Grantor Retained Annuity Trust

Prepared for: Sample

Prepared by: Brentmark

Grantor Retained Annuity Trust

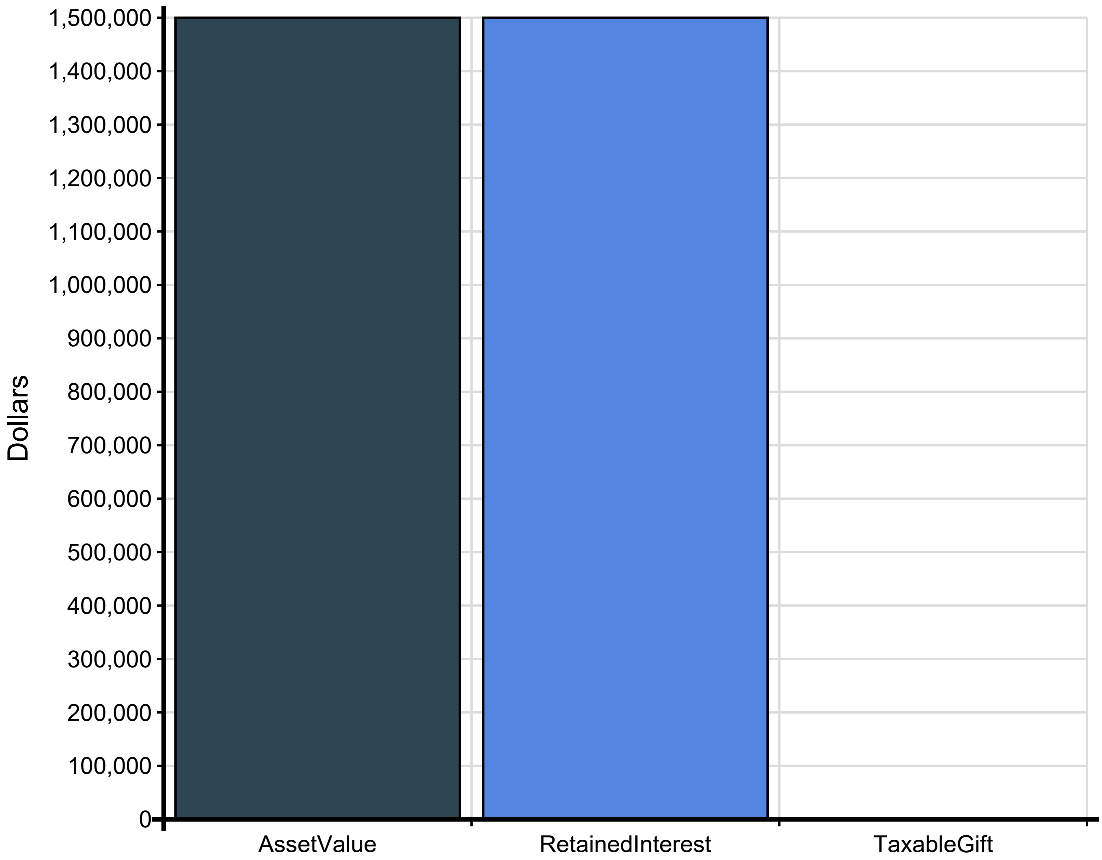
Trust Type:	Term
Transfer Date:	11/2022
§7520 Rate:	4.80%
Term:	3
Number of Payments:	3
Pre-Discounted FMV:	$1,500,000.00
Discounted FMV:	$1,500,000.00
Percentage Payout (Optimized):	30.32232%
Payment Period:	Annual
Payment Timing:	End
Income Earned by Trust:	1.00%
Annual Growth of Principal:	1.00%
Exhaustion Method:	IRS
Annual Annuity Payment Growth:	20.00%
Distribute Principal in Kind?:	Yes
With Reversion?:	No
Is Transfer To or For the Benefit of a Member of the Transfor's Family?:	Yes
Is Interest in Trust Retained by Transferor or Applicable Family Member?:	Yes

Year	Varying Payouts	Payment
1	30.32232%	$454,834.80
2	36.38678%	$545,801.76
3	43.66414%	$654,962.11

*** §2702 IS Applicable ***

Base Term Certain Annuity Factor:	3.2979
Frequency Adjustment Factor:	1.0000
Initial Annual Annuity Payout:	$454,834.80
Initial Amount of Payment Per Period:	$454,834.80
Annual Annuity Payment Growth:	20.00%
Value of Term Certain Annuity Interest:	$1,499,999.69
Value of Grantor's Retained Interest	$1,499,999.69
(1) Taxable Gift (Based on Term Interest):	$0.31

Grantor Retained Annuity Trust



Grantor Retained Annuity Trust: Economic Schedule

Year	Begin Balance	Required Payment	Growth	Income	Dist. Discount	End Balance
1	$1,500,000.00	$454,834.80	$15,000.00	$15,075.00	0	$1,075,240.20
2	$1,075,240.20	$545,801.70	$10,752.40	$10,806.16	0	$550,997.06
3	$550,997.06	$654,961.95	$5,509.97	$5,537.52	0	0
Total		$1,655,598.45	$31,262.37	$31,418.68	0	0

This scenario is a hypothetical illustration based on the assumptions you entered via the inputs inside the program. It is to be used solely as a conceptual guide to understand and quantify your planning needs. It would be wise to consider this illustration together with all other information you deem necessary in making your investment decisions. This illustration is not a guarantee of the performance of any specific investment. Actual performance from your investments and assets may vary. This illustration is not legal or tax advice. You should consult with your attorney and accountant to review this information and determine its appropriateness for your particular situation. The provider of this illustration provides no guarantee and assumes no responsibility or liability for the accuracy of the information provided (including whether the interest rate you have selected is in fact "reasonable") or for your reliance based on this information.

