

## Now May Be the Perfect Time for a GRAT

It's Your Money  
Verlyn De Wit, CLU, ChFC

Some estate planning techniques thrive in difficult times.

Today's idea has been around for years. But rarely has it been more effective in reducing a taxable estate than today because of two reasons:

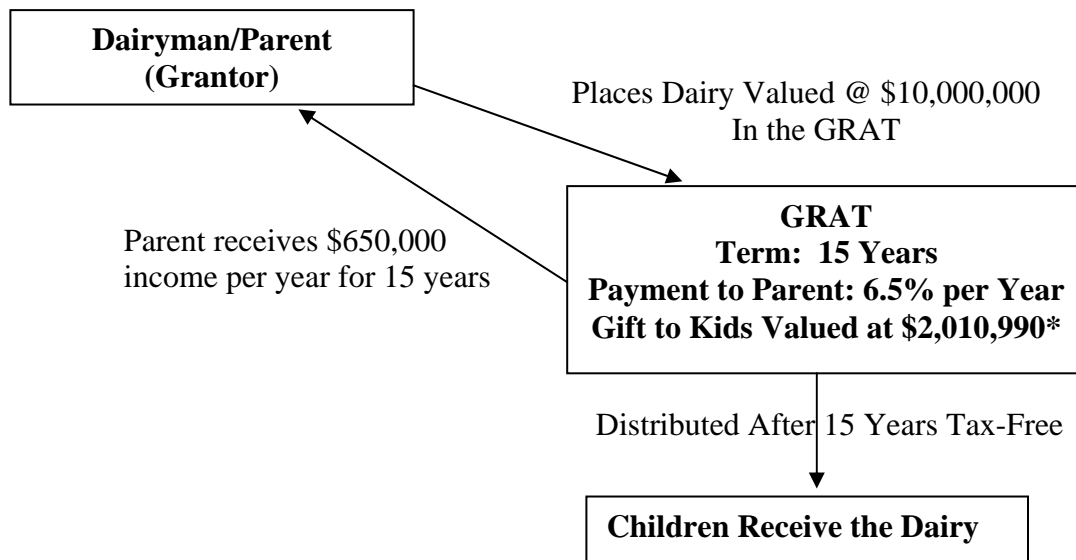
- Dairy values are currently depressed.
- These low values can be further discounted because of historic lows in federal interest rates which are used to calculate the gift value.

You may want to transfer assets to your children to minimize the 45% estate tax. But who likes to part with cash? Or maybe more to the point, who has cash to give away?

However, this gift technique may have little effect on cash flow for a long time, and yet produce dramatic estate tax relief. I call it giving your cake away, and eating it too. The IRS calls it a GRAT.

Here are the basics. A parent establishes a Grantor Retained Annuity Trust (GRAT), and then transfers ownership of the dairy to the GRAT. The dairy continues to operate in the trust, but is obligated to make annual payments to the grantor--\$650,000 per year in our example below. The trust must borrow money to make the annual payments if dairy income alone is not sufficient.

When the GRAT ends, the property remaining in the trust belongs to the parent's child or children. The following diagram assumes the parent wishes to retain an income stream for 15 years. Other time periods can be chosen, but they will yield a taxable gift result different than the one shown below.



\*The illustrated gift value is based on IRS Sec. 7520 rate of 2.6% for April, 2009.

What have we accomplished?

- The parent continues to receive \$650,000 per year income from the GRAT for 15 years.
- Since the children have to wait 15 years for the gift, IRS tables conclude that they are receiving a gift of only \$2,010,990 in our example. This gift can nearly be entirely offset by each parent's \$1,000,000 lifetime gift tax credit.
- In 15 years, the dairy's value could increase to \$12 million or more, yet we have passed it on to the children for a gift value of just over \$2 million.

What are some possible pitfalls?

- If the parent's death occurs before the 15 years have expired, some or all of the trust assets will be included in his/her estate. While no insurance or securities have to be purchased in conjunction with a GRAT, it might be wise to procure a 15-year term insurance plan on the parent's life to pay for the taxes due in the event of a premature death.
- Watch out for tricky community property laws. Also pay careful attention to cash flows and income tax liabilities. Hire qualified tax and legal advisors to help you establish your GRAT or GRUT.

It's Your Money, guard it like a fox!

Verlyn De Wit helps successful dairy producers make smart decisions about their money. He can be reached toll-free at 1-888-468-1728 by email at [vdewit@sammonsrep.com](mailto:vdewit@sammonsrep.com) or "snail-mail" at 1270 Eastside Dr., Sioux Center, IA 51250. Securities offered through Sammons Securities Co., LLC. 4261 Park Road, Ann Arbor, MI 48103. Member FINRA and SIPC.

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