Estate Planning Insights

The effect of interest rates on estate planning strategies

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Interest rate environments may affect the optimal timing of certain estate planning techniques. Here is a look at how different rate environments affect the implementation of some leading strategies.

Interest rates may significantly impact estate and gift planning strategies. In general, it is wise to consider how prevailing interest rates may affect certain commonly used trust vehicles.

Some trust vehicles are more advantageous to implement in low interest rate environments, some are more beneficial in a high rate environment, and others remain relatively unaffected by prevailing rates. Although certain factors including asset performance and age may arise as dominant factors to consider, understanding how each estate and gifting planning vehicle is affected by different rate environments is an important step toward deciding which may deliver the most efficient means for accomplishing wealth transfer goals. Individuals should consult legal and tax advisors to determine the suitability of each technique with respect to their own financial and legacy goals.*

Trusts as estate planning tools

With federal gift and estate tax rates as high as 45% in 2008 and 2009, effective estate planning includes the transfer of wealth in the most tax-efficient manner. Certain estate planning strategies entail the transfer of property to a trust, with the retention of an interest in the transferred property by the transferor. Generally under these arrangements, the transferor uses or enjoys the use of the property or its income for a period of time, after which the remaining trust corpus is distributed to the trust's remainder beneficiary, typically a family member or a charity.[1] The transferor's interest is commonly known as the retained interest and the remainder beneficiary's interest is commonly known as the remainder interest. Due to the fact that remainder beneficiaries must wait until some point in the future to receive their interest, remainder interests constitute a type of future interest.

With certain estate and gift planning strategies, when a taxpayer transfers a future interest to another party but retains an interest in the property, a gift of the future interest has been made. The value of the gift is generally determined by subtracting the value

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of the transferor's retained interest from the overall value of the property. Mathematically, the value of the transferred interest is determined by the following equation:

Value of transferred interest = fair market value (FMV) of property transferred – present value (PV) of retained interest[2]

Why interest rates matter
In order to calculate the present value of the retained interest, a discount rate must be used. The Internal Revenue Service promulgates on a monthly basis a discount rate used (in conjunction with certain mortality data) to calculate the present value of an annuity, an interest for life or a term of years and a remainder interest.

This discount rate, known as the 7520 rate*, equals 120% of the mid-term applicable federal rate (AFR) (compounded annually) for the month in which the valuation date falls.[3] The rate is rounded to the nearest two-tenths of 1%.[4] The AFR reflects the average market yield of obligations of the United States. Accordingly, the 7520 rate fluctuates with prevailing interest rates, but once the transfer occurs, the 7520 rate at the date of the transfer to the trust serves as an assumed rate of return on the trust assets for the duration of the trust term, thereby locking in the discount rate for valuation purposes, regardless of actual investment performance.

Following is a review of how different trust vehicles perform based on the 7520 rate. Individuals should consult their Financial Advisor as well as their legal and tax advisors to determine the suitability of each technique with respect to their own financial and legacy goals.

Strategies favorable for low interest rate environments
Two frequently used estate planning vehicles that are advantageous in a lower-rate environment are grantor retained annuity trusts (GRATs) and charitable lead annuity trusts (CLATs). With GRATs and CLATs, lower rates help minimize the gift tax value of the remainder interest left to family members.

Grantor Retained Annuity Trust. GRATs are irrevocable trusts that a donor funds with a single transfer of assets and in return receives fixed annuity payments over a specified period of time. At the end of the period, the remainder passes to the trust's remainder beneficiary, usually a child or another family member (either directly or in trust). Those who fund GRATs generally seek to minimize the gift tax value of the remainder interest.

Typically, the goal in creating a GRAT is to transfer assets out of the grantor's gross estate for federal estate tax purposes with little, if any, gift tax due. By retaining an annuity interest whose value is large compared to the value of the property transferred to the trust, the gift tax value of the remainder may be minimized. In the case of a "zero-ed out GRAT," the annuity interest is set so that the present value of the annuity payments using the 7520 rate is equal to the value of the assets transferred to the GRAT, and thus the value of the remainder interest is zero. The 7520 rate is used to calculate the values of the annuity interest and the transferred remainder interest when the GRATs are created. The gift tax value of a GRAT is determined by subtracting the value of the retained annuity from the principal's total value; therefore an increase in the annuity's value results in a decrease in the value of the remainder interest. For example, to virtually zero out the gift for a $1 million transfer to a two-year GRAT, an annuity rate of 56%** is necessary when the 7520 rate is 8%.[5] Under a 7520 rate of 4%, the same two-year GRAT would need to pay out 53% (as opposed to 56%) of the trust's asset value annually to reach a $1 taxable gift.[6] Thus the lower the 7520 rate, the lower the annuity payout rate has to be in order to minimize the maker's gift. For this reason, GRATs may be especially beneficial when rates are low. Moreover, to the extent that the trust investments outperform the 7520 rate used to value the gift, the excess inures to the benefit of the remainderman without further gift or estate tax.

