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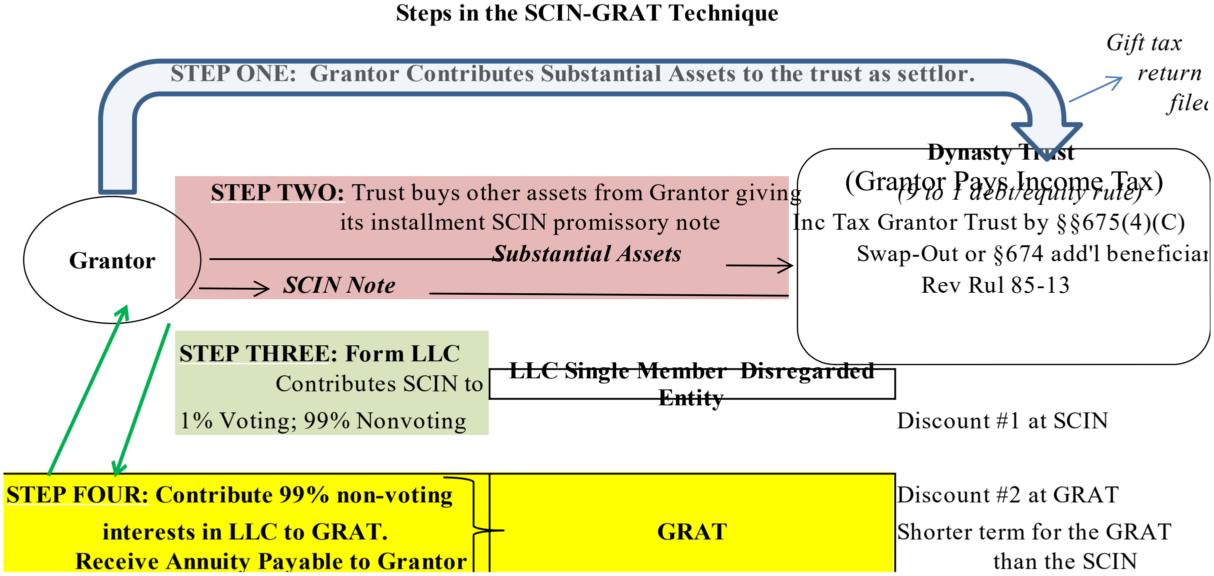
Re: The SCIN-GRAT Technique, Especially Appropriate for Older Grantors.

This SCIN-GRAT uses two well known and documented techniques used to co-ordinate family gifting and tax efficiency.

The first is known as a ***S***elf ***C***ancelling ***I***nstallment ***N***ote, or ***"SCIN"*** for reference. It is an installment note with a provision stating that if the Seller dies before the end of the note, then the note is deemed paid in full and the buyer need no longer make payments. The buyer pays a premium for this feature, a result of a "bargained for consideration" negotiation.

The second is known as a ***G***rantor ***R***etained ***A***nnuity ***T***rust, or ***"GRAT"*** for reference. Low interest rates at this time makes this technique attractive. The GRAT is an irrevocable trust into which a contribution of property is made by the Grantor, but the Grantor requires the trust pay to the Grantor an annuity until the end of a set term or the Grantor's death, whichever comes first. There are many requirements. If the Grantor dies before the end of the term, the property is included in his taxable estate and little has been accomplished. Otherwise, the trust owns the property, usually distributed to the trust beneficiary, and nothing is included in the Grantor's estate. Its attraction comes from the applicable federal interest rates the IRS uses for the computation of the gift which is now 3%. In a "ZEROED-OUT GRAT" the annuity rate is set so high the taxable gift is $0.

Steps in the SCIN-GRAT Technique



STEP ONE: The Grantor forms a Dynasty Trust and contributes substantial assets, say closely held family company's stock. The Trustee then purchases from the Grantor more of the stock, or some other asset, in exchange for a SCIN.

STEP TWO: The Grantor forms an LLC contributing the SCIN note as capital, and in exchange receiving back a 1% voting membership interest and a 99% non-voting interest.

STEP THREE: The Grantor forms a GRAT and contributes the 99% non-voting stock to it.

POSSIBLE SCENARIO #1: Grantor dies before either the GRAT or the SCIN terms end. *RESULT:* The property is owned outright by the Dynasty Trust and no part of it is in the Grantor's taxable estate, although payments made and retained by the Grantor will be in the taxable estate.

POSSIBLE SCENARIO #2: Grantor dies after the GRAT's term ends, but before the SCIN's term ends. *RESULT:* The GRAT distributes property to the beneficiary, the 99% nonvoting interest in the LLC, which in turn owns the SCIN. The documents are written so that the GRAT terminates before the SCIN.

<u>POSSIBLE SCENARIO #3:</u> Grantor dies <u>after</u> the GRAT's and the SCIN's term ends. *<u>RESULT</u>:* The GRAT distributes its 99% nonvoting interest in the LLC to the beneficiary. The LLC has received the benefit of the SCIN. The Dynasty trust keeps the property it acquired from the Grantor and none of it is in the taxable estate of the Grantor.