

“GRAT in a GRAT”

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“GRAT in a GRAT”

- Client has previously created a GRAT
- Assets in “Old GRAT” have dropped in value
- Old GRAT will likely fail, and client would have to wait to receive annuity payments to “re-GRAT”
- Client may not want to use other alternatives, such as swapping assets (perhaps due to Section 16b securities concerns)
- Client may want to consider a “GRAT in a GRAT”
 - Client contributes annuity interest in Old GRAT to a new GRAT
 - New GRAT is structured as zeroed-out GRAT
- The remaining assets, if any, in the New GRAT at the end of the annuity term can be paid to remainder beneficiaries



“OLD GRAT”

Funded with \$10M in October
of 2007

Old GRAT owes client
graduated annuity for two
years: ~\$4.9M payable
10/08, and ~\$5.9M payable
10/09 (totaling ~\$10.8M)

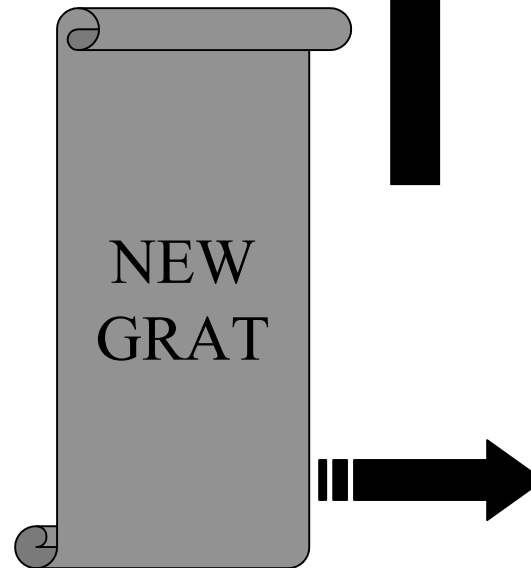
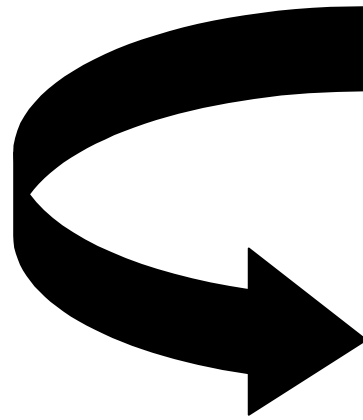


\$6M – April 2008 value of
assets



“GRAT in a GRAT”

Funded with annuity interest in
Old GRAT (\$6M)



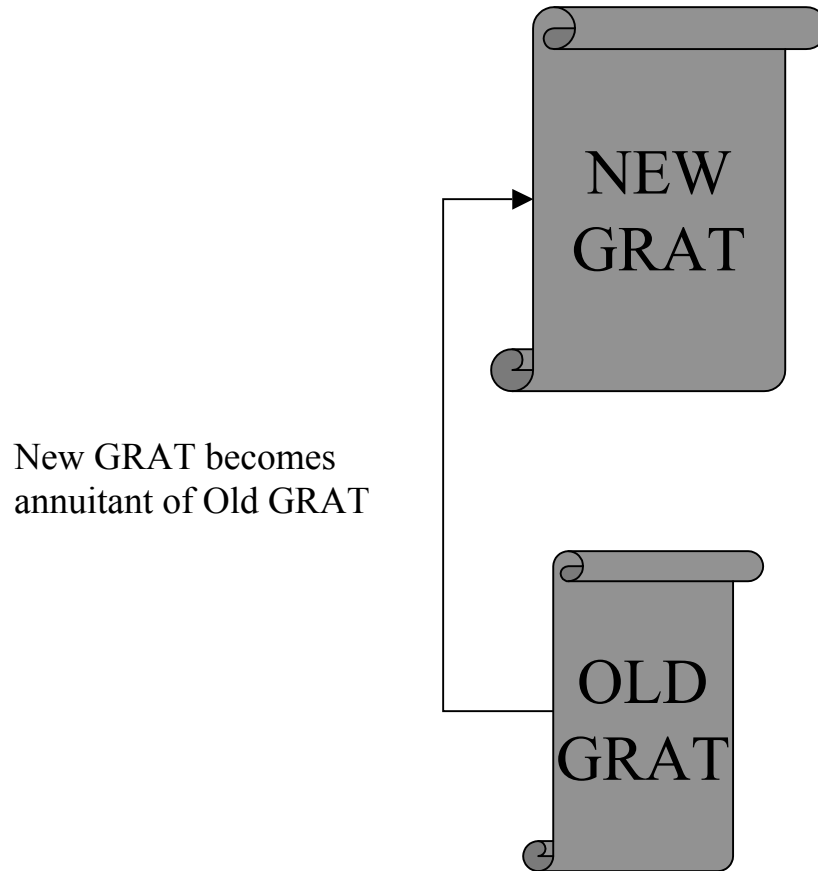
GRAT pays client
graduated annuity for two
years: ~\$2.87M payable
4/09, and ~\$3.45M payable
4/10 (totaling ~\$6.32M)

