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Grantor Retained Annuity Trust (GRAT)

CONCEPT APPLIED:
A grantor funds an irrevocable trust with assets expected to appreciate and retains the right to an annual income payment from the trust. At the end of the trust term, trust assets go to named beneficiaries with little or no gift tax.

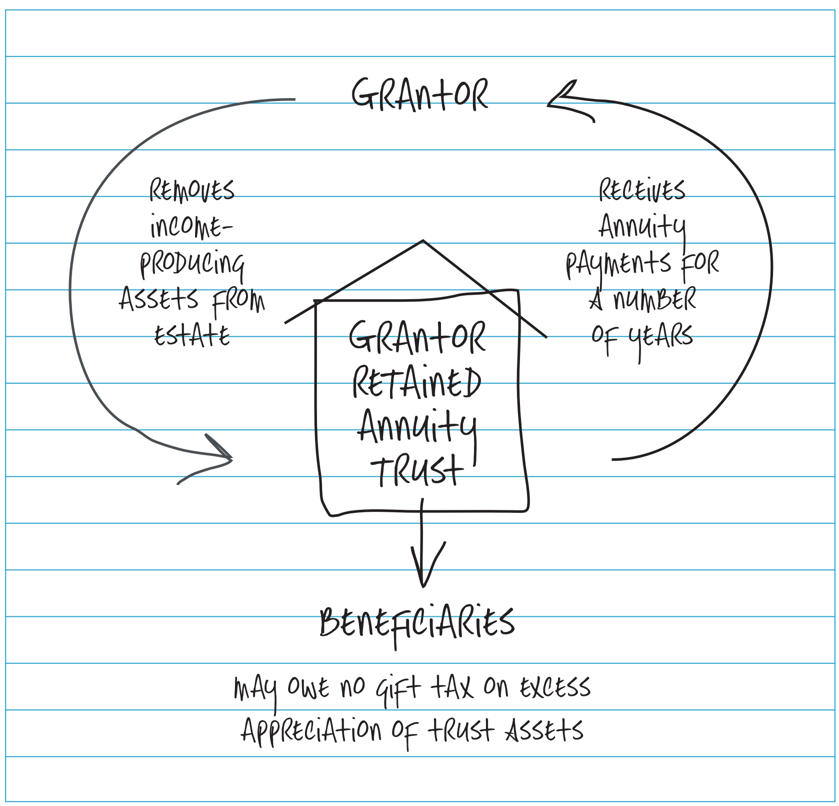
HOW IT WORKS:
When the grantor transfers income-producing assets to the GRAT, a "gift value" is calculated based on the initial value plus a theoretical rate of interest (AFR) set by the IRS *minus* the annuity payments through the end of the GRAT term. If the assets appreciate at a rate higher than the AFR when the GRAT is established, the excess growth becomes a tax-free gift to trust beneficiaries. A GRAT is "zeroed out" when the value of the annuity interest equals the remainder interest so no gift tax is due.

Low AFR + appreciable asset = good time for a GRAT.

WHY IS IT USEFUL?
A GRAT can remove assets from the grantor's estate and significantly reduce gift taxes on assets transferred to beneficiaries with this caveat: Should the grantor die during the trust term, GRAT assets are included in the grantor's estate for estate tax purposes.

50 WORDS OR LESS

A GRAT is an irrevocable trust that removes contributed assets from the grantor's estate, provides the grantor with an income that discounts the gift tax value of the transferred assets (possibly resulting in no gift tax liability), and allows trust assets to grow without additional gift tax.



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