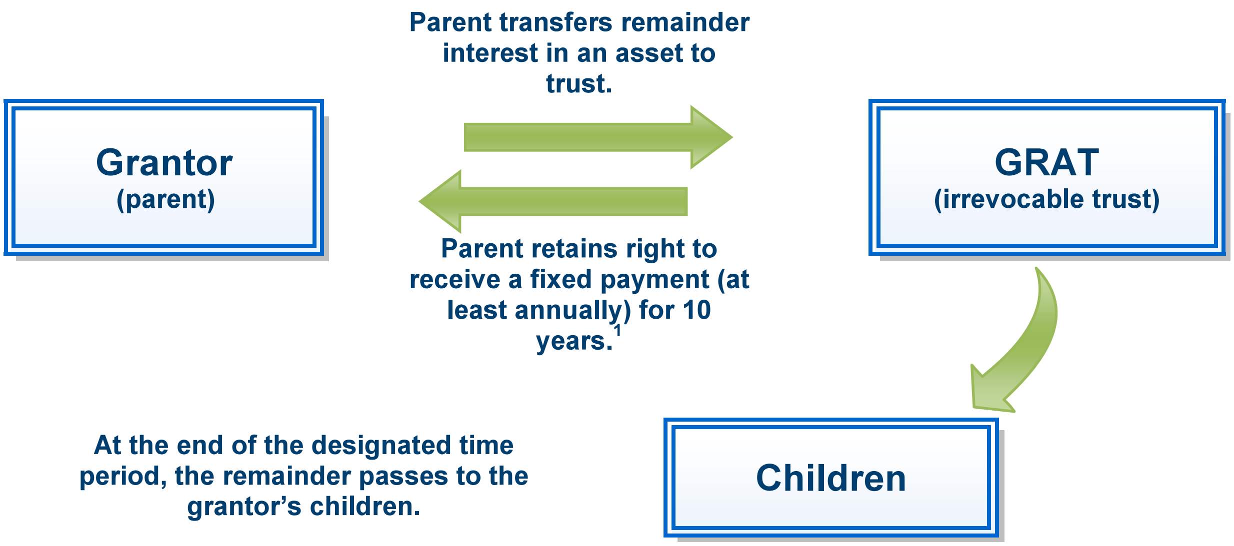
How a Grantor-Retained Annuity Trust Works

GRAT

An estate owner may use the GRAT to transfer assets and future appreciation to his or her children.



The value of the transferred asset minus the value of the retained annuity interest will equal the value of the remainder interest that is subject to gift taxation.

Assumptions:

Value of asset placed in GRAT: $500,000
Age of grantor: 65
Type of payment: End of year
Term of payment: 10 years
Federal discount rate (changes monthly): 1.4%

Annual Payment to the Grantor	First-Year Payment as a Percentage of the Asset[2]	Value of the Retained Interest	Gift Tax Value of the Remainder Interest
$30,000	6	$278,137	$221,863
40,000	8	370,849	129,157
50,000	10	463,562	36,438
60,000	12	500,000	0

The cost of the transfer would be the gift tax on the value of the remainder interest. The gift is of a future interest and does not qualify for the annual gift tax exclusion. The gift tax on assets up to $5,120,000[3] is first offset by an individual's applicable credit amount. The tax on gifts that exceed $5,120,000 must be paid in cash in the year the gift is made.

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[1] The payment period can be for the life of the grantor, for two or more joint lives or for a set number of years.
[2] In subsequent years the dollar amount of annual payment would remain the same but the percentage of trust assets distributed would vary.
[3] Under the 2010 Tax Relief Act, this is the value in effect in 2012.