Planning Before the Move: How "Drop-Off" Trusts Can Help Future U.S. Residents Protect Family Wealth

By Terrence LaBant

Periods of geopolitical stress tend to clarify what global capital ultimately values. The current conflict involving Iran, and its implications for Gulf security and energy markets, has introduced a more immediate form of geopolitical risk, prompting investors to reassess jurisdictional exposure. Importantly, markets respond not to certainty, but to changing probabilities, and capital adjusts accordingly.

As this rebalancing unfolds, capital is dispersing across a small group of countries that combine stability with financial sophistication, including the United States. Allocating to the United States, however, is not simply an investment decision; it is a structural one. For non-U.S. investors, thoughtful planning is essential to manage estate exposure, regulatory considerations, and cross-border complexity. When properly structured, U.S. exposure can be accessed in a way that aligns with long-term objectives while preserving flexibility and control.

For wealthy individuals and families considering a move to the United States, the tax implications can be far more expansive than expected. Unlike many countries, the U.S. imposes income and transfer taxes on a worldwide basis once a person becomes domiciled here. As a result, thoughtful pre-immigration planning is often essential to preserving family wealth and avoiding unintended tax exposure.

One of the most used tools in this planning arena is the foreign "drop-off" trust. When structured and implemented properly, often in coordination with broader wealth management strategies, drop-off trusts can play a critical role in minimizing future U.S. estate taxes while supporting long-term family legacy goals.

Understanding the Shift in U.S. Tax Exposure

Before immigrating to the U.S., nonresident aliens are subject to U.S. income tax only on income from U.S. sources. U.S. transfer taxes, such as gift and estate taxes, apply only to U.S.-situs real estate and tangible property. That picture changes dramatically once U.S. domicile is established. At that point:

- Worldwide income becomes subject to U.S. income taxation
- Worldwide assets can be exposed to U.S. estate, gift, and generation-skipping transfer taxes

Importantly, domicile is not determined solely by tax residency. It requires both physical presence in the U.S. and an intention to remain indefinitely. Once that threshold is crossed, opportunities for large-scale wealth transfers become significantly more limited.

Why Timing Matters in Pre-Immigration Planning

After becoming domiciled in the U.S., substantial asset transfers typically must be spread out over time due to strict annual and lifetime gift tax limits. By contrast, before immigration, individuals can transfer unlimited amounts of non-U.S.-situs property without incurring U.S. transfer taxes.

As a result, one of the primary objectives of pre-immigration planning is to remove foreign assets from the future U.S. taxable estate before domicile is established. This is where drop-off trusts come into play.

What Is a Drop-Off Trust?

A drop-off trust is an irrevocable offshore trust created and funded by a nonresident alien prior to immigrating to the U.S. The trust is typically funded with non-U.S.-situs assets, such as foreign securities, foreign business interests, or offshore investment portfolios. However, nonresident aliens also can fund a U.S. custodial account and then transfer U.S.-based investments when funding a drop-off trust. If structured correctly, assets held in a drop-off trust can remain outside the U.S. transfer-tax system even after the grantor becomes a U.S. domiciliary.

Key Requirements for a Successful Drop-Off Trust

While powerful, drop-off trusts require careful design and disciplined administration. Several core principles are critical to preserving their intended tax benefits:

1. ***Avoid Funding the Trust with All Assets*** – The trust should be funded with a meaningful, but not exhaustive, portion of the grantor's wealth. Transferring substantially all assets may suggest that the grantor expects to rely on the trust after moving to the U.S., increasing the risk that the trust assets could later be pulled back into the taxable estate.
2. ***No Post-Funding Contributions*** – Once funded, no additional contributions should be made to the trust. Subsequent additions can taint the structure and undermine its protection from U.S. transfer taxes.
3. ***Minimize or Eliminate Distributions to the Grantor*** – Distributions to the grantor should be avoided or kept to an absolute minimum. Repeated or patterned distributions may indicate that the grantor retained an interest in the trust. If that occurs, and the grantor dies while domiciled in the U.S., the entire trust could be included in the U.S. taxable estate.
4. ***Carefully Calibrate the Funding Amount*** – Determining how much to transfer is a delicate balance:
    a. Too little, and the opportunity to protect assets from U.S. transfer tax is lost
    b. Too much, and the grantor may lack sufficient personal assets to sustain their lifestyle without trust distributions, compromising the structure's integrity

The Income Tax Trade-Off

While a properly structured foreign drop-off trust can be effective for estate and gift tax purposes, it may not shield trust income from U.S. income taxation after immigration. Special rules apply to certain foreign trusts that:

- Have U.S. beneficiaries, and
- Are created within five years of the grantor's move to the U.S.

In many cases, these trusts are treated as grantor trusts for income tax purposes, meaning all trust income is taxable directly to the grantor once U.S. residency begins. This makes liquidity planning essential. The grantor must be able to pay ongoing federal, state, and local income taxes on trust earnings, potentially without receiving distributions from the trust itself.

Integrating Wealth Management Strategies

Because of these dynamics, successful pre-immigration planning often extends beyond legal structure alone. Coordinating investment strategy, liquidity planning, and in some cases insurance-based solutions may allow families to transfer more assets efficiently without creating economic strain.

Ultimately, drop-off trusts are most effective when implemented as part of a holistic wealth management plan, one that balances tax efficiency with lifestyle needs and long-term legacy objectives.

At Wealthspire Trust, we view this moment through both investment and planning lenses. As the geography of global wealth continues to evolve, the focus is not only on where capital is allocated, but on how deliberately it is located to support multigenerational goals.

Final Thoughts

For families planning a move to the U.S., pre-immigration planning is not simply about reducing taxes, it's about preserving options and protecting family legacies. Drop-off trusts, when thoughtfully designed and professionally managed, can be a powerful component of that strategy.

As with all sophisticated planning, early action and careful coordination across legal, tax, and investment disciplines are key. For additional information on how Wealthspire works with clients during times of geopolitical stress, please also view Wealthspire Advisors' piece on **Navigating U.S. Investment: A Tax From Dubai to What Comes Next? The New Geography of Global Wealth**.

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