THE PRIVATE TRUST COMPANY

# Control and Protect Your Assets With a Trust

The Private Trust Company, N.A.

LPL Financial

A common misconception is that trusts are reserved for the wealthy. The truth is, many people can benefit from a trust.

## What Is a Trust?

Generally speaking, a trust is a legal entity that is central to a three-part agreement in which the owner of an asset—the trust's "grantor"—transfers the legal title of that asset to a trust for the purpose of benefiting one or more beneficiaries. The trust is then managed by one or more trustees. Trusts may be revocable or irrevocable and may be included in a will to take effect at death.

Revocable trusts can be changed or revoked at any time. For this reason, the Internal Revenue Service (IRS) considers any trust assets to still be included in the grantor's taxable estate. This also means that the grantor must pay income taxes on revenue generated by the trust and possibly estate taxes on those assets remaining after his or her death.

Irrevocable trusts cannot be changed once they are executed. The assets placed into an irrevocable trust are permanently removed from a grantor's estate and transferred to the trust. Income and capital gains taxes on assets in the trust are paid by the trust. Upon a grantor's death, the assets in the trust are not considered part of the estate and are, therefore, not subject to estate taxes.

Most revocable trusts become irrevocable at the death or disability of the grantor.

## The Role of a Trustee

The trust's grantor names a trustee to handle investments and manage trust assets. The grantor can work with the trustee on major decisions, or the trustee can be assigned full authority to act on the grantor's behalf.

A trustee may be an individual, or it may be a professional or corporate trustee. Trustees have a responsibility—known as "fiduciary responsibility"—to act in the grantor's best interest.

## Benefits of a Trust

Although trusts can be used in many ways, they are most commonly used to:

- Control assets and provide security for both the grantor and the beneficiaries
- Provide for beneficiaries who are minors or require expert assistance managing money
- Avoid estate or income taxes
- Provide expert management of estates
- Avoid probate expenses
- Maintain privacy
- Protect real estate holdings or a business

Most people use trusts to help maintain control of assets while they're alive and medically competent, as well as indirectly maintain control of the disposition of assets if they're medically unable to do so or in the event of death.

## A Variety of Trusts Offer Flexibility to Meet Your Needs

Different kinds of trusts are designed to meet different objectives. For example, if your goal is to ensure privacy in the settlement of your estate, to centralize control of assets, or to take full advantage of estate tax credits provided by the IRS, you might choose a living trust.

A **Living Trust** allows you to remain both the trustee and the beneficiary of the trust while you're alive. You maintain control of the assets and receive all income and benefits. Upon your death, a designated successor trustee manages and/or distributes the remaining assets according to the terms set in the trust, avoiding the probate process. In addition, should you become incapacitated during the term of the trust, your successor or co-trustee can take over its management.

To help benefit your favorite charity while serving your own trust purposes, you might consider a **Charitable Lead Trust** (CLT). This trust lets you pay a charity income from a particular asset for a designated amount of time, after which the principal goes to the beneficiaries, who receive the property free of estate taxes. However, keep in mind that you'll need to pay gift taxes on a portion of the value of the assets you transfer to the trust.

Another charitable option, the **Charitable Remainder Trust** (CRT), allows you to receive income and a tax deduction at the same time, and ultimately leave assets to a charity. Through this trust, the trustee will sell the donated property or assets, tax-free, and establish an annuity payable to you, your spouse, or your heirs for a designated period of time. Upon completion of that time period, the remaining assets go directly to the charity. Highly appreciated assets are typically the funding vehicles of choice for a CRT.

An **Irrevocable Life Insurance Trust** (ILIT) is often used as an estate tax funding mechanism. Under this trust, you make gifts to an irrevocable trust, which in turn uses those gifts to purchase a life insurance policy on you. Upon your death, the policy's death benefit proceeds are payable to the trust, which in turn provides tax-free cash to help beneficiaries meet estate tax obligations.

### Is a Trust Right for You?

Increasing numbers of Americans are discovering the potential benefits of a trust—how it can help protect their assets, reduce their tax obligations, and define the management of assets according to their wishes in a private, effective way. Your financial advisor can help you evaluate a certain type of trust to determine if it may be appropriate for your circumstances.

### Points to Remember

1. Trusts are either revocable or irrevocable.
2. Because you can change or discontinue a revocable trust at any time, the government considers the trust's assets as part of your estate for tax purposes.
3. Irrevocable trusts cannot be altered once they are established; for this reason, they are not considered part of your estate for tax purposes.
4. Types of trusts include: Living Trust, Generation-Skipping Trust, Charitable Lead Trust, Charitable Remainder Trust, and Irrevocable Life Insurance Trust.
5. Different types of trusts involve different costs for administration and management.
6. Your financial advisor can help you determine if a trust will meet your needs.

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