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BANK & TRUST

INTRODUCTION TO TRUSTS

rooted in relationships.

Introduction

In addition to the amazing weather, Florida has other financial advantages for residents - no state or inheritance taxes, special protections for married couples and special protections over assets from creditors, including notable homestead protection afforded to homeowners on their primary residence.

Although there is no state inheritance (i.e., estate) tax in Florida at one's death, there are limitations to this on the federal level for very wealthy couples transferring wealth over $$27.2 million or $13.61 million for individuals in 2024 The added benefit is that as Floridians, we do not pay most forms of state taxes. Because these state benefits exist, they can become powerful tools for transitioning assets to future generations, by use of gifting, irrevocable trust planning and testamentary estate planning.

A few other important concepts to keep in mind include the federal estate tax exemption mentioned above sunsets at the end of 2025 back to $5 million adjusted for inflation. Also, Floridians might have to pay estate tax if the own property in other states that do impose an inheritance tax.

The annual gifting amount per individual is $18,000 in 2024 and is estimated to adjust to $19,000 in 2025. Annual gifts can be made in cash or securities.
Most recently, Florida added the community property concept to its Trust Code, along with the previously existing Tenants-by-the-Entirety and Joint Tenants with Rights of Survivorship ownership options. All three types of ownership have distinct rules and you will therefore want to discuss your options with your attorney and tax advisor as everyone's estate planning needs are unique.

In Florida, we also enjoy some exemptions from creditors, like homestead, related to personal residences. Annuities and life insurance are a great way to leave money to families and loved ones and can assist with death expenses. Retirement accounts can be inherited by spouses and the children of your loved one who passes, provided the appropriate beneficiary designation was completed prior to death. Also, pre-paid college funding allows parents and grandparents to plan for future college expenses and costs. Some Floridians are well aware of the vast array of beneficial ways to transfer their assets to their loved ones. However, the majority of Florida residents often do not know about the beneficial planning tools, including some high net worth individuals and couples.

While no two estate plans are the same, we at Cypress Bank & Trust help protect and transfer wealth for future generations to come. While we are happy to assist your family as a Current Trustee, Successor Trustee or Personal Representative, we work with you, your family, your attorney, and tax advisors to be sure your estate plan is a plan that works for you and your family for generations to come.

Trusts are an important part of future planning. Read on to learn more about the basics of trusts!

Trusts Explained

A trust is a legal arrangement that allows you as the grantor or a third party, known as the trustee, to hold assets on behalf of a beneficiary or beneficiaries. Trusts are established to manage and distribute assets according to specific instructions outlined by the grantor in the trust document. Unlike a will, which only becomes effective upon the testator's death, a trust can take effect during the grantor's lifetime or upon their passing.

Parties Involved In A Trust

Understanding the parties involved in a trust is key. Typically there is a Grantor, Trustee, and Beneficiary.

- The Grantor (also known as the settlor or trustor): the grantor is the individual who creates the trust and transfers assets into it.
- The Trustee: The trustee is responsible for managing the trust assets and carrying out the instructions outlined in the trust document. They have a fiduciary duty to act in the best interests of the beneficiaries. There can one or multiple trustees based each individual grantor’s preferences in consultation with his or her advisor.
- The Beneficiary: The beneficiary is the individual(s) or entities that receive the benefits of the trust, such as income distributions, principal distributions or assets. Beneficiaries can include individuals, charities, or even pets.

Types of Trusts:

There are several types of trusts that can be used based on your personal financial situation and goals. The most common are Revocable and Irrevocable Trusts, and Testamentary Trusts.

- Revocable Trusts: Also known as living trusts, revocable trusts can be modified or revoked by the grantor during their lifetime. They allow for the management and dsitribution of assets while the grantor is alive and after their passing. They are often used for probate avoidance and incapacity planning.
- Irrevocable Trusts: Irrevocable trusts typically cannot be modified or revoked once established (except by certain specific procedures, including court modifications), providing asset protection and potential tax benefits. They are commonly used for estate tax planning and Medicaid planning, for loved ones with special needs.
- Testamentary Trusts: Testamentary trusts are established through a will and become effective upon the grantor's death. They are often used to provide for surviving spouse, minor children or beneficiaries with special needs.

When to Consider Setting Up a Trust

Trusts can be valuable estate planning tools for individuals and families of all types, including those with complex financial situations or specific planning goals. Consider setting up a trust if you want to avoid probate and ensure a smooth transfer of assets to beneficiaries or you have minor children or beneficiaries with special needs.

