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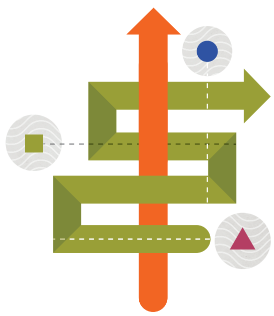
TRUST AND ESTATE SERVICES

The Grantor Retained Annuity Trust
An efficient wealth transfer strategy



High-net-worth families face unique challenges in managing wealth and preserving legacies for future generations. Wilmington Trust provides strategic advice on all aspects of wealth, personal, and business planning, implementing the right mix of services to meet your complex needs.

What is a Grantor Retained Annuity Trust (GRAT)?

A GRAT is a popular method of transferring property that is expected to appreciate in value to a trust in exchange for an annual payment (or annuity) for a term of years. The amount of the annuity is determined by the terms of the trust, the value of the property transferred, and current interest rates. (The IRC section 7520 rate is used to value the annuity interest of a GRAT.) The annuity payment itself may consist of the same property transferred to the trust.

The primary tax benefit of a GRAT is that any income or appreciation earned during the term, in excess of the stated interest rate, passes to the remainder beneficiaries (who are often children or family trusts) free of gift or estate tax. GRATs are a popular strategy because there is limited economic downside and the grantor can effectively retain control of the property transferred. Moreover, GRATs may be designed (under current law) to pay back to the grantor the entire value of the property plus the stated interest amount without any gift tax consequences. (This technique is often referred to as a 'zeroed-out' GRAT.)

The outcome a GRAT could deliver to you and your family

With the appropriate planning strategy, the grantor can transfer property to the trust with a minimal or zero gift tax, with no additional gift tax paid later. Furthermore, by placing the appropriate asset into the GRAT, the grantor is only transferring value, not control of the asset. So long as the grantor survives the term of the GRAT, the appreciation is removed from his or her estate with a minimum tax cost, limited economic risk, and no loss of control.

Because there is very little downside, the GRAT continues to be a popular planning technique. Even if the asset does not appreciate as expected, the grantor is in the same position he or she would have been without a GRAT. This is because the grantor still owns what he or she had prior to creating the GRAT, except that he or she will have paid fees associated with the drafting and administration of the trust. However, if the property in the GRAT does appreciate as expected, a significant amount of interest in the asset can be transferred free of gift and estate tax to a future generation.

Continued

Grantor Retained Annuity Trust

Scenario 1*:

7520 rate: **1.2%**

Total annuity payments to grantor over 5 years: **$4,683,325**

Amount passing to family: **$1,763,664**

Taxable gift: **$2.31**

Scenario 2*:

7520 rate: **4.4%**

Total annuity payments to grantor over 5 years: **$5,191,087**

Amount passing to family: **$1,193,493**

Taxable gift: **$0.85**

Assumptions used in both scenarios

Income earned by trust: **6.0%**

Principal growth: **1.0%**

Pre-discounted value: **$5,000,000**

Discounted value: **$4,500,000**

Term of GRAT: **5 Years**

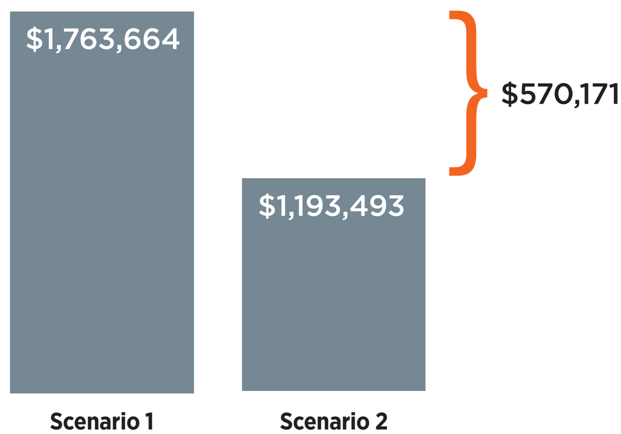
Annuity payments: **5**

Increasing annuity by 20% each year

Difference

With the lower 7520 rate, $570,171 more passes to the family with no tax difference

