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Looking Ahead: Key  
Benefits of Grantor  
Retained Annuity Trusts

Jim Brockway and Elizabeth Bawden

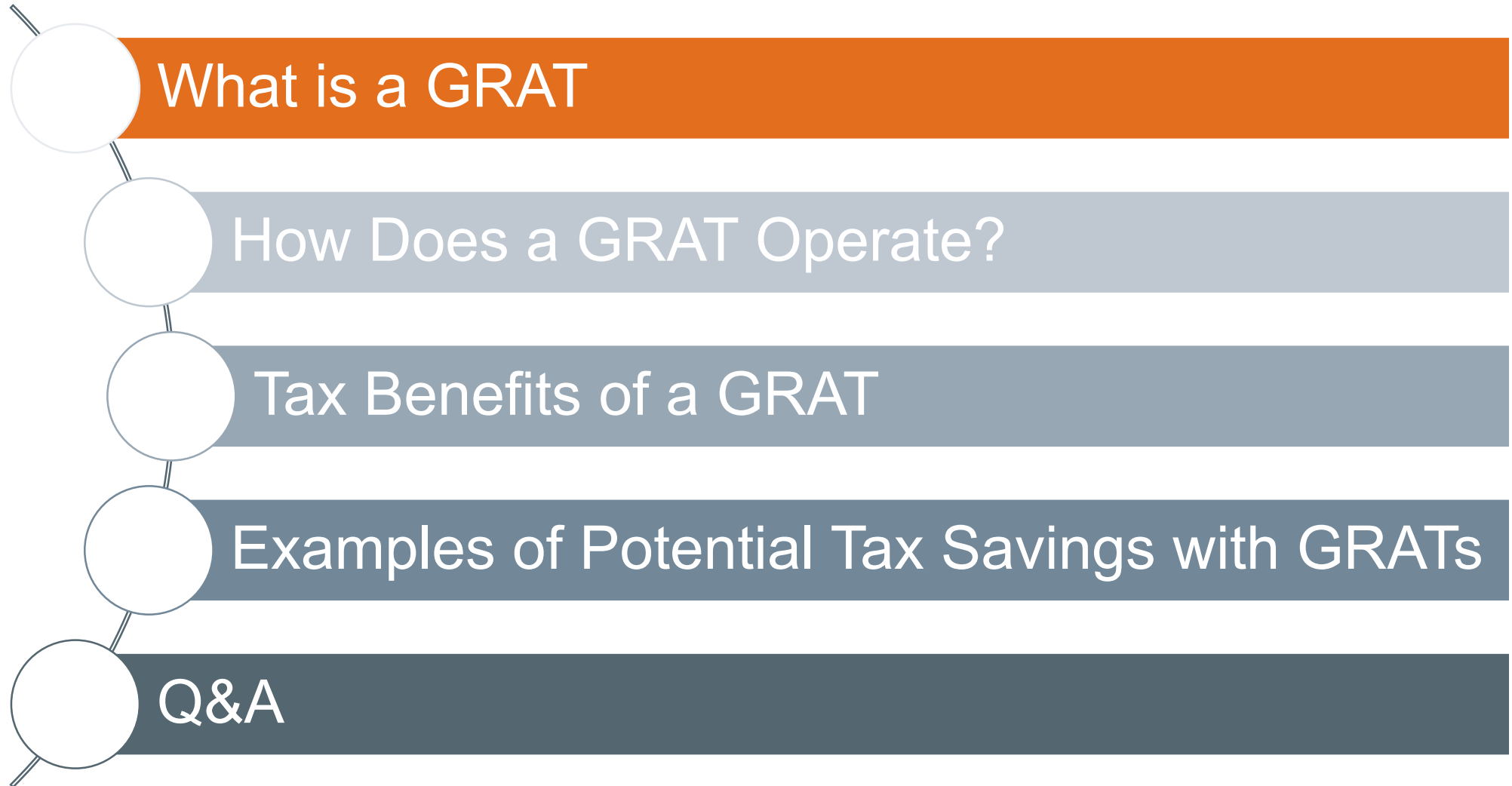
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# Agenda

