

4 strategies to protect your assets and create financial peace of mind

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Having your financial affairs in order is an intangible gift you can give your loved ones. The emotional strain that comes with the loss of a loved one is hard enough. Why add to that burden when planning now can provide the people you care most about with some relief with respect to finances? Establishing a plan that protects your assets and provides financial direction and ease for your heirs is a lovely parting gift.

Finding the right vehicle to protect and direct the assets you have accumulated and/or been a steward of should be intentional. Powerful and impactful planning doesn't happen by accident. Take the time to speak with your tax and legal advisors

and explore your options. Today, you have the opportunity to shield your assets from probate and estate taxes, saving your family time and money while respecting your privacy. Currently, estates worth more than \$13.99 million per individual and \$27.98 million per couple face a federal estate tax of 40%. Also, many states impose an estate tax. Mitigating taxes through thoughtful, proactive planning enables you to maximize the assets left to your heirs. Trusts can be helpful vehicles when used in estate planning to achieve these objectives.

On the most basic level, there are living trusts and testamentary trusts. A living trust, also known as an inter vivos trust, is a legal document created during your life. There are two types of living trusts: revocable and irrevocable. The first and most common is the revocable trust. During your lifetime, you maintain control of the assets, update the trust's terms, and even revoke the trust in its entirety (hence its name). While this trust avoids probate, it does not provide asset protection while you are alive, so creditors and Medicaid can attach to assets titled to your revocable trust. Upon your passing, your revocable trust becomes irrevocable, and the named successor trustee takes over managing and distributing trust assets in accordance with the trust provisions you dictated.

Irrevocable trusts created during life are powerful tools because they protect assets titled to them from creditors, avoid probate, and can be tailored to your specific needs and desires. Unlike revocable trusts, asset protection from creditors and lawsuits is in effect both during life and after death.

Here are four of the most popular irrevocable trusts employed by professionals and individuals interested in securing a smooth and intentional transition for their heirs.

Spousal lifetime access trust (SLAT)

A SLAT is an irrevocable trust created by one spouse (the grantor) to benefit the other spouse (the beneficiary). This trust removes assets from the grantor spouse's estate while allowing indirect access to the assets through the beneficiary spouse's interest. The income taxes generated by the assets gifted to the trust are paid by the grantor spouse and are not considered an additional gift to the trust.

Typically, the donor spouse gifts assets such as cash, equities, and/or real estate

owned solely by the donor spouse to the SLAT. The beneficiary spouse may request distributions of income or principal from the SLAT, as trust beneficiary. The SLAT typically terminates upon the death of the beneficiary spouse, and the assets pass to the remaining beneficiaries in accordance with the trust provisions you dictated.

It's important to note that there are some potential drawbacks associated with SLATs. The two most concerning are, of course, the two we least like to think about: death and divorce. Upon the death of the beneficiary spouse, the donor spouse will lose indirect access to the SLAT assets. This also occurs in the case of divorce, unless thoughtful trust provisions are included to ensure that the SLAT benefits the intended beneficiaries.

Intentionally defective grantor trusts (IDGT)

This irrevocable trust is designed to remove appreciating assets from your estate for estate tax purposes while allowing you to retain responsibility for the income tax incurred by the assets titled to the IDGT. The taxes you pay are not considered a gift for gift tax purposes, and any future appreciation of assets inside the trust is estate tax free. This is a very attractive feature if you currently have a taxable estate. In the event circumstances change and payment of the income tax becomes burdensome for you, you can choose to cure the "defect" written into the trust and have the trust pay its income tax. Upon your passing, the trustee will distribute trust income and principal in accordance with the trust provisions you have established.

Qualified personal residence trust (QPRT)

Estates come in many shapes and sizes. Some include assets from long-held family businesses, while others derive most of their value from market holdings such as stocks and bonds. For many Americans, their home may be their most valuable asset.

High-net-worth individuals living in high-cost areas could ease the heavy burden of estate taxes by availing themselves of a QPRT, an irrevocable trust to which you can transfer your personal residence. A QPRT grants you the right to remain in your home for a specified number of years before it gets passed to the trust's

beneficiaries.

Transferring a residence to a QPRT removes the current value of the house and any future appreciation from the estate. It also provides for the transfer of the home to your heirs with a reduced gift tax burden.

There are downsides, however. The first is that you are no longer the owner of the home — and you could, depending on where you live, face higher property taxes. The second is that a QPRT is considered a “bet to live” strategy, meaning that you must outlive the terms of the trust for it to be outside your estate. If you die before the term of the trust is completed, the residence will return to the estate.

Charitable trusts

These trusts capture the spirit of the old adage “doing good while doing well.”

Charitable trusts can be structured in a number of ways that benefit your charities of choice and, ultimately, your estate and heirs. There are two main types of charitable trusts: charitable remainder trusts (CRT) and charitable lead trusts (CLT). Each comes with several benefits including tax deductions and reduced estate taxes. The philanthropic impact of using charitable trusts differentiates these from other trust vehicles.

A CRT provides income to you and your beneficiaries via an annuity or a fixed percentage of the trust’s assets for a designated period of years before ultimately being distributed to the charity or charities of your choice. A CLT, on the other hand, distributes income from the trust to the charities of your choosing until such time as they are distributed to you or another beneficiary. While the potential tax savings are significant, these trusts have potential downsides, including high operational costs and complicated legal and tax requirements.

In closing, establishing the right trust(s) is crucial to protecting assets, minimizing estate taxes, and ensuring financial security for loved ones. With various trust structures available — from SLATs and IDGTs to QPRTs and charitable trusts — high-net-worth individuals have several options to tailor their estate planning strategies. However, the complexity of these instruments requires careful planning

and expert guidance. Consulting with experienced tax and estate professionals can help you navigate the nuances of each trust type, allowing you to maximize benefits while mitigating potential risks. Taking proactive steps now can provide peace of mind and long-term financial security for both you and your heirs.

For more information on this topic or any other [trust and estate planning needs](#), please contact [Kathleen Braica](#), CPA, Partner and Florida Office Leader; [Patrick Mangan](#), CPA, Managing Director in [Anchin's Private Client Group](#); or your Anchin Relationship Partner.