CUMMINGS & LOCKWOOD LLC

WHAT IS AN EXAMPLE OF A GRAT?

Jane Jones transfers $1,000,000 worth of stock to a 2-year GRAT. Jane believes that the stock is undervalued and expects it to increase by 25% per year for the next two years. Assuming an IRS 7520 interest rate of 4.4%, Jane must receive an annuity of $533,248 for the two years of the GRAT to reduce the taxable gift to a nominal amount. If the stock appreciates in value at the 25% annual rate that Jane expects, $362,693 of stock will pass tax-free to her children at the end of the two year term.