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Trust Company



## I'm in my 60s/70s, why do I need a Trust?

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Lone Oak Trust Company is excited to bring you the second installment in our 2024 Original Content Series, "I'm in my (insert your age here), why do I need a Trust?" Last quarter, we explored how individuals and families in their 30s and 40s could utilize a trust instrument to protect minors and business interests. With this addition, we will investigate how a trust can benefit those planning for their legacy, with an eye towards reducing income and estate taxes for their heirs.

### "I'm in my 60s/70s, why do I need a Trust?"

There is a saying in wealth management that goes "the first generation makes it, the second generation saves it, and the third generation spends it". Whether due to poor investment performance, spendthrift beneficiaries, or non-income producing assets, true generational wealth is difficult to shepherd through multiple generations. Trusts, while not foolproof, are one effective way to protect assets from beyond one's lifetime.

For example, picture a couple in their 60s and 70s, who have two children in their 30s and 40s, two in-laws, and six grandchildren. Couples and individuals in their 60s and 70s view Trusts as tools to address the specific needs of their heirs more than they recognize Trusts as a method to mitigate their own potential physical and/or mental vulnerabilities. Parents and grandparents utilizing Trusts within their estate plan, either prior to death or upon death, can exert control over how, when, and why assets are distributed to those interests left behind, family members, charitable interests, and sometimes even pets.

The state of Texas is particularly favorable towards the transfer of wealth, allowing Trust accounts to exist for up to 300 years, with one caveat being real property may not remain in Trust for more than 100 years. Wealth creators can provide for multiple generations by setting certain limits on how and for what purpose distributions can be made. As an example, assets can be placed in Trust for the sole purpose of covering education costs. Or a Trust can be funded in such a way that the beneficiaries are eligible for distribution only if they have reached a certain age or proven themselves good stewards of their own assets. Just as every wealth creator is unique, so too can they create Trusts that reflect his or her values, interests, and wishes.

Another reason to consider a Trust at this stage in life is to minimize estate taxes. By law, taxpayers are allowed to gift a certain amount of their assets each year without incurring gift or estate tax. For 2024, these amounts are \$18,000 and \$13,610,000 respectively. The Tax Cuts and Jobs Act related to these amounts is set to expire on December 31, 2025; and therefore, for those who have or expect to have an estate over and above those amounts, should start planning now in anticipation of these changes. Gifting assets into a Trust is a great way to start.

Between now and December 31, 2025, individuals and couples can use their remaining lifetime annual exclusion amount to gift up to \$13,610,000 (\$27,220,000 for couples) tax-free, which as a result will also reduce their estate tax. These gifts will be shielded from the anti-clawback rule once the TCJA provisions sunset. Should you take advantage of the excess amounts in place, once 2026 arrives, an individual will only be able to give a total of \$7 million away tax-free and the extra \$6,610,00 that could have been gifted will be subject to a 40% tax rate. To maximize the opportunity afforded in the next 18 months, cumulative lifetime gifts between \$7 million and \$13,610,000 can greatly reduce your estate and your heirs tax burdens.

There are many types of Trusts that can be used for gifting strategies. These will be covered in future issues. In the meantime, for those who are interested or ready to plan for generational wealth transfers, Lone Oak Trust Company would recommend contacting your estate planning attorney and/or consulting with a trusted CPA. Through prudent and thoughtful Trust administration, conservative investing, and proper advising of beneficiaries, Trusts can be well equipped to stand the test of time, transferring assets and values to future generations.

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