# Trust UPDATE

Stillman BANK

May 2025

## Practical trust planning

You might think that the large amount exempt from federal estate and gift tax ($13.99 million per person in 2025) would reduce the need for estate planning, given that so few families now need to worry about this tax. If so, you would be wrong in that thought because controlling estate taxes was never the primary object of a sound estate plan. Family financial protection has always been the real goal, and tax efficiency simply supports that goal.

Here are five examples (names fictitious, of course) of non-tax objectives that may be addressed through thoughtful estate planning. For each, a trust plays a crucial role in the solution.

### *Financial privacy*

The Smiths are local celebrities. What started as a local dairy store has blossomed into a small chain of popular grocery stores, named for the grandfather-founder, Jim Smith. The Smiths have become big supporters of the local arts community.

It's no surprise, given their prominence, that members of the Smith family are often approached to make donations of one sort or another. They have a convenient response in this situation: "Our trustee handles those inquiries." The family wealth is managed in a collection of trusts, which allows them to deflect uncomfortable questions. What's more, the trusts keep all the details of the family wealth structure private, out of the public eye.

### *Wayward child*

Andy has had trouble "finding himself." He dropped out of college, has never had a stable relationship, and has been working at a series of menial jobs. He had some drug problems as a student, but the rehab stay seems to have done him some good. Still, Andy has never been good at managing money.

Providing Andy's inheritance in trust, instead of outright, will protect that money for Andy's life. A trust turns what could have been a windfall into a long-term financial resource. The assets will also be shielded in the event that Andy marries and subsequently divorces. The trustee may be provided with discretion in making trust distributions, and standards of support may be identified. There will be resources if Andy requires another round of rehab.

### *Special needs child*

Alice has high-functioning autism. Her education has gone well, and she's hopeful about getting a job. Still, Alice is not likely to achieve financial independence. She's likely to need government benefits, such as Medicaid and

*Continued on next page*

Supplemental Security Income, all of her life.

A special needs trust could improve Alice's financial life without impairing her access to need-tested benefits. A variety of restrictions apply to these trusts, but they can make a real difference in the quality of life for a special needs person.

### *Successful child*

Dorothy's successful OB-GYN practice is a source of great pride for the family—she was the first child to go to college and the first to become a doctor. But even the most successful doctors have to be concerned about the threat of malpractice lawsuits.

An inheritance in a discretionary trust for Dorothy, and perhaps for her children, will protect those assets from any future claims that might be made against her. The trustee should be an independent third party.

### *Blended family*

Sam and Janet had two kids when Janet was diagnosed with breast cancer that ultimately took her life. A few years later, Sam remarried, and he and Liz have two children together.

This sort of "blended" family structure has become increasingly common. Balancing the financial needs of multiple generations can be quite challenging. One approach to securing an inheritance for both a surviving spouse and children is the Qualified Terminable Interest Property Trust, known as a Q-TIP trust. The spouse will receive all the trust income, paid at least annually, for life. When the spouse dies, the remaining trust assets are divided among younger beneficiaries, as specified in the trust document.

### *May we tell you more?*

Have these brief examples stimulated your thinking? Could a trust-based wealth management plan be beneficial for you and your family? We have just skimmed the surface of the possibilities. Perhaps the most important aspect of trust planning is that there are no cookie-cutter solutions—every trust plan is crafted for its specific creator and beneficiaries.

Trust administration is our business. We would be pleased to put our expertise at your service. Please call us at your earliest convenience. ☐

## Reflections on who should settle your estate—or be your trustee

**One of the most important questions to be addressed in an estate plan is the choice of executor to supervise the settlement of the estate. If a trust is part of the plan, the choice of trustee is equally crucial. The first thought that many parents may have is to nominate a child for these responsibilities.**

**Before making such a decision, ponder these questions:**

- **Do your children get along?**
- **Do your children get along with each other's spouses?**
- **Are your children able to work together?**
- **How would one child react to his or her sibling managing and distributing the assets?**
- **Are your children financially stable?**
- **Are your children in similar financial situations?**
- **Is there a child you foresee demanding his or her inheritance immediately?**
- **How would one child react to his or her sibling having a position of power over them?**
- **Do your children have time to fulfill fiduciary responsibilities?**
- **Do your children have the financial and personal skills to administer the estate?**

**Some families are fortunate enough to have a child who can handle this job successfully. But sometimes thinking about these questions will lead to the realization that a neutral party with experience in estate settlement is likely to be a better choice for promoting family harmony. We can be that neutral third party.**

