice.

Selecting the most effective meeting leader will depend on what you are trying to achieve with the meeting and who can best lead the group toward the meeting goal. The ideal family meeting leader may be one of the heads of the family who represents the overall family vision they and their spouse envision for the family. Alternatively, the family meeting leader may be an objective third-party advisor who can lead a discussion of complex wealth topics from a position of subject matter knowledge and experience, ease potential tensions among family members with impartial facilitation, and whom meeting participants can trust with private family information, such as a member of your wealth management team or family office.

ALLOW FOR QUESTIONS

A primary function of a family meeting is to foster open communication. As such it is crucial to make sure participants feel comfortable asking questions, so they feel heard and can clarify their understanding of the topics. The meeting leader can purposefully facilitate the time and space for questions as appropriate.

If younger generation family members ask questions whose answers may seem obvious, it is important to view those questions as opportunities to provide education. You may also learn about your family from the questions they ask and the discussion prompted by the responses of other family members.

By empowering your family members to ask questions and participate, you can normalize the discussion of sensitive topics such as financial planning, succession, and wealth preservation, an approach that can benefit the entire family to ultimately help achieve long-term family goals.

IDENTIFY FUTURE ROLES AND LEADERS OF THE FAMILY

Family meetings can be useful to gauge the relevant interests and capabilities of your family members, or to see how they handle responsibility for certain family wealth assignments, which may help you discover what roles younger members may be suited for in the future.

For example, you might assign a member of the next generation a task to research potential organizations that align with the family’s philanthropic goals and that the family might consider donating to. You may ask the family member to come to the next meeting prepared to share what they learned, such as the pros and cons of each organization, and bring their recommendation for which organizations to consider further.

Discussing how the assignment was handled and offering feedback gives your family members a hands-on learning opportunity to be an active part of the information gathering required before a decision is made. By seeing how the family member worked through their task, you might also gain insight into how that person might handle more pressing matters in the future.

Through successively more involved assignments, you may be preparing or training them to take on greater family responsibility going forward.

TAKING FAMILY DYNAMICS INTO ACCOUNT

Intentionally planning with family dynamics as a consideration can help you navigate potential family tensions and inform your approach to family meetings. If there is a history of conflict between specific family members, it may be prudent to proactively have a plan to address disagreements if they arise.

If your family is just starting to establish a routine of family meetings, it may be wise to start with a smaller, core group of family where gaining alignment on the routine, roles, and family meeting norms may provide a level of family unity at the foundation. Deciding if and when to include in-laws and members of the younger generation is important, as these factors have the potential to change or impact the family meeting dynamic.

The important thing is to apply careful consideration to opening up participation so the meeting dynamic fits your vision and what is best for your family.

SCHEDULING THE MEETING VENUE

The selection of the meeting venue is a decision that can help set the tone for the meeting. If the objective is to create an environment where serious discussion will lead to a productive meeting, the venue may be a neutral location where family members feel no party has an undue advantage. Conversely, if you want to host the meeting in a relaxed atmosphere and combine the meeting with a family gathering, some families find that planning a family meeting around a family vacation creates a better environment to soften the effect of potentially challenging discussions.

You may even consider delegating the responsibility of planning the event to a family member or even rotating the responsibility among family members for each meeting to involve them in the meeting preparation.

CONDUCT EFFECTIVE FAMILY MEETINGS WITH SPECIALIZED ASSISTANCE

Family meetings can help you communicate regularly with your family as you aim to strengthen family relationships and align on a unified effort to build, protect, and plan for your family's generational wealth. For high-net-worth families, engaging the assistance of a trusted third-party advisor with specialized experience in generational wealth can be highly beneficial during these sensitive conversations.

At Commerce Trust, you and your family are served by a private wealth management team comprised of specialists in estate planning, investment management, trust administration, and tax management*. With our team-based approach, our professionals can facilitate family meetings, administer trust assets, and coordinate with your estate planning attorney or tax advisor to help you accomplish your financial goals.

Contact Commerce Trust today to learn more about our approach to educating and advising on how to incorporate practices for communicating with and involving your family in your wealth transfer planning.

**Commerce Trust does not provide tax advice to customers unless engaged to do so.*

What to Know About High-Net-Worth Estate Planning for Sentimental Assets

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Assets that have sentimental value for you and your family present unique estate planning challenges. These sentimental assets or "passion assets," may include art, collectibles, or other valuable personal property such as family heirlooms, vintage cars, or jewelry. Proactively creating a plan for succession, donation, or sale of these assets can help ensure your valuable personal property is handled in a way that honors both your personal wishes and financial objectives.

DETERMINING THE FAIR MARKET VALUE (FMV) OF YOUR SENTIMENTAL ASSETS

A crucial first step is to understand the fair market value of art, collectibles, or other valuable personal property, which will help you make informed decisions regarding the disposition of these assets.

If you bequeath your valuable personal property at death, the fair market value of your valuable personal property is necessary to accurately report the value of your estate for federal estate tax purposes. An appraisal by a qualified appraiser is required for art or collectibles you own valued at more than $3,000 when you pass away. A written statement from the executor of your estate regarding the completeness of the itemized list of personal property and the appraiser's qualifications must be filed with your estate tax return (Form 706).

If you decide to gift your valuable personal property during your lifetime to an individual or donate it to a qualified charitable organization, you may need to report the fair market value of those assets for federal gift tax purposes or to receive an income tax deduction for a charitable donation. In such cases, the services of a qualified appraiser who meets IRS standards may be required.

Since determining the fair market value of illiquid or unique assets can be complicated and time-consuming, it may be prudent to proactively consult a wealth management team that can connect you to a qualified appraiser and help you better understand IRS requirements regarding valuations. Your wealth management team can also help you carry out your decisions regarding sentimental assets, factoring in the complexities

of their emotional significance and financial value. These assets often hold deep personal meaning, making it essential to carefully consider how to best preserve your legacy while balancing the practicalities of estate planning and tax implications.

CONSIDERATIONS FOR BEQUEATHING SENTIMENTAL ASSETS

When bequeathing valuable personal property at death, it is critical to document your instructions for what should be done with these assets. Otherwise, conversations surrounding who should receive which assets could become lengthy and difficult as family dynamics come into play.

Communicating with your family to determine which assets should stay in the family and to whom the assets should be bequeathed is the first step. Consider accounting for items that you suspect may have emotional value for you or your family members such as family heirlooms, personal mementos, or treasured pieces of art. Once you have established a succession plan for your valuable personal property, formally documenting the beneficiaries for each asset with an estate planning professional and any instructions to care for the inherited items is critical to incorporating these assets into your estate plan.

When your beneficiaries inherit your valuable personal property, the assets will likely receive a step-up in cost basis at your death. This means the original value of the asset is reset to the fair market value at the time of the owner's death, which could mean a lower capital gains tax liability if appreciated assets are later sold by your beneficiaries. Capital gains taxes are especially relevant for assets such as art and collectibles, as they are subject to a higher

maximum long-term capital gains tax rate of 28% compared to the 20% top tax rate on other capital gains property like securities.

It is also important to consider the federal estate tax implications of transferring valuable personal property at death. Such transfers consume a portion of your lifetime estate and gift tax exemption, which determines how much value an estate can transfer without incurring federal estate taxes.

The current exemption amounts are at an all-time high ($13.99 million for individuals in 2025), so it may be more tax-efficient to transfer your valuable personal property during your lifetime to take advantage of the historically high exemption amount.

GIFTING SENTIMENTAL ASSETS DURING YOUR LIFE

When gifting valuable personal property during your life, it is important to consider the federal gift tax implications of such a transfer. Any gift valued in excess of the annual gift exclusion amount ($19,000 from an individual or $38,000

from a married couple in 2025) given to an individual in a single calendar year consumes a portion of your federal lifetime estate and gift tax exemption or is subject to gift taxes if your exemption has already been fully used.

Gifting your sentimental assets to your family during your life may be less of an administrative burden than if you bequeathed those assets at death. This way, you can disperse the assets in a coordinated and controlled way to the intended recipients and resolve any disputes should they arise.

It may be sensible to have conversations with your beneficiaries regarding who gets a fair share of valuable personal property, since it may not be easily divisible among multiple beneficiaries. And if you have a substantial collection, it may be easier to forgo providing documentation for each item by gifting your valuable personal property during your life.

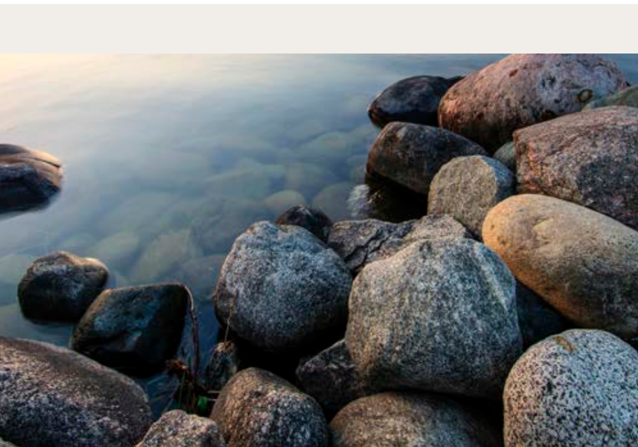
Note that gifted assets do not typically receive a step up in cost basis upon their transfer like the assets would if they were bequeathed at death. If your beneficiaries later sell gifted assets that have appreciated in value, it could lead to a higher capital gains tax liability.

