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How Remodeling a Client's Trust Can Retain Assets Under Management while Saving Clients Money

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It's a common misconception that clients can take a set-it-and-leave-it approach to trusts. Much as houses or office buildings, even those that were originally well-built, must be remodeled or updated from time to time, a trust-centered estate plan can often benefit from a remodel or refresh. Although the principle of trust-centered estate planning has stood the test of time, there are many reasons, such as the recent tax reform, a change in family wealth or circumstances, or just a change in estate planning goals, that may necessitate a remodel for an old trust. Clients gain peace of mind while you get an opportunity to provide value.

Why updating old trusts serves both you and your clients

Your clients may be missing out on lucrative new opportunities, such as income tax planning opportunities to reduce the impact of the new state and local tax deduction limitation, or necessary protections against overly aggressive creditors unless they update their old trusts. Seizing opportunity and avoiding risk adds value to your services and secures you as their top-of-mind financial professional.

- **Why updating old trusts serves both you and your clients**
- **Remodeling Bill and Susan's Plan**
- **Supplementary benefits of trust modernization**

Modernizing old trusts isn't just beneficial for your clients' financial circumstances — it'll also help you do your job with greater ease and efficiency. Old trusts can be hard to work with on a variety of levels. Managing assets across multiple trusts can be more difficult for you as their financial advisor, makes tax reporting for the CPA more cumbersome, and makes administration for the client or trustee needlessly challenging. Remodeling these trusts, consolidating them, or otherwise modifying them to make administration easier saves costs for clients and makes your job easier.

A common misunderstanding among many individuals is thinking that irrevocable means un-modifiable. Even if a trust is irrevocable, it is often possible to remodel and refresh. The exact mechanics will always vary depending on the client's situation, but it's almost always possible to make some improvements.

A trust may need updating for a variety of reasons:

- Changes in legislation, like the December 2017 Tax Cuts and Jobs Act;
- Changes in the clients' asset mix or wealth level;
- Changes in family structure, such as divorce, remarriage, birth of a new child or grandchild; and
- Changes in the clients' risk profile, such as transitioning into a new business or career.



Although not common (but it does happen from time to time), trusts can and should also be refreshed any time an error is present in your clients' estate planning documents. The good news is that this type of fix is often more like putting up a fresh coat of paint (an easy fix). Remember, it is far better to correct a typo or (what we see more often) an unclear section now, rather than waiting until it becomes a potentially costly headache later. Clients don't expect perfection, but they do want their financial and estate plans to work when they're needed.

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Remodeling Bill and Susan's Plan

Like many people, Bill and Susan had a trust prepared that provides for their two sons, Junior and Bobby, upon their death. To keep things fair, the same distribution provisions were used for the two boys. When they created the trust, the boys were young children. Of course, the inevitable passage of time has now made them young men, and both boys are now over 21.

As many parents do, Bill and Susan set up the trust to divide into two shares: one for Junior and one for Bobby. The money was going to be managed until they turned 21 and then outright distributions are to be made as soon as the children turn 21. This is a common type of structure to provide asset management for minor children beneficiaries.

As of today, the value of the trust is approximately \$800,000, meaning each son will receive about \$400,000 less expenses. When they initially prepared their trust, they did not yet know how Bobby and Junior would handle money since the boys were much younger. However, Junior's lack of financial responsibility has left him with debts of over \$400,000, some of which he pays on time and others he doesn't. If Bill and Susan were to die today, Junior's creditors could sue him and seize his inheritance, leaving Junior with nothing. Bobby, who's been financially responsible, would receive his inheritance outright, without any protections or safeguards.

By remodeling the trust, Junior's share can be changed to ensure that the money is "locked down" with an independent trustee. Rather than creditors receiving the money, it could then be available for Junior's medical or basic living needs. Additionally, Bill and Susan may decide to provide Bobby with a lifetime of asset protection as well by leaving his inheritance in a lifetime, beneficiary-directed trust. Because of the great relationship that Bill and Susan have with you, they indicate in the trust that they'd like you to serve as the continued investment advisor, providing you an opportunity to retain assets under management.

Customizing the inheritance for each beneficiary is a great way for clients to enhance the legacy they leave their beneficiaries. And, when clients use lifetime trusts rather than outright inheritance, it provides you with a great opportunity to retain assets under management while building a relationship with the next generation of family. This is only a simple example of the possibilities. As always, we invite you to call and strategize with us about any particular client you think could benefit from our services.

Supplementary benefits of trust modernization

While there are many glaring reasons to update a trust like the ones listed earlier, your clients can also enjoy other perks when they modernize. Your clients could be paying unnecessarily (and avoidable) high income tax rates on some income or missing out on a second basis step-up option that would save them substantial sums in the long run. Outdated trusts can also minimize your clients' ability to use their trusts effectively to pass along their values and legacy by requiring distributions that do not really reflect the clients' goals. In addition to making sure your clients' trusts still uphold their wishes for the distribution of their estate to their beneficiaries, there are also worthwhile financial incentives that they can benefit from right away when modernizing trusts.

As their financial advisor, your clients will thank you for alerting them to the opportunity to remodel and refresh their old trusts to take advantage of new opportunities while continuing to avoid and minimize risk. The result? A fuller, more secure life. If you have clients with trust-centered estate plans that are more than five years old, we'd love to explore whether a remodel is in order. Give us a call today.



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