



October Opportunity for GRATs and Family Loans

By ASHLEA EBELING

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Wealth advisors have been telling clients all year that if you want to shift wealth to your kids or grandkids with a so-called GRAT, you should be doing one sooner rather than later. Well, it looks like the best time for this tax-saving estate-planning strategy is in October. The rate you have to beat to make this strategy work is at an all time low of 2% (tied with November 2009; the rates change monthly), but down considerably from 3.4% earlier this year. And there's another opportunity: For loans to family members set up in October, the rate is a mere 0.4% a year for a short-term loan.

Lisa M. Rico, an estate planning partner at Gilmore, Rees & Carlson, in Wellesley, Mass., has a client who was ready to put a \$1 million GRAT in place this month who is now waiting until Oct. 1 to take advantage of the new, lower hurdle rate. "It's not necessarily the final call, but with significantly low rates, it's a really good time to do this," Rico says.

Here's why the low rates make GRATs such a good deal. The idea with a GRAT (that's a grantor retained annuity trust) is that you stash say \$1 million of an asset you expect to appreciate into a trust for a set number of years, say three years. After the three years, any appreciation over the hurdle rate goes to your kids, free of estate and gift tax. Rico calculates that if her client's assets go up 8% a year for three years, there will be \$134,000 transferred to the kids, estate and gift tax free.

Normally, the Internal Revenue Service dings big gifts with a gift tax. (Each individual can give another person \$13,000 a year without worrying about gift tax). This year, thanks to the Bush tax cuts, the gift tax rate is only 35%, but next year it is set to go back up to 55%. Although the estate tax has been repealed for 2010, it is set to come back Jan. 1, with a mere \$1 million exemption per person and a 55% top rate.

Another reason to do a GRAT now, Rico points out, is that legislation cracking down on GRATs has been surfacing all year in various bills as a revenue raiser, and is likely to make it into law. The proposals would make GRATs riskier. They would require GRATs to last a minimum of 10 years, and a gift tax of perhaps 10% to be paid at the time the GRAT is set up. (If you die during the time the GRAT is in place, the principal and earnings are considered part of your estate.)

For a guide to giving, the tax-free way, including more on GRATs, [click here](#).

The low interest rates also make it a good time to do intrafamily loans, Rico notes. Maybe you want to help an adult child with a downpayment on a house or to get a new business going? For October, the rates range from 0.4% a year for loans of three years or less to 3.3% for loans longer than nine years. On a loan of \$20,000, those interest rates fall between \$80 and \$660 a year.

Some 30% of the wealthy said they've helped out friends and families with gifts or loans during the recession, according to a survey released earlier this year by PNC Wealth Management, a division of PNC Financial Services Group. For more on how to set up an intrafamily loan, [click here](#).