WELLS FARGO Advisors

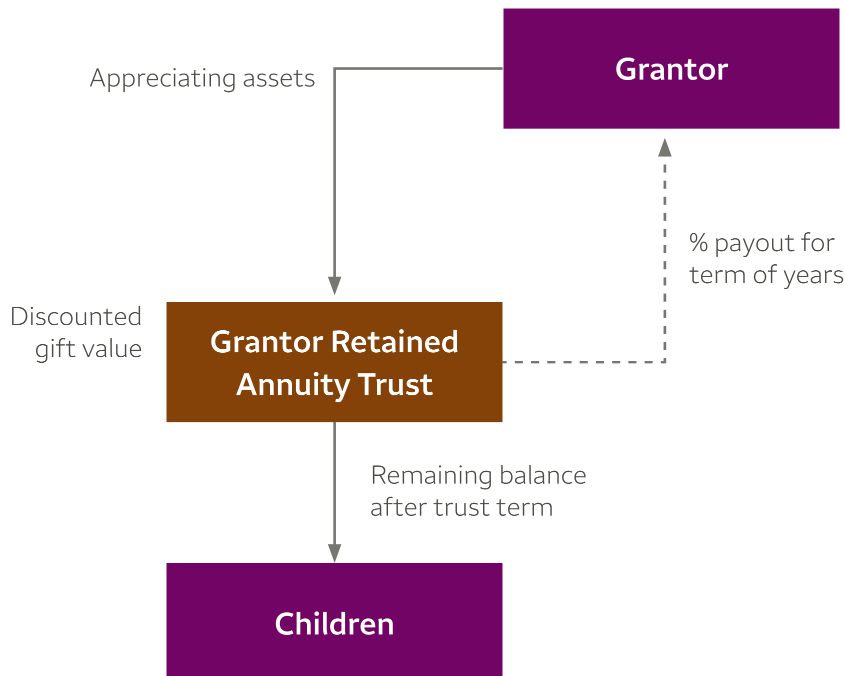
Any Questions?
Call (949) 862-1233
WELLS FARGO Advisors

Grantor Retained Annuity Trust (GRAT)

How does it work?

The main purpose of this strategy is to move assets with potential future growth out of your estate and to your beneficiaries in a tax-efficient manner.

- You gift assets to an irrevocable trust. You choose assets that are expected to appreciate, such as interests in your business or certain marketable securities.
- The trust makes a stated payout to the grantor (you) for a selected term of years.
- If you die during the term, a portion of the trust value will be included in your taxable estate.
- If you survive the term, all remaining assets go to named beneficiaries, outright or in trust.
- The gift to beneficiaries is discounted to its expected "present value."
- Gift could be zero if payout is high enough.
- This is a grantor trust during the payout term — all income is taxable to you, whether you receive it or not.



Investment and Insurance Products: • NOT FDIC Insured • NO Bank Guarantee • MAY Lose Value

This strategy could fit if:	This strategy may not fit if:
• You have exposure to federal estate tax. • You want to gift business ownership or other appreciating assets to family members.	• Interest rates are high, so the IRS mandated interest rate is relatively high. (This results in a lower “discount” on your gift.)
• Interest rates are low, so the IRS mandated discounted rate is low. (This results in a larger “discount” on your gift.)	• You are not willing to give up control of the trust property.
• You expect the gifted assets to grow faster than the IRS mandated discount rate.	• There is a strong possibility that the gifted property will decline in value during the trust term, or that appreciation will not exceed the IRS mandated discount rate.
• You expect to outlive the term of the trust.	• There is a significant risk that you will die before the trust term ends. (If you die during the term of the trust, trust value is included in your estate.)

What else should you consider?

- When you gift business interests (or any assets) to a GRAT, you may need to use up some or all of your remaining gift tax lifetime exemption.
- A variation, called a “zeroed-out” GRAT, is sometimes employed when your lifetime gift exemption has already been used. A zeroed-out GRAT has a very high payout so that the present value of the taxable gift is reduced to zero.
- It would be unusual to transfer an entire business through a GRAT; more often, this strategy is used to transfer partial interests in a business as part of an overall estate plan.

How is this strategy implemented?

- Work closely with your tax advisors to make sure you understand all of the income tax, gift tax, and estate tax implications, and meet all tax reporting requirements.
- If you gift business interests to a GRAT, an independent appraisal will be required.
- Your attorney can prepare necessary documentation for the trust.

Talk to Wells Fargo Advisors

We welcome the opportunity to work with you to help you achieve your planning goals. Contact us for more information and to learn about how we can assist you.

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