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When Should You Consider a Trust? Key Moments to Start Your Estate Plan

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As your wealth grows – from investments, business ownership, real estate, or inheritance – it's essential to plan how to protect and pass it on. One of the most effective ways to do so is by setting up a trust.

When is establishing a trust a good idea? The answer depends on life stage, financial goals, and asset complexity. Trusts are not just for the ultra-wealthy, nor something to only consider later in life. Trusts can help to minimize taxes, avoid the probate process, protect privacy, and ensure that assets are distributed as desired. If any of these factors pertain to you, it might be a good time to start a conversation about a trust with your Grimes financial advisor and your estate planning attorney.

A Revocable Trust, the most common and flexible type of trust, is a legal arrangement that allows the owner (grantor) to maintain full control over their assets during their lifetime, while providing clear instructions for managing and distributing those assets if they become incapacitated or pass away. It is the trustee, designated by the grantor, who manages the assets as instructed during the grantor's incapacity, and distributes the assets accordingly after the grantor's death. Funding a Revocable Trust has no immediate impact in terms of tax consequences or asset control. However, upon the Grantor's passing, the trust may help to optimize tax efficiency, protect assets, and ensure smooth transfer of wealth.

There are many other types of trusts with added complexity and varying rules and consequences (in fact, we will be publishing a detailed breakdown of Revocable vs. Irrevocable Trusts here soon). An estate planning attorney can help decide the best tool for a client's situation, if it is determined that a Revocable Trust isn't the best solution.

A DESIRE TO CONTROL AND PRESERVE YOUR LEGACY

Trusts offer a powerful way to maintain control over your legacy and ensure your wishes are honored. Whether distributing assets to financially inexperienced heirs, addressing blended family dynamics, supporting future generations, or benefitting charitable causes, trusts provide the structure and flexibility needed to achieve many goals. You can tailor when and how assets are distributed, such as delaying access until a child reaches a certain age or milestone. In blended families, a trust can clearly lay out your intentions, ensuring care for a spouse while preserving assets for children from a prior relationship.

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For those aiming to create a generational impact, tools such as dynasty trusts and generation-skipping trusts can provide controls over long-term tax exposure and wealth preservation. Charitably inclined individuals can use charitable trusts or donor-advised funds to leave a legacy while maximizing tax benefits. Starting early with trust planning helps to protect family harmony and ensures that accumulated wealth is left to the intended people and organizations.

MANAGING THE ESTATE THROUGH A TRUST: DURING LIFE AND AFTER DEATH

A Revocable Trust ensures seamless asset management during your lifetime and offers continuity if you become incapacitated, thus eliminating the need for court-appointed guardianship. This is especially important for surviving spouses, as it ensures your financial affairs are handled without disruption. Additionally, a trust helps avoid the public and time-consuming probate process upon death, allowing assets to be distributed privately and more quickly, which reduces administrative burdens. Unlike wills, which become public during the probate process, trusts keep financial matters private, which is particularly valuable if you want to protect your personal security or avoid public scrutiny. Even without a spouse or children, having a trust in place ensures your wishes are respected and that the intended beneficiaries inherit your assets.

ESTATE AND/OR INHERITANCE TAX CONCERNS

Understanding the difference between estate tax and inheritance tax is key to effective estate planning:

Estate tax is applied to the total value of a person's estate at death and is paid by the estate before assets are distributed to heirs. It exists at the federal level and in some states: CT, DC, HI, IL, ME, MA, MD, MN, NY, OR, RI, VT.

Inheritance tax, on the other hand, is paid by the heirs after they receive their inheritance. It is based on the amount inherited and the heir's relationship to the deceased. This tax is not federal and is currently imposed in only a few states: KY, MD, NE, NJ, PA.

If your estate is large enough to trigger federal or state estate tax, or if your heirs live in states that impose inheritance tax, now is the time to start thinking about a trust. While a Revocable Trust does not avoid estate tax, it is a valuable part of an overall estate plan that can support other tax-reduction strategies–such as gifting, charitable giving, and the use of Irrevocable Trusts.

At the federal level, the estate tax exemption is currently $13.99 million per person (refer to this and other important numbers via our 2025 Important Numbers resource), but that threshold is scheduled to drop significantly in 2026, unless laws change. Even if you're not subject to *federal* estate tax today, you might be impacted at the state level. For example, Massachusetts currently has an estate tax exemption of $2 million per person, meaning that estates that exceed this amount are subject to *state* estate tax, starting at a rate of 0.8% and scaling up to 16%. Trust planning may help to avoid estate tax, and the trustee can execute the tax planning strategy after the trust owner's death.

SPECIAL CIRCUMSTANCES: REAL ESTATE, BUSINESS

Owning real estate or a business, especially in multiple states, adds layers of complexity to your estate plan. A Revocable Trust can simplify the issue by avoiding probate in each state where you own property, saving your heirs time and legal

expenses. For business owners, it offers an efficient way to manage or transfer ownership, ensuring your wishes are honored. Whether it's a family business, vacation home, or rental property, placing these assets in a trust allows for clear instructions and potential tax savings. Additionally, if you're concerned about lawsuits, creditors, or potential divorce settlements, certain Irrevocable Trusts could be considered to protect your assets, ensuring wealth stays within the family and safeguarding against future legal or family issues.

TAKING ACTION: THE IMPORTANCE OF TIMELY ESTATE PLANNING

Major life events, such as marriage, remarriage, the birth of a child, acquiring property, or receiving an inheritance often signal the need to establish or update your estate plan, including consideration for the creation or amendment of a trust. One of the key benefits of a Revocable Trust is its flexibility, allowing you to make changes to the terms of the trust as your life evolves. There's no one-size-fits-all answer to when you should set up a trust, but earlier is usually better. The sooner you begin planning, the more tools and flexibility you have to protect your wealth and your family's future.

IMPORTANT DISCLOSURES:

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