

What is the Difference between a Revocable Trust and an Irrevocable Trust?

By: Steve Andrew Jackson

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Revocable and Irrevocable trusts have different advantages and disadvantages. As the name suggests, a trustmaker cannot change or revoke an irrevocable trust once it has been established. That means the trustmaker cannot change the beneficiaries even though changes may occur in relationships like marriage, divorce, or death.

On the other hand, a trustmaker can continue to control a revocable trust and can change the assets and the beneficiaries of the trust. A trustmaker can even revoke the revocable trust in its entirety. A co-trustee or a successor trustee can be named to manage a revocable trust in the event the trustmaker becomes incapacitated. Maintaining control of trust assets while providing a smooth transfer of control of the trust assets is a benefit of the revocable trust.

An irrevocable trust does not allow the trustmaker to maintain control of the trust. The trustmaker must have no incidents of ownership of the trust and the trustee must maintain control of trust distributions. While there is a lack of control for the trustmaker in an irrevocable trust, the benefit is the tax savings. Assets held in an irrevocable trust are generally not considered part of the taxable estate. If a trust holds real property and life insurance proceeds, it can save the estate from paying estate taxes on those large assets.

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