Trust Planning Basics

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Presentation for The Museum of Flight

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What is a Trust?

A trust is a relationship in which the holder of property gives it to another person or entity who must keep and use it solely for the benefit of a beneficiary(ies).

Why Use a Trust?

- Avoid probate
- Protect Beneficiaries
- Set Parameters
- Tax Planning
- Legacy

Why Use a Trust?

Avoid Probate

- Cost
  - Court fees
  - Attorney fees

- Time

- Privacy

*State laws differ, but in Washington….

Will vs Trust

Will versus Trust in Washington State

- Cost
- Retitling Assets
- Pour Over

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Why Use a Trust?

Protect Beneficiaries

- Maintain assets for surviving spouse
- Ensure estate passes to descendants

Why Use a Trust?

Set Parameters

- Age Attainment – give beneficiaries time to learn to manage finances
- Allow beneficiaries to serve as co-trustees and, ultimately, sole trustee
- Address addiction issues
- Protect spendthrifts
- Set discretionary standards
- "Control from the grave"

Why Use a Trust?

Tax Planning

- Capture Exemption
- Gifting
- Generation Skipping Tax (GST)

Why Use a Trust?

Legacy

- Purchase a house/real estate
- Well conceived business purpose
- Travel
- Etc.

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Types of Trusts

- Inter vivos vs Testamentary
- Revocable vs. Irrevocable
- Exempt vs Non-exempt
- Grantor Trusts
- Charitable Trusts (separate slides on this topic)
- Special Needs Trusts
- Spousal Lifetime Access Trust (SLAT)
- Qualified Personal Residence Trust (QPRT)
- And many more…

Drafting a Trust (and some vocabulary)

- Grantor/Trustor/Settlor
- Trustee (or Co, or Corporate)
- Beneficiary(s) – individuals, trusts, charities
- Assets to fund trust
- Distribution Provisions
- Power of Appointment

Grantor/Trustor/Settlor

Trustee

- Sole or Co-Trustee
- Successor Trustee
- Trust Protector

Choosing a Trustee

A corporate trustee may be a good choice because they:

- Do not lose capacity
- Do not age out/die
- Understand fiduciary obligations/ trust laws
- Carry liability
- Preserve healthy family dynamics

Beneficiary(s) – individuals, trusts, charities

Assets to fund trust

- Cash
- Securities
- Business Interests
- Real Estate
- Miscellaneous Assets – art, Whiskey collection

*Assets that will appreciate over time

Distribution Provisions

- Mandatory vs. Discretionary
- Health, Education, Maintenance and Support – HEMS
- Age Attainment

Power of Appointment

- General
- Limited

Trusts And Estates

2024 Official Tax Brackets

If Taxable Income Is:	The Tax Due Is:
$0 - $3,100	10% of taxable income
$3,101 - $11,150	$310 + 24% of the amount over $3,100
$11,151 - $15,200	$2,242 + 35% of the amount over $11,150
$15,201+	$3,659.50 + 37% of the amount over $15,2000

Table: Kelly Phillips Erb • Source: IRS Rev. Proc. 2023-34 • Created with Datawrapper

Estate Tax 101 – March 14

Trust Tax Rates – Capital Gains

For the 2024 tax year, the long-term capital gains brackets for trusts are:

\$0 – \$3,150:	0%
\$3,150 – \$15,450:	15%
\$15,450+:	20%

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Charitable Trusts

Charitable Remainder Trusts (CRT)

- Unitrust – Charitable Remainder Unitrust (CRUT)
- Annuity – Charitable Remainder Annuity Trust (CRAT)

Charitable Lead Trusts (CLT)

- Unitrust – Charitable Lead Unitrust (CLUT)
- Annuity – Charitable Lead Annuity Trust (CLAT)

Charitable Remainder Trusts

- Charitable Remainder Trusts (CRTs) are irrevocable trusts that provide for a payout to a non-charitable beneficiary(ies) for a term of years, after which the remainder goes to a charitable beneficiary.
  - *May be structured as a unitrust (CRUT) or an annuity (CRAT) trust*

- Unitrust pays out a set % of the trust's value each year, so the $ amount of the payment to the non-charitable beneficiary changes each year

