

**ADVANCED
PLANNING****Wealth Transfer Strategies**
Grantor Retained Annuity Trust

A Grantor Retained Annuity Trust can help you transfer assets to the next generation at a reduced gift tax cost, and receive a stream of fixed income over the trust term.

DO YOU IDENTIFY WITH THE FOLLOWING?

- ▶ You want to reduce the transfer tax cost of passing your estate to your family.
- ▶ You have assets that are expected to appreciate in value over the next several years.
- ▶ You are reluctant to give up the income from the assets for a limited period of time.

IF SO, YOU MAY WANT TO CONSIDER ESTABLISHING A GRANTOR RETAINED ANNUITY TRUST (GRAT).

- ▶ A GRAT is an irrevocable trust that you can transfer assets to at a reduced gift tax cost.
- ▶ It provides that, at the termination of the GRAT, the assets remaining will either pass to your beneficiaries or will continue to be held in trust for their benefit.

BENEFITS TO THE GRANTOR AND THE HEIRS

- ▶ The GRAT enables the grantor to transfer assets to or for the benefit of family members at a fraction of their actual market value for gift tax purposes.
- ▶ The GRAT enables the grantor to make a current gift of assets at a reduced gift tax cost, while allowing the grantor the right to receive a fixed income interest during the term of the GRAT.

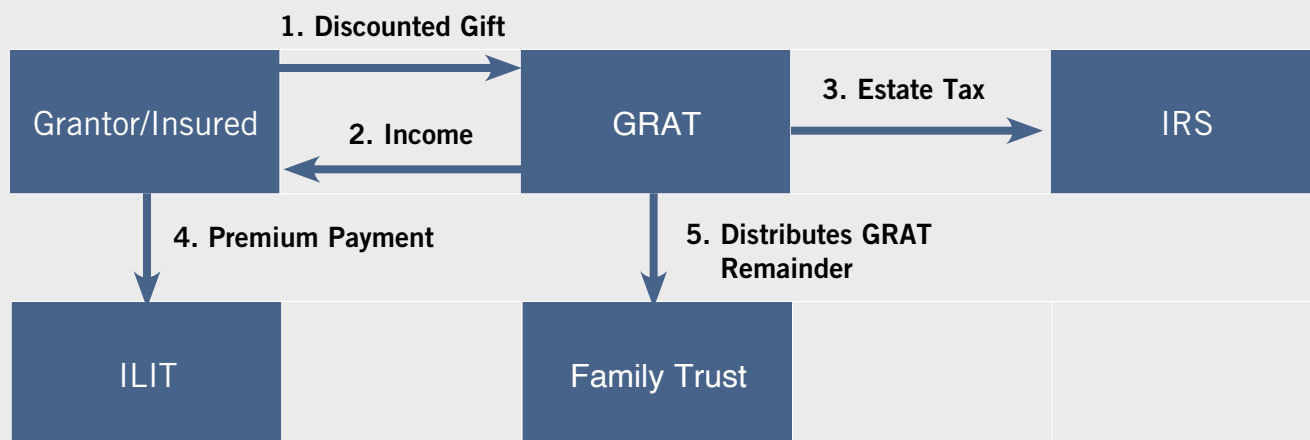
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INVESTMENT AND INSURANCE PRODUCTS ARE:

- NOT FDIC INSURED
- NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY
- NOT A DEPOSIT OR OTHER OBLIGATION OF, OR GUARANTEED BY, ANY BANK OR ITS AFFILIATES
- SUBJECT TO INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED



STRUCTURE OF THE GRANTOR RETAINED ANNUITY TRUST (GRAT)



1

Working with their tax and legal advisors, the grantor establishes a GRAT for a selected term of years and designates the family member(s)/trust beneficiaries who will receive the assets at the end of the term. The grantor transfers assets to the GRAT. This is considered a gift from the grantor. The transfer does not qualify for the annual gift tax exclusion, but because the grantor retains an income interest, the value of the gift is discounted for gift tax purposes. The gift does qualify for the applicable exclusion amount of \$13,610,000 (2024), indexed annually for inflation.

2

The grantor retains a fixed income interest during the term of the GRAT.

3

If the grantor dies during the term of the GRAT, the value of the GRAT will be included in the grantor's estate and subject to estate tax.

4

To protect against the estate tax liability that will be incurred if the grantor dies prior to the end of the GRAT, the trustee of an irrevocable life insurance trust (ILIT) may purchase life insurance on the grantor. The life insurance death proceeds may be used to help pay the additional estate tax caused by including the assets in the grantor's estate.

5

At the end of the GRAT's term, the assets remaining in the trust will pass to, or continue to be held in trust for, the grantor's family or other beneficiaries. If the grantor survives the term of the GRAT, the assets and the appreciation (if any) on those assets will be excluded from the grantor's taxable estate.

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TAX CONSIDERATIONS

- ▶ The transfer of the assets by the grantor to the GRAT will be subject to gift taxation but because the grantor retains an income interest, the value of the gift for gift tax purposes is reduced by the grantor's interest. The transfer will not be eligible for the annual gift tax exclusion.
- ▶ The value of the gift will depend upon the length of the GRAT term chosen by the grantor, the income interest retained by the grantor, and the applicable federal mid-term rate for the month the assets are transferred to the GRAT. The longer the GRAT term, the greater the retained income, the lower the applicable federal mid-term rates, and the lower the taxable gift to the family member.
- ▶ As a grantor trust, all items of GRAT income will be reported on the grantor's personal income tax return. The grantor will not recognize gain if trust principal is distributed for the annuity payout.
- ▶ The grantor's death during the term of the GRAT will cause the GRAT to be included in the grantor's estate.
- ▶ The generation-skipping tax exemption cannot be allocated to a trust until the end of the grantor's retained interest (i.e., end of the estate tax inclusion period).
- ▶ If the grantor survives the term of the GRAT, the remaining assets and their appreciation will be excluded from the grantor's estate. The family members will not receive a stepped-up basis in the assets unless the assets are included in the grantor's estate.
- ▶ Life insurance death proceeds payable to the ILIT will be excluded from the insured's taxable estate provided the grantor/insured possesses no incidents of ownership in the life insurance policy.

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