



HIGHTOWER
Trust Company

Unlocking Wealth Transfer Efficiency with a Grantor Retained Annuity Trust (GRAT)

A STRATEGIC ESTATE PLANNING TOOL FROM HIGHTOWER TRUST COMPANY

CLIENT PROFILE: John and Lisa Thompson, both in their late 60s, have spent decades building their wealth through a successful family business and investment portfolio. With a net worth of \$15 million, they are focused on ensuring a smooth and tax-efficient transfer of assets to their two children.

CHALLENGE:

Estate Tax Concerns: With a federal estate tax exemption of \$13.99 million per individual (as of 2025), any assets above this threshold could be taxed at rates as high as 40% upon death. John and Lisa want to proactively reduce their taxable estate.

Preserving Wealth for Future Generations: They want to pass on as much of their wealth as possible to their children while helping minimize gift and estate tax liabilities.

Retaining Cash Flow: Since they are still active in managing their wealth, they need a strategy that allows them to retain some income during their lifetime.



SOLUTION: A GRANTOR RETAINED ANNUITY TRUST (GRAT) is an irrevocable trust that allows John and Lisa to transfer appreciating assets into a trust while retaining a fixed annuity payment for a specified term. At the end of the term, any remaining assets, including any appreciation above the IRS “hurdle rate” (Section 7520 rate), pass to their heirs with minimal or no gift tax liability.

HOW A GRAT WORKS:

1. They establish a 10-year GRAT and transfer \$5 million in assets (e.g., shares in their family business or an investment portfolio).
2. They receive fixed annuity payments from the trust each year, calculated based on IRS guidelines.
3. If the trust’s assets grow at a rate higher than the IRS hurdle rate (e.g. if the GRAT assets appreciate at 8% annually while the IRS hurdle rate is 5%), the excess appreciation passes to their children tax-free.
4. At the end of the 10-year term, the remaining assets transfer to their children, free of additional gift taxes.

John and Lisa's Hightower financial advisor determined that introducing this concept, making a referral to an estate planning attorney, and naming Hightower Trust Company as trustee may meet their needs. This includes trust administration, principal and income accounting, tax information for personal income tax returns, and distribution of annuity payments. Below are the benefits of a GRAT:

KEY BENEFITS OF A GRAT

- **Reduces Gift Tax Exposure:** By structuring the GRAT as a "zeroed-out" GRAT (where the annuity payments return nearly all the original contribution), John and Lisa can avoid paying gift taxes.
- **Reduces Estate Tax Liability:** By shifting asset appreciation outside of their taxable estate, they reduce the amount subject to estate tax upon their passing.
- **Retains Income for the Grantors:** The fixed annuity payments help ensure the Thompsons maintain cash flow while gradually transferring wealth.
- **Most Effective in a Low-Interest-Rate Environment:** The lower the IRS Section 7520 hurdle rate, the greater the potential for tax-free wealth transfer.

POTENTIAL RISKS & CONSIDERATIONS

1. **Mortality Risk:** If John or Lisa pass away before the GRAT term ends, the remaining assets revert to their estate and may be subject to estate taxes.
2. **Performance Risk:** If the GRAT's assets fail to appreciate above the IRS hurdle rate, little or no value will transfer to heirs.
3. **Irrevocable Structure:** Once the GRAT is established, John and Lisa cannot take back the assets (other than through their annuity payments).

RESULTS: By implementing a GRAT strategy, the Thompson family was able to significantly reduce their taxable estate while retaining a steady income stream throughout the term of the trust. This strategy allowed for the children to receive the remaining assets from the GRAT, free from additional gift taxes, creating a smooth transfer of wealth.

At Hightower Trust Company, we specialize in working with clients and their advisors to create tailored estate planning solutions, including GRATs, to help families efficiently transfer wealth while helping maximize tax benefits.

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