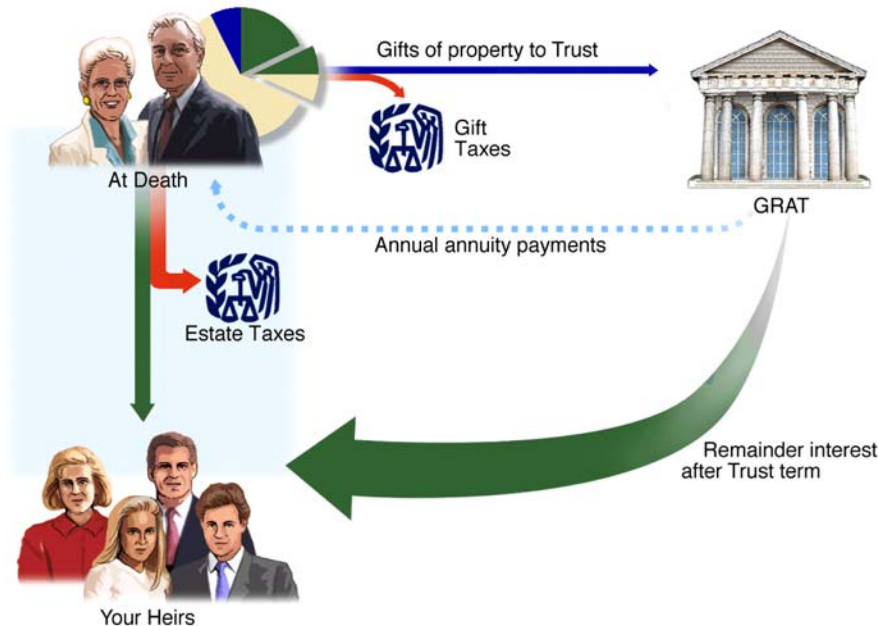
# Grantor Retained Annuity Trust

*Using Gifts of Future Interest*




**GRATs can effectively leverage gifts between generations—you get an annual annuity payment; your heirs get the balance of the trust after the trust term (a specified number of years).**

A GRAT is an irrevocable trust in which the grantor retains the right to an annual annuity payment for a specific period of time. The payment must be a specific dollar amount paid at least annually, regardless of trust earnings. The right to this annual income is called the retained interest. IRS tables are used to determine the value of this retained interest. Only the IRS' projected value of the remainder interest (full fair market value less the value of the retained interest) is considered a gift and subject to gift taxes. If the trust estate is worth more than the IRS' projection after the trust term, and if the grantor survives the trust term, the additional value passes to your heirs free of estate and gift taxes.

Since only a portion of the full value of the property is subject to gift taxes, the Applicable Credit Amount may be used more effectively. After the trust is created, no further contributions are permitted. The gifts may reduce your net estate, thereby reducing your estate taxes. Your heirs receive your net estate after estate taxes and expenses plus the remainder value of the GRAT.

If you die before the end of the trust term, the trust property is taxed in your estate. If you die after the term of the trust, the property should not be taxed in your estate. You want to choose a term long enough to help minimize gift taxes but short enough so that you will probably outlive the trust to avoid estate taxes. Federal estate taxes are scheduled to be repealed in 2010, so a GRAT will not provide a benefit for a person dying that year. However, transferring properties to a GRAT will reduce the estate of a person dying in 2002-2009 or after the sunset of the law in 2011 and thereafter.

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