Why make gifts in trust?

A trust is a unique vehicle for organizing and managing wealth. One may establish a trust for oneself, or for others. Making major gifts to children or descendants in trust, rather than outright, offers three important advantages:

Investment management assistance

More often than not, the person receiving a substantial gift is young, lacks investment experience, or just doesn't have the time needed to manage substantial financial assets. A trust offers an excellent solution.

When you create a trust, you set the investment objectives, fitting financial goals to the needs of the beneficiary. Should the fund be invested conservatively or actively managed? What is the best balance between stocks and bonds? How important is growth to offset inflation?

We will follow your investment plan for the life of the trust, providing the beneficiary with financial protection without financial management worries.

Wealth protection

The disposition of trust assets will occur on your terms. How is income to be distributed? What schedule will be used for principal disbursements? When will additional invasions of principal be permitted?

Control over the disposition of trust assets protects wealth in two ways. First, the beneficiary is protected from his or her own inexperience. Making an error of investment judgment won't put the entire gift at risk.

Second, the assets in the trust may be protected from claims of the beneficiary's creditors or claims in a divorce action.

Saving estate and gift taxes

Although there was considerable relief from estate and gift taxes in the tax act of 2001, such taxes remain very real and still can erode family wealth seriously. One of the best tools for reducing this tax bite is the annual exclusion ($12,000 in 2007). With this exclusion a donor may give $12,000 gifts to as many individuals as he or she chooses every year. Married couples may give $24,000.

Regular use of the annual exclusion adds up quickly. Imagine that Mr. and Mrs. Smith establish trusts for each of eight grandchildren. They can contribute $152,000 per year to the trusts without gift tax. In just five years of regular contributions, the trusts would grow to $960,000, even without accumulating income and without potential appreciation (growth) of the principal from the investments. In addition, cost-of-living adjustments to the annual exclusion may increase the amount that they can give.

Call on us

Making gifts in trust is a serious undertaking that must be part of an overall estate and financial plan. We're available to provide additional advice and insight on how such a plan may work to protect your family.

Any developments occurring after January 15, 2007, are not reflected in this article.