

## **GRANTOR RETAINED ANNUITY TRUSTS**

A Grantor Retained Annuity Trust (“GRAT”) is an irrevocable trust designed to transfer the appreciation on assets contributed to the trust with minimal or no gift tax consequences. GRATs are commonly used with assets expected to appreciate significantly over the time frame established as the term of the trust.

GRATs pay an annuity to the Grantor for a period of years. The annuity interest is calculated as a percentage of the fair market value of the assets transferred to the trust, determined on the date of transfer. At the end of the trust term, any assets remaining in the GRAT pass to the trust’s remainder beneficiaries, often the grantor’s children.

To avoid incurring a gift tax liability, the GRAT must be “zeroed- out.” This means the trust must be structured to return the maximum possible annuity to the grantor, equal to the present value of the assets contributed plus the IRS assumed earnings rate (3.4% as of May, 2010). At the end of the trust term, only appreciated value will pass tax-free to the remainder beneficiaries (generally a trust for the benefit of the Grantor’s children). When the IRS earnings rate is low, a GRAT containing a high-performing asset can transfer significant wealth to the trust’s remainder beneficiaries.