One caveat concerning GRATs: the grantor's death during the term of the trust reduces the estate tax benefits because some or all of the value of the trust corpus is included in the grantor's gross estate.***

Charitable Lead Annuity Trust. A CLAT similarly has the potential to benefit from "locking in" a low interest rate at inception. In a CLAT, property is placed in trust usually for a period of years during which a fixed amount is paid to charity each year, with the remainder at the end of the term passing to non-charitable beneficiaries. A CLAT created

* Pursuant to §7520 of the Internal Revenue Code
** All numbers with decimals in the examples provided are rounded to the nearest whole number.
*** The includible amount is computed by dividing the annual annuity amount by the 7520 rate and can be up to, but no more than, 100% of the GRAT assets.

during a lifetime may be structured as a grantor trust or as a nongrantor trust.* As with zeroed-out GRATs, if the value of the charitable annuity interest is so large that it equals the value of the property placed in trust, the CLAT is said to be "zeroed out"—that is, the value of the taxable remainder will be zero because the entire value of the property contributed to the CLAT will qualify for a gift tax charitable deduction. In that case, any assets that remain in the trust at the end of the CLAT term will pass to the remainder beneficiaries free of gift tax.

For example, for a $1,000,000 zeroed-out, 20-year CLAT, the future value of the remainder interest, reflecting an actual 5% growth, would be $220,241.98[7] if the 7520 rate is 4%, but zero if the 7520 rate is 8%.[8] (The reason is that the annuity payout is generally higher with a higher 7520 rate in order to zero out the remainder.)

In this manner, low interest rates may increase the chances of a positive remainder.

Strategies better suited for higher interest rate environments

Two strategies that become more advantageous as interest rates move higher are the charitable remainder annuity trust (CRAT) and the qualified personal residence trust (QPRT). Transferring assets to a CRAT when rates are high may help maximize the charitable remainder interest deduction, and transferring assets to a QPRT when interest rates are high may help minimize the gift tax value of the remainder interest.

Charitable Remainder Annuity Trust. In a CRAT, a grantor transfers assets to an irrevocable trust, retains a fixed annuity interest and gifts the remainder interest to charity. The corresponding income tax deduction (subject to limitations based on the grantor's adjusted gross income) equals the net present value of the remainder interest that will pass to charity upon the trust's termination. The value of the charitable remainder interest computed using the applicable 7520 rate must be at least 10% of the initial fair market value of all property placed in trust.**

While the size of the charitable income tax deduction is not necessarily the primary motivation for establishing a CRAT, higher interest rate environments may enhance the benefits generally available through CRATs, especially in years when taxpayers seek opportunities to minimize income taxes (for example, in a year that a founder sells a long-held family business and/or has a large capital gains exposure to reduce). For example, transferring $1 million into a CRAT for a 10-year term and a 5% annuity payout when the 7520 rate is at 5% results in a $386,085 present value for the annuity interest, and a $613,915 charitable remainder value.[9] A 10% 7520 rate lowers the annuity value to $307,230, and increases the remainder value to $692,770.[10]

As a result, higher 7520 rates may allow for a higher annuity payout to the grantor based on a targeted remainder value.

