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## *Revocable & Irrevocable Trusts*

Welcome to our latest installment of *Intermission*, a short post to keep you up-to-date and informed of the ever-changing world of estate planning. This time around, we're focusing on trusts.

During discussions with clients, and specifically when talking about the distribution of assets, we inevitably consider establishing a trust. A trust can be an effective tool for simplifying asset transfers between generations.

Two of the most popular types of trusts are revocable trusts and irrevocable trusts. Both trusts can give you a way to control how you distribute your assets, and both can provide protection against the costs of probate as well as an added layer of privacy.

There are major differences between the two types of trusts, mainly when it comes to flexibility and taxes. Here's what you should know:

**Revocable Trusts**

A revocable trust, also known as a living trust, provides more flexibility: it allows the person creating the trust to make changes or even cancel the trust if necessary. We typically use them primarily to control and distribute a client's assets as the client gets older. For example, many of our clients have young children now, so we use revocable trusts to help them distribute trust property to themselves, their children, or even designated charities as time goes by. This is the type of trust we often use when talking about the powers of attorney given to someone over property should you become incapacitated.

Revocable trust pros and cons:

**Pros**

- Can be easily changed or amended
- Can allow for the management of assets if you become incapacitated
- Can bypass probate
- Provides an added layer of privacy
- The person creating the trust can be a trustee

**Cons**

- Does not minimize estate taxes
- Is not shielded from creditors

**Irrevocable Trusts**

As the name implies, it is very difficult to change terms or even cancel an irrevocable trust. With this type of trust, you no longer own the assets inside the trust; instead, the trust is considered the owner of the assets, and everything is held for the benefit of the people you name as beneficiaries of that trust. Irrevocable trusts are useful for those who are trying to limit estate taxes and/or protect any assets from creditors, should their financial situation change for the worse.

Irrevocable trust pros and cons:

**Pros**

- Minimize estate taxes
- Protect assets from creditors
- Can bypass probate
- Provides an extra layer of privacy
- May be able to use some favourable government programs

**Cons**

- Very difficult to cancel or change terms of the trust
- The person creating the trust cannot be a trustee
- A lawyer is often needed to draft the document, which can be more costly
- Assets in the trust are no longer owned or controlled by the person creating the trust
- Higher taxes

**Choosing a trust that's right for you**

The type of trust you choose ultimately depends on your own individual needs and circumstances. If you wish to maintain control and flexibility over the trust and the assets within the trust, and you have basic needs, a revocable trust may be fine. On the other hand, if you are more interested in asset protection and minimizing estate taxes, you may want to consider an irrevocable trust. We can help you assess your complete financial picture and, with the help of other professionals, determine which trust is appropriate for you and your family.