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Revocable vs. Irrevocable Trusts: What's The Difference?

Trusts are among the most common tools used in estate planning, and for good reason. They offer flexibility, privacy, and in some cases, significant tax and asset protection benefits. Most people have heard of trusts, and may even have one in place, but what's often overlooked is just how many different types of trusts exist. Not all trusts are the same, and they aren't interchangeable.

Despite their diversity, every trust falls into one of two broad categories: revocable or irrevocable. Understanding the difference between these two classifications is foundational to understanding how any trust actually works and whether it aligns with your estate planning goals.

Revocable trusts: the flexible option

A revocable trust, sometimes called a living trust, is designed to give you maximum flexibility during your lifetime. As the grantor, you retain full control over the trust and its assets. You can amend its terms, add or remove beneficiaries, and even dissolve the trust entirely if your goals or circumstances change.

This structure is most useful for avoiding probate, which is a legal process that can delay distributions and make estate details public after a person's passing. With a revocable trust, assets typically pass directly to beneficiaries according to your instructions, privately and without court involvement.

But this control has its limits. Because you retain ownership over the assets during your lifetime, a revocable trust usually doesn't offer protection from estate-related taxes and costs, creditors, or lawsuits. It also has limited utility in Medicaid planning, since the assets remain available for your benefit.

Note about estate-related costs

It's important to note that federal estate taxes only apply to estates exceeding $13.99 million in 2025, but many estates face other costs. Several states impose their own estate or inheritance taxes. Additionally, probate fees, executor commissions, and court costs often scale with estate value, meaning even moderate estates can incur substantial expenses.

Irrevocable trusts: the protective shield

An irrevocable trust is the opposite in terms of control. Once assets are transferred in, the grantor usually can't change the terms, retrieve the assets, or dissolve the trust without the consent of the beneficiaries or a court. While some irrevocable trusts can be modified depending on state law and trust provisions, this is more of an exception than the rule.

This permanent structure can feel restrictive, but it creates powerful advantages. Assets in an irrevocable trust may be removed from your taxable estate if structured properly and if the grantor does not retain certain powers or interests over the assets, making them a valuable tool in strategies to protect wealth from transfer-related expenses. They may also be shielded from personal creditors and legal judgments, depending on state law, the timing of the transfer, and whether the transfer was made with the intent to defraud creditors. And, if structured correctly, assets may be excluded from certain government benefit calculations, including Medicaid, as long as the transfer occurs outside of Medicaid's look-back period.

Irrevocable trusts are often used in more complex planning scenarios, like transferring appreciating assets out of an estate, holding life insurance, supporting a disabled family member, or making charitable gifts while retaining income.

Ultimately, the loss of control offered by an irrevocable trust is both deliberate and strategic.

Beyond the basics: tax, creditor, and funding considerations

While understanding control and flexibility is key, there are additional trust mechanics that can materially affect long-term outcomes.

Tax treatment of income

For income tax purposes, revocable trusts are disregarded, meaning the grantor reports all income personally. However, irrevocable trusts are separate tax entities with compressed brackets, which means that they reach the highest federal income tax rate far sooner than individuals do. This is why trustees often distribute the trust's income to beneficiaries when appropriate, so income is taxed at the beneficiary's rate.

Creditor protection isn't automatic

Also, despite common assumptions, not all irrevocable trusts offer full protection from creditors. State laws govern the extent of that protection, and trusts that allow the grantor to benefit from trust assets, such as some domestic asset protection trusts, may not be enforceable in all jurisdictions.

Trust funding is essential

And finally, it's important to note that trusts must be funded. They only govern assets that are actually placed in the trust, which means titles must be updated, deeds recorded, and beneficiary designations reviewed. Without this step, even the most carefully drafted trust may be ineffective when it matters most.

Side-by-side comparison

Feature	Revocable Trust	Irrevocable Trust
Control	Retained by grantor	Relinquished by grantor
Ability to Amend	Yes	Rarely (requires consent)
Probate Avoidance	Yes	Yes
Estate & Transfer Tax Benefits	No	Yes (if structured properly)
Creditor Protection	Generally no; limited*	Yes
Medicaid Planning Use	Limited	Yes (with planning)

**Some states provide limited creditor protection for revocable trusts in certain circumstances.*

Which trust is right for you?

The choice between a revocable and irrevocable trust isn't about which one is "better." It's about what you need your trust to do. If you want flexibility, privacy, and a simple way to avoid probate and probate-related costs, a revocable trust may be appropriate. But if your priorities include reducing estate and inheritance taxes, protecting wealth from liability, or preserving assets for future generations, an irrevocable trust may offer the long-term protection you need, as long as you're comfortable giving up control.

Either way, trust planning is too important to approach casually. The structure, terms, and funding of a trust all impact its effectiveness, and errors can create unintended tax consequences or legal exposure. That's why it's essential to consult with an experienced advisor who can align your trust strategy with your overall financial objectives.

Next Step

This article is intended to provide a brief overview of revocable and irrevocable trusts and is not legal advice. For a deeper evaluation of your estate strategy or to review your current trust structure, consult with your legal or tax advisor.

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Wilmington Office:
503 Carr Road, Suite 120
Wilmington, DE 19809
(302) 652-4194

Dover Office:
3702 North DuPont Highway
Dover, DE 19901
(302) 730-4560

dmphillips@horty.com

https://www.horty.com/