Qualified Personal Residence Trust. With a QPRT, the grantor transfers a personal residence into an irrevocable trust, retains an income interest (specifically the right to use the trust property as a personal residence for a term) and gifts the remainder interest (often to family members). Those who fund QPRTs generally seek to minimize the gift tax value of the remainder interest and higher 7520 rates provide assistance on this front. Unlike the present value of a fixed annuity, the present value of an income interest—which gives the term holder the right to all the income during a prescribed period—increases as the discount rate increases, as measured under the prescribed formula.[11] Therefore, QPRTs generally provide a greater degree of transfer tax savings during a high interest rate environment. For example, transferring a home with a fair market value of $1,000,000 to a QPRT for a 10-year term results in a $487,860 present value of the retained interest, based on a 5% 7520 rate. In this example, the remainder value would be $512,140.[12] At a 10% 7520 rate, the remainder value drops to $321,630, reflecting the higher $678,370 present value of the retained interest.[13]

As a rule, the higher the 7520 rate used with a QPRT, the lower the value of the remainder interest and the lower the taxable gift. Note: if the grantor dies before the term ends, the trust property is includible in the grantor's gross estate.

Interest rate-neutral strategies

Some estate planning strategies remain largely unaffected by interest rate levels. This is the case with unitrusts which provide payments equal to a fixed percentage of the value of the trust assets as redetermined each year (unlike an annuity, which pays fixed dollar amounts over the trust term).[14] The

* If the CLAT is a grantor trust, the grantor will be taxed on all the income of the CLAT during the term (and without the benefit of an annual income tax charitable deduction for the annuity payments made to charity). However, the grantor will obtain a current income tax deduction for the actuarial value of the charitable interest in the CLAT upon creating the CLAT, which can be used to the extent allowable under the normal rules applicable to charitable gifts under §170 of the Internal Revenue Code, subject to recapture if the grantor dies during the CLAT term.

** In the case of a term of years CRAT, if interest rates are low, certain levels of annuity payments will cause the actuarial value of the remainder interest to fall below the 10% minimum requirement.

Interest rate environment strategies: a comparison

Interest rate environment	Suitable trust strategies	Basic strategy
Lower rate	Grantor Retained Annuity Trust (GRAT)	Grantor transfers assets to an irrevocable trust, retains an annuity interest and gifts the remainder interest (often to family members).
	Charitable Lead Annuity Trust (CLAT)	Grantor transfers assets to an irrevocable trust, donates an annuity interest to charity and gifts the remainder interest (often to family members).
Higher rate	Charitable Remainder Annuity Trust (CRAT)	Grantor transfers assets to an irrevocable trust, retains an annuity interest and gifts the remainder interest to charity.
	Qualified Personal Residence Trust (QPRT)	Grantor transfers a personal residence into an irrevocable trust, retains the right to reside in the residence for a term of years and gifts the remainder interest (often to family members).
Rate neutral	Charitable Remainder Unitrust (CRUT)	Grantor transfers assets into an irrevocable trust, retains a unitrust interest and gifts the remainder interest to charity.

charitable remainder unitrust (CRUT) is the most common type of estate planning unitrust.

Charitable Remainder Unitrust. In the case of a CRUT, a grantor transfers assets to an irrevocable trust, retains a unitrust interest and gifts the remainder interest to charity. Lower remainder values are more favorable for transfer tax purposes, but because the payout is a fixed percentage of trust assets, changes in rates have no significant impact on remainder values. For example, a CRUT funded with $1 million using a 5% 7520 rate and a 5% payout results in a $608,281 remainder value,[15] not substantially lower than the $617,103 remainder value when the 7520 rate is 10%.[16]

Determining the right strategy

The interest rate environment at the time of implementing estate and gift planning strategies may arise as a key factor when considering the timing and effectiveness of GRATs, CRATs, CLATs and QPRTs. However, the ultimate choice of a particular strategy depends on careful consideration of individual circumstances as well as other appropriate strategies that may also utilize the tax benefits available to an individual. Additional factors such as the level of wealth, life expectancy, wealth distribution goals and family circumstances may also play large roles in determining the effectiveness of various techniques.

Notes

1 Charitable deductions available for the current year remain subject to certain limitations based on adjusted gross income.

2 This basic principle, sometimes referred to as the “subtraction” or “subtractive” method of valuation, is not to be found in the Code, but its validity is established by the legislative history of, and regulations supporting, section 2702 as well as by longstanding regulations under section 2512. Informal Senate Report on S. 3209, 101st Cong., 2d Sess., 136 Cong. Rec. S15629, S15682 (Oct. 18, 1990); Reg. §25.2702-1(b); Reg. §25.2512-5(d)(2).