Additionally, certain trusts can be helpful when you have a desire to protect assets from creditors or lawsuits. Additionally, some trust forms can help minimize estate taxes and maximize tax efficiency. An excellent example is to leave a charitable legacy or support philanthropic causes in your estate plan.



Benefits of Trusts

Now that we've covered some of the more common types of trusts used to protect assets, we can discuss the benefits of trusts. Again, based on your unique financial situation and goals, some benefits may seem more relevant than others.

Asset Protection: Shielding Your Wealth from Creditors and Lawsuits

One of the primary benefits of certain trusts is asset protection. By transferring assets into a trust, you can shield them from creditors and lawsuits, reducing the risk of loss due to legal claims or financial liabilities. Irrevocable trusts, in particular, offer strong asset protection benefits, as the assets are no longer considered part of the grantor's estate and are beyond the reach of creditors. Please note, revocable trusts do not offer this type of protection but does offer other benefits.

Probate Avoidance: Streamlining the Transfer of Assets to Beneficiaries

Probate is the legal process through which a deceased person's assets are distributed to their heirs or beneficiaries. Trusts can help bypass the probate process, allowing for the efficient transfer of assets to beneficiaries outside of the court system. By avoiding probate, trust assets can be distributed more quickly and privately, without the delays and expenses associated with probate proceedings.

Tax Efficiency: Maximizing Tax Savings Through Strategic Trust Planning

Trusts can offer significant tax benefits for both the grantor and the beneficiaries. Irrevocable trusts, in particular, can help minimize estate taxes by removing assets from the grantor's taxable estate. Additionally, certain types of trusts, such as charitable remainder trusts, can provide income and estate tax deductions for the grantor while supporting charitable causes.

Flexibility & Control: Tailoring Trusts to Meet Unique Needs & Objectives

Trusts offer a high degree of flexibility and customization, allowing you to tailor the trust to meet your specific needs and objectives. Whether you're looking to provide for minor children, protect assets from spendthrift beneficiaries, or support charitable causes, trusts can be structured to achieve your goals. With trusts, you can maintain control over your assets and dictate how they are managed and distributed both during your lifetime and after your passing. It is important to consider an experienced attorney as well as trustee to assist you throughout this process from drafting to implementation to ultimately administering your trust documents.

Trust Planning Strategies

Determining you plan for the future is a critical part of setting up a trust with the appropriate strategy. Cypress Bank & Trust helps our clients execute the wishes of their trust plan effectively, ensuring your vision of your trust becomes reality. The following strategies are typically the types of trusts we help clients administer.

Estate Planning: Ensuring Assets are Distributed According to Your Wishes

One of the primary purposes of trust planning is estate planning, which involves determining how your assets will be distributed upon your passing. Trusts allow you to specify who will receive your assets, how they will be distributed, and when they will be distributed. By creating a comprehensive estate plan that includes trusts, you can ensure that your assets are distributed according to your wishes and minimize the potential for disputes among beneficiaries.

Wealth Transfer: Facilitating the Transfer of Wealth to Future Generations

Trusts are powerful wealth transfer tools that allow you to transfer assets to future generations in a controlled and tax-efficient manner. Whether you're looking to provide for your children, grandchildren, or other beneficiaries, trusts can help ensure that your wealth is preserved and passed on according to your wishes. By creating trusts, you can establish a legacy that supports your loved ones for generations to come.

Charitable Giving: Making a Meaningful Impact Through Charitable Trusts

Charitable trusts provide a tax-efficient way to support charitable causes while also providing potential benefits for the grantor and their beneficiaries. Charitable remainder trusts, for example, allow you to donate assets to charity while retaining an income stream for yourself or your beneficiaries. Charitable lead trusts, on the other hand, provide an income stream to charity for a specified period before passing the remaining assets to your beneficiaries.

Special Needs Planning: Financial Security for Loved Ones with Disabilities

Trusts can play a crucial role in special needs planning by providing financial support for individuals with disabilities without jeopardizing their eligibility for government benefits. Special Needs Trusts (SNTs) allow you to set aside funds for a disabled beneficiary's care and support while preserving their eligibility for means-tested benefits such as Medicaid and Supplemental Security Income. By creating a SNT, you can ensure that your loved one receives the care and support they need while protecting their financial future.

