

Grantor Retained Annuity Trust (“GRAT”)

A High-level Estate Planning Strategy for Transferring Future Appreciation with Limited Gift Tax Exposure

A GRAT is an irrevocable trust designed to transfer future asset growth to family or other beneficiaries in a tax-efficient way. In simple terms, a client contributes assets to the trust, receives a fixed annuity payment back over a set term, and any value remaining at the end may pass to beneficiaries with minimal or no use of the client’s gift and estate tax exemption.

HOW A GRAT WORKS

- 1 A client transfers assets into a GRAT.
- 2 The GRAT pays the client a fixed annuity amount over a specified term.
- 3 If the assets grow faster than the IRS assumed rate, the excess value passes to beneficiaries (chosen by the client), outright or in trust, at the end of the term.
- 4 If performance is weaker, the strategy may simply return value to the client with little downside other than planning and administrative costs.

Who This May Be Appropriate For

Clients who have already used most or all of their gift and estate tax exemption

Clients who hold assets with strong appreciation potential

Clients who are comfortable making an irrevocable transfer for a defined term

Families looking to shift future growth to the next generation in a disciplined way

WHY CLIENTS CONSIDER A GRAT

Efficient transfer of appreciation.

Future growth above the IRS assumed rate can move to beneficiaries.

Low gift tax cost.

Many GRATs are structured so that little or no exemption is used at inception.

Flexible asset selection.

Public securities, concentrated positions, and certain privately held assets may be good candidates depending on the circumstances.

Relatively straightforward design.

GRATs are a commonly used planning technique and can often be implemented without excessive complexity.

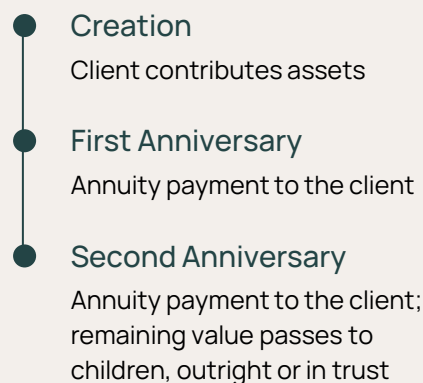
IMPORTANT TRADEOFFS

Irrevocable structure.	Once created, the GRAT generally cannot be changed and no additional contributions can be made.
Mortality risk during the term.	If the client dies during the GRAT term, some or all of the intended tax benefit may be lost.
Performance risk.	If the assets do not outperform the IRS assumed rate, there may be little or no value left for beneficiaries.
Administration matters.	Valuations, trust administration, and tax reporting remain important, especially with hard-to-value assets.

A SIMPLE EXAMPLE

A client contributes assets to a two-year GRAT. At the first and second anniversaries of its creation, the GRAT makes annuity payments back to the client. If the assets appreciate meaningfully during that period, the remaining value at the end of the term can pass to children outright or a trust for their benefit. If the assets do not perform as expected, the strategy may produce little transfer benefit, but it does not consume the client's exemption.

This makes GRATs especially attractive when a client owns assets with near-term upside, such as concentrated stock positions or other assets expected to appreciate faster than the IRS assumed rate.



KEY PLANNING CONSIDERATIONS

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| 01 Term Length
Shorter terms are often used to reduce mortality risk and respond to changing market conditions. | 02 Asset Choice
The best candidates are assets with meaningful appreciation potential. |
| 03 Rolling GRATs
Some clients use a series of shorter GRATs over time to capture opportunity in different market environments. | 04 Beneficiary Design
The remainder may pass outright or continue in trust depending on family goals. |

BOTTOM LINE

A GRAT can be an effective way to transfer future appreciation with limited gift tax exposure, particularly for clients with significant assets and a clear view on near-term growth potential. It is not the right fit for every situation, but in the right context it can be a powerful part of a broader estate planning strategy.

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