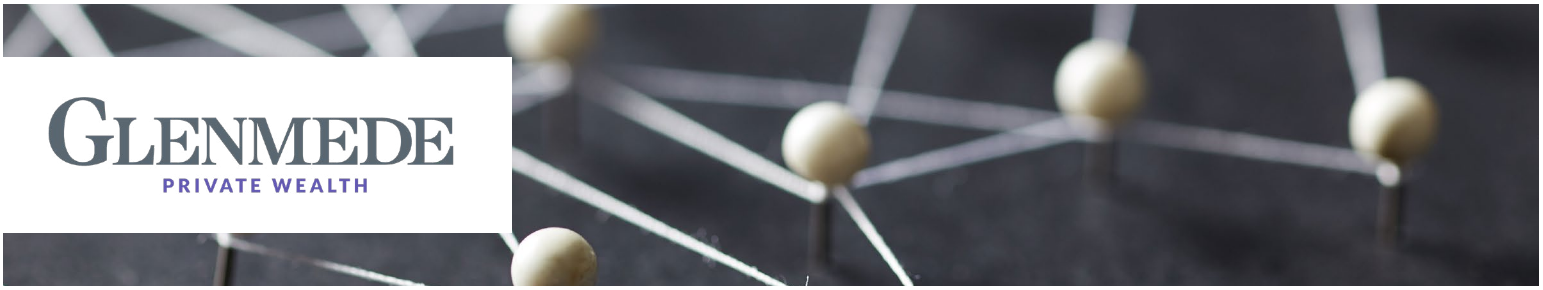


GLENMEDE
PRIVATE WEALTH

Estate Planning Techniques in Volatile Markets

Market volatility and rising interest rates present several estate planning opportunities. Here we highlight seven techniques that may help you transfer additional wealth to your loved ones.

Grantor-Retained Annuity Trust (GRAT)

A GRAT is a compelling, tax-efficient wealth-transfer strategy for individuals and families who anticipate having an estate valued at more than the federal taxable estate exemption amount — $12.06 million for individuals and $24.12 million for married couples in 2022 — and who have assets with strong short to midterm growth potential. A GRAT involves funding a trust while retaining an annuity payment of principal plus interest. Growth over the interest rate transfers tax-free to the GRAT's beneficiaries. Three insights:

- Establishing a GRAT captures the current **Section 7520 interest rate**. This rate, published monthly by the IRS, is rising but remains below historical averages.
- What if market disruptions push a $100 per share stock to $70 per share? If a GRAT is funded with the stock at $70 and it reverts to $100 before the end of the GRAT term, the $30 per share increase (minus the Section 7520 interest rate) transfers tax free to beneficiaries.
- If you have an existing GRAT with undervalued assets, consider a tax-free swap of a low-volatile asset such as cash. Next, use the retrieved undervalued assets to fund a new GRAT, where recovery of the assets benefits the beneficiaries.

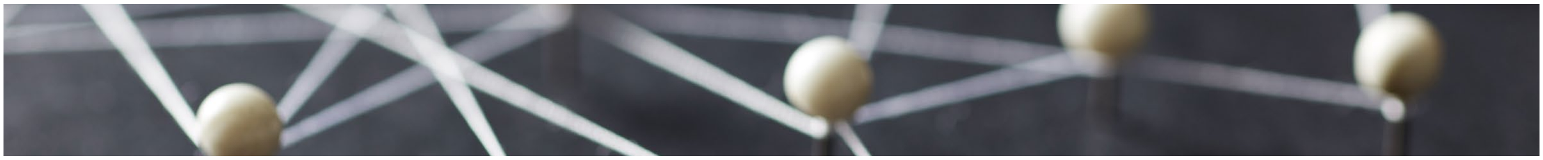
WHAT IS THE SECTION 7520 RATE?

Pursuant to Internal Revenue Code Section 7520, the interest rate for a particular month is the rate that is 120% of the applicable federal midterm rate (compounded annually) for the month in which the valuation date falls. That rate is then rounded to the nearest two-tenths of 1%.

Basis management with grantor trusts

Many irrevocable trusts are completed gift grantor trusts. As the grantor, this means trust income is reported on your tax return and the assets are outside your estate. However, there is no basis adjustment (step-up or down) on trust assets at your death.

Thus, consider whether a) higher potential growth assets should be swapped into the trust or b) lower-basis assets should be swapped out of the trust, positioning for basis adjustment at death.



