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IN GOD WE TRUST; IN TRUSTS, MAYBE NOT.

Trusts aren't all the same, and not everybody needs the same one. Sometimes trusts go inside other trusts; sometimes they don't.

Concerned you don't have something you need, or that you have something you *don't* need? Here's a quick guide.



The Revocable Trust (a/k/a The Living Trust).

This trust works great for an aging parent living in one place when a “financial anchor” child lives elsewhere. Or to set up for managing a disabled person's financial affairs. These trusts can eliminate probate, too, as long as the assets are titled correctly (*i.e., in the Trust*).

But these trusts are invisible to IRS; there's no income tax or estate tax saving unless particular language is put in the Trust. Better check if that's what you've been counting on.

The Credit Sheltered Trust (a/k/a The By-Pass Trust).

Assets up to a specific amount (*\$650,000 in 1999*) can pass estate tax-free upon your death. But you get this credited amount of assets *without a trust* if you're not married when you die. If you *are* married, you need this Trust built into your Will or Revocable Trust, to insure the savings. And the beneficiary of this Trust can be *anybody* — spouse, children, you name 'em, for a life-time, a shorter period, or as you specify.

What's the price? Observing some very distinct rules, and having the right ones in writing.

The “QTIP” or “Marital” Trust.

This Trust is how *“The new spouse's kids don't get any-*

thing when we're both gone.” A Marital (technical name: “Q.T.I.P.”) Trust holds assets in trust for your spouse for as long as he or she, and without any estate tax being paid now. When the spouse dies, *then* the taxes get paid and the remaining trust assets go to whomever you picked. Properly structured, these trusts get the unlimited marital deduction, and also open the door to the “Generation skipping” tax exemptions.

The Insurance Trust.

Contrary to popular lore, life insurance benefits *are* taxed upon death; the Estate Tax Return gives 'em a page of their own. But there's an exception: insurance held in an Irrevocable Life Insurance Trust *isn't* estate-taxed ever. Trustees can be family members, friends, even your spouse along with someone else. Certain formalities need to be observed every time a premium is due, but they're worth it, and you can do them yourself. These Trusts also work on single-life policies and for “Second-to-die” policies, which give your beneficiaries a chance to recoup estate taxes.

The New York Times called these Trusts the “slam dunk of estate planning,” and that's certainly news that's fit to print.



The Irrevocable Trust.

People figure *“If a Life Insurance Trust is so good, why not put stocks and bonds in an Irrevocable Trust, too?”* Nope — doing so can trigger immediate capital gains, income taxes at the highest rates, and other problems. While there are some uses for Irrevocable Trusts, there's a minefield around each type, and the explosion can trigger income taxes at the highest rates. Definitely not a do-it-yourself project.

The IRA Trust.

New, and from the IRS (!), these trusts can do wonders. Quick examples:

- These trusts can give “second spouse” protections





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- These can be the basis for “Special Needs Trusts.”
- These trusts are also ideal for grandparents whose adult children won’t need their IRAs.
- Want to spread your IRA out over your children’s life expectancies? Want to cut the income tax bite on your IRA (and this will work with a *Roth* IRA, too)?

Be our guest. These trusts can even be an option to be decided upon *after* your death.

You won’t find IRA Trusts as a choice on any run-of-the-mill “Designation of Beneficiary Form,” because of their newness and complex-ity.

And the best options are available only if they’re in place before age 70½. But if IRS is giving, why not explore taking?

The “Special Needs” Trust.

Some people will need financial aid all their lives; Special Needs Trusts are designed to cover them, especially when government money may be available. These Trusts must be tailored to the specific needs of the beneficiary, and fit around and through the other sources of money that may be available.

The “Delaware Trust,” the “Alaska Trust,” and their progeny.

These new Trusts aim to protect assets from creditors, and open the door to passing assets to future generations, too. You can live anywhere and have one. IRS has given them a tentative blessing.

They have a price for admission, though, with complex design and some tie to the state whose law is shielding what you’re trying to protect.



“QPRTs,” “GRATs” and other “timing” trusts.

Qualified Personal Residence Trusts, Grantor Retained Annuity Trusts, and their kin (even another. The asset in the trust has to grow, and you have to live long enough for this to be worthwhile. All are useful in the right circumstances, but it starts with your ages, IRS tables, and a computer.

The Charitable Trusts.



Heard of a Charitable Remainder Trust? Your charity gets the asset only after you and your spouse die; in the meantime, you two get the trust’s income. It’s a great device with many uses, though you don’t get a 100% charitable deduction, since the charity doesn’t get anything until you’re dead.

Or how about a Charitable Lead Trust? Donate an asset to give income to a charity for a period of years, and then have the asset go to whomever you want. There’s no immediate deduction, but if you figure the asset’s going to grow in value, it will pass to whom you’ve specified, estate tax free. Very useful for the right benefactor.

Easy? Trusts never were.

Sorry. And clearly, there are *bad* consequences to setting up the wrong one. So make sure who you’re asking knows what you’re after, and is qualified to answer.