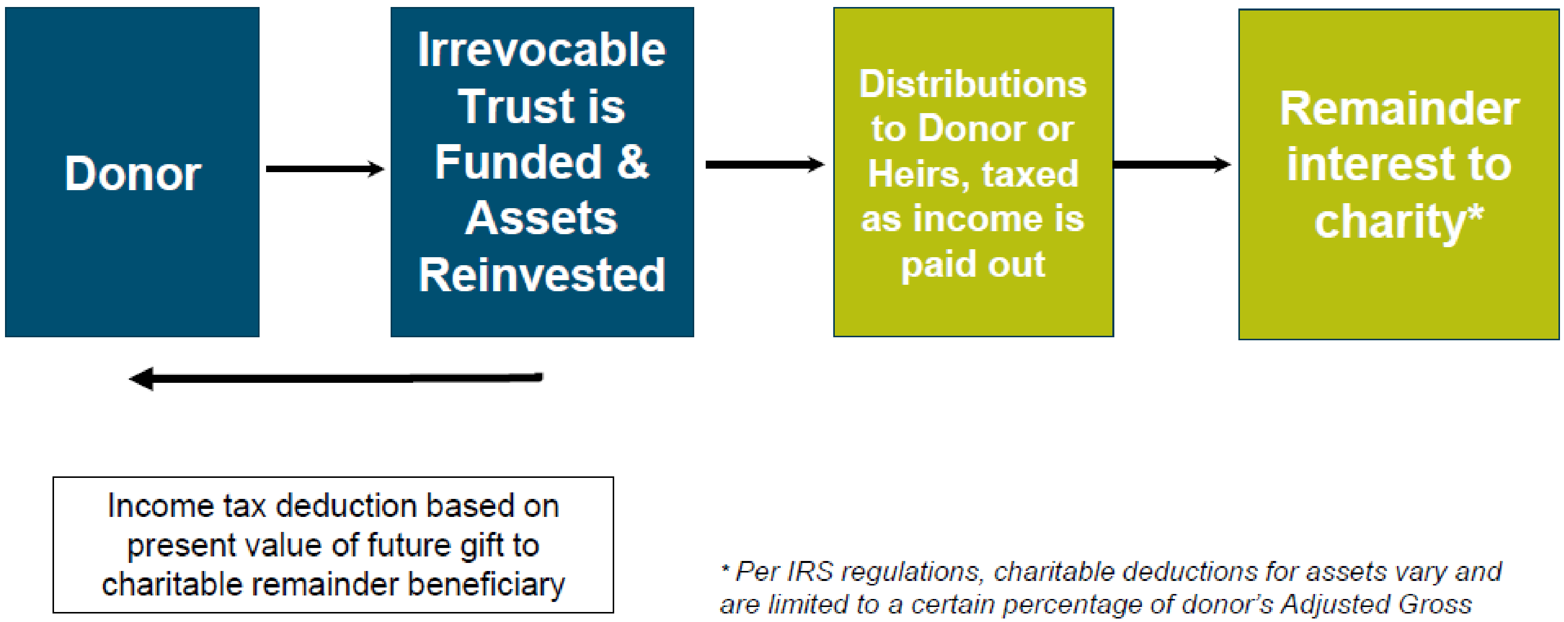
- Annuity trust pays out the same $ amount to the non-charitable beneficiary every year based on a % of the initial value of the trust

- For both unitrusts and annuity trusts, the non-charitable payment must be between 5%- 50% of the value **and** there must be at least an actuarial value of 10% of the remainder going to charity when the trust is established

Charitable Remainder Trust (CRT)

A split-interest trust in which distributions (the “income interest”) are paid at least annually to a non-charitable beneficiary for the donor’s lifetime, the duration of the trust term (up to 20 years), or a combination of the two.

The balance of the assets (the “remainder interest”) are paid to one or more designated charitable beneficiaries at the end of the trust term.

