

## Advance planning for business sales

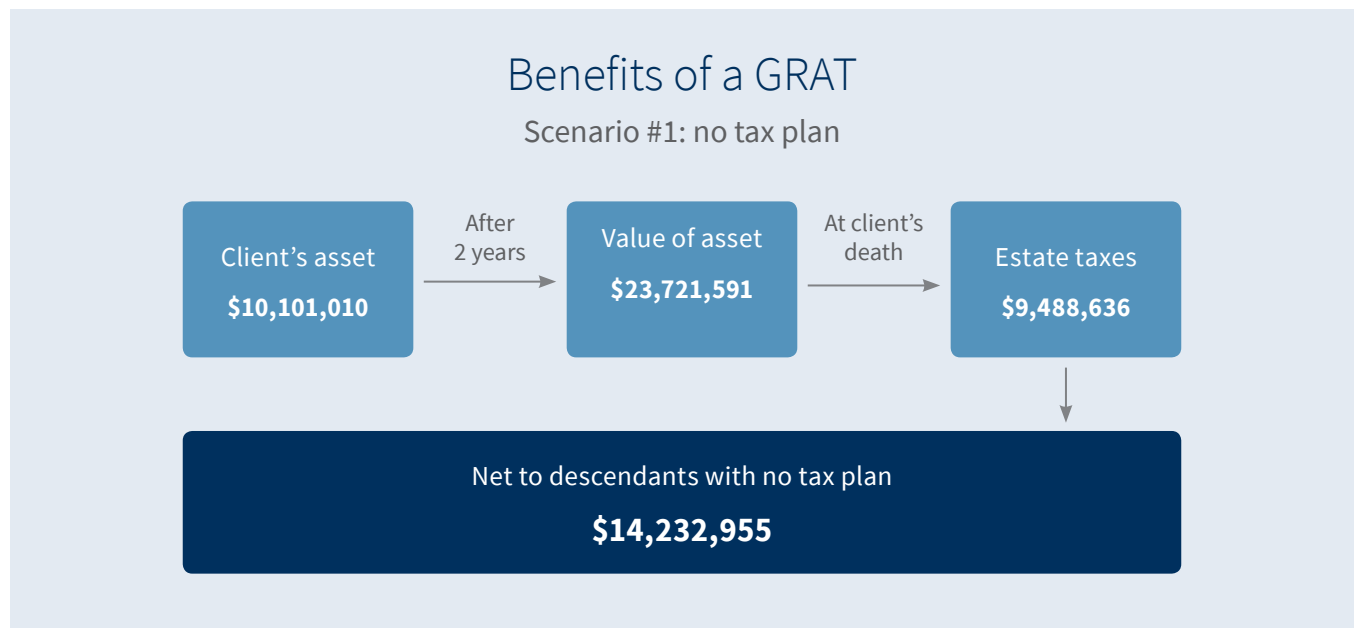
A grantor retained annuity trust (GRAT) is one technique that can transfer wealth with little practical impact on the underlying transaction.

Individuals who experience significant increases in net worth typically consider estate planning after the wealth creation event occurs. However, the best opportunity to transfer wealth and reduce tax exposure often is prior to wealth expansion, such as a business sale, an IPO or merger transaction. A grantor retained annuity trust (GRAT) is one technique that can transfer wealth with little practical impact on the underlying transaction yet deliver results.

For example, if a GRAT is funded with shares from a closely held business, there is the possibility that substantial wealth can be passed to the children tax free. When a minority interest in closely held shares is placed in a GRAT, the shares may be assigned a value that is less than their fair market value because of the inherent lack of liquidity and marketability at the time. If the