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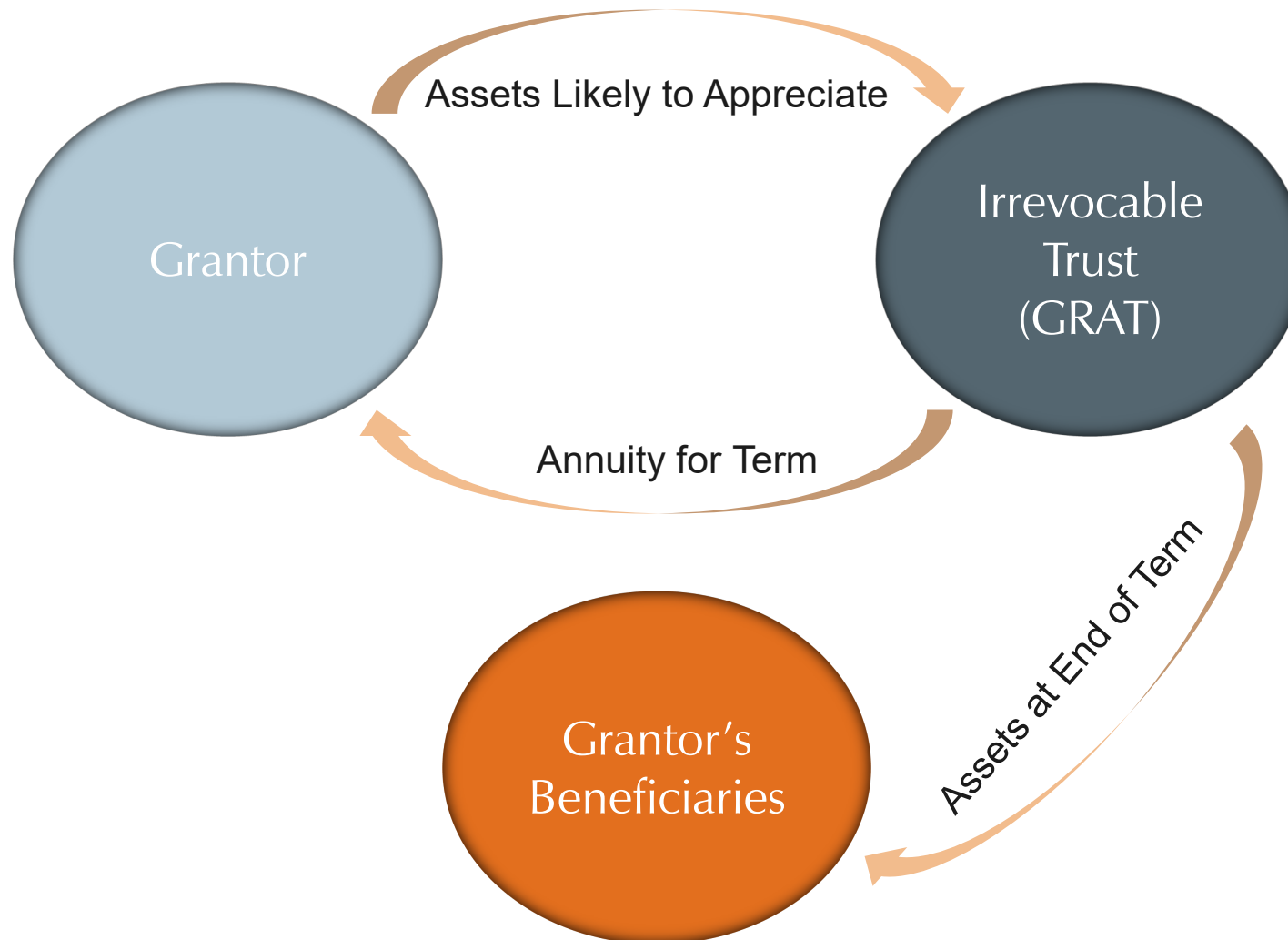
Identifying opportunities with Grantor Retained Annuity Trusts



# What is a GRAT?

## Key benefits of Grantor Retained Annuity Trusts (GRATs)

- Irrevocable trust that allows a grantor to transfer assets to beneficiaries with reduced gift tax



# How Does a GRAT Operate?

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Key benefits of Grantor Retained Annuity Trusts (GRATs)

