

## GRANTOR RETAINED ANNUITY TRUST (GRAT)

The tax code allows individuals to give assets to a trust (Grantor Retained Annuity Trust) and in return receive an annuity income. The annuity payments are determined based on the length of the trust term and the interest rate. If the value of the annuity stream is less than the value of the initial gift, the difference is gift taxable. **All growth within the trust in excess of the annuity payments owed to client will pass to the trust beneficiaries estate tax-free.**

### HOW IT WORKS:

- *GRATs are typically structured so the value of grantor's annuity income equals the value of their initial gift. This is referred to as a "Zeroed-Out" GRAT.*
- *The interest rate used to determine the annual annuity payments is known as the Section 7520 rate. The lower the rate, the greater the potential for growth beyond the annuity payments back to the grantor.*
- *Clients will often fund a new GRAT with each annuity payment they receive. This is referred to as a "Rolling GRAT" structure, and allows for a larger estate planning benefit, with all annuity income redeployed into trust.*
- *If the grantor dies before the trust term ends, most or all the trust assets will be includable in their estate. The minimum term for a GRAT is 2 years.*

### WHO IT HELPS:

- *Clients who want to make transfers to trust for children and grandchildren.*
- *Clients who want to retain their lifetime exemption for other gifting opportunities or who have used all their exemption already.*
- *Clients who are comfortable with the trust(ee) becoming the "decision-maker" regarding the gifted assets.*
- *Clients with a life expectancy greater than the GRAT term.*
- *Clients with high-growth assets that can beat the Section 7520 rate over the term of the GRAT.*
- *Clients who are conservative regarding tax planning and want only strategies with little to no audit risk.*

**-SEE CASE STUDY ON NEXT PAGE-**



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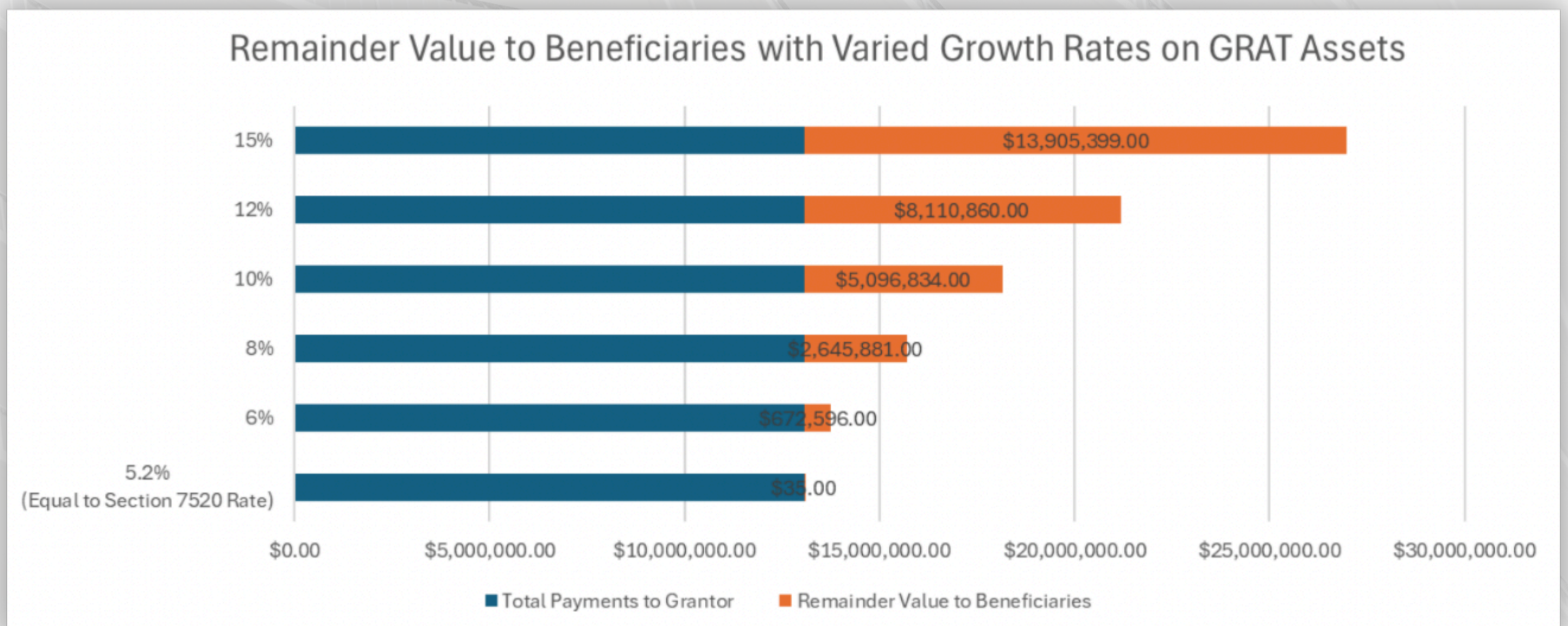




## MARK ZUCKERBERG, PRE-IPO FACEBOOK

Mark Zuckerberg famously put over 3 million shares of his pre-IPO Facebook stock into a GRAT, making his planning one of the most well-known and most successful examples of the GRAT strategy. Forbes has reported that the pre-IPO shares were valued at just over \$3,000,000 when Zuckerberg executed the GRAT. Those same shares are currently worth over \$1,600,000,000, meaning Zuckerberg has to-date reduced his eventual estate taxes by over \$600,000,000.

### HYPOTHETICAL EXAMPLE: \$10M CONTRIBUTION TO A 10-YEAR ZEROED-OUT GRAT\*



*\*<https://www.rogerhealy.com/gratcalculator.aspx>*



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