A powerful technique for business succession and estate plans

While oftentimes people don't start seriously thinking about estate planning until after they experience a windfall, the best opportunity to transfer wealth and reduce tax exposure is often before wealth expansion, such as a business sale, an IPO or merger transaction. A GRAT is one technique that can transfer wealth with little practical impact on the underlying transaction yet deliver substantial results.

THE ANATOMY OF A GRAT

A GRAT can be a powerful wealth transfer tool for assets that are expected to rapidly appreciate and can mean a significant difference in the net proceeds ultimately received by one's beneficiaries. For example, if a GRAT is funded with shares from a closely held business, there is the possibility that substantial wealth can be passed to the children tax free. When a minority interest in closely held shares is placed in a GRAT, the shares may be assigned a value that is less than their fair market value because of the inherent lack of liquidity and marketability at the time. If the owner later decides to sell the business and receives a price higher than that previously assigned value, the beneficiaries (typically the children) reap the benefits of the sale premium free of transfer tax.

BENEFITS OF A GRANTOR RETAINED ANNUITY TRUST

Reduces the grantor's estate

Acts as a powerful business succession and estate planning technique

Allows the transfer of significant wealth while avoiding gift or estate tax

Enables assets to continue to grow while in the trust

NEXT STEPS

There are several factors to consider before implementing a GRAT in your business succession and estate plans.

- Consider your business succession goals. Are you ready to relinquish control over your shares?
- Work with your financial advisor to clarify your long-term needs for income.
- Have a conversation with your family and beneficiaries about your vision for your business, retirement and legacy.

Your financial advisor can work closely with you alongside your legal and tax professionals to provide additional guidance for setting up a GRAT and addressing each of your estate planning objectives.

A proactive approach to wealth preservation

SHARE MORE OF YOUR WEALTH WITH THE ONES YOU LOVE WITH A GRANTOR RETAINED ANNUITY TRUST

From humble beginnings as a software developer, Marcus found considerable success over the last two decades leading his own company, WorkTech, which creates innovative software for businesses. WorkTech's products quickly became the go-to choice for many businesses across the country and Marcus was confident it was just a matter of time before he could take the company public.

While WorkTech had served as a profession and passion-project for Marcus for many years, the start-up life was grueling and he was ready for a new chapter. He had always planned to leave his remaining wealth to his children and, anticipating the eventual IPO of WorkTech, he wanted to be sure his transition was executed in a way that would most benefit his family.

Marcus and his financial advisor worked proactively and decided to set up a grantor retained annuity trust (GRAT) with his children named as beneficiaries. Marcus then transferred $10 million of WorkTech shares to the trust, which were given a value of $7 million due to their lack of liquidity and marketability. Three years later, WorkTech did in fact go public, selling for over $100 million and bringing Marcus' shares to a value of $21 million. Utilizing the appreciation and the discounts in the shares transferred to the GRAT, Marcus was able to pass on $15 million to his children free of gift or estate tax, plus $4 million he would leave net of tax, for a total of $19 million.

Had Marcus not done the GRAT planning and instead waited until his death to transfer the 20% interest to his children, the after estate tax net value to them would be only $12 million. By planning ahead strategically, Marcus was able to preserve his carefully-earned wealth for the people he cared most about.

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