Trusts, Wills & Estate Planning: A Guide for CPAs

Estate planning is an essential wealth management tool for clients who desire to maintain their wealth during their lifetime and seamlessly transfer their assets to heirs at death. CPAs involved in their client's estate planning are better informed and equipped to assist heirs when death occurs.

Understanding the difference between wills and trusts is imperative since CPAs often file the final tax return for deceased clients and sometimes their heirs. Learn more about the difference between the two and other vital information on wills, trusts, and common types of trusts for tax clients.

Trusts vs. Wills: What is similar?

Trusts and wills are essential estate planning tools that help preserve assets and ensure one's wishes are fulfilled after death. Both enable clients to efficiently leave their assets to their chosen heirs at death:

- Investments
- Bank accounts
- Business interests
- Real estate
- Digital assets
- Hard assets such as art, jewelry, etc.

While they may appear similar, the two have significant differences.

Trusts vs. Wills: What are the differences?

Wills	Trusts
A document that outlines one's wishes regarding the distribution of assets and the care of any minor children after death.	Used to distribute an estate: before, at, or for a set period after death. It is a legal arrangement that gives control of assets to a trustee for management and distribution to beneficiaries according to one's wishes.
IMPORTANT FEATURES	IMPORTANT FEATURES
Subject to probate: The court-supervised process of administering your estate and transferring your property at death pursuant to the terms of your will.	Avoids probate
Must be court-validated	Does not require court validation
Takes effect after death	Can take effect after death or while alive
Provides less privacy: Is part of public record	Provides more privacy: Does not become a public record
Provide a one-time, lump-sum distribution of assets to heirs	Faster distribution of initial assets
	May be a more appropriate strategy for larger estates
	Various types specific to individual needs
	May have tax advantages over a will

While both trusts and wills offer distinct advantages, factors such as financial situation, assets, family structure, privacy concerns, and tax implications can all influence the use of one versus the other.

Popular Trusts

Three popular types of trusts are Revocable Living Trusts, Spousal Lifetime Access Trusts (SLAT), and Irrevocable Life Insurance Trusts (ILIT). Trusts allow the grantor (individual) to place specific assets into the trust and also specific directives pertaining to them, if desired.

Revocable Living Trusts "Living Trust"	Spousal Lifetime Access Trust (SLAT)	Irrevocable Life Insurance Trust (ILIT)
A legal entity created by a grantor during their lifetime.	An irrevocable trust created by one spouse for the benefit of the other spouse and potentially descendants.	An irrevocable life insurance trust is a legal arrangement that transfers a life insurance policy into a trust to help minimize the tax burden to heirs. This type of trust provides estate tax relief, asset protection, and control over how the proceeds are distributed at death.
KEY FEATURES • The grantor can adjust, alter, or terminate the trust anytime. The assets held in this trust bypass probate, saving the beneficiaries time and money. • Creditor Protection Advantages: The trust creator (settlor) the ability to create trusts for beneficiaries rather than make lifetime transfers.	KEY FEATURES • Allows the donor spouse to utilize their lifetime exemption amount. • Preserves assets from creditors. Since it is irrevocable, the trust's assets are typically not considered part of the donor spouse's property and are generally not subject to claims by creditors of the spouse or descendant beneficiaries. • The beneficiary spouse maintains direct access and the donor spouse maintains some indirect access to the gifted assets.	KEY FEATURES • Although the insured grantor surrenders ownership and control over the policy, the trustee maintains the policy and ensures premiums are paid for the benefit of the grantor's spouse and/or descendants.
TAX ADVANTAGES Allows the settlor (trust creator) to efficiently utilize any remaining estate tax exemption at death.	TAX ADVANTAGES Reduces the potential estate tax liability upon death.	TAX ADVANTAGES The ILIT owns the insurance policy and is its beneficiary, so upon the grantor's death, it allows an individual to exclude life insurance proceeds from being considered part of the taxable estate, helping beneficiaries avoid hefty estate taxes and creating a pool of beneficial assets for use by the beneficiaries long-term.

While Revocable Living Trusts, SLATs, and ILITs have different characteristics and benefits, they all serve a common purpose: to preserve and control taxes and the distribution of wealth for clients after death. Because of this, incorporating these valuable tools into a client's wealth transfer plan should include their CPA, financial advisor(s), and attorneys.

Talk to a Choreo advisor if you would like to learn more about how partnering on Trusts or client wealth transfer plans can complement their goals, or if you need help with a client case that could be enhanced by one.

Contact Us

If we can be of any additional service to you or your clients, or if you'd like more information about how Choreo advisors partner with tax professionals don't hesitate to reach out. www.choreoadvisors.com/contact-us

Sources:

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