

Why 2010 is the year of the GRAT...

A grantor retained annuity trust ("GRAT") can be a valuable tool for transferring assets to family with little or no gift tax. A typical GRAT is an irrevocable trust that makes fixed annual distributions to the grantor for a term of years, returning the original assets to the grantor. After the term has passed, the remaining assets are distributed to the grantor's family.

In markets where the grantor may not be feeling as financially secure and not as willing to transfer assets, GRATs are an attractive option because the original assets are returned to the grantor, plus the IRS discount rate. Essentially, the discount rate is the rate of return the IRS assumes the taxpayer will earn on the GRAT assets. If the GRAT assets appreciate at a rate of return greater than the IRS discount rate, the remaining assets will pass to the family free of gift or estate taxes.

For October, the IRS discount rate is 2.0 %. When the IRS discount rate is this low the spread between the IRS's discount rate and actual returns earned on the portfolio can be meaningful, resulting in significant tax-free transfers to family from the GRAT.

Because the grantor of a GRAT must survive the term of the GRAT for the plan to succeed, the probability of success with a GRAT increases with a shorter term. Since Congress is considering several bills providing that the term of a GRAT must be at least 10 years, 2010 may be the year to establish a GRAT.

Contact your portfolio manager to discuss whether a GRAT might be a worthwhile addition to your current estate plan.



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