## Creation

Grantor determines terms of the trust

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- Grantor may serve as trustee or chose someone else to serve
- Grantor chooses the number of years to receive an annuity payment
- Grantor designates beneficiaries after annuity term

## Funding

Grantor selects property to contribute

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- Goal is to select property that will appreciate faster than IRS assumptions
- Certain property is particularly ideal
  - Growth Assets
  - Income Producing Assets
  - Family Businesses or other Closely Held Assets

# How Does a GRAT Operate?

## Key benefits of Grantor Retained Annuity Trusts (GRATs)

### During Annuity Term

- Trust pays an annuity to the Grantor
- Annuity can be paid in several ways:
  - Cash flow from property in the trust
  - Proceeds from the sale of property in the trust
  - Third party borrowing
  - In-kind distribution of trust property

### After Annuity Term

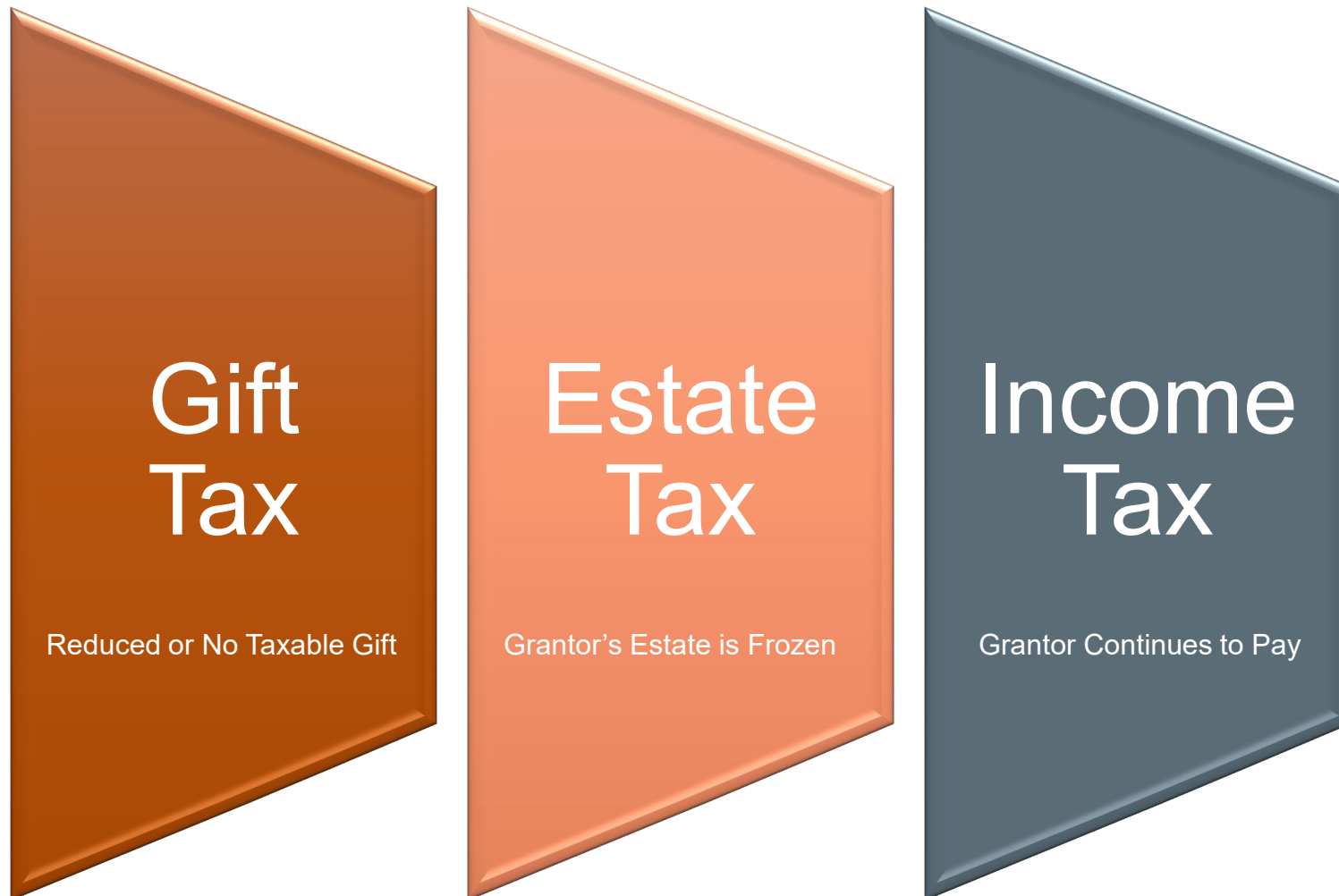
- Any remaining property in the trust passes to the beneficiaries of the trust
- Beneficiaries can receive property:
  - outright or
  - in a trust whose terms were set by the Grantor
- But grandchildren are not ideal beneficiaries