Any assets remaining in
GRAT after two years to
be paid to remainder
beneficiaries (or held in
trust for their benefit)



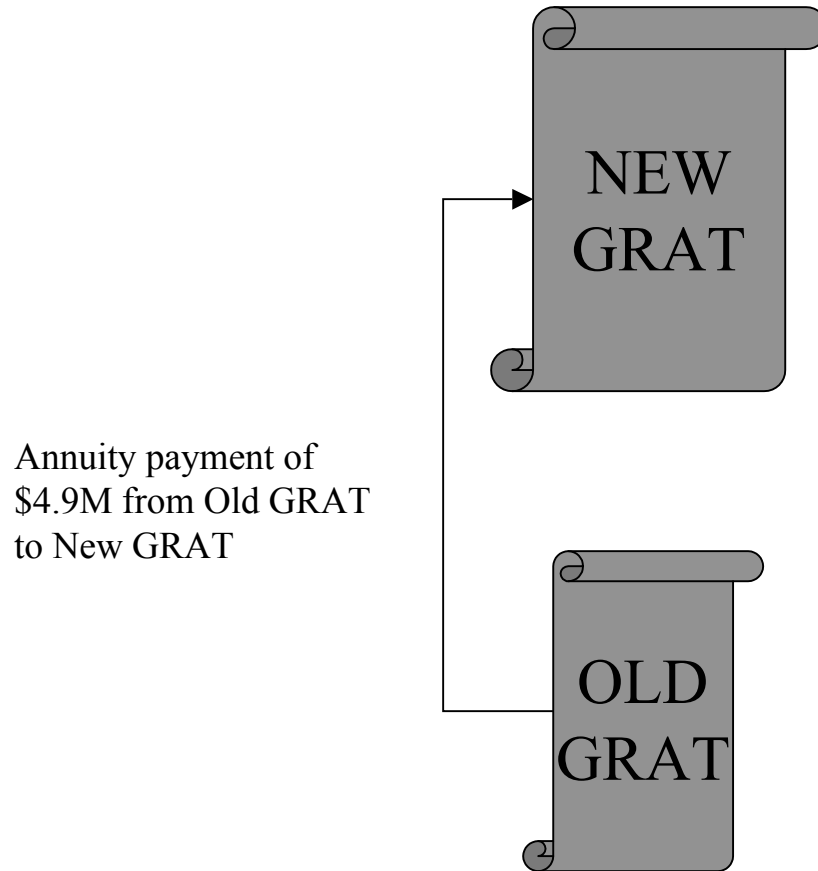
These calculations are based on the 3.4% Code § 7520 rate in effect for April, 2008.

“GRAT in a GRAT” – After New GRAT



“GRAT in a GRAT” – Annuity Paid from Old GRAT – October 2008

6



“GRAT in a GRAT” - 10%

Growth

After 1 year

Annuity payment of
~\$2.87M to client

*(Satisfied from \$4.9M paid from Old
GRAT)*

\$6,600,000



10% growth

\$6,000,000



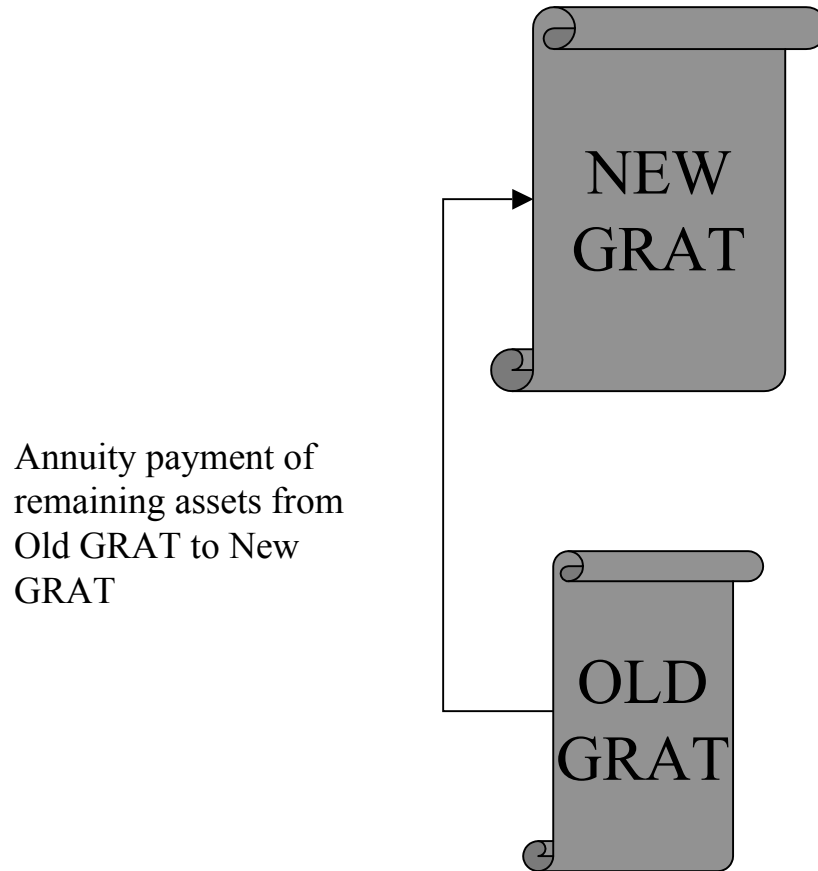
~\$3.73M remains

*(Consisting of \$2.03M from Old
GRAT, plus remaining annuity
interest in Old GRAT)*