An actuarial formula is used to calculate the fractional factor for computing the remainder interest after a term certain (a known term of years), or “R”: R = (1/(1+i))t, where i = interest rate, expressed as a decimal, and t = term of years. The fractional factor for computing the income interest, or I, is simply: I = 1 – R, using for R the remainder interest fractional factor calculated above. Regs. §25.2512-5(d)(2)(iii).

These first two factors can be multiplied by the original principal amount to determine the value of the remainder or income interest, respectively. The factor for computing the annuity interest, or A, is: A = I / i, where i = interest rate, expressed as a decimal, and I = fractional factor for the income interest.

Regs. §25.2512-5(d)(2)(iv). The annuity factor is multiplied by the amount of an annuity payment to provide the present value of the stream of annuity payments. For income and transfer tax purposes, the Section 7520 rate is used as the interest rate i in the above equations. Notice 89-24, 1989-1 CB 660; the IRS published final regulations under §7520 revising certain tables to reflect the most recent mortality information. T.D. 8886, 65 Fed. Reg. 36907 (6/12/00). See Regs. §25.2512-5(d). The revised tables are effective for interests created after April 30, 1999.

In applying this formula, the IRS has promulgated actuarial tables to value certain interests. Under this approach, one derives the value of a future interest by multiplying the fair market value of the underlying property (or in some cases, the periodic payment to be enjoyed by the interest holder) by a specified factor, found in the IRS tables, for that type of interest. The factor reflects the time value of money, and, in cases in which the interest is measured by a human life, the life expectancy of the individual involved.

3 §7520(a)(2); Regs. §1.7520-1(b)(1). In valuing charitable contributions, the taxpayer may use the federal mid-term rate for the month of the transfer or for either of the two preceding months. §7520(a); Regs. §1.7520-2(a)(2).

4 §7520(a)(2); Regs. §1.7520-1(b)(1).

5 **Grantor Retained Annuity Trust**

Type of calculation:	Term
§7520 rate:	8.00%
Grantor’s age:	60
Income earned by trust:	1.00%
Term:	2
Total number of payments:	2
Annual growth of principal:	5.00%
Pre-discounted FMV:	$1,000,000
Discounted FMV:	$1,000,000
Percentage payout:	56.07579%
Exhaustion method:	IRS
Payment period:	Annual
Payment timing:	End
Distribute principal in kind:	No
Vary annuity payments?	No
Is transfer to or for the benefit of a member of the transferor’s family?	Yes
Is interest in trust retained by transferor or applicable family member?	Yes
With reversion?	No
***** §2702 is applicable *****	
Base term certain annuity factor:	1.7833
Frequency adjustment factor:	1.0000
Annual annuity payout:	$560,757.90
Initial amount of payment per period:	$560,757.90
Value of term certain annuity interest:	$999,999.56
Value of grantor’s retained interest:	$999,999.56
(1) Taxable gift (based on term interest):	$0.44

6 **Grantor Retained Annuity Trust**

Type of calculation:	Term
§7520 rate:	4.00%
Grantor's age:	60
Income earned by trust:	1.00%
Term:	2
Total number of payments:	2
Annual growth of principal:	5.00%
Pre-discounted FMV:	$1,000,000
Discounted FMV:	$1,000,000
Percentage payout:	53.01943%
Exhaustion method:	IRS
Payment period:	Annual
Payment timing:	End
Distribute principal in kind:	No
Vary annuity payments?	No
Is transfer to or for the benefit of a member of the transferor's family?	Yes
Is interest in trust retained by transferor or applicable family member?	Yes
With reversion?	No
***** §2702 is applicable *****	
Base term certain annuity factor:	1.8861
Frequency adjustment factor:	1.0000
Annual annuity payout:	$530,194.30
Initial amount of payment per period:	$530,194.30
Value of term certain annuity interest:	$999,999.47
Value of grantor's retained interest:	$999,999.47
(1) Taxable gift (based on term interest):	$0.53

7 **Charitable Lead Annuity Trust**

Trust type:	Term
§7520 rate:	4.00%
FMV of trust:	$1,000,000.00
Growth of trust:	5.00%
Annual payout:	$73,581.90
Payment period:	Annual
Payment timing:	End
Term:	20
Total number of payments:	20
Exhaustion method:	IRS
Annual payout:	$73,581.90
Annual payment:	$73,581.90
Term certain annuity factor:	13.5903
Payout frequency factor:	1.0000
Present value of annuity limited by §7520 regs:	$1,000,000.00
Remainder interest = FMV of trust less PV of annuity:	$0.00

