Chapter 25. Grantor Retained Annuity Trust

If your present Net Worth exceeds the Lifetime Estate Tax Exemption ($5,430,000 each, $10,860,000 if married), and you wish to implement an Estate Tax savings tool to complement an Annual Exemption gifting program, the Grantor Retained Annuity Trust ("GRAT") offers a valuable option.

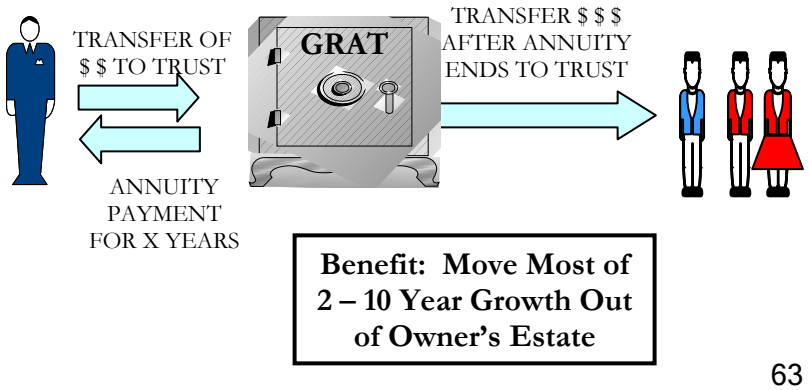
The GRAT works like this. You establish the GRAT by executing a specific type of trust agreement. Next you transfer property (e.g. cash, investments or company stock) to the trust. The trust provides you with an agreed annuity payment each year. When the trust is set up so that the net present value of this annuity is at least equal to the value of the property you transferred to the trust, then you have a net taxable gift of zero.

To the extent that the property you transferred to the GRAT grows in value at a higher rate than the interest rate the IRS requires to be used in calculating the net present value of the annuity (generally about 1% higher than the rate for IDGTs), you will have transferred a net gift to the beneficiaries of your GRAT without a gift tax.

This can be illustrated as follows (using a 6% annual growth rate):

	Value Today	Value In 10 Years
Property Transferred	$3,000,000	$ 5,370,000
Annuity Value	- 3,000,000	- 4,030,000
Net Gift	-0-	
Net Value Passed To Heirs (Tax Free)		$ 1,340,000

Grantor Retained Annuity Trust



Benefit: Move Most of 2 – 10 Year Growth Out of Owner's Estate