

WHAT IS A GRANTOR RETAINED ANNUITY IN CONNECTICUT?

“People who are exposed to the federal estate tax must take steps to gain estate tax efficiency. The line that is drawn between those who are exposed and those who are exempt exists in the form of the federal estate tax exclusion.”



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If you are faced with federal estate tax exposure, you are looking at a significant threat to your financial legacy. At the present time, the maximum rate of this tax is 40 percent, and this is a figure that certainly gets your attention.

You can transfer a certain amount of assets before the estate tax would become applicable. This figure is called the federal estate tax credit or exclusion. In 2015, the exclusion is \$5.43 million.

The tax man does not want you to give gifts while you are living to sidestep the estate tax. To prevent this, there is a gift tax in place as well. The gift tax and the estate tax are unified, so they both carry the same 40 percent maximum rate.

Because of this unification, the \$5.43 million exclusion is a unified lifetime



exclusion. This is the total amount that you can transfer free of taxation, either while you are living or after you pass away.

However, there is an unlimited marital deduction.

You can transfer unlimited assets to your spouse tax-free. These transfer taxes are only applicable on transfers to others.

GRANTOR RETAINED ANNUITY TRUSTS

Now that we have set the stage, we can get into the tax efficiency value of grantor retained annuity trusts.

The nature of the funding is at the core of this strategy. For the strategy to succeed, you must fund the trust with assets that will appreciate considerably over the duration of the term.

After you fund the trust with highly appreciable assets, you name a beneficiary. The beneficiary would assume ownership of anything that may remain in the trust after the expiration of the term.

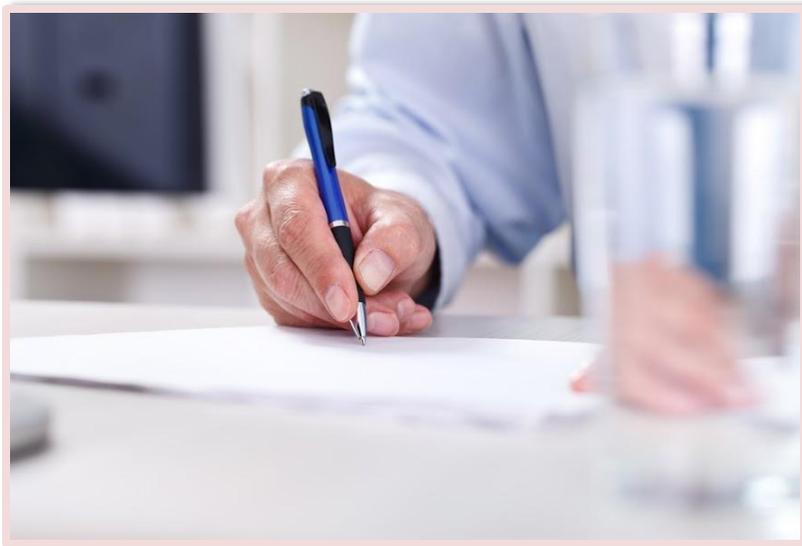
As the grantor of the trust, you except annuity payments on an annual basis throughout the trust term. To execute this strategy, you "zero out" the grantor retained annuity trust.



Here's what zeroing out is all about. Because a beneficiary may be inheriting something eventually, the gift tax is potentially applicable on the transfer.

The Internal Revenue Service values the trust for tax purposes using 120 percent of the federal midterm rate to account for anticipated appreciation. This is alternately referred to as the hurdle rate.

To zero out the GRAT, you arrange for your annuity payments to equal the



entirety of the taxable value of the trust as it has been calculated by the Internal Revenue Service.

When interest rates are low, the zeroed out grantor retained

annuity trust strategy has a great deal of viability. If the assets in the trust perform better than the hurdle rate that was applied by the IRS in the beginning, a remainder will be left in the trust after the expiration of the term.

The beneficiary would assume ownership of this remainder, and there would be no gift tax consequences. Ultimately, a tax-free asset transfer would take place.

LIMITED POWER OF ATTORNEY

If you want to give someone the power to act on your behalf in a limited manner, you could create a limited power of attorney.

You decide on the limits that you want to impose. For example, you could give someone the power to act on your behalf for a single transaction if you cannot be present yourself.



It would be possible to give someone within your business organization the power to sign certain types of documents on your behalf.

A limited power of attorney could also be created to give someone the power to act on your behalf in a comprehensive manner for a limited period of time.

SUMMARY

People who are exposed to the federal estate tax must take steps to gain estate tax efficiency. The line that is drawn between those who are exposed and those who are exempt exists in the form of the federal estate tax exclusion.

In 2015, the amount of this exclusion is \$5.43 million.

In addition to the estate tax, there is also a federal gift tax. The gift tax and the estate tax are unified under the tax code, so you cannot give gifts to avoid the estate tax.

There are various different ways that you can transfer assets in a tax efficient manner. The optimal course of action will vary depending on the circumstances. If you are in possession of highly appreciable assets, one possibility would be the creation of a grantor retained annuity trust.



When market conditions are favorable, the utilization of this type of trust can facilitate an asset transfer at a significant tax discount.

If you are concerned about the impact that transfer taxes can have

on your financial legacy, schedule a consultation with a licensed estate planning attorney. Your attorney will answer your questions, gain an understanding of your long-term objectives, and make the appropriate recommendations.

You can ultimately go forward with a solidly constructed wealth preservation plan in place, and your financial success will be of benefit to your family long after you are gone.

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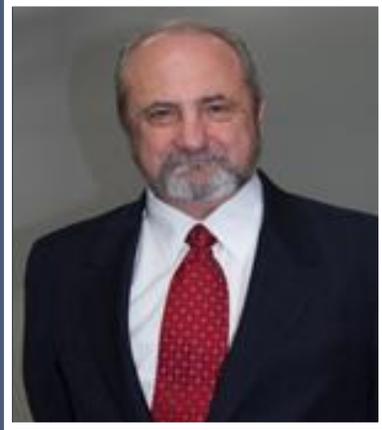
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About the Author

Barry D. Horowitz



Barry D. Horowitz is a founding partner in the law firm of Nirenstein, Horowitz & Associates, P.C. He received his diploma from the Loomis Chaffee School and his Bachelor of Arts from Bennington College, where he dual majored in philosophy and music.

Mr. Horowitz was awarded his Juris Doctor degree with honors from the University of Connecticut School of Law. While attending law school, Mr. Horowitz received the American Jurisprudence Award in Legal Ethics and the Nathan Burkan Award.

After graduation from law school, Mr. Horowitz continued his legal education at New York University School of Law where he received a Post Doctorate Law Degree in Taxation. He has also recently received a national achievement award.

Mr. Horowitz is admitted to practice before all the state courts in the State of Connecticut and the United States District Court. He is a member of the Hartford County Bar Association, a charter member of the American Academy of Estate Planning Attorneys, and has recently received the American Academy Award. Mr. Horowitz is also an active member of the Connecticut Bar Association where he is a member of the Elder Law Section, the Estate Planning and Probate Section, and the Professional Ethics Committee. Mr. Horowitz practices exclusively in the area of Estate Planning where he has earned a reputation as a dynamic and entertaining speaker. He also has recently published a book entitled "Guiding Those Left Behind in Connecticut."

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