# Tax Benefits of a GRAT

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Key benefits of Grantor Retained Annuity Trusts (GRATs)

- Efficient shifting of assets to beneficiaries

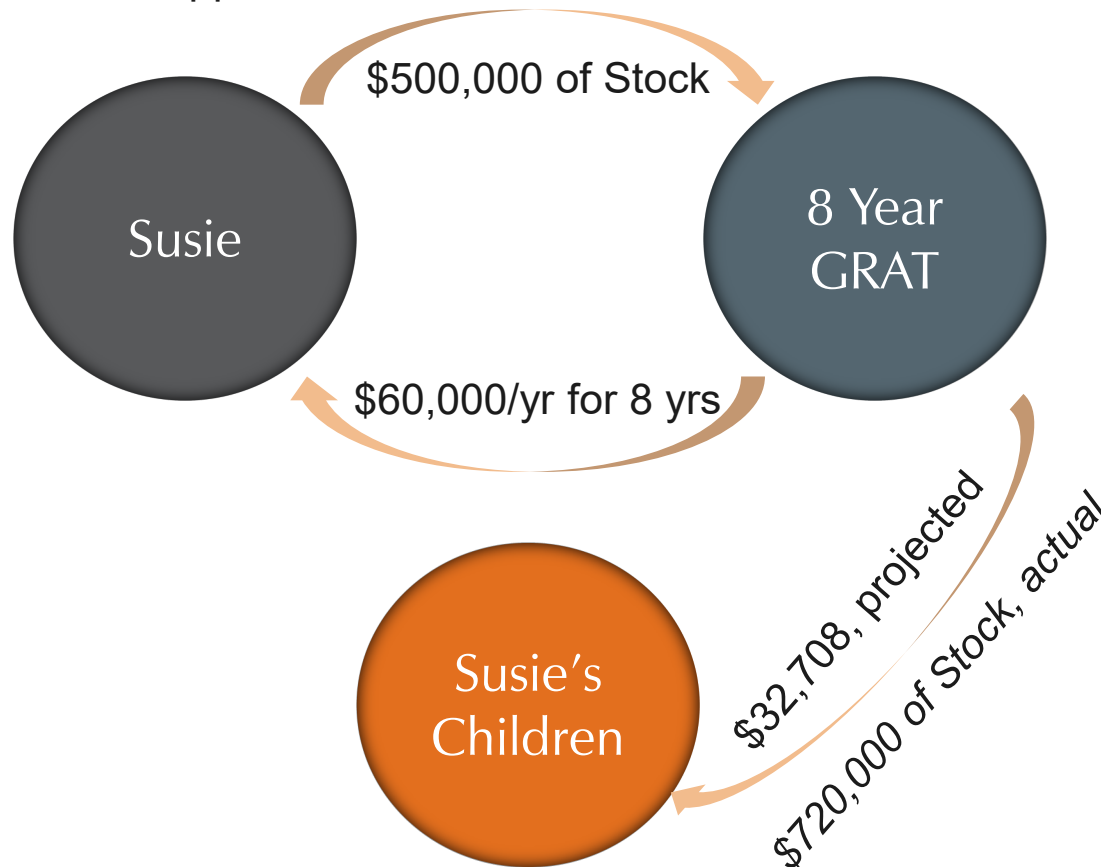




# GRAT Example #1 – Business Owner

## Key benefits of Grantor Retained Annuity Trusts (GRATs)

Susie Smith started a company that aids government agencies with disease contact tracing. The fair market value of company stock is determined each year (a 409A valuation). In June 2020 each share has a value of \$5. Susie believes the share value will grow substantially in the future and is worried she'll have an estate tax problem if this happens.