Dollar amount passed on to family



* This is a hypothetical client scenario

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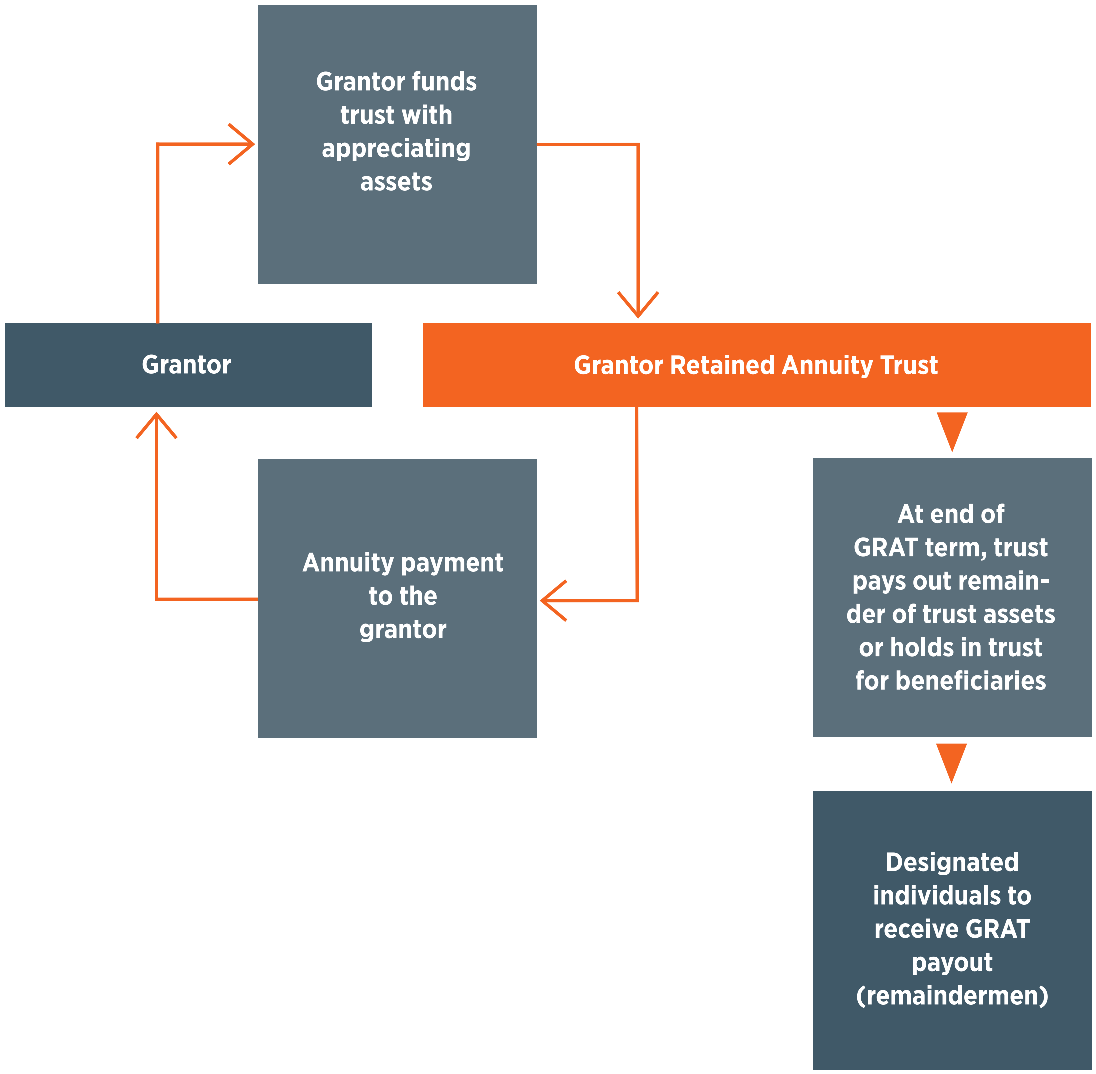

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