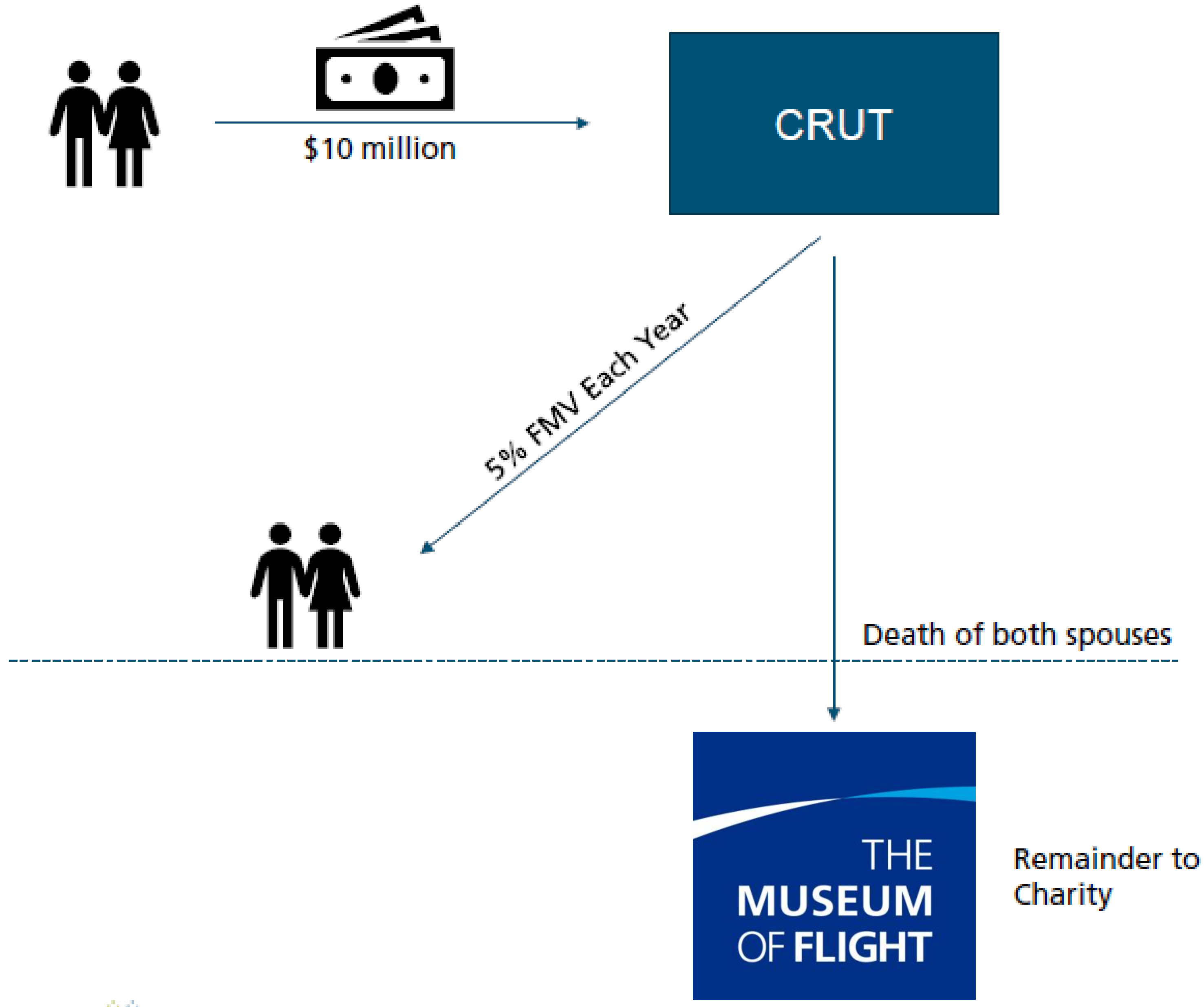


** Per IRS regulations, charitable deductions for assets vary and are limited to a certain percentage of donor’s Adjusted Gross Income, but may be carried forward for up to five years.*

Charitable Remainder Trust -Tax Considerations

- CRTs are **TAX EXEMPT** entities.
- Payments can be fixed or variable.
- No capital gains tax due upon sale of property.
- Sale of appreciated property in a CRT triggers no capital gains tax.
- HOWEVER, when income is distributed from the CRT, it is taxed to the beneficiary according to the manner in which the trust earned the income.

Charitable Remainder Unitrusts



Charitable Lead Trusts

- Charitable Lead Trusts (CLTs) are irrevocable trusts that provide for a payout to a charitable beneficiary(ies) for a term of years, after which the remainder goes to a non-charitable beneficiary. May be structured as a unitrust (CLUT) or an annuity (CLAT) trust.

- Unitrust pays out a set % of the trust’s value each year, so the $ amount of the payment to the charitable beneficiary changes each year.

