

YOUR GUIDE TO GRATS

GRANTOR RETAINED ANNUITY TRUSTS

Consider this compelling and powerful gift and estate tax strategy if you want to potentially reduce your taxable estate. This detailed guide explains what you need to know about GRATs and if they are the right choice for you and your family.



ESTATE PLANNING

Take control of your life and legacy.

A COMPELLING GIFT AND ESTATE TAX STRATEGY: The Grantor Retained Annuity Trust (GRAT)

Why Consider a GRAT?

This relatively low cost, “heads I win, tails I don’t lose” estate planning technique may make sense for families with taxable estates. Why? It allows some or most of the growth of the assets in a GRAT to escape estate tax and gift tax.

Let’s say that a couple has an estate worth \$20 million and plan to leave all their money to their children. Upon the death of the second spouse, the estate would have to pay taxes on \$9.32 million, the excess over the \$10.68 million estate tax exclusion. With the current top Federal estate tax rate at 40% and many states adding on an additional estate tax, a substantial portion of their assets would go to the government to pay the estate tax rather than their heirs.

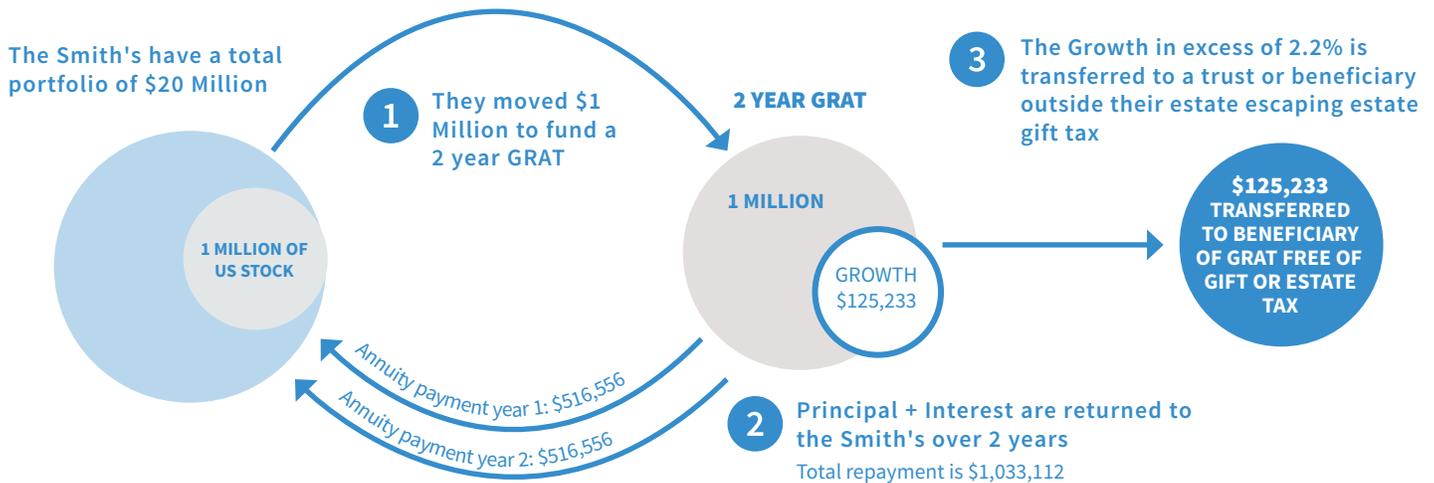
How Does a GRAT Work?

- 1 An individual (grantor) makes an irrevocable gift to a trust for a period of time, let’s say, two years.
- 2 The principal paid in to the GRAT must be returned to the grantor with minimal interest.
- 3 Any growth of the assets in the GRAT that’s more than the principal and interest is then outside the grantor’s taxable estate.

LET'S LOOK AT THE SMITHS:

Assumptions:

Portfolio Growth = 10% per year | 7520 Rate = 2.2% per year (Sept. 2015)



Why Now?

The current low interest rate environment makes this technique very attractive. The IRS determines the interest rate that must be paid to the grantor, called the 7520 rate (currently 2.2% in September 2015). The lower the interest rate, the easier it is for the growth of the assets in the GRAT to exceed this amount in order to be successful.

GRATs can be set up for any time period, but must be a minimum of 2 years.

Who is a Good Candidate?

Criteria include an individual or family...

- Who has, or anticipates having a taxable estate, meaning their assets exceed \$5.34 million for an individual, or \$10.68 million for a married couple – the current federal taxable estate limit in 2015.
- Assets with strong growth potential.
- Is confident that their assets will be sufficient to sustain their retirement and income needs for their lifetime.
- Wants to move some or most of the growth of a portion of their assets (less interest) outside of their estate in a gift tax-free manner.