### Susie's Annuity:

\$60,000 a year for 8 Years. By end of trust term, Susie will have received \$480,000 from the trust.

### Susie's Projected Gift:

John's gift to his children is determined when he transfers Company stock to the trust in 2020. The IRS assumes that Company stock will grow at 0.60% annually, and that after Susie's annuity payments \$32,708 will be left for Susie's children at the end of the term. Susie reports this gift on a 2020 gift tax return.

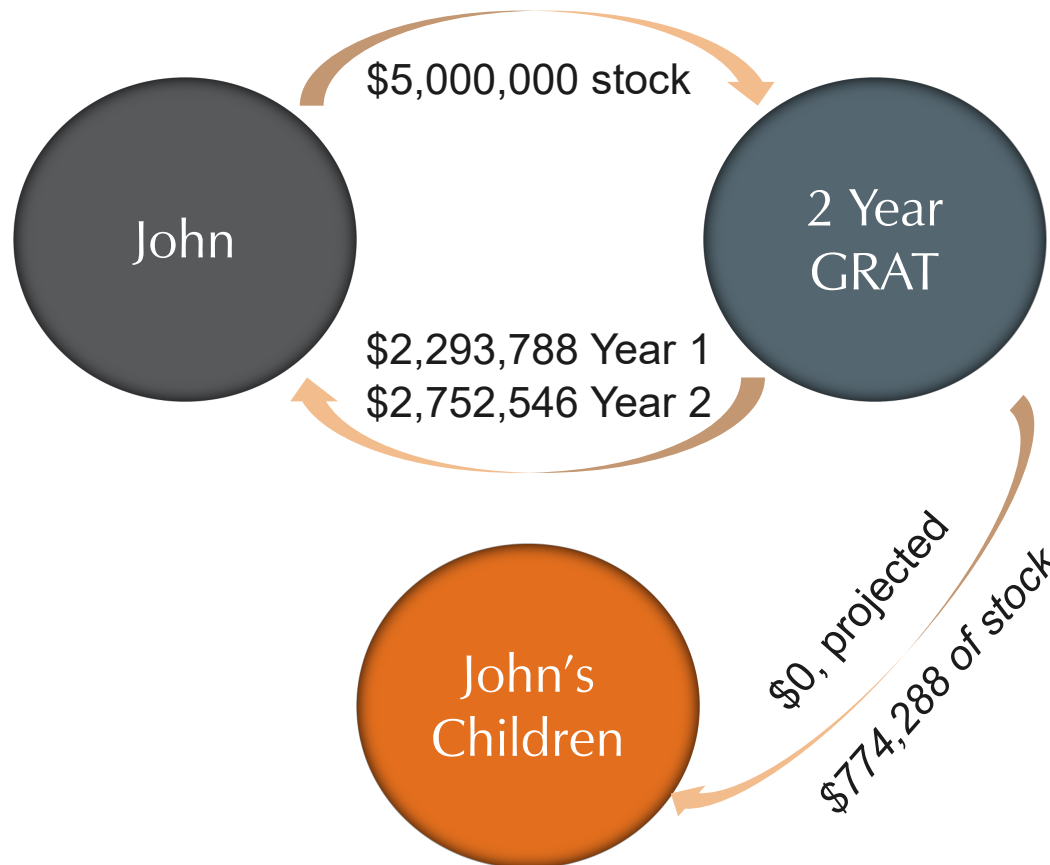
### Susie's Actual Gift:

Susie was right! Company stock grew quickly, and at the end of 8 Years, is worth \$18 a share. Remaining 40,000 shares in trust are worth \$720,000 and pass to Susie's children. No further gift is reportable.

# GRAT Example #2 – Equity Investor

## Key benefits of Grantor Retained Annuity Trusts (GRATs)

John Johnson has a large publicly-traded stock portfolio. He does not use the dividends received annually, but instead reinvests them. He has already used his entire gift and estate tax exemption, and is looking for an tax efficient way to share wealth with his children.



### John's Annuity:

John receives the entire amount of contributed stock back in 2 years, though his annuity in year 2 is 120% of the annuity in year 1 (giving trust assets longer to grow).

