

Advanced Sales

Grantor retained annuity trusts

Irrevocable trusts for transferring assets to the next generation

PLANNING TIP

- A GRAT is: an irrevocable trust funded by a grantor with appreciating assets
- The grantor retains rights to income from the trust for a term of years
- The assets are transferred to named beneficiary at the end of the trust term

A grantor retained annuity trust (GRAT)¹ is an irrevocable trust designed to transfer an asset to the next generation at a reduced gift tax value. The grantor gifts property (for example, stock in the family business) and receives a stream of fixed payments over a limited number of years. At the end of the term, the ownership of trust assets shifts to the next generation.

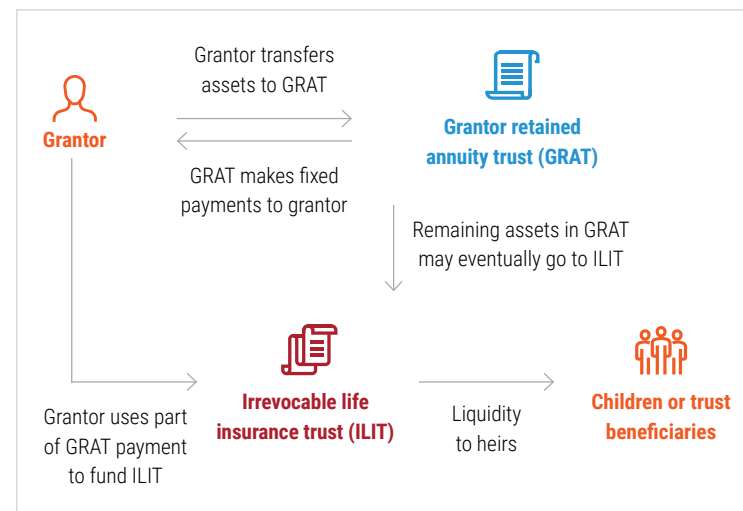
GRATs are typically designed to pay the grantor the largest fixed payment stream possible in order to reduce the gift's value to near zero. If the asset grows faster than the IRS discount rate, the value of the trust will increase over time. Thus, a GRAT is a gift of an asset's future appreciation. If the grantor dies before the end of the term, part or all of the trust assets may be included in his or her taxable estate. To enhance the results of a GRAT, the grantor gifts all (or a portion) of the GRAT payments to an irrevocable life insurance trust to purchase an individual or survivorship life insurance policy.

What to consider

Here are a few important things to consider before implementing a GRAT.

- If the grantor outlives the GRAT, the asset's appreciation is removed from his or her estate. No additional taxes are due when the children receive the asset.
- If the grantor dies during the term of the GRAT, part, or all, of the value of the trust assets are included in his or her estate and an independent appraiser may be required to value the assets.
- The gift does not qualify for the annual gift tax exclusion and the beneficiaries of the GRAT do not receive a step-up in basis.
- The trustee cannot make discretionary distributions of the principal or income to the grantor.

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value



Note: Specific tax and legal questions should be referred to your tax professional or legal counsel.

Insurance products issued by:
The Lincoln National Life Insurance Company
Lincoln Life & Annuity Company of New York

How to implement

Before establishing a GRAT, consult a qualified attorney to draft trust documents and determine which assets are suitable for a GRAT. A grantor can then establish an irrevocable trust that qualifies as a GRAT. With life insurance held in an irrevocable life insurance trust (ILIT), the grantor can cover the risk of inclusion of the asset in his or her estate due to premature death. The grantor can also establish an irrevocable life insurance trust (usually a separate trust) to provide liquidity to the heirs if the he/she dies during the term of the GRAT.

Your attorney will be familiar with all the legal requirements for a GRAT and how to structure the transfer of assets to the trust.



Speak with your financial professional today to see if a GRAT may benefit you and the legacy you're building.

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

©2024 Lincoln National Corporation

[LincolnFinancial.com](https://www.lincolnfinancial.com)

Lincoln Financial Group is the marketing name for Lincoln National Corporation and its affiliates.

Affiliates are separately responsible for their own financial and contractual obligations.

LCN-6158506-121323-A
PDF ADA 1/24 **Z07**
Order code: LIF-GRAT-FLI001



¹ For a GRAT, the starting point in the calculation of the present value is the requirement that you start with 120% of the mid-term Applicable Federal Rate (AFR). The IRS publishes this rate each month, and for August 2020, 120% of the mid-term AFR is 0.49%. The next step is to round the rate to the nearest 0.2%, or 0.40% for August.

Important information

One should not rely on this presentation to justify such a transaction. Actual cases are different from the hypothetical discussion presented herein. Lincoln does not provide any guarantees that such a transaction will ultimately work. Taxpayers should discuss their own situations with their legal or tax professionals. Affiliates include broker-dealer/distributor Lincoln Financial Distributors, Inc., Radnor, PA, and insurance company affiliates The Lincoln National Life Insurance Company, Fort Wayne, IN, and Lincoln Life & Annuity Company of New York, Syracuse, NY.

Lincoln Financial Group® affiliates, their distributors, and their respective employees, representatives and/or insurance agents do not provide tax, accounting or legal advice. Please consult an independent professional as to any tax, accounting or legal statements made herein.

Affiliates include broker-dealer/distributor Lincoln Financial Distributors, Inc., Radnor, PA, and insurance company affiliates The Lincoln National Life Insurance Company, Fort Wayne, IN, and Lincoln Life & Annuity Company of New York, Syracuse, NY.