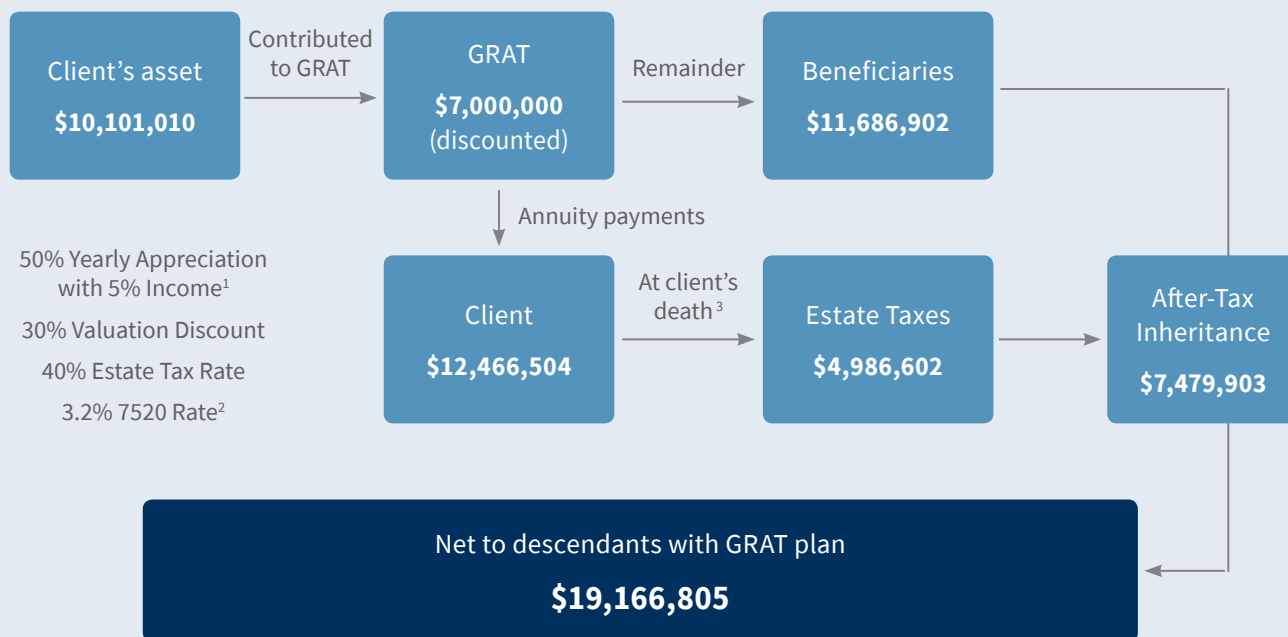
owner later decides to sell the business and receives a price higher than that previously assigned value, the beneficiaries (typically the children) reap the benefits of the sale premium free of transfer tax. For income tax purposes, though, the grantor is treated as the owner of all of the assets in the GRAT during the GRAT term. Accordingly, income earned on any GRAT asset during the GRAT term is taxable to the grantor. Any transfers between the grantor and the GRAT (such as when assets are contributed to the GRAT or annuity payments are made to the grantor) during the GRAT term are not treated as taxable events for income tax purposes.

A GRAT can be a powerful wealth transfer tool for an asset expected to rapidly appreciate and can create a meaningful difference in net proceeds for family business owners contemplating a sale or transfer.



## Benefits of a GRAT

Scenario #2: with 2-year zeroed-out GRAT



<sup>1</sup>We assume that the client retains a 1% controlling interest in the business and transfers 99% non-voting, non-controlling interests to the 2-year zeroed-out GRAT. We further assume that the client has no estate tax exemption remaining and is in the highest marginal income tax bracket.

<sup>2</sup>Section 7520 interest rates are used to value certain charitable interests in trusts. While the interest rate used in this example was for illustrative purposes only, 7520 rates are calculated monthly and are equal to 120% of the applicable federal mid-term rate (compounded annually) for the month in which the valuation date falls rounded to the nearest two-tenths of one percent.

<sup>3</sup>If the grantor dies during the GRAT term, then all of the remaining GRAT assets (including appreciation) return to the grantor's taxable estate. If the grantor survives the GRAT term, then only the value of the annuity payments remain part of the grantor's taxable estate.

This information was developed by Raymond James Financial. It is general in nature, and is intended solely for the purpose of illustrating conceptually how a particular estate planning technique might work, based on various assumptions. Whether the planning technique is appropriate for you will depend on your goals and your specific situation. This is not a complete statement of all information necessary for making an investment decision, and is not a recommendation or a solicitation to buy or sell any security. Investments and strategies mentioned may not be suitable for all investors. Past performance may not be indicative of future results. Raymond James does not provide advice on tax or legal issues. These matters should be discussed with an appropriate professional.

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