FREQUENTLY ASKED QUESTIONS

---

6. Types of Trusts

Q1: What is a trust?
A trust is a legal arrangement where you give someone (the trustee) the responsibility to manage your assets—like money, property, or investments—for the benefit of someone else (the beneficiary). It's like setting up rules for how your stuff should be taken care of and shared.

Q2: Please explain the difference between a revocable trust and an irrevocable trust.
A revocable trust, also known as a living trust, can be changed or canceled anytime while you're alive. It lets you stay in control of your assets and can help avoid probate, which is a court process that happens after someone dies. An irrevocable trust, on the other hand, cannot be changed once it's set up. It offers more protection from taxes and creditors because the assets are no longer considered yours.

Q3: What is a Revocable Trust (Living Trust)?
A revocable trust is a type of trust that you can change or cancel at any time while you are alive. It allows you to maintain control over the assets in the trust, and it helps avoid the probate process after you pass away.

Q4: What is an Irrevocable Trust?
An irrevocable trust is a trust that cannot be changed or canceled once it is established. Once assets are transferred into an irrevocable trust, they are no longer owned by you. This type of trust is often used to reduce taxes and protect assets from creditors.

Q5: What is a Special Needs Trust?
A special needs trust is designed to provide for someone with a disability without affecting their eligibility for government benefits. It's a way to set aside money or property to help take care of them without losing access to important support services.

Q6: What is a Charitable Trust?
A charitable trust is set up to benefit a charity or the public. You can set up a charitable trust to give to causes you care about while also getting some tax benefits. It's a great way to leave a legacy that helps others.

Q7: What is a Testamentary Trust?
A testamentary trust is created by your will and only goes into effect after you pass away. It is often used to manage assets for young children or beneficiaries who might not be ready to manage an inheritance on their own.

Q8: What is a Spendthrift Trust?
A spendthrift trust is designed to protect the assets in the trust from being spent recklessly by the beneficiary. It provides a controlled way to give money to someone who might not be good at managing it themselves.

Q9: What is a Dynasty Trust?
A dynasty trust is a long-term trust designed to pass wealth from one generation to the next while minimizing estate taxes. It can continue for many generations, providing financial support to your family for a very long time.

Q10: What is a Family Trust?
A family trust is set up to benefit members of your family. It can be used to manage and distribute your assets among your family members according to your wishes.

Q11: What is a QTIP Trust (Qualified Terminable Interest Property Trust)?
A QTIP trust allows you to provide income for your surviving spouse after you pass away while controlling how the remaining assets are distributed after your spouse's death. It's often used in second marriages to protect children from a first marriage.

Q12: Can a trustee be changed when you are alive, and you are not the trustee?
It depends on the type of trust and its provisions. In some trusts, the grantor (the person who creates the trust) retains the power to change the trustee, while in others, this power may not exist. It is important to discuss your options with your attorney.

Q13: For a living trust, can we still have access to use the assets?
Yes, in a revocable (living) trust, you can still use and control the assets while you are alive. The trust is designed to manage your assets during your lifetime and distribute them according to your wishes after your death.

Q14: Do revocable and irrevocable trusts have to file their own tax returns?
A revocable trust does not file its own tax return since all income or losses flow through to the grantor. An irrevocable trust, however, must file its own tax return. You should talk to your CPA about the filing requirements for your specific trust.

Q15: What are the implications if you have a life insurance policy, but the beneficiary is not the trust; it is your children?
If you are considered the owner of the life insurance policy, the policy amount could still be included in your gross estate and be subject to estate tax. The children will not have to pay income tax on receiving life insurance benefits, but it is important to consider how these fits into your overall estate plan.