Year	Beginning principal	5.00% growth	Payment	Remainder
1	$1,000,000.00	$50,000.00	$73,581.90	$976,418.10
2	$976,418.10	$48,820.91	$73,581.90	$951,657.11
3	$951,657.11	$47,582.86	$73,581.90	$925,658.07
4	$925,658.07	$46,282.90	$73,581.90	$898,359.07
5	$898,359.07	$44,917.95	$73,581.90	$869,695.12
6	$869,695.12	$43,484.76	$73,581.90	$839,597.98
7	$839,597.98	$41,979.90	$73,581.90	$807,995.98
8	$807,995.98	$40,399.80	$73,581.90	$774,813.88
9	$774,813.88	$38,740.69	$73,581.90	$739,972.67
10	$739,972.67	$36,998.63	$73,581.90	$703,389.40
11	$703,389.40	$35,169.47	$73,581.90	$664,976.97
12	$664,976.97	$33,248.85	$73,581.90	$624,643.92
13	$624,643.92	$31,232.20	$73,581.90	$582,294.22
14	$582,294.22	$29,114.71	$73,581.90	$537,827.03
15	$537,827.03	$26,891.35	$73,581.90	$491,136.48
16	$491,136.48	$24,556.82	$73,581.90	$442,111.40
17	$442,111.40	$22,105.57	$73,581.90	$390,635.07
18	$390,635.07	$19,531.75	$73,581.90	$336,584.92
19	$336,584.92	$16,829.25	$73,581.90	$279,832.27
20	$279,832.27	$13,991.61	$73,581.90	$220,241.98

[8] **Charitable Lead Annuity Trust**

Trust type:	Term
§7520 rate:	8.00%
FMV of trust:	$1,000,000.00
Growth of trust:	5.00%
Annual payout:	$101,852.71
Payment period:	Annual
Payment timing:	End
Term:	20
Total number of payments:	20
Exhaustion method:	IRS
Annual payout:	$101,852.71
Annual payment:	$101,852.71
Term certain annuity factor:	9.8181
Payout frequency factor:	1.0000
Present value of annuity limited by §7520 regs:	$1,000,000.00
Remainder interest = FMV of trust less PV of annuity:	$0.00

Year	Beginning principal	5.00% growth	Payment	Remainder
1	$1,000,000.00	$50,000.00	$101,852.71	$948,147.29
2	$948,147.29	$47,407.36	$101,852.71	$893,701.94
3	$893,701.94	$44,685.10	$101,852.71	$836,534.33
4	$836,534.33	$41,826.72	$101,852.71	$776,508.34
5	$776,508.34	$38,825.42	$101,852.71	$713,481.05
6	$713,481.05	$35,674.05	$101,852.71	$647,302.39
7	$647,302.39	$32,365.12	$101,852.71	$577,814.80
8	$577,814.80	$28,890.74	$101,852.71	$504,852.83
9	$504,852.83	$25,242.64	$101,852.71	$428,242.76
10	$428,242.76	$21,412.14	$101,852.71	$347,802.19
11	$347,802.19	$17,390.11	$101,852.71	$263,339.59
12	$263,339.59	$13,166.98	$101,852.71	$174,653.86
13	$174,653.86	$8,732.69	$101,852.71	$81,533.84
14	$81,533.84	$4,076.69	$85,610.53	$0.00
Summary:	$1,000,000.00	$409,695.76	$1,409,695.76	$0.00

[9] **Charitable Remainder Annuity Trust**

Trust type:	Term
§7520 rate:	5.00%
FMV of trust:	$1,000,000
Growth of trust:	5.00%
Percentage payout:	5.00%
Payment period:	Annual
Payment timing:	End
Term:	10
Total number of payments:	10
Exhaustion method:	IRS
Amount of annuity:	$50,000
Annuity factor:	7.7217
Payout frequency factor:	1.00
Present value of annuity = annual payout times factors:	$386,085
Charitable remainder = FMV of trust less PV of annuity:	$613,915
Charitable deduction for remainder interest:	$613,915
Donor’s deduction as percentage of amount transferred:	61.392%

[10] **Charitable Remainder Annuity Trust**

Trust type:	Term
§7520 rate:	10.00%
FMV of trust:	$1,000,000
Growth of trust:	5.00%
Percentage payout:	5.00%
Payment period:	Annual
Payment timing:	End
Term:	10
Total number of payments:	10
Exhaustion method:	IRS
Amount of annuity:	$50,000
Annuity factor:	6.1446
Payout frequency factor:	1.00
Present value of annuity = annual payout times factors:	$307,230

Charitable remainder = FMV of trust less PV of annuity:	$692,770
Charitable deduction for remainder interest:	$692,770
Donor's deduction as percentage of amount transferred:	69.277%

[11] As stated above, the factor for computing the annuity interest or A is: A = I / i where i = interest rate, expressed as a decimal, and I = fractional factor for the income interest.