DONATING YOUR VALUABLE PERSONAL PROPERTY TO A QUALIFIED CHARITABLE ORGANIZATION

Donating valuable personal property like art or collectibles to a museum or other qualified charitable organization may provide an income tax deduction, eliminate the associated capital gains tax liability if the asset has appreciated in value, and/or lower the value of your taxable estate.

Generally, and with certain limitations, you can deduct the full fair market value of appreciated property that you have held for more than one year. You can also typically forgo paying capital gains taxes associated with an appreciated asset if you donate it to a qualified charitable organization.

The related use rule outlines criteria to receive the full fair market value deduction, otherwise, your deduction will be limited to the cost basis (or original purchase price) of the asset. To receive the full fair market value deduction, the



Whether you are considering bequeathing your sentimental assets at death, gifting them during your life, or donating them to a charitable organization, doing so through a trust may offer estate planning benefits. Depending on the type of trust, this may include minimizing your federal estate tax liability, avoiding probate, protecting the assets from creditors, or controlling how and when your beneficiaries receive the assets. Consider consulting with your estate planning attorneys, tax advisors, and wealth management team to identify options for using trusts to accomplish your estate planning goals.

property you donate must meet certain criteria and be related to the mission of the charitable organization. For example, you would probably not receive a full fair market value deduction if you donated art to a public charity whose charitable purpose is disaster relief, but you might receive a full fair market value deduction if you donated that same piece to a museum that showcases similar pieces. The annual charitable contribution deduction amount realized by the donor would still be subject to adjusted gross income limits with a carry forward for unused amounts.

Donating valuable personal property to a qualified charitable organization also removes the value of that asset from your taxable estate, which can lead to a lower estate tax liability.

SELLING YOUR VALUABLE PERSONAL PROPERTY

If you decide to sell your valuable personal property, the proceeds from the sale may provide liquidity or otherwise support your estate plan by avoiding the complexities of bequeathing or gifting those assets.

Since sentimental assets like art or collectibles may be more illiquid relative to other investments, you may decide to sell your valuable personal property to plan for an estate tax liability. For high-net-worth families, federal estate taxes can be significant as the top federal estate tax rate is 40%.

Without sufficient liquidity to pay for an estate tax liability, your beneficiaries may need to liquidate assets to pay the taxes due, potentially resulting in a loss of expected wealth. Illiquid and unique assets may take time to sell, so proactively selling such assets may help secure a more

favorable purchase agreement while easing the administrative complexities for your beneficiaries and providing funds to pay for an expected, significant tax liability.

ENGAGE A WEALTH MANAGEMENT TEAM TO ENSURE YOUR ESTATE PLAN IS COMPREHENSIVE

Assets that hold sentimental value to you and your family are especially important to proactively integrate into your estate plan in a way that aligns with your unique personal and family goals.

At Commerce Trust, specialists across multiple disciplines like estate planning, special assets, and tax management* coordinate to ensure your estate plan is tailored to your objectives. For assets like art, collectibles, or other valuable personal property, your private wealth management team can help you obtain a qualified appraisal, navigate family dynamics, and implement strategies that can help you transfer these assets in a tax-efficient manner.

Contact Commerce Trust today to learn more about our comprehensive estate planning services and secure your legacy for future generations.

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PRESERVING
GENERATIONAL WEALTH

Estate Planning for Family Real Estate

Authored by

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Real estate that holds sentimental value for you and your family requires a specialized approach when integrating such assets into a comprehensive estate plan. Estate planning for family real estate assets that may hold sentimental value has unique challenges and considerations. Sentimental real estate may include a family home, vacation home, farm, ranch, or even land with potential mineral or water rights. Managing family dynamics, understanding potential tax implications, and preparing for the distribution and continued management of the property are important matters to address when developing a comprehensive estate plan.

NAVIGATING FAMILY DYNAMICS AND PREFERENCES FOR SENTIMENTAL REAL ESTATE

Understanding the intentions of your beneficiaries is critical when integrating real estate into your estate plan. While some may want to keep the property and others may prefer to sell it, proactively communicating with them will help you make informed decisions. This allows you to shape your estate plan according to your goals and family values, ensuring the property is handled in a way that aligns with your vision.

Family dynamics can complicate estate planning decisions regarding sentimental real estate. Disagreements may arise regarding the property's future, potentially heightened by the sentimental attachment or memories associated with the property.

Further, emotional attachment may conflict with the financial realities of transferring ownership of a real estate property. For example, you may have a family home that holds emotional value for several family members, but it may be

impractical to divide ownership among multiple beneficiaries. Consider employing a neutral third party such as your private wealth management team, to help address potential conflicts early and make decisions about future ownership with objectivity.

SUCCESSION PLANNING CONSIDERATIONS FOR SENTIMENTAL REAL ESTATE

Formalizing a succession plan for your real estate property can ensure the property is managed in a way that honors its sentimental value while addressing practical considerations like ownership, tax implications, ongoing maintenance, and costs associated with the property. Deciding whether to gift the property during life or bequeath it at death requires careful consideration and professional guidance, as each option has its tax and estate planning implications.

If you decide to legally transfer the ownership or title of your property to an entity like a trust, LLC, or LP, it is important to ensure the property is conveyed properly so it suits your goals. This is often done to seek benefits such as asset protection, tax efficiency, and providing a structured plan for ownership transfer and ongoing management.

RECURRING COSTS AND SHARED-USE CONSIDERATIONS

Recurring costs for your sentimental real estate property such as maintenance, insurance, and property taxes are important to consider when developing a succession plan. Without adequate liquidity, if your beneficiaries struggle to cover these costs, they may ultimately need to consider selling the property even if the intention was to keep it in the family.

In addition to normal maintenance, you may also want to consider documenting instructions for capital expenditures such as improvements and renovations. Planning for these long-term investments clarifies expectations for your beneficiaries as they take steps to enhance or maintain the property's value.

If you have multiple beneficiaries, it may make sense to draft a shared-use agreement that outlines how multiple family members will share the use, responsibilities, and expenses of the property. You might also outline instructions for the best use of the property whether it is for investment purposes, future development, or managing natural resources like mineral or water rights.

TAX IMPLICATIONS OF GIFTING VERSUS BEQUEATHING YOUR SENTIMENTAL REAL ESTATE

Understanding what taxes might be generated, such as federal estate and gift taxes or capital gains taxes, from the transfer or sale of your sentimental real estate is important when evaluating whether to gift the property during life or bequeath it at death.

The top tax rate for federal estate and gift taxes is 40%, making the associated tax liability potentially very significant. If you gift the property during your life, the IRS will likely treat it as a taxable gift that either uses a portion of your lifetime exemption from federal estate and gift taxes or incurs a federal gift tax liability if your exemption has been expended.

If instead, you decide to bequeath the property at death, the use of your exemption functions similarly. The fair market value of your assets, including any taxable gifts you gave over your lifetime, will be used to calculate your federal

estate tax liability. Generally, a higher total estate value over your remaining exemption amount corresponds to a greater federal estate tax liability.

Planning for what federal estate and gift taxes (and state taxes if applicable) may be owed at your death will help ensure your beneficiaries have enough liquidity to pay such taxes and keep the assets you intended to become part of their own personal wealth.

If you bequeath your property at death, it generally will receive a step-up in cost basis, which can lead to a lower capital gains tax liability if the property is eventually sold. The cost basis, or the original price you paid for the property, is reset to the fair market value of the property as of the date of death. If the property appreciates further and is later sold by your beneficiaries, they would only be taxed on the net gains relative to the new cost basis value.

In contrast, if you gift your real property during your life, it will not receive a step-up in cost basis. Rather it keeps the same cost basis that you, the transferor, held in the property. This means that if the property is later sold at an appreciated value, it could lead to a higher capital gains tax liability for your beneficiaries.

USING A TRUST TO TRANSFER SENTIMENTAL REAL ESTATE

If you want greater control over the transfer of your real property, a trust allows you to set terms regarding the property's distribution and continued management. Depending on the type of trust you use, placing your real estate property in a trust may help you reduce your estate taxes, avoid probate, and protect the property from creditors.

Trusts, however, have some drawbacks when used to transfer real estate as it can be difficult to maintain centralized ownership. For example, a trust could terminate and distribute an undivided ownership interest in the property to ten different beneficiaries, which can make it challenging to maintain cohesive decision-making and management of the property.

USING A LIMITED LIABILITY COMPANY (LLC) OR LIMITED PARTNERSHIP (LP) TO TRANSFER AND MANAGE SENTIMENTAL REAL ESTATE

Using an LLC or LP to transfer real estate allows you to maintain control of the property within a single entity, separate the management of the property from the individual owners, and retain a higher degree of liability protection.

