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## Estate Planning with Grantor Retainer Annuity Trusts (GRATs)

While an economy that sparks talk of recession is not commonly viewed as good, it can be an ideal situation for certain estate planning techniques, such as Grantor Retained Annuity Trusts (“GRATs”). GRATs are powerful tools through which an individual (a “Grantor”) may transfer assets to his or her named beneficiaries (“Remainder Beneficiaries”) thereby moving assets likely to appreciate out of the Grantor’s estate and enabling the Grantor to enjoy substantial savings in estate and gift tax. While there are some risks associated with creating a GRAT, they are generally considered to be a low risk estate planning tool.

The basic mechanics of a GRAT involve the Grantor transferring assets into the GRAT for a certain period of time (the “GRAT Term”). The Grantor retains an annuity income interest (the “Annuity Interest”), which is paid back annually to the Grantor over the GRAT Term (and is included in the Grantor’s gross estate). Remaining assets in the GRAT, if any, are distributed to the Remainder Beneficiaries and, therefore, are excluded from the Grantor’s taxable estate. To ensure there are assets remaining for the Remainder Beneficiaries, GRAT assets must appreciate at a rate greater than the “7520 interest rate,” which is used to determine the present value of the Annuity Interest and is currently set at 3.2% with the June rate being 3.8%. The Grantor may incur a gift tax for the transfer of assets to the GRAT; however, the GRAT may be structured so that the gift tax is minimized, if not eliminated, by adjusting the Annuity Interest.

A risk factor in using a GRAT is the relative unpredictability of the Grantor’s life span. If the Grantor does not survive the GRAT Term, the GRAT assets will be returned to the Grantor’s estate. However, a specialized technique called a “Rolling GRAT” has become increasingly favored given that it involves creating a series of short-term GRATs (typically two or three years) with each successive GRAT funded by the Annuity Interest payments from the previous GRATs. In addition, in many cases, over the long term, Rolling GRATs outperform single longer-term GRATs.

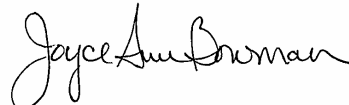
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We hope you find this information helpful. Please contact us if you have any questions on this estate planning technique or any other estate planning and tax matters. ***If you would prefer not receive this newsletter, please send an email to [gg@gelttaxlaw.com](mailto:gg@gelttaxlaw.com) with the subject line "remove-newsletter."***

Very truly yours,

GELT & GRASSGREEN P.C.

A handwritten signature in cursive script that reads "Joyce A. Bowman".

Joyce A. Bowman, Esq.

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