Traditional individual retirement account (IRA) conversions

Tax law permits conversion of traditional IRAs to Roth IRAs, gaining more favorable tax treatment, which is enhanced in volatile markets. Why? Typically, you would include in income the value of the traditional IRA assets on the date of conversion. When the market forces values lower, less income tax is triggered. Further, after five years, Roth IRA distributions and gains are not taxable.

Alternate valuation

Alternative valuation permits paying estate tax on asset valuations six months after the date of death (AVD) instead of on the date of death, when electing decreases both the value of the gross estate and the combined amount of federal estate tax and generation-skipping transfer (GST) taxes. If the value of your portfolio drops after the date of death but is expected to recover before the AVD, consider selling it, as the sales price applies.

WHAT IS A QUALIFIED TERMINABLE INTEREST PROPERTY TRUST?

A QTIP Trust can be an effective estate planning tool to qualify for the marital deduction while allowing the first-to-die spouse to control who receives the property after the surviving spouse passes.

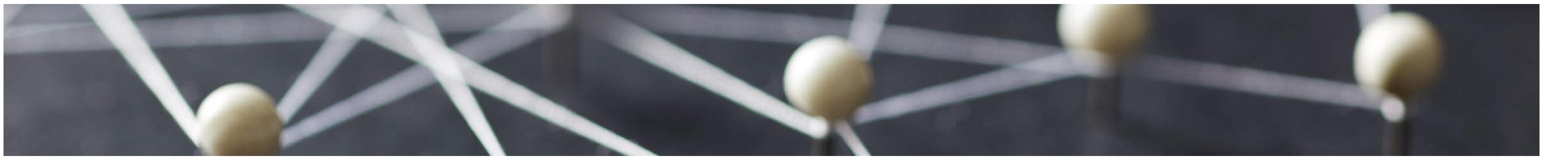
If your estate plan incorporated formula transfers that avoid estate tax, the test is failed because no estate tax is due. Consider disclaiming a small amount or exercising a partial **Qualified Terminable Interest Property (QTIP) Trust** disclaimer to generate a modest estate tax, thus enabling the use of AVD and reduce estate taxes. The basis adjustment rules provide that if alternate valuation is elected, you use the AVD value. This means analyzing the impact on basis to beneficiaries may be appropriate.

Low interest rate intrafamily loans

Generally, tax law requires loans be made with a minimum interest rate to avoid imputed income or gifts. Known as the applicable federal rate (AFR), the minimum rates are established monthly but can be fixed for term loans.

Like term marketable debts, AFRs are rising but remain below historical averages. Here are planning examples that may help take advantage of fixed AFRs:

- Loan money to children or grandchildren.
- Loan money to a grantor trust as interest paid is not taxable income (consider using a trust exempt from GST tax).
- Refinance a loan to reduce the rate or extend the term.
- Sell assets to a grantor trust in exchange for a promissory note.



Annual exclusion gifts

In 2022, an individual can give up to $16,000 annually per recipient without using their estate, gift or GST exemptions. You may choose to make gifts at the beginning of the year, so appreciation during the year is outside the estate, or you may opt to wait for year-end. Consider giving when assets suffer down valuations. The growth reflecting the return to normal values directly benefits the recipient at no tax cost. Alternatively, give cash and allow the recipient to invest and capture the return to normal valuations.

Enhanced exemptions

Current law permits a $12,060,000 exemption for estate, gift and GST taxation ($10 million base, indexed to 2022). The law that doubled the exemption expires January 1, 2026, when, absent a law change, the exemption returns to $5,000,000, indexed from 2017.

With the uncertainty of the exemption amount, consider using your full exemptions, particularly with assets depressed in value, thus removing assets and appreciation from your taxable estate.

Glenmede resources

If you're interested in learning more about the techniques mentioned in this article, please reach out to your Relationship Manager or check out the following:

Intrafamily Loans

GRATs

Considerations for Roth IRA Conversions

Transferring Wealth Tax-Efficiently

This presentation is intended to provide a review of issues or topics of possible interest to Glenmede Trust Company clients and friends and is not intended as investment, tax or legal advice. It contains Glenmede's opinions, which may change after the date of publication. Information obtained from third-party sources is assumed reliable but is not verified. No outcome, including performance or tax consequences, is guaranteed, due to various risks and uncertainties. Clients are encouraged to discuss anything they see here of interest with their tax advisor, attorney or Glenmede Relationship Manager.

GLENMEDE
PRIVATE WEALTH