With an LLC or LP, instead of splitting the property amongst your beneficiaries directly, you can distribute ownership in the form of interests in the LLC or LP. This allows beneficiaries to hold an ownership stake without dividing the ownership of the property itself.

An additional benefit of using an LLC or LP in this manner is that you can appoint a specific person to manage the property, which may be more efficient than delegating that responsibility to multiple individual owners.

Your beneficiaries may also have a greater degree of liability protection with an LLC or LP, as these entities can limit the liability associated with the property to the assets of the entity rather than expose the personal assets of the underlying owners.

If you use an LLC or LP to manage your property, it is important to ensure proper administration to maintain legal compliance and uphold its status as an entity with valid business purposes.

Otherwise, the entity could lose liability protection for the underlying owners or lead to negative tax implications, potentially undermining the benefits of structuring ownership through an LLC or LP.

OUTLINING PREFERENCES FOR THE PROPERTY IN GOVERNING DOCUMENTS

Both trusts and entities such as LLCs and LPs may provide an opportunity to formalize instructions for the property's management such as shared use, expenses, improvements, or the future sale of the property in their respective governing documents. If you want the property to remain in the family for multiple generations, you might include provisions governing the disposition of the property. Some families specify conditions, such as a waiting period that allows for thoughtful decision-making or certain criteria that must be met before the property is sold such as requiring unanimous consent among beneficiaries.

While this is an option for those who want greater control over the property's future ownership, it is important to ensure the entity has sufficient liquidity to cover recurring costs over time. It is also imperative to structure the language in your governing documents so that it is not so restrictive that it becomes difficult to administer or enforce your instructions. Consulting your estate planning attorneys and private wealth management team to review the language in your governing documents could help ensure they align with your goals while allowing enough flexibility to manage your property efficiently for years to come.

ENGAGE A TEAM OF WEALTH SPECIALISTS TO INTEGRATE SENTIMENTAL REAL ESTATE INTO A COMPREHENSIVE ESTATE PLAN

Estate planning for real estate that holds sentimental value for you and your family

requires an understanding of your long-term goals, sensitivity to family dynamics, and specialized knowledge in succession planning for real estate.

At Commerce Trust, our private wealth management teams are comprised of specialists who can advise you on real estate, estate planning, tax management*, and trust administration. Your wealth management team can partner with your estate planning attorney when establishing a trust, LLC, or LP to ensure it functions according to your goals. Commerce Trust can also serve as corporate trustee, assist you in navigating family dynamics, and implement strategies that can help you transfer your sentimental real estate in a tax-efficient manner.

> Contact Commerce Trust today to learn more about our comprehensive estate planning services and secure your property for future generations.

**Commerce Trust does not provide tax advice to customers unless engaged to do so. Commerce Trust does not provide legal advice to its customers. Consult an attorney for legal advice, including drafting and execution of estate planning documents.*

When considering a trust to support your estate plan, it is crucial to consider your unique goals and intended outcomes. Different types of trusts may have certain advantages depending on how the trust is structured.

Structuring a Trust to Align with Your Goals

Authored by

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Trusts function as a highly customizable vehicle for wealth transfer. Within certain limits, the structure of a trust and the provisions in its governing document can be tailored to align with your unique goals.

REVOCABLE OR LIVING TRUSTS

Revocable trusts, also known as living trusts, offer grantors flexibility for changing goals or dynamic life circumstances while still avoiding probate. They allow the grantor to make changes or, as the name implies, revoke or terminate the trust during the grantor's life as desired. Assets in a revocable trust are generally not subject to probate at the grantor's death, but they are included in the grantor's estate for estate tax purposes.

IRREVOCABLE TRUSTS

Most revocable trusts become irrevocable when the person having the power to revoke (usually the grantor) dies.

It is, however, possible to create a trust that is irrevocable during the grantor's lifetime. Such trusts can serve a variety of purposes, such as making a lifetime gift that benefits certain family members or other individuals, taking advantage of certain tax benefits, holding life insurance outside the insured's taxable estate, or benefitting charity.

As the name suggests, an irrevocable trust is generally irrevocable and unamendable except in specific circumstances. Accordingly, careful consideration is recommended for those interested in creating an irrevocable trust.

GRANTOR TRUSTS

The term "grantor trust" is broadly used to describe a trust for which the grantor is treated as the "owner" of all income tax attributes. As a result, the grantor is generally responsible for paying all income taxes and capital gains taxes associated with the trust's investments.

In contrast, the tax responsibility associated with a "non-grantor trust" is typically borne by either the trust or its beneficiaries rather than the grantor.

Revocable trusts are usually treated as grantor trusts for income tax purposes. An irrevocable trust may also be a grantor trust, depending on how it is structured and what, if any, rights the grantor has retained.

While it may not seem appealing to be taxed on the income of a trust, in the right conditions, a grantor trust can provide meaningful benefits in the effort to transfer wealth to the next generation. When the grantor, rather than the trust, pays a tax liability, it provides a benefit to the beneficiaries without involving a taxable gift.

DISTRIBUTION PROVISIONS

In designing a trust, a grantor can prescribe the conditions under which distributions will be made to the beneficiaries. Such conditions can apply separately to the net income generated by the trust and the principal of the trust.

In some cases, the grantor will require that all net income be distributed to one or more beneficiaries, while in others the grantor may empower the trustee to exercise discretion in deciding when to distribute net income, if at all. A common standard is to allow the trustee to distribute income as the trustee deems necessary for a beneficiary's "health, education, maintenance, and support." The grantor may provide that any undistributed income be added to the principal of the trust.

A trust document may also permit the trustee to distribute some of the principal of the trust to meet a beneficiary's needs. These provisions typically provide the trustee with a certain amount of discretion in determining whether to do so and may follow the same standard of the beneficiary's "health, education, maintenance, and support."

In addition to discretionary provisions, a trust may contain mandatory distribution provisions or rights of withdrawal.

For example, a trust for the benefit of the grantor's child might direct the trustee to terminate the trust and distribute all remaining principal when the beneficiary reaches a certain age. For example, a full distribution could be made at age 40 and partial distributions could possibly be made at earlier ages like 30 and 35.

A trust might also empower a beneficiary to withdraw a certain dollar amount or percentage of the principal balance each year.

CHARITABLE TRUSTS

Several types of irrevocable trusts can be established to benefit charity. Some trusts are set up exclusively for charitable beneficiaries, while others can have a mixture of beneficiaries, including individuals and charitable organizations.

A trust that is established exclusively for the benefit of charitable organizations is often classified as a private foundation. Private foundations enjoy certain tax benefits, such as avoiding most of the tax that would otherwise be imposed on earned income and realized capital gains. In addition, within certain limitations, people who donate to a private foundation can generally claim an income tax deduction for the value of their donation.

A trust that is established for the benefit of charitable organizations and individuals is often referred to as a "split-interest" trust. One common example of a split-interest trust is a charitable remainder trust (CRT). Typically, a CRT will make regular payments to one or more individuals for a set period, at the end of which, the remaining assets in the trust will be distributed to one or more charitable organizations. Another common example is the charitable lead trust (CLT), in which regular payments are first made to the charitable organization(s) for some time. At the end of that payment period, the assets remaining in the CLT will be distributed to one or more individuals.

Charitable trusts can generate a positive philanthropic impact long after the grantor is gone. Because of the technical nature of these trusts, it is important to understand the consequences and benefits of these estate planning tools before implementing one of them.

NAVIGATING TRUST OPTIONS

Trusts are a versatile tool that can supplement a comprehensive estate plan. Choosing the appropriate approach requires an understanding of your goals in collaboration with experienced advisors who can guide you in attaining them.

Understanding Spousal Lifetime Access Trusts (SLATs)

WHAT IS A SPOUSAL LIFETIME ACCESS TRUST?

The term “spousal lifetime access trust,” or “SLAT,” is used to describe an irrevocable trust established by a grantor spouse for the benefit of the beneficiary spouse and others. The beneficiary spouse might be the sole beneficiary during his or her lifetime or might be the primary beneficiary among a group of beneficiaries that could include children or grandchildren. Contributions to a SLAT typically do not qualify for the gift tax marital deduction; rather, they are designed as taxable gifts that consume a portion of the grantor’s lifetime exemption from estate and gift taxes.

ADVANTAGES OF A SPOUSAL LIFETIME ACCESS TRUST

Estate tax planning: In recent years, the SLAT has become a popular option for those who want to use up their lifetime estate and gift tax exemption with a gift that includes the spouse as a beneficiary. With the potential sunset of the increased exemption amount in 2026, SLATs have received more attention as a means of achieving these goals. If the current exemption amount does not sunset, the SLAT may still be considered an effective tool for removing appreciating assets from a person’s estate. While the grantor of the SLAT will need to file a federal gift tax return, if the contribution to the SLAT falls within the grantor’s available lifetime exemption, there should not be any gift tax to pay as a result of the contribution. Typically, there should not be any estate tax due at the death of the grantor or the grantor’s spouse. In addition, if the grantor allocates generation-skipping transfer tax exemption to the SLAT, the trust assets may transfer tax-free for several generations of family members.

