



# DON'T TAX YOURSELF

A Publication of Bowditch & Dewey's Estate, Financial & Tax Planning Group

## Should You Have a Trust for Your Child?

BY NINA T. DOW • AUGUST 7, 2023

There may have been a time in your life when you had a piggy bank for your child – a fun and interactive way for you to teach money management, patience, and basic math. The money went in, but it was often difficult to retrieve.

Using a trust as an estate planning tool for parents provides a similar concept to that of the traditional piggy bank: money easily goes in but not out. Generally, there are two main ways your children will receive their inheritance: 1. Outright – into their hands all at once or 2. Through a trust.

Put simply, a trust is like a container: at your death, it could “hold” your financial assets or even real estate. When such property is held, you could give your child a right to withdraw certain amounts over time or hold the funds for the child’s lifetime leaving them to benefit from the trust at the discretion of a Trustee.

The key is that a trust permits you, after your death, to name an individual (referred to as a Trustee) to control and manage your child’s access to their inheritance preserving it for your child’s health, education, and general well-being. Here are five things to consider when setting up a trust:

### 1. Spending Habits

Do you feel that your child is irresponsible with money or is your child too young for you to know? A revocable trust (one that can be amended or terminated) can hold funds for your child’s benefit and if circumstances change, so can the trust.

### 2. Creditor Protection

A child’s troubled marriage or a history of divorce should have you considering a trust to protect your child’s inheritance. Depending on the state in which your child resides, an inheritance could be a marital asset subject to division between the parties. A trust can help keep your child’s inheritance out of divorce court.

Also, consider your child's profession and the risk of liability if, for example, they practice medicine or own a business.

### 3. Problems with Addiction

Often times, struggles with addiction, including alcoholism or gambling, impairs your child's ability to manage their assets appropriately.

### 4. Special Needs

If your child has a physical or cognitive impairment, a certain kind of trust can be used to preserve your child's inheritance without jeopardizing their eligibility for government services such as social security income (SSI) or public housing.

### 5. Career Instability

Perhaps your child is in an unstable career where income ebbs and flows or they have experienced frequent and long periods of unemployment. A trust can help provide a soft landing, helping to carry them through over a long period of time.

As you can see, these considerations require a review of your circumstances. Talking to an estate planning lawyer can help you determine whether a trust should be a part of your estate plan.