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## Historically Low AFR For October

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The IRS recently released the Applicable Federal Rate, or “AFR,” for October, 2011. The AFR is a key interest rate used in connection with a number of the more sophisticated estate planning techniques, such as grantor retained annuity trusts (“GRATs”), sales to intentionally defective grantor trusts, and qualified personal residence interest trusts (“QPRITs”).

The mid-term AFR for October is 1.4%, which is historically low. This means that GRATs, sales to grantor trusts, and intra-family loans are even more attractive in October because the amount that is required to be paid back to the donor under these techniques is relatively lower due to the extremely low interest rate.

On the other hand, techniques in which the value of the gift is dependent upon the value of the income interest retained by the grantor, such as QPRITs or charitable remainder annuity trusts (“CRATs”), are not as attractive. For these techniques, the low interest rate leads to a lower value for the retained interest and a higher value for the remainder interest, thereby resulting in a larger taxable gift when the technique is implemented.

With the increased lifetime gift exclusion (\$5 million in 2011 and 2012) and the possibility that the use of GRATs may be restricted in the future, now may be the time to explore some of the estate planning approaches that have been enhanced by historically low interest rates.

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