



# **Pioneer Bank & Trust**

## **Trust & Investments**

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## The tax magic of GRATs

What do Facebook's Mark Zuckerberg, casino magnate Sheldon Adelson, and Lloyd Blankfein, the CEO of Goldman Sachs, have in common? They, along with hundreds of other highly compensated executives, have employed a Grantor Retained Annuity Trust, or GRAT to estate planners, to move wealth within the family at little or no gift tax cost. According to a report from Bloomberg, Adelson may have passed some \$7.9 billion through 30 different trusts to his heirs, saving about \$2.8 billion in gift taxes. An estimated \$100 billion in gift taxes has been legally avoided since 2000.

How can the reporters know all this? Aren't IRS filings and trust documents private? Yes, they are, but the SEC requires many disclosures from the major owners of publicly traded companies. It is from the SEC filings that the reporters gleaned this information.

How does it work? The idea is that the grantor places an asset in a trust for a term of years, receiving income from the trust during its existence. At the end of the term, the trust terminates, and the remaining assets pass to the heirs. When the trust is created, there is a gift tax due on what the heirs will receive, discounted to reflect the value that the grantor retained for himself or herself.

One of the Walton heirs pushed this strategy farther. A GRAT was set up to last for just two years, funded with Walmart stock. The annuity was set so high that essentially the entire value of the transfer had to be returned to the donor, so the value of the gift was "zeroed out," and no gift tax would be due. What's the point? If the stock transferred to such a trust zooms in value during the two years, the excess appreciation passes to heirs entirely free of gift taxes, and the asset has been removed from the estate of the donor.

Bloomberg reported that in 2009 Adelson placed about \$30.9 million worth of his Las Vegas Sands stock in a GRAT for two years. In 2011, the trust terminated and distributed \$31.1 million, to him—the initial contribution plus interest. During those two years, the price of the stock soared from \$2.58 per share to \$46.87. The final result was that \$518.8 million passed to Adelson's heirs with no gift tax. That same amount has been removed from his estate, and will be free of estate taxes as well.

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