

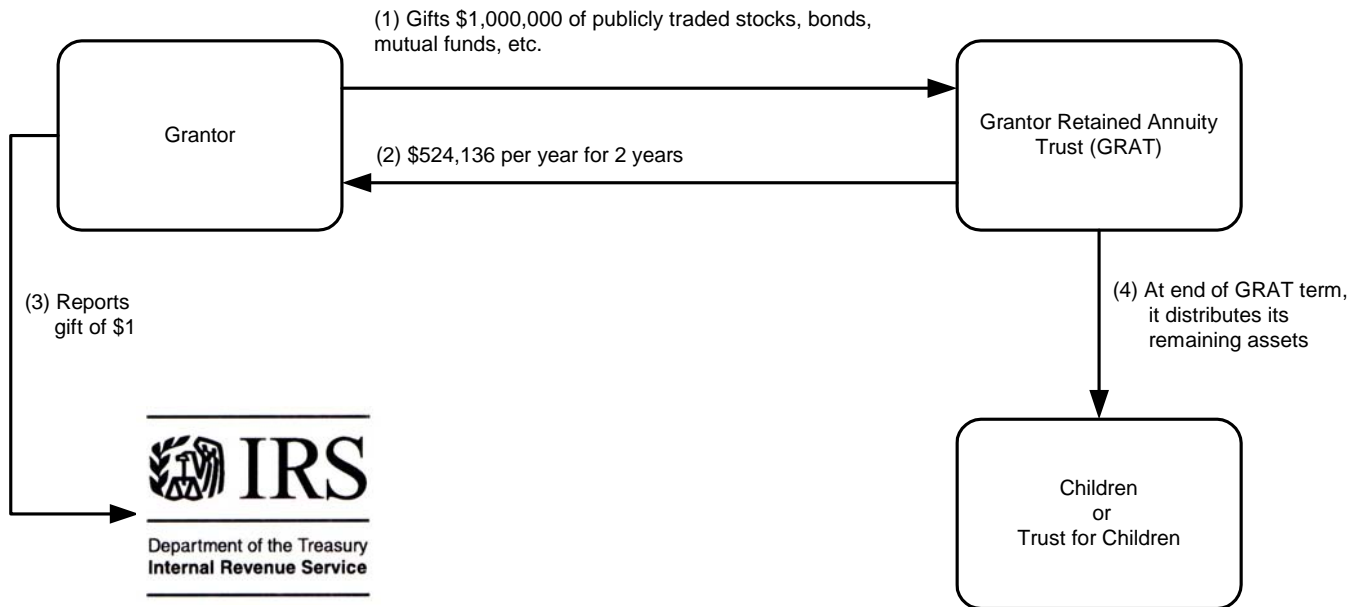
Current IRS Rates Offer Opportunity to Save Gift/Estate Taxes

In the current low-interest-rate environment, grantor retained annuity trusts (GRATs) offer an opportunity to make gifts tax free and also save estate taxes.

A GRAT is a trust to which you can transfer many types of property, including financial assets (e.g., publicly traded stocks, bonds, mutual funds, etc.). In return, a GRAT gives you back a predetermined fixed payment for a specified period of time. In determining the fixed payment, the IRS assumes the transferred property can earn only the rate of interest the IRS specifies.

If the GRAT actually earns more than the IRS’s assumed rate, the excess earnings go to whomever you select gift tax-free at the end of the GRAT term. The IRS issues tables monthly stating the annual rate of interest it believes a GRAT can earn. For example, the rate for May 2008 was 3.2%.

As shown in the example below, assume you put \$1,000,000 of financial assets into a GRAT set to last two years. If this GRAT annually pays you \$524,136 and actually earns 2% income and has 3.5% capital growth, the IRS believes there is no gift at the end of the two-year GRAT term even though \$36,480 actually passes to your designated beneficiary gift tax-free and is permanently removed from your estate.



Year	Economic Schedule				
	Beginning Principal	3.50% Growth	2.00% Annual Income	Annual Payment	Remainder
1	\$1,000,000.00	\$35,000.00	\$20,350.00	\$524,136.20	\$531,213.80
2	\$ 531,213.80	\$18,592.48	\$10,810.20	\$524,136.20	\$ 36,480.28
Summary	\$1,000,000.00	\$53,592.48	\$31,160.20	\$1,048,272.40	\$36,480.28

The transfer of assets into and out of the GRAT can be done with your publicly traded or privately held stock, bonds, and other financial assets. These assets do not have to be sold in order to generate cash to make the transfers into the GRAT or the payments out to you. You can be the sole trustee of the GRAT.

If you were to die before the end of the GRAT's term, the GRAT would not be effective for tax purposes, but it also would not have done your estate plan any harm.

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