- Annuity trust pays out the same $ amount to the charitable beneficiary every year based on a % of the initial value of the trust

Charitable Lead Trusts – Tax Considerations

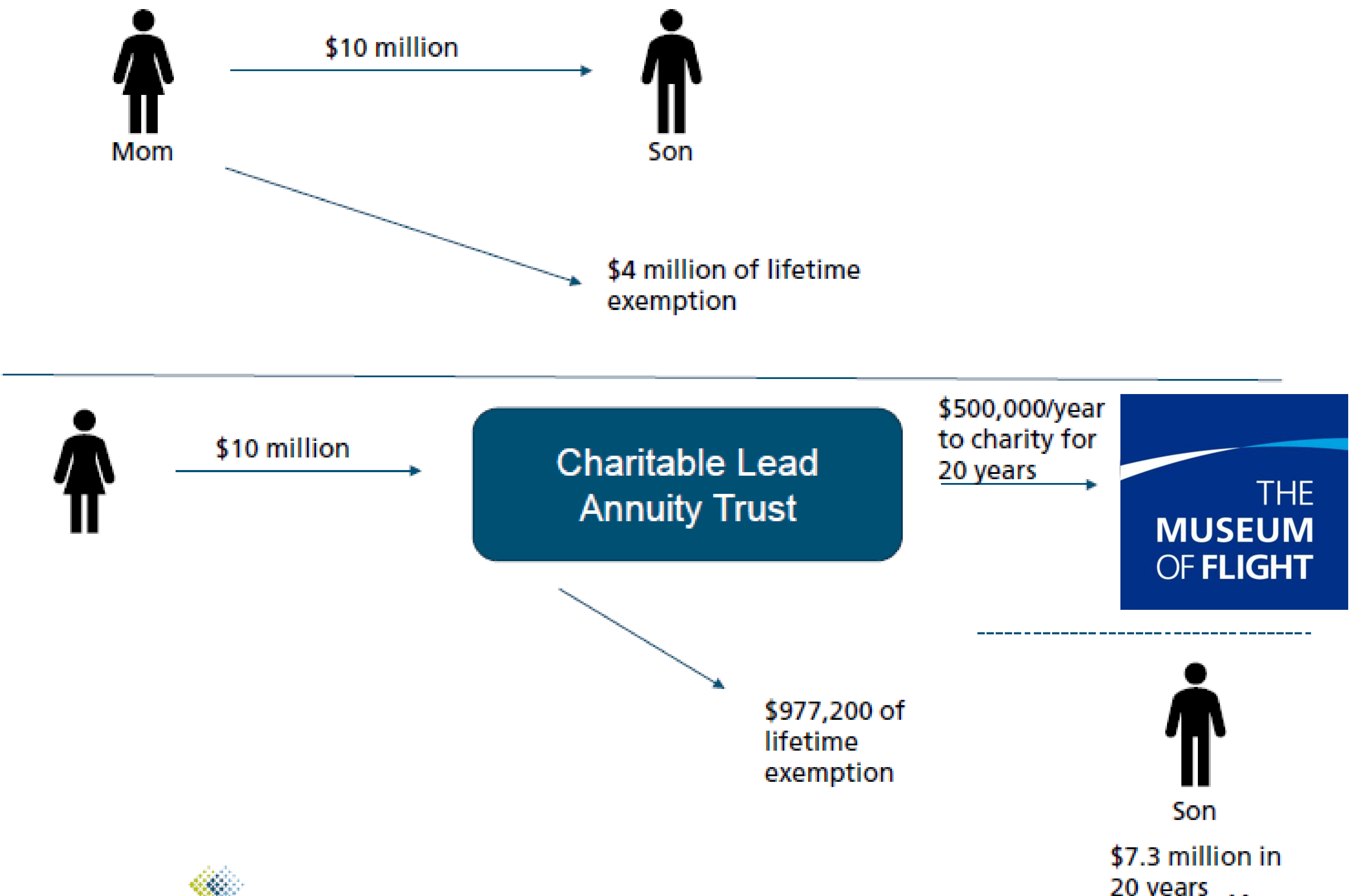
- Unlike a charitable remainder trust, a charitable lead trust is **not tax-exempt**. Trust income is taxed like the income of any other complex or grantor trust.

- May be established as a Grantor Trust for income tax purposes. Grantor receives a charitable deduction in the year the trust is funded for the actuarial amount passing to charity.

- Since a CLT is fully taxable, the grantor then pays all the income tax attributable to the CLT during the charitable term.

- The gift of the remainder interest is discounted by the actuarial value of the amount going to charity so the **donor can pass a future gift with a lower transfer tax**.

Charitable Lead Annuity Trust



Other Charitable Vehicles

Donor Advised Funds (DAFs)

Private Foundations

Charitable Giving Strategies – March 5

Utilizing Donor Advised Fund – March 7

Thank you!

If you have any questions, feel free to reach out to me at:

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