

What is a Crummey power?

At RDM, we understand that wealth is more than money - it's about freedom, security, philanthropy, legacy and balance...we help you coordinate multiple financial goals through a maze of tax, legal and investment options. It is critical to understand, develop and implement effective, long-term strategies that align with your objectives and prepare you for the future.

What is a Crummey power?



A Crummey power is a provision contained in certain irrevocable trusts that permits specified trust beneficiaries to withdraw gifts you make to the trust for a limited period of time. The provision allows gifts to the trust to qualify for the federal annual gift tax exclusion. The exclusion effectively exempts annual gifts up to \$15,000 (in 2019 and 2020) per trust beneficiary from the federal gift tax. Over your lifetime, regular gifting to the trust may reduce the size of your gross estate. Without a Crummey power, all gifts you make to your irrevocable trust will be subject to gift tax.

Here's how it works. You transfer funds to an irrevocable trust containing a Crummey power. The trustee must then give adequate notice to each beneficiary stating that the funds can be withdrawn. The time frame for withdrawal should be reasonable (e.g., 30 days). Whether or not the beneficiaries exercise their right, the gift still qualifies for the annual gift tax exclusion. If the withdrawal right is not exercised, the trustee may use these gifts for other purposes permitted under your trust document, such as investing the money or making premium payments on a life insurance policy that the trust owns.

Crummey powers are commonly used in irrevocable trusts. But for them to succeed in qualifying gifts for the annual exclusion, the rules must be followed carefully. That is, the beneficiaries must receive prompt notice that a gift has been made and be given reasonable time and opportunity to request a withdrawal. Consult your estate planner or tax advisor to learn more about this complex tool.

DISCLOSURES

RDM Financial Group does not give tax or legal advice. Consult your tax advisor and attorney on all tax and legal matters.

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