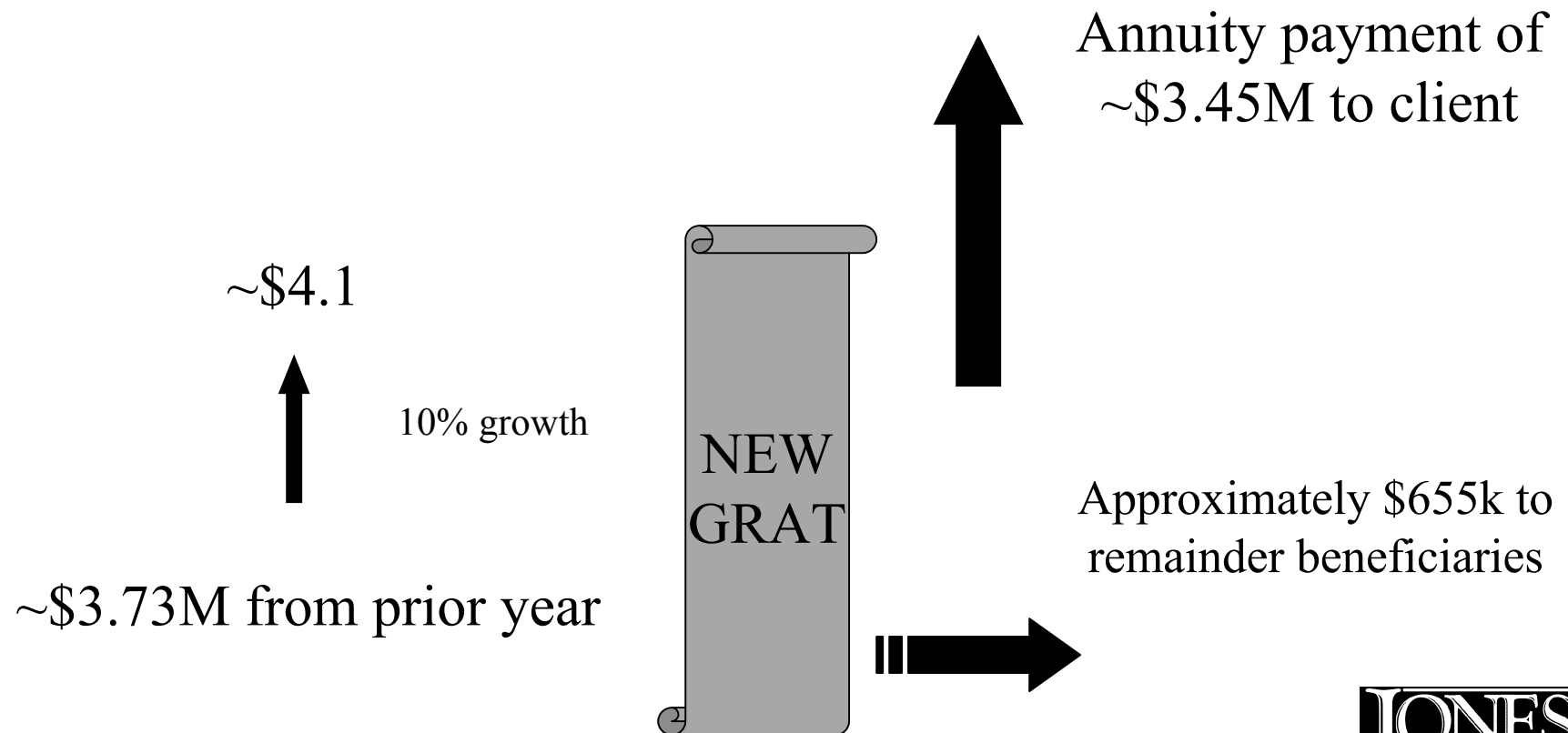
“GRAT in a GRAT” – Annuity Paid from Old GRAT – October 2009

8



“GRAT in a GRAT”

After 2 years - trust termination



“GRAT in a GRAT”

After 2 years - trust termination - \$6 million funding

<u>Annual Return</u>	<u>Remainder Value</u>
$\leq 3.4\%$	\$0
6%	\$252k
10%	\$655,000
20%	\$1.75M
30%	\$2.96M

All amounts are rounded and approximate. Actual results *will* vary.



“GRAT in a GRAT”

Issues

- Valuation – the value of the Old GRAT should not exceed the value of the assets in the Old GRAT. See Treas. Reg. § 25.7520-3(b)
- Assignment of the annuity interest – depending upon the terms of the Old GRAT, the annuity interest generally should be assignable
- Coordination of beneficiaries – depending upon the terms of the Old GRAT, the beneficiary following the death of the annuitant during the term could pose practical problems

All amounts are rounded and approximate. Actual results *will* vary.

