



WHAT IS A FAMILY BANK?

Most wealthy individuals who are receiving tax advice are fully utilizing their \$18,000 annual exclusions from the gift tax in order to make gifts to their children and any grandchildren. For the family member who would like to provide for siblings, nieces or nephews or more remote family members, a logical next step is to use the annual exclusions available with respect to that group of individuals in order to establish an Estate Reduction Trust for their benefit, sometimes referred to as a “family bank.” The purpose of the family bank is to remove assets from the estate of the donor by placing them in a trust for the benefit of specified family members. That trust, which is ordinarily structured as an intentionally defective grantor trust for income tax purposes, is frequently used to provide for the needs of non-lineal family members, including weddings, educational expenses, down payments for homes, etc. The Trustees can have complete discretion over the circumstances under which distributions from the family bank will be made, and, it is important to note, this technique is not limited to benefiting only family members. Some wealthy families have more than one family bank, including separate family banks for different branches of their family and/or a family bank for non-relatives who are close friends of the family.