

Trusts

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What is a Trust?

- Legal entity which is similar to a company but not publicly registered with the state;
- Trusts may buy, sell, or hold assets
- Trusts are based on state law (RCW 11.98 et. seq.)

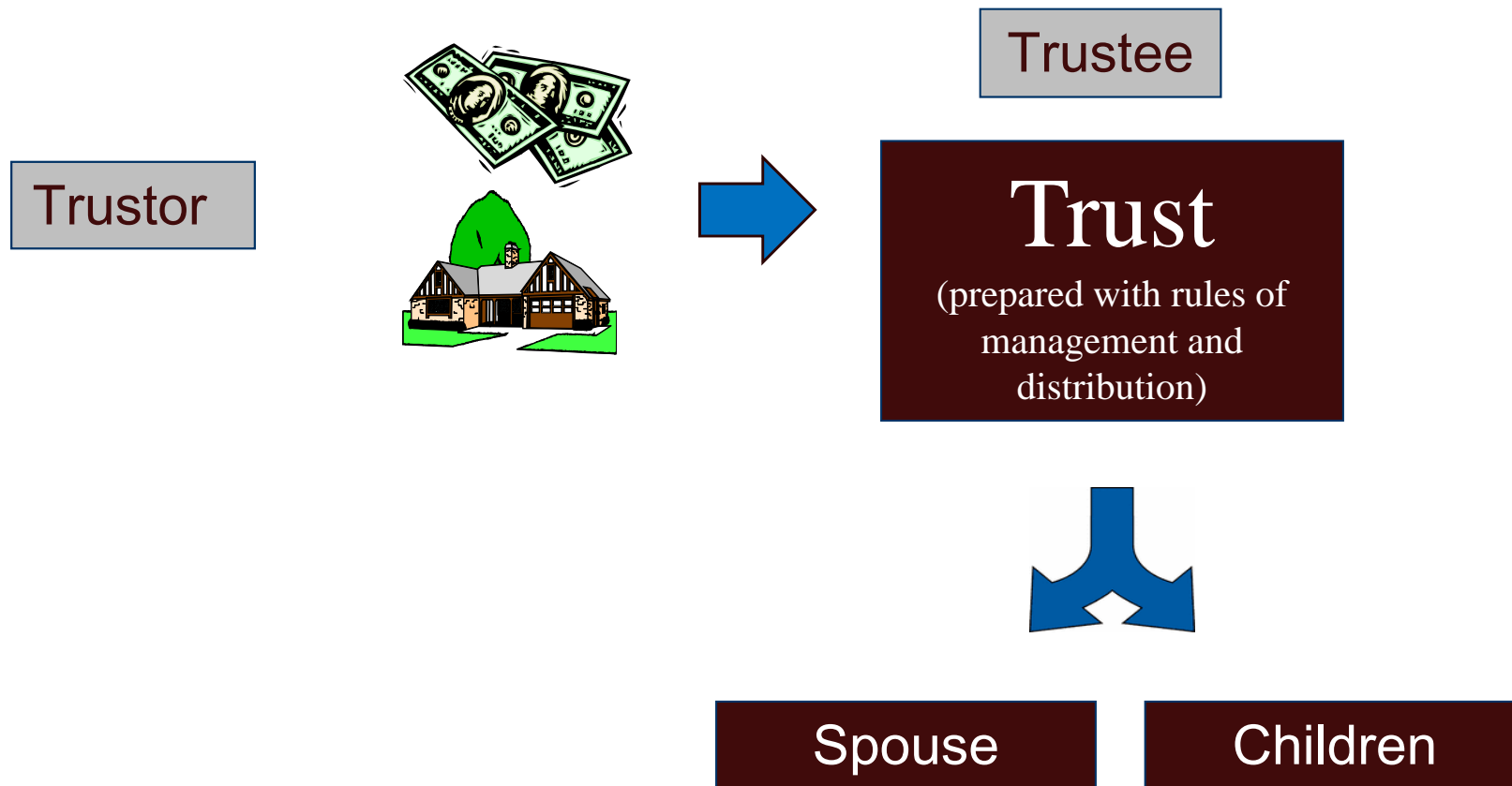
Main Elements of a Trust

- Trustor (creator)
- Trust Assets (corpus)
- Trustee (manager of trust)
- Beneficiaries (persons or entities who receive benefits from trusts)

Operation of Trusts

- The Trustor(s) must place assets (i.e. house, stock accounts, bank accounts, etc.) in the name of the Trust
 - During the life of the Trustor, or
 - Upon death (testamentary trusts effective after death of Trustor) or another triggering event
- The Trustor(s) names a specific person to manage the trust assets, and dictates when assets are distributed.

