

## You're Using The Wrong Type Of Living Trust

You may have already recognized the benefits of using a living trust. Typically, this trust type makes sense if you're looking to preserve assets for other family members without dire tax consequences or to avoid probate. But should you use a "revocable" or "irrevocable" living trust? The answer can make a big difference. Significantly, if you choose the wrong type of trust, it can defeat your main intentions.

As the name implies, a revocable trust allows the creator of the trust to modify it in the future. This means, for example, that you can remove, add or otherwise change beneficiaries or revise the trust terms due to changing circumstances.

In contrast, with an irrevocable trust, you don't have the ability to make such modifications. Except for extraordinary situations, the trust terms are set in stone. So, you can't remove a beneficiary or add another one later.

At first glance, a revocable trust seems preferable, but there are several potential disadvantages to consider. Notably, assets aren't shielded from creditors the way they're protected in an irrevocable trust. The trust assets may have to be liquidated to pay off certain claims. In addition, revocable trust assets are included in the taxable estate of the person who created the trust. This could result in sizeable federal or state estate tax liability – or both.

On the other hand, if structured properly, the assets in an irrevocable living trust generally are removed from the creator's taxable estate. This is often one of the main reasons for choosing an irrevocable trust.

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