### John's Projected Gift:

John's gift to his children is determined when he transfers stock to the trust in 2020. The IRS assumes that Company stock will grow at 0.6% annually, and that after John's annuity payments \$0 will be left for John's children at the end of the term. John reports a \$0 gift on his 2020 gift tax return.

### John's Actual Gift:

John's equities grew at a 10% rate during the 2 year term (rather than the IRS assumed rate of 0.6%). \$774,288 was left for his children. This is not a reportable gift.



# Real Life GRAT Success Chart

Key benefits of Grantor Retained Annuity Trusts (GRATs)

- Grantor created a new 2 year GRAT for publicly traded stock each year for 10 years

GRAT	Remainder for Children
1	\$0
2	\$0
3	\$105,306
4	\$0
5	\$0
6	\$69,353
7	\$0
8	\$714,566
9	\$2,500,000
10	\$970,025

Total Transferred to Children

\$4,359,2509

Gift Tax Saved

\$1,743,700

# Questions

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Key benefits of Grantor Retained Annuity Trusts

What's My  
Downside?



Why Now?



# Looking Ahead

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## Key benefits of Grantor Retained Annuity Trusts

Monday,  
July 13

The long-term benefits of  
Charitable Lead Annuity  
Trusts (CLATS)

With Steven Chidester, Karen Yates and  
Lawton Leung

Monday,  
July 20

Reducing tax burdens with  
Intentionally Defective  
Grantor Trusts (IDGTs)

With James Dougherty and  
Rebecca O'Toole

9 AM PT/  
12 PM ET

Registration links for each series  
presentation are available in the  
Resource Center

# James R. Brockway

Partner | New Haven

James is a partner in the private client and tax team.

His practice is global in scope with particular emphasis on offshore trust planning, planning for non-US individuals and foreign assets, family investment and business planning, family offices, inbound and outbound business transactions and income and transfer tax planning.

James advises on corporate and partnership tax planning for closely held businesses, investment entities and funds management entities, mergers and acquisitions and insurance and derivatives investment tax planning.

He has lectured before numerous professional groups on partnership, estate tax, life insurance and foreign investment planning issues and has written articles for professional journals and newsletters on various tax topics.



## Focus Areas:

- Family Businesses
- High net-worth individuals
- Insurance Companies
- Professional advisors
- Financial Services
- Hotels and Hospitality
- Families and family offices

# Elizabeth A. Bawden

Partner | Los Angeles

Elizabeth is a partner in the private client and tax team.

She focuses her efforts on estate planning, planned giving and tax-exempt organizations. Elizabeth represents clients in matters related to family wealth transfers for large estates, sophisticated estate and gift tax saving techniques, charitable planned giving, and complex probate and trust administrations. She also regularly represents tax-exempt organizations in formation, organizational and operational issues.

Elizabeth is certified by the California Board of Legal Specialization as a legal specialist in Estate Planning, Trust and Probate Law and a fellow in the American College of Trust and Estate Counsel (ACTEC). She received the 2019 Distinguished Service Award from the Los Angeles Council of Charitable Gift Planners, where she has served as president and has been a member for 15 years.

Elizabeth is a graduate of Wheaton College (IL) and the UCLA School of Law where she served as Executive Editor of the UCLA Law Review. After law school, she clerked for Judge Wiley Y. Daniel of the Federal District Court in Colorado. Elizabeth is currently adjunct faculty at the UCLA School of Law teaching Estate and Gift Tax and Estate Planning.

Elizabeth serves on the board of the Heifer International Foundation, supporting the work of Heifer International to end hunger and poverty around the world by providing livestock and training to struggling communities.



## Focus Areas:

- Leaders and senior executives
- Talents and creatives
- Charities and non-profits
- Family businesses
- Professional advisors
- High-net-worth individuals
- Families and family offices
- Trustees, executors and fiduciaries

# Thank you!

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## James R. Brockway

Partner | New Haven  
Private client and tax

+1 203 974 0309

[James.Brockway@withersworldwide.com](mailto:James.Brockway@withersworldwide.com)

## Elizabeth A. Bawden

Partner | Los Angeles  
Private client and tax

+1 310 277 9901

[Elizabeth.bawden@withersworldwide.com](mailto:Elizabeth.bawden@withersworldwide.com)

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