What About Rolling GRATs?

More often than not, we recommend "rolling GRATs" to our clients. The grantors make an initial contribution into a GRAT. When the annuity payment is returned to them, they **reinvest this into another GRAT**. By rolling shorter, consecutive GRATs and reinvesting the annuity payment into future GRATs, the grantors have a greater opportunity to move more money out of their taxable estate.

Complex? Not really. Since the additional two or perhaps three new GRATs are identical, (except for their dates) the added legal costs are nominal.

Growth Assumption: 10% per year

7520 Rate Assumption: 2.2% per year

GRAT	Funding Source	Contribution into GRAT	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Remainder to Beneficiary
1	Grantor	\$1,000,000	\$516,556	\$516,556					\$125,233
2	GRAT 1	\$516,556		\$266,830	\$266,830				\$61,690
3	GRAT 1 & 2	\$783,386			\$404,662	\$404,662			\$98,106
4	GRAT 2 & 3	\$671,492				\$346,863	\$346,863		\$84,093
5	GRAT 3 & 4	\$751,525					\$388,204	\$388,204	\$94,116
Subtotal			\$516,556	\$783,386	\$671,492	\$751,525	\$735,067	\$388,204	\$463,238

Total Payments Back to Grantor: \$1,123,272

Total Assets Gifted to Beneficiary: \$463,238

HOW CAN GLASSMAN WEALTH SERVICES HELP YOU

Glassman Wealth Services works with our clients and their estate planning attorneys to determine if they might be a good candidate for a GRAT. For more information, please call us at 703-534-4444 or consult your estate planning attorney.

What's the Best Way to Fund a GRAT?

The allocation of a GRAT should be concentrated and/or aggressive, meaning that you want to put those assets with the most potential for growth in a GRAT. Remember, the GRAT technique uses growth above a threshold to move assets outside of one's estate, so it does not make sense to fund it with conservative assets or a diversified portfolio.

With larger estates, it may make sense to establish several GRATs. For example, an individual can have one GRAT with US equities, one GRAT with international equities, and one GRAT with real estate. With this format, if one asset class struggles during the term of the GRAT, the other two GRATs maximize the removal of assets from the estate.



Travis Russell

Travis Russell, CFP®, Vice President and Client Advisor at Glassman Wealth Services, specializes in more complex financial planning and investment strategies. To help you better understand whether you should consider a GRAT, he answered a few frequently asked questions from our clients.

FREQUENTLY ASKED QUESTIONS

1. What happens to the GRAT if the market goes down and the assets lose value during the term of the trust?

If the value of the assets falls below the value of the annuity payments, the assets are used to cover as much of the annuity payments as possible. The trust is closed down at the completion of the term and no assets are removed from the estate. The only cost to the grantor is the legal work to set it up and the cost to file a gift tax return. A small amount of their exemption is used.

2. What happens if the grantor dies during the term of the GRAT?

The assets move back into the original account and it's as if the GRAT was never formed. The only cost to the grantor is the legal work to set it up and the cost to file a gift tax return. A small amount of their exemption is used.

3. Are there taxable consequences to move assets to/from the GRAT?

No, there are no taxable consequences and assets don't need to be sold to be transferred between the accounts. Assets (cash, stocks, mutual funds, etc) are transferred in-kind to complete the funding and annuity payments.

4. Who pays the taxes on the investments in the GRAT?

The trust is a grantor trust so all taxable activity is attributed to the grantor.

5. What happens to the basis of stock upon the completion of the GRAT terms?

The basis is carried over to the beneficiaries, whether it's a trust or an individual. There is no step-up in basis. This is an important consideration.



We're here to help. Please call us at 703-534-4444

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-  LIVING WELL IN RETIREMENT
-  SMART INVESTING
-  ESTATE PLANNING
-  MANAGING LIFE'S RISKS
-  NEXT GENERATION

About Glassman Wealth Services

“That’s refreshing...”

“Refreshing” isn’t a word many people associate with a wealth-services firm, but it’s how our clients describe us. Because we approach things differently. Because we’re not afraid to be candid. Because we manage over \$800 million* in assets, yet remain a resolutely boutique firm offering personalized service. And while we're honored that Barron's and Washingtonian, among others, have named us as a Top Financial Advisory firm, we still care more about the reputation we’ve earned with our clients.

We invite you to get to know us and learn what we can do for you.

For more information or to speak with an advisor, please call us at 703-534-4444.

**Assets Under Management are as of 8/31/15.*

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