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A grantor retained annuity trust (GRAT) is a form of irrevocable non-charitable trust. During its term, the trust makes fixed payments to the donor of the trust (the grantor). When the trust terminates, its remaining principal passes to remainder beneficiaries named by the grantor, typically children or grandchildren.

The grantor of a GRAT makes a taxable gift to the remainder beneficiaries. The amount of this taxable gift is computed when the trust is funded and equals the funding amount minus the present value of the payments that the trust will make to the grantor. There is no transfer tax assessed at the time the trust terminates and distributes its remainder to its ultimate beneficiaries. Consequently, a GRAT can be an effective method for transferring assets to heirs at reduced transfer tax cost.

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