Keeps appreciation outside the taxable estate: Transferring assets to a SLAT locks in their value for estate tax purposes, meaning any potential appreciation of the trust assets occurs outside the grantor’s taxable estate. Many estate planners believe that it can be more effective to make a gift today, at present value, than it is to make a transfer at death, at a value that may be substantially appreciated.

Creditor protection for spouse: Depending on the structure of the SLAT and any applicable state laws, a SLAT may offer a degree of asset protection from the beneficiary spouse’s creditors.

CONSIDERATIONS FOR A SPOUSAL LIFETIME ACCESS TRUST

A SLAT is irrevocable: Since a SLAT is an irrevocable trust, the grantor cannot take back the assets he or she contributes to a SLAT. The grantor may, however, have the power to substitute property of equal value. Accordingly, using a SLAT will not appeal to everyone; the grantor will have to be comfortable with forfeiting control over the assets.

No adjustment to basis at death: Under current estate tax law, assets that are included in a decedent’s taxable estate will receive an adjustment to cost basis to their fair market value at the time of death. For assets that have appreciated substantially between the time

of acquisition and the date of death, this can provide a significant benefit by eliminating the potential capital gains tax on the appreciation. With a SLAT, however, the grantor will lose that benefit, because the assets in the SLAT are not includible in the grantor's estate at death.

Divorce: A divorce can complicate the use of a SLAT, so family dynamics should be considered when evaluating the appropriateness of utilizing one.

Grantor trust: Typically, a SLAT is structured as a grantor trust for income tax purposes, meaning the grantor spouse is responsible for paying any income taxes associated with the trust assets. When the grantor, rather than the trust, pays a tax liability, it provides a benefit to the beneficiaries without involving a taxable gift. While this can be very helpful from an overall estate planning perspective, some people will grow weary of paying income taxes for a trust from which they receive no direct benefit.

Reciprocal trust doctrine: When creating two SLATs, each for the benefit of the other spouse, a married couple may risk breaching the reciprocal trust doctrine, which could jeopardize the benefits sought from establishing a SLAT. To avoid this result, it may be necessary to create the SLATs at different times and structure them differently, so that they are not "mirror images" of each other.

COMPREHENSIVE ESTATE PLANNING STRATEGIES FROM COMMERCE TRUST

While a SLAT can be an impactful estate planning tool for tax-efficient wealth transfer, its efficacy depends on careful consideration of your financial goals and a thorough understanding of applicable laws. At Commerce Trust, our wealth management teams are comprised of specialists across multiple disciplines who can help you determine which estate planning strategies best support your comprehensive estate plan. If that includes establishing a trust, we will prepare you to meet with an estate planning attorney by providing holistic guidance in advance and can work closely with them on an ongoing basis to achieve your unique objectives.

Preserving family wealth

Rob and Laura are married and have a combined estate of $30 million, which includes several assets that are likely to continue appreciating. Under current federal estate tax law (in 2025), they are facing a potential estate tax liability at their deaths (assuming an exemption of $13.99 million per person or $27.98 million for a married couple). That liability may increase as their estate grows.

To safeguard against that result, Rob decides to create a SLAT for the benefit of Laura and their children. He funds the SLAT with stock that he believes has significant potential for future appreciation. In doing so, Rob has taken steps to mitigate his potential estate tax liability, which can preserve more wealth for the benefit of his family.

Understanding Credit Shelter Trusts Versus Portability

WHAT IS A CREDIT SHELTER TRUST?

Traditional estate planning for married couples has long included the use of an irrevocable trust, created at the death of the first spouse to die, and funded with the amount of the deceased spouse's unused exemption from federal estate taxes. Such a trust has been referred to by many different names, including a "non-marital" trust, an "estate tax exemption" trust, or a "credit shelter" trust. In many cases, it is referred to in the trust's governing document simply by a letter, such as A, B, C, or D, depending on the wording of the trust instrument. For these purposes, we will refer to this type of trust as a "credit shelter trust."

For many years, the primary reason to create a credit shelter trust was to avoid "wasting" the estate tax exemption of the first spouse to die. At the first spouse's death, the trust is funded with the remaining amount of the deceased spouse's federal estate tax exemption and any assets in excess of that amount pass either to a "marital deduction" trust or outright to the surviving spouse.

The net result is no estate tax at the first spouse's death, and deferral of any estate tax to the second spouse's death, at which point the tax would be imposed on the assets in the second spouse's taxable estate, but not on the value of the credit shelter trust.

WHAT IS PORTABILITY?

With certain limitations, when one spouse dies, the "deceased spousal unused exclusion amount" (DSUEA) becomes "portable" to the surviving spouse. Because many married couples historically may not have prepared an adequate estate plan, the estate tax exemption for the first spouse to die went unused. As a result, at the death of the second spouse, the estate tax liability was based on the second spouse's individual exemption only. In 2010, Congress adopted the concept of estate tax "portability." Starting in 2011, the estate of a husband or wife whose spouse died that year was allowed to use any unused estate tax exemption of the deceased spouse in addition to their own exemption amount.

While portability might be viewed as a reason to do away with credit shelter trusts, there are certain limits to portability and certain advantages to credit shelter trusts. Accordingly, portability is often viewed as a "fallback" alternative tax strategy.

WHY CHOOSE A CREDIT SHELTER TRUST OVER PORTABILITY?

Capturing the exemption at the first death: The credit shelter trust is designed to capture the amount of the first spouse's federal estate tax exemption at the time of the first death. As a result, all of the appreciation in the value of that trust occurring between the first death and the second death will escape estate taxation at the second death. With portability, however, the DSUEA is "frozen" at the first death and applied at the second death against the value of the second spouse's estate. Because the DSUEA does not grow after the first death, a credit shelter trust generally allows more value to escape estate taxation than does portability, assuming the assets grow in value between the two deaths.

Assets in a credit shelter trust are protected: Funding a credit shelter trust at the first spouse's death can provide a certain degree of protection to the surviving spouse and any remainder beneficiaries. The spouse (and in some cases, the couple's descendants) can receive income generated by the trust and principal distributions within standards set forth in the trust document, such as health, education, maintenance, and support. However, during the surviving spouse's life, the trust assets will likely be protected from the claims of any creditors, or from the efforts of others to defraud the surviving spouse.

Providing for children at the first death: Many credit shelter trusts will allow for income and principal distributions to the surviving spouse and the couple's children. Alternatively, the spouse can be the sole beneficiary during his or her lifetime, providing for children only at the death of the second spouse.

Better vehicle for generation-skipping planning: For those who are interested in creating long-term trusts for their children and grandchildren, the credit shelter trust is generally a better choice than portability planning. While the estate tax exemption is "portable," the generation-skipping transfer tax exemption is not. As a result, if a married couple wants to get as much value as possible into trusts that will transfer tax-free for their children and more remote descendants, portability is not a good option.

WHY CHOOSE PORTABILITY OVER A CREDIT SHELTER TRUST?

Simplicity: A plan to rely on portability is fundamentally simple. The first spouse to die can just leave all of his or her assets to the surviving spouse. That is easy to do, and it affords the surviving spouse maximum flexibility in dealing with those assets. A credit shelter trust, on the other hand, requires more planning and work.

Stepped-up basis at second death: If the second spouse to die owns all of the couple's assets at death, then all of the assets will receive an adjustment to cost basis (often called a "step-up") at the second death. With a credit shelter trust, however, there will usually be no adjustment to the cost basis of the assets inside the trust at the second death. In either case, there will be an adjustment to cost basis at the death of the first spouse for any assets owned by that spouse, which can significantly reduce capital gains taxes if the assets are later sold.

No additional tax return: Once a credit shelter trust is funded, the trustee of that trust will have to file a fiduciary income tax return (Form 1041) every year. This will usually not be the case with portability, because the second spouse owns all of the couple's assets and can handle all of the necessary tax reporting through their federal and state personal income tax returns.

CONSIDERATIONS

Estate tax return required for portability: To calculate and capture the DSUEA at the first death, the estate of the first spouse must file a federal estate tax return (Form 706) even if not otherwise required. Through some special rules that apply to portability, if an estate is not otherwise required to file such a return, the IRS allows five years after the first death to make that filing to elect for portability, which is much longer than the nine-month deadline for estates that are required to file.

Be sure your estate planning documents are current: Because portability is a relatively new concept and because the estate tax exemption amount has increased so dramatically in recent years, it is prudent to have older estate planning documents reviewed periodically and updated as needed to ensure that they still meet your expectations. Some people are still relying on a plan that might have made sense with a much lower exemption but could provide unintended results with a large exemption amount.

Remarriage can complicate things: Portability allows the surviving spouse to use the DSUEA of the most recently deceased spouse. As a result, if a surviving spouse wishes to remarry but was planning to use the deceased spouse's DSUEA, the surviving spouse should seek out thoughtful advice about the impact of remarriage on his or her plans.

