Halliday Private Trust
Integrated Trust Solutions for Clients

Trust Connection

A Monthly Report of Trust News and Information
October 2017

Welcome to *Trust Connection,* our monthly newsletter highlighting Trust news and information. Each month we will feature timely articles of interest.

About Us

At Halliday Private Trust, it is our mission to assist our clients in the process of providing solutions, specifically through a wide range of financial advice.

Since 1982, we have utilized a full spectrum of financial services to help our clients navigate every major hurdle in their financial lives. Because we are an independent financial services firm, we utilize an open architecture approach to locating the most suitable investment options for our clients.

Our role is to help clients make smart decisions about their money. We understand that each client has unique needs and requires personalized solutions based on their goals, objectives and concerns.

Charitable GRAT

For many years Grantor Retained Annuity Trusts (GRATs) have been all the rage in gift planning for wealthy individuals and families because of recent low interest rates. There may be an even better gift planning solution in the charitable GRAT. With the charitable GRAT, also known as the Charitable Lead Annuity Trust or CLAT, individuals can combine charitable giving and the GRAT concept to create a combination that reduces the major risk in a GRAT.

A GRAT is often used to reduce future estate tax liability by freezing the value of a property transferred to the trust, typically busi¬ness interests, securities, or real estate, so that the future appreciation on such property will pass estate tax-free to the Grantor's beneficiaries. The charitable GRAT, the CLAT, pays to charity a set amount for a set number of years. What's left at the end goes to the Grantor or his/her heirs.

Like all split-interest trusts, a CLAT has a present and future interest. In this case the present interest is a fixed sum of money, paid annually to the charity, or charities, of the Grantor's choice. The distinction here is that an amount of money is set aside, sufficient to pay the annual payout to charity, and it must be irrevocable. The advantage of an irrevocable agreement is its ability to make a future interest gift of the remainder to family at a substantially discounted value. Irrevocable means that the IRS will count the dollars today, rather than the amount that actually transfers. Thus, all future growth transfer to family is gift-tax free. So, as an example, Jane believes that her investment in a CLAT for a fixed period or for the rest of her life will earn more than 2.2 percent per year and everything over that amount will pass to her family free of gift or estate tax. This is not a loophole, nor a new or aggressive technique; in fact, it has been around since 1969. As long as one is willing to bet that the assets will grow by more than the Applicable Federal Rate, or AFR (which is 2.2 percent at the time of this writing), the technique works. That means CLATs shine in low interest rate environments and lose their shine when interest rates are high. What happens to rates over time is unimportant, as the only rate considered is the rate in effect for the month in which the trust is created or in either of the previous two months if those rates are better.

So a CLAT is better than a GRAT? Not necessarily. Both have the same basic objective, a substantial tax-free gift to family, but the CLAT avoids a major disadvantage of the GRAT. With a GRAT, if the person who creates the trust dies prior to the end of the term, it doesn't work – mortality risk limits the practical term. With the mortality risk removed, a CLAT can run for many years, and can even be created at death and still work.

For example, a couple, ages 65 and 66, gives $150,000 annually to charity. They set aside $3,000,000 in a CLAT and instruct the trustee to make a $150,000 annual payout to their

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A LOCAL TRUST SOLUTION

Call us today at (800) 786-1598 to learn more about working with Halliday Private Trust.

For information and assistance, please feel free to contact one of our Trust Advisors:

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chosen charity every year for the balance of their lives. After they both pass away the trust will terminate and pay the balance to their family. The calculations would show a life expectancy of approximately 25 years and the present value of the stream of gifts to charity at about $2,350,000 gift-tax free since it's destined for charity, and the present value of what the family is expected to receive is at about $650,000. (These numbers are approximated at a 4 percent applicable federal rate to be conservative and are rounded off, for educational purposes only.) That $650,000 gift to the family is counted against the over $5,000,000 amount that may be transferred gift-and estate-tax free in the United States, so no tax is due. The trust makes the annual charitable gifts and can take a charitable deduction against its income each year. If the trust earned 8 percent a year, approximately $9,500,000 would pass to the family estate-tax free. Not bad for a $650,000 gift. In addition, $3,750,000 would have been distributed to their favorite charity.

Another opportunity is to reduce the value of one's estate dramatically. Take this example of what Jacqueline Onassis did. Ignoring all the other things she bequeathed and people she benefited, she used several CLATs as part of her will. Following her death, a CLAT was created for each of her sister's children and the residue of her estate was used to fund a CLAT as well. Again, ignoring the rest of her estate plan and focusing on this one technique she utilized, and without knowledge of the actual values, in this example her estate was worth $100,000,000 dollars. That means her estate tax bill would be about $40,000,000. But by utilizing a CLAT granting an $8,000,000 annual payout to a charitable private foundation run by the family, the calculation would show that everything would be paid out to charity and zero would be left for the family, thus creating a taxable estate of zero. No estate tax would be paid. Remember, this is simply the math required by the IRS. In reality, if the trust earned a total return of 8 percent a year, her heirs would receive $100,000,000 estate-tax free in 24 years.

If you have a potentially taxable estate, annually give money to charity, and desire for your estate to pass to your family, talk to your advisor about the application of a CLAT as a part of your estate planning. Do well, while doing good.