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Generation skipping transfer tax is a federal transfer tax that is assessed on an individual who transfers assets to a "skip person" during life or by will. This tax is assessed in addition to gift or estate tax. Its purpose is to prevent donors from avoiding transfer taxation in one generation by giving assets directly to the next generation.

If a beneficiary is a direct lineal descendant of the donor, the beneficiary will be considered a skip person if he or she is two or more generations younger than the donor (a grandchild, for example). If a beneficiary is not a direct lineal descendant of the donor, the beneficiary will be considered a skip person if he or she is more than 37.5 years younger than the donor.

The generation skipping transfer tax (GST) is assessed at the highest current federal estate tax rate.

There are three kinds of skip: direct skip, taxable distribution, and taxable termination.

Direct skip

A direct skip occurs when the funds subject to GST are transferred directly from the donor to the skip person during the donor's life or by will. The executor pays the GST if the transfer is by will, the donor pays the GST if the transfer is made during the donor's life.

Taxable distribution

A taxable distribution occurs when the funds subject to GST are transferred to the skip person by distribution from a trust. A charitable remainder trust makes taxable distributions when it distributes payments to a skip person, for example. The recipient of the distribution pays the GST.

Taxable termination

A taxable termination occurs when the funds subject to GST are transferred to the skip person at the termination of a trust. A charitable lead trust makes a taxable termination when it distributes its remaining corpus to a skip person, for example. The trustee of the trust pays the GST.

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