COMPREHENSIVE ESTATE PLANNING STRATEGIES FROM COMMERCE TRUST

While a credit shelter trust can be an impactful estate planning tool for estate tax reduction and generation-skipping wealth transfer, its efficacy depends on careful consideration of your financial goals and a thorough understanding of applicable laws. At Commerce Trust, our wealth management teams are comprised of specialists across multiple disciplines who can help you determine which estate planning strategies best support your comprehensive estate plan. If that includes establishing a trust, we will prepare you to meet with an estate planning attorney by providing holistic guidance in advance and can work closely with them on an ongoing basis to achieve your unique objectives.

Estate and generation-skipping transfer tax planning

Ray and Deborah have put off meeting with an estate planning attorney for many years, even though they have three children and a sizable estate. They are interested in keeping things simple and want to own everything jointly so the surviving spouse will own everything after the first death.

However, they have also accumulated substantial wealth and wish to leave their estate in long-term, generation-skipping trusts for their descendants. After consulting their wealth management team and meeting with their attorney, they decide not to rely on portability, but to provide for the creation and funding of a credit shelter trust at the death of the first spouse. By using this approach, Ray and Deborah can reduce their estate and generation-skipping transfer taxes to preserve their wealth for future generations.

Understanding Intentionally Defective Grantor Trusts (IDGTs)

WHAT IS AN INTENTIONALLY DEFECTIVE GRANTOR TRUST?

The term "grantor trust" is broadly used to describe a trust for which the grantor is treated as the "owner" of the assets for income tax purposes. An "intentionally defective" grantor trust (IDGT) is an irrevocable trust that is designed to remove assets from the grantor's estate for estate tax purposes but keep the grantor responsible for the ongoing income tax liability associated with those assets. In contrast, with an irrevocable trust that is not a grantor trust, the income tax liability for the trust's investment activity is typically borne by the trust itself, the trust's beneficiaries, or in many cases, a combination of the trust and its beneficiaries.

ADVANTAGES OF AN INTENTIONALLY DEFECTIVE GRANTOR TRUST

Helping the beneficiaries without making a gift: When the grantor, rather than the trust or its beneficiaries, pays a tax liability, it provides a benefit to the beneficiaries without involving a taxable gift.

Preserving the trust's value: When the grantor pays a tax liability that would otherwise be borne by the trust, such as a capital gain tax incurred when the trust sells an investment, the grantor is helping the trust keep its value intact for future growth.

Lower taxable estate: For grantors with potential estate tax liability, strategically reducing the value of their own estate by paying taxes on the trust income may be a prudent strategy to ultimately lower their estate taxes. By paying tax that would otherwise be paid by the trust or its beneficiaries, the grantor reduces the size of his or her estate, which can help reduce the grantor's estate tax liability.

Efficiently utilizing the federal lifetime estate and gift tax exemption: The simplest form of grantor trust planning involves making a gift to a grantor trust. Most grantors will keep the amount of such gifts within the amount of the lifetime exemption from federal estate and gift taxes. Utilizing this exemption amount efficiently can help reduce or even eliminate your estate and gift tax liability.

Selling assets to an IDGT provides additional leverage: An additional planning opportunity for those with especially large estates is to sell assets to an IDGT in exchange for a promissory note. The idea behind doing so is to exchange a highly appreciated asset (such as stock in a successful business) for an asset that will necessarily decrease in value as it is paid down (a promissory note). This allows the transferred asset to continue to appreciate outside the grantor's estate as the promissory note depreciates, which serves to lower the value of the grantor's taxable estate and potentially reduce his or her estate taxes.

CONSIDERATIONS FOR AN INTENTIONALLY DEFECTIVE GRANTOR TRUST

Revocable versus irrevocable: A typical revocable trust, where the grantor retains the power to revoke it, is treated as a grantor trust during the grantor's lifetime. An irrevocable trust may or may not be a grantor trust, depending on the terms of the trust and whether the grantor has retained certain powers. An IDGT will always be irrevocable because one of its purposes is to exclude assets from the grantor's estate.

Grantor powers: If a person wishes to create a grantor trust, he or she might do so by retaining one or more powers that cause grantor trust status without also causing the assets of the trust to be included in the grantor's estate for estate tax purposes. Among the powers that are often used are the power to reacquire trust assets by substituting other property of equivalent value, and the power to borrow from the trust without adequate security.

Income tax liability: Creating a grantor trust assumes that the grantor has the capacity to bear all of the tax liability generated by the trust's activity. Whether the trust has ordinary income, qualified dividends, capital gains, or other forms of income, the tax liability belongs to the grantor.

Turning off grantor trust status: If the grantor wishes to terminate the grantor trust status at some point in the future, making the trust and/or its beneficiaries liable for the ongoing tax liabilities, it may be possible for the grantor to release the power(s) that cause grantor trust status.

COMPREHENSIVE ESTATE PLANNING STRATEGIES FROM COMMERCE TRUST

While an IDGT can be an impactful estate planning tool for estate tax reduction and income tax planning, its efficacy depends on careful consideration of your financial goals and a thorough understanding of applicable laws. At Commerce Trust, our wealth management teams are comprised of specialists across multiple disciplines who can help you determine which estate planning strategies best support your comprehensive estate plan. If that includes establishing a trust, we will prepare you to meet with an estate planning attorney by providing holistic guidance in advance and can work closely with them on an ongoing basis to achieve your unique objectives.

Income tax planning

Julia is a single woman with adult children and a substantial estate, including publicly traded stock and stock in a family business. She likes the idea of making a large gift to her children while she is living but wishes to fund an irrevocable trust for their benefit, rather than making an outright gift. She understands that typically the trust or her children would be responsible for any income tax on the trust's investments.

As an added benefit to her children, she decides to remain responsible for these taxes by making the trust an intentionally defective grantor trust. She does so by reserving the power to reacquire trust assets by substituting other property of equivalent value, and the power to borrow from the trust without adequate security.

She funds her IDGT with cash and marketable securities. Because she does not wish to pay a gift tax, she keeps the amount of her gift below the amount of her unused exemption from estate and gift taxes. In addition, to get more value into the IDGT, she is considering selling some of the stock in her family business to the IDGT in exchange for a promissory note.

Understanding Irrevocable Life Insurance Trusts (ILITs)

WHAT IS AN IRREVOCABLE LIFE INSURANCE TRUST?

An irrevocable life insurance trust (ILIT) is an irrevocable trust structured to hold one or more life insurance policies, typically insuring the life of the grantor. The primary reason for having an ILIT own a life insurance policy is to keep the insurance proceeds out of the grantor's estate for estate tax purposes. When a grantor owns insurance on his or her own life, the proceeds will be included in the grantor's taxable estate; when an ILIT owns the insurance, the proceeds typically will not be included in the grantor's taxable estate.

With an ILIT, the trustee (someone other than the insured) takes ownership of the policy and pays the premiums, usually with funds contributed to the ILIT by the grantor. Upon the death of the insured, the life insurance proceeds will be paid to the ILIT, to be held and used for the beneficiaries of the ILIT as provided in the governing trust document.

ADVANTAGES OF AN IRREVOCABLE LIFE INSURANCE TRUST

Estate tax reduction: The primary benefit of an ILIT is to keep the insurance proceeds out of the insured's estate for federal estate tax purposes. In most cases, this will mean that there is no estate tax liability associated with those proceeds.

Liquidity: Life insurance is used for many purposes, such as replacing the insured's income after death or providing liquidity to an otherwise illiquid estate. When an ILIT collects insurance proceeds, it will often use them to make a loan to the insured grantor's estate or to purchase illiquid assets, such as real estate or closely-held stock, from that estate. That additional liquidity may help the estate pay an estate tax liability, pay off debt, or help with estate administration expenses.

Other trust benefits: Upon the grantor's death and once the ILIT has collected the proceeds (and, if applicable, used them to make a loan or purchase other assets), the trustee will distribute the assets remaining in the ILIT according to the terms of the trust's governing document. Distributions can be outright to the beneficiaries or held in ongoing trusts for the beneficiaries. That type of ongoing trust can ensure that the grantor's wishes are carried out in providing for the grantor's chosen beneficiaries. As with other irrevocable trusts, the beneficiaries can enjoy a regular stream of income, periodic principal distributions, and potential protection from creditors.

CONSIDERATIONS FOR AN IRREVOCABLE LIFE INSURANCE TRUST

Irrevocability: An ILIT is an irrevocable trust, which means the grantor cannot easily change the terms of the trust document.

Contributions to the ILIT constitute reportable gifts: If the grantor transfers an existing policy to an ILIT, the grantor will generally be required to report the value of that gift on a federal gift tax return. In addition, if the grantor contributes cash to the ILIT to pay premiums, those contributions will generally also be treated as reportable gifts. These gifts may or may not result in a current gift tax liability. If not, they certainly may cause a reduction in the insured's lifetime exemption from estate and gift taxes. Despite these complications, many find ILITs to be attractive

because they can make relatively small gifts (the value of the premiums) to get a much larger amount (the proceeds) out of their estates.

Crummey powers: To eliminate or reduce the gift tax consequences of contributions to the ILIT, many ILITs include so-called "Crummey" powers for the beneficiaries. A Crummey power enables a beneficiary to withdraw part or all of the grantor's contribution to the ILIT. This is used to allow those contributions to be treated as "present interest" gifts so that they can qualify for the annual exclusion from gift taxes, rather than consume a portion of the grantor's lifetime gift exemption.