[12] **Qualified Personal Residence Trust**

§7520 rate:	5.00%
Principal:	$1,000,000
Grantor's current age:	60
Term of trust:	10
After-tax growth:	5.00%
Comb. death tax bracket:	50.00%
With reversion?	Yes
Grantor's age when trust term ends:	70
Value of nontaxable interest retained by grantor:	$487,860
Taxable gift (present value of remainder interest):	$512,140
Property value after 10 years:	$1,628,895

[13] **Qualified Personal Residence Trust**

§7520 rate:	10.00%
Principal:	$1,000,000
Grantor's current age:	60
Term of trust:	10
After-tax growth:	5.00%
Comb. death tax bracket:	50.00%
With reversion?	Yes
Grantor's age when trust term ends:	70
Value of nontaxable interest retained by grantor:	$678,370
Taxable gift (present value of remainder interest):	$321,630
Property value after 10 years:	$1,628,895

[14] Remainders after unitrust interests for a term of years are valued under Table D which appears in the regulations and, in an expanded version, in Book Beth. To arrive at the remainder's value, one determines the adjusted payout rate of the unitrust and then locates the factor in Table D, relating to that rate, for the term of years in question. The Table D factor, multiplied by the value of the underlying asset on the valuation date, gives the present value of the remainder. Table D is the same regardless of what the prevailing rate under Section 7520 may be at the time of the federal tax valuation of the remainder interest. Remainders after unitrust interests measured by a single life are valued in a manner similar to that employed for remainders after unitrust interests for a term certain. To arrive at the remainder's value, one determines the adjusted payout rate of the unitrust and then locates the factor in Table U(1), relating to that rate, for the age of the individual whose life measures the lead interest. The Table U(1) factor, multiplied by the value of the underlying asset on the valuation date, gives the present value of the remainder. Like the table for unitrusts for a term certain, Table U(1) is the same regardless of what the prevailing rate under Section 7520 may be at the time of the valuation.

[15] **Charitable Remainder Unitrust**

Trust type:	Term
§7520 rate:	5.00%
FMV of trust:	$1,000,000
Growth rate:	5.00%
Income rate:	0.00%
Percentage payout:	5.00%
Payment period:	Quarterly
Months val. precedes payout:	3
Term:	10
CRUT type:	Normal
Payout sequence factor:	0.970057
Adjusted payout rate:	4.85%
Interpolation:	
Factor at 4.8%:	0.611462
Factor at 5.0%:	0.598737

Difference:
0.012725 (4.850% - 4.8%) / 0.2% = X / 0.012725;
therefore X = 0.003181
Term remainder factor = factor at 4.8% less X: 0.608281
Present value of remainder interest = $1,000,000.00 x 0.608281: 608,281
Donor's deduction: $608,281
Donor's deduction as percentage of amount transferred: 60.828%

[16] **Charitable Remainder Unitrust**

Trust type:	Term
§7520 rate:	10.00%
FMV of trust:	$1,000,000
Growth rate:	5.00%
Income rate:	0.00%
Percentage payout:	5.00%
Payment period:	Quarterly
Months val. precedes payout:	3
Term:	10
CRUT type:	Normal
Payout sequence factor:	0.942505
Adjusted payout rate:	4.713%
Interpolation:	
Factor at 4.6%:	0.624430
Factor at 4.8%:	0.611462

Difference: 0.012968(4.713% - 4.6%) / 0.2% = X / 0.012968;
therefore X = 0.007327
Term remainder factor = factor at 4.6% less X: 0.617103
Present value of remainder interest = $1,000,000.00 x 0.617103: $617,103
Donor's deduction: $617,103
Donor's deduction as percentage of amount transferred: 61.710%

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