

September, 2010

GRAT Expectations.

All-Time Opportunity to Exploit Tax-Favored Strategy

The coming month of October is presenting a historic opportunity to take advantage of a well-established tax-saving strategy, the Grantor Retained Annuity Trust (GRAT). The reason: The IRS has just announced historically-low applicable federal rates for October - and with them, a historically low "Section 7520" rate of only 2.0%. The lower the 7520 rate, the greater the tax-saving potential of a GRAT. And the 7520 rate has *never* been lower.



A GRAT serves to minimize the value of assets ultimately transferred to beneficiaries - and thereby minimize tax costs - by freezing the assets' current value in the grantor's estate. Under this strategy, a grantor transfers property into a trust that will pay a fixed annuity back to him or her for a fixed period of time. The annuity payments include an implicit interest component at the 7520 rate. At the end of the annuity term, the remainder beneficiaries get whatever is then left in the trust (often in a continuation trust). If the assets' yield over the term exceeds the 7520 rate - only 2% for GRATs created next month - there will be a surplus in the trust to pass on to the beneficiaries. Because a GRAT typically is structured to result in a near-zero gift at inception, that surplus passes essentially without any gift or estate tax.

While one might be tempted to hope that the 7520 rate might decline still further, there does not seem to much more room for it to continue to fall. In addition, one should be mindful that legislation has been introduced in Congress over this past year to tighten the GRAT rules. Though nothing has been enacted, GRATs clearly are in the crosshairs of a number of legislators. This suggests another reason for anyone interested in a GRAT to act sooner, rather than later.

October's historically low interest rate will similarly favor a number of alternative tax-saving strategies, including intra-family loans and sales to intentional grantor trusts (an alternative estate-freeze strategy).

If you'd like to learn more, please feel free to contact any of us at Brier & Geurden at (781) 453-0030 or at kbrier@brierlaw.com or at any of our other respective e-mail

addresses. We'd be happy to discuss this planning opportunity with you in greater detail.

Ken Brier

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