Trust Administration and Management

Equally important of creating the right type of trust based on your goals, is finding the right, trusted partner to help you administer your wishes. Cypress Bank & Trust has been helping our clients administer their trusts for decades. You can trust our experts to ensure all of your wishes are carried out specifically as you planned. Here are some other key considerations surrounding trust administration.

Selecting the Right Trustee: Understanding the Responsibilities and Duties

The trustee plays a vital role in administering the trust and ensuring that the grantor's wishes are carried out. When selecting a trustee, it's essential to choose someone who is trustworthy, reliable, and capable of managing trust assets responsibly. The trustee's duties may include investing trust assets, distributing income and principal to beneficiaries, keeping accurate records, and filing tax returns on behalf of the trust.

Funding Your Trust: Transferring Assets into Trust Ownership

To be effective, a trust must be properly funded with assets. Funding a trust involves transferring ownership of assets into the name of the trust, which may include real estate, bank accounts, investments, and other valuable property. By funding your trust during your lifetime, you can ensure that it functions as intended and achieves your estate planning goals.

Trustee Succession Planning: Ensuring Continuity & Stability

Trustee succession planning involves identifying backup trustees or successor trustees who will assume responsibility for managing the trust if the original trustee is unable or unwilling to serve. It's essential to have a clear plan in place for trustee succession to ensure continuity and stability for your trust and to prevent disruptions in trust administration.

Regular Review and Maintenance: Keeping Your Trust Up-to-Date

Estate planning is not a one-time event but rather an ongoing process that requires regular review and maintenance. It's essential to review your trust periodically to ensure that it remains aligned with your goals and objectives, as well as to account for any changes in your personal or financial circumstances. By keeping your trust up to date, you can ensure that it continues to meet your needs and achieves your estate planning objectives effectively.

Common Pitfalls and Considerations

Like any other financial planning, trusts do have common challenges and considerations to keep in mind over time. From periodically reviewing and updating your trust, to understanding tax implications, read on to learn more about what to consider reviewing and addressing over time.

Not Updating Your Trust: The Importance of Regular Review and Revision

One of the most common pitfalls in trust planning is failing to update the trust regularly. Over time, your personal and financial circumstances may change, as well as laws and regulations governing trusts. Failing to update your trust accordingly can result in unintended consequences and may undermine your estate planning goals. It's essential to review your trust periodically and make revisions as needed to ensure that it remains effective and aligned with your wishes.

Choosing the Wrong Trustee: Lacking the Necessary Skills or Experience

Another common pitfall in trust planning is choosing the wrong trustee. The trustee plays a critical role in administering the trust and managing trust assets, so it's essential to select someone who is capable, trustworthy, and reliable. Avoid appointing a trustee based solely on personal relationships and consider factors such as financial expertise, fiduciary responsibility, and availability when making your decision.

Failing to Fund A Trust Properly: Incomplete or Improper Asset Transfer

Proper funding is essential for the effectiveness of a trust. Failing to transfer assets into the trust or improperly funding the trust can result in assets being subject to probate or unintended distribution. It's crucial to ensure that all relevant assets are titled in the name of the trust and that beneficiary designations are properly coordinated with the trust provisions to avoid complications and ensure that your estate planning goals are achieved.

Overlooking Tax Implications: Understanding Consequences of Decisions

Trust planning can have significant tax implications for both the grantor and the beneficiaries. It's essential to consider the tax consequences of trust planning decisions, including income tax, gift tax, estate tax, and generation-skipping transfer tax. Consulting with a qualified estate planning attorney or tax advisor can help you understand the tax implications of your trust planning decisions and develop strategies to minimize tax liability while achieving your estate planning goals.

The Cypress Bank & Trust Team Are Trust Experts

Your financial planner, attorney, trust officer, and investment officer all work together as your team of trusted advisors – a team of specialists, each with their specific role in ensuring your good financial health. We at Cypress Bank & Trust are here to help you alongside your CPA and attorney to help you achieve the healthiest financial condition you and your family deserve. We are client-centric, focused and accessible. We are local in every market we serve and have the authority to facilitate timely responses to your requests. Our one-on-approach means that an Investment Officer and Trust Officer team is assigned to every relationship and we offer customized solutions for each client tailored to their individual and family needs.

Financial wellness is essential for you and your family's overall health and wellbeing. Everyone's prescription for a healthy financial condition is different. It all starts with a checkup to identify where you may be most at risk from a financial standpoint.

If you have questions about setting up a trust, or how Cypress Bank & Trust can work with your existing team of advisors, contact us today!



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QUESTIONS?

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