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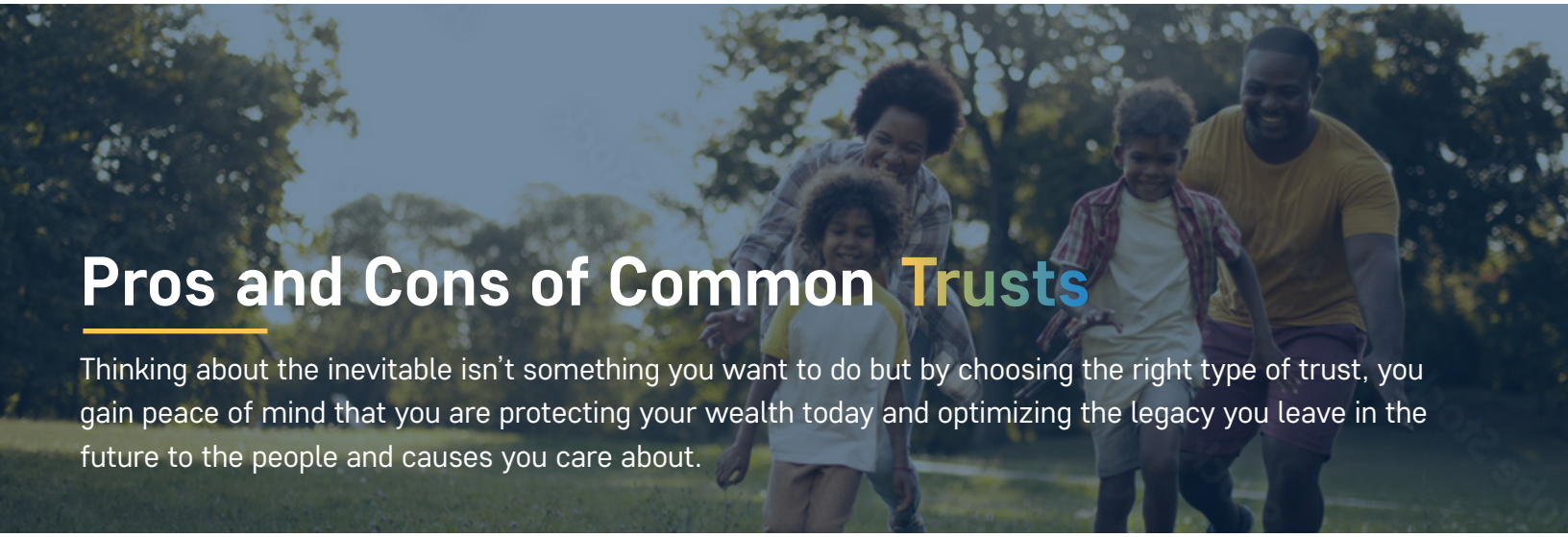

Pros and Cons of Common Trusts

Thinking about the inevitable isn't something you want to do but by choosing the right type of trust, you gain peace of mind that you are protecting your wealth today and optimizing the legacy you leave in the future to the people and causes you care about.

What are the primary pros and cons of common trusts?

A REVOCABLE LIVING TRUST

Pros	Cons
• Allows **you to maintain control** of your asset as you can act as the trustee during your lifetime. • **Only you** (the grantor) can amend or revoke the trust. • **Avoids the costs and hassle of probate**, making preparing your estate easier. • **May pass assets to your heirs sooner**, giving your family better financial protection. • **Retains privacy** for the family. (The probate process is public, while transfers through a living trust can remain private. Only assets titled to the trust avoid probate.)	• **Your beneficiaries have less control** over what they would inherit. • There are **no tax benefits**. • **No protection of assets** from creditors.

Note: You should consult with your attorney for the tax implications of naming yourself rather than someone else as trustee of your living trust, as well as for any implications of transferring the titles of your assets to the trust.

IRREVOCABLE LIFE INSURANCE TRUST (ILIT)

Pros	Cons
• **Minimizes estate tax**. • **Gives you the ability to direct** how and when the death benefit is used, and for whom. • **Helps provide the cash needed** to cover estate taxes and other expenses after your passing, reducing the need to sell a business or other high-value asset to cover costs. • **Enables you to fully leverage the annual gift tax exclusion** — $17,000 to each individual or beneficiary in 2023 — by using those gifts to pay the premiums on the life insurance in the trust. • **Protects assets** from creditors and legal action against you and your beneficiaries. • **Avoids probate** and shields assets from expense and loss of privacy during probate. • **Provides for a minor child**, a loved one with special needs or an adult child who lacks the maturity or financial savvy to handle a large sum of money. • **Provide liquidity** to fund a business succession plan or to avoid having to sell an illiquid asset, such as a family business, farm, or a home. It can also help equalize inheritance among multiple beneficiaries or provide liquidity to pay taxes or make charitable bequests.	• Assets are **no longer yours** when placed in a trust. • Once you've transferred your life insurance policy into the trust, you **can't change your named beneficiary or borrow against the policy.**

"CREDIT SHELTER TRUST (CST)" ALSO KNOWN AS "B TRUST," "BYPASS TRUST," OR "FAMILY TRUST"

It is commonly used to help married couples with significant assets pass their estates (after their deaths) to children or other beneficiaries without triggering estate taxes.

Pros	Cons
• Credit shelter trusts are most useful when each spouse has enough assets to **reach the amount of the estate tax exemption**. • Assets will **not be subject to estate ta**x. • Your **heirs receive an interest** in the trust itself. • If the surviving spouse invests it wisely, appreciation of the assets in the CST **escapes further estate taxation**.	• They are not generally used when **estates are less than** the amount of the exemption. • Your **heirs do not receive your property**. • Requires a **separate tax return**. • The deceased spouse's unused applicable exclusion **may be limited** if the surviving spouse remarries and survives his or her next spouse.

QUALIFIED TERMINABLE INTEREST PROPERTY (QTIP) TRUST

Especially useful for an individual who has been married more than once, this type of trust provides for both the current spouse and any children from a previous marriage. It also protects against unforeseen future marriages.

Pros	Cons
• Allows for more control before and after the death of the surviving spouse. • May ensure the surviving spouse is always taken care of financially.	• This type of trust is always irrevocable.

LET'S START THE CONVERSATION

Trusts are a popular estate planning tool, but it is essential to receive guidance from an experienced, skillful, and knowledgeable advisor and attorney to ensure the trust is properly established and maintained. If you're considering a trust to protect you and your family, LoVasco is here to help. Contact the Estate Planning and Business Succession team today at **EBS@lovascogroup.com**.

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