PERSONAL WEALTH ADVISORY BY
Laird Norton Wetherby

Considering a Trust? Know the Benefits

Trusts are powerful wealth planning tools for families and individuals with significant wealth because they allow for enhanced privacy, control, tax-efficiency and expediency. How can you be sure which trust structures will best serve the unique needs, goals and aspirations of you and your family?

We are here to help. LNW is comprised of two trust companies and a registered investment advisor (RIA). We can work with you and your outside advisors (attorney, CPA, etc.) to ensure the trust(s) you establish align your assets with your life goals. Once the trusts are established, we can serve as trustee/co-trustee and manage the assets within trust(s).

Let's begin with the basics: What a trust is, the benefits of trust, common types of trusts.

What a trust is

A trust is a legal arrangement in which you, the grantor, place assets in a trust account for the benefit of one or more beneficiaries. A beneficiary is often a family member, but can also be a friend, favorite charity or even a beloved pet. The trust document is drafted by an attorney you choose, usually an estate planning lawyer, and it legally establishes the trust and officially designates either a person or corporation to serve as trustee or co-trustee. The trustee is a fiduciary and therefore legally required to act in the best interests of the trust beneficiaries when administering the trust, managing the assets, and distributing income and principal according to the terms of the trust and state law.

The LNW Trust Companies

For more than 50 years, LNW has been serving as trust advisor and trustee to families with generational wealth. The *Laird Norton Wetherby Trust Company* was established in Seattle in 1967; the *LNW Trust Company of South Dakota* based in Sioux Falls was created in 2023 and is serviced from our offices in Seattle.

Benefits of trusts

Trusts are established for many different reasons. The following is a sample of the common motivations:

- Reduce estate tax
- Protect privacy
- Avoid the expense and delay of the probate process
- Avoid probate in other states where assets are owned
- Manage assets if you become incapacitated
- Provide for family members over many generations
- Provide for family members who have special needs or who cannot responsibly manage their finances
- Provide for children and grandchildren in the event of a second marriage
- Manage assets on behalf of minor beneficiaries (under 18 or 21 years old)
- Support a charity or nonprofit
- Avoid operational disruption during a business succession

Common types of trusts

There are many different types of trusts, each designed to address one or more issues or concerns. A few of the most commonly used trusts are the following:

Revocable – Can be altered or terminated by the grantor since the grantor retains all ownership rights to the assets in the trust:

- Grantor continues to pay taxes on the income generated by the trust
- The trustee can manage the assets in the trust should the grantor become incapacitated
- When the grantor dies, all the assets in revocable trusts can transfer to the named beneficiaries (including to an irrevocable trust for their benefit) without going through the probate process

Irrevocable – Cannot be modified or terminated without the permission of the beneficiaries and other interested persons; the grantor relinquishes ownership of assets in the trust:

- Grantor transfers assets into the trust that are then managed for, and ultimately transferred to, the beneficiaries
- Income generated from the trust is distributed to the beneficiaries
- The trust is liable for taxes on income earned by the trust

Types of Irrevocable Trusts

Marital – Allows for property to pass from the grantor to the surviving spouse without being taxed upon death:

- Allows the couple's heirs to avoid probate when the beneficiary spouse dies
- When the surviving spouse dies, the remaining trust assets will be subject to estate taxes

Crummey – Allows the grantor to make lifetime gifts in trust to heirs, free from gift or estate taxes, as long as the amount is equal to or less than the legally permitted amount:

- The legally permitted amount is currently $17,000 per donee per year
- Takes advantage of the gift tax exclusion when transferring money and/or assets to another person
- Places time limitations on when the recipient can access the gift

Qualified Personal Residence – Holds the grantor's primary or secondary residence and in doing so removes a portion of its value from the taxable estate:

- Sometimes referred to as a "QPRT" or "Personal Residence GRIT"
- If the trust conforms to all of the provisions of the law, it is not subject to certain IRS valuation provisions
- Both the retained and remainder interests of the residence can be valued under traditional gift tax valuation rules

Irrevocable Life Insurance – The trust holds life insurance policies and is a way to remove assets from the taxable estate:

- Grantor has no incidents of ownership over the insurance policies owned by the trust
- The trust is designated as the primary beneficiary of the life insurance policies
- Can provide the grantor's family with a source of cash to pay estate taxes while at the same time not increasing the grantor's overall estate tax burden
- Many life insurance trusts are also Crummey Trusts (see above) allowing for funding that is not subject to gift taxes

Special Needs – Designed to support a disabled beneficiary who may be receiving government benefits:

- May be funded using the assets of the beneficiary or funds from a family member
- Distributions to the beneficiary are intended to supplement public benefits rather than replace them
- Certain rules and restrictions must be followed to allow the beneficiary of the trust to remain eligible for Supplemental Security Income (SSI) and Medicaid

Charitable – Holds assets given by the grantor to be used for the benefit of philanthropic organizations:

- Can also benefit beneficiaries designated in the trust, typically family members
- Depending upon the terms, charitable trust may have an advantageous tax status
- In order to be valid, the trust must fulfill certain legal requirements

What is right for you

Trusts are powerful tools IF they are created carefully and with purpose, in context of an overall wealth plan that reflects your unique needs, goals and aspirations. The trust specialists at LNW can help you explore which types of trust(s) would work best for your situation and provide valuable input to your attorney and tax advisor to get the most effective results.

DISCLOSURE

LNW refers to Laird Norton Wetherby Trust Company, LLC, a State of Washington chartered trust company; LNW Trust Company of South Dakota, LLC, a state of South Dakota charted trust company; and two investment advisers registered with the Securities and Exchange Commission, LNW Wealth Management, LLC and Laird Norton Wetherby Wealth Management, LLC.

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