MILITARY VETERANS | PRESERVATION PROTOCOL

The Sovereign Spouse Safety Plan

Protecting non-citizen spouses from the 40% estate tax cliff through QDOT and Super-Annual Exclusion strategies.

BOTTOM LINE UP FRONT
Veterans with non-U.S. citizen spouses face a 40% tax "cliff" that does not exist for other families. The standard tax-free transfer between spouses is restricted, meaning the IRS could claim nearly half the estate immediately upon the veteran's death.

The Problem: The Citizenship Tax Cliff

Under normal estate tax rules, assets passing between U.S. citizen spouses qualify for an unlimited marital deduction -- no estate tax is due regardless of the amount transferred. This deduction does not apply when the surviving spouse is not a U.S. citizen.

This means that upon the veteran's death, the entire estate above the exemption amount is immediately subject to a 40% federal estate tax. For a veteran with a $3 million estate and a non-citizen spouse, this could mean an immediate tax bill of $400,000-$800,000 -- potentially forcing the sale of the family home or liquidation of investment accounts at the worst possible time.

This tax cliff affects a significant number of military families. Veterans who served overseas frequently marry citizens of allied nations. Many assume their spouse will eventually naturalize, but life circumstances -- deployments, relocations, family obligations abroad -- often prevent or delay the naturalization process.

The Solution: QDOT + Super-Annual Exclusion

We implement a two-part strategy that provides both immediate and long-term protection:

Part 1: Qualified Domestic Trust (QDOT)

We establish a "Protection Account" -- technically a Qualified Domestic Trust -- to hold the estate assets upon the veteran's death. The QDOT defers the 40% estate tax, allowing the surviving spouse to receive income from the trust for life.

The QDOT must have at least one U.S. citizen trustee and must meet specific IRS requirements regarding distributions and reporting. We structure these trusts to provide maximum flexibility within the regulatory framework.

Part 2: The $190,000 Super-Annual Exclusion

While the standard annual gift exclusion between spouses is $18,000 for non-citizen spouses, the tax code provides a

"Super-Annual Exclusion" of $190,000 per year for gifts to non-citizen spouses. We utilize this provision to systematically transfer assets during the veteran's lifetime, reducing the estate that would otherwise be subject to the 40% tax.

Over 10 years, this strategy can transfer $1.9 million completely tax-free, dramatically reducing or eliminating the estate tax exposure.

The Goal

This ensures the spouse can live off the full inheritance for life, rather than seeing it eroded by an immediate tax debt. The combination of lifetime transfers and QDOT protection creates a comprehensive shield against the citizenship tax cliff.

Naturalization Considerations

If the surviving spouse becomes a U.S. citizen after the veteran's death, the QDOT assets can be distributed outright -- the deferred estate tax is permanently eliminated. We coordinate with immigration counsel to monitor naturalization timelines and adjust the estate plan accordingly.