



777 THIRD AVENUE  
NEW YORK, NY 10017

TEL: 646-445-5100

[WWW.REIDMICHAELIS.COM](http://WWW.REIDMICHAELIS.COM)

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## ESTATE PLANNING ALERT

The Grantor Retained Annuity Trust (“GRAT”) is an estate planning technique that is expressly authorized by the Internal Revenue Code and the Regulations. A GRAT is a trust to which you contribute property and retain the right to receive a fixed amount payable annually for a specified term of years (the “Term”). The amount that must be paid to you each year (the “Annuity Payment”) is a percentage of the initial fair market value of the assets contributed to the GRAT. At the end of the Term, the GRAT terminates and the remaining principal will be paid to or in trust for your children or other beneficiaries. If you survive the Term, to the extent the GRAT investment grows at a rate in excess of the IRS applicable interest rate (e.g., 1.8% for transfers in March, 2020), you will have made tax free gifts to the remainder beneficiaries. If the GRAT investments do not outperform the IRS rate, all of the GRAT property will be returned to you as Annuity Payments. Accordingly, the GRAT is most successful in transferring wealth when interest rates are low and the subject of the transfer in trust is one that is likely to appreciate.

- The investment marketplace has experienced extreme volatility coupled with some significant reduction in value in the last two weeks. The Dow Jones Industrial Average fell by more than 10% over one recent three-day period. Some equities, and certain investment sectors, have been more adversely affected than others. Certain equities have seen significant gains.
- The IRS applicable interest rate continues to be very low.
- The current environment may be favorable for the creation of GRATs, assuming a thoughtful selection of transfer subjects by clients or their professional investment advisors.
- When properly structured, the GRAT has virtually no transfer tax cost.

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The purpose of this Advisory is to call attention to the current investment environment and the opportunity that may be presented for the use of GRATs in an estate plan. To discuss this technique, and whether it could be useful for you, please feel free to contact Carrie Michaelis, Jim Reid, Andrew Reardon or Chanie Fortgang.

*This Advisory is provided as general information only. No action should be taken solely on the basis of its contents.*



777 Third Avenue  
New York, NY 10017  
Tel: 646-445-5100  
Fax: 646-445-5063

[jreid@reidpllc.com](mailto:jreid@reidpllc.com)

646-445-5102

[cchambers@reidpllc.com](mailto:cchambers@reidpllc.com)

646-445-5105

[areardon@reidpllc.com](mailto:areardon@reidpllc.com)

646-445-5107

[cmichaelis@reidpllc.com](mailto:cmichaelis@reidpllc.com)

646-445-5103

[cfortgang@reidpllc.com](mailto:cfortgang@reidpllc.com)

646-445-5106