Show More Life With A Living Trust

In some financial circles, a revocable living trust has been touted as a staple of estate planning that can even be used to replace a legally valid will. Normally, however, a living trust is viewed as a supplement to a will, not an outright replacement. Here's how this estate-planning technique may serve you best—in life and death:

It's important to understand the basic differences between a will and a living trust. Your "last will and testament" is a legal document determining how, when, and to whom your possessions will be distributed upon your death. It doesn't have any effect until you die. However, a will normally must go through probate before distributions are made. (Property passing through joint rights of survivorship may be one exception to that rule.)

In addition, a will alone may not achieve all of your estate-planning objectives. For instance, you can't impose any conditions on gifts made through a will.

A revocable living trust also is a legally valid document, and you may be able to transfer securities, real estate, or other property to the trust, and you can give the trustee power to manage it on behalf of the designated beneficiaries. Typically, you might name yourself as both the trustee and the initial beneficiary of the trust. At the same time, you can designate other family members—say, your spouse, your children, or both—as secondary beneficiaries entitled to receive remaining assets in the trust when it terminates.

With a living trust, you'll retain a high level of control while you're alive. For instance, you may be able to sell trust assets and keep the cash, amend the terms of the trust (for example, by changing secondary beneficiaries), or revoke it entirely. Unlike a will, a living trust allows you to place restrictions on gifts to beneficiaries. The trust becomes irrevocable when you die.

The main advantage living trusts have over wills is that the property transferred to the trust doesn't have to go through probate. Depending on the state in which you live, probate can be time-consuming. In addition, unlike a will, a living trust isn't available to public inspection, ensuring complete privacy with respect to the assets it holds and distributes.

But don't assume that a living trust is a panacea. It will require some time and work on your part to make all of the necessary arrangements. Also, if you devise a "pour-over will" to catch assets not in the living trust, the will must be probated anyway. Finally, despite some claims to the contrary, there are no estate-tax benefits for property transferred to a living trust.

Clearly, a living trust may provide valuable benefits, but it usually works best hand in hand with your will. We can help you work with your attorneys to find a solution that works for you. ●

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you hold the stock at least five years before selling it.

10. Roth IRA conversions: You can convert some or all of the funds in a traditional IRA to a Roth. In return for paying income tax on the converted amount, future Roth IRA distributions will be tax-free if they meet certain conditions. To minimize the current tax impact, you could stagger taxable conversions over several years.

11. Vacation homes: You can write off certain rental activity costs, plus depreciation, but be careful: If you use the rental home for more than 14 days or for 10% of the days the home is rented out, whichever is greater, your deductions are limited to the amount of your rental income.

12. Dependency exemptions: You probably still can claim a $4,000 dependency exemption for a child graduating from college in 2016 if you provide more than 50% of the child's annual support. Figure out the amount needed to put you over the half-support mark.

13. Charitable gifts of property: Don't toss out old furniture and clothing; give items in good condition to charity. Generally, you can deduct the fair market value of property donated to a qualified organization, within certain limits.

14. Conservation easements: A special tax provision allows you to claim deductions for donating conservation easements involving property you own. Under the PATH Act, you can deduct up to 50% of your adjusted gross income (AGI) this year (100% for farmers and ranchers) instead of the usual 30%-of-AGI limit.

15. Day camps: If your under-age-13 children attend a day camp while you (and your spouse, if married) work this summer, you may qualify for the dependent child care credit. However, the cost of overnight camp isn't eligible.

16. Estimated taxes: Check to see whether you're withholding enough income tax from your paychecks and adjust the amount if necessary to avoid owing an "estimated tax penalty" in 2016. ●

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