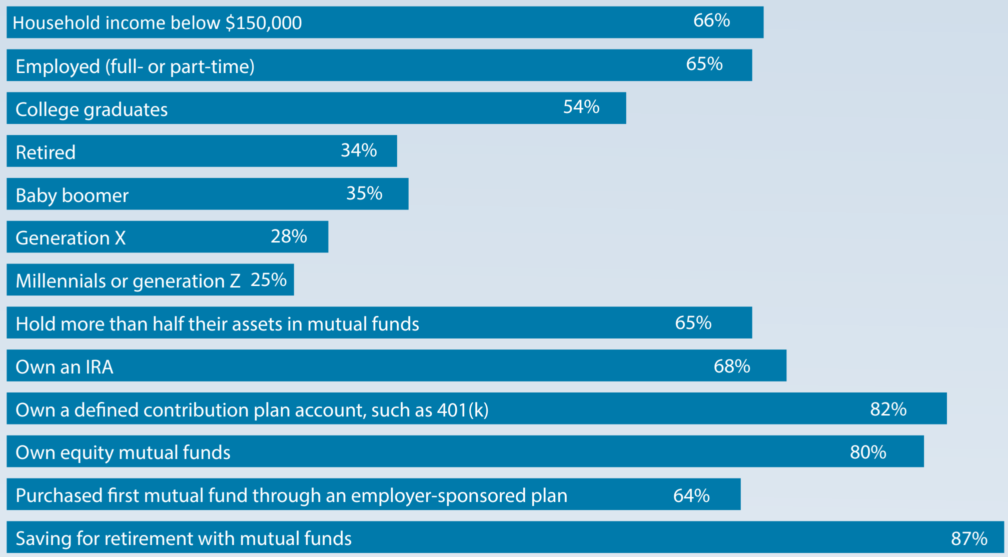
# A nation of investors

According to the Investment Company Institute's 2025 Fact Book, more than 120 million individual investors, representing 71 million U.S. households, own mutual funds. Total mutual fund assets stood at $28.5 trillion at the end of 2024. Equity mutual funds accounted for 53% of that total, and short-term money market funds came second, at 24%. Bond funds had an 18% share, while hybrid funds (both stocks and bonds) rounded out the category.

An exchange-traded fund (ETF) is also a pooled investment vehicle, with the key difference being that investors can buy and sell ETFs at market prices during the trading day. ETFs have been growing in popularity and had $10.3 trillion in net assets as 2024 closed. Some 16.9 million U.S. households owned ETFs in 2024. Of the households that owned mutual funds, an estimated 20% also owned ETFs. Conversely, 84% of households that own ETFs also own mutual funds.

Mutual fund owners are ordinary people. Here are some of their characteristics, according to the 2025 *Fact Book*.

## Mutual fund owners




Source: Investment Company Institute's *2025 Fact Book*

Investors in ETFs have similar characteristics, but they tend to be younger and are more likely to have an IRA (82%). ETF-owning households also have a larger appetite for risk, which is to be expected if they are younger with longer time horizons. In 2024, 24% of all U.S. households reported that they were willing to take above-average risks for the prospect of above-average gains, and 32% of mutual fund investors said the same. For the ETF investors, more than half, 51%, have adopted that higher exposure to risk. Some 93% of households that own ETFs have invested in equity ETFs. ☐

## Great moments in fund history

| | |
|---|---|
| 1924 | The first mutual funds are established in Boston |
| 1933 | The Securities Act of 1933 regulates the registration and offering of new securities, including mutual fund and closed-end fund shares, to the public. |
| 1940 | The Investment Company Act of 1940 is signed into law, setting the structure and regulatory framework for registered investment companies. |
| 1951 | The total number of mutual funds surpasses 100, and the number of shareholder accounts exceeds one million for the first time. |
| 1971 | Money market funds are introduced. |
| 1990 | Mutual fund assets top $1 trillion. |
| 1993 | The first exchange-traded fund (ETF) shares are issued. |
| 1994 | Target date (life cycle) funds are introduced. |
| 1997 | Roth IRAs become available. |
| 2017 | Significant tax reform is enacted, and Congress rejects proposals to raise revenue by limiting retirement savings tax incentives. |

Source: Investment Company Institute's *2025 Fact Book*

## New target date

Hopes for passage of a major tax bill by Memorial Day have faded, as Treasury Secretary Scott Bessent told reporters on April 28 that the target for passage is now July 4. The top priority is preservation of the tax changes from the 2017 tax reform that are due to expire at year-end. The following tax changes are also still under discussion:

- repeal or modification of clean energy tax credits from the Inflation Reduction Act;
- modification of the $10,000 cap on the deduction for state and local taxes;
- elimination of taxes on tips, overtime pay, and Social Security benefits;
- deductibility of interest on auto loans for American-made cars; and
- 100% expensing for equipment purchases.

## E-filing booms

According to the Treasury Inspector General for Tax Administration (TIGTA), the number of e-filed tax returns this year grew to 136.6 million, up from 134.1 million last year. Paper returns fell from 7.0 million to 6.2 million.

TIGTA highlighted some problems from last year's tax filings. Under a change made in the SECURE 2.0 Act, an early distribution from a qualified plan for disaster relief may avoid the usual penalty tax for premature distributions. The relief distribution limit is $22,000. TIGTA identified 11,000 tax returns claiming that exemption. Of these, 39 taxpayers claimed the exemption for approximately $1 million in distributions, resulting in an underpayment of tax of about $100,000 each.

The "Alternative Fuel Vehicle Refueling Property Credit" was improperly claimed on 84,000 e-filed returns, according to TIGTA.

## Reduction in force

An estimated 20,000 IRS employees have opted into the deferred resignation program to date. All of the employees in the Taxpayer Experience Office and the Office of Equity, Diversity and Inclusion will be terminated, according to a memo reviewed by Tax Notes. The roughly 2,000 IRS employees in the Taxpayer Advocate Service will be retained – they assist taxpayers and advocate for improvements in tax administration. ☐