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 can make sense for families worried about a taxable estate. Why? It allows some or most of the growth of the assets in a GRAT to escape estate tax and gift tax.

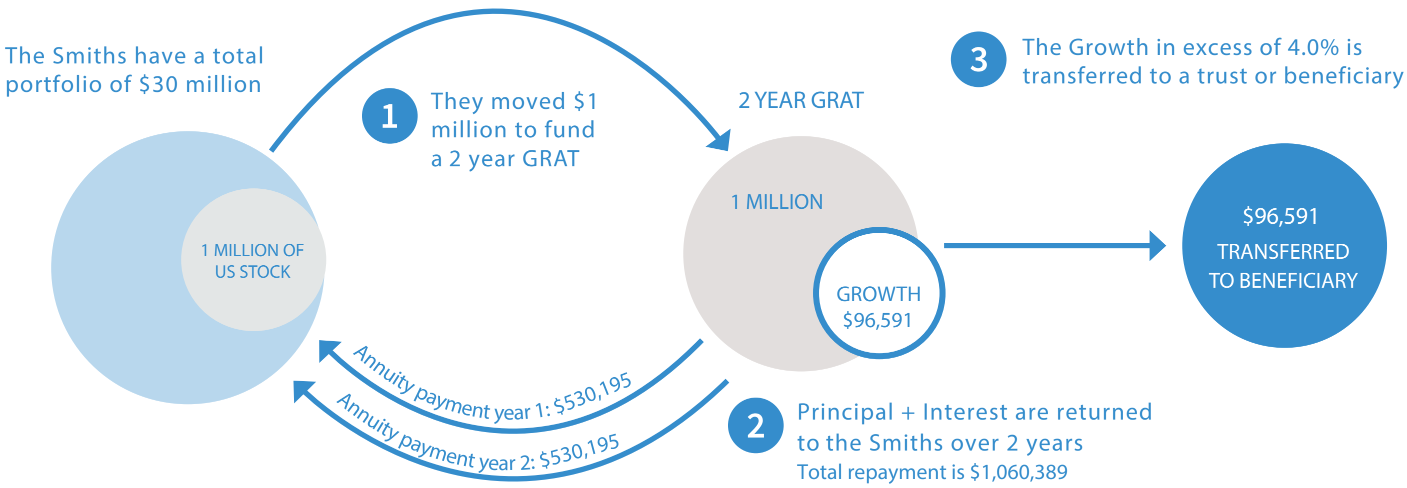
Let's say that a couple has an estate worth $30 million and plans to leave all their money to their children. Upon the death of the second spouse, the estate would have to pay taxes on about $4.16 million, the excess over 2023's $25.84 million estate tax exemption. With the current top Federal estate 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 into the GRAT must be returned to the grantor with interest.
3. Any growth of the assets exceeding principal and interest (as defined by the IRS 7520 rate) is paid to the beneficiary, outside the grantor's taxable estate.

LET'S LOOK AT THE SMITHS:

Assumptions:
Portfolio Growth = 10% per year | 7520 Rate = 4.0% per year



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 (4.2% as of June 2023). The lower the interest rate, the easier it is for the GRAT to be successful when investment growth within the GRAT exceeds this rate.

> GRATs can be set up for any time period, but they 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 a net worth over $12.92 million for an individual or $25.84 million for a married couple, based on the current federal estate exemption in 2023. These numbers are scheduled to be cut approximately in half in 2026.
- Owns assets with strong growth potential.
- Is confident that their current assets will be sufficient to sustain their lifestyle.
- Wants assets to grow outside their taxable estate while minimizing gift tax implications.

What About Rolling GRATs?

More often than not, we recommend "rolling GRATs" to our clients. The grantor makes 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 money out of their taxable estate without relying on market timing.

Complex? Not really. Since the additional GRATs are similar to the first GRAT (except for their dates), the added legal costs are nominal.

Growth Assumption: 10% per year   7520 Rate Assumption: 4.0% per year

GRAT	Funding Source	Contribution into GRAT	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Remainder to Beneficiary	Interest to Grantor
1	Grantor	$1,000,000	$530,195	$530,195					$96,591	$60,389
2	GRAT 1	$530,195		$281,106	$281,106				$51,212	$32,018
3	GRAT 1 & 2	$811,301			$430,147	$430,147			$78,365	$48,994
4	GRAT 2 & 3	$711,254				$377,103	$377,103		$68,701	$42,952
5	GRAT 3 & 4	$807,250					$428,000	$428,000	$77,973	$48,749
		Subtotal	$530,195	$811,301	$711,254	$807,250	$805,102	$428,000	$372,843	$233,102

Total Principal & Interest to Grantor: $1,233,102   Total Transferred to Beneficiary: $372,843

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 investments in a GRAT should have growth potential above the 7520 rate, so investments that are more concentrated/aggressive are great candidates for funding a GRAT. Remember, GRATs rely on growth above a threshold to move assets outside of one's estate, so it generally does not make sense to fund a GRAT with conservative assets.

With larger estates, it may make sense to establish several GRATs at once. For example, an individual can create one GRAT with US equities, one with international equities, and one with real estate. With this setup, even if one asset class struggles during the term of the GRAT, the other two GRATs may still succeed in transferring money outside the estate.

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 up the GRAT and the cost to file a gift tax return. A small amount of their gift exemption may be used.

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

The assets transfer back to the grantor, and it's as if the GRAT was never created. 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 gift exemption may be used.

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

No, there are no income tax consequences, and assets don't need to be sold to be transferred between accounts. Assets (cash, stocks, mutual funds, etc.) can be 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 from interest, dividends, or realized capital gains are taxed to the grantor.

5. What happens to the cost basis of a stock upon completion of the GRAT term?

The cost basis is carried over to the beneficiaries, whether the beneficiary is 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

GWISDOM

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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 $1.5 billion* in assets, yet remain a resolutely boutique firm offering personalized service. And because despite the significant industry recognition we've achieved**, we still care more about the reputation we've earned with our clients.

**Assets Under Management are as of 3/31/23*

***See disclosures at: https://www.glassmanwealth.com/important-disclosure-information/*

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WEALTH SERVICES

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