



ROLLING GRANTOR RETAINED ANNUITY TRUSTS (“GRATs”)

Perpetual Estate Tax Savings

In a time of uncertainty with respect to the future of the federal estate tax, there is a valuable low-risk strategy available to reduce the size of your taxable estate: rolling GRATs.

Rolling GRAT Overview

- Grantor creates a short-term GRAT, which is an irrevocable trust that provides for an annuity payment to the grantor for a set period (usually two or three years).
- Grantor contributes assets to the GRAT (generally, marketable securities work best).
- The GRAT is “zeroed out”; that is, due to the IRS method for calculating the value of the grantor’s retained interest in the trust and value of the remainder interest, the taxable gift to the trust is nominal and uses virtually no lifetime gift tax exemption.
- At the end of the GRAT term, assuming the grantor survives, the balance of the GRAT assets are distributed to the remainder beneficiary, which is often an irrevocable “receptacle” trust for the benefit of the grantor’s family.
- Grantor then “rolls” the assets returned in the form of the annuity payments into another GRAT and continues to do this at the end of each GRAT term. This continually removes assets from the grantor’s estate.

Rolling GRAT Advantages

- Nominal Use of Gift Tax Exemption.** The amount gifted to a rolling GRAT uses almost none of the grantor’s lifetime federal gift tax exemption. As a result, assets are removed from the grantor’s estate while preserving his or her estate and gift tax exemption.
- Retained Use of Assets.** The grantor can transfer a significant amount of assets to the GRAT without concern because most of the assets will be returned to the grantor in the form of the annuity payments (see example below).
- Tax Reduction.** So long as the investment performance of the assets contributed to the GRAT exceeds the Section 7520 rate, there will be a remainder passing free of estate tax.
- Low Risk.** If the grantor does not outlive the GRAT term, the value of the GRAT will be included in the grantor’s estate and subject to estate tax. However, the grantor will have used such a small amount of gift tax exemption, he or she is no worse off than if the GRAT had not been created.

Example

- Grantor creates a 3-year GRAT on November 30, 2019, when the Section 7520 rate is 2.00% and funds it with \$10,000,000 in marketable securities:
- The optimal annuity percentage is 34.67526% and the taxable gift is \$1.77 per IRS calculations.

Year	Beginning Bal.	5.00% Growth	Annuity Pmt.	Remainder
1	\$ 10,000,000.00	\$ 500,000.00	\$3,467,526.00	\$ 7,032,474.00
2	\$ 7,032,474.00	\$ 351,623.70	\$3,467,526.00	\$ 3,916,571.70
3	\$ 3,916,571.70	\$ 195,828.59	\$3,467,526.00	\$ 644,874.29

- Based on a 5% rate of return, \$644,874.29 would be distributed to the remainder beneficiary and removed from the grantor’s taxable estate. The grantor can then “roll” the \$10,402,578 received from the GRAT into another short-term GRAT and continue to remove assets from his or her estate.