Loss of policy control and access: When a grantor transfers an existing life insurance policy to an ILIT, the grantor gives up control over the policy and can no longer take withdrawals from, or borrow against, the policy's cash value. If the grantor wishes to drop the insurance coverage, the grantor's primary means of doing so is to stop adding cash to the ILIT. If there is no new cash available, the trustee will have to decide whether to cash out the policy or to let it remain in place as long as it can. In some cases, the trustee can also reduce the amount of coverage, but those decisions belong to the trustee of the ILIT, not the grantor.

Three-year rule: If the grantor transfers an existing life insurance policy to an ILIT, and then passes away within three years of doing so, the life insurance proceeds may not be excluded from the grantor's estate. With new policies, one way to avoid this is to have the ILIT apply for the policy and own it from the date it is issued.

COMPREHENSIVE ESTATE PLANNING STRATEGIES FROM COMMERCE TRUST

While an ILIT can be an impactful estate planning tool for estate tax reduction and transferring proceeds from a life insurance policy, its efficacy depends on careful consideration of your financial goals and a thorough understanding of applicable laws. At Commerce Trust, our wealth management teams are comprised of specialists across multiple disciplines who can help you determine which estate planning strategies best support your comprehensive estate plan. If that includes establishing a trust, we will prepare you to meet with an estate planning attorney by providing holistic guidance in advance and can work closely with them on an ongoing basis to achieve your unique objectives.

Estate tax mitigation

John owns a $5 million life insurance policy on his own life. Because of the other assets he owns, he knows that his estate will be subject to federal estate tax at his death. Given the top federal estate tax rate of 40%, his continued ownership of the policy could result in $2 million of additional estate tax liability at his death. To avoid this result, he transfers the policy to a newly formed ILIT.

So long as he survives for three years following the transfer, the policy proceeds should not be included in his taxable estate. Because the policy has substantial cash value at the time of the transfer, he will have to report the transfer as a gift on a federal gift tax return. On an ongoing basis, he will report the value of his annual contributions to the ILIT. Depending on the amount of those contributions and of any other gifts he makes to the beneficiaries of the ILIT, those contributions might qualify as annual exclusion gifts, or they might consume more of his lifetime exemption from estate and gift taxes.

Understanding Dynasty Trusts

WHAT IS A DYNASTY TRUST?

The term “dynasty trust” generally refers to an irrevocable trust that benefits several generations of the grantor’s descendants, with the intent of minimizing estate and generation-skipping transfer (GST) taxes for as long as possible.

A dynasty trust can be created and funded during the grantor’s lifetime or at the grantor’s death. Either way, the trust will be designed to prevent triggering estate tax at each beneficiary’s death, and it will be protected from GST taxes by an allocation of the grantor’s GST tax exemption. This allows for the trust to make distributions to potentially several generations of beneficiaries without being depleted by tax at each beneficiary’s death.

Many trusts for the benefit of a child or grandchild are designed to last only until the beneficiary reaches an age that the grantor considers old enough for the beneficiary to handle the trust assets without the control of a trustee. When the beneficiary reaches that age, the trust will terminate, and the trustee will distribute all of the trust’s assets to the beneficiary.

In contrast, a dynasty trust is designed to last for the lifetime of the beneficiary and typically several generations of the beneficiary’s descendants. In addition to the other benefits of a trust, such as creditor protection and professional management of family wealth, the primary benefit of a dynasty trust lies in avoiding the impact of estate taxes and GST taxes, leaving more wealth in trust for successive generations.

ADVANTAGES OF A DYNASTY TRUST

Transfer tax planning: As indicated above, a dynasty trust is primarily a tax planning tool. Much of the protection from taxes comes from allocating the grantor’s available GST tax

exemption to the trust. The GST tax exemption ($13.99 million in 2025) allows grantors to allocate their exemption to certain types of transfers to protect them from GST tax.

Structured wealth transfer over multiple generations: In addition to preserving family wealth through tax planning, dynasty trusts may afford grantors a greater degree of control over the ultimate distribution of that wealth. By keeping family wealth in trust for the benefit of multiple generations, a grantor can set forth the standards under which distributions can be made. For some families with significant wealth, this can provide peace of mind in knowing that their wealth will not be lost to a beneficiary's creditor or potentially squandered by imprudent spending by the next generation.

Maintaining flexibility for beneficiaries: For those who might be put off by the idea of tying up family wealth for too long, there are options for building flexibility into a dynasty trust. For example, a beneficiary can be given a "power of appointment," enabling the beneficiary to change the manner in which trust assets will be held and distributed at his or her death. Or, an independent trustee can possess the power to distribute trust assets to the beneficiary for any reason.

Creditor and divorce protection for beneficiaries: Depending on the structure of the dynasty trust and any applicable state laws, a dynasty trust may offer a degree of asset protection from the beneficiary's creditors. Unlike a trust that terminates when its beneficiary reaches a certain age, a dynasty trust can offer this protection throughout the beneficiary's lifetime. In many cases, the assets of a dynasty trust may also be protected if a trust beneficiary goes through a difficult divorce.

CONSIDERATIONS FOR A DYNASTY TRUST

A dynasty trust is irrevocable: Since a dynasty trust is an irrevocable trust, the grantor cannot easily change the terms of the trust document. Changing the terms of an irrevocable trust typically requires all involved parties, including the trustee and beneficiaries, to agree to the changes. Alternatively, if the involved parties do not agree to the change, court approval would be required to modify the terms of the trust document. Other methods may also be available depending on state law, but modifying an irrevocable trust is often a complex process.

Consider a corporate trustee: Because a dynasty trust could last many decades, it may be appropriate to select a corporate trustee to serve either as the sole trustee or as a co-trustee with one or more individuals. If unforeseen circumstances prevent an individual trustee from administering the trust, continuity could be lost. Designating a corporate trustee ensures continuity, as the institution can provide long-term, consistent management of the trust's assets. Corporate trustees may also have more experience, depth of capability, and objectivity than an individual trustee.

Rule against perpetuities: The rule against perpetuities is a rule adopted in many states to prevent the existence of perpetual trusts. In recent decades, many states have limited or even abolished their version of this rule. A well-written dynasty trust will include a provision that avoids violating this rule if it applies.

COMPREHENSIVE ESTATE PLANNING STRATEGIES FROM COMMERCE TRUST

While a dynasty trust can be an impactful estate planning tool for transfer tax planning and transferring wealth across multiple generations, its efficacy depends on careful consideration

of your financial goals and a thorough understanding of applicable laws.

At Commerce Trust, our wealth management teams are comprised of specialists across multiple disciplines who can help you determine which estate planning strategies best support your comprehensive estate plan. If that includes establishing a trust, we will prepare you to meet with an estate planning attorney by offering holistic guidance in advance and can work closely with your attorney on an ongoing basis to ensure your plans are properly executed and aligned with your long-term goals.

Contact Commerce Trust today to learn more about our private wealth management and estate planning services and how we can help you assess the benefits and considerations of various trust options to incorporate the appropriate trust into your estate plan.

Preserving family wealth

Elizabeth is a widow with substantial assets. Her children have managed to build large estates through their own careers and investing. Also, one of her children is an emergency room physician in a large city who is concerned about the potential liability that could arise from treating so many unfamiliar patients.

Elizabeth decides to use up her lifetime exemption from estate and gift taxes by creating separate irrevocable trusts, one for the benefit of each child and that child's descendants. She designs each trust as a dynasty trust – one that will last for each child's lifetime and continue on for each child's descendants. By using dynasty trusts, which will not be subject to estate tax when her children die, Elizabeth avoids adding wealth to her children's already substantial estates. In addition, the creditor protection afforded by the long-term trust is valuable to Elizabeth's child who is a physician.

Navigating Trust Options for Your Estate Plan

The table below highlights the key advantages of different types of trusts at a glance. For a deeper look, read our full-length articles that explore additional considerations and examples of how spousal lifetime access trusts, credit shelter trusts, intentionally defective grantor trusts, irrevocable life insurance trusts, and dynasty trusts can support your estate planning goals.