Operation of Trusts (illustration)



General Types of Trusts

- **Revocable** (the terms may be changed after creation)
- **Irrevocable** (the terms may NOT be changed after creation; however, assets may be added by a trustor or anyone else and the trustee can buy, sell, otherwise exchange assets)
- **Living** (Effective at the time of creation)
- **Testamentary** (Effective at the time of death)

Specific Types of Trusts Commonly Used in Estate Planning

- Revocable Family (“Living”) Trusts
- Children/Grandchildren’s Education Trusts
- Life Insurance Trusts

Advance Trusts Used in Estate Planning

- Charitable Remainder (or Lead) Trusts
- Generation Skipping Trusts
- Intentionally Defective Irrevocable Trusts
- Qualified Residence Trusts

Revocable Living Trust

- Revocable “Living” Trusts may be useful in management of assets during life and may minimize the need for probate (a court procedure to distribute your assets) and guardian of your estate in the event of incapacity
- No tax benefits alone; unless other tax saving trusts (credit shelter and/or marital trusts) are specifically included (the same tax saving devices may be in a Will)
- If there is Real Property in another state, it may be best to place the property in a Living Trust to avoid probate in more than one state
- Allows a family member or a professional trust company (acting as a trustee or co-trustee) to help manage assets

Children/Grandchildren's Trust

- Names Trustee and Alternate Trustee
- Specifies distribution rules
 - Defines Distribution while beneficiaries are in school or before a set age
 - Further provides for Distribution at designated ages
 - (e.g. 10% of trust assets @ age 25; 25% @ 30)
 - Final distribution and termination of trust
 - May set Special conditions for distribution; discretion for trustee not to distribute
 - Examples: Must finish B.A. degree
 - Alternate Distribution Method if certain degree achieved or beneficiary is married etc.

IDITs

- Intentionally Defective Irrevocable Trust
 - Taxable to Grantor (no separate Tax ID)
 - Assets out of Grantor's estate
 - Managed by Trustee who may be grantor
 - Used to shift anticipated growth of estate to next generation without losing control

Charitable Remainder Trust

- Section 664 of Internal Revenue Code
- Convert highly appreciated assets into an income stream
- Avoid capital gains tax on sale of assets
- Diversify assets and reduce risk
- Tax-free investment environment
- Receive a significant income tax deduction
- Reduce estate tax liability
- Isolate appreciating and long-term income assets from creditors
- Provide remainder interests to a charity

CRT & Sale: Part 1

TRANSFER 49.4% (\$493,742) OF
PROPERTY

Creator of
Trust

6.0% CRT for her life +
20 years

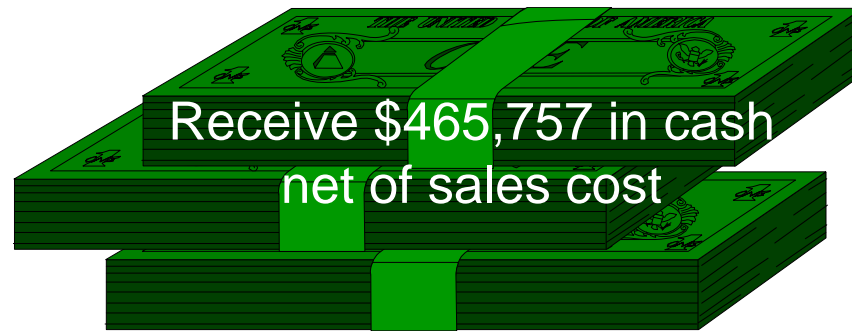
END OF TERM

- Avoid in \$64,433 in capital gains tax
- Receive \$114,267 in income tax deduction = \$28,567 tax savings
- Receive \$27,255 in income in first year; \$1,277,706 over 33.4 yrs (life + 20 years) based on 6% payout and 8% total return

Charity

CRT & Sale: Part 2

SELL 50.6% OF PROPERTY



- \$250,000 in gain is sheltered by exemption
- The rest of the gain of \$190,444 is offset by \$28,567 tax savings from the tax deduction (@25% bracket) from CRT

Vivien K. Chang

- Ms. Chang's practice focuses primarily on estate planning, probate, and business law. She has extensive experience working with a wide range of clients from complex and high net-worth individuals, to young families with emphasis on protection of children and anticipated growth of family assets. She assists clients in the set-up of family trusts, credit shelter trusts, family limited partnerships/limited liability companies, foundations, charitable remainder trusts, family business succession planning, community property agreements, wills, powers of attorney, and health care directives. Her probate experience includes working with judicial and non-judicial administration of estates of small to large taxable estates, post-mortem tax planning, tax filings, and funding of testamentary trusts.
- Ms. Chang also practices in the areas of corporate and business law, including incorporation, buy/sell of businesses, and corporate maintenance. Ms. Chang is a frequent speaker for financial institutions and for continuing education courses on the topics of estate planning, business succession, and complex trust set-up and administrations.

Next Step

Schedule Consultation by calling 425.605.1234