A grantor retained annuity trust may be an effective means for a wealthy client who wants or needs to retain all or most of the income from a high-yielding and rapidly-appreciating property to transfer the property to a child or other person with minimal gift or estate tax. GRATs are particularly indicated where the client has one or more significant income-producing assets that he or she is willing to part with at some specified date in the future to save federal and state death taxes and probate costs, to obtain privacy on the transfer, and to protect the asset against the claims of creditors.

A GRAT is created by transferring one or more high-yield assets into an irrevocable trust and retaining the right to an annuity interest for a fixed term of years or for the shorter of fixed term or life. When the retention period ends, assets in the trust (including all appreciation) go to the named "remainder" beneficiary (ies). In some cases other interests, such as the right to have assets revert back to the transferor's estate in the event of the transferor's premature death, may be included.

GRATs provide a fixed annuity payment, usually expressed as a fixed percentage of the original value of the assets transferred in trust. For example, if $100,000 is placed in trust and the initial annuity payout rate is 6 percent, the trust would pay $6,000 each year, regardless of the value of the trust assets in subsequent years. If income earned on the trust assets is insufficient to cover the annuity amount, the payments will be made from principal. Therefore, the client-transferor is assured steady and consistent payments (at least until principal is exhausted).

All income and appreciation in excess of that required to pay the annuity accumulate for the benefit of the remainder beneficiary (ies). Consequently, it may be possible to transfer assets to the beneficiary(ies) when the trust terminates with values that far exceed their original values when transferred into the trust and, more importantly, that far exceed the gift tax value of the transferred assets.

The gift tax value of the transferred assets is determined at the time the trust is created and funded using the "subtraction method." The gift tax value is determined by subtracting the value of the annuity interest (and, in some cases, other retained interests, such as the right to have the assets revert back to the transferor's estate if he or she does not live the entire term of the trust) from the fair market value of the assets transferred in trust. How the annuity interest and any other retained interests are valued depends on who the remainder beneficiary (ies) is (are) and who retains the annuity and other interests relative to the transferor. There is a more restrictive and less appealing set of valuation rules when family members are beneficiaries and certain family members retain interests in the property both before and after the trust is created than when unrelated parties are involved.

When unrelated parties are involved, all interests are valued according to their actuarial present values using the valuation rules of IRC §7520. These rules mandate the use of a discount rate based on the 120% Applicable Federal Annual Midterm Rate for the month in which the trust is created and funded. The mortality factors from Table 80CNSMT, Table 90CM, Table 2000CM, or Table 2010CM are also used if the interests have a life contingency (i.e., the calculations are of type "Life" or "Shorter").

The 120% Applicable Federal Annual Midterm Rate changes monthly and is reported in the IRS's Cumulative Bulletin, in various tax services, and in various financial news publications such as The Wall Street Journal. (See Fed Interest Rates in the Money & Investing section, generally between the 18th and 23rd of the preceding month).

If family members are involved, the gift tax valuation rules of IRC §2702 may apply. Under these rules, certain types of retained interests, such as the right to have trust assets revert to the transferor's estate in the event of the transferor's premature death, may be valued at zero when computing the gift tax value of the transfer. As a general rule, every retained interest but a "qualified interest" is assigned a value of zero for gift tax valuation purposes. In the case of a GRAT, a qualified interest is the right to receive "fixed amounts" payable annually, more frequently (a fixed annuity), or a qualified remainder interest. That is, any non-contingent remainder interest if all other interests in the trust consist of qualified retained interests (qualified annuities).

The right to receive a "fixed amount" means the annuity must be a specified fixed dollar amount or a fixed percentage of the initial value of the trust payable each year rather than merely the income produced by the assets in the trust. Although fixed payments throughout the term of the trust are the norm, final regulations define the term "fixed amount" more liberally. They would permit the annuity payments to increase or decrease in a systematic manner each year without adverse gift tax consequences. However, the annuity amount may not increase by more than 20 percent over the prior year. For example, if the initial annuity payment is $1,000, the trust could provide that annuity payments in subsequent years increase by as much as 20 percent, to $1,200 in the second year, $1,440 the third year, and so on. If the transferor retains the right to the greater of a fixed amount or the trust income in each year for a term of years, the annuity will still be a qualified annuity. However, the right to the trust income, if any, in excess of the fixed amount is valued at zero for gift tax purposes. Thus, the retained interest is valued for gift tax purposes as if it did not include any rights to excess income.

We suggest you "insure" or "bulletproof" the tax savings. The risk of inclusion of trust assets should be covered by the purchase of life insurance owned by the appropriate beneficiary on your life in the amount of the anticipated federal estate taxes that would be saved if you survive the term of the trust.

Since the GRAT permits payment of both income and trust principal to satisfy the annuity payments you have retained, the GRAT should be treated as a grantor trust for income tax purposes. This means you (the transferor-annuitant) are taxed on income and realized gains on trust assets even if these amounts are greater than the trust's annuity payments. This further enhances this tool "effectiveness" as a family wealth-shifting and estate-tax-saving device. In essence you are effectively allowed to make gift tax-free gifts of the income taxes that are really attributable to assets backing the remainder beneficiary's interest in the trust.

By making assumptions about income to be earned by the trust in the future, and future capital growth, it is also possible to project the future value of the principal remainder that will be payable to the beneficiaries at the end of the term of the trust. If limited partnership interests, minority stock interests, or other fractional or non-controlling interests have been contributed to the GRAT and appropriate discounts claimed for lack of voting power or lack of marketability, it may also be useful to illustrate the future economic growth of the pre-discounted value of the principal, and to compare the present value of the remainder for gift tax purposes (including appropriate discounts) with the projected future value of the principal remainder (without discounts).