TYPE OF TRUST	ADVANTAGES	CONSIDERATIONS
Spousal Lifetime Access Trust (SLAT)	» Promotes efficient use of the federal estate tax exemption for a married couple » Keeps appreciation outside the taxable estate » Creditor protection for spouse	» Usually no adjustment to cost basis at death » Divorce can complicate the use of a SLAT » May risk breaching the reciprocal trust doctrine if the structure of two SLATs is too similar
Credit Shelter Trust	» Promotes efficient use of the federal estate tax exemption for a married couple » May provide asset protection to surviving spouse and beneficiaries » Vehicle for generation-skipping transfer tax planning	» Requires more planning and work than a portability election » Usually no adjustment to cost basis at death
Intentionally Defective Grantor Trust (IDGT)	» Grantor pays income taxes on trust assets to preserve more value for beneficiaries » Removes assets from the grantor's estate » Selling instead of gifting assets to an IDGT provides additional leverage	» Grantor must have the capacity to bear all of the tax liability generated by the trust's activity » Grantor may be able to turn off grantor trust status, making the trust and/or its beneficiaries liable for ongoing tax liabilities
Irrevocable Life Insurance Trust (ILIT)	» Potential estate tax reduction by keeping life insurance proceeds out of the insured's taxable estate » May provide needed liquidity for estate taxes or other administration expenses » Can provide ongoing distributions to beneficiaries through trusts for beneficiaries after grantor's death	» Grantor gives up control over the life insurance policy and can no longer take withdrawals from, or borrow against, the policy's cash value » If the grantor passes away within three years of transferring their insurance policy to an ILIT, the proceeds may not be excluded from the grantor's estate
Dynasty Trust	» Structured wealth transfer over multiple generations » Protection from generation-skipping transfer tax » May provide creditor and divorce protection for beneficiaries	» Selecting a corporate trustee may provide continuity for administration as dynasty trusts can last many decades » Must not violate the rule against perpetuities, which prevents the existence of perpetual trusts in many states

OPTIMIZING TAX EFFICIENCY

2025 Tax Changes: What They Mean for High-Net-Worth Individuals

Authored by

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Each year, the IRS provides adjustments to existing tax provisions to account for inflation which may impact your tax planning. Staying informed of these changes may help you adjust your strategy to minimize your overall tax liability. For high-net-worth individuals who generally face larger tax obligations, proactively planning toward tax efficiency can promote the preservation of wealth over time.

INCOME TAX BRACKETS HAVE BEEN ADJUSTED FOR INFLATION

The IRS generally adjusts federal tax brackets annually to account for inflation. This year is no different, as taxable income thresholds were increased across each bracket.

For example, in tax year 2024, the top federal income tax rate of 37% applied to taxpayers with incomes greater than $609,350 for single filers and $731,200 for married couples filing jointly. In tax year 2025, the top rate applies to single filers with incomes over $626,350 and married couples filing jointly with incomes over $751,600. High earners may benefit from the higher taxable income thresholds for the top federal income tax rate in 2025, potentially reducing their tax liability compared to prior years assuming similar income levels.

Notably, the federal marginal income tax rates have not changed for tax year 2025. Consider consulting your private wealth management team to explore tax planning techniques, such as charitable giving or family gifting strategies, that may mitigate your income tax liability.

FEDERAL LIFETIME ESTATE AND GIFT TAX EXEMPTION INCREASED

The federal lifetime estate and gift tax exemption has increased to adjust for inflation. This exemption amount determines how much of your estate and taxable gifts given during your lifetime can be transferred without incurring federal estate and gift taxes.

In tax year 2024, the federal lifetime estate and gift tax exemption was $13.61 million and increased to $13.99 million in 2025. This exemption amount is effectively doubled for married couples. Since 2018, the exemption amount has increased steadily to keep pace with inflation after the Tax Cuts and Jobs Act increased the exemption amount from $5.49 million in 2017 to $11.18 million in 2018.

Maximizing the use of your available exemption amount may lessen the impact of estate taxes on your family, ensuring more of your estate's value is preserved for your beneficiaries when they inherit your assets. Generally, the greater the combined value of your estate and lifetime taxable gifts exceeds the exemption amount, the higher your federal estate tax liability. Proactively implementing estate planning strategies that mitigate estate taxes, such as funding irrevocable trusts or utilizing the annual gift tax exclusion, may serve to secure your wealth for future generations.

ANNUAL GIFT TAX EXCLUSION INCREASED

The IRS allows individuals to gift a certain amount tax-free each year to as many recipients as the donor wants. Donors can give up to the annual gift exclusion amount to each child, grandchild, sibling, or any other individual each calendar year without triggering a taxable gift. Taxable gifts either use a portion of the donor's federal lifetime estate and gift tax exemption or are taxed at a top rate of 40% if the donor's lifetime exemption is exhausted.

In calendar year 2024, the annual exclusion for gifts was $18,000 per recipient, which has increased to $19,000 for calendar year 2025. The annual gift tax exclusion amount is doubled for gifts given from a married couple. Any qualified gift exceeding $19,000 in value from an individual or $38,000 from a married couple given to the same recipient in 2025 is considered a taxable gift. Triggering a taxable gift requires

the donor to file Form 709, the United States Gift (and Generation-Skipping Transfer) Tax Return.

For high-net-worth individuals, consistently using the annual gift tax exclusion to strategically lower the value of their taxable estate is a straightforward estate planning strategy that may ultimately lead to a lower estate tax liability.

ALTERNATIVE MINIMUM TAX (AMT) EXEMPTION AMOUNTS AND PHASEOUT THRESHOLDS INCREASED

The main function of the alternative minimum tax (AMT) is to ensure that all taxpayers pay at least a minimum level of taxes regardless of the deductions or credits they claim. High-net-worth individuals are typically those most impacted by the AMT, so efficiently utilizing the AMT exemption amount is key for individuals with substantial income and complex financial portfolios to minimize AMT exposure.

There are different rules for calculating your tax liability under the AMT versus traditional federal income taxes. Generally, taxpayers will pay the higher amount between the traditional income tax calculation and the AMT, ensuring significant deductions do not allow them to fully escape taxation.

A certain amount of income is shielded from the AMT, the AMT exemption amount, and this exemption is reduced as taxpayer income exceeds a phaseout threshold. The AMT exemption amount has increased from its 2024 levels of $85,700 for single filers and $133,300 for married couples filing jointly to $88,100 and $137,000 respectively for tax year 2025. This exemption is gradually reduced at income above $626,350 for single filers and $1,252,700 for married couples in 2025, up from $609,350 and $1,218,700 in 2024.

High-net-worth individuals who typically have a significant amount of itemized deductions may consider reviewing their income and deduction timing with their private wealth management team to minimize potential AMT exposure.

STANDARD FEDERAL INCOME TAX DEDUCTION HAS BEEN ADJUSTED FOR INFLATION

The standard federal income tax deduction, or the amount subtracted from your taxable income if you do not itemize your deductions, has

increased by $400 for single filers and $800 for married couples filing jointly. In 2025, standard deductions are $15,000 for single taxpayers and $30,000 for married couples filing jointly.

Deciding whether to claim the standard deduction or itemize your deductions depends on the total amount of your allowable itemized deductions. If the sum of your allowable itemized deductions is greater than the standard deduction, itemizing your deductions may lower your taxable income more than taking the standard deduction.

Certain deductions, such as business use of your car or home, student loan interest, or the self-employed health insurance deduction can be claimed regardless of whether you take the standard deduction or itemize. Other deductions, such as those for charitable donations, home mortgage interest, and certain state and local taxes, can only be claimed if you itemize your deductions.

High-net-worth individuals may lower their overall tax liability by itemizing deductions, as they may have more qualifying expenses that exceed the standard deduction. Your private wealth management team, in collaboration with a tax professional, may help you identify all your available deductions and determine the best strategy to minimize your tax liability.

HOW MIGHT THE TAX CHANGES FOR 2025 IMPACT YOUR FINANCIAL SITUATION?

Tax planning is crucial for preserving wealth and maximizing your income to support your goals. At Commerce Trust, your private wealth management team is comprised of tax management*, financial planning, estate planning, and investment portfolio management specialists who can help you understand what your potential tax liabilities may be, implement strategies to minimize your taxes, and secure your legacy for generations to come.

Contact Commerce Trust today to learn more about our private wealth management services and how we can help you navigate tax planning to preserve your wealth.

**Commerce Trust does not provide tax advice to customers unless engaged to do so.*

OPTIMIZING TAX EFFICIENCY

Roth IRA Conversions: What High Earners Need to Know

Authored by

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Roth conversions offer high earners an avenue to leverage the advantages of Roth individual retirement accounts (IRAs), even if their income exceeds the IRS limits to make a direct contribution to the account. The term "Roth conversion" simply refers to the process of moving funds from a tax-deferred retirement account like a traditional IRA into a Roth IRA. Unlike making a direct contribution to a Roth IRA, you may be able to use a Roth conversion to benefit from tax-free withdrawals in retirement, reduce or eliminate required minimum distributions, and take advantage of the tax and estate planning opportunities that Roth IRAs may provide.

WHY MIGHT A ROTH CONVERSION BE A USEFUL STRATEGY FOR HIGH-INCOME EARNERS?

Roth IRAs are subject to income limits that prevent high earners from making direct contributions to the account. In 2025, single

filers with a modified adjusted gross income (MAGI) over $165,000 and married couples filing jointly with income over $246,000 are ineligible to make direct contributions to a Roth IRA. However, high earners may still fund a Roth IRA by converting assets in a traditional IRA, 401(k), or other tax-deferred retirement accounts to a Roth IRA.

Holding assets in a Roth IRA offers two distinct advantages over traditional IRAs. The first benefit of a Roth IRA is the ability to make qualified distributions from the account without having to pay taxes on your withdrawal.[1] In contrast, when you withdraw funds from a traditional IRA, the distribution will be subject to federal income taxes. Some states also impose taxes on distributions from traditional IRAs based on their individual state tax laws.

The second important difference between Roth IRAs and traditional IRAs is that traditional IRAs are subject to annual required minimum distributions (RMDs) while Roth IRAs are not subject to RMDs. Because Roth IRAs avoid RMDs, account owners may have greater flexibility over withdrawals and the potential for continued tax-free growth of invested assets. In contrast, RMD requirements for traditional IRAs require account holders to withdraw a certain amount each year when they turn 73 years old (75 years old for those born 1960 or later). Failing to withdraw your RMD from a traditional IRA may lead to a 25% excise tax on the amount that should have been withdrawn.

TAX IMPLICATIONS OF ROTH CONVERSIONS

Roth conversions increase your adjusted gross income (AGI) in the year converted, which will result in taxes due for the year of conversion and can push you into a higher tax bracket. Rather than converting a fixed amount each year or attempting to convert all funds at once, Roth conversions may require ongoing evaluation to manage your income tax liability or cash flow needs. Consider consulting your private wealth management team toward the end of each year when you have a clearer understanding of your annual income to assess how much to convert.

HOW ROTH CONVERSIONS ENHANCE INCOME TAX PLANNING

Roth conversions may offer high earners more flexibility and control when tax planning. Holding your assets in a mix of tax-deferred, tax-free, and taxable accounts promotes balance sheet diversification, giving you more options to manage taxes and strategically withdraw funds in retirement.

If you expect to be in a higher income tax bracket and, therefore, subject to higher income tax rates in retirement, you may consider starting to convert your assets to mitigate future income taxes. For example, you might convert a portion of your traditional IRA funds to a Roth IRA each year in a manner that minimizes your income tax liability during retirement.

Rather than having your withdrawals taxed during retirement, Roth conversions allow you to decide the amount to convert and pay taxes on based on your taxable income or tax planning goals. Currently, there is no limit on the number of Roth conversions you can make from a traditional IRA, nor a limit on the amount converted, allowing you to spread conversions over multiple years. This approach may help you stay within a desired tax bracket or otherwise manage your future income tax liability while gradually shifting your funds to a Roth IRA.

ESTATE PLANNING BENEFITS OF ROTH CONVERSIONS

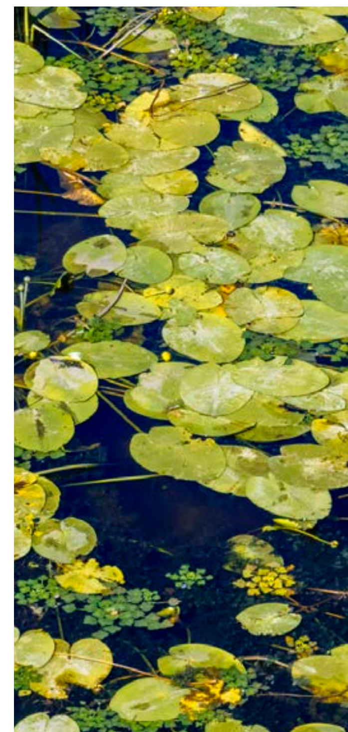
Converting your traditional IRA funds to a Roth IRA may also have estate planning benefits,

What about a backdoor Roth IRA contribution?

A backdoor Roth IRA, more accurately described as a backdoor Roth contribution, is a strategy that allows those whose taxable income exceeds the contribution limits for a Roth IRA to convert assets to a Roth IRA without incurring taxes. A backdoor IRA contribution is a form of Roth conversion that involves making a non-deductible contribution to a traditional IRA and then converting these funds into a Roth IRA.

Backdoor Roth contributions work best for minimizing taxes if you do not have a traditional IRA balance with pre-tax funds, as deductible contributions to a traditional IRA are taxable when converted. The IRS taxes traditional Roth conversions "pro rata," meaning that if you have both pre-tax and after-tax funds in your traditional IRA, the taxable and non-taxable portions of a Roth conversion are calculated proportionally.

For example, if 75% of contributions to your traditional IRA are deductible and the remaining 25% are non-deductible contributions, then 75% of the amount converted to a Roth IRA would be taxable. Properly reporting non-deductible contributions on IRS Form 8606 is critical to ensure the tax benefits of a backdoor Roth contribution are preserved. Consider engaging your wealth management team to evaluate whether a backdoor Roth contribution may fit your unique goals and circumstances.



particularly if you plan on leaving the account to individual beneficiaries. Since Roth IRAs do not require account owners to take RMDs, more assets may remain in the account, increasing the amount available for your beneficiaries.

If you anticipate that your estate will be subject to estate taxes, paying the associated income taxes of a Roth conversion may provide an avenue to strategically decrease the value of your taxable estate, potentially lowering your federal estate tax liability. Additionally, beneficiaries who inherit a Roth IRA may benefit from tax-free withdrawals, increasing the value of the inheritance by allowing them to access the account's assets without incurring additional income tax.

CONSIDERATIONS FOR ROTH CONVERSIONS

Roth conversions, however, may not be a suitable choice depending on the situation. It is critical to be aware of the five-year holding period for Roth IRA earnings, potential impacts on your income tax liability, and possible increases in Medicare premiums.

For example, a five-year holding period applies to Roth IRAs, starting on January 1 of the year of conversion, meaning earnings could be taxed (and subject to a 10% penalty if taken before age 59 ½) if withdrawn before the account is five years old. If you plan on taking distributions from your traditional IRA in the next five years, it may not be tax-efficient to convert the funds to a Roth IRA. Roth conversions generally work best as a long-term strategy, as this allows more time for the assets in the account to potentially grow tax-free before retirement.

Further, Roth conversions increase your AGI in the year of conversion, which may push you into a higher tax bracket and lead to a higher income tax liability. Increasing your AGI may also impact your Medicare premiums. For Medicare Parts B and D, monthly premiums are determined by the policyholder's MAGI from two years prior, as there is a two-year lookback for determining Medicare premiums. Medicare income thresholds are structured so that even a small increase in income can increase your monthly premiums. The benefits of a Roth conversion, however, may outweigh the extra premium costs in the long run.

Converting your traditional IRA to a Roth IRA may also be simply incompatible with your overall tax planning strategy. Careful consideration is needed when evaluating Roth conversions, as the converted amount may not be transferred back to the original IRA. Consider consulting your private wealth management team to analyze the impacts of a potential Roth conversion on your tax planning goals.

COMPREHENSIVE RETIREMENT PLANNING FROM COMMERCE TRUST

Strategies and methods for managing your tax liability and retirement accounts depend on your unique goals and circumstances. Converting funds from a traditional IRA to a Roth IRA may be an effective tax planning strategy, but it should be carefully considered as Roth conversions are not universally applicable and have tax implications of their own.

At Commerce Trust, your private wealth management team will spend time with you to understand your retirement goals before conducting an analysis of how Roth conversions might support your retirement plan. Specialists in retirement planning, estate planning, and tax management* coordinate to develop a tailored financial plan that aligns with your objectives, helping you preserve and grow your wealth.

> Contact Commerce Trust today to learn more about our approach to creating a personalized, tax-efficient retirement plan that fits your financial goals.

[1]*Certain criteria must be met for the IRS to consider a withdrawal from a Roth IRA to be a qualified distribution. First, the account must be held for at least five years. Additionally, the account owner must be at least 59½ years old, though exceptions may apply in cases of the owner's disability or death. Withdrawing early or within five years of conversion will trigger a 10% tax penalty.*

**Commerce Trust does not provide tax advice to customers unless engaged to do so.*

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Banking | Investments | Planning™

Secure your legacy

Are you taking full advantage of your lifetime estate and gift tax exemption?

Commerce Trust, working in conjunction with your estate planning attorney, can guide you through the in-depth conversations required to assess how the use of tax exemptions could most effectively be incorporated into your estate plan.

The holistic, team-based approach at Commerce Trust, consisting of financial and tax planning, investment portfolio management, and trust administration, is designed to guide you toward achieving your family's goals while safeguarding your legacy.

Connect with the Commerce Trust team at **commercetrustcompany.com/estatetax** to secure your legacy.

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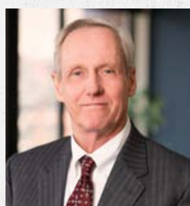

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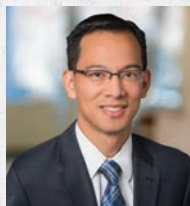

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OUR TEAM-BASED APPROACH

Protect your wealth with Commerce Trust

At Commerce Trust, our approach to wealth management is simple. It's advantageous to have a team in your corner. Because more collaboration and more perspectives from more disciplines converge to create a more personalized approach designed uniquely around your needs.

For more than a century, Commerce Trust has been a leading provider of financial and tax planning, investment management, private banking, and trust administration services. Our clients benefit from the insights gained from our experience administering over $74 billion in total client assets through all market cycles.[1] Commerce Trust is ranked 19th nationally based on assets under management.[2]

[1] *As of December 31, 2024.*
[2] *S&P Global Market Intelligence; ranking as of September 30, 2024.*

Disclosures

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