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New York, NY | **Leading Wealth Advisor**

Beacon Wealth Management

Mark S. Germain, CFP®, Founder and CEO

“What is a GRAT, and how would it affect my estate plan?”

By Mark S. Germain

Did you know a GRAT can help you maintain control over your property while simultaneously transferring its ownership to your heirs and removing it from your taxable estate?

In the right situation, GRATs are an unbeatable tool.

A GRAT is a grantor retained annuity trust. Let us simplify the definition. A trust is simply a vehicle, an entity, to own assets, and in this case it pays out an annuity. An annuity is a predetermined regular cash payment for a specific period of years. In a GRAT, the grantor, or donor, may control the assets put into the trust and receives the annuity payments. GRATs have a definitive timeline and most are structured for a three- to 10-year period.

A GRAT is an excellent tool right now because interest rates are so low. When a GRAT is established, the assets transferred to it are appraised, (if their fair market value is not readily ascertainable), and it is assumed that their value will increase by at least as much as the Section 7520 interest rate set by the IRS for that particular month. If the value of the assets inside a GRAT does not increase at a rate equal to or greater than the Section 7520 rate by

the end of the GRAT, the assets revert back to the grantor's taxable estate. However, if the assets' value increases beyond the Section 7520 interest rate, the beneficiaries of the trust reap the rewards of the excess investment growth tax free. An additional benefit to the beneficiaries will occur if the assets in the GRAT appreciate, as no gift or estate tax will be payable with respect to such appreciation.


Recently, I suggested to a client that a GRAT would be an excellent vehicle to transfer his interest of a real estate partnership to his children.

Three conditions make the GRAT particularly appealing: the current low interest rates; the depressed real estate market (and therefore low appraisal value of assets going into the GRAT); and the ability to discount when gifting. The real estate partnership produces income the client needs, so the trust will pay out the income as its annuity. The client pays the tax on the income just as if he continued to own the assets. However, assuming the trust goes to its full term, the appreciation of the property escapes estate tax.

Many investors—even those who realize the importance of estate planning—

do not feel comfortable with planning strategies that they view as too complex or sophisticated. But strategies like GRATs should not be reserved for the ultra wealthy; investors should have their advisor evaluate estate planning options including, but not limited to:

- Grantor retained annuity trusts
- Family trusts
- Irrevocable life insurance trusts
- Qualified personal residence trusts
- Installment sale to an intentionally defective grantor trusts
- Qualified terminal interest property trusts
- Dynasty trusts
- Limited liability companies

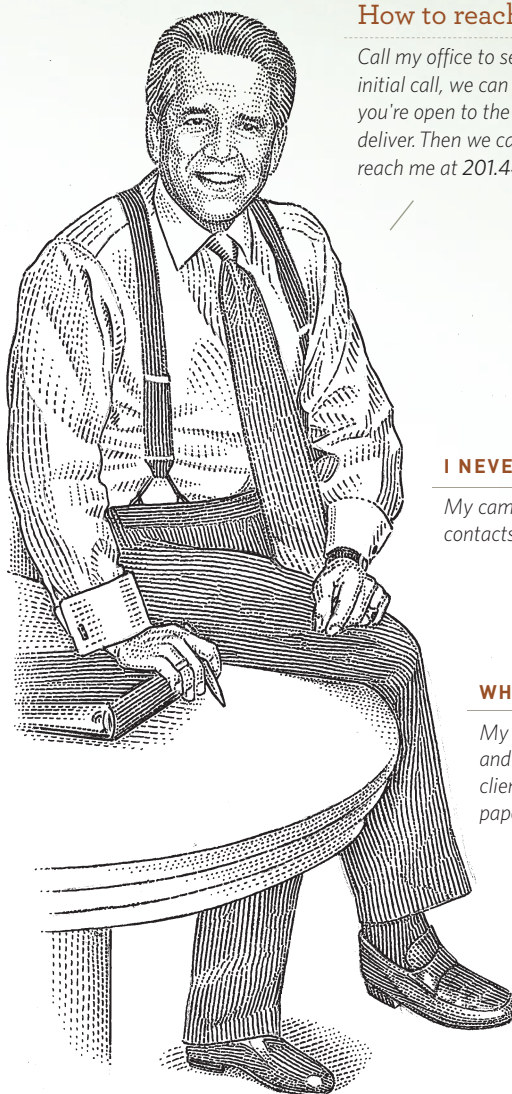
Estate planning is often the most neglected element of wealth management. Investors focus on growth, education funding and retirement planning, but frequently minimize the importance of estate planning. Estate planning should not be left until your later years. The old adage, “Failing to plan is planning to fail,” definitely applies here. A grantor must survive the trust term for the GRAT to attain the estate tax savings. 

“A GRAT is an excellent tool right now because interest rates are so low.”

– Mark S. Germain

MY HOBBIES ARE...

Photography, golf, kayaking, softball and helping others



How to reach Mark S. Germain

Call my office to set up a phone consultation. In an initial call, we can make sure our values align and that you're open to the high level of customer service we deliver. Then we can determine next steps. You can reach me at 201.447.9500.

I NEVER LEAVE HOME WITHOUT...

My camera, my cell phone with client contacts and a plan

WHAT'S ON MY DESK...

My computer, photos of my kids and grandkids, notes from my clients, and the usual—pens, paperclips, notepads and Post-its

About Mark S. Germain

Mark S. Germain is the founder of Beacon Wealth Management. A relentless tactician, for more than 25 years Mr. Germain has managed his clients' financial lives with passion and precision. In addition to his work building wealth management strategies for executives, Mr. Germain educates professionals on all facets of asset protection, investment growth, reducing taxes and financial planning. After completing his BS in economics and accounting, Mr. Germain earned his MBA in finance and taught accounting at Northeastern University. He is currently an adjunct professor at Fairleigh Dickinson University where he teaches CFP candidates the financial planning process.

Assets Under Management
\$300 million

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
\$2 million

Largest Client Net Worth
\$28 million

Financial Services Experience
26 years

Compensation Method
Asset-based, fixed and hourly fees

Primary Custodian for Investor Assets
TD Ameritrade

Professional Services Provided
Planning, investment advisory and money management services

Association